

BREADTALK GROUP LIMITED
(Company No.: 200302045G)
(Incorporated in the Republic of Singapore)

RESPONSE TO SGX QUERIES

The Board of Directors ("**Board**") of BreadTalk Group Limited ("**Company**", together with its subsidiaries, "**Group**") refers to the Company's announcement dated 24 February 2020 titled "Financial Statements and Dividend Announcement for the Fourth Quarter and Year Ended 31 December 2019". The Board would like to respond to the following queries raised by the Singapore Exchange Securities Trading Limited ("**SGX-ST**") on 27 February 2020 as follows:

SGX Query (a)

Please provide the breakdown and an explanation for the increase in Other Income for the 12 months' comparison period.

Company's response to SGX Query (a)

The increase is primarily made up of other food court management income, fair value gain on investment securities and remeasurement gain of the existing 50% shareholding of BTM Thailand following the acquisition of the remaining 50% shareholding announced on the SGX on 20 February 2019.

\$'000	FY18	FY19	Var
Management Fee Income	19,608,590	26,802,202	7,193,612
Income from mall operations	547,206	602,274	55,068
Government Grant	1,156,325	1,507,934	351,609
Special Employment Credit	269,179	366,760	97,581
Wage Credit Scheme	920,370	749,641	(170,729)
Income from unredeemed cards	1,145,733	472,805	(672,928)
Sponsorship income	489,704	419,998	(69,706)
Rental income	2,992,238	3,548,409	556,171
Gain on investment of investment securities	1,918,346	6,445,353	4,527,007
Gain from fair value adjustments of investment properties	1,080,826	20,312	(1,060,514)
Write back of provision for reinstatement cost	99,378	-	(99,378)
Dividend received from quoted equity instruments	-	-	-
Gain on disposal of plant and equipment	66,779	-	(66,779)
Derecognition of investment in joint venture (remeasurement gain)	-	2,124,144	2,124,144
Sundry sales	244,649	343,973	99,324
Miscellaneous income	645,421	714,508	69,087
Total	31,184,744	44,118,313	12,933,569

SGX Query (b)

Please provide the breakdown of the one-off fixed assets impairment due to pre-mature outlet closures, inventory obsolescence & franchise income doubtful debt provisions.

Company's response to SGX Query (b)

Please find the breakdown of the one-off fixed assets impairment due to outlet closures, inventory obsolescence & franchise income doubtful debt provisions below. We have disclosed in our SGXNet Paragraph 8 that the one-off items attributed to the Bakery Division was \$6.1 million. The breakdown of the same is also provided below. We also further provide the one-off items related to the other business divisions in the table below.

S/No.	Description	Amount (S\$'000)
Bakery Division		
1	Fixed asset impairment due to outlet closures and year end impairment asset of loss-making outlets	2,547
2	Losses from outlet/central kitchen closures e.g. rental and other related penalties	1,553
3	Warehouse inventory obsolescence	237
4	Warehouse fixed assets impairment	51
5	Franchise income doubtful debt provisions	1,539
6	Cessation of Omni Channel business - associated fixed assets impairment and inventory write-offs	139
7	Other professional fees provision	77
Sub-total for Bakery Division		6,143
Food Atrium Division		
1	Fixed asset impairment due to outlet closures	49
2	Outlet cash loss at Shenzhen	3
Sub-total for Food Atrium Division		51
Restaurant Division		
1	Fixed asset impairment due to outlet closure in Singapore	20
2	Fixed asset impairment related to Din Tai Fung outlet in UK	1,308
Sub-total for Restaurant Division		1,328
4orth Division		
1	Fixed asset impairment due to outlet closures and year end impairment asset of loss-making outlets	133
Sub-total for 4orth Division		133
Grand Total		7,655

SGX Query (c)

Please provide an explanation and quantification of (i) the increase in Distribution and Selling expenses of 15.2% and (ii) the increase in administrative expenses of 14.3%.

Company's response to SGX Query (c)

The increase in Distribution and Selling expenses of 15.2% or \$36.9 million is mainly attributed to the following:

S/No	Description	Amount (\$'000)
1	Net increase in Right-of-Use asset depreciation following the adoption of SFRS(I) 16	15,698
2	Increase in property, plant and equipment written off	3,030
3	Goodwill impairment attributed to BTM (Thailand) Ltd	3,855
	Consolidation of Distribution and Selling expenses following the completion of acquisition of BTM (Thailand) Ltd, Food Junction Management Pte Ltd, Food Junction	
4	Singapore Pte Ltd and T&W Food Junction Sdn Bhd	12,469

The increase in Administrative expenses of 14.3% or \$13.2 million is mainly attributed to the following:

S/No	Description	Amount (\$'000)
1	Increase in personnel expenses	8,246
2	Increase in professional fees	1,491
	Consolidation of Administrative expenses following the completion of acquisition of BTM (Thailand) Ltd, Food Junction Management Pte Ltd, Food Junction Singapore	
3	Pte Ltd and T&W Food Junction Sdn Bhd	2,573

SGX Query (d)

Please clarify the nature of investment securities and provide an explanation for the increase in the balance in investment securities (under Current Assets), and confirm if the Company is in compliance with Rules 704(17)(a) and 704(17)(b) of the Listing Manual.

