



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

RESPONSES TO SUBSTANTIAL AND RELEVANT QUESTIONS

The Board of Directors of Koufu Group Limited (the “Company” and together with its subsidiaries, the “Group”) would like to thank shareholders for submitting their questions in advance of the Annual General Meeting to be held by way of electronic means on 5 June 2020.

The Board and Management had received questions from SIAS and Shareholders for the period between 13 May 2020 to 31 May 2020 (the “Questions”). The Company and the Board wishes to provide its responses to the Questions as follows:-

QUESTIONS FROM SIAS

Q1. As noted in the company’s business update dated 22 May 2020, the group has temporarily suspended the operations of 10 food courts, 3 quick-service restaurants and 2 full-service restaurants during the circuit breaker period in order to reduce operating costs due to low footfalls at these outlets. All but one tea kiosks suspended their operations from 22 April 2020. In the Outlet & mall management segment, the gross turnover component will be affected and the group will be passing on rebates and incentives to the stallholders.

Has the board/management had the opportunity to reassess the group’s business model and growth trajectory? As a result of the pandemic, would stricter government regulations and changes to consumption patterns necessitate a different approach to the group’s operations?

Company’s response

The F&B industry has been impacted given the movement restriction/ circuit breaker measures as well as more conscious spending habits due to general downtrend in the economy. Under the circuit breaker measures, the Singapore government has imposed: (i) a restriction of dine-in at all F&B outlets; (ii) work-from-home arrangements resulting in a shift to home dining which affected food courts located in commercial malls, educational institutions and near offices; and (iii) the closure of standalone F&B kiosks selling predominantly drinks (*R&B Tea* and *Supertea*) from 22 April 2020. More activities will be allowed to resume but gradually and in three phases as Singapore exits the circuit breaker period after 2 months on 2 June 2020.

With the outbreak of COVID-19, social distancing, cleanliness and hygiene have come into focus. While we reduce the seating capacity at our outlets to comply with the social distancing measures, we are also considering on how we can safely reopen our outlets in Phase 2, when dining in is allowed again. For example, we have seen some creative solutions overseas that have already opened their economies, with restaurants setting up shields to separate diners seated at the same table – this is one way that allows dining establishments to follow social distancing measures, reduce human-to-human contact, while still allowing diners to eat together.

Notwithstanding the near-term challenges in relation to the COVID-19 outbreak, the Group expects to remain competitive as it continues its productivity efforts. We have built up a resilient business model that has been tried-and-tested through time. Our competitively priced dining options have allowed our cash-generative business to be resilient through economic cycles, such as SARS in 2002 and the global financial crisis of 2007-2008.

In Singapore, our strategy to focus on food courts in hospitals, commercial malls, tertiary educational institutions and new housing estates remains unchanged – for this year, we have opened 2 coffee shops in Q1 2020 at Tampines and Compassvale Drive and further secured one more lease for food court, targeted to open in FY 2020. Meanwhile the temporary occupation permit (TOP) for our integrated facility has been slightly delayed to Q3 2020 at the earliest.

Overseas in Macau, we secured lease of our third food court in Macau, targeted to open in Q3 2020.

With that in mind, we continue to be vigilant and adapt accordingly as we explore various strategies to support and reinforce our relationships with various stakeholders. We are constantly assessing Koufu's business model and growth trajectory to tide over any crises and economic downtrends, as well as to clinch opportunities when it arises. Our new Integrated Facility ("IF") is one of our strategies in diversifying our current food business model in retail format only.

We intend to experiment with a new Cloud Kitchen concept in the IF which provides food delivery services and are also looking at incubating new F&B concepts at the IF. The new IF, which has a gross floor area of about 20,000 square metres, will house our training as well as research & development centres. With these centres in place, we believe that they will help us achieve higher productivity and more importantly, ensure that our business model continue to stay relevant. We will also review our current geographical and business mix so as to maintain a core mass market presence that is more resilient to unforeseen events. This could include investing directly into successful food stalls chain operators already in existing hawker centres and malls. The goal is to diversify risk further so that we can make our business model even more sustainable in future unforeseen events. The overall F&B industry has been hit hard by the outbreak and we foresee a challenging and uphill journey ahead. However, we believe that once the pandemic is under control, the global economy will begin to normalise, and the F&B sector will see a recovery.

