KIMLY LIMITED
(Incorporated in Singapore)
(Registration No. 201613903R)

RESPONSES TO QUESTIONS FROM THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE) AND SHAREHOLDERS IN RELATION TO THE ANNUAL GENERAL MEETING TO BE HELD ON 23 JANUARY 2025

The Board of Directors (the "**Board**") of Kimly Limited (the "**Company**" and together with its subsidiary, the "**Group**") would like to thank the Securities Investors Association (Singapore) ("**SIAS**") and shareholders for their questions relating to the Company's FY2024 Annual Report. The Annual General Meeting ("**AGM**") of the Company will be held at The Grassroots' Club, 190 Ang Mo Kio Avenue 8, Singapore 568046 on Wednesday, 23 January 2025, at 3.00 p.m. Please refer to the Appendix hereto for the Company's responses to the questions.

By order of the Board

Hoon Chi Tern
Company Secretary
17 January 2025

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*This announcement has been reviewed by the Company's sponsor, PrimePartners Corporate Finance Pte.Ltd. (the "**Sponsor**"). It has not been examined or approved by the Singapore Exchange Securities Trading Limited (the "**Exchange**") and the Exchange assumes no responsibility for the contents of this document, including the correctness of any of the statements or opinions made or reports contained in this document.*

The contact person for the Sponsor is Ms. Ng Shi Qing, 16 Collyer Quay, #10-00 Collyer Quay Centre, Singapore 049318, sponsorship@ppcf.com.sg.

Appendix

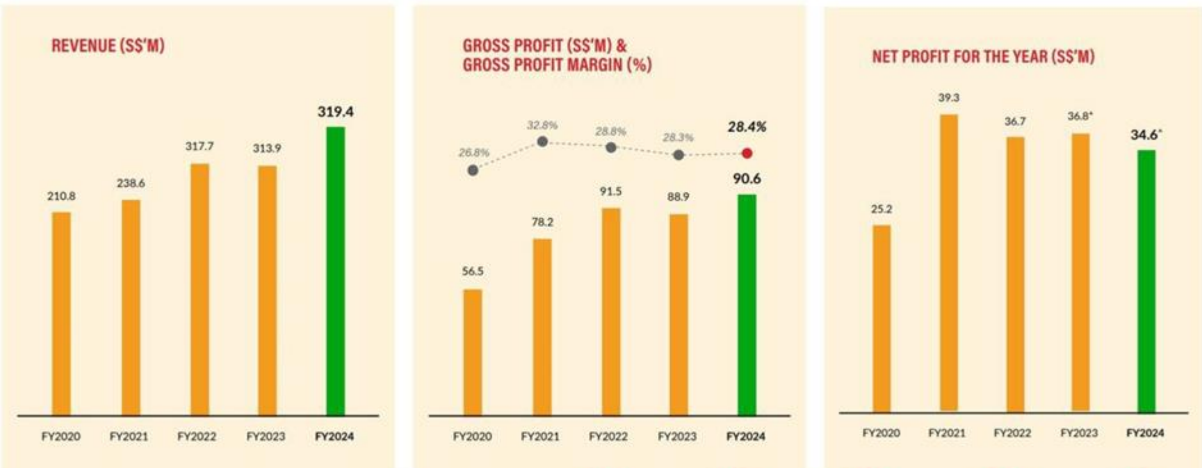
A. Questions from SIAS

SIAS Question #1

The Group reported revenue of S$319.4 million for the financial year ended 30 September 2024, reflecting an increase of 1.8%. Gross profit margin improved marginally by 0.1% to 284%. However, net (core) profit attributable to owners of the Company decreased by 6.8% from S$34.0 million to S$31.7 million.

