KOUFU GROUP LIMITED
(Incorporated in the Republic of Singapore)
(Company Registration Number 201732833D)

QUESTIONS FROM SHAREHOLDERS IN RELATION TO THE ANNUAL REPORT 2020

The Board of Directors of Koufu Group Limited (the "**Company**" and together with its subsidiaries, the "**Group**") refers to the Company's announcement dated 7 April 2021 on the Live Webcast of the Annual General Meeting on 26 April 2021 (the "**Announcement**").

Further to the Announcement, the Board and Management had received questions from Shareholders for the period between 8 April 2021 to 19 April 2021 ("**Questions**"). The Company wishes to provide its responses to the Questions as follows:-

QUESTIONS FROM SHAREHOLDERS

FINANCE-RELATED

Q1. The Group only breaks down the performance into two business segments – Outlet & Mall Management and F&B Retail, and into two geographical markets – Singapore and Overseas. This segmentation is too broad to be meaningful.

a) Can you provide more colour on the individual performance of the various brands and the various markets (especially for Macau as the Group has significant presence there)?
b) Are the various brands (*Elemen, R&B Tea, Dough Culture, Grove*, etc) and markets (Singapore, Macau, Malaysia, Indonesia, the Philippines) profitable and cash flow positive?

Company's response

As stated on page 106 of the Annual Report on Significant Accounting Policies, Koufu employs the Segment reporting approach in aggregating its revenue and performance based on operating segments.

Koufu currently reports its revenue based on business segments due to similar revenue models, although the demand factors and target groups of each individual brand may differ. Revenue from the Outlet & Mall Management business segment is an aggregate of income from food court operations and commercial establishment, while revenue from the F&B Retail business segment is an aggregate of income from the sales of food and beverages.

We do not provide a breakdown of the performance of each of our brands or markets in detail, due to business sensitivity reasons. Furthermore, the various concept brands under the F&B Retail business segment are relatively new and are still being developed and expanded in recent years, and the food court and coffee shop operations remain to be the main contributors towards the revenue and profits for the F&B Retail business segment. A further breakdown of revenue from its primary geographical markets – namely Singapore and Overseas, can be found on Page 129 of the Annual Report.

We have noted your comments and will look into providing more details on the performance of the various brands and geographical markets in the future, when the revenue from these concept brands contribute meaningfully for reporting purposes.

Q2. Since the completion of this S$21.77m acquisition on 31 Jul 2020, Deli Asia Group may have contributed revenue of S$6,175,000 and profit of S$1,257,000 in FY2020, but this acquisition also brought in "brand name of S$1,688,000 and customer relationship of S$1,605,000 as well as the goodwill arising from the acquisition of Deli Asia Group of S$12,658,000". What is the change required in key assumptions for goodwill/ brand name/ customer relationship before facing any impairment?

Company's response

Measurement of fair value of goodwill arising from the acquisition of subsidiaries can be found in page 153 of the Annual Report, under the Notes to the Financial Statement. The key assumptions used in the value in use method are not relevant as the Group used fair value less costs of disposal to determine the recoverable amount of the acquired Deli Asia Group as at 31 December 2020. As disclosed on page 111 of the Annual Report, which states that In ascertaining the recoverable amount of Deli Group, the Group was of the view that the total consideration amounting to S$21,770,000 adjusted for any changes in value arising from factors since acquisition was representative of Deli Group's fair value less costs of disposal, given that there were no significant events since the date of acquisition to 31 December 2020 that would have resulted in a significant reduction in the fair value. In this context, the recoverable amount approximated the carrying amount as at 31 December 2020, and accordingly, the goodwill of S$12,658,000 was not impaired. Subsequently, impairment test will be performed annually to ascertain if the recoverable amount exceeds the carrying amount. Significant decline in business may affect the recoverable amount, which may warrant an impairment of the goodwill.

Q3. On page 109 of the Annual Report on "Impairment losses on property, plant and equipment", the 3rd paragraph stated that "*In 2020, the Group assessed the recoverable amount of the CGUs which are loss making and determined that twenty (2019: six) CGUs are not expected to have any recoverable amount, or with carrying amount exceeding its recoverable amount. Accordingly, an impairment loss of S$3,473,000 (2019: S$1,077,000) was recognised in "other operating expenses".*"
What were these 20 loss-making "food courts, coffee shops, kiosks and quick-service restaurants"?