- Q2. The group has leveraged technology to increase its productivity and to reduce workload for staff. Initiatives include the implementation of a NETS unified payment system across outlets, mobile ordering application and smart tray return robots.**
- (i) How successful is management at getting users to use these new services? For instance, how much of the orders/payments go through the NETS payment system or mobile ordering application? What percentage of diners make use of the smart tray return robots?**

Company's response

We believe in taking a holistic approach and using technology as a key enabler in our productivity journey. We adopted automation and various technology such as self-ordering and payment kiosks, smart tray return robots and RFID tray return system, and we were also recognized for attaining the Singapore Productivity Awards in 2016.

Koufu is one of the first food court operators in Singapore to collaborate with the NETS to introduce cashless payment for the F&B stalls including our stallholders via unified payment terminals at most of our food courts, in line with Singapore government's drive to promote a cashless society. SG QR payments have also been implemented at most of our coffeeshops. Aside from that, we have also rolled out a mobile ordering application – *Koufu Eat* app – implemented at most of our food courts for takeaway services. The *Koufu Eat* app allows for a

full contactless transaction right from ordering and payment to collection. In view of the COVID-19 situation, the *Koufu Eat* app has been recently enhanced to include delivery services as well.

We have seen an increasing rate of adoption for cashless payments throughout Singapore, especially after the government introduced PayNow in 2017. We expect the percentage of users to increase as Singapore further advances towards a cashless society and more people are getting used to making payments via non-cash modes. In the same vein, making orders through mobile applications is increasingly becoming the norm. Paradoxically, the COVID-19 pandemic has accelerated the growth of e-commerce, including making orders through mobile apps and cashless payments, effectively normalizing such activities as the new normal. We also take note of the Government's recent announcement in the Fortitude Budget regarding e-payments and digital resilience bonuses and will see how we can tap on these bonuses to drive digitalisation further into the businesses.

The smart tray return robots have been well-received since we introduced them. Anecdotally, as customers become more socially conscious, we have seen more people returning their trays into the robots, when previously most customers would just leave the trays on the tables after their meals. The social consciousness for greater general cleanliness may increase as a result of Covid-19 and we will be in a good position to cater to this enhanced awareness. To date, we have deployed the smart tray return robots to over 16 food courts and coffee shops.

- (ii) **Can management share more on the plans to leverage third-party food delivery service providers to reach a larger customer base and to capture additional sales? It has been widely reported in the media that third-party food delivery service providers impose a hefty mark-up to provide convenience to consumers. How does management ensure that its partnership with third-party food delivery service providers will be fair to the stallholders/restaurants and consumers and sustainable for the long run?**

Company's response

We have tie-ups with the major food delivery players in the industry, such as Grabfood, Food Panda and Deliveroo to deliver meals to our customers. As a food court and coffee shop manager, we negotiate on behalf of our stall tenants with the food delivery partners on the terms and conditions in order to secure competitive rates for all.

In addition, we have our *Koufu Eat* app for take-away customers who prefer the convenience of ordering and paying via the app wherever they are, and coming over to pick up once their order is ready. Since its launch in August 2018, most of our food courts and coffeeshops have started using the *Koufu Eat* app. We have also recently launched the delivery services option on the *Koufu Eat* app to certain areas of Singapore by partnering with delivery vendors, allowing customers the flexibility to order a variety of food from different stalls *within* the same outlet, and paying one delivery service fee only. This enhances productivity and provides valuable cost savings to our customers. We will be gradually increasing the delivery coverage to include most parts of Singapore.

- Q3. As noted in the overview of the group's regional network (pages 12 and 13), the group manages a hawker centre at Jurong West. The two-storey hawker centre and market in Jurong West Street 61 first opened in October 2017.**

It was reported the group would not renew the lease when the three-year term expires in August 2020.