Company's response to SGX Query (d)

Please refer to the table below. Investment securities are securities (tradable financial assets, such as equities or fixed income instruments) that are purchased in order to be held for investment. In our case, investment securities refer to quoted and unquoted equity shares as well as junior bonds.

Investment Securities (Current Assets)		\$'000		Remark
S/No	Description	FY2018	FY2019	
	3% SGD junior bonds due on 20 January 2020			
1	of Perennial (Chijmes) Pte Ltd (unquoted)	0	17,906	Reclassification from non-current to current
2	NPPG shares (quoted)	0	4,017	Fair value of NPPG shares as at 31 December 2019
3	NPPG put options (unquoted)	0	14,243	Fair value gain on put option for the 15% stake in NPPG shares due to decrease in market value of underlying NPPG shares
4	Bank Structured Investments (unquoted)	4,797	0	Disposal of bank structured investment during the year
Total		4,797	36,166	

The increase in the current portion of investment securities between FY2018 and FY2019 is due to mainly to:

1. The reclassification of the junior bonds investment in Perennial (CHIJMES) Pte. Ltd. from non-current assets to current assets as the junior bonds were due for maturity in January 2020.

2. Recognition of the fair value of the “Tranche 1” equity investment in shares in NPPG (Thailand) Public Company Limited as at 31 December 2019, following the acquisition of 15% of the issued shares in the company, pursuant to the SGX announcement made on 9 April 2019.
3. Recognition of the fair value gain on the put option related to the acquisition of the 15% equity stake in NPPG (Thailand) Public Company Limited as at 31 December 2019.

The Company confirms that it is in compliance with Rules 704(17)(a) and 704(17)(b) of the Listing Manual.

SGX Query (e)

Please provide the breakdown and variances on a line item basis, for Trade and other receivables as at 31 December 2018 and 31 December 2019.

- (i) Please provide an explanation for the variances.

Company’s response to SGX Query (e)(i)

The trade and other receivables increased from \$57.9 million to \$79.6 million, or \$21.7 million. The variances are provided in the table below:

\$'000	FY2018	FY2019	Var
Trade Receivables	6,639,861	9,571,044	2,931,183
Other receivables	12,823,887	19,674,137	6,850,250
Deposit	38,483,154	50,376,179	11,893,025
	57,946,902	79,621,360	21,674,458

Trade receivables increased by \$2.9 million, largely arising from the consolidation of the trade receivables of BTM (Thailand) Ltd and Food Junction Management Pte Ltd, Food Junction Singapore Pte Ltd and T&W Food Junction Sdn Bhd, following the completion of their acquisitions. BTM (Thailand) Ltd accounted for about \$1.9 million of the Y/Y increase and the Food Junction Group of Companies accounted for about \$2.7 million of the Y/Y increase. This was offset by the decrease in trade receivables related to China franchisees by about \$1.6 million.

Other receivables increased by \$6.9 million, largely arising from the consolidation of the other receivables of BTM (Thailand) Ltd and Food Junction Management Pte Ltd, Food Junction Singapore Pte Ltd and T&W Food Junction Sdn Bhd, following the completion of their acquisitions. BTM (Thailand) Ltd accounted for about \$0.3 million of the Y/Y increase and the Food Junction Group of Companies accounted for about \$2.8 million of the Y/Y increase. Another \$3 million relates to intercompany charges that have yet to be billed out from the Group to the subsidiaries.

Deposits increased by \$11.9 million, largely arising from the consolidation of Food Junction Management Pte Ltd, Food Junction Singapore Pte Ltd and T&W Food Junction Sdn Bhd, where an amount of \$6.9 million was due to landlord security and/or renovation deposits on the leases of outlets. Similar increase in security and/or renovation deposits came from the consolidation of BTM (Thailand) Ltd accounting for \$1.4 million, and new foodcourt outlets in China accounting for \$1.5 million. The remainder are due to security and/or renovation deposits related to other businesses such as Song Fa in Beijing and Shanghai, So Ramen and Din Tai Fung in Singapore and Thailand.

- (ii) Please provide the Board's assessment on the recoverability of the Group's Trade and other receivables and the bases for such an assessment.

Company's response to SGX Query (e)(ii)

The Company has already made the necessary provision for doubtful debts for trade and other receivables that were assessed to be at risk of recovery as at 31 December 2019. For the remaining amounts of trade and other receivables that are on the balance sheet as at 31 December 2019, barring unforeseen circumstances, the Board assesses that they are recoverable during the normal course of business of the Company. Management continues to monitor the aging of the receivables on an on-going basis and work closely with our auditors to provide the necessary doubtful debt provisions as and when it is necessary.

