

KODA LTD

(Incorporated in the Republic of Singapore)
Company Registration Number 198001299R

RESPONSES TO SIAS'S QUESTIONS ON KODA LTD'S FY2021 ANNUAL REPORT

Note: We have made a voluntary disclosure in response to SIAS's questions on our FY2021 Annual Report as part of our continuous effort to communicate with shareholders. In providing such additional information to the shareholders, we are mindful of certain limitations that we should not provide any forward-looking statements, which are not historical facts and shareholders would also appreciate such limitations that we should not release any information, which could specifically (i) imply our internal performance targets and indicate our future financial performance; and (ii) affect our trade competitiveness.

Q1. *The group reported higher revenues from export and retail sales despite the difficult operating environment due to the pandemic. The increase in underlying demand for household furniture helped increase revenue by over a third to US\$82.6 million. Profit attributable to owners of the company increased from US\$4.34 million to US\$9.10 million.*

- (i)** *How much of the increase in revenue and gross profit margin could be attributed to higher selling prices? What was the increase in the volume of furniture sold?*
- (ii)** *Does management see the strong demand normalising in the next 12-18 months?*
- (iii)** *Can management help shareholders understand if the impact of the temporary suspension and the reduction in the operating capacity of the Vietnam factories will be significant to the group?*
- (iv)** *Has the board reviewed the group's long-term manufacturing roadmap and deliberated on the need to rebalance its manufacturing capacity between Malaysia and Vietnam?*

Company's Response:

- (i) The increase in revenue was mainly attributed to higher volume (including goods shipped from buffer stocks) and there was a minimal increase in selling price which was insignificant in relation to the revenue of FY2021.
- (ii) As disclosed in FY2021 Annual Report, demand remains encouraging for the time being given the next normal of more 'at-home' activities, which we believe is largely here to stay. However, to forecast orders book trend beyond 12 months under the current business environment requires many underlying assumptions, which need to be analysed and reviewed from time to time. We have recently announced that our Vietnam Operations have resumed 50% of its operating capacity. That's mean to minimise the related financial impacts, we would either have to (a) continue ship part of our goods from existing buffer stocks, or (b) expand scale after the resumption. We are still monitoring the situation and will provide updates as may be necessary and appropriate if we take longer-than-expected time to resume our operations in full as prolonged disruptions will affect our stocks replenishment process and delivery schedules, as previously disclosed. We are working towards resuming the operations in full given the increasingly higher vaccination rate for our staff and workers.
- (iii) Management will review manufacturing roadmap and the rebalancing strategy from time to time. Each country has its own unique merit and working culture that we need to consider factors such as local talent pool accessibility, supply chain infrastructure, culture norms and operating cost structure, among others.

Q2. The “allowance for inventories” is a key audit matter highlighted by the independent auditor in their report on the audit of the financial statements. 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.

As noted in the KAM, the group has approximately 26% (2020: 20%) of total assets held as inventories. Inventories are recorded at the lower of cost and net realisable value. The determination of the net realisable value is critically dependent upon management’s assessment of the inventory obsolescence.

As at 30 June 2021, inventories increased significantly by 73% from US\$11.35 million to US\$19.58 million. The breakdown of the group’s inventories can be seen from Note 9 of the financial statements and reproduced below. Raw material increased to US\$9.02 million as at 30 June 2021.

9 INVENTORIES

	GROUP	
	2021 US\$'000	2020 US\$'000
Raw materials	9,024	4,605
Work in progress	4,454	2,447
Finished goods	7,290	5,260
	20,768	12,312
Less: Allowance for inventories	(1,193)	(965)
	19,575	11,347

(Source: company annual report)

- (i) What is the risk of stock obsolescence for raw material?**
- (ii) What is the increase in the amount (volume) of raw material?**
- (iii) Did the group experience higher raw material prices as a result of supply chain disruption and/or price gouging?**
- (iv) In addition, how much of the group’s raw material is sourced sustainably? Is management looking to implement traceability of its timber? Does the group have an eco-friendly or sustainable series or even a standalone sustainable brand?**

Company’s Response:

Raw material stocks are backed by confirmed orders and risk of obsolescence has been minimal. Management views on assessment of such risks remained unchanged. Increase in raw materials was due mainly to higher purchases volume. Deposits and / or advances for suppliers (including earlier payments) counterbalanced the effect of price increase for certain raw materials.

We source our timbers from sustainable resources. As James Koh wrote in his FY2021 Chairman’s statement “the Covid-crisis has also accelerated the existing environmental sustainability trend and its integration with corporate social responsibility for the furniture industry. The supply chain sustainability has emerged again to call for more insight into development of the related eco-system, ranging from traceability of timbers, certification process, waste management energy consumption to carbon emission reduction. It is a business imperative which drives us to develop socially responsible brands for our products”.

Q3. *Mr Chan Wah Tiong and Mr Sim Cheng Huat were appointed as independent non- executive directors on 1 October 2001 and 23 March 2008 respectively. Each of the directors would have served as an independent director for more than 9 years.*

Mr Sim Cheng Huat, who has served on the board for over 13 years, will be retiring at the forthcoming AGM and will not be seeking his re-election as a director.

Mr Chan Wah Tiong, who has served on the board for more than 20 years, would be retiring and seeking his re-election and a two-tier vote by shareholders for his continued appointment as independent director.

- (i)** *Can the nominating and governance committee (NGC) elaborate further on how it had assessed the independence of the long tenured non-executive directors?*
 - (ii)** *Has the NGC 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?*
 - (iii)** *What are the channels being used by the NGC to source for new directors?*
 - (iv)** *What were the deliberations by the NGC on its recommendation to nominate Mr Chan Wah Tiong for his re-election? Would this delay the progressive renewal of the board (Principle 4 of the Code of Corporate Governance 2018)?*
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Company's Response:

Relevant details and information have been disclosed in the Corporate Governance Report 2021. Please refer to Pages 29, 30, 34 and 28 respectively for (i) assessment of independence of long-tenured non-executive directors, (ii) the competency matrix, (iii) channels to source, and (iv) deliberations on recommendation of a long-tenured non-executive director. As disclosed, in compliance with the Listing Rule 210(5)(d)(iii), the Company will be seeking and obtaining the necessary approvals for the continued appointment of Mr Chan Wah Tiong as an Independent Director from (a) all shareholders and (b) all shareholders, excluding shareholders who also serve as the directors or the chief executive officer of the company, and associates of such directors and chief executive officers at the forthcoming AGM.

By Order of the Board of Directors of
Koda Ltd

James Koh Jyh Gang
Executive Chairman and Chief Executive Officer
25 October 2021