



(Incorporated in Singapore)
(Company Registration No. 198001299R)

CORPORATE AND BUSINESS UPDATE

The Board of Directors (the “**Board**”) of Koda Limited (“**Koda**” or the “**Group**”) wishes to provide a corporate and business update to the shareholders of Koda (“**Shareholders**”) following a recent strategic review.

I. Background

Koda is an Original Design Manufacturer (“**ODM**”) specialising in production of design-intensive household furniture for the upper middle class. Koda is headquartered in Singapore with manufacturing operations in Vietnam (Ho Chi Minh City) and Malaysia (Senai, Johor). Koda sells to more than 50 countries, mainly to the United States (“**US**”) and Asia.

Commune Lifestyle Pte Ltd (“**Commune**®”), led by the third generation of the founding Koh family, is a wholly-owned subsidiary of Koda which develops and manages the brand for its retail and distribution strategies in Asia.

II. Overview of business and financials

The 2008-2009 global financial crisis and the subsequent Eurozone led to major operational restructuring and changes in its business model, tapping on the fast-growing Asian market.

The Group has since streamlined its operations, consolidated production facilities in Vietnam, relocated factories out of China, disposed the loss-making retail business (“**Rossano**”) in Vietnam and disposed certain non-core assets for cash. The Group has further improved supply chain efficiency, enhanced product mix and expanded distribution networks of **Commune**®, proving its successful development of product and brand differentiation.

Commune® currently has more than 40 outlets, mainly in China. Its proposed expansion is taking place at a time when the Chinese government is shifting export-led growth to an economy focused on domestic consumption.

On the other hand, the US market (accounting for more than 30% of total revenue in FY2016) will remain the key focus for the Group’s exports. While the Group is mindful of the recent political developments in the US, the improving outlook on job creation and housing recovery is expected to sustain sales there.

As a result of the above marketing efforts, revised business strategies and operational restructuring, the Group reported a Net Profit of US\$1.6 million for the financial year ended 30 June 2016 (“**FY2016**”), reversing losses in FY2014 and FY2015. The Group

also reported a Net Profit of US\$2.2 million for the nine months ended 31 March 2017 (“**9M2017**”), a 66.9% increase over the corresponding period a year earlier.

III. Strategies

The Group’s senior management has recently completed a major strategic review which takes into account the changing dynamics in the furniture manufacturing sector, as well as Commune®’s potential in the retail sector. These strategies are specifically important because of:

- (i) The need to match shorter delivery lead times for key export clients, particularly in the US;
- (ii) The fast-changing ordering patterns from key clients arising from smaller minimum order quantity (“**MOQ**”) and wider product mix; and
- (iii) Increasing demand in China for Commune® products, entailing an aggressive expansion.

The main pillars of its forward strategy are:

- 1) Improving manufacturing efficiency;
- 2) Strengthening supply chain;
- 3) Refining and expanding Commune®, and
- 4) Enhancing shareholder value.

1) Improving manufacturing efficiency

Koda’s manufacturing facilities are located in Vietnam and Malaysia, which currently account for approximately 70% and 30% of the Group’s total capacity respectively. Over the next 12 months, the Group intends to allocate additional capital expenditure for new equipment (i.e., CNC machines) to further automate manufacturing processes and maintain consistent quality. The investments will help these factories increase output by an estimated 10% to 15% on average and continually achieve optimal capacity utilisation rates of approximately 85% to 90%.

2) Strengthening supply chain management

a) *Ecosystem* – the management has successfully built an integrated ecosystem for furniture manufacturing in Vietnam, from procurement of high quality materials to final assembly of finished products. This is achieved through careful selection of multiple sub-contractors (including specialists) to supply goods to the Group. As a result of continuous refinement of supply chain relationships with these ‘approved’ or ‘qualified’ sub-contractors, the Group has built an ecosystem in which it can negotiate, mitigate supply risks and keep

direct costs down. This strategy has contributed to gross margin improvement over the years.

b) *Process improvement* – more recently, the Group has further improved on its procurement and manufacturing processes under this proven sub-contracting approach, which form part of the Group’s initiatives in expanding supply capacity and keeping gross margins sustainable.

c) *Supply hub* – to further reduce supply chain bottlenecks and improve workflow, the Group has established a dedicated 60,000 square feet storage and distribution hub. This hub allows temporary storage of, and facilitates logistic consolidation for, various components produced or delivered by suppliers and sub-contractors. This also allows in-house production flows to be modulated before finishing and final assembly, thereby improving logistic efficiency and lowering transportation costs. The hub has also enabled more shipment options while maximising container space.

