Securities Investors Association (Singapore)
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UEN No: S99SS0111B
GST Reg No: M90367530Y

Issuer: China Kunda Technology Holdings Limited

Stock code: GU5

Meeting details:
Date: 29 July 2022
Time: 9.00 a.m.

Due to the current COVID-19 pandemic, SIAS encourage shareholders to participate at AGMs via other means and not to attend any AGM physically. Where the AGM is webcast, they can stay on top of their investments by watching the webcast and submitting their question to the company in advance. Senior citizens should avoid attending AGMs altogether and stay home.

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Q1. The company was first listed on the SGX Mainboard in 2008 and was transferred to the Catalist board in 2016. In FY2018, the title of the annual report was "10 & beyond", perhaps signifying the group's optimism for the future.

In FY2018, the group ceased its automobile components operations in Beijing due to the policies of the local government and announced a diversification into the manufacturing and distribution of furniture.

Between FY2019 and FY2021, the titles of the annual reports were:
- Building on solid foundation
- Progress ahead
- Strength in synergy
- Exploring potential

The furniture business that was established in August 2018 was disposed of in March 2022. Shenzhen Shi Er Ju Quan Wu Ding Zhi Company Limited (深圳适而居全屋定制有限公司) was loss-making in the 3 financial years since it was established and was sold at a loss in March 2022.

The group then diversified into the manufacturing, trading and marketing of medical devices in FY2020. By FY2021, the group temporarily ceased trading of thermometers and the medical device segment was dormant in FY2022.

The In-Mould Decoration (IMD) had been the core business of the group since FY2018. Revenue was HK$48.8 million in FY2018 and has decreased to HK$28.9 million in FY2022.

Losses from FY2019 to FY2021 are as follows:
FY2019: HK$(3.73) million
FY2020: HK$(6.69) million
FY2021: HK$(9.65) million
FY2022: HK$(14.51) million

As at 31 March 2018, accumulated losses were HK$(29.4) million and have since increased to HK$(62.9) million by 31 March 2022.

Equity attributable to owners of the company has slipped to HK$29.6 million as at 31 March 2022 from HK$69.7 million as at 31 March 2018, as a result of the large and increasing losses in the past 4 years.

(i) **Has the board reviewed the group's performance in the past 4-5 years? If so, is the board satisfied with the group's performance? If not, what were the challenges and difficulties?**

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(ii) **Did the board carry out a "post-mortem" review on the group's diversification and the subsequent sale of the furniture business and the short-lived thermometer business? What were the main factors that contributed to the underperformance of the new businesses? Was proper due diligence carried out and the risks properly identified by the board/management before approving and embarking on the 2 unsuccessful new businesses?**

(iii) **Did the board, especially the independent directors, review and assess the performance of management (page 10; Primary function of the board)? Is the board satisfied with the performance of the executive directors? Does the group have the necessary human resources in place for the group to meet its objectives?**

(iv) In addition, one of the board's main functions is to provide stewardship to the company which includes charting the group's corporate strategies and business plans (page 10; Primary function of the board). **Has the board reviewed its effectiveness of safeguarding shareholders' interests and enhancing long-term shareholders' value?**

Q2. As noted in the chairman's statement, the IMD business faced strong headwinds in the operating environment, and the overall profitability had been adversely impacted by slow demand and rising costs mainly due to the outbreak of COVID-19 pandemic and global shortage of chips since the beginning of 2020.

As at 31 March 2022, the group's balance sheet remained healthy with net working capital of HK$28.3 million, of which cash and cash equivalents stood at HK$30.2 million, with zero borrowings.

Management has guided that the group may continue to incur losses due to the "*challenging business environment*" (page 2).

(i) **What were the utilisation rates of the IMD manufacturing facilities?**

The group's gross profit margin decreased to 14.5% in FY2022. Despite revenue declining by nearly 30%, general and administrative expenses had increased by 10.0% in FY2022 as compared to FY2021, partly due to increased administrative headcount.

(ii) **Does the group have the necessary economies of scale to be cost-competitive?**

(iii) **Has the group been keeping up with its investments in its production facilities and kept them reasonably modern?**

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(iv) **Given the weak outlook and the losses over the years, is it timely for the board to carry out a strategic review of the business with the focus on the potential sale of the IMD business to a strategic buyer?**

As noted in Q1, equity attributable to owners of the company has slipped to HK$29.6 million as at 31 March 2022 from HK$69.7 million as at 31 March 2018, due to large and increasing losses in the past 4 years.

(v) **Given that the new ventures have not been successful and that there are strong headwinds in the remaining IMD business, has the board made any strategic plans to raise revenue and profitability, sell the business or considered an orderly voluntary winding up and liquidation of the company and to return capital to shareholders as a way to safeguard shareholders' interests?**

Q3. At the annual general meeting scheduled to be held on 29 July 2022, the company is proposing to re-elect Mr Cai Kaobing and Mr Thomas Kwong Fai as directors of the company.

The profiles of the directors are on pages 7 and 8 of the annual report. Information on directors nominated for re-election (Appendix 7F of Catalist Rules) can be found on pages 19 to 23.

Mr Thomas Lam Kwong Fai was first appointed on 1 October 2019.

(i) **Can Mr Thomas Lam Kwong Fai help shareholders better understand his contributions to the group and his effectiveness as a director in the last 3 years?**

In addition, the other two independent directors are Mr. Hau Khee Wee and Mr. Lim Yit Keong. The directors were first appointed on 1 December 2017 and 18 June 2008 respectively. Mr. Hau Khee Wee was in fact an executive director (with effect from 26 December 2007) and chief financial officer of the company (from May 2007 to March 2016).

Collectively, the independent directors also sit on other listed companies, such as Imperium Crown Limited, Sevens Atelier Limited, Capital World Limited, Katrina Group Limited and Lifebrandz Limited.

All three independent directors had graduated with accounting degrees or had obtained professional qualification as chartered accountant.

(ii) **Has the nominating committee reviewed the current competency matrix of the board and had identified any gaps in skills or competencies that need to be addressed in future director appointments?**

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(iii) **Has the board reviewed the level of independence and the diversity of knowledge, experience, industry background and skill-sets at the board level especially the diversity of the independent directors?**

^On 1 October 2020, the Accounting and Corporate Regulatory Authority ("ACRA"), the Monetary Authority of Singapore ("MAS") and Singapore Exchange Regulation ("SGX RegCo") published an updated checklist to guide listed entities on the conduct of general meetings arising from the latest updates from the Multi-Ministry Taskforce.

Issuers may continue to conduct their general meetings held on or before 30 June 2021 via electronic means, and are encouraged to do so. On 9 April 2021, it was announced that the alternate arrangements for meetings ("Meetings Order") would be extend beyond 30 June 2021 until it is revoked or amended by the Ministry of Law. Accordingly, until such time, issuers may continue to utilise the Checklist issued by ACRA, MAS and SGX RegCo to guide entities on the conduct of their general meetings.

Issuers who, after due consideration of public health and other risks, wish to provide for physical attendance at their general meetings must ensure that they implement all relevant measures to comply with the safe management measures imposed by the Singapore Government.

Shareholders are welcome to use and/or adapt the questions prepared by SIAS and to forward them to the company.

Can't attend the AGM or view the webcast? Check out the latest questions on the annual reports of listed companies on SIAS website

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^ Guidance on the Conduct of General Meetings Amid Evolving COVID-19 Situation (https://www.sgx.com/media-centre/20201001-guidance-conduct-general-meetings-amid-evolving-covid-19-situation)