- (i) **What are the lessons gleaned from running the hawker centre for nearly 3 years?**
(ii) **Would the group still be considering other hawker centres under its "Outlet & Mall management" segment?**

Company's response

Corporate Social Responsibility ("CSR") forms the backbone of our corporate values and tagline, "Better Food, Better People, Better Life", and our long-time focus on CSR has strengthened

our corporate brand and leadership within the Singapore F&B industry. The hawker centre is a not-for-profit initiative in collaboration with the National Environment Agency aimed to keep food prices affordable and value-for-money, from as low as S\$2.80 for a meal. For the Jurong West Hawker Centre and Market, each F&B stall is to sell two affordable meals and provide at least two healthier food choices, and any profits made will be channelled back into the community in the form of community initiatives such as working with the community club to distribute food vouchers and organising health screening.

This was our first time managing a hawker centre and it was a great learning experience for us in many aspects including but not limited to location of hawker centre, customers' demographics, stall tenants' experience, food quality and pricing. Before deciding not to renew the lease, we had considered the gestation period required to stabilise operations, aside from running promotional activities and engaging media to raise visibility and patronage to the hawker centre. However, we made the difficult decision to exit upon expiry of the contract due to lacklustre performance, amidst rising operational costs, in part due to labour constraints. One of the greatest challenge was balancing profitability with CSR. Ultimately, as a public listed company, Koufu has an obligation to safeguard our shareholders' interests, and hence we decided not to renew the lease.

We are open to managing a hawker centre again should an opportunity arises, one that meets the assessment criteria taking into consideration the learning experience we have gained from managing and operating the Jurong West Hawker Centre. Our top priority is to grow our businesses organically, striving to capture greater market share by leveraging on our ability to provide quality food that appeal to different market segments. We will continue to keep a lookout for suitable value-accretive M&A targets that are complementary to our businesses.

However, during this period, we maintain prudence in our operations as we have no visibility on how long the effects of the pandemic will last. Our immediate focus is on getting through the COVID-19 pandemic, alongside all our partners, such as the stallholders and our employees.

QUESTIONS FROM SHAREHOLDERS

Q4. I have noticed that a few foodcourt stalls were left vacant, such as one at Pasir Ris West Plaza. What is the management's plan to rejuvenate the premises as it looked dirty and old? Is increasing rental a source of concern for the management because as a shareholder, I would prefer the foodcourt to be at full occupancy rather than left vacant.

Company's response

We place utmost importance in developing and implementing strict operating policies for the operation of our Food Courts and F&B retail premises, with guidelines to ensure that all third-party stalls adhere to strict internal control procedures as well as the Food Hygiene Handbook by the National Environment Agency (NEA).

We understand that upkeeping and rejuvenating our food courts provide our customers with a good dining ambience and experience which is crucial in order to meet a high occupancy rate of our stalls. We will normally upkeep our food court every 3 years, and consider if a full rejuvenation is required so that the food court remains attractive to diners. We will also take into consideration the time required in the closure period during renovation and the condition of the mall environment that the food court is located in, balancing that with the rate of rental increase and food price increase.

As for the mentioned food court at Pasir Ris West Plaza, the food court is currently under renovation in line with the rejuvenation plans of the entire Pasir Ris West Plaza mall by The Housing Development Board.

As with other businesses in Singapore, we face inflationary pressures and a general trend of increase in rents even before the onset of the COVID-19 pandemic. We evaluate each location and rental rates based on Management's internal set of evaluation criteria, to project a return on investment before we make business decisions to set up any food courts.

We believe in the proactive management of our tenants and are in constant communication with them. At the same time, we believe in optimising our F&B tenant mix at our food courts and coffee shops and are constantly sourcing for quality stall operators to add to our existing pool.

Q5. How is the expansion situation at overseas?

