嘉靈控股集團有限公司

Karin Technology Holdings Limited

Incorporated in Bermuda on 30 August 2002)
(Company Registration Number 32514)

RESPONSE TO QUESTIONS RECEIVED FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE) RELATED TO THE ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2024

The Board of Directors of Karin Technology Holdings Limited (the "Company" or together with its subsidiaries, the "Group") would like to provide its response to the following questions raised by the Securities Investors Association (Singapore) ("SIAS") related to the Company's annual report for the financial year ended 30 June 2024:

The Company's response to the relevant and substantial questions regarding AGM resolutions submitted by 10.00 a.m. on 23 October 2024 is set out below:

Question 1

For the financial year ended 30 June 2024, the group achieved revenue growth of 8%, reaching HK$2.2 billion, primarily driven by strong performance in the IT Infrastructure segment, and offset by weaker sales in the "components distribution" (CD) and "consumer electronics products" (CEP) segments. Net profit after tax was HK$17.4 million, making 47 consecutive years of positive earnings.

(i) Components distribution (CD): In the CD segment, revenue has declined in 5 of the past 6 years and is now approximately half of the FY2019 revenue of HK$764 million. The segment has also been loss-making for the past two years, with losses exceeding HK$7 million. Can management elaborate on the structural changes affecting this industry? What are the primary demand drivers, and how does management plan to balance maintaining market share with achieving profitability? Does the ongoing challenge in this segment significantly increase the risk of inventory obsolescence?

Reply The components distribution industry has undergone significant changes over the past five years. The semiconductor shortage during the pandemic period of 2020-2022, fueled by supply chain disruptions and surging electronics demand due to remote work, led many distributors to stock up on inventory in anticipation of sustained growth. However, the landscape shifted drastically as inflationary and other macroeconomic pressures dampened demand, resulting in an oversupply of components. This abrupt shift triggered increased volatility in the sector, price wars among distributors seeking to clear excess inventory, and consequently impacted the performance of our CD segment.

These market challenges did increase the risk of inventory obsolescence. In this regard, management has been reviewing the ageing analysis and condition of inventories of the Group at the end of each reporting period. A provision for obsolete and slow-moving inventories has been estimated based on the net realizable value of the inventories with reference to the rapid technology advancement and macroeconomic challenges. Significant judgements and estimations are required due to uncertainty about the impact of technological advances, product life cycle, market conditions and future sales plans which require management to make judgement based on information available at the year end.

The external auditors have also identified inventory obsolescence as a key audit matter and expended significant audit efforts thereon to satisfy themselves that the Group's inventories as of 30 June 2024 were fairly measured and stated. The key audit procedures were summarized in the independent auditor's report dated 8 October 2024.

We have also invested more resources in our IT Infrastructure segment, which has shown the best performance improvement in recent years, to partially offset the slowdown in our CD and CEP segments.

(ii) Consumer Electronics Products (CEP): Is the CEP segment still considered strategic to the group's future growth? Could management provide insights into the size of the retail network and clarify how reliant the In-Smart business is on Apple as its authorized reseller? What percentage of the CEP business is non-Apple related?

Reply The performance of our CEP segment is closely linked to product launches and consumer sentiment. Historically, we have seen significant improvements during years with highly anticipated launches. Our retail presence in Hong Kong includes three In-Smart stores.

Beyond In-Smart, we distribute leading brands such as Logitech, Dyson, and Apple Beats, maintaining a diversified portfolio. We continue to grow revenue in this space while balancing cost control across inventory and manpower.

Notably, our distribution network boasts an increasing number of prestigious brands, thereby reducing dependence on any single product line, including Apple. A key differentiator is our focus on premium brands with loyal followings, setting us apart from our competitors.

(iii) IT Infrastructure (IT): What is the group's value proposition in the IT Infrastructure segment, particularly in winning "mega projects"? How does management ensure that profit margins are sustained given the competitive nature of the sector?

(iv) Growth opportunities: Can management identify the major opportunities in areas such as 5G, artificial intelligence, green energy, data centers, and semiconductors? What differentiates the group and positions it well to capitalize on these growth opportunities?

Reply As more companies embrace digitalization, their requirements for high-performance IT infrastructure and cyber security are becoming increasingly sophisticated. Karin is well-positioned to partner our customers on their digitalization journey. Our engineers collaborate closely with customers from inception to implementation, ensuring seamless integration and optimal performance. With a proven track record of securing multi-million-dollar projects, our expertise and reputation continue to grow, driving confidence in future contract wins.

