KODA LTD

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

RESPONSES TO SIAS'S QUESTIONS ON KODA LTD'S FY2023 ANNUAL REPORT

Note: We have made a voluntary disclosure in response to SIAS's questions on our FY2023 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. *For the financial year ended 30 June 2023, the group reported a 45% drop in revenue to US$43.8 million (2022: US$79.3 million). Gross profit amounted to US$12.0 million while loss for the year was US$(2.9) million.*

In 2023, revenue from North America declined sharply, dropping from US$51.2 million in 2022 to US$21.6 million. This decline was primarily due to a significant slowdown in customers' order replenishment cycles as stockpiles accumulate at the retailers' end.

FINANCIAL PERFORMANCE

Summarised Profit & Loss Account For the Year Ended June 30.

Revenue from (US$'000)	**2023**		**2022**	**Change**
Asia-Pacific	**16,765**	(18)%	20,443	(3,678)
North America	**21,576**	(58)%	51,177	(29,601)
Europe	**4,178**	(37)%	6,650	(2,472)
Others	**1,262**	18%	1,069	193
Total revenue	**43,781**		**79,339**	**(35,558)**

(Adapted from company annual report)

(i) ***Can management help shareholders better understand the North American market's peculiarities that led to the significant swings in demand?***

(ii) ***What strategies is management employing to address the sharp decline in demand in North America? For instance, has management considered acquiring new customers in different market segments or geographic areas, adjusting the product mix and market positioning, or revising pricing strategies?***

Also, in the statement to shareholders, the executive chairman and CEO provided the following outlook:

> *We observed that our business recovery depends very much on the pace of inventories replenishment cycles while such orders from our export clients are contingent on the pace of the global inflation pressure. … we read that China has set a very modest target for economic growth in FY2023 and there have also been mounting concerns over its major real estate and debts crisis that could further deprive its economic stability… Commune (our retail and distribution business) has proactively diversified its market base … has also extended its market reach via expansion of logistic networks and inventory positions in northwestern Europe and India.*

Management's discussion of the key operational keys can also be found on pages 45 and 46 of the annual report.

(iii) ***Can management elaborate on the rationale to acquire an additional 30% interest in Commune (Chongqing) Trading Co. Ltd ("Commune CQ") for RMB 1 on 31 August 2022? Can management elaborate on the working relationship with other shareholders of Commune CQ and share insights into the financial position of its partners? How is management's positioning Commune CQ given that it is hopeful of a meaningful rebound after China's post-Covid reopening while being mindful of the growing concerns over the real estate sector in China? Can management confirm that Commune CQ was loss-making in 2023 and is in a net liabilities position as at 30 June 2023, and whether it requires additional capital injection by the company?***

(iv) ***What factors were considered by the board prior to the group's expansion to India? Can management outline the key success factors for this venture, and provide information about the size of the Indian market?***

Company's Response:

The Executive Chairman and CEO, James Koh has provided relevant details and explained in his statement (i) those key factors which led to significant swings in demand – *see "Opening Address and Overview" on Page 8;* and (ii) marketing strategies amidst uneven business recovery cycle – *see "Outlook" on Page 12*.

Whilst Commune CQ was affected by Covid-related restrictions in China, its financials (loss-making and net liabilities position for FY2023) were immaterial to the Group; and as of now, there is no additional capital investments. We have full control over the operating policies of Commune CQ (serving clients in southwest-central region of China) after the said acquisition while the local partner remains as a working director, who reports to us. Meanwhile, Commune has diversified into India through a dealership structure with a view to potentially capturing the fast-growing middle-class market segment while we understand that every progression in our market expansion strategies carries risks under the challenging operating environment.

Q2. *As at 30 June 2023, the group's inventories decreased to US$12.3 million from US$19.9 million a year ago. Inventory turnover days ranged from 97-98 days in 2019 and 2020 but jumped to 129 days in 2021, 132 days in 2022 and 141 days in 2023.*

(i) ***Can management confirm if supply chain disruptions caused by the pandemic have largely been resolved?***

(ii) ***What are the key factors that led to the consistently high inventory turnover days of 132-141 days in the past two years? How is management actively working to improve inventory turnover while also considering delivery lead times?***

(iii) ***Will the group's network expansion to northwestern Europe and India require significant inventory holdings?***

The breakdown of the group's inventories can be seen from Note 9 of the financial statements and reproduced below.

