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Issuer: China Kunda Technology Holdings Limited

Security: China Kunda Technology Holdings Limited

Meeting details:

Date: 26 July 2018

Time: 9.00 a.m.

Venue: 4 Shenton Way, SGX Centre 2 #17-01, Singapore 068807

Company Description

China Kunda Technology Holdings Limited, an investment holding company, provides precision molds, plastic injection parts, and in-mold decoration (IMD) products to the electronic, electrical, automobile, and specialized devices industries in the People's Republic of China and Asia. It operates through two segments, IMD and Plastic Injection Parts, and Automobile Component Parts. The company also supplies raw materials and machineries; and provides technical and management services. It serves OEM and ODM customers. China Kunda Technology Holdings Limited was founded in 1998 and is headquartered in Shenzhen, the People's Republic of China.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=GU5)

1. With the closure of the production facility in Beijing, the group's remaining business segment is the manufacture and sale of In-Mould-Decoration ("IMD") and other plastic components.

In FY2018, revenue increased by 27% from the sale of IMD and plastic injection parts used for consumer electrical products. As seen in Note 25 (page 78 – Segment information), the IMD and Plastic injection parts segment results dipped from a loss of HK\$(784,000) to HK\$(1,319,000) for FY2018. It was also disclosed in the Chairman's Statement that the group "may continue to incur losses in the short-run due to challenging business conditions" (page 2).

- (i) How cost efficient and technologically advanced is the group's Shenzhen factory?**
- (ii) With the recent addition of capital equipment and renovation at the Shenzhen plant, what is the utilisation rate?**
- (iii) The group generated HK\$30.8 million of revenue from one major customer in 2018. What is the group's strategy to acquire more customers to increase its customer base and to reduce its reliance on the major customer?**
- (iv) What is the value proposition of the group's IMD and plastic injection segment? How does the segment stand out against competition in the crowded market?**

2. In the previous financial year, the company was exploring diversification into water treatment but negotiations ceased as terms could not be agreed between the parties. The company is now proposing a diversification into manufacturing and distribution of furniture and other related activities.

- (i) Does management have a robust and systematic framework in its search for new businesses, following the decision to cease the automotive components production operations in Beijing?**
- (ii) Would the board and/or management elaborate further on the group's diversification efforts?**
- (iii) Can management quantify the potential/expected synergies between its current core business and the furniture business? What is management's experience and track record in the design, manufacturing, distribution and sale of furniture?**
- (iv) What is the role played by the independent directors, especially in their roles as directors to protect and enhance long-term shareholder value, in the group's diversification efforts?**

3. In the Corporate Governance Report, the company has disclosed the following:

The Company endeavours to maintain a strong and independent element on the Board. Two (2) of the Company's Directors are independent, thereby fulfilling the Code's requirement that at least one-third of the Board should comprise Independent Directors. The Code also requires that Independent Directors should make up at least half the Board where the Chairman is not an Independent Director and is part of the Management. In view that the Company had scaled down the Group's operations, the Board is of the view that the number of independent directors on the Board is sufficient to contribute to effective decision making considering the Group's size of operations.

- (i) Has the board considered the benefits of having a stronger independent element on the board (by having independent directors make up at least half the board) especially as the group is facing challenges in the core business and is looking to diversify into new businesses (such as the manufacturing and distribution of furniture)?**
- (ii) Would the board reconsider its deviation from Guideline 2.2 of the 2012 Code of Corporate Governance and reconstitute its board such that independent directors make up at least half of the board?**

[The following question is adapted from the list of questions sent to the company for the annual report for the financial year ended 31 March 2016.]

4. In the Report of Corporate Governance (page 13), it was disclosed that both independent directors, namely Mr Lim Yit Keong and Mr Ho Chew Thim, have served on the board for more than 10 years.

Both Mr Lim and Mr Ho were appointed to the board on 18 June 2008. Mr Ho is also the company's Lead independent director. Mr Ho sits on the board of six other listed companies, namely, Yongmao Holdings Limited, Mencast Holdings Ltd, Hengyang Petrochemical Logistics Limited, DeClout Limited, Manulife US Real Estate Management Pte Ltd and Procurri Corporation Limited (page 17).

Mr Ho Chew Thim is also chair of the audit committee of the company, a member of the nominating committee and a member of the remuneration committee.

The nominating committee (NC) comprises Lim Yit Keong (as chairman; and director whose independence is under review by the NC), Ho Chew Thim (director whose independence is under review by the NC) and Cai Kaoqun (executive chairman and CEO).

- (i) Considering the composition of the NC (that includes both independent directors whose independence are under review), how effective is the NC in carrying its core function of reviewing directors' independence?**

Notwithstanding that the nominating committee, with the concurrence of the Board, has concluded that Mr Lim and Mr Ho are independent, Guideline 2.4 of the Code of Corporate



Governance 2012 calls for the board to “also take into account the need for progressive refreshing of the Board”.

- (ii) In addition to reconstituting the board to have independent directors make up half of the board, what are the board’s near-term plans to refresh the board membership progressively and in an orderly manner to avoid losing institutional memory?**

A copy of the questions for the Annual Report for the financial year ended 31 March 2017 could be found here:

https://sias.org.sg/index.php?option=com_qaannualreports&view=qareports&filter_company=230

The company’s response could be found here: ----