

KODA LTD

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

RESPONSES TO SIAS'S QUESTIONS ON KODA LTD'S ANNUAL REPORT FOR FY2017

As part of SIAS's initiative to review annual reports of listed companies, we understand that SIAS has, with the help of researchers, analysed our Annual Report for FY2017 and asked certain questions. In responding to SIAS's questions, we hope the responses would be useful for our shareholders and potential investors to understand the Company's growth strategies and business models, including any additional information on our financial statements. Thus, a voluntary disclosure is made here 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. *As noted in the Managing Director's Statement (page 14 of the annual report), the United States of America is the group's largest export market, accounting for US\$19.1 million of the total revenue of \$49.5 million in 2017. The largest customer of the group accounted for US\$7.3 million in revenue.*

- a) *Can management let shareholders know how many major customers are there in the United States of America?***

 - b) *Through the sales network of the major customers (i.e. large well-known furniture brands), what is the footprint of the group in the USA? Are there regions/states in the USA that contribute significantly to the group's revenue?***
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Company's Response:

For FY2017, no single customer accounted for more than 15% of our total revenues. Over half of our sales came from no fewer than 10 customers which were quite diversified geographically.

The US as a whole is a huge furniture market. With less than US\$20 million in revenue from the US in FY2017, our market share there is not significant. As such, a 'quantifiable footprint' is not meaningful. Even if such information is available, it is commercially sensitive to our customers, which we have to be extremely mindful of whether to make it publicly available.

Q2. According to Commune's website, there are currently four Commune stores in Singapore, namely the Flagship Store at Raffles Boulevard (Millenia Walk), the Paragon Store, the IMM Store and the Commune Experience Centre at Defu Lane.

- a) **Are there plans to expand the group's retail network in Singapore?**
- b) **What are management's views on the future of furniture retail, especially in the luxury/high-end category? What is the group's strategy to ride on the growing trend of online shopping?**

The distribution costs have increased from US\$3.3 million in 2016 to US\$4.1 million in 2017. The increase of US\$0.8 million was attributed to higher showroom rental costs in Singapore and higher logistics costs (page 7).

- c) **Can the company provide a breakdown of the distribution costs?**
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Company's Response:

Commune's existing retail network in Singapore (including our flagship store in Singapore) has the island state quite well covered. There are no immediate plans to expand in Singapore. Our strategy for Commune is to expand in China and other parts of Asia to meet rising demand amongst the mass affluent for quality, unique lifestyle products.

Singapore remains a market which we will continue to allocate resources to as Commune carries the intrinsic value of the 'Singapore Brand'. Demand for our products in Singapore remains encouraging as consumers appreciate our designs and quality. Our efforts to enhance the retail experience, such as through virtual reality simulation and 3D floor planning, are also well appreciated. Commune targets the middle to upper middle class of consumers and thus, we do not invest much in the 'high-end/luxury' category of the market.

Whilst we have seen growing popularity of e-commerce for many consumer products, consumers in Singapore generally still prefer to visit stores for furniture shopping. Nevertheless, we still maintain and update an online platform, which enables us to keep abreast of consumers' preferences. Outside of Singapore, Commune's online platform could be useful in China.

Distribution costs of approximately US\$4.1 million mainly comprise of showroom rental and upkeep, advertising and promotion, freight and logistics and staff related costs. These make up approximately 90% of total distribution costs.

Q3. *The group has paid the deposits for purchase of property, plant and equipment (PPE) amounting to US\$548,000. This relates to the “deposit placed for the purchase of land and buildings in Vietnam”.*

- a) ***Since the deposit is recognised as part of the group’s PPE, can management provide better clarity on the expansion plans assuming that the group is in the process of setting up a new factory in Vietnam? If so, what is the scale of the factory and when would it be ready?***

On page 145 (Particulars of properties owned by the group), the group no longer lists its Vietnam Factory at Tan Tao Industrial Park, Binh Tan District, Ho Chi Minh City, Vietnam.

- b) ***Has the group sold the Tan Tao factory?***

In Note 16 (page 125 – Property, plant and equipment), leasehold buildings in Vietnam were recognised at US\$5.0 million in 2017 (2016: \$nil). The footnote explained that:

During the year, the Group adopted a revaluation model for leasehold buildings in Vietnam. In prior years, leasehold buildings in Vietnam was categorised as a separate class of assets as it allows for different usages by the Group.

- c) ***Can management help shareholders understand what had caused the changes and if there are major operational developments and/or policy shifts on the ground in Vietnam that led to these changes?***

Lastly, the group’s head office and warehouse at 28 Defu Lane 4 has a lease expiry in 2018.

- d) ***What are the group’s plan for its operations in Singapore?***
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Company’s Response:

As part of the Group’s strategies to improve factory efficiency and rationalise under-utilised assets in Vietnam for cash:

- We have completed the disposal of the property at Tan Tao in June 2017, as previously announced on 27 June 2017; and
- We have acquired land and buildings adjacent to the current production site located at Thuan Dao. The purchase of land and buildings in Vietnam was first announced on 30 March 2017. The acquisition has just been completed, as announced on 25 October 2017.

The Group’s production facilities in Vietnam are now in one single location where production and manufacturing and supporting activities take place, and where production and logistics are consolidated. The ‘single location’ strategy has worked well contributing to good improvement in factory efficiency. In previous years, there were also certain properties in Vietnam which had other uses and were subsequently held as investment properties. Given the asset rationalisation plans, these investment properties have since been disposed. All leasehold buildings in Vietnam are now recorded at fair value, following our revaluation exercises conducted during the annual audit in 2017.

The current lease on the Defu Lane property will expire at the end of 2018. We are still evaluating various options, including having discussions with the lessors for a possible extension and/or exploring alternative plans. However, there is no certainty that the lessors will agree on an extension and there are also no specific discussions which we have had to firm up relocation plans.

By Order of the Board
Koda Ltd

James Koh Jyh Gang
Managing Director

26 October 2017