三盅两件 SOUP RESTAURANT

Soup Restaurant Group Limited

(Incorporated in the Republic of Singapore)
(Company Registration No. 199103597Z)

RESPONSE TO QUERIES FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE) AND SHAREHOLDERS ON THE ANNUAL REPORT

The Board of Directors (the "**Board**" or "**Directors**") of Soup Restaurant Group Limited (the "**Company**" and together with its subsidiaries, the "**Group**") refers to the queries raised by the Securities Investors Association (Singapore) ("**SIAS**") and shareholders of the Company in relation to the Group's Annual Report for the financial year ended 31 December 2019 ("**FY2019**") and appends the replies as follows:

(I) RESPONSE TO QUERIES FROM SIAS

Question 1

In the Operating and Financial Review (page 13 of the Annual Report), management stated that revenue for restaurant operations was affected by a change in customers' dining behaviour as online delivery sales increased and dine-in sales dropped.

With the 57% increase in online sales in FY2019, it is estimated that approximately 10% of the Group's revenue is derived from online sales. In addition, the Group also incurred increases in sales commission of $0.4 million associated with online delivery services and higher credit card commissions.

Dining-in at the F&B outlets have been suspended recently as a precautionary measure to reduce the spread of COVID-19.

(i) **In view of all these challenges, how does the Group ensure that its value propositions of heritage dining experience/ambience and authentic dishes still remain relevant to consumers?**

(ii) **How is the Group innovating in terms of menu offerings, food preparation, packaging, online sales strategy, restaurant format and size of outlets so that the Group's growth and profitability could be sustained in a crowded marketplace?**

Company's response

(i) With the current challenges, our restaurant outlets are limited to takeaway and online delivery orders. We had embarked on several online delivery platforms more than a year ago and continue to formulate our strategy, gauge our customers' preferences and make adjustments as we move forward.

Our Group's focus has always been to provide wholesome and healthy Chinatown Heritage Cuisine at reasonable pricing for families. This strategy is carried through for online orders as well. About 90% of our dishes in the dine-in menu are offered online so that customers have the same choices even when they dine at home. Only dishes which are not ideal for delivery are excluded. This is to ensure we are able to maintain the same quality for delivered meals. In addition, we have a specially-customised packaging for our signature Samsui Ginger Chicken to preserve the unique presentation done in our outlets. In doing so, we maintain the same heritage feel for our customers dining at home.

(ii) Continuing analysis of customers' ordering data enables the Group to widen the offerings for our online menus and carry out promotions to cater to the needs of different customer segments, group sizes and dining occasions. We are also present on different online platforms which increases our customer reach. As the online delivery market for food and beverage services in Singapore is rapidly evolving, we will review our online sales strategy from time to time and tweak our strategy accordingly to remain competitive.

Moving forward, we will balance our investment of resources in order to optimise both dine-in and online sales. Restaurant sizing and choice of locations will be considered in relation not only for dine-in but also online sales. Outlet layouts will also be planned with the necessary space allowances to support online sales.

Although the climate is evolving and the operating conditions are challenging, we will continue to strive to seek out opportunities to grow and increase our revenue and profitability.

Question 2

The Group was honoured with the prestigious accolade of "Social Enterprise of the Year 2019" conferred by the President's Office in recognition of the contributions to the community (page 4). The Group also received the SkillsFuture Employer Award (SMEs) 2019 from President Halimah Yacob in July 2019 in recognition of the Group as an exemplary organisation which champions employees' skills development and strives to build a lifelong learning culture at the workplace.

The Group's subsidiary, Samsui Supplies & Services Pte Ltd ("**Samsui**"), was started in 2013 to drive the Group's CSR initiatives.

In the financial year, the Group has two operating central kitchens under Samsui. Revenue from the food processing, distribution and procurement services segment (which includes the supply of ready meals, corporate sales and Samsui range of sauces) increased by $0.5 million to $2.72 million while the segment registered a segment profit of $15,995 in FY2019 (2018: $127,847).