9 INVENTORIES

	GROUP	
	2023 US$'000	2022 US$'000
Raw materials	**4,871**	8,372
Work in progress	**3,771**	5,839
Finished goods	**5,780**	6,902
	14,422	21,113
Less: Allowance for inventories	**(2,104)**	(1,176)
	12,318	19,937
Movement in allowance for inventories:		
Balance at beginning of the year	**1,176**	1,193
Charged (Credited) to profit or loss for the year	**928**	(17)
Balance at end of the year	**2,104**	1,176

(Source: company annual report)

In FY2023, an allowance of US$928,000 in inventories was recognised, of which US$885,000 has been attributed to the manufacturing segment and US$43,000 to the retail and distribution segment. For reference, the allowance amount of US$885,000 is approximately 40% of the amount written off due to the fire loss in 2022.

(iv) ***What are the reasons for the significant allowance for inventories? Did management recognise impairment on raw material, work in progress and/or finished goods? What was the breakdown of the impairments?***

(v) ***What guidance has the board provided to help the group improve inventory management in an operating environment characterised by volatile and uncertain demand?***

Company's Response:

As disclosed in FY2023 Annual Report, our supply chain faces less disruptions now and delivery lead time is improving, albeit higher operating costs given inflationary pressure. We believe that our inventory turnaround time were not out-of-range over the last 2 years, having considered the key strategies in managing our supply chain cycles, particularly in FY2020 - FY2022 during which there were major disruptions. As at 30 June 2023, overall inventories fell significantly given lower raw materials and Work-In-Progress on the back of lower purchases. The existing inventory holding period has also taken into consideration of Commune's expansion plans in Northwestern Europe and India. We will continue to manage our suppliers' relationship strategically as we work towards aligning our supply chain strategies with our inventory management plans over a longer term amidst market uncertainty.

Inventory allowance is an accounting provision which had been recorded in accordance with the financial reporting standards which we have applied consistently under our annual assessment with reference to changing market conditions and risk of obsolescence as at the reporting date. Please note that this allowance differs from inventory write-off, the effects of which could potentially be reversed in the event that the inventories in questions can be re-deployed again in meeting market demand. The inventory allowance for FY2023 mainly pertained to raw materials and finished goods.

Q3. *As disclosed in the corporate governance report, the internal audit function of the group is outsourced to Messrs Crowe Horwath First Trust Risk Advisory Pte. Ltd. It was stated that the internal audit plan will be submitted to the audit committee for approval prior to the commencement of the internal audit.*

(i) ***Can the audit committee (AC) clarify its role in determining the scope of the internal audit?***

(ii) ***What were the scope, key findings and recommendations by the internal auditor for FY2023?***

(iii) ***Can the AC confirm that all the foreign operating subsidiaries in Malaysia, Vietnam and China were included in the internal audit? How was the internal audit carried out for these foreign subsidiaries?***

(iv) ***What is the level of oversight by the AC on the actions taken by management to follow up on the recommendations?***

Company's Response:

The Internal Auditor presents the annual internal audit plan for the assessment and approval of AC. Upon completion, the AC reviews key audit findings and recommendations, including responses from Management. Management will subsequently report to AC on follow-up actions.

The internal audit scope for FY2023 covered areas of (i) review of general control environment; (ii) credit risk management; (iii) retail operations; (iv) sustainability reporting and (iv) follow up on prior year findings. There were no high-risk rated findings arose from the internal audit for FY2023.

Internal audit for foreign subsidiaries was done on a rotating basis such that all the key foreign operating subsidiaries will be covered in a 2-3 years audit cycle. The internal auditor may engage their foreign offices for joint internal audit, if required so.

By Order of the Board of Directors of
Koda Ltd

James Koh Jyh Gang
Executive Chairman and Chief Executive Officer
24 October 2023