



**KITCHEN CULTURE HOLDINGS LTD.**

(Company Registration No: 201107179D)

(Incorporated in the Republic of Singapore on 25 March 2011)

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**RESPONSES TO SGX REGCO'S QUERIES RECEIVED ON 9 MARCH 2022**

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The Board of Directors (the "**Board**" or "**Directors**") of Kitchen Culture Holdings Ltd. (the "**Company**" and together with its subsidiaries, the "**Group**") refers to the following announcements of the Company (the "**Announcements**"):

- (i) Announcement dated 3 March 2022 in relation to the disclaimer of opinion by the Company's independent auditor, Nexia TS Public Accounting Corporation ("**Nexia**"), on the audited financial statements of the Company and the Group for the financial year ended 30 June 2021 ("**FY2021**");
- (ii) Announcement dated 4 March 2022 in relation to the Company's annual report for FY2021; and
- (iii) Announcement dated 4 March 2022 in relation to the indemnities extended by the Company to certain Directors.

*Unless otherwise defined, all capitalised terms used herein shall bear the same meanings as ascribed to them in the Announcements.*

The Company's responses to the queries received from the Singapore Exchange Regulation Pte. Ltd. ("**SGX RegCo**") on 9 March 2022 are set out below:

**The SGX RegCo noted that Nexia issued a disclaimer of opinion for the Group's FY2021 financial statements as it was unable to obtain sufficient appropriate audit evidence on the following:**

- (i) **Internal Audit and Special Audit still in progress (pursuant to the Notices of Compliance issued by SGX RegCo), thus Nexia is unable to ascertain the extent of pervasiveness and significance of adjustments which may arise from the ongoing reviews;**
- (ii) **Company did not perform a valuation and purchase price allocation ("PPA") on its 30% acquisition interest in OOWAY Technology Pte. Ltd. ("OOWAY"), Nexia is unable to determine if adjustments or disclosures are required in relation to carrying amount of investment in OOWAY; Nexia is unable to obtain sufficient appropriate audit evidence over the share of net loss of OOWAY of S\$909,642 for FY2021; Nexia is unable to obtain sufficient appropriate audit evidence over certain key inputs and assumptions adopted in valuing the carrying value of OOWAY for the purpose of determining if impairment adjustments are required;**
- (iii) **Failure to obtain bank confirmations for bank balances amounting to S\$11,005; and**

- (iv) **Receipt of legal actions and statutory demands by the Group which cast significant doubt on the Group's ability to operate as a going concern.**

**Query 1:** Nexia indicated that as the Company did not perform a PPA on its 12 October 2020 acquisition of 30% interest in OOWAY, the Group's acquisition cost of S\$23.922 million was not properly allocated to the fair value of the investment acquired and no goodwill or bargain purchase was recognised on the acquisition date on 12 October 2020.

- (a) **Please explain why the Company did not perform a PPA for its acquisition in OOWAY.**

A PPA was not prepared as the Company did not have financial statements of OOWAY as of 12 October 2020, being the date of completion of the acquisition of OOWAY, as OOWAY's financial year end is 31 December.

The Company made requests for it since June 2021. On 20 August 2021, the Company received three unaudited financial statements of OOWAY, one as at 30 September 2020, one as at 31 October 2020 and one as at 30 June 2021. However, in the absence of the financial statements of OOWAY as of the acquisition date, 12 October 2020, more information would be required for the basis of underlying assumptions as well as the necessary adjustments subsequent to the PPA. With limited capacity of the group finance team, the provided sets of financial statements did not contain adequate details of fair values of underlying assets for the Company to consider in determining if any goodwill or bargain purchase need to be recognised.

- (b) **What did the Board, AC and CFO consider in determining if any goodwill or bargain purchase need to be recognised?**

The Company placed reliance on valuation reports prepared by AVA Associates Limited dated 31 August 2020 and Foo Kon Tan Corporate Finance Pte. Ltd. dated 15 December 2021 in reviewing the fair valuation of the Company's equity interest in OOWAY as at acquisition and 30 June 2021 respectively. Both valuers were appointed by the Company's Board and possessed well-documented experiences in the field. The latest valuation conducted by Foo Kon Tan Corporate Finance Pte. Ltd. indicated the fair value of Company's 27.65% equity interest in OOWAY at S\$23.7 million as at 30 June 2021.