Company's response

Koufu has established a presence in Macau for the past 8 years, accumulating extensive in-house knowledge and contacts since our first *Koufu* food court in Sands Cotai Central, Macau, in 2012. We have since leveraged on our network and experience, expanding to 2 food courts, 4 F&B Stalls and 1 F&B kiosk in Macau as at 31 December 2019.

We have also expanded to Indonesia with our Super Tea Joint Venture, to develop, establish, manage and operate the business of operating F&B outlets under the Proprietary Marks of Super Tea and to grant sub-licenses to other parties to operate the same within the Republic of Indonesia.

We believe that the joint venture presents us with a strategic and learning platform to expand our F&B outlets to Indonesia, in line with our long-term objectives of delivering growth. At the same time, we are also mindful of the current recessionary environment due to the COVID-19 pandemic and will closely monitor and evaluate the situation carefully before any major expansion.

Q6. Have the management considered using its *R&B Tea* and *Supertea* brands to fill up the vacancies in its food court? Or even implementing these concepts into the current drink stalls in the food court.

Company's response

We do have a few *R&B Tea* kiosks at our existing food courts as standalone kiosks like the ones at Marina Bay Sands, Thomson Plaza, Marina Square and Blk 470 Toa Payoh. The *R&B Tea* and *Supertea* brands have different tea concepts and are complementary brands at different targeted price points to focus on different market segments. Hence, the feasibility of implementing these concepts at the food court drink stalls or as a standalone kiosk within the food court has to be evaluated on a case-by-case basis, taking into consideration the location, customer base, spending power and preference and branding for example.

Ultimately, we believe in striking a balance and optimising our tenant mix and yield at our food courts as part of our tenant management strategy in catering to the optimum customer reach.

Q7. Assess the impact of COVID-19 on Koufu's business, given that stalls were unable to operate during the Circuit Breaker period, as well as stalls that cater more towards the tourists.

(i) Could you provide some colour on the impact the Company's operations? How many outlets were closed and for how long? What is the likely impact on revenues?

Company's response

The COVID-19 pandemic has drastically impacted the economy and the F&B industry. Koufu's food courts at Sands Cotai, Macau and Marina Bay Sands, Singapore which are largely patronised by tourists have been impacted as a result, leading to a decline in sales.

The Group has temporarily suspended the operations of 10 food courts, 3 quick-service restaurants ("QSR") and 2 full-service restaurants during the circuit breaker period in order to reduce operating costs due to low footfalls at these outlets. These are outlets located in the educational institutions, near offices, down-town and at tourist hot-spot. In line with the further

tightening of circuit breaker measures, the Group has also suspended operations of all but one R&B tea kiosks from 22 April 2020. As we progress on to Phase 1 post-circuit breaker, we have re-opened 4 food courts, 3 QSRs and 1 full service restaurant. All operational outlets are opened only for takeaways and delivery services during the circuit breaker period and Phase 1 post-circuit breaker.

While we are unable to quantify the revenue impact as the economy begins to reopen, the Group's total revenue on a same stores basis excluding new outlets decreased by 15% for the period 1 January 2020 to 30 April 2020 as compared to the same period in 2019, with the revenue in Q2 2020 impacted more than in Q1 2020 since the circuit breaker measures were implemented in full from April 2020 onwards.

The Singapore government first implemented the Circuit Breaker on 7 April 2020 for the period up to 4 May 2020 to control the spread of COVID-19. This was later extended to 1 June 2020. During this period, the Singapore government has imposed: (i) a restriction of dine-in at all F&B outlets; (ii) Work-from-home arrangements resulting in a shift to home dining which affected food courts located in commercial malls, educational institutions and near offices; and (iii) the closure of standalone F&B outlets selling predominantly drinks (*R&B Tea* and *Supertea*) from 22 April 2020 as part of the enhanced circuit breaker measures.

To adjust to these new regulations and mitigate the impact on our Group's business, we have partnered with delivery platforms and launched delivery services within our own *Koufu Eat* app to boost online sales. Some of the impact is mitigated by the fact that a large proportion of outlets are located in housing estates. In addition, we have innovated our menus to cater for bento meals that are available for home delivery during this time.

