TUNG LOK RESTAURANTS (2000) LTD
(Incorporated in Singapore)
(Registration No. 200005703N)

RESPONSE TO QUERIES FROM THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE) ON THE ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 31 MARCH 2022

The Board of Directors (the "**Board**") of Tung Lok Restaurants (2000) Ltd (the "**Company**", together with its subsidiaries, the "**Group**") refers to the queries raised by the Securities Investors Association (Singapore) ("**SIAS**") in respect of the Company's Annual Report for the financial year ended 31 March 2022 ("**FY22**"). The Company wishes to provide the following responses to SIAS' queries:

Q1. As noted in message to shareholders from the Chairman and the President/Chief Executive Officer, with more than 2 years since the COVID-19 outbreak first began, the impact of the pandemic is still felt by businesses and economies all over the world.

The first half of FY22 was extremely challenging for the group as safe management measures were tightened in view of the spike in COVID-19 cases.

Since the beginning of Year 2021, the group has closed 8 outlets (with 6 being closed in FY22) which were significantly affected by the pandemic. The closures were made to better rationalise and streamline the Group's resources as well as manage the group's business costs and optimise operational efficiency amid restrictions and other challenges which impacted revenue generation during the pandemic period.

A detailed review of the group's financial review and operations can be found on pages 13 and 14 of the annual report.

Despite recording a S$1.6 million profit in the second half of FY22, the group recognised a loss of S$(1.8) million for FY22 as it was unable to recover from the loss of S$(3.4) million suffered in the first half of FY22. Profit for the FY21 was S$1.0 million.

(i) Can management help shareholders better understand the situation on the ground since the government had removed most of the safe management measures at the end of April 2022, perhaps with the exception of catering for large events (>500 pax)?

(ii) Does management see demand for food delivery and takeaway decreasing significantly as safe management measures are scaled back/removed?

(iii) How is management dealing with manpower shortages?

(iv) Can management showcase some of the major improvements in procurement, processes and central kitchen functions? How much efficiency/cost savings have been achieved?

(v) Is management satisfied with the market penetration of the group's ready-to-eat products that are marketed under Home Fiesta?

Company's response:

(i) As disclosed in page 15 of the Annual Report under "Outlook" (*Message from Independent Non-Executive Chairman and President/Chief Executive Officer*), the Group expects business momentum to pick up after the safe management measures have eased from April 2022 onwards. However, the recovery is expected to be gradual as the COVID-19 situation remains fluid and the Group will still be marked with possible setbacks given that several headwinds are on the horizon such as intense competition, manpower shortages, cost pressures brought about by inflation as well as the evolving geopolitical climate.

(ii) With the lifting of restrictions on dine-in services at our restaurants, the proportion of food delivery and takeaway revenue to overall revenue is expected to decrease.

(iii) & (iv) As disclosed in page 14 of the Annual Report under "Operations" (*Message from Independent Non-Executive Chairman and President/Chief Executive Officer*), the Group has accelerated its digital transformation initiatives to streamline and optimise internal operational processes so as to improve productivity amid manpower shortage issue. Some digital solutions adopted in FY22 include virtual queuing system, robot waiters, mobile ordering systems, voucher management system etc. The Group believes that it will be well-positioned to benefit from the implementation of these initiatives as the market conditions improve in the current financial year ending 31 March 2023 ("**FY23**").

(v) The revenue of the Group's ready-to-eat products has increased over the past 2 years amid the launch of more items and sale channels. The Management will continue to monitor the growth of this revenue stream.

Q2. As shown in Note 31 (page 128; Capital risk management policies and objectives), total borrowings including lease liabilities increased to S$20.85 million. Net debt amounted to S$7.97 million as the group has cash and cash equivalents of S$12.88 million.

(i) What are the projected capital requirements in the next 18 months?

(ii) What are the cash outlay and total capital investment required to open a typical outlet?

The group's directly-owned outlets increased from 23 to 25 in the past year. At the outset of the pandemic (March 2020), the group had 26 outlets that were directly owned.

(iii) What is the pace of the group's expansion given the expected recovery although there are still strong headwinds in the operating environment?

With total equity of S$10.2 million, the debt-to-adjusted capital ratio increased significantly from 37% to 78% as at 31 March 2022. The group's policy is to keep the debt-to-adjusted capital ratio below 100%.