Company's response

As stated on page 109 of the Annual Report, the Group reviews the carrying amount of the assets as at the reporting date to determine whether there is any indication of impairment. Management carried out an impairment assessment of the property, plant and equipment of the CGU with recurring losses. The recoverable amount of the CGUs was based on their value-in-use over the lower of 5 years or lease period and was discounted using the weighted average cost of capital.

Accordingly, the Group recognised impairment loss on the CGUs resulting from the impact of COVID-19 on the stall tenants and our businesses. These outlets are mainly located in commercial malls, educational institutions and near offices that were most affected by the lower footfall resulting from the prolonged COVID-19 pandemic effect.

Q4. On page 130 of the Annual Report about "Other income", how much of the S$11.579m government grants were "cash grants from government" which were "passed on to the stall tenants"?

Company's response

As stated on page 103 of the Annual Report, cash grants received from the government are recognised as other income upon receipt. Other government grants that compensate the Group for expenses incurred are recognised in profit or loss as “other income” on a systematic basis in the periods in which the expenses are recognised, unless the conditions for receiving the grant are met after the related expenses have been recognised.

In addition, the Group also provides lease incentives to its tenants, in the form of rent concessions as a direct consequence of the COVID-19 pandemic. Out of the total amount of S$11.579 million of “Other Income” recognised, the cash grants and property tax rebates received from the government/landlords amounted to S$2.7 million and were fully passed on to the stall tenants.

Q5. On page 119 of the Annual Report under Current Trade and Receivables, the “Impairment loss allowance” has increased by 48.8% from -S$1.085m in 2019 to -S$1.615m in 2020. What is the reason for this and how can this be reduced?

Company’s response

As stated on page 139 of the Annual Report, the “Impairment loss allowance” is in relation to the expected credit loss (“**ECL**”) assessment for customers. The Group uses an allowance matrix to measure the ECLs of trade receivables from customers, which comprise a very large number of small balances. The allowance matrix is based on actual credit loss experience over the past three years. The ECL computed is purely derived from historical data which management is of the view that the historical conditions are representative of the conditions prevailing at the reporting date.

The increase in the impairment loss allowance on the trade receivables was a result from the prolonged pandemic period, where some of the stall tenants were not able to generate sufficient revenue to pay for the fixed rental and related costs. The Group has taken a conservative approach to provide for impairment loss allowances for stalls that have closed as well as stalls that are still operational. We believe that the impairment loss allowance will be reduced back to the normal levels once the pandemic period is over.

Q6. On page 113 of the Annual Report about “Investment properties”, under “Measurement of fair value”, it was stated that “*Management has determined the fair value of investment properties of the Group to be S$15,840,000 (2019: S$27,660,000) as at 31 December 2020.*” What is the breakdown of investment properties that suffered a fair value loss of S$11.820m in 2020?

Company’s response

The fair value of investment properties is determined by independent licensed appraisers who have appropriate recognised professional qualifications and experience in the location and category of the investment properties being valued. The fair value is based on open market valuation using capitalisation method and comparable sales method (being the capitalisation method or discounted cash flow method).

The decrease in the fair value of the investment properties of S$11.82 million was due to (i) shorter balance term of the lease tenure at 168 Punggol Field reducing fair value by S$12.26 million (ii) decrease in fair value for properties at 18 Jalan Membina of S$0.2 million and 1 Tampines North Drive of S$0.2 million, and offset by the increase in fair value in respect of the newly acquired investment properties at 50 Gambas Crescent #09-12 and #09-13 which amounted to S$0.84 million.

Based on the independent professional valuations undertaken in FY2020, no impairment or reversal of impairment loss was recognised. There was a reversal of impairment loss of S$86,000 in FY2019.

Q7. Given that 18 and 20 Woodlands Terrace have a carrying amount of S$1.742m as at 31 Dec 2020, how much estimated gain on divestment will be recognised in 1H2021 from the sale of the two central kitchens?

Company's response

As stated in the announcement dated 11 March 2021 on the proposed disposal of the properties at 18 and 20 Woodlands Terrace ("**Proposed Disposal**"), the aggregate consideration payable by the purchaser for the Proposed Disposal (inclusive of the prevailing goods and services tax) is S$11,770,000 (the "**Consideratio**n"), to be satisfied fully in cash. The Consideration was arrived at on a willing-buyer and willing-seller basis after arm's length negotiations, taking into account the valuation of the properties of S$10,100,000 based on the independent valuation report of PREMAS Valuers & Property Consultants Pte Ltd dated 22 February 2021, as commissioned by the Company. The Proposed Disposal is subject to and conditional upon the written in-principal approval from the Jurong Town Corporation. The purchaser had exercised the option to purchase the properties on 11 March 2021. We will disclose the related gain on disposal in the appropriate results announcement following completion of the sale.