As a PPA was not performed, no goodwill or bargain purchase was reclassified out of the carrying value of the investment in OOWAY as at the acquisition date and 30 June 2021. The Company is planning to assess the feasibility of perform a PPA in FY2022 as if the PPA was conducted in FY2021 to determine if any restatement is required for the consolidated financial statements of the Group for FY2021. Until a PPA is performed, the Company is unable to ascertain the potential financial impact arising from such PPA exercise for the consolidated financial statements of the Group for FY2021.

**Query 2:** Nexia is unable to obtain sufficient appropriate audit evidence over the Group's share in net loss of S\$909,642 in OOWAY for FY2021; and over certain key inputs and assumptions in the valuation assessment, especially on the Management's estimates of projected transaction and revenue growth.

Given that OOWAY Group Ltd. ("OOWAY Group") is the largest controlling shareholder of the Company at 21.19%, and OOWAY Group has 2 representatives (namely, Mdm Hao Dongting and Mr Lincoln Teo) on the Board, why is Nexia unable to obtain such audit evidence relating to OOWAY?

The Board is in the process of seeking clarifications from various parties and will release a separate announcement to respond to this question in due course.

**Query 3: Nexia further raised concerns on the Company's ability to operate as a going concern. On 18 February 2022, in response to the SGX RegCo's queries, the Company had confirmed that the Group is still able to operate as a going concern.**

**(a) In view of the concerns raised by Nexia, please provide the Board's reassessment of the Group's ability to continue operating as a going concern and the bases for the said assessment. Please provide supporting justifications for the Board's opinion.**

The Board's assessment of the Group's ability to continue operating as a going concern and the bases for the said assessment was disclosed in note 2 to the Group's audited financial statements for FY2021 which was included in the Company's announcement dated 3 March 2022 and the Company's Annual Report for FY2021.

In summary, notwithstanding the existence of events or conditions which may adversely affect the Group's and the Company's ability to continue as going concerns and discharge their liabilities in the ordinary course of business as set out in note 2 to the Group's audited financial statements for FY2021, the Board has considered the following factors in its going concern assessment:

- 1) the net losses incurred by the Group for FY2021 of S\$11.5 million included the following one-time charges:
  - a. inventories write down of S\$3.0 million;
  - b. impairment loss on investment in associated company of S\$2.2 million.
- 2) the Group is still in a net current assets position of S\$4.9 million as at 30 June 2021;
- 3) an amount of S\$3.3 million in the contract liabilities as at 30 June 2021 relates to sales deposits collected from customers for kitchen systems purchased, which will be recognised as revenue subsequently upon delivery of the kitchen systems to the customers and do not represent payment obligations of the Group;
- 4) the Company has commenced a corporate restructuring of KHL Marketing Asia-Pacific Pte Ltd ("**KHLM**"), which contributed the bulk of the Group's operating losses in previous years, by its application for an order to place itself under judicial management (the "**JM Application**") as announced on 17 January 2022; and
- 5) the Company is evaluating various options to raise additional working capital.

In an email dated 11 February 2022, OOWAY Group Ltd., the controlling shareholder of the Group, has communicated to the Board through Chairperson Hao Dongting that it recognizes the Company's unfavourable financial position as at FY2021 and the necessity for it to receive financial support to continue its operations as a going concern in the foreseeable future. While it is unable to provide a blanket financial support immediately, with the upcoming AGM for FY2021 and the finalization of some independent audits, OOWAY Group Ltd. remains ready to calibrate its position to protect the interest of the Company.

Based on the above, the Board is of the view that the Group and the Company are still going concerns but this assessment is subject to the Company's ability to successfully restructure its key operating subsidiary, satisfactorily address all matters raised in the Notices of Compliance issued by the SGX RegCo dated 14 July 2021 and 19 August 2021 and raise additional working capital.

