嘉靈控股集團有限公司
Karin Technology Holdings Limited

(Incorporated in Bermuda on 30 August 2002)
(Company Registration Number 32514)

RESPONSE TO QUESTIONS RECEIVED PRIOR TO THE AGM SCHEDULED ON 28 OCTOBER 2021 BY ELECTRONIC MEANS

The Board of Directors of Karin Technology Holdings Limited (the "Company" or together with its subsidiaries, the "Group") would like to thank shareholders and members who have submitted questions in advance for the Annual General Meeting ("AGM") scheduled to be held by electronic means on 28 October 2021 at 10.00 a.m..

RESPONSE TO SUBSTANTIAL AND RELEVANT QUESTIONS REGARDING AGM RESOLUTIONS / BUSINESS OUTLOOK

Please refer to the Appendix setting out the Company's response to substantial and relevant questions relating to the AGM resolutions and business outlook received from shareholders and members as well as the Securities Investors Association (Singapore) ("SIAS") before 10.00 a.m. on 25 October 2021 ("Registration Deadline").

BY ORDER OF THE BOARD

Wong Chi Cheung, Clarence
Financial Controller /Joint Company Secretary

27 October 2021

<u>Questions from DB Singapore Nominees PTE LTD</u>

1. **How have supply chain disruptions and semiconductor shortage affected the Consumer Electronics segment? Has Karin seen signs of the disruptions & shortage improving in recent months?**

   Shortages in semiconductors and supply chain disruptions continued affecting the segment. This situation may persist through the new or next financial period. Our top tier customers and vendors are able to negotiate better delivery terms on supplies under the current environment. However, they also face higher costs because of the shortage of semiconductor supplies.

   Our Consumer Electronics Products segment remains focused on the latest models and new products where vendors have done well to manage their production and delivery.

2. **For the Component Distribution segment, how has the semiconductor shortage in the industry affected your business positively or negatively?**

   COVID-19 measures imposed in FY2020 / FY2021 had led to production and supply chain disruptions that continued to impact the industry. We are still experiencing longer order lead times and delays in shipments, as well as shortage of raw materials.

   In this situation, we have observed that suppliers and customers with better pricing strategies have been able to benefit from the high demand for these highly sought-after materials.

3. **For the IT Infrastructure segment, do you see the demand from work-from-home and videoconferencing decreasing? How much of segment revenue in FY2021 is estimated to be from these areas?**

   We believe that flexible working arrangements, such as work-from-home (WFH) and videoconferencing, are here to stay as more companies have come to realise the benefits of this new norm.

   While demand for the solutions needed for such arrangements have tapered off from the record sales in 2020, it is still higher than pre-COVID-19 days due to the rapid development of a range of solutions from entry grade to enterprise grade with full feature solutions. We believe that demand will remain strong because the industry is working to come up with even more solutions to cater to this new norm.

   Businesses are procuring solutions that fit with this new norm, from cloud infrastructure to network and security solutions, as well as mobile devices, laptops, video conferencing products and applications. Some of our strong growth within the IT segment was coming from solutions involved with IT products and Video Conferencing product brands.

<u>SIAS AGM Questions for Karin Technology</u>

Q1. As noted in the CEO's message and operation review, despite the pandemic, total consolidated revenue for the financial year ended 30 June 2021 increased by 6.2% to HK$1.88 billion, driven mainly by the strong performance in the group's main revenue generator, Information Technology Infrastructure ("IT Infrastructure").

Revenue from the IT Infrastructure segment grew by 15.6% year-on-year to HK$1.07 billion, offsetting the decrease in revenue in the Consumer Electronic Products ("CEP") segment which was affected by the pandemic. In the Components Distribution ("CD") segment, revenue improved by 3.6% to HK$654.6 million.

Profit attributable to shareholders improved to HK$32.4 million in FY2021.

It was disclosed that the rising demand was from new projects in cloud computing and enhanced cyber security, and from more corporate customers adopting solutions for virtual communication and remote operations.

(i) IT Infrastructure: In Note 5 (page 97 – Revenue, other income and gains, net), it is shown that revenue from sale of goods amounted to HK$878 million while services accounted for HK$188 million. Can management provide shareholders with greater clarity on the major products and the type of services in the IT Infrastructure segment? How does the group value-add in this segment? In addition, how sustainable is the increased demand in the IT Infrastructure segment going forward? Does management see the demand normalising in the next 18-24 months?