Q8. On page 151 of the Annual Report under "Commitments", there is "Commitment in respect of property, plant and equipment" of S$4.366m. Also noted that the "completion of our integrated facility at Woodlands Avenue 12 is on track for 1H 2021". How much is the estimated total cost of the integrated facility? Does this mean there will only be about S$4.366m more payments to be made for the integrated facility?

Company's response

The total construction including renovation cost, capital expenditure for equipment and machinery (excluding the land premium of S$3.9 million paid upfront for the 30-years lease) is estimated to cost S$43.0 million.

The capital commitment recorded of S$4.366 million included costs for the renovation of F&B outlets as well as the unpaid balance of the construction costs for the integrated facility. In addition to the committed costs, we expect to incur further costs on renovation and equipment for the office, production and central kitchens in the integrated building which have not been committed as at 31 December 2020.

OPERATIONS

Q9. Many bubble tea kiosks of various competing brands have opened in Singapore in recent years. Does the management see the Singapore market being saturated or even over-supplied with bubble teas stores? Given the competitive landscape, what is the Group's rationale for continuing to expand in Singapore and is there still room for *R&B Tea* to grow further in Singapore?

Company's response

We acknowledge that the competition has become tougher with more bubble tea brands entering the Singapore market, and customers are becoming more discerning in terms of taste and quality. However, bubble tea has remained popular with consumers in Singapore throughout the years and despite the emergence of various bubble tea brands, we believe that *R&B Tea* will continue to be the preferred choice for customers as we place great emphasis on product quality and constant innovation of product offerings to retain existing customers and to bring in new customers.

Despite the recent increase in competition, we remain confident in the popularity of *R&B Tea* amongst consumers in Singapore. Since opening our first outlet in 2017, we have currently expanded to 28 *R&B Tea* outlets in Singapore. Whilst we aim to continue to expand cautiously to take on more market share when suitable opportunities arise, we will also consolidate certain outlets in order to rationalise the business and ensure sustainability of the business.

With a strong presence in Singapore, the Group has also entered the Indonesia and Philippines markets through licensing / franchising models and we will continue to expand the footprint of the *R&B Tea* brand in the overseas markets like Malaysia and Thailand.

OUTLOOK AND FUTURE PLANS

Q10. With the usage of delivery service getting more popular with customers recently, and these sales traditionally having lower profit margin than those without delivery service, will they not adversely affect the overall profitability of the F&B Retail business?

Company's response

We have observed that there has been a constant and steady shift towards people utilising food delivery services, and it is becoming more commonplace. Although sales from such delivery services generally have lower profit margins, delivery services are still an added revenue channel for us to access consumers who prefer to order food delivery and dine at home. Furthermore, sales from such delivery services only form a small part of the total revenue of the Group. Nevertheless, we are continuously finding ways to integrate with more of these third-party delivery platforms so as to improve efficiency and overall sales.

We have also curated our own *Koufu Eat* mobile application, which was first launched in August 2018 and is currently implemented at most of our food courts and coffee shops. It features a mobile ordering function and customers enjoy 10% direct discount to encourage self-ordering-payment-collection. The mobile application also provides delivery service to certain areas of Singapore by partnering with major food delivery vendors, thus allowing customers the flexibility of ordering a variety of food from different stalls within the same food court or coffee shop but paying a one-time delivery service fee only. We will be gradually increasing the delivery coverage to include most parts of Singapore. As a food court and coffee shop manager, we negotiate on behalf of our F&B stall tenants with the food delivery partners on the terms and conditions, to secure competitive rates for all.

Q11. Are there any plans to open a Halal food court in the future to cater to Muslim customers?

Company's response

Under our multi-brand strategy, Koufu reaches out to different market segments at different price ranges with a comprehensive portfolio of strong brands. We currently have 2 food courts under our *Fork & Spoon* brand located in the heartland or residential areas with mostly Halal-certified F&B stalls. They are located at:

1. Block 470 Toa Payoh Lorong 6 #02-70, Singapore 310470
2. Block 768 Woodlands Avenue 6 #01-32, Singapore 730768

We are looking to expand our *Fork and Spoon* brand strategically to other heartland or residential areas. The locations and feasibility will be evaluated on a case-by-case basis, taking into consideration the location, customer base, spending power and preference and branding for example.