(iv) Has the board reviewed the group's capital structure? With the group's debt-to-adjusted capital ratio approaching the group's mandated upper limit, what are management's plans to reduce its gearing? Does the group need to raise funds to strengthen its balance sheet?

In FY21 and FY22, the group paid out S$390,000 (Club Chinois Pte Ltd and Tung Lok Arena Pte Ltd) and S$240,000 (Club Chinois Pte Ltd) in dividends to non-controlling interests in subsidiaries respectively. At the group level, the accumulated losses are

S$(16.7) million, with equity amounting to S$10.2 million. The company last declared a dividend to shareholders in August 2011 for S$0.005 per share.

(v) Has the board reviewed the group's profitability and its ability to generate long-term value for shareholders, including the ability to create sustainable profits and generate the needed cash flow to deliver returns to its capital providers in the form of dividends?

Company's response:

(i) - (iii) Based on the Group's current plan, up to 3 new outlets are planned for FY23 and where necessary, existing outlets may need to undergo major repair and maintenance due to normal wear and tear.

The Group operates a wide and diversified range of restaurants from quick service such as Duckland, traditional Chinese restaurants such as Tung Lok Seafood, Tung Lok Peking Duck and Tung Lok Signatures to contemporary Chinese fine-dining outlets such as Tung Lok Heen and Tóng Lè Private Dining. Henceforth, the projected capital expenditure for the next 18 months as well as the cash outlay and capital investment required to set-up each outlet are largely dependent on the location and size as well as branding and positioning of the outlet, among others.

The Group has been and will closely monitor the COVID-19 situation and continue to adopt a prudent stance when expanding its brands locally and overseas.

(iv) & (v) The Board and the Management have constantly reviewed the business operations of the Group to ensure that business costs are optimized and resources are channelled to operations that will provide long-term returns to the Group. The Group has also accelerated its digital transformation process to streamline and improve operational efficiencies. Through these efforts, the Group remains optimistic that we will emerge more resilient to overcome the various challenges and be in a much better position to reduce the debt-to-adjusted capital ratio.

The Board reviews the Group's capital structure on an ongoing basis and will release the required announcement(s) should the Group commence any fund-raising exercise.

Q3. On 30 November 2021, Mr Tan Boon Gin, chief executive of Singapore Exchange Regulation (SGX RegCo), gave guidance that companies are expected to use the two-tier rule sparingly to promote renewal and succession planning.

At the company's annual general meeting scheduled to be held on 27 July 2022, the company is seeking shareholders' two-tier approval for the continued appointment of Mr Chee Wai Pong as an independent director. The director was first appointed on 30 September 2013.

(i) Can the board help shareholders understand if it had considered the guidance given by SGX RegCo on the selective use of the two-tier rule to promote renewal and board succession?

(ii) If so, what are the extenuating circumstances, if any, that led to the board/nominating committee (NC) to propose Mr Chee Wai Pong's continued appointment as an independent director?

In fact, of the four directors deemed independent who are currently in the board, two of them, including the lead independent director, have already served on the board for more than 9 years. Dr Tan Eng Liang, also the lead independent director, and Dr Ker Sin Tze were appointed on 1 March 2001. Both Dr Tan and Dr Ker have each served on the board for more than 21 years.

(iii) Should Dr Tan Eng Liang, the lead independent director, lead by example by setting the tone with regard to capping the tenure of independent directors?

As noted earlier, the group has accumulated losses of S$(16.7) million as at 31 March 2022.

(iv) Can Dr Tan Eng Liang and Dr Ker Sin Tze help shareholders better understand their contributions to the group and their effectiveness as directors to safeguard shareholders' interests and to create value for shareholders in the past 21 years?

(v) How do the two abovementioned long tenured directors avoid groupthink given that, between the two of them and the President/Chief Executive Officer, i.e., Mr Andrew Tjioe, they have approximately 64 years of cumulative experience serving together on the board?

Company's response:

(i) to (iii) The Company has explained in Page 28 to 30 of the Annual Report FY22 (under "*2.1, 2.2 and 2.3 Strong independent element of the Board*") the basis which the Nominating Committee ("**NC**"), with the concurrence of the Board, is satisfied Dr Ker Sin Tze ("**Dr Ker**"), Dr Tan Eng Liang ("**Dr Tan**") and Mr Chee Wai Pong ("**Mr Chee**") have remained independent in their judgement and are able to discharge their duties objectively.