The products and services provided by our IT Infrastructure business include:

- Enterprise grade infrastructure solutions
- Cloud and network and security products
- Server and storage solutions, and a value-added reseller of leading brands
- Healthcare related solutions and IoT driven smart solutions

Our Group value-adds by offering integration of these solutions to enterprise systems.

With COVID-19 driving digital transformation across many companies and businesses, our Group believes that demand for such solutions will remain strong in the next 18 to 24 months.

The market is confronted with major changes in the business environment and the way of operation with increased business activities conducted via digital means. The trend is expected to continue in the foreseeable period, and to support businesses towards this change in business dynamics, new investments and improvements in infrastructure, cybersecurity, and upgrade in equipment is expected. The Group's IT business has been running for over 20 years with a vast portfolio of global and regional leading brands capturing the demand growth in this trend. Global business spend on IT products and services is expected to continue to rise, and our Groups' reputable and established sales and marketing as well as technical expertise has stood us in good stead to readily capture a healthy share of businesses in this segment. Our IT segment has augmented its staff force by over 10% in the past 9 months on the prospect of solid growth in this market.

(ii) Components Distribution (CD): Has the group developed a strong niche in any areas, such as power modules, telecommunications, audio and video, automotive, etc? How does the group mitigate the impact due to shortages in component materials and IC chipsets?

We distribute a wide variety of electronic components and industrial materials products.

COVID-19 measures imposed in FY2020 / FY2021 had led to production and supply chain disruptions that continued to impact the industry. We are still experiencing longer order lead times and delays in shipments, as well as shortage of raw materials.

In this situation, we have observed that suppliers and customers with better pricing strategies have been able to benefit from the high demand for these highly sought-after materials.

The CD segment of the Group is continuing to design new modules for devices for Toys, smart devices, smart home equipment, and power modules for new products. Nevertheless, the shortages around supplies will affect businesses and manufacturers to strategize and prioritise their product portfolio.

(iii) Consumer Electronic Products (CEP): Out of the HK$155 million in revenue in the CEP segment, how much of the revenue was contributed by retail? In addition, what are the leading brands by revenue in the CEP segment?

As the sales mix involves sensitive commercial information, we are unable to share it publicly. Some of the leading brands we carry include Apple, Logitech and Samsung.

Q2. The independent auditor has included two key audit matters (KAMs) in their independent auditor's report (pages 53 to 57). The KAMs are "Impairment assessment of trade receivables" and "Provision for obsolete and slow-moving inventories". 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 at 30 June 2021, the group had trade receivables of HK$431.5 million which represented 40% of the total assets of the group while inventories (after provision against obsolete and slow-moving inventories) amounted to HK$234.0 million (or 22% of total assets).

(i) Inventories increased significantly by 38% from HK$170 million to HK$234 million. Note 18 of the Notes to financial statements simply states that "Inventories of the group are trading stocks" (page 115 - shown below).

18. INVENTORIES

Inventories of the Group are trading stocks.

(Source: company annual report)

Can management provide a breakdown of the group's inventories? What is the split by segment? In addition, how much inventory was included in the group's cost of sale? Can management help shareholders understand the reasons for the increase?

As the requested breakdown involves sensitive commercial information, we are unable to share it publicly. We believe that sufficient and relevant disclosures have been duly made pursuant to International Financial Reporting Standards ("IFRSs") and the Listing Rules.

The cost of inventories sold (included in the Group's cost of sales) for FY2021 was approximately HK$1.6 billion as disclosed in Note 6 to the FY2021 Audited Financial Statements (see page 100 of the Annual Report).

The increase in inventories prior to the end of FY2021 was in anticipation of an increase in demand in July 2021. Such inventories were subsequently turned over and realised in FY2022.

(ii) **Separately, net impairment of trade receivables has increased from HK$3.96 million to HK$6.55 million. To put that in perspective, the group's profit for the year was HK$5.00 million in FY2020 and HK$31.06 million in FY2021. The group has recognised over HK$15.46 million in gross trade receivables past due by over 3 months (page 116 – Trade and bill receivables). This resulted in the group recognising HK$6.71 million in expected credit losses for FY2021. What are the profiles of the customers with long outstanding trade receivables? What are management's efforts to improve its credit risk management? In addition, a loss allowance amount of HK$6.26 million was written off as uncollectible in FY2021. Similarly, what are the profiles of the debtors with uncollectible trade receivables? How did management assess that these outstanding receivables are uncollectible? Is the group still trading with these debtor(s)?**

The expected credit losses of HK$6.71 million for FY2021 was assessed and estimated with the assistance of an independent valuer who had applied methodology in line with the requirements of IFRSs. The valuer's estimation was also concurred by the external auditors. Please refer to the FY2021 Audited Financial Statements for more detail.

