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

RESPONSES TO QUESTIONS FROM THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE) ("SIAS") IN RELATION TO THE ANNUAL GENERAL MEETING TO BE HELD ON 26 JANUARY 2022

The Company has received questions from SIAS, to which it provides its responses below.

Q1. Would the board/management provide shareholders with greater clarity on the operational and financial matters, especially relating to the COVID-19 pandemic? Specifically:

(i) What is the level of oversight (and ownership) by the board and the senior management team to ensure that all safe management measures are implemented at the outlets and in the coffeeshops?

Company's response

Since the outset of the pandemic, the management has been in close correspondence with the assigned representative from the Multi-Ministry Task Force with regards to the management of the Covid-19 situation.

The Group has also set in place protocols to ensure that there is consistent communication throughout the organisation during this pandemic situation. This allows the Board and Management to efficiently update the operating teams about the safe management measures ("SMMs") for implementation and also resolve any issues (in a timely manner) that may arise.

In addition to the routine daily visits to our various food outlets by our Operation Managers, our management team also conducts their own spot checks to ensure that prevailing SMMs are adhered to.

While we are confident that the measures put in place are observed at our food outlets, we are also heartened to note that most of our customers are accustomed to the SMMs put in place. They have been supportive throughout and adhering to the guidelines.

(ii) What is the estimated reduction in the seating capacities at the group's coffeeshops and outlets? Has management observed if takeaway and delivery sales have more than compensated for the decrease in dining-in revenue in its outlets and coffeeshops?

Company's response

As the layout of our food outlets vary between one another, we are unable to provide an estimate regarding the reduction in seating capacities.

However, we are grateful to have a diversified portfolio where our business divisions complement each other as the Covid-19 situation evolves. The strategic locations of the Group's food outlets in the heartlands that span across Singapore also helped to mitigate the restrictions brought about by the pandemic. For example, while our drink stall revenue were negatively affected when dining-in restrictions were in place, the revenue from food delivery and takeaway sales from our food retail division increased, as shown in slide 15 of our Corporate Presentation released together with our full year financial results ended 30 September 2021 on 25 November 2021.

(iii) Can management elaborate further on (and quantify) the success of the group's new Halal themed coffeeshop, Kedai Kopi? *As disclosed in the message to shareholders, following the success of the first Kedai Kopi that was opened in December 2020 at Clementi, the group opened a second Kedai Kopi outlet in July 2021 in Haig Road.* ***Are there plans to scale up the Kedai Kopi concept significantly? How critical is the halal food market in the group's strategic growth plans? Is the group ready to***

venture into the halal food business in South-east Asia? If so, what are the targeted markets and what is the market entry strategy?

Company's response

Given our nascent investment into the Halal coffeeshop segment, we are closely monitoring the performance of each of the Halal themed coffeeshop.

Following the success of our first Kedai Kopi at Clementi, we have opened our second outlet at Haig Road, which speaks about the confidence Management has in this concept and new revenue stream for the Group. We are always looking to see how we can best serve our customers' needs and provide unique offerings in the Halal food market.

The business agreement with Tenderfresh Group to operate Kedai Kopi has also culminated into Kimly's acquisition of 75% stake in the Tenderfresh Business. Together with Tenderfresh Group, we firmly believe that there is tremendous potential in the Halal food market for us to explore, not just in Singapore but regionally.

The acquisition was completed on 1 October 2021, and we are in the midst of integration and setting up some new Tenderfresh food stalls in our chain of coffeeshops. Any overseas expansion plans will have to be carefully considered and evaluated once the Covid-19 pandemic stabilizes.

(iv) ***With nearly four months of ownership of Tenderfresh, has the acquisition performed up to management's expectations? Was the Tenderfresh business positively or negatively affected by the pandemic? Does management expect Tenderfresh to benefit substantially as the economy re-opens and as COVID-19 measures are dialled back?*** *As shown in Note 35 (pages 160 & 161 – Events occurring after the reporting period), the acquisition of Tenderfresh amounted to $54 million, with $34 million paid in cash. In addition, provisional goodwill of $38.08 million will be recognised.*

Company's response

The performance of Tenderfresh Business has been keeping up with our expectations. All of the Group's businesses have managed to mitigate the negative impacts of the pandemic.