Extracts of the financial highlights from pages 19 to 20 of the annual report are reproduced below:

FINANCIAL HIGHLIGHTS



	2020 S$'000	2021 S$'000	2022 S$'000	2023 S$'000	2024 S$'000
Financial Position					
Equity attributable to owners of the Company	110,205	133,375	161,604	176,482	183,258
Cash and Cash equivalents	68,324	94,989	77,622	89,062	98,492
Per Share Information					
Earnings Per Share (cents)	2.18	3.30	2.74	2.73*	2.55^
Net Asset Value Per Share (cents)	9.27	11.20	13.00	14.22	14.76
Key Ratios					
Gross Profit margin (%)	26.8%	32.8%	28.8%	28.3%	28.4%
EBITDA margin (%)	16.0%	20.9%	16.3%	16.4%*	15.3%
Profit after tax margin (%)	12.0%	16.5%	11.6%	11.7%*	10.8%^
Return on Shareholders' Fund (%)	22.9%	29.5%	21.1%	20.7%	18.1%

(adapted from the Company's annual report)

(i) **Can management provide detailed insights into specific strategies and initiatives being implemented to address declining profitability metrics, such as gross profit margin, EBITDA margin, profit after tax margin and return on shareholders' fund? Has the Group benefitted from increasing economies of scale given the current scale, and how is this reflected in this cost efficiency?**

<u>Company's Response</u>

The Group, like other food and beverage ("**F&B**") players in Singapore, is facing escalating operating costs driven by factors such as higher raw material prices, rising payroll costs, rental expenses and increased utility costs.

To manage rising raw material costs, the Group secures supplies and prices from multiple sources for defined periods, reducing exposure to price volatility. The central kitchens' capacity to purchase in bulk optimises material costs, supporting sustainability and ensuring consistent quality and value for customers in a competitive market. The Group remains focused on expanding central kitchen operations and integrating technology to enhance productivity and synergy across all business functions. In FY2024, the production of semi-finished products in the Sauce and Mixed Vegetable Rice central kitchens increased, while the integration of automated machinery in the MVR central kitchen boosted the supply of semi-processed meat products to the Seafood "Zi Char" division. The cost of raw materials as a percentage of food, beverage, and tobacco sales decreased from 33.9% in FY2023 to 32.1% in FY2024, reflecting the Group's ability to benefit from economies of scale through substantial purchase volumes and the efficiencies gained from central kitchen integration.

In response to the Progressive Wage Model ("**PWM**"), which mandates annual minimum wage increases for approximately 12,000 full-time local workers in the F&B sector, the Group is actively managing the rise in payroll expenses. Workers' salaries will gradually increase to a minimum of S$2,080 by 2025, with annual increments of S$165. To improve operational efficiency and address recruitment challenges, the Group redeploys workers from underperforming stalls to newly opened ones.

To address the escalating rental expenses, the Group looks to diversify its landlord base and strategically acquiring properties, such as the proposed S$13.15 million acquisition of a 358 sqm coffee shop at Block 204 Serangoon Central, the Group mitigates the impact of rent increases from specific landlords, enhances stability, and ensures long-term access to key locations for sustainable growth.

(ii) Are there significant differences in margins, growth potentials, or operational challenges between the Halal segment and the non-Halal segment?

<u>Company's response</u>

Singapore's F&B industry serves a diverse consumer base, with both Halal and non-Halal segments catering to distinct market needs. Despite facing unique growth opportunities and operational challenges, their profit margins are largely similar, influenced more by overall market dynamics than by their Halal or non-Halal status. Both segments experience similar cost structures, with the Halal segment incurring additional costs for certification and compliant ingredient sourcing, balanced by its broad appeal to both Muslim and non-Muslim consumers. The non-Halal segment, despite its flexibility in sourcing and menu offerings, faces stiff competition and rising operating costs, keeping margins comparable.

Singapore's Halal food market is experiencing significant growth, driven by its multicultural population and status as a global trade and tourism hub. The increasing awareness of Halal dietary needs among both Muslim and non-Muslim consumers has led to a sharp increase in demand for Halal-certified products[1]. This segment benefits from established Halal certification standards, boosting consumer confidence and ensuring a steady customer base. On the other hand, the non-Halal segment faces a more competitive environment but can sustain growth by tapping into niche opportunities, such as offering distinctive local dishes, unique dining experiences, or speciality offerings that cater to specific tastes. Operationally, the Halal segment must navigate the complexities of certification and ingredient sourcing, while the non-Halal segment enjoys more flexibility for ingredient sourcing.

