

CASA HOLDINGS LIMITED

(Company Registration No. 199406212Z)
(Incorporated in the Republic of Singapore)

RESPONSE TO QUERIES FROM SHAREHOLDERS AND SECURITIES INVESTORS ASSOCIATION (SINGAPORE) ON THE AGM

The Board of Directors of Casa Holdings Limited (the “Company” and together with its subsidiaries, the “Group”) refers to the queries raised by the shareholders of the company and Securities Investors Association (Singapore) in relation to the Company’s Annual General Meeting for the financial year ended 30 September 2020 (“FY2020”) and appends the replies as follows:

Question 1

In the letter to shareholders (pages 2-3 of the annual report), the company provided shareholders with an update of the group’s trading business, which included a profit after tax of \$1.1 million in FY2020 and the launch of an online shop during Phase 2 of the reopening following the circuit breaker. The board has also proposed a dividend of 0.5 cents per share for FY2020. This is the first dividend proposed since FY2014 when the company gave out \$0.01 per share. However, as disclosed in the statements of financial position (page 32), the group has 57% of its total assets (\$55.3 million out of \$96.7 million) invested in development properties. This relates to the group’s 34.3% interest in three plots of land in Plentong, Johor, Malaysia that has been marked for residential and commercial use (page 59 – Note 16: Development properties). There was no mention of the group’s efforts and prospects in the property segment in the letter to shareholders by the chairman and the CEO even though it is by far the largest segment, accounting for 57% of the group’s total assets. On page 87, it was disclosed that the group conducted a preview launch of its Seventh Cove project in Malaysia in 2015 but it has since been put on hold.

- (i) Would the chairman and CEO consider giving shareholders a holistic, balanced and candid overview of the achievements and challenges faced by the group in the year so that shareholders get a true and fair view of the progress made by the group?*
- (ii) In particular, can management elaborate further on the status of the development properties?*
- (iii) With the termination of the KL-Singapore High Speed Rail, how has the group’s plan been affected? Please (re)state the group’s development plans for the three properties in Johor, Malaysia.*
- (iv) Would management also identify the partners who are holding the other 65.7% interests in the development properties?*
- (v) With a 34.3% stake, what is management’s ability to influence and drive the projects?*
- (vi) What are the financial/non-financial indicators that management is monitoring which will determine the development trajectory of the projects?*

The carrying value of development properties is a key audit matter (KAM) highlighted by the independent auditor in their Report on the audit of the financial statements (page 27). Key audit matters are those matters that, in the professional judgement of the Independent Auditor, were of most significance in the audit of the financial statements of the current period. As noted in the KAM, the group has significant development properties located primarily in the Iskandar region of Malaysia. As at 30 September 2020, the group’s development properties amounted to approximately \$55,283,000 (2019: \$55,419,000) comprising mainly of the land and certain initial development costs, which represented 57% of the total assets of the group. The development properties are held with the intention for development and sale in the ordinary course of business and are stated at the lower of cost and estimated net realisable value, which represents the estimated selling price less costs to be incurred in selling the properties. The development had been halted in FY2016 based on management’s

assessment of the property market condition in Malaysia and there is no significant development cost incurred since then.

- (vii) Would the audit committee help shareholders understand the basis for the carrying value of \$55.3 million for the development properties given that the project has stalled for several years and that the group has halted the development as the market condition deteriorated in the past 5 years?*
- (viii) Please identify the independent real estate valuer. What are the key assumptions used to estimate the net realisable value? Would the board be making the valuation reports available on SGX?*
- (ix) How did the audit committee evaluate the reasonableness of the assumptions used in the valuation report?*
- (x) Has the board actively evaluated the group's options, including monetising its 34.3% stake in the Johor projects to safeguard shareholders' interests?*
- (xi) "Refer to page 87 of the Annual Report about "Segment information", particularly "Property development" segment, how did the segment managed to generate a profit of \$1.57million in 2019 & 0.74million in 2020, when there were no sales generated?"*

Company's response

- (i) In the first quarter of the financial year, we had plans to embark on various projects to improve and enhance our sales and marketing strategy. These were disrupted by the unexpected arrival of COVID-19 toward end of 2nd quarter. However, while our sales are adversely affected, we are thankful that some of our retailers/dealers continued its business online and our essential service team worked non-stop throughout COVID-19 to deliver the products. We managed to avoid having to issue paycuts to our staff mainly because of our sustained sales collections during this period and the government grants received. We also appreciate that our IT and HR team were quick to operationalize work from home arrangements. However going forward, we are expected to allocate more on IT budget to upgrade our equipment and to implement a new ERP system.