The closure of travel borders in the first half of 2021 have helped to increase the Group's revenue. We believe that this trend will continue as we move towards a full endemic living approach, as the pandemic has shown how consumers look to resume offline retail and dining-in experiences.

Our food outlets, which are predominantly located in the heartlands of Singapore, have also benefitted from the work-from-home ("WFH") trend brought about by the pandemic.

Moreover, we believe that Tenderfresh Business has a resilient business model, and is operating in a defensive industry. Coupled with the tailwind of the continuation of WFH model and the increase in vaccination rates in Singapore, Tenderfresh Business is expected to continue delivering sustainable profits to our Group.

(v) *Also, under the group's Outlet Revitalisation Program, six of the existing coffeeshops were refurbished, revitalised and upgraded in FY2021. Amenities were upgraded and the floor areas were extended.* ***What is the targeted ROI on the group's Outlet Revitalisation Program? How many more coffeeshops will be revitalised in FY2022 and FY2023?***

Company's response

We have made plans to upgrade 3 to 5 of our food outlets in each financial year, but this is dependent on the application approval granted by the various government agencies.

We do not provide the target ROI due to business sensitivity reason. As a matter of financial prudence, multiple commercial benefits will be taken into account when planning for the Revitalisation Program, and we will always ensure that the returns are within the lease term of each food outlet.

(vi) *The group received grant income under the Jobs Support Scheme ("JSS") of $13,545,000 (2020: $7,229,000) (page 103). The JSS was introduced by the government to provide wage support to employers to help them retain their local employees during the period of economic uncertainty during the pandemic. For FY2021, the group recorded a 55.7% jump in net attributable profit to $39.3 million from $25.2 million in FY2020.* ***Can the board help shareholders understand if it had adjusted the JSS grant and other rebates from the consolidated profit before tax when calculating the performance bonus for the executive directors? If not, would it be appropriate to do so given that the intent of the JSS was to provide wage support to retain employees during COVID-19?*** *The remuneration table of the three executive directors can be found on page 47 of the annual report. The remuneration of two of the directors appeared to have increased by as much as $500,000 each (based on the remuneration bands) and the bonus component has also increased from 60-66% in FY2020 to 75-76% in FY2021.*

<u>Company's response</u>

Our employees have been integral in helping the Group tide through this period of uncertainty, where they have remained loyal and stood in solidarity with the Group. Their commitment and resilience have been crucial in helping our coffeeshops remain operational during the pandemic, and we hope to show our appreciation and gratitude in a tangible manner.

As such, we have in FY2021 distributed cash rewards ranging from $500 to $800 to eligible food outlet employees to aid them with their living expenses. This scheme has been well-received and we plan to continue doing so. Performance related incentives were also provided to our eligible employees, while a special one-time bonus was paid to our corporate services team.

In determining the compensation of our then-Executive Directors in FY2021, we have taken into account the strong performance and growth from all three of the Group's business divisions in FY2021. They have been paramount in helping to sustain the strong performance of the Group during the period of uncertainty brought about by the pandemic. We have therefore taken into account approximately 53% of the JSS grant as an appropriate recognition of their contribution and leadership during these challenging times.

Q2. The group's milestones can be seen on page 5 of the annual report. In the past two years, the group has made several significant acquisitions, including:

- ***6 food outlet properties (two coffee shops, three industrial canteen units and a restaurant)***
- ***25% partnership interest in North View Investments LLP (which holds the coffeeshop property at 925 Yishun Central 1)***
- ***Ang Mo Kio 347 coffeeshop***
- ***Clementi 380 coffeeshop***
- ***60% interest in Klovex Holdings Pte. Ltd. (hygiene and cleaning related services)***
- ***75% interest in Tenderfresh (for $54 million)***

The acquisitions of outlets follow the group's diversification to include the outlet investment business. As noted in the message to shareholders, the group's portfolio has now expanded to 85 food outlets (from 68 at IPO) and 148 (from 129) food stalls/restaurants/shops.