Specifically, particular rigorous review has been applied in assessing the continued independence of Directors having served beyond 9 years from the date of their first appointments, to ensure that their allegiance remain clearly aligned with shareholders' interests. Although Dr Tan, Dr Ker and Mr Chee have served on the Board for close to or more than 9 years from the date of their first appointments as Directors of the Company, they have continued to demonstrate strong independence in character and judgement over the years in the discharge of their duties and responsibilities as independent directors of the Company, with the utmost commitment to protect and uphold the interests of the Company and especially the minority shareholders. Dr Tan, Dr Ker and Mr Chee have contributed significantly to the discussion on matters in the Board and Board Committee meetings, which includes matters relating to the strategic direction and corporate governance of the Group, expressed individual viewpoints, debated issues, sought clarification and amplification as they deemed necessary including through direct access to the Management, and objectively scrutinising and challenging the Management.

The Board further recognises that independent directors of the Company have over time developed significant insights into the Group's business and operations and can continue to provide noteworthy and valuable contributions objectively to the Board as a whole. Further, having gained an in-depth understanding of the business, operating environment and direction of the Group, they provide the Group with much-needed experience and knowledge of the industry and offered valuable advice. Their objective leadership, depth of experience and skills, make them invaluable members of the Board. Against the current backdrop of the

COVID-19 pandemic, the Board is of the view that the pertinent experience and competence of Dr Tan, Dr Ker and Mr Chee as well as their deep knowledge of the Group's operation will be even more valuable and relevant so that it can provide stability to the Board to facilitate sound decision-making and to guide the Management as they respond and navigate through the various challenges posed by the unprecedented COVID-19 pandemic.

After taking into consideration the above, and also having weighed the need for Board refreshment against tenure for relative benefits, the NC, with the concurrence of the Board (with Dr Tan, Dr Ker and Mr Chee on abstention from discussion and deliberation on their independence), has unanimously affirmed that Dr Tan, Dr Ker and Mr Chee have discharged their duties objectively and remained independent-minded in Board deliberations and their length of service do not in any way interfere with their exercise of independent judgement nor hinder their ability to act in the best interest of the Company and the Group. Henceforth the Board is satisfied that Dr Tan, Dr Ker and Mr Chee remain independent notwithstanding they have served the Board for close to or more than 9 years from the date of their first appointment.

On this basis, the NC and the Board recommended that approval from the shareholders be sought through the two-tier voting process at the forthcoming Annual General Meeting for Mr Chee to continue in office as Independent Non-Executive Director of the Company, notwithstanding that he will have served as an Independent Non-Executive Director for an aggregate term of 9 years from 1 October 2022.

(vi) & (v) The Company's Board Diversity Policy endorses the principle that its Board should have a balance of skills, knowledge, experience, gender and diversity of perspectives appropriate to its business so as to mitigate against groupthink and to ensure that the Company has the opportunity to benefit from all available talents.

Currently, the Board has a strong and independent element whereby the Chairman and President/Chief Executive Officer are separate persons, and 4 out of 8 board members (or 50%) are independent. In having 6 out of 8 board members (or 75%) that are Non-Executive Directors and making up a majority of the Board, the composition of the Board complies with the Code of Corporate Governance 2018 that Non-Executive Directors make up a majority of the Board. This enables the Board to exercise independent judgement on corporate affairs and provide Management with a diverse and objective perspective on issues.

The Board and its Board Committees comprise respected individuals (including Dr Tan, Dr Ker and Mr Andrew Tjioe) from different backgrounds and, as a group, provide core competencies, such as business management experience, industry knowledge, legal, real estate and tenancies, human resource management, financial, banking and strategic planning experience and customer-based knowledge that are extensive and critical to meet the Group's objectives. The Board, taking into account the views of the NC, considers that the Directors provide an appropriate balance and diversity of skills, experiences, gender and knowledge of the Company that will provide effective governance and stewardship for the Group.

BY ORDER OF THE BOARD

Tjioe Ka Men
President/Chief Executive Officer
Date: 22 July 2022

This announcement has been reviewed by the Company's Sponsor, SAC Capital Private Limited (the "**Sponsor**"). This announcement has not been examined or approved by the Singapore Exchange Securities Trading Limited ("**Exchange**") and the Exchange 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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