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[1] https://www.6wresearch.com/industry-report/singapore-halal-food-market-outlook

SIAS Question #2

On 27 September 2024, the Company announced a recall of food products manufactured by its subsidiary, Tenderfresh Fried & BBQ Chicken Pte. Ltd., due to an undeclared egg allergen[2]. It also initiated a thorough review of its internal quality control processes to further improve and enhance allergen labelling.

(i) What key findings and improvements have been made to the Group's quality control processes following the recall? Was the review limited to allergens labelling, or did the board consider conducting a group-wide comprehensive review of all internal quality control processes to address broader risks?

Separately, it was noted in the Sustainability Report (page 4) that the workforce increased by approximately 100, reaching 2,700 employees. Training for staff in various functional roles amounted to 6,004 hours in FY2024 (FY2023: 6,280 hours).

(ii) Can the board/management explain the framework used to determine the scope and type of training provided to the workforce?

(iii) Based on the disclosure, the average training hours per employee decreased to approximately 2.2 hours in FY2024 (FY2023: 2.4 hours). How were the training hours determined, and what factors contributed to this reduction? In addition, what proportion of the training hours focused on food handling and safety?

Company's Response:

Following the recall of food products manufactured by Tenderfresh Fried & BBQ Chicken Pte. Ltd. due to an undeclared egg allergen, the Group conducted a comprehensive review of its internal quality control processes. The review identified areas for improvement in allergen labelling accuracy and traceability across production, packaging, and distribution. In response, the Group has implemented several measures, including enhanced staff training, more rigorous internal audits, and strengthened food safety and quality management practices to prevent similar issues in the future. The Group remains committed to the health and safety of its customers and continues to enhance its internal processes to ensure full compliance with food regulatory requirements.

The Group determines the scope and type of training for its workforce based on regulatory requirements, industry best practices and specific business needs. Key factors include ensuring that all training programs align with authorities such as the Singapore Food Agency and the Ministry of Manpower, covering mandatory courses like the Basic Food Hygiene Course, Food Hygiene Refresher Course and the Workplace Safety & Health (WSH) Course (Level 1). Risk management is also a key consideration, with specialised training provided for higher-risk areas, such as handling raw food products. Additionally, the Company emphasises ongoing education and development by offering regular refresher courses and keeping staff informed about new regulations and industry trends to uphold high standards of food safety and customer service.

In FY2024, 89.6% (FY2023: 90.9%) of the training hours focused on food handling and safety. For new employees without a valid Basic Food Hygiene Certificate, the Group provides the necessary training, which adds to the overall training hours. However, for employees who already hold a valid certificate upon joining, no additional training is required until their next refresher course is due. Accordingly, this leads to fluctuations in training hours, largely due to the refresher course's non-annual frequency and the staggered renewal cycles of individual employees.

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[2] https://links.sgx.com/1.0.0/corporate-announcements/VJCD9SZ2YL5KHLZ5/49b6c5b487244eb456288cb947485fd09e2d1551f240c88360abe115 e97b662a

SIAS Question #3

In the Message to Shareholders, the Independent Chairman stated that the Group's sustainability philosophy is built on the pillars of economic, social and environmental responsibility. The Chairman highlighted that the board prioritises key focus areas in its Sustainability Report, which include:

- nurturing the workforce
- supporting business partners
- addressing customer needs
- assisting underprivileged communities
- minimising the environmental footprint, and
- maintaining integrity and transparency in operations.