**(b) Please provide the Sponsor's opinion and justifications on whether the Group is able to continue as a going concern.**

From the basis of disclaimer of opinion disclosed in the independent auditor's report in the Company's Annual Report for FY2021, the Sponsor notes the recurring net losses and negative cash flows as well as certain events that have occurred after the financial year end may have significant financial and operational impact on the Group and the Company, including, *inter alia*, the following:

- 1) Former CEO's legal actions against the interim CEO and certain independent directors of the Company, to which the Company has provided indemnity letters to the said individuals;
- 2) Former CEO's legal actions against the Company;
- 3) KHLM receiving a statutory demand in relation to alleged outstanding rental arrears, followed by a winding up application filed against it by Kim Hup Lee & Co (Private) Limited ("**Kim Hup Lee**"); and
- 4) The JM Application by KHLM.

As the abovementioned matters are still ongoing, the possible effects on the Group's operations of the potential winding up of KHLM and the potential liabilities (including the continuing legal expenses incurred or to be incurred by the Group), both constructive and contingent, of the Group and the Company cannot be determined.

The Sponsor also notes the Board's assessment as disclosed in the response to Query 3(a) above is subject to the Company's ability to successfully restructure its key operating subsidiary, satisfactorily address all matters raised in the Notices of Compliance issued by the SGX RegCo dated 14 July 2021 and 19 August 2021 and raise additional working capital.

In view of the proceeds from the fundraising exercises conducted in 2020 stood at S\$1.7 million as at 31 January 2022, coupled with expected cash outflows for general working capital needs as well as legal and professional fees, the Sponsor is of the view that the ability for the Group to raise additional working capital is critical for the Group to continue and to expand its businesses as well as to ensure the completion of the special audit as directed in the Notice of Compliance dated 19 August 2021 for the Group to work towards lifting the trading suspension of its shares.

In view of the existence of material uncertainties as stated above, the Sponsor is currently unable to reasonably assess the Group's ability to continue as going concerns.

Shareholders are advised that, pursuant to Rule 1303(3) of the Catalist Rules that the SGX-ST may at any time suspend trading of the Company's shares when the Company is unable to continue as going concern or unable to demonstrate to the SGX-ST and its shareholders that it is able to do so. In any case, the trading suspension called on 12 July 2021 in respect of the shares of the Company continues.

**Query 4: The Group recorded total trade receivables of approximately S\$5.2 million as at 30 June 2021.**

**(a) Please provide a breakdown of the Company's trade receivables (by aging buckets).**

Aging analysis of Group's trade receivables is as follows:

0-30 Days	31-60 Days	61-90 Days	91-120 Days	Over 120 Days	Total
2,771,449.58	346,600.47	453,773.18	619,158.16	1,032,668.57	5,223,649.96

Included in "0-30 Days" is retention sum of S\$0.7 million representing monies withheld by main contractor relating to ongoing projects.

Included in "Over 120 Days" are accounts with a right of set-off against trade payables totalling S\$1.0 million.

**(b) Please provide information on:**

**(i) the Company's policy on trade receivables collection;**

Trade receivables are monitored to ensure receivables are collected on a timely basis. Follow up actions on overdue amounts include calling customers to chase for payment and sending reminder letters. In exceptional cases, a third-party collection agency is engaged to collect arrears on behalf of the Company.

**(ii) the general credit term extended to customers;**

The Company allows a credit period of 30 to 60 days from the date of invoice/billing to customers.

**(iii) the Company's actions taken and plans to recover the trade receivables; and**

The Company has taken follow-up actions on overdue accounts by calling and sending reminder letters to customers to chase for payment. Overdue accounts were subsequently collected in full as of the date of this announcement.

**(iv) how long are the debts outstanding and when were the corresponding sales reported.**

The overdue accounts ranged between 90 and 120 days. The sales of these accounts were reported in FY2021.

**Query 5: The Group recorded other receivables of approximately S\$2.9 million as at 30 June 2021, of which S\$1.3 million (45%) relates to deposits and S\$1 million relates to advances to suppliers.**

**Please elaborate on the nature of the deposits and advances to suppliers, as well as the rationale for making such deposits and advances to suppliers.**

Deposits

These are security deposits required by landlords/vendors and categorised in tabulation below:

<u>Deposits</u>	S\$
- Rental of office/showroom/warehouse	556,927.28
- Utilities	35,956.94
- Lease of office equipment	1,467.23
- Lease of motor vehicles	3,640.67
- Tender deposit	43,338.26
- Purchase of inventory	15,022.85

- Participation in e-commerce merchants financing*	651,517.57
	1,307,870.80

\*Participation in a scheme which involved the provision of support to e-commerce merchants in the business of selling goods over the internet by a subsidiary of the Company, KC Technologies Pte. Ltd. (“**KC Technologies**”) – this transaction was unwound on 14 October 2021 and KC Technologies received US\$492,259.97 pursuant to the termination of the transaction. Please refer to the announcements released by the Company on 29 September 2021 and 14 October 2021 for further details.