Our competitive advantage lies in our deep understanding of existing client systems, making vendor switching costly and inefficient for clients. As their needs expand, customers often return to us for integrated solutions, leveraging our familiarity and expertise. To maintain this edge, we continuously invest in our engineering team's technical capabilities, ensuring alignment with customers' evolving requirements.

We see significant potential for growth in emerging technologies, particularly 5G and Artificial Intelligence. As these innovations transform industries, demand for advanced IT infrastructure and cybersecurity solutions will rise. Our expertise in designing and implementing tailored solutions positions us to capitalize on this trend.

Question 2

In recent years, the group has executed on its strategy of realizing the value of its properties through disposals. The group's property in Beijing was sold for RMB5.9 million, below the net book value of RMB7.6 million and the valuation of RMB8.2 million as at 30 June 2023.
This resulted in a loss on disposal of approximately HK$1.95 million.

(i) How were the buyer and property agent introduced to the group?

Reply The marketing of the property was done by several independent local real estate agents and one of them successfully closed the sale.

(ii) What factors did the board consider when deciding on the timing of the sale, particularly given that the property was sold at nearly 30% below the most recent independent valuation, which was based on comparable transactions? Did the board explore holding the asset longer to avoid distressed pricing?

Reply We would like to clarify that the valuation of RMB8.2 million, as at June 30, 2023, was an estimate of fair value of the property for accounting purposes. We were informed and believed that the sale consideration of RMB5.9 million, facilitated by an independent real estate agency to an unrelated purchaser on an arm's length basis, represents the property's market value as of the transaction date. Please refer to the Company's announcement dated 1 November 2023 for the rationale for the disposal.

As at 30 June 2024, the company has recognised 166 Wai Yip Street, Kwun Tong, Kowloon, Hong Kong as property held for sale, with a carrying value of HK$67.1 million (2023: HK$71.0 million). This property is held by Compusmart Limited, a wholly-owned subsidiary incorporated in the British Virgin Islands.

(i) Since the public tender nearly three years ago in November 2021, can management provide insights into the changes in the real estate market in Kwun Tong, Hong Kong? Specifically, what are the trends in pricing, transaction volumes, and the impact of rejuvenation policies and urban renewal projects in the area?

(ii) What is the current valuation of 166 Wai Yip Street, and how does it compare to recent transactions in the market?

(iii) What is the board's strategy to unlock the value of this property, considering the challenges in finding a buyer over the past three years?

Reply We wish to clarify that the proposed disposal of the premises at 166 Wai Yip Street, Kwun tong, Kowloon, Hong Kong (the "**Property**") did not undergo a public tender process. Instead, the Company engaged reputable Hong Kong real estate agencies to market the Property and solicit offers from potential buyers.

The market value of the Property as at 30 June 2024 was estimated to exceed HK$300 million. However, the offers received to date were significantly lower. Given the substantial price disparity, the Board does not consider it prudent to dispose of the Property at this time.

Nevertheless, the Company remains committed to divesting the Property and is actively working with reputable real estate agencies to explore viable sales opportunities. The Board will determine a fair and reasonable sale price. Given the Property's significant value, any proposed disposal will most likely also require the approval of the Company's shareholders, as mandated by the relevant SGX-ST Listing Rules.

Question 3

During the financial year, the company had two independent directors who had served on the board for more than nine years. Mr Lim Yew Kong resigned as a director on 29 February 2024 as part of the board rejuvenation while Mr Lawrence Kwan will resign at the forthcoming annual general meeting (AGM). Mr Lawrence Kwan was first appointed on 13 July 2012.

Ms Yan Yuk Ping, Juni was appointed on 1 November 2023. The company has stated that the nominating committee (NC) and the executive board have *"commenced searching for potential candidate for appointment as independent director"*.

(i) **Given that SGX RegCo provided more than 20 months for this transition, what were the challenges in ensuring progressive board renewal? Did the board face challenge in replacing two long-tenured directors within this timeframe?**

(ii) **Can the NC clarify the level of involvement of the executive board in the search for new independent directors? Would it be ideal for the NC to take charge of the process, given its primary responsibility for board appointments?**

(iii) **Has the NC reviewed the current competency matrix of the board and identified any gaps in skills or competencies that need to be addressed in future director appointments?**

Reply The NC collaborates with the Executive Directors to keep regular review of any needs and competency gaps for progressive refreshing of the Board. After the announcement of the "9-year rule" by the SGX RegCo, we have been planning for the replacement of two long-serving independent directors (IDs), namely, Mr Lim Yew Kong ("Mr Lim") and Mr Lawrence Kwan ("Mr Kwan").