Certain key sustainability indicators were extracted from the sustainability report[3] and shown below:

INDICATORS	FY2023 PERFORMANCE	FY2024 PERFORMANCE	FY2025 TARGETS
Food Health and Safety	• Zero food safety and contamination incidents at food outlets	• Zero food safety and contamination incidents at food outlets	• Maintain zero food safety and contamination incidents at food outlets
	• 53 recorded offences arising from onsite inspections at our food establishments	• 75 recorded offences arising from onsite inspections at our food establishments	• Enhance our internal hygiene, cleanliness and housekeeping policies and procedures to minimise such offences
	• 23 incidents of work injuries that resulted in work injury insurance claims	• 44 incidents of work injuries that resulted in work injury insurance claims	• Reduce the risk of workplace safety incidents and maintain zero incidents of workplace fatalities
Minimising Environmental Impact	• Zero incidence of environmental non-compliance	• Zero incidence of environmental non-compliance	• Maintain zero incidence of environmental non-compliance
	• 35,457,380 kWh of electricity was consumed on a group-wide level with energy intensity of 0.113 kWh per S$ of revenue[1]	• 37,074,866 kWh of electricity was consumed on a group-wide level with energy intensity of 0.116 kWh per S$ of revenue	• Reduce electricity consumption and intensity
	• 621,159 m^3 of water was used on a group-wide basis with usage intensity of 0.002 m^3 per S$ of revenue[1]	• 646,982 m^3 of water was used on a group-wide basis with usage intensity of 0.002 m^3 per S$ of revenue	• Reduce water consumption and intensity

(Source: Company's Sustainability Report; emphasis added)

(i) **What is the size and composition of the sustainability task force, and how actively is the board involved in driving progress on material ESG factors?**

(ii) **Has the board conducted a formal evaluation of the Group's sustainability progress in FY2024? Given that the ESG indicators show mixed performances, how does the board plan to address these gaps?**

(iii) **With the experience gained in tracking and reporting sustainability efforts, is the board prepared to establish firm, quantifiable targets rather than broad, open-ended goals such as "reduce" and "enhance"?**

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[3] https://links.sgx.com/FileOpen/Kimly%20Limited%20%20Sustainability%20Report%202024.ashx?App=Announcement&FileID=829892

Company's Response:
The Company's sustainability task force, headed by the Director of Operations, Outlet Management division, comprises representatives from key functional units such as Operations, Finance and Human Resources. This task force regularly updates the Board on its progress and any critical issues for discussion. The Board of Directors plays an essential role in guiding the Company's sustainability strategy and its execution. It ensures that sustainability considerations are integrated into the Company's overall business strategy, identifies key sustainability factors, and oversees their management, monitoring and reporting. The Board provides ongoing guidance to management on the implementation, prioritisation, and tracking of relevant sustainability initiatives and metrics.

The Board has formally evaluated the Group's sustainability progress for FY2024. During this review, the Board assessed the Group's risk register, which highlights key material risks, including those related to environmental, social, and governance ("**ESG**") factors. These risks are regularly monitored and reported to the Board to ensure proper management. While some ESG indicators show mixed results, the Board is committed to addressing these gaps by identifying their underlying causes and implementing targeted actions. This may include strengthening internal controls, refining processes and closely tracking the progress of sustainability initiatives to ensure the Group's ESG objectives are achieved.

The Board acknowledges that setting firm, quantifiable sustainability targets can be challenging, as it is for many companies. Despite gaining valuable experience in tracking and reporting our sustainability efforts, defining specific and measurable targets remains complex due to the evolving nature of sustainability metrics, external factors and regulatory requirements. Nevertheless, the Board remains committed to refining our sustainability goals and, where possible, working towards more concrete targets. We continue to evaluate industry standards and best practices to ensure that our sustainability efforts align with the Group's long-term objectives.

B. Questions from Shareholders

Shareholder's Question #1
1. Referring to the Financial Review FY2024, please advise if all Tenancy Agreements have been renewed including Agreements for:
   (i) Block 280 Bishan Street 24 #01-24 Singapore 570280; and
   (ii) Block 555 Ang Mo Kio Avenue 10 #01-1936 Singapore 560555

2. If so, please advise duration on of the Renewal Tenancy Agreements, specifically for:
   (i) Block 280 Bishan Street 24 #-01-24 Singapore 570280; and
   (ii) Block 555 Ang Mo Kio Avenue 10 #01-1936 Singapore 560555

3. Please also advise if the Tenancy Agreements have been signed by all directors and shareholders.

Company's Response:
Tenancy terms of the Group's coffeeshops, including material terms on financials and periods, are strictly confidential and restricted information, of important commercial value to the Group, and will not be disclosed publicly. The commercial interests of the Group are paramount, especially in a competitive industry environment where competitors will frequently, through direct and indirect means, probe for market and company specific intelligence.