We believe in striking a balance and optimising our tenant mix at our food courts and coffee shops as part of our tenant management strategy in catering to the optimum customer reach. Depending on the location of the outlets, we may cater Halal-certified stalls within our other food court and coffee shop brands – *Koufu*, *Rasapura Masters*, *Cookhouse by Koufu*, *Gourmet Paradise,* and *Happy Hawkers* – located around the island.

Q12. Since the relaxation of measures on 5 Apr 2021, how is the performance of the food courts located in commercial malls, educational institutions and near offices, in terms of footfalls, as compared to pre-COVID levels? How about the variable fee income?

Company's response

We are gradually seeing higher footfall at the food courts located in commercial malls, educational institutions and near offices, as more people are allowed to return to the workplace.

However, the seating restrictions of 8 persons per group and social distancing requirements of at least 1 metre between groups continue to restrict the number of persons allowed to dine in at the food courts and coffee shops. Like many other F&B companies, we are looking forward to the relaxation of these measures as well. Variable fee income is directly related to the sales performance of the F&B stalls, which may be affected by the footfall of the food courts and coffee shops. Nonetheless, as mentioned above, we have implemented our *Koufu Eat* mobile application at most of our food courts and coffee shops, and will be gradually increasing the delivery coverage to include most parts of Singapore, in order to increase the sales performance of our F&B stall tenants.

Q13. Despite the growing trend towards health and wellness, it seems that the Group's recent "enhancement of multi-brand platform and network" is inclining towards fried food and high-sugar content concepts. Will this result in expansion in a segment with long-term structural downtrend?

<u>Company's response</u>

We have carefully considered the market trends and found the market to be receptive towards the bubble tea culture, as well as towards traditional snacks and dough products. We have also introduced some healthier choice drinks at our *R&B Tea* outlets and use of healthier oils and ingredients at our *Dough Culture* and *Delisnacks* kiosks, in line with the growing trend towards health and wellness.

Deli Asia's business is highly complementary with Koufu's business, with complementary products and manufacturing processes which enable us to develop our supply chain of these well-loved oriental favourites for retail at our food courts, coffee shops and quick-service restaurants. The *Deli Asia* brands also bring about a greater variety of quality choices to our existing dim sum, bakery and confectionery items that are sold at our self-operated stalls in our food courts and coffee shops.

Besides our bubble tea and dough products businesses, Koufu has also been developing and expanding the meatless cuisine businesses under our *Elemen* and *Grove* brands. These brands target to provide our customers with a healthier and more sustainable dining.

Q14. Is the meatless dining trend still growing for the meatless full-service restaurants (*Elemen*) and QSR (*Grove*)?

<u>Company's response</u>

The meatless dining trend is gaining traction due to a variety of reasons, ranging from customers wanting to adopt a healthier diet, to concerns about the impact of meat on the environment. We have also observed that meatless or plant-based F&B products are increasingly available in the market.

We are looking to grow our meatless dining concept brands, *Elemen* and *Grove*, in Singapore and in other markets, when suitable opportunities arise.

Q15. Which brands and geographical markets are you most optimistic and pessimistic about?

<u>Company's response</u>

The Group is generally confident in the markets that we currently operate in. We see further potential in the Singapore market as the economy and businesses gradually reopen and we are well-positioned with our existing brands and concepts and will continue to grow our newer brands and concepts, when suitable opportunities arise. In new markets like Indonesia and Philippines, we have managed risk exposure by going into licensing/ franchising agreements with our partners.

The Group is constantly looking for opportunities to expand our food court and coffee shop operations, as well as our F&B retail concept brands such as *Dough Culture, Elemen* and

Grove. In addition, while we are also opening new *R&B Tea* outlets, the Group will also consolidate existing locations.

In Singapore, the Group has secured and opened 2 new locations for *R&B Tea* kiosks at Fusionopolis in January 2021 and Sun Plaza in April 2021. In addition, the Group has also secured 5 new food court locations at Sun Plaza, Koufu's new corporate headquarters at Woodlands Height, Marina Square, Outram Community Hospital and Nanyang Technological University, which are targeted to be opened across Q2 and Q3 2021. We will continue to look out for suitable locations to expand the footprint of the R&B Tea brand in the markets we operate in, namely Singapore, Macau and Malaysia, and are actively looking for joint venture partners in Thailand and Malaysia to bring our *R&B Tea* brand to their shores.