(ii) What are the measures to reduce the operating expenses during the Circuit Breaker period? What are the direct help or subsidies from the government and landlords during the Circuit Breaker period?

To reduce operating expenses during this period, we have temporarily suspended operations of some of the F&B outlets as detailed in Q7(i). We have however re-opened some of the F&B outlets located in the educational institutions in Phase 1 post-Circuit Breaker.

To support and encourage companies to continue employment for workers during this prolonged period, the Government has announced its budgetary support through the Jobs Support Scheme (JSS). Under the JSS, the Government will support the Group with the payment of 50% of local wages for 10 months subject to a qualifying salary ceiling, and for the months of April and May 2020, the support is increased to 75%. In addition, for the months of April and May 2020, the Group's foreign worker levies are waived and will also receive support in the form of foreign worker rebates. The Group has also received support from the landlords in the form of rental waivers or rebates in addition to the 100% of the property tax rebates passed down from the landlords

We expect to receive most of the government grants and rental rebates from landlords in Q2 and Q3 2020. This will to a certain extent, help in mitigating the impact on our business. Currently, we have a strong balance sheet and cash position in meeting operating requirements.

(iii) Given the situation, what are the future plans to ensure that customers will return after the Circuit Breaker is over? How are the plans to open more outlets impacted by the economic situation?

Company's response

Due to the impact of COVID-19 and the Circuit Breaker, the opening of 2 new food courts and 2 new *R&B Tea* kiosks have been delayed from Q2 2020 to Q3 2020. Due to the impact on the construction sector, the TOP for our new integrated facility has also been delayed to Q3 2020, at the earliest.

Looking ahead in terms of business and operations, we expect to benefit from the gradual easing of movement restrictions and recovery of footfall post-Circuit Breaker. We will continue to remain competitive with cautious growth and expansion plans.

To remain competitive and to mitigate rising cost, we plan to continue our emphasis on automation to increase efficiency, such as through central kitchens with semi-automated production processes. We will also continually improve on operational efficiencies to control costs and reduce wastage.

Q8. Will dividend payout ratio maintain going forward in view of COVID-19?

Company's response

The Company does not have a fixed dividend policy, but we remain committed in enhancing shareholder value. As a growing company, we remain vigilant in striking a balance between distributing dividends and retaining capital for financial flexibility and funding growth.

The form, frequency and amount of future dividends payout will depend on the Group's financial results, cash position, positive cash flow generated from operations, projected capital requirements for business growth, general business condition, the terms of the borrowing arrangements (if any), plans for expansion and such other factors which our Directors may deem appropriate.

Q9. Given that the floating shares are ~20%, how would the management balance share buyback and liquidity of the counter?

Company's response

Share buyback is a tool which provides flexibility to help to buffer short-term share price volatility and offset the effects of share price speculation. We do take into account the amount of cash surplus available, the then prevailing market conditions and the most cost effective and efficient approach.

In FY2019, Koufu has performed three share buyback transactions during May to June 2019 period and have maintained a minimum 20% public float according to regulatory requirements since our IPO,

Date	No. of shares purchased	Total consideration
29 May 2019	100,000	S\$69,604.11
13 June 2019	99,300	S\$67,913.55
24 June 2019	150,000	S\$102,152.80

We believe we have very strong brand equity, a proven and cash generative business model and clear growth strategies, providing an attractive value proposition to investors. Management will focus on growing the business and in the execution of our expansion plan to bring further value to our shareholders.

By Order of the Board
Koufu Group Limited

Pang Lim
Executive Chairman and Chief Executive Officer

3 June 2020

DBS Bank Ltd. was the sole issue manager, global coordinator, bookrunner and underwriter (the **“Sole Issue Manager, Global Coordinator, Bookrunner and Underwriter”**) for the initial public offering of shares in, and listing of, Koufu Group Limited on the Main Board of the Singapore Exchange Securities Trading Limited. The Sole Issue Manager, Global Coordinator, Bookrunner and Underwriter assumes no responsibility for the contents of this announcement.