



KIMLY LIMITED

*(Incorporated in the Republic of Singapore)
(Registration No. 201613909R)*

CORPORATE AND BUSINESS UPDATE

The Board of Directors (the “**Board**”) of Kimly Limited (“**Kimly**” or the “**Company**”, and together with its subsidiaries, the “**Group**”) wishes to provide a corporate and business update. This update outlines the Group’s business strategies update following the release on 29 November 2018 of its unaudited results for the financial year ended 30 September 2018 (“**FY2018**”).

Overview of Operating Environment

Traditional coffee shops, together with food courts, are a significant part of Singapore lifestyle and food culture. Yet despite their popularity, operators of such establishments have been grappling with various challenges, including i) rising rents; ii) manpower shortage and growing wages; iii) higher cost of ingredients and utilities; and iv) more stringent food safety regulations.

Notwithstanding these challenges, the Group has been able to expand its portfolio of coffee shops, food courts and food stalls over the years and is now one of the largest operators of traditional coffee shops in Singapore. It operates and manages a total of 67 food outlets, comprising 60 coffee shops, four industrial canteens and three food courts. It also runs nearly 130 food stalls across Singapore.

The Group’s track record is also borne out by its unaudited results for FY2018. For FY2018, the Group’s revenue increased 5.3% to an all-time high of S\$202.2 million while net profit attributable to shareholders rose 2.1% from the previous financial year to S\$21.9 million. As at 30 September 2018, the Group had an operating cash flow of S\$9.5 million and a cash position of S\$71.7 million. The Board has proposed a final FY2018 dividend of 0.68 Singapore cents per share, subject to shareholders’ approval at the upcoming annual general meeting.

Strategic Initiatives

Following the release of FY2018 unaudited results, the management has undertaken a strategic business review and identified the initiatives listed below to further drive growth, improve operating efficiency and enhance value for shareholders:

- I. **Expanding footprint and diversifying product offerings;**
- II. **Driving innovation and streamlining outlet operations;**
- III. **Synergising Central Kitchen operations; and**
- IV. **Supporting entrepreneurship and grooming the next generation of business owners**

The Group intends to push ahead with these initiatives. The recent events involving Mr Lim Hee Liat and Mr Chia Cher Khiang have not affected the Group's daily operations.

I. Expanding Footprint and Diversifying Product Offerings

Kimly's existing sizable portfolio of food outlets as well as customer base provide economies of scale for its operations, including areas such as bulk procurement of raw materials and consumables as well as centralised food preparations. This is a key differentiator that will underpin future growth as the Group intends to further expand its portfolio. On average, it has been able to acquire between three and five new outlet locations each year. It expects to operate approximately 70 coffee shops and food courts in Singapore by end of the financial year ending 30 September 2019 ("FY2019").

The Group expects the Housing and Development Board's ("HDB") new system for evaluating bids for coffee shops to help in its portfolio expansion. Under the Price-Quality Method ("PQM") tender system introduced this year, HDB will consider not only the tender price submitted by operators but also other factors, such as affordability of food options, productivity initiatives and operating processes, in awarding new sites for coffee shops. This is a more holistic assessment and could boost footfall given the greater variety and affordability expected at upcoming food outlets. It could also discourage exorbitant bids by coffee-shop operators, especially for popular locations. More than 30 sites currently being built by HDB, all of which are due for completion in the next five years, will be released through the PQM system. The Group will participate in these tenders when they are called. The Group believes its track record, existing economies of scale and range of food products will provide a competitive advantage.

In seeking to diversify its product offerings, the Group acquired Japanese restaurant chain *Tonkichi* and confectionery business *Rive Gauche* in July this year. *Tonkichi*, which has been in Singapore since 1991, operates a chain of outlets situated in popular locations serving authentic Japanese cuisine at affordable prices, including its signature Tonkatsu set. *Rive Gauche*, which means 'left bank of Seine in Paris', is a Japanese-French inspired patisserie that has been operating in Singapore since 1992, offers a variety of delicious cakes and pastries. Kimly currently owns and operates three *Tonkichi* restaurants and 10 *Rive Gauche* outlets. Plans are underway to build the online business of Rive Gauche, which began with the launch of a newly revamped website in October 2018.

Through its analysis of consumer trends and sales data, Kimly has found a growing preference among customers for well-brewed iced coffee and iced tea across its entire chain of outlets. To better meet such demand, it has convened a workgroup to study the formulation and packaging of Kimly's own brand of Iced Kopi and Teh for sale at its drink stalls. The Group targets to launch this brand of beverages between January and March 2019 and to provide further growth in its drinks revenue.

Kimly will continue to explore suitable opportunities to grow its business through acquisitions, joint ventures and form strategic alliances with parties who can help the Group strengthen its market position, whilst continuing to deliver sustainable and steady returns to its shareholders.

II. Driving Innovation and Streamlining Outlet Operations

Kimly has turned to technology to bring the decades-old coffee shop dining culture up to date with the 21st century. The Group has introduced cashless payment options at a few of its outlets to cater to diners who prefer hassle-free transactions. To facilitate faster and more efficient ordering at Kimly's seafood "*Zi Char*" stalls, handheld tablet ordering is available at three outlets and will be rolled out progressively across all stalls. This will enable staff to monitor, update and process orders in real time through a central computer system. Such technology is expected to help lower daily operating costs by boosting productivity and increasing table turnover rates. These innovations also better position Kimly to attract quality food-stall operators.