(i) **Can the Company help shareholders understand how it balances the need for economic returns and its involvement in the community?**

(ii) **In particular, can management clarify if the CSR initiatives/social enterprises are managed on a "for-profit" basis?**

Company's response

(i) Samsui's model is to integrate our CSR missions into our business and everyday operations. We provide operational training for prison inmates and persons with disabilities at our two central kitchens in Changi Prison Complex and Enabling Village respectively. Thereafter, we facilitate employment opportunities for these beneficiaries within our companies. These beneficiaries support Samsui's day to day operations such as:
- the supply of nutritious meals to institutions, such as nursing homes, voluntary welfare organisations, student and child care centres;
- back-end support for our Group's restaurant operations and manufacturing of our Samsui range of sauces; and
- sales of food products to corporates, catering and sales of bento meals to consumers.

(ii) Samsui's CSR missions are built on an ecosystem of initiatives to ensure sustainability in the long-term, as expressed by our tagline – "Do Good, For Good". Therefore, a large proportion of our CSR/social enterprise initiatives are inter-twined in our operations with the aim for Samsui's long-term growth. Nevertheless, some CSR initiatives are fully sponsored by the Group such as its partnerships with Alzheimer's Disease Association and Beyond Social Services, as set out at page 29 of our Annual Report.

Question 3

In the Corporate Governance Report, it was disclosed that the audit committee ("**AC**") has undertaken a review of all non-audit services provided by BDO LLP, the external auditor. The AC is of the opinion that the provision of such services does not affect the independence of the external auditor.

	Non-audit fees ($)	Audit fees ($)	
FY2019	58,000	109,200	53%
FY2018	63,400	106,200	60%
FY2017	53,000	104,200	51%
FY2016	49,900	102,000	49%
FY2015	35,900	114,200	31%
FY2014	35,900	110,300	33%

(Source: company annual reports)

(i) **Would the Company clarify on the nature and the reasons for the recurring non-audit services provided by the external auditors?**

Company's response

(i) The recurring non-audit services provided by the external auditors are in respect of:
- the tax services for the companies within the Group; and
- the annual gross turnover audits required by landlords pursuant to our outlet leases.

(II) RESPONSE TO QUERIES FROM SHAREHOLDERS

Question 4

I understand that your customers are mainly "sit-in/in house dining" customers. With the inevitable closures of your restaurants, without a doubt, your business has been affected - with the Company only operating on a take-out basis.

Before the outbreak of COVID-19, what is the percentage of customers represented by delivery/take-out vs sit-in customers? Is it 25% to 75% as per Note 28 (page 114)? I note that there is a reduction in the profit margin for both segments. **What is the reason for this significant reduction in profit margin, especially for the 'Food processing, distribution and procurement services segment'?** The 'Food processing, distribution and procurement services' segment is barely profitable despite an increase in revenue. **Is this segment viable? What is the Company doing to improve its margin?**

Company's response

In 2019, the ratio of customers dining-in and those ordering via online delivery was 90:10. The reduction in the profit margin for the operation of restaurants segment is mainly due to higher costs related to an increase in sales commission associated with online delivery services, an increase in credit card commissions and expenses related to the opening and closure of outlets. Further details can be found on pages 13-14 of the Annual Report.

In respect of the Food processing, distribution and procurement services segment, the profit margin was mainly affected by additional one-time off costs incurred to equip the Samsui Kitchen @ Enabling Village which was set up in the last quarter of 2018, with the objective of widening the distribution networks for consumer goods and ready meals to corporates, nursing homes and voluntary welfare organisations.

Question 5
I note that, unlike several other listed companies, there were no announcements informing shareholders about the impact of COVID-19 on the Company's business. **How have the Company business been affected? What and how much of an impact? How much have the Company's revenue/sales been reduced by?**

Of the Company's various food outlets, which and how many of them have been closed as a result of COVID-19?

Company's response
With the current challenges, our restaurant outlets are limited to takeaway and online delivery orders, without dine-in sales. We have experienced a drop in sales and are still assessing the impact to the Group. During the Circuit Breaker period, twelve of our outlets remain open for business, with five outlets temporarily closed and the outlet at Changi Airport Terminal 2 will be closed permanently due to the suspension of operations by Changi Airport.

Question 6
I note that several landlords have passed on the benefits of the Government tax rebates to their tenants in the form of rental rebates. **Have the Company been able to work with/negotiate with its landlord for rental relief during this COVID-19 situation?**

Company's response
The Group has been able to and is continuing to work with our various landlords for rental rebates during this period.

