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Issuer: Samurai 2K Aerosol Limited

Stock code: Y8E

Meeting details:

Date: 28 July 2023

Time: 2.00 p.m.

Venue: Bridge Room, Level 2, Raffles Marina Ltd, 10 Tuas West Drive, Singapore 638404

Q1. For the financial year ended 31 March 2023, the group reported revenue of MYR 70.27 million and a net loss of MYR (11.45) million. While revenue declined by 37.8%, cost of sales only decreased by 23.9%. Gross profit margin slipped from 42.7% to 29.8%.

SAMURAI 2K AEROSOL LIMITED ANNUAL REPORT 2023

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 31 MARCH 2023

	Note	2023 RM'000	2022 RM'000
Revenue	4	70,268	113,038
Cost of sales		(49,299)	(64,802)
Gross profit		20,969	48,236

(Source: company annual report)

- (i) Can management provide additional details on the underlying factors that led to the significant decline in gross profit margin (and quantify the individual impact)? Have the prices of raw material, packing material and ocean freight normalised or decreased as the supply chain adjusts to post-pandemic conditions?

With administrative expenses staying elevated and marketing and distribution expenses increasing significantly, the group slipped into a loss of MYR (11.45) million.

- (ii) Similarly, can management provide a quantitative analysis of the various factors that contributed to the increases in expenses? Please show a more detailed breakdown of the marketing and promotional expenses and salaries, bonus and other benefits of other personnel?

7 (Loss)/profit before tax	Group 2023 RM'000	Group 2022 RM'000	8 Personnel expenses	Group 2023 RM'000	Group 2022 RM'000
This is arrived at after charging:			Key management personnel		
Audit fees paid/payable to:			- Salaries, bonus and other benefits	4,624	6,926
- Auditor of the Company	168	171	- Defined contribution plan	235	869
- Other auditors*	102	81	- Employee share option scheme	102	138
Fees for non-audit services paid/payable to:			- Performance share plan	-	4,428
- Auditor of the Company	14	40		4,961	12,361
- Other auditors	101	30	Other personnel		
Depreciation of property, plant and equipment (Note 11)	5,241	3,154	- Salaries, bonus and other benefits	9,185	5,797
Amortisation of intangible assets (Note 12)	301	80	- Defined contribution plan	841	534
Loss on disposal of property, plant and equipment	-	3	- Employee share option scheme	101	191
Marketing and promotional expenses	12,212	7,591	- Performance share plan	-	84
Rental expenses (Note 18)	154	137		10,127	6,606
Personnel expenses (Note 8)	15,098	18,907			

(Compiled from company annual report; emphasis added)

- (iii) Considering the recurring nature of the increases in expenses and the depreciation of property, plant, and equipment, does management anticipate these costs to remain elevated in the future?

To facilitate the group's growth, significant capital expenditure of MYR26.12 million was incurred. This includes the acquisition of four adjacent shop lots for a new corporate workspace, renovation expenses for the factory, and the acquisition of plant, machinery, and software.

- (iv) **Can management clarify whether the investment-intensive stage has concluded, and if so, whether the level of capital expenditure will normalise going forward?**

The group has also incurred substantial costs for expanding its business in the USA and India markets, as well as for new business development in the form of offline to online (O2O) initiatives.

- (v) **Can management outline the strategic objectives for the group's operations in the USA and India markets, including the market entry strategy? Please also update shareholders on the approved investment amount to grow in these two markets.**

Q2. As highlighted in the letter to shareholders, the group's dedication to innovation has resulted in significant advancements, including breakthroughs such as Tintatek, a post-filled colour-matching technology, Watertek, a water-based paint system that eliminates the need for chemical solvents, and Mirrortek, which offers a durable reflective chrome coating.

Additional information regarding the group's technologies, including the 2K Aerosol system, can be found on pages 5 and 6 of the annual report.

- (i) **Can management provide insight into the process by which the group determines its budget for research and development (R&D)? Are these R&D expenses capitalised or expensed in the financial statements?**
- (ii) **For FY2023, how much was spent on R&D?**
- (iii) **What level of market research has been carried out to ensure that R&D efforts lead to commercially successful products?**
- (iv) **How does management determine the estimated total addressable market for the new products, such as Tintatek, Watertek, and Mirrortek?**

Q3. On 13 July 2023, the company announced that there are material variances between the unaudited financial statements and the audited financial statements for the financial year ended 31 March 2023 following the finalisation of audit.

The announcement on the unaudited financial results was first released via SGXNet on 30 May 2023. The announcement of material differences¹ came more than 6 weeks after the company first announced the unaudited financial statements.

Following the finalisation of audit, loss for the year increased from MYR (9.4) million to MYR(11.4) million, an increase of over MYR 2 million. The consolidated statement of financial position and consolidated statement of cash flows also had changes.

Some of the reasons for the changes include:

<i>Variance in the cost of sales and inventories was due to inter-company stock elimination.</i>
<i>Variance in the administrative expenses and property, plant and equipment was mainly due to adjustment made to right-of-use assets.</i>
<i>Variance in trade and other receivables were due to reclassification from current to non-current as well as a separate disclosure on tax receivable which was previously being grouped under trade and other receivables in the Unaudited Results.</i>
<i>Variance in cash used in investing activities is due to adjustment made for purchase of PPE and the prepayment of the intangible asset. The variance for net cash generated from financing activities mainly due to adjustment made to repayment of lease liabilities and drawdown of bank borrowings.</i>

The company's announcement can be found here:

<https://links.sgx.com/FileOpen/Samurai%20K%20Material%20Variances%20between%20unaudited%20and%20audited%20FS%20FY2023.ashx?App=Announcement&FileID=765417>

- (i) **Can the audit committee (AC) provide further clarification to shareholders regarding the significant variances observed, including the adjustments made to administrative expenses, purchase of property, plant, and equipment (PPE), prepayment of intangible assets, right-of-use assets, reclassification of receivables from current to non-current, and the separate presentation of tax receivables as a standalone line item?**
- (ii) **What are the challenges faced by the company's finance and accounting staff in meeting the Singapore Financial Reporting Standards (International) (SFRS(I))?**

¹

<https://links.sgx.com/FileOpen/Samurai%20K%20Material%20Variances%20between%20unaudited%20and%20audited%20FS%20FY2023.ashx?App=Announcement&FileID=765417>

- (iii) **What role did the AC play in the preparation of the financial statements? Was it adequate?**
- (iv) **How can shareholders be assured that the internal financial reporting/finance team is sufficiently resourced with experienced and qualified staff to ensure the integrity of the financial statements?**

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

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