Information of the operating segments can be seen in Note 31 (page 150 – Segment information). The outlet investment business generated segment profit of $1.76 million (or 4% of the group's profit) when the segment assets amounted to $71.1 million (or 21.8% of the group's assets).

(i) How much more capital will the group allocate to the outlet investment business segment? What is the targeted size for this capital-intensive segment?

<u>Company's response</u>

We do not set a target size for this division but will consider each opportunity based on its own merits.

Although capital-intensive, the management sees this business division as leveraging on the strengths of Kimly should we enter at an ideal price. As a diversified traditional coffeeshop operator, we are able to achieve a higher rate of return relative to our peers due to our ability to deploy our food retail stalls on top of the traditional sources of income from our drink stalls and rental revenue from the third party food stalls.

Similar to all retail businesses, securing a stable lease to the right-of-use for the location of business has always been one of the key fundamentals. Through purchasing a food outlet at the right price, we will be able to only depreciate the interest and balance lease tenure of the food outlet, avoiding marked up profit in the event that we rent from REITs or private landlords, while operating multiple businesses within the secured location. With the increased output brought forth by the food retail, demand for supplies from the central kitchen also increases in tandem, completing the healthy eco-system of the Group.

There is a limited supply of coffeeshops in Singapore, hence opportunities to secure the right-of-use of coffeeshops in matured housing estates with established footfalls should be considered carefully, whether by way of lease or acquisition.

(ii) What is the view of the board/management on the property market (i.e. valuation of the coffee shops) given that interest rates seem to be rising?

<u>Company's response</u>

Regardless of the interest rate environment, we have always exercised prudence in assessing any opportunity to acquire a food outlet property.

Maintaining a healthy cash balance has provided us the additional resources to cushion the ill-effects of higher interest rates by reducing the loan-to-value ratio during acquisition. As per the Company's SGXnet announcements released on 21 February 2020, 3 June 2020, 30 June 2020 and 26 August 2020 regarding our past acquisitions of food outlet properties, we have issued consideration shares to satisfy part of the consideration price, which has helped further mitigate the effects of rising interest to our Group.

(iii) Will the group's profitability ratios (such as ROI, ROE) be affected as the group scales up the capital-intensive, lower returns outlet investment business?

<u>Company's response</u>

As discussed earlier, our profitability ratios are best analysed in the context of the Group's universal eco-system, including but not limited to the Food Retail Division and Outlet Management Division on top of the return from Outlet Investment Division.

While the group has cash and cash equivalent of $95 million, there are approximately $24 million in borrowings and $123 million in lease liabilities. An additional $34 million would have been paid as consideration for the Tenderfresh acquisition on 1 October 2021. On a full year basis, a dividend of 2 cents per share would amount to more than $24 million.

(iv) Has the board/management evaluated the optimal capital structure to support the group's growth? Will the company's ability to maintain/increase its dividends be affected as the group scales up the outlet investment business segment?

<u>Company's response</u>

The Company has paid an interim dividend of 0.56 Singapore cents per ordinary share, amounted to S$6,667,000, for FY2021 on 15 July 2021.

While we do not have a fixed dividend policy, the Board is committed to declare not less than 50% of our net profits as dividends, and we are proud to have been able to maintain this commitment in the last 5 financial years.

As stated on page 26 of the Annual Report on the Financial Review, the Group continues to generate a healthy cash flow in FY2021. Barring any unforeseen circumstances, the Group believes that we will be able to provide a sustainable dividend distribution to our shareholders in the foreseeable future.