Question 7
I note that dividends to shareholders have been reduced significantly to 0.2 cents. However, Director fees have been maintained at $160,000. **Given the sizeable reduction in dividends, can the Company comment why the Director fees have not likewise been reduced? Have management remuneration been adjusted downward to reflect the poorer performance for FY2019? If not, why not? (In the spirit of shareholder alignment)**

Company's response
The Director Fees are based on the services rendered by the Independent Directors to the Company and do not vary based on the performance of the Company. Management remuneration is deliberated on by the Remuneration Committee, which comprises entirely of Independent Directors. More details on the Group's Remuneration Matters are set out at pages 42-45 of our Annual Report.

Question 8
I note that many companies are engaging in cost-cutting/cost-control measures in a bid to maintain viability amidst the COVID-19 situation. **Have the Company implemented any cost-cutting/cost-control measures? If so, can the Company elaborate on these measures implemented (e.g. manpower reduction, salary cuts etc.)**

Company's response
The Group has been conscientiously managing our costs amidst the current situation and is taking measured steps on various cost-cutting and cost control measures.

Question 9
Shareholders are less familiar with developments in Malaysia and Indonesia amidst this COVID-19 period. We know that in Singapore, the Singapore Government has instituted a "Circuit Breaker", with food establishments operating on a take-out/delivery basis only. **Is this the same for Malaysia and Indonesia? How have the Company's operations in Malaysia and Indonesia been affected by COVID-19?**

Company's response

Due to the movement control order implemented by the Malaysian government on 18 March 2020, the Group's outlet in Malaysia is restricted to only takeaway and delivery orders, without any dine-in orders. This situation will continue until the end of the movement control order, currently announced to be on 12 May 2020.

The two outlets in Indonesia are operated on a franchise model. The outlet at Plaza Indonesia was temporarily closed due to COVID-19 while the outlet at Pondok Indah Mall is open for takeaway and delivery orders.

Question 10

I note that the Company does not segregate its results by brands. **Could the Company explain why? And could the Company segregate the results by brand in the future?** I note that the Company has introduced several new brands such as TEAHOUSE, CAFE O, POT LUCK. **Can the Company comment on the performance and if these new brands have been well-received by Singaporeans? Are these new brands profitable or otherwise?**

Company's response

TEAHOUSE is well received by customers because of the wide variety of hand-made Dim Sum as well as classic Soup Restaurant dishes available.

CAFE O and POT LUCK operate in a very challenging market with fierce competition. The Group is continuously assessing the viability of these brands and will fine-tune the concepts before any expansion plans are carried out.

The Company will consider segregating the results by brands when the results are material on a Group level.

Question 11

Also under Note 28, segment information, besides the revenue of the Singapore and Malaysia operations, the exact profitability of the Singapore and Malaysia operations is not disclosed. **Any reason why? Are our Malaysian operations profitable? What are margins in Malaysia like?**

Company's response

On a Group level, the revenue of our Malaysian operations is not material and as the model is the same as our Singapore outlets, the results were consolidated under the operation of restaurants segment. Our Malaysian outlet was profitable in FY2019.

Question 12

I note that the current ratio of the Company has dropped significantly (to around 1) in the last FY. **Is the Company concerned about this development? If so, what is the Company intending to do to bring the current ratio back up?**

Company's response

The current ratio was affected by the adoption of SFRS(I) 16 effective from 1 January 2019, which requires the Group to recognise right-of-use assets and lease liabilities for most leases. The ratio before the adoption of SFRS(I) 16 is 2.30 in FY2019 as compared to 2.40 in FY2018.

The accounting policies and the effects of adopting SFRS(I) 16 can be found on pages 71-74 of the Annual Report.

<u>Question 13</u>

I saw that the Company has put forth a "share buyback resolution". If the share buyback resolution is approved and the maximum amount of shares are bought back, the NTA of the Company would decline by more than 1 cent, and the current ratio will worsen too. **Should the Company not preserve cash during this period rather than spending on share buyback? What is the rationale for such a resolution being put forth?**

<u>Company's response</u>

The rationale for Resolution 11 – Renewal of Share Purchase Mandate is set out on Page 128 of the Annual Report. As stated, the Share Purchases will only be undertaken as and when the Directors consider it to be in the best interests of the Company and/or Shareholders. The Directors do not propose to carry out purchases pursuant to the proposed Share Purchase Mandate to such an extent that would, or in circumstances that might result in a material adverse effect on the financial position of the Company or the Group.

BY ORDER OF THE BOARD

Chong In Bee
Company Secretary
27 April 2020