KODA LTD

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

RESPONSES TO SIAS'S QUESTIONS ON KODA LTD'S ANNUAL REPORT FY2016

The management wishes to thank SIAS for (i) its interest in the Company's Annual Report and (ii) its appreciation note on the Company's presentation of "Results At A Glance", which we have prepared for the ease of reference so that shareholders could better understand the Company's financials.

For the ease of reference to shareholders and at the same time, responding to SIAS's new initiatives to review annual reports of listed companies, we thought a quick business update for shareholders highlighting the Company's recent growth strategies and business models would also be useful. 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 limitation that we should not release any information, which could specifically imply our internal performance targets and indicate our future financial performance. Shareholders may want to note that most of this information provided herein had previously been included as part of the results announcements, the Company's annual reports and public documents.

Q1. *Given all the recent restructuring and corporate developments, shareholders, especially the new ones, may not be familiar with the strategic direction of the group. Based on the sales to customers, the key markets in 2016 are United States of America, Singapore, Korea, China, Japan and Australia (page 130 – Segment information). In the Chairman's Statement (page 19), a list of key management's decisions gave a glimpse of the group's actions in the past year.*

More information about the group's in-house brand and operations could be found in an interview with the group's third generation leaders published last month in the national newspaper than in the annual report. Could management provide shareholders with a holistic oversight of the group's strategy and business model of the group?

Please include relevant information, such as:

a) Strategic direction (manufacturing vs in-house brands/retail)

b) Geographical exposure (key markets, retails sites, manufacturing sites)

c) Growth drivers (premium products, brick-and-mortar retail, e-store, new markets)

d) Business model (franchise sales, quick-shipping, direct sales)

Company's reply

Strategic directions, growth strategies, geographical exposure and business model of the Group

We are primarily an original design manufacturer ("ODM") of furniture specialising in household furniture for the middle to upper-middle class consumers. We focus on our design expertise, intensified efforts in research & development and invest in innovative manufacturing processes to differentiate ourselves from the competition. We produce high-quality, design intensive products at affordable prices for our clients. We have a diversified customer base – selling to over 190 customers across 35 countries around the world, with our key markets now in the USA, Australia, Korea and Japan. Many of our customers own large and well-known furniture brands (which we have been able to sell directly to). To support our sales and marketing activities, we have manufacturing facilities in Vietnam and Malaysia with purpose built plants and warehouses supported by a strong sub-contracting base and supply chain network. Our supply chain cycles and procurement base (in Malaysia and Vietnam) are managed in order to meet shorter delivery lead-times for our customers, which is also one of our competitive advantages in addition to our design capabilities and cost effectiveness.

In order to further drive sales, we have recently focused our marketing efforts on a few selected customers (i.e. the top 5% of customers in our key markets) and invested in dedicated production lines for economies of scale. Expanding our revenues stream and leveraging on our design capabilities, we have developed and launched our in-house concept brand, Commune. Commune has been doing well since its inception and has since expanded with Commune concept stores across Singapore, China, Malaysia and Australia. Meanwhile, there are currently no market signs suggesting that we should or would slow down the opening of more of such dealership concept stores in these regions over the medium-term. As such, we expect to continually invest part of our resources for the expansion of Commune. We have also recently introduced an innovative retail experience (3D floor-planning and Virtual Reality) under the in-house brand to further improve on the customer retail experience. Whilst ODM sales to our key international markets are expected to remain as our largest revenues segment, Commune is one of our key initiatives to grow sales and improve profitability.

In doing so, we also wish to draw to our shareholders' attention (as our Managing Director wrote in his statement – "Going Forward" – in the FY2016 Annual Report) that:

"*Whilst the furniture markets have since become more price-sensitive as a result of escalating cost pressures, I continue to believe that we should not (and which we have never in the past) embark on an aggressive 'cut-throat' pricing strategy. It is thus extremely important that we drive agility, keep good cost discipline and beef up our R&D so that we can continue to produce design-intensive products at affordable prices and in cost-effective ways. Our priorities continue to be sustaining our operating margins and cash flows*".

This mainly explains our business philosophy, existing business models and strategies.

Q2. *In the Managing Director's Statement (page 21), the five-year summary of financial performance shows that the net profit attributable to owners of the company over the last five years is slightly negative while the net asset value per share has been fairly stable. With the restructuring completed, the latest results show some encouraging signs as the gearing has been brought down to 0.07x and return on equity jumping to 7.2%. At its peak, the return on equity was nearly 30% and revenue was as high as US$60 million. Given the current market conditions, the group's current scale and the new business model, can the board share some of the key performance targets they have set for management, including key metrics like revenue, gross profit margin and return on equity? What is the current utilisation rate of the manufacturing sites?*

Company's reply

As disclosed in the Report on Corporate Governance, matters which require the Board's approval include the annual budgets and performance of the Group. Once approved, this budget will then become an internal guide for management. Yes, as SIAS has correctly pointed out, we are encouraged by the improving gearing position of the Group. Specifically, the improved operating cash flows position of the Group and lower working capital investments primarily helped to lower overall debt positions and improved the debt/equity ratio. The higher earnings in FY2016 boosted our return on equity ratio.

As re-iterated, we wish to highlight that we are not able to (and we should not) provide any forward-looking statements, estimates and forecasts, which would imply specific financial guidance to our shareholders. However, in monitoring our key performance targets, we are well aware of the need to update shareholders via an official SGXnet announcement or issue a 'profit guidance note' if there is a unusual deviation between the 'to-be-reported' profits and the comparable in the prior corresponding periods. Barring any unforeseen circumstances, there is no such need to issue a 'profit guidance note' for the time being.

We have always been targeting to achieve an optimal manufacturing capacity utilisation rate of 80% to 85%, on average – in our factories in Malaysia and Vietnam.

***Q3**. As a furniture manufacturer, the group purchases raw materials such as wood, leather, fabrics and finishes for its production. Can management share how pro-actively they fulfill their corporate social responsibility by buying only from reliable and sustainable wood sources? How does the company ensure that they are not buying wood (such as teak) that were obtained through illegal logging?*

Company's reply

The finished products manufactured by the Group use mainly timber that are plantation timber and as such have been grown for the purposes of being harvested for use. We have also been pro-actively sourcing our timber from established timber merchants, which have complied with international sustainability standards. On top of the internal efforts to reasonably ensure that we source from sustainable sources, many of our customers (from the USA and EU) impose strict compliance audits on their own supply chain, which we have to comply with in order for us to continually supply them.

BY ORDER OF THE BOARD

JAMES KOH JYH GANG
Managing Director

27 October 2016