To minimize the impact on the Board's effectiveness, we are replacing two IDs out of three with careful consideration. We have adopted a gradual approach, appointing one new ID at a time to ensure seamless integration. Additionally, we will replace the second ID as late as possible, allowing the Board to continue benefiting from his experience and expertise while onboarding the first new ID.

To this end, Ms Yan was appointed to replace Mr Lim on 1 November 2023. For the replacement of Mr Kwan, we have started sourcing and interviewed candidates during the year. Candidates were referred through several channels and interviewed by the NC but a suitable candidate has yet to be identified. As such, the Board decided to continue the search and has also reached out to the Singapore Institute of Directors.

The Board is mindful of the stipulated timeline under the SGX-ST Listing Rules for appointing another independent director following Mr Kwan's retirement. The NC and the Board prefer to focus on quality. Our priority remains on finding the most suitable candidate having regard to the specificities of the Company. We will make the necessary announcements in due course.

Please also refer to Pages 34 to 36 of our Annual Report 2024. We have a formal process for nomination, appointment and reappointment of Directors and the NC's role in the process. It provides the framework for the NC to assess the suitability of candidates.

(iv) What steps is the NC taking to ensure compliance with Provision 2.2 of the Code of Corporate Governance 2018? Is it the NC's current intention to maintain its deviation from this provision? Can the board justify this deviation as being aligned with best practices in corporate governance?

Reply The NC believes that the quality, rather than mere quantity, of independent directors is paramount. Although independent directors comprise only half of the Board, they have demonstrated sufficient independence, diversity of thought, and varied backgrounds, enabling the Board to make decisions in the best interests of the Company. This approach complies with the mandatory Principle 2 of the 2018 Code, whereas Provision 2.2 allows for deviations with explanations.

Please refer to Page 30 of our Annual Report 2024 for more information.

(v) Can the NC also elaborate on the succession plans for the chairman, CEO and key management personnel?

Reply Succession planning has been an important discussion topic for the Board. Comprehensive analyses and board papers have been prepared and deliberated upon. The Group prioritises succession to ensure continuity and sustainable growth.

We have adopted a dual-track approach by cultivating internal talent while also seeking external candidates with potential to join our management team and assume leadership roles. This approach and strategy has already been initiated.

Our commitment to succession planning is rooted in our history. Since listing on the SGX-ST in 2005, our leadership transition has been seamless. Initially, co-founder Mr Philip Ng served as Executive Chairman and CEO. In 2021, his brother and co-founder, Mr Raymond Ng, assumed the role of Executive Chairman, while Mr Philip Ng's son, Mr Michael Ng, took on the dual roles of Executive Director and CEO.

The Board will proceed with its planned succession strategy for the executive management team and the Board, and any necessary updates or announcements will be made in a timely and transparent manner.

(vi) Has the NC deliberated on the merits of having an independent chairman? As noted in the CG Code 2018, having the chairman and the CEO as separate persons can better ensure an appropriate balance of power, increased accountability, and greater capacity of the board for independent decision making.

Reply The NC recognizes the arguments in favor of an independent Chairman but concludes that the existing Board composition effectively serves the Company's interests. Therefore, the NC does not currently see a compelling reason to appoint an independent Board Chairman.

The Board believes the current Board composition is ideal for driving performance, creating shareholder value and maintaining a proper tone at the top. Executive Directors, who form half of the Board, work to protect and enhance the best interests of shareholders with returns or benefits for shareholders while Independent Directors with diversity of skills set and profile ensure Board independence and diversity in perspectives for decision-making.

We would like to emphasize that the roles of Chairman and CEO are held by separate individuals. Our co-founders, Mr. Raymond Ng (Executive Chairman) and Mr. Philip Ng (Chairman Emeritus), bring a combined industry experience of nearly half a century, providing invaluable insights and foresight. Under their guidance, our Group has consistently delivered profitability since its inception in 1977 and paid dividends annually since our listing in 2005.

Given the dynamic and unpredictable nature of our business, preserving the Board's continuity would avoid undue disruption and help retain institutional knowledge. It is therefore important to harness the relevant and rich experience of the Executive Directors to navigate challenges and maintain stability through this period as opposed to reconstituting the Board by appointing an independent Board chairman.

Please refer to Pages 29 to 30 of our Annual Report 2024 for more information.

By Order of the Board

Wong Chi Cheung, Clarence
Financial Controller /Joint Company Secretary

29 October 2024