In the fourth quarter of the financial year, we managed to capitalise on government projects immediately after Phase 2, and to secure some government projects. We also saw an increase in demand for home deliveries and income from repair services due to high usage of home appliance and customers call for services during the COVID-19 period.

- (ii) The Seventh Cove Development has been temporarily put on hold. The management may consider to re-launch this project when market sentiment improves.
- (iii) The termination of the KL-Singapore High Speed Rail has no immediate adverse impact on our plan. However the recently announced JB – Singapore Rapid Transit Link (RTS) Link would be a major catalyst to the local property market in the long run. We are cautiously optimistic that the RTS would indirectly enhance the value of the 3 pieces of land held in Teluk Jawa. As such we will consider all options to unlock the value of the Teluk Jawa should opportunities arise.
- (iv) We have a local Malaysian partner who hold 45.0% interest on the development properties. Other than that, we have also Mr Lim Soo Kong (the CEO, director and substantial shareholder of the Company) as our other partner who hold 20.7% stake.
- (v) Combining Mr Lim Soo Kong's stake of 20.7% and our stake of 34.3%, we have a total 55% of shareholdings in the 3 entities which give us the control to manage and drive the projects.
- (vi) As our property development segment is at an early stage and the operations are mainly dormant in nature, there is no financial/non-financial indicators set at this moment.

- (vii) The management has assessed the Net Realisable Value (NRV) of development properties by reference to recent and past valuations of land performed by independent valuers (taking into consideration the recent changes in Malaysia property market due to potential impact of COVID-19 pandemic and development cost incurred). Based on the management's assessment, there is no indication that our development properties are not carried at lower of cost and NRV, as valuation of the Group's development properties indicated by independent valuers on a combined plot basis is higher than their carrying amount despite the general market conditions.
- (viii) VPC Alliance (JB) Sdn Bhd. The valuer adopted the comparison approach as the principal method in the valuation of the property. This method of valuation seeks to determine the value of the property by comparing and adopting as a yardstick of recent transactions and sale evidences involving other similar properties in the locality. All measurements are carried out in accordance with the Uniform Method of Measurement of Building issued by The Institution of Surveyors, Malaysia. Publication of the Valuation Report is subjected to Limiting Conditions and will not be available publicly.
- (ix) The audit committee has evaluated the reasonableness of the assumptions used in the valuation report through discussion with the CEO.
- (x) The board will actively evaluate the group's options, including monetising its 34.3% stake in the Johor projects to safeguard the shareholders' interests, as soon as the market sentiment improves.
- (xi) The profit reported under property development segment is solely an accounting adjustment. It is mainly due to the gain on amortisation of interest free non-current payables of \$1.414 million. Refer to company's response No 10 for further explanation.

Question 2

Even though the ongoing and evolving COVID-19 pandemic caused significant and unprecedented disruptions to businesses and the global economy, the group reported revenue of \$14.7 million for the financial year ended 30 September 2020, a 21% decrease from FY2019. Profit after tax for the year was \$1.1 million. The group also expanded its product range, set up an online shop and developed its own brand, Kith.

- (i) Can management elaborate further on the group's digitalisation strategy? How is the group tapping on the shift by consumers to e-commerce?*
- (ii) In addition, would management clarify on the strategic role of the group's online shop (shop.casa.sg)? Is the company's online shop a direct competitor of the group's dealers/retailers?*
- (iii) What is the amount earmarked to support the development of Kith? What is management's strategy to grow Kith in a crowded marketplace?*

Company's response

- (i) We are implementing a new ERP system to improve our current business processes with the potential to link up to various e-commerce portals. The new ERP system shall serve as a foundation to build our future strategy, using technology to create new competitive advantages and seamless consumers experience.

Based on our research, our consumers research on product information before making purchases online or in our physical store. Our key strategy involves creating a touchpoint in the digital space to reach out to consumers directly, and provide the relevant product information online.

- (ii) Our research shows that customers are not fully aware of the brands that we carry. We believe that setting up an online shop would enhance the branding and reach of CASA and allow customers to have a complete view of the full range of products and services as well as various brands carried by CASA. This will without doubt create value for our customers and shareholders.

Our online shop does not compete directly with the dealers/retailers as we cater for different customer groups with a different pricing strategy.

- (iii) Our initial investment in the development of Kith is on a product basis. The total amount spent varies in accordance with the number of products and is capped to a percentage of the potential sales generated.