SGX Query (f)

We refer to the increase in the Intangible Assets' balance from about S\$6m as at 31 Dec 2018 to S\$94.5m as at 31 Dec 2019. The Company disclosed in section B under paragraph 8 that the increase in intangibles is "largely arising from the recognition of a provisional goodwill amount of S\$85.3m from the consolidation of Food Junction..." In this regard, please provide a reconciliation of the provisional goodwill amount of S\$85.3m to the purchase consideration of S\$80m and the announced net asset value of about S\$12m of the Target Group as previously announced.

Company's response to SGX Query (f)

The increase in intangible assets was mainly attributed to the increase in goodwill of \$86.7 million, attributed to the acquisition of Food Junction Management Pte. Ltd. and the acquisition of BTM (Thailand) Ltd.

The breakdown on the intangible assets for the Group between FY2018 and FY2019 are as follows:

Intangible Assets			
\$'000	FY2018	FY2019	Var
Goodwill	4,837	91,567	86,730
Brand value	214	0	(214)
Trademark	714	714	(0)
Franchise rights	306	2,209	1,903
Total	6,071	94,490	88,419

Whereby the Goodwill portion is as follows:

Goodwill	\$'000
FY2019 beginning of year	4,837
Add:	
Goodwill attributed to Food Junction Management Pte Ltd acquisition	85,259
Goodwill attributed to BTM (Thailand) acquisition	5,325
Less:	
BTM (Thailand) goodwill impairment	(3,855)
FY2019 end of year	91,566

As disclosed in the SGX announcement dated 2 September 2019, the total consideration for the acquisition of Food Junction Management Pte Ltd was S\$80,000,000, with such consideration being subject to further customary adjustments to take into account actual cash, debt and working capital of the target as at completion of the acquisition, among other factors.

Based on the unaudited proforma combined financial statements of Food Junction Management Pte Ltd and its wholly-owned subsidiaries, Food Junction Singapore Pte Ltd and T&W Food Junction Sdn Bhd (collectively, "Target Group") as at 30 June 2019, the net asset value of the Target Group was approximately S\$12,341,745.

The acquisition of the Target Group was completed on 31 October 2019 and the Company commenced consolidation of the accounts for the Target Group on 1 November 2019. There were changes in the net asset values of the Target Group between 30 June 2019 and 31 Oct 2019, which resulted in the change in the provisional goodwill amount that was eventually recognised as the Company prepared its accounts as at 31 December 2019.

The movements of the net asset values as follows:

Food Junction Provisional Goodwill	
	\$'000
Initial purchase price	80,000
Add:	
(i) Completion net cash/(debt)	7,678
(ii) Completion net working capital less reference working capital	442
Final purchase price	88,119
Less: 30 Oct 2019 net asset value	2,860
Provision goodwill	85,259
30 June 2019 net asset value	12,342
Less:	
SFRS(I) 16 Retained Earnings Adjustment	(2,727)
1 Jul 2019 to 31 Oct 2019 (4 months) Results	(2,881)
Audit adjustment on the impairment of amount due from subsidiary	(3,874)
31 Oct 2019 net asset value	2,860

The final goodwill amount arising from the acquisition will be finalised following the completion of the purchase price allocation exercise that will be done in FY2020.

SGX Query (g)

Please provide an explanation for the increase in Group's borrowings from about S\$226.7m as at 31 Dec 2018 to S\$347.2m as at 31 Dec 2019.

Company's response to SGX Query (g)

The Group's total borrowings increased from \$226.7 million as at 31 December 2018 to \$347.2 million as at 31 December 2019, an increase of \$109.3 million. The table below shows the trend of the total Group borrowings and cash and cash equivalents trend over the 4 quarters in FY2019:

S\$'000	31-Dec-2018	31-Mar-2019	30-Jun-2019	30-Sep-2019	31-Dec-2019
Total Group borrowings	226,670	213,501	222,853	237,966	347,231
Total Group cash and cash equivalents	184,975	151,176	128,129	124,227	157,587

During FY2019, the Group announced the following major investments and/or acquisitions amounting to over \$105 million:

S/No	Date announced	Major Investments / Acquisitions	Amount (S\$'000)
1	04-Jan-19	Acquisition of 25% interest in Food Republic Guangzhou F&B Management Co Ltd	150
2	20-Feb-19	Acquisition of 50% interest in BTM (Thailand) Ltd for THB160 million	6,936
3	09-Apr-19	Acquisition of 15% interest in NPPG (Thailand) Public Company Limited for THB427.5 million	18,260
4	02-Sep-19	Acquisition of 100% interest in Food Junction Management Pte Ltd	80,000
Total			105,346

Other than the above, the Group also incurred capital expenditure of approximately \$47 million during the year.

Therefore, the Group's total expenditure in FY2019 for the purposes of major investments, acquisitions as well as capital expenditure amounted to over \$150 million.

By Order of the Board

Shirley Tan Sey Liy
Company Secretary
3 March 2020