Uncollectible trade receivables refer mainly to customers who have wound up or in the process of being wound up or in serious financial difficulties. The Group had not traded with these customers when they were determined to be uncollectible.

Q3. As disclosed in the annual report, the board currently comprises six directors, three of whom are independent. Prior to 1 April 2021, the board had a majority of independent directors. The company explained that the appointment of an additional executive director on 1 April 2021 was part of a strategic plan for the group's next stage growth as the group moves from pandemic to a new era.

(i) Can the board elaborate further on the appointment of Mr. Ng Yuk Wing, Philip as chairman emeritus and executive director? What are current roles and responsibilities of Mr. Ng Yuk Wing, Philip? How different is the current role compared to the role of the executive advisor?

Mr Ng Yuk Wing, Philip ("Philip Ng") is a co-Founder of the Group and had previously led our Group as CEO-cum-Chairman until he stepped down a few years ago. Our Group's achievements are, to a large extent, attributed to his foresight, astuteness and ability to read and capitalise on trends. Under his stewardship, the Group has achieved a consistent track record of profitability since inception.

In line with the plan for progressive refreshing of the Board, Mr. Philip Ng resigned as the Senior Executive Director of the Company with effect from 1 July 2018. However, in order to continue to draw on Mr Philip Ng's stature and intimate knowledge of the industry and entrepreneur experiences, he was re-designated as Executive Advisor immediately after his resignation as the Senior Executive Director.

As the Group journeyed into the uncharted waters caused by the unprecedented COVID-19 pandemic, the Board is of the view that it would be in the best interests of the company to invite Mr. Philip Ng to return to the Board to give more timely and intimate counsel and guidance to the Group amid the new norm of business engagements. Mr. Philip Ng in his current role as Chairman Emeritus and Executive Director will have the legal standing and authority to act on behalf of the Group in dealing with its day-to-day business transactions whereas he would not be able to do so qua Executive Advisor.

While his son, Mr. Ng Mun Kit, Michael ("Michael Ng"), has assumed the mantle of Group CEO, the Group believes that by appointing Mr. Philip Ng as Executive Director and also designating him as Chairman Emeritus would also help avoid any potential or unnecessary misconception of Mr. Philip Ng being a "shadow director". As our Chairman Emeritus and Executive Director, Mr Philip Ng will continue to provide counsel and assistance in formulating policies as well as charting the strategic direction for our Group.

(ii) The board has now deviated from Provision 2.2 of the Code of Corporate Governance 2018. Has the nominating committee (NC) 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?

The Nominating Committee ("NC") is aware that the composition of the Board does not have a majority of independent directors (Provision 2.2 of the Code) as it comprises an equal number of executive directors and independent directors. Nevertheless, the NC has, after considering the experience, qualifications and background of respective Board members, concluded that the Board has the appropriate level of independence and diversity of thought and background in its composition to enable it to make decisions in the best interests of the company.

For the present needs of the Group the NC holds the view that the overall desired competency level matrix of the Board members should be able to assist and support the next stage of growth and needs of the Group. The NC also did not identify any material gaps in skills or competencies within the Board. Categorically, the NC is of the considered view that there is a strong independent element on the Board and given the Group's current size and operations, it is neither necessary nor cost-effective to have independent directors making up a majority of the Board.

(iii) In particular, can the NC help shareholders understand if the independent directors have the appropriate balance and mix of skills, knowledge, experience, especially in IT, distribution and retail, to engage in effective and constructive debate with the executive directors?

Please see our response above. In addition, the NC notes that it is a general misconception that having independent directors who are engaged in the same industry or sector (in our case in the IT sector) would necessarily bring forth effective, productive and/or constructive discussion or debate with the executive directors. For being in the same industry these individuals would also be facing the same problems and sharing the "common" skills, knowledge and experience (or the lack thereof); thus, it's the same rhetoric but articulated at different places.

The NC is also pleased to note that the executive directors have invariably been receptive in considering and addressing any views or comments expressed by any of the independent directors.

At the annual general meeting scheduled to be held on 28 October 2021, Mr. Lim Yew Kong, John and Mr. Lawrence Kwan would be retiring and seeking their re-election. The two long-tenured non-executive directors will also be seeking a two-tier vote from shareholders for their continued appointment as independent directors.