Question 3

In the past years, the company's auditors have issued a qualified audit opinion on the company based on the following:

"...Fiamma is a company listed on the Main Market of Bursa Malaysia. The Component Auditor cited Listing Rules of Bursa Malaysia as a factor in not being able to allow us access to themselves or their audit working papers. The Component Auditor was not agreeable to discuss the financial affairs and the audit of Fiamma. Due to the above restrictions, we were also not able to perform any other satisfactory alternative procedures for us to fulfil the requirements of Singapore Standard on Auditing 600, Special Considerations – Audit of Group Financial Statements (including the Work of Component Auditors). Therefore, we were unable to obtain sufficient appropriate evidence to ascertain the carrying amount of the Group's investment in Fiamma as at 30 September 2019, the Group's share of Fiamma's results and other comprehensive income for the financial year then ended and the related financial information of Fiamma as disclosed in Note 20 to the financial statements, and were unable to determine whether adjustments, if any, to these amounts were necessary..."

In 2019, the company further disclosed that it foresees that the audit opinion shall remain status quo unless there is a change in rules and regulation and its implementation.

In the company's 2020 annual report, the company received an unqualified opinion from the auditors.

- (i) *Can the board, especially the audit committee, help shareholders understand if the Component auditor (KPMG for Fiamma) is able to complete the audit instructions from the Group auditor (Nexia TS) in FY2020? In previous years, the Component auditor has cited Para 9.08(2) of the (Bursa) Main Market Listing Requirement states that a listed issuer must ensure that no disclosure of material information is made on an individual or selective basis to analysts, shareholders, journalists of other persons unless such information has previously been fully disclosed and disseminated to the public.*

Separately, management has assessed and concluded that it has significant influence over Fiamma, in which the group has a 15.33% stake.

- (ii) *Can the board elaborate further on the level of influence it has over Fiamma? It would appear that the company has appointed Ms Margaret Chak Lee Hung (Group Financial Controller and Joint Company Secretary) as a non-independent non-executive director on the board of Fiamma which has 6 other directors.*

- (iii) *Would management also elaborate further on the impact of the pandemic on Fiamma? How would the extension of the movement control order in Malaysia affect Fiamma?*

Company's response

- (i) The component auditor granted the group auditor to access their audit working papers after 26th November 2020 – Fiamma's announcement in Bursa Malaysia of their quarterly report on consolidated results for the financial period ended 30 September 2020. With regards to the carrying amount of investment in Fiamma (associated company), a matter which gave rise to a qualified opinion in FY2019 auditor's report and prior years, our Group auditors (Nexia TS), have obtained sufficient appropriate audit evidences from the review of the audit working papers of Component auditor/Fiamma's auditors ("KPMG Malaysia") and communications with KPMG Malaysia. Consequently, there is no qualified audit opinion for current year's audit with respect to this matter.
- (ii) The board would like to advise that in addition to Ms Margaret Chak Lee Hung (Group Financial Controller and Joint Company Secretary) being appointed as a non-independent non-executive director on the board of Fiamma, Mr Lim Soo Chong (CEO, director and founder) is also a director of significant subsidiaries of Fiamma. He has the participation in policy-making processes, including participation in decision making about dividends and other distribution. As such, the board is of the view that the Group is assessed to have significant influence over Fiamma.
- (iii) We are not in a position to provide any potentially price sensitive information relating to Fiamma.

Question 4

As noted in the biography of the directors, Dr Low Seow Chay was appointed as chairman of the board on 15 January 2020. Dr Low has served as an independent director of Casa Holdings Limited since 28 August 1995.

In fact, Dr Low was appointed chairman of the board on 30 September 2014 and stepped down as chairman with effect from 24 November 2017. With his reappointment as chairman of the board on 15 January 2020, Dr Low will replace Mr. Lim Yian Poh who had earlier replaced him as chairman of the board.

- (i) *Would the nominating committee (NC) help shareholders understand the board succession plans, especially for the board chairman and independent directors?*
- (ii) *How did the NC select and determine the chairman of the board?*
- (iii) *Can the NC also elaborate further on the board's plan for progressive renewal?*

As disclosed in the 2019 annual report, Dr Low was chairman of all three board committees and yet Dr Low attended 1 out of 2 audit committee meetings and 1 out of the 2 nominating committee meetings for FY2019. Dr Low did not attend the only remuneration committee meeting held in FY2019 and had also missed 1 out of 3 board meetings.