The Group has also started rolling out Point-of-Sale ("**POS**") at its outlets. This POS system, which is integrated with an Enterprise Resource Planning software system, not only streamlines the ordering process but also allows real time access to sales, inventory and consumer data such as dining patterns. Complementing the Group's growth plans and cost management measures, the Group is in the midst of implementing a Central Kitchen ordering system, which will be ready by the end of FY2019. This ordering system will help Kimly streamline its work flow and reduce food waste.

Additionally, Kimly has identified a previously untapped avenue for nurturing customer loyalty. It intends to roll out a rewards programme for customers across all its outlets to promote repeat patronage. It is envisioned to be one of the key drivers for organic growth and for increasing same-store sales.

The Group has introduced a conveyor belt system at its pioneer “productive” coffee shop, located in Bukit Batok, to facilitate the return of used trays directly to the dishwashing area. It is also testing a new operating model that uses printed QR codes to facilitate payment at the food and drinks stalls. When fully implemented, this model will cut queuing time and reduce food-preparation staff’s physical contact with cash, an outcome that could minimise bacteria transmission and prevent potential food contamination.

Besides improving the overall dining experience for customers, Kimly has also tied up with food delivery service providers – namely *GrabFood*, *Deliveroo*, *Foodpanda*, *Honestbee* and *Oddle* – to offer its fare to just about anyone, anywhere in Singapore. Online sales have gone up 3-fold between 2017 and 2018 as a result. *GrabFood* is currently in talks with Kimly to deliver for its recently-acquired confectionery chain *Rive Gauche*.

III. Synergising Central Kitchen Operations

The Group intends to further beef up its Central Kitchen in Woodlands. Headed by an Executive Chef and manned by 60 staff, this facility supplies sauces, marinades and semi-finished food products to the nearly 130 self-operated Mixed Vegetable Rice, Seafood “*Zi Char*” and Dim Sum stalls across Singapore.

The Central Kitchen originally utilised 20,000 square feet of floor space. With the estimated completion of its upgrading project in the second half of FY2019, the Central Kitchen will be expanded to 36,000 square feet to accommodate larger kitchens for each of its food-stall segments. For instance, the floor space of the Sauce Central Kitchen has increased from 1,500 to 3,500 square feet. This kitchen is responsible for preparing over 30 different sauces for the Group’s Seafood “*Zi Char*” stalls. Another 10 to 15 new sauces will be created in the near future. These new recipes will be registered as the Group’s intellectual property.

Kimly also intends to relocate the 2,000 square-foot central kitchen for its recently-acquired brand, *Rive Gauche*, from Tuas to Woodlands by the second half of FY2019.

With more processes being performed at the Central Kitchen, the Group is able to reduce the reliance on manpower at the food stalls, improve the consistency of the quality of its food offerings and help lower cost through bulk purchases.

IV. Supporting Entrepreneurship and Grooming the Next Generation of Business Owners

The hawker trade in Singapore has generally not been popular amongst younger Singaporeans, many of whom prefer white-collar jobs and less physically-demanding work. This has led to a shortage of new stall owners and tenants across the industry.

In seeking to address these issues, the Group works closely with budding food & beverage entrepreneurs and aspirants to nurture them and support their ambitions. With its track record and experience, it can shorten the learning curve of nascent food-stall operators and equip them to operate optimally. Specifically, it can make available to suitable operators stall space at strategic outlet locations and advise them on various operational aspects, ranging from cost management and procurement of ingredients to cleanliness and hygiene. The adoption of technology and online third-party food delivery also makes Kimly more attractive as an innovative coffee shop operator that these entrepreneurs can partner with.

A number of stall-owners under Kimly's mentorship have gone on to launch their own brands and open up multiple joints in Singapore using its premises. This strategy of grooming the next generation of hawkers has enabled the Group to solidify its base of tenants and fill its growing number of food outlets. The mentorship programme helps foster tenant loyalty and increases business retention. This effectively reduces incidences of empty stall space at Kimly's outlets and, in turn, tenant procurement costs.

Outlook

In view of the initiatives outlined above, and barring unforeseen circumstances, the Group expects to continue to grow its business as supported by:

- i) The number of Kimly outlets and food stalls to steadily increase over time;
- ii) Newly acquired brands *Tonkichi* and *Rive Gauche* to support further sales growth and contribute to Group's revenue;
- iii) First phase of Central Kitchen expansion will lead to improved productivity and reduced cost of sales in the long run; and
- iv) Online orders to increase further with inclusion of *Rive Gauche*.

BY ORDER OF THE BOARD
KIMLY LIMITED

Hoon Chi Tern
Company Secretary

18 December 2018

*Kimly Limited (the “**Company**”) was listed on Catalist of the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) on 20 March 2017. The initial public offering of the Company (the “**IPO**”) was sponsored by PrimePartners Corporate Finance Pte. Ltd. (the “**Sponsor**” or “**PPCF**”). This announcement has been prepared by the Company and its contents have been reviewed by the Sponsor for compliance with the SGX-ST Listing Manual Section B: Rules of Catalist. The Sponsor has not verified the contents of this announcement. This announcement has not been examined or approved by the SGX-ST. The Sponsor and the SGX-ST assume no responsibility for the contents of this announcement including the accuracy, completeness or correctness of any of the information, statements or opinions made or reports contained in this announcement. The contact person for the Sponsor is Mr Joseph Au, Associate Director, Continuing Sponsorship (Mailing address: 16 Collyer Quay, #10-00 Income at Raffles, Singapore 049318 and Email: sponsorship@ppcf.com.sg).*