



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

BUSINESS UPDATES ON IMPACT OF COVID-19

The Board of Directors of Koufu Group Limited (the “Company” and together with its subsidiaries, the “Group”) wishes to provide an update to shareholders on the impact of the COVID-19 pandemic on the Group’s operating environment.

IMPACT OF THE COVID-19 PANDEMIC

The impact of COVID-19 is unprecedented on many fronts. Despite the difficulties, the Group is committed to ensuring our essential products and services that support the community will carry on with minimal or no disruption, while ensuring the health and safety of our employees, business partners and customers. The Group has implemented necessary COVID-19 mitigation measures as required by the respective governments and regulators in its countries of operations, mainly Macau and Singapore and has also activated its business continuity plans.

Singapore

The Group has resumed operations of all outlets including dine-in services since 19 June 2020 in Phase 2 of the reopening of the economy. Footfalls and revenue of the food courts and coffee shops especially those located in the heartlands as well as the R&B tea kiosks and 4 full-service restaurants has seen significant improvements after the resumption of dine-in services. However, footfalls at food courts located near offices, down-town areas, tertiary institutions as well as tourist hot-spots continue to remain low, although it has also improved over the months since Phase 2.

Whilst the Group’s revenue from the outlet & mall management segment comprises largely fixed rental income from stall tenants, a portion of the Group’s revenue is also directly linked to the performance of stallholders in certain food outlets, where a component of the fee is variable in nature and pegged to the gross turnover of the stall in question. As stallholders have also been impacted by COVID-19, the Group’s variable fee income from stallholders is also being affected. The Group has been monitoring its stall occupancy closely and actively sourcing for new tenants to replace any outgoing stallholders.

The negative impact has been mitigated to an extent by grants from the government and rental waivers or rebates as well as property tax rebates passed down by landlords. The Group is also mindful of the impact to stallholders, and cost-savings where received, have also been passed on to stallholders.

Subsequent to the opening of two new coffee shops and 1 R&B Tea kiosk in 1H 2020, the Group has further opened 1 new R&B Tea kiosk at Change Alley Mall in October 2020 and one new food court at Le Quest, Bukit Batok in November 2020. The Group expects to open 1 quick-service restaurant co-branded by *Grove* and *Dough Culture* at Canberra Plaza and 2 more new R&B Tea kiosks at Fusionopolis and Le Quest in quarter four of 2020.

Macau

Business operations in Macau started to be impacted in February 2020 when casinos were first closed for fifteen days in February. The Macau Government had subsequently closed the border in phases in March. Given Macau’s dependence on mainland Chinese visitors and in view of lockdown measures in

China at that point in time, though the food courts at the University of Macau and Cotai Sands remain operational, operations have been impacted by significantly low footfall.

Both Mainland China and Macau have slowly opened up its borders including resuming the regular operational hours of the Hongkong-Zhuhai-Macau bridge and Portos do Cerco border in early May 2020 and also the recent lifting of the 14-day quarantine policy on all visitors crossing the Macau-Guangdong borders in July 2020. Currently, only residents of Macau, mainland China, Hong Kong and Taiwan with no recent travelling history and with a valid negative COVID-19 test result will be permitted entry to Macau, provided he/she has not been to other countries in the past 14 days. However, business operations nonetheless remain at a reduced level given the reduced number of visitors and travellers generally.

As with the case in Singapore, the negative impact in Macau has also been mitigated to an extent from the rental waivers and rebates passed down by the landlords. Similarly, any waivers and rebates have also passed down such cost savings received to stallholders.

In the third quarter of 2020, the Group has opened its third food court at Nova City. Our current occupancy rate for the food stalls in Macau remains at 100%.

New Developments

Overseas - R&B Tea

The Group has opened its second and third R&B Tea kiosks in Indonesia, at Summarecon Mall Serpong and Mall Kelapa Gading in August and October 2020 respectively, subsequent to its first outlet opened in July 2020.