As reported in the 2020 annual report, Dr Low (appointed chairman of the board) still chairs the nominating committee and sits in the other two board committees. Based on the attendance of directors at board and board committee meetings (page 10), it can be seen that Dr Low only attended 1 out of 2 AC meetings, 1 out of 2 NC meetings (where he is the NC chair) and 1 out of 2 RC meetings.

The annual report stated that Dr Low Seow Chay had engagement overseas on the period where meetings were held and was therefore not able to attend these meetings on 29 November 2019.

- (iv) *Can the company and the company secretary help shareholders understand if board and board committee meetings are scheduled in advance to allow directors to block out their calendars?*
- (v) *How can the company secretary and the company work together with the board to improve the attendance of directors at the board/board committee meetings?*

(vi) *If so, would the director/company help shareholders understand if there were any extenuating circumstances that led to Dr Low's below-average attendance rate at board committee meetings in the past 2 financial years?*

(vii) *As the independent chairman of the board, would Dr Low hold himself to a higher standard and lead by example, especially in terms of his attendance at board and board committee meetings?*

Company's response

- (i) The Company has identified Mr Stefan as the successor for the CEO and has appointed him as the Deputy CEO of the Group recently. The NC has reviewed and have some succession plans in place for the Independent Directors and would take appropriate steps to refresh its current Board members at the appropriate time.
- (ii) Due to the size of the business operations of the Group, the Company does not intend to have a large board size, hence, the main criteria for selection and determination of the chairman of the board is that the chairman must be an independent director. As the current Board consists of only two independent directors, one of the independent directors will be nominated as the Chairman of the Board. The chairman of the board retires every 3 years and will subject himself for re-nomination and election by the Board.
- (iii) The NC had recommended to the Board some plans to refresh the current Board progressively. Appropriate steps will be taken to identify suitable and calibre candidates to achieve this goal. The candidate should possess the right experience with new ideas to steer the group to do business under the current new norm. Ideally, the background of the incoming director should be able to diversify the current Board, in terms of age, gender and skillsets.
- (iv) Going forward, the board and board committee meetings will be scheduled one year in advance to allow directors to block out their calendars.
- (v) Dr Low's absence was unexpected due to overseas assignment. Despite his absence, there were a number of informal meetings and discussion held among the directors throughout the financial year as and when needed. Moreover, for the meetings of which Dr Low was absent, he did provide his comments and views for the agenda items prior to the meetings.
- (vi) The company secretary will work closely with the Directors in blocking their time and checking their availabilities for board and board committee meetings going forward. If need be, the company secretary will reschedule the meeting or have alternative arrangement such as zoom meeting to facilitate their participation.
- (vii) The Company sets a high standard benchmark for all its Directors, including their knowledge on corporate governance and time commitment for the affairs of the Group. Every Independent Director is expected to discharge his duty and responsibility to the highest standards. High standards is expected of all Independent Directors. In Dr Low's case, he has helmed three public listed companies and he is fully conversant with the role of an Independent Director having served several years on boards of listed company. He is committed and able to discharge his duty as the Independent Director of the Company. In terms of his attendance for board and board committee meetings, the company secretary will work closely with him to block his time and checking his availabilities for meetings going forward. If need be, the company secretary will reschedule the meeting or have alternative arrangement such as zoom meeting to facilitate his participation.

Question 5

“Regarding the investment in associated companies – Fiamma Holdings Berhad (Fiamma), how did Fiamma in Malaysia manage to increase its revenue by 11.5% from \$111m in 2019 to \$124m in 2020? As well as increased its Gross Profit Margin (GPM) by 1.3% from 30.2% in 2019 to 31.5% in 2020?”

Company’s response

Pls refer to the extracted announcement from Bursa Malaysia dated 26 November 2020 (refer https://www.bursamalaysia.com/market_information/announcements/company_announcement/announcement_details?ann_id=3108344) on comment on revenue and GPM of Fiamma.

Question 6

“Refer to page 86 of the Annual Report about “Segment information”, particularly “Trading” segment. How many % of sales came from “electrical and electronic home appliances”? And how many % of sales came from “kitchen and bathroom fixtures and accessories”?”

Company’s response

The % of the sales derived from the category as refer below:-

| Description | % |
|---|---------|
| Electrical and electronic home appliances | 80.60% |
| Kitchen and bathroom fixtures | 19.40% |
| Total | 100.00% |

Question 7

“Refer to page 88 of the Annual Report about “Segment information”, particularly “Singapore” segment. Revenue from Singapore had dropped by 20.6% from \$18.114m in 2019 to \$14.373m in 2020. Why the Group’s revenue in Singapore had not been able to grow like Fiamma’s revenue in Malaysia?”