(iii) Can the NC help shareholders understand the deliberations it has had on the progressive renewal of the board (Principle 4 of the Code of Corporate Governance 2018)? With the proposed resolutions to re-elect the two long tenured directors, will the board be delaying the board's progressive renewal?

The NC is of the view that the Board is not delaying the Board's progressive renewal. This is demonstrated by and through the appointments of Mr. Kuan Cheng Tuck as a new independent director on 23 October 2020 and of Mr. Philip Ng as an executive director on 1 April 2021 to the Board. Further, as announced on 1 June 2021, the Group had made changes in certain management roles to take effect from 1 July 2021 to support the next stage of growth. The changes are namely the appointment of Mr. Michael Ng as Chief Executive Officer ("CEO") and the appointment of Mr. Philip Ng as Chairman Emeritus of the Board. Mr. Philip Ng will continue to provide counsel and assistance in formulating policies as well as charting the strategic direction for the Group.

The proposed re-election of the two tenured directors, if they are re-elected, should not in any way hinder the Board's progressive renewal. The changes in the composition of the Board from 23 October 2020 to 1 June 2021 speak volumes of the continuous and progressive renewal of the Board. To this end, the NC is mindful of and holds the view that any changes in the board composition (whether through progressive renewal or otherwise) should be deliberated, planned and calibrated with great care before implementation.

As stated in the Corporate Governance Report, the Company is in compliance with Principle 4 of the Code of Corporate Governance 2018 (the "Code"). The NC was aware of the need to and had, among others, addressed, considered, and deliberated robustly those matters as set forth in Provision 4.1 (a) to (d) of the Code. The NC concluded that the current Board composition is appropriate to support the next stage of growth having considered the nature and scope of the Group's operations as well as each director's competencies, commitment, contribution and performance which included attendance record, preparedness when attending meetings and discussions, intensity of robust participation in enquiring of the rationale of decisions to be made/made by Management and candour at all discussions/meetings (formal and informal).

Separately, Mr. Lawrence Kwan was first appointed to the board as an independent director on 13 July 2012 and re-appointed as the lead independent director at the last AGM of the Company held on 23 October 2020.

(iv) **As the lead independent director, would Mr. Lawrence Kwan be holding himself to higher governance standards and lead by example, especially in setting the tone with regard to the tenure of independent directors?**

The Company is of the view that the notion of "higher governance standards" is subjective. The Code (including its previous editions) has long recognised that there is "no one size fits all" model or solutions for all companies and operates on a "comply or explain" basis (save for the mandatory observations of the Principles stipulate therein), and rightly so, especially bearing in mind that the affairs of and circumstances surrounding every company are usually diverse and dissimilar. Otherwise, the Code would have been explicitly prescriptive and mandated the compliance of its Provisions as well with no "explanation" being needed. Furthermore, the introduction of the two-tiers voting mechanism clearly manifested the intentions of the regulators or authorities who came up with this new and measured approach after lengthy consultations with stakeholders. Hence, setting the tenure of independent directors does not necessary signify "higher governance standards" for every company. At times, in so doing without appreciating and considering the relevant context and surrounding circumstances may not even be in the best interests of a company and its stakeholders. This is so in the context of our Company as it operates in a specialised industry and business environment.

The incumbent lead independent director, Mr. Lawrence Kwan (with his experience not only in the IT industry), has accumulated knowledge of the industry and operating environment the Group is in over the years. He has been contributing constructively in various areas of the operations of the Group. Further, with his intimate knowledge and managerial or executive experience in other industry he has been able to share his knowledge and expertise gained from those other entities, thereby broadening the scope of views and management prospects.

As alluded to earlier, the Board is also of the opinion that the safeguard provided for in the Listing Rule 210 (5) (d) of the Main Board Listing Rules is sufficiently robust and pragmatic in addressing the continued independence of long-serving independent directors. After all, the Rule – a hallmark of high and robustly balanced governance standard – was stipulated by the SGX-ST after extensive consultations with diverse stakeholders and with many careful and robust deliberations.

Mr. Lawrence Kwan has also assured the Board that, if re-appointed, he will continue to discharge his duties of his abilities and hold himself to the standards applicable to his role as Lead Independent Director. The Board notes that Mr. Lawrence Kwan has consistently demonstrated independence in judgement and upheld high standards of corporate governance when discharging his duties as an Independent Director. Additionally, he has gained valuable insights into the Group's business and operations over the years, and will therefore be able to continue to provide significant and valuable contributions to the Board as a whole. The Group has benefitted much from Mr Kwan's experience and contributions.