3) **Commune® - Refining Brand and Expanding Geographically**

The Group’s in-house furniture and lifestyle brand, Commune®, has grown rapidly since inception in 2011. Commune® has successfully differentiated itself by catering to the aspirations of younger home-owners seeking modern, distinctive and well-crafted furniture. The ambience and layout of the stores also offer a new customer experience.

Commune® has its own in-house designers to develop products that cater to consumers’ needs and demands. They draw inspiration from various sources to ensure a constant flow of ideas that keep up with current trends. On average, Commune® releases one collection every year. Seven collections have been released since Commune®’s inception.

Commune® currently operates four owner-operated stores in Singapore, three distributor-retail (“DR”) stores in Malaysia and 35 DR stores in China, as well as one brand-in-store presence in Australia. Its future expansion will be driven by a proposed rollout of the DR network. Each outlet ranges from 1,800 square feet to 4,000 square feet. Commune® sells to DRs at wholesale prices, which typically command higher margins.

Commune® relies on its main distribution hubs in Malaysia and Vietnam, as well as its sub-distribution hubs in Dongguan, to service its DR network. It plans to set up another hub in Eastern China to further support all of Commune®’s own and DR stores. The DRs also have access to Commune®’s concept improvements and pipeline of new collections, as well as marketing content and materials available from its head office in Singapore.

Commune®’s largest DR network is currently in China. It also offers the greatest potential. For the year ending 30 June 2017 (“FY2017”) alone,

Commune[®] would have added 17 new DR outlets in China. The 35 stores in China are in operation across the country, including Shanghai, Chongqing and Beijing. The popularity among younger buyers stems from its bold use of unique black-themed stores and a collection – refreshed once a year – that is sized to fit the apartment lifestyle.

The Group intends to roll out Commune[®] in various Asian markets to cater to rising demand among the mass affluent for differentiating lifestyle products.

Apart from its in-house collection, Commune[®] also aims to build up the brand experience by partnering a range of independent brands at its concept stores. It will also extend its online sales platform, which is currently only available in Singapore, to China.

Commune[®] has differentiated itself by introducing cutting-edge technology into its retail business. It is the first furniture maker in Singapore to add virtual reality (VR) and 3D Floorplanner to enhance its retail experience.

4) Enhance shareholder value

To meet the Minimum Trading Price (“MTP”) requirements, the Group carried out a 5-to-1-share consolidation exercise in November 2015.

In February 2017, the Group declared an interim dividend of 0.50 Singapore cent per share following the release of improved results for the half-year ended 31 December 2016.

In May 2017, the Group reported significant improvement in its financial performance for 9M2017.

In June 2017, it completed a 2-for-1 bonus issue, which raised the issued share capital base to 41,045,716 shares (excluding 55,500 treasury shares). The bonus issue reflects the growth of the Group’s business and rewards shareholders for their support and loyalty.

Koda’s operational improvements in the last three years have strengthened its balance sheet. Gearing fell to 0.07X in FY2016 from 0.38X in FY2014. The Group also improved its return on equity to 7.2% in FY2016 from 1.9% a year earlier. The Group’s net asset value at the end of FY2016 was 83.9 U.S. cents.

VI. Outlook

As a result of the above strategies, the Group's Gross Profit Margin ("GPM") has risen to 27.7% in FY2016 from 23.6% in FY2014.

Additionally, the Group expects:

1. Both the ODM and Commune[®] business to improve over the next few years;
2. Targeted increase of the number of Commune[®]'s DR stores in China to 100 by FY2020; to support this growth, the Group is assessing the feasibility of establishing a supply hub in Eastern China, and plans to add at least eight stores in other parts of Asia by FY2020;
3. The production capabilities of the Malaysia and Vietnam facilities to perform better towards FY2020;
4. Taking into account the results for 9M2017 and barring unforeseen circumstances, Net Profit for FY2017 is expected to exceed that of FY2016; and
5. To declare a final dividend for FY2017 in addition to the interim dividend of 0.50 Singapore cent per share (pre-bonus issue).

The Group expects to release its unaudited results for FY2017 at the end of August 2017.

BY ORDER OF THE BOARD

James Koh Jyh Gang
Deputy Chairman and Managing Director
17 July 2017