Company’s response

The Group is unable to replicate the stellar performance of Fiamma which include a sale of land of RM 39 million. In addition, we are more adversely affected by COVID-19 as compared to Fiamma.

Question 8

“Refer to page 31 of the Annual Report about “Consolidated Statement of Comprehensive Income”. On Gross Profit, why Gross Profit Margin (GPM) has dropped by 1.4% from 42.8% in 2019 to 41.4% in 2020?”

Company’s response

The decline in GPM is mainly due to increase in cost of products and market competition.

Question 9

“Refer to page 53 of the Annual Report about “Expenses by nature”. The “Total cost of sales, selling and distribution and administrative expenses” were more than the Revenue in 2020 as well as 2019 (a non-COVID year). What have the Board planned to do about it?”

Company’s response

The Total Expenses by nature or Total cost of sales, selling and distribution and administrative expenses can be covered by the total Revenue and Other income inclusive of service income, rental income from operating lease and government grant. Going forward, the Group would need to generate more sales and profit to cover the expenses.

Question 10

- (i) “Refer to page 70 of the Annual Report about “Trade and other payables”. What is the nature of the \$30.188m “Non-trade payables – related parties”?”*
- (ii) “Refer to page 54 of the Annual Report about gain on amortisation of interest- free non-current payable of \$1.414 million, could you help to enlighten and understand how the amount is being derived?”*
- (iii) “Refer to page 54 of the Annual Report about “Finance expense”- “Amortised interest on non-current payables” increased by 31.3% from \$1.654m in 2019 to \$2.173m in 2020. What went wrong? What have the Board planned to do about it?”*

Company’s response

- (i) The non-trade payables- related parties refer to the advances from related parties to finance the monthly repayment of term loan granted for purchase land. The advances are interest free, non-current and unsecured.*
- (ii) According to SFRS(I) 9, financial liabilities are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method. As the non-current payables is non-interest bearing, the company determined its fair value equal to present value of the future payments of the payables discounted using the market interest rate. The difference between the carrying amount and the fair value of the payables at initial recognition was charged to profit or loss as gain on amortisation of \$1.414mil (2019: \$2.325mil). The gain on amortisation will be charged out to finance expense on next financial year. The market interest rate to compute the gain on amortisation is based on the base rate and libor rate of Malaysia bank.*
- (iii) The gain on amortisation in previous financial year is higher as compared with FY2018. The gain on amortisation will be charged out to finance expense during the year, result in higher finance cost in FY2020.*

Question 11

“Refer to page 66 of the Annual Report about “Investments in subsidiary corporations”. Both Fantastic Modern Sdn Bhd and Genius Chamber Sdn Bhd are in net liability position and making losses over past 2 years. Is there any going concern issue? What have the Board planned to do about it?”

Company’s response

Both the subsidiaries are set up to hold pieces of land in Malaysia referring to the development properties. The loan had been fully settled during the financial year and therefore the subsidiaries no longer incurred bank interests. There is no going concern issue. The board plans to keep expenses to a minimum and opens to any opportunities to unlock the value of the lands.

Question 12

“Refer to page 63 of the Annual Report about “Investments in a joint-venture company”, VMD Development Sdn Bhd. Where is the industrial property development located in Malaysia? Similarly, is there any going concern at VMD Development Sdn Bhd? What have the Board planned to do about it?”

Company’s response

The industrial property development is located along Jalan Ban Foo, Ulu Tiram, about 21 kilometres north-east of Johor Bahru City Centre and approximately 2km south of Ulu Tiram Town. There is no going concern issue. The board plans to sell the industrial property with approved development plan should market condition improves.

Question 13

“Refer to page 61 of the Annual Report about “Investments in associated companies”, particularly Asteras. It was stated that the share of loss from Asteras for the financial year ended 30 September 2020 was “approximately \$122,000 (2019: \$74,000)”. Although the Group “has no contractual obligation to share loss in excess of its cost of investment”, what have the Board planned to do about Asteras?”

Company’s response

We are the minority shareholders of Asteras. We are opened to any opportunities to sell our stake in Asteras.

Question 14

“What is the budgeted capex over the next 2-3 years? How will it be funded?”

Company’s response

The budgeted capex for the next 2 to 3 years is only a forecast and will change from time to time depending on development of local economy and the available cashflow of the Company.

By order of the Board

Lim Soo Kong
Executive Director and Chief Executive Officer

Date: 22 January 2021