Advance to suppliers – S\$1,001,324.72

These are payments to foreign principals/suppliers either as an initial part-payment or payment in full for orders of kitchen equipment/systems and raw material for the Group’s residential project and retail businesses.

**Query 6: Please provide an update on the Group’s business and plans.**

The Company will continue to seek business opportunities into big data, artificial intelligence and other technology-biased fields as promised to shareholders and investors that supported the fundraising exercises in 2020. It will continue to reduce its concentration on the kitchen solutions business which has contributed to extensive losses over the past years.

**Query 7: The Company also announced the indemnities offered to Mr William Teo, Mr Ang Lian Kiat and Mr Lincoln Teo, which amounted to approximately S\$181,000 to-date.**

- (a) **Please clarify if there is any cap on the amount of indemnities offered by the Company to all its directors, for all costs and charges incurred during the discharge of their directors’ duties.**

No, presently a cap on the amount of indemnities has not been fixed.

- (b) **The Group reported a loss of S\$11.5 million for FY2021 and Nexia had disclaimed its financial statements due to, amongst others, going concern issues. Despite the Group’s financial position, please explain the Board’s rationale for providing the indemnities to Mr William Teo, Mr Ang Lian Kiat and Mr Lincoln Teo.**

As explained in the Company’s announcement dated 4 March 2022, the indemnities relate to losses, damages, charges, costs (including legal costs) and expenses of whatever nature incurred by Mr William Teo, Mr Ang Lian Kiat and Mr Lincoln Teo as a result of and/or arising out of the demand letter sent by Mr Lim Wee Li against them. In these suits, Mr Lim Wee Li claims that certain statements made by Mr William Teo, Mr Ang Lian Kiat and Mr Lincoln Teo (the “**Statements**”), are defamatory.

In this regard, Article 172 of the Company’s Constitution provides that every director of the Company shall be entitled to be indemnified against all losses or liabilities which he may sustain or incur in or about the execution of the duties of his office or otherwise in relation thereto. Having considered all relevant matters, the majority of Board took the view that the Statements were made by Mr William Teo, Mr Ang Lian Kiat and Mr Lincoln Teo in the execution of their duties as directors of the Company, and that as such, the Company was obliged to provide the relevant indemnities requested.

- (c) **Please elaborate on the Board members who had deliberated and decided on the indemnities to be offered to the above 3 members. Did Mr William Teo, Mr Ang Lian Kiat and Mr Lincoln Teo abstain from such deliberation and decision making?**

For the indemnities extended to Mr William Teo and Mr Ang Lian Kiat, the Board Resolution was passed with majority votes from Mr Lincoln Teo and Mdm Hao Dongting. As disclosed in paragraph 2 of the Company's announcement dated 4 March 2022, Mr Lim Wee Li, Mr William Teo and Mr Ang Lian Kiat had abstained from the said Board Resolution as they had an interest in the matter.

For the indemnities extended to Mr Lincoln Teo, the Board Resolution was passed with majority votes from Mdm Hao Dongting, Mr William Teo and Mr Ang Lian Kiat. As disclosed in paragraph 2 of the Company's announcement dated 4 March 2022, Mr Lim Wee Li and Mr Lincoln Teo had abstained from the said Board Resolution as they had an interest in the matter.

By Order of the Board

Hao Dongting  
Non-Executive Chairperson  
18 March 2022

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*This announcement has been reviewed by the Company's sponsor, SAC Capital Private Limited (the "Sponsor"). It has not been examined or approved by the Singapore Exchange Securities Trading Limited (the "SGX-ST") and the SGX-ST assumes no responsibility for the contents of this announcement, including the correctness of any of the statements or opinions made or reports contained in this announcement.*

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