We have also secured 1 quick-service restaurant location at Northshore Plaza for a new *Grove* outlet to be opened in Q4 2021, bringing the total number of outlets to 4 and are looking to expand this brand further.

The Group is actively looking for new locations for the expansion of the *Dough Culture* brand. Besides the outlets at SingPost Centre and Sun Plaza which opened in January and March 2021 respectively, the Group has further secured and opened a new location at Oasis Terrace in April 2021.

The Group has also opened its third food court at Nova City in Macau in Q3 2020.

CORPORATE GOVERNANCE

Q16. Despite being a COVID year, the aggregate total remuneration paid to the Key Management Personnel remained elevated at S$1,001,000 in 2020 (compared to S$1,074,000 in 2019). Can the Remuneration Committee share why the aggregate total remuneration paid remained elevated and similar to the previous year?

<u>Company's response</u>

As detailed on page 40 of the Annual Report under the Corporate Governance section on Remuneration matters, the Board adopts a formal and transparent procedure for developing policies on director and executive remuneration, and for fixing the remuneration packages of individual directors and Key Management Personnel, which are based on factors including the scope and extent of a director's and executive's responsibilities and obligations, the level of contribution and time spent. No director is involved in deciding his or her own remuneration.

The level and structure of remuneration of the Board and key management personnel are appropriate and proportionate to the sustained performance and value creation of the company, taking into account the strategic objectives of the Company. In determining such remuneration packages, the Remuneration Committee, in consultation with the Chairman of the Board, considers the respective individual's responsibilities, skills, expertise and contribution to the Company's performance, and whether they are competitive and sufficient to ensure that the Company is able to attract and retain the best available executive talent, without being excessively generous and be able to motivate the Directors to provide good stewardship of the Company and Key Management Personnel to successfully manage the Company for the long term.

Q17. On page 137 of the Annual Report, there were "Property rentals and related expenses" of S$2.872m in 2020 from "Fellow subsidiary of immediate and ultimate holding company". Given the weak rental market in Singapore in view of COVID-19, how do the Independent Directors ensure such "Property rentals and related expenses" are at arms' length & reflective of current market conditions?

<u>Company's response</u>

As detailed on page 54 of the Annual Report under the Corporate Governance section on Interested Person Transactions, the Group has established controls and reporting procedures for handling Interested Person Transactions (“**IPTs**”). These ensure that such transactions are conducted on an arm’s length basis and on normal commercial terms and are not prejudicial to the interests of the Group and its minority shareholders.

With reference to page 177 of the Company’s IPO Prospectus dated 11 July 2018 and page 23 of the Company's Circular dated 8 April 2021 in relation to, among others, the proposed renewal of the Shareholders' general mandate for IPTs, the, guidelines and procedures in relation to the rental of food courts and/or coffee shops from Mandated Interested Persons established and adopted include:-

(1) In relation to the rental of food courts and/or coffee shops from the Mandated Interest Persons (whether new leases or renewal of the existing Abundance Realty Food Court and Coffee Shop Leases or any other lease), which should be upon similar covenants and conditions of lease, the rent payable by our Group to the Mandated Interested Persons shall be at a monthly rent being no higher than an independent valuation conducted by an independent valuer with the relevant track record or experience not more than two months prior to lease and/or the renewal of the lease, with such cost of valuation to be borne by our Group.

(2) We will only enter into New Leases or renew the leases with the Mandated Interested Persons if we are satisfied that the rent payable is in line with or better than prevailing market rental rates for comparable spaces, taking into account factors such as the type and variety of food offerings, the vicinity, traffic flow, overall atmosphere and any other relevant factors that may affect rental rates or terms of the lease.

Further, the Group maintains a register to record the list of interested persons and their associates (which is to be updated immediately if there are any changes) to enable identification of interested persons. The list of interested persons is reviewed on a quarterly basis by the Chief Financial Officer and subject to such verifications or declarations as required by the Audit and Risk Management Committee, which members consist of Independent Directors, for such period as determined by them. This list of interested persons is disseminated to any staff of the Group.

The Group also maintains a register to record all IPTs (including the Mandated Transactions) carried out with interested persons (including the Mandated Interested Persons) (including the bases on which the IPTs are entered into, amount and nature) by the Group’s finance team, which shall be reviewed by the Chief Financial Officer on a monthly basis.

By Order of the Board
Koufu Group Limited

Pang Lim
Executive Chairman and Chief Executive Officer

23 April 2021