In August 2020, the Group entered into a Master Franchise Agreement with Shakey's Pizza Asia Ventures Inc., for the expansion of *R&B Tea* in Philippines. Since then, R&B Tea has been made available to about 50 of the Shakey's and Peri Peri stores. Despite the COVID-19 situation in Philippines, the co-branding strategy appears to be viable and the Master Franchisee has plans to extend the launch of the R&B Tea products to the rest of their stores.

Acquisition of Deli Asia Group of companies

The Group has on 30 July 2020 completed the acquisition of the fried food and dough products business, capitalizing on its strong cash position. The acquisition fast-tracks the Group's revenue diversification and network expansion in complementary dim sum snacks, fried food and dough products and strengthens the supply chain with the broadening and expansion of the production and manufacturing capabilities.

The Group is actively looking for new locations for the expansion of the retail brand, *Dough Culture*. We have secured 1 new location at Canberra Plaza which is due to be opened in Q4 2020. In addition, we will also be opening a *Dough Culture* kiosk at SingPost Centre as a co-brand operating together with *Grove* in Q4 2020.

Integrated Facility

The progress of the construction of the integrated facility has been delayed due to the COVID-19 measures introduced in both Singapore and Malaysia (where certain materials have been sourced from). However, the Group expects TOP to be obtained in the first quarter of 2021 and to commence operations from the integrated facility by Q2 2021. The Group will be occupying 75% of the total Gross Floor Area while the balance of 25% will be tenanted out. Of the total area allocated for tenancy, the Group has to-date finalised and secured 75% of tenancy and will continue to actively source for tenants.

Group's Plans

Notwithstanding the challenges amidst the COVID-19 situation, the Group continues to have a strong balance sheet and expects to remain competitive with cautious growth and expansion plans. Where opportunities arise, the Group will look to capitalise on these opportunities with its strong cash position.

The Group will remain vigilant and explore strategies to support and reinforce its relationships with stakeholders.

Financial Impact

As the COVID-19 situation continues to evolve, the full extent of the financial impact on the Group is difficult to ascertain at present.

Nonetheless, the Group expects both revenue and operating profits to be affected, contributed largely by the low footfalls at the food courts at foodcourts near offices and tourist hotspots at Marina Bay Sands, Singapore and Cotai Sands, Macau.

The Group's revenue in Q3 2020 has shown significant improvement as compared to that of Q2 2020, though revenue has not gone back to pre-COVID levels yet. The Group's total revenue on a same stores basis excluding new outlets decreased by 20% for the period 1 July 2020 to 31 October 2020 as compared to the same period in 2019. This has improved significantly from Q2 2020, where same store sales recorded a 40% decrease as compared to Q2 2019.

The Group's operating profits for the second half ("2H") of 2020 is expected to be significantly lower than 2H 2019 due to (i) the impact of COVID-19, and (ii) new outlets opened in FY 2019 that are still in their stabilisation phases and have yet to contribute positively. The Group will also record a higher impairment loss on Property, Plant and Equipment as well as ROU assets for FY 2020 as compared to FY 2019, due to the impact of COVID-19 on the business. The negative impact will be, to a certain extent, mitigated from the government grants and rental rebates from the landlord. Nevertheless, the Group expects a significant improvement to the operating profits for 2H 2020 as compared to 1H 2020.

The Group has been vigilant in managing its cash and balance sheet over the years. It will continue to preserve liquidity and manage its balance sheet prudently. The Group has a strong and healthy cash flow and is confident of meeting its operating requirements during this period.

The Group will continue to monitor the situation in the key markets it operates in, including any national regulations issued to address the spread of the virus and will adapt its preparedness and business continuity plans accordingly. The Board will keep Shareholders updated on any further material impact of COVID-19 on the Group's business activities.

By Order of the Board
Koufu Group Limited

Pang Lim
Executive Chairman and Chief Executive Officer

19 November 2020