Suffice to state, leased coffeeshops are of course subject to negotiations on renewals, as and when they expire, and the Group, as an industry leader and seasoned operator, in accordance with its standard practice, reviews and proactively engages landlords in advance to ensure uninterrupted operations.

All tenancy agreements will be signed by the lessee, represented by the director of the subsidiary, in accordance with the Group's existing practices and policies. Tenancy agreements falling within the mandate will be reviewed and approved in the manner set out under paragraph 3.5.6 (b) of the Appendix dated 8 January 2025.

Shareholder's Question #2
On page 8 of Annual Report, please explain what is "right-of-use" of assets and the admin expenses related to it.

Company's response
Under SFRS(I) 16 - Leases, a "right-of-use" ("**ROU**") asset represents the lessee's right to use a leased asset for the lease term. When a company enters into a lease agreement, it recognises the ROU asset and a corresponding lease liability on its balance sheet. The ROU asset reflects the cost of the lease payments made during the lease term, as well as adjustments for initial direct costs, lease incentives, or restoration obligations, if applicable. This accounting treatment ensures greater transparency by bringing operating leases onto the balance sheet.

Expenses related to ROU assets typically include depreciation of the ROU assets, which systematically allocates the cost of using the leased asset over the lease term or the estimated useful life of the assets, as detailed on page 88 of the Annual Report, and interest expense on lease liabilities, which reflects the financing cost of the lease liability.

Shareholder's Question #3
Rationale of the entry and subsequent disposal of the confectionary business.

Company's response
The acquisition of the confectionary business was initially driven by strategic objectives aligned with the Group's growth plans at the time. The primary goal was to adapt the business' offerings and scale them within the coffee shop environment to complement and integrate with the Group's core operations.

Subsequently, the confectionary business was disposed of as part of efforts to streamline the Group's operations and optimise resource allocation, with a renewed focus on the core coffee shop business. This strategic move allowed the Group to expand its outlet network and diversify product offerings, enhancing its ability to serve customers effectively. The proceeds from the disposal were used as general working capital, strengthening the Group's balance sheet, improving financial flexibility and positioning the Group to pursue future initiatives aimed at delivering greater shareholder value. Please refer to the Company's announcement dated 9 September 2022 for more information on the disposal of the confectionary business.

Shareholder's Question #4
Elaborate on the utilisation of S$42.5M of IPO proceeds and plans for the remaining S$0.9M.

Company's response
The S$42.5 million of IPO proceeds have been utilised in accordance with the purposes outlined on page 55 of the Annual Report. These funds have been strategically allocated to support the Group's expansion plans, improve operational efficiency and enhance shareholder value.

The remaining S$0.9 million of IPO proceeds is earmarked for the upgrading of the central kitchen. This initiative is in line with the Group's ongoing commitment to enhancing operational efficiency and effectively scaling its business.

Shareholder's Question #5 and #7
Elaborate/explain the trend of margins (ratio of profit to total sales).
Elaborate on earnings in relation to return on equity.

Company's response
Please refer to the Company's response to SIAS' question #1 above.

Shareholder's Question #6
Elaborate on gearing and what the firm's borrowings are for which assets.

Company's response
As of 30 September 2024, the Group's total interest-bearing loans and borrowings amounted to S$16.9 million (30 September 2023: S$17.7 million). The gearing ratio stood at 8.9% and 9.7% as at 30 September 2024 and 2023 respectively. These interest-bearing loans and borrowings were utilised for the acquisition of the Group's freehold and leasehold properties, as well as investment property, as disclosed on pages 103 and 104 of the Annual Report.