(v) How much more acquisition headroom does the group have before it reaches any internal limits on gearing set by the board?

Company's response

During the deliberation of acquisition opportunities, the total commercial benefits of the Group's eco-system is considered. We also consider and evaluate if the monthly stall rental revenue from each food outlet property acquired will be sufficient to service the monthly mortgage repayment. This is used to assess the performance of the investment.

We also maintain a strong discipline from a loan-to-value ratio perspective and do not expose the Group's finances to stresses resulting from any changes in the interest rate environment.

(vi) What is the level of involvement in the due diligence by the board in its major acquisitions of assets and businesses? *The company had previously made an acquisition in 2018 which was later rescinded.* ***Since then, what improvement have the directors made to its board approval process for its acquisitions (including commercial and legal due diligence)?***

Company's response

The Group has established Mergers and Acquisitions Policy. This policy ensures that all potential investment leads go through adequate due diligence, analysis and acted upon established, structured and transparent assessment, reporting and approval process prior to investment execution.

Q3. *On 11 November 2021, the company redesignated Mr Lau Chin Huat as the independent chairman of the board. Ms Wong Kok Yoong was also redesignated from finance director to executive director, along with the appointments of Mr. Yeo Yien Gee Ronnie and Mr. Chua Yong Chuan Kelvin as executive officers and Ms Lin Meiqi as financial controller.*

On the same day, the company announced the resignations of Mr. Lim Hee Liat and Mr. ChiaCher Khiang as "executive chairman" and "executive director and chief executive officer" respectively. Both Mr. Lim and Mr. Chia informed that thy have been charged for an offenceunder Section 331(1) read with Section 204(1) of the Securities and Futures Act, Chapter 289 of Singapore. Additionally, Mr. Lim has been separately charged under Section 156(1) read with Section 156(15) of the Companies Act, Chapter 50 of Singapore.

The board has requested both Mr. Lim and Mr. Chia to remain as employees of the company to assist and facilitate the board and management in the transition.

(i) Can the company clarify if the executive director, Ms. Wong Kok Yoong Karen, is the de facto CEO and she has the P&L responsibilities, manages the day-to-day operations with the assistance of the senior management team and is responsible for driving the group's strategic growth? *Ms. Wong was previously the CFO and the finance director of the company from June 2016 to November 2018. She has been in various audit and financial roles since 2005.*

Company's response

As disclosed on page 38 of the Annual Report 2021, the Company currently has no CEO. The Executive Director, Ms. Wong Kok Yoong Karen has taken over the responsibilities of the CEO. She was the CFO and the Finance Director of the Company from June 2016 to November 2021.

(ii) What are the current roles and responsibilities of Mr. Lim Hee Liat and Mr. Chia Cher Khiang as

the board has requested both of them to remain as employees of the group to assist and facilitate the board and management in the transition?

Company's response

Mr Lim and Mr Chia facilitate the handover of responsibilities, transition of ongoing business plans and project initiatives which they are currently involved in. Their valuable experience, knowledge and market contacts remain crucial in maintaining the confidence of the Group's various stakeholders and business partners during this key transitional period.

In the regulatory update (as part of the company's announcement dated 11 November 2021), the company has stated that it has received all consideration previously paid to the vendor and that for the avoidance of doubt, the company "has not suffered any loss whatsoever".

(iii) Has the company considered if the group has suffered from reputation loss as a result of the acquisition and subsequent rescission of Asian Story Corporation Pte. Ltd.?

Company's response

The Group has continued to be resilient to achieve much success, even during the turbulent period brought forth by the pandemic, as reflected in the results of the Group which are publicly available.

There has not been an incident where disruption has happened due to the considerations of the possible reputational issue as indicated in the question.

In fact, looking at the different major acquisitions the Group has entered that comes with considerations in Kimly's shares, and/or retaining a considerable amount of share ownership in the businesses, alongside with the performance of the share price of Kimly Limited since December 2018, the reputation of the Group has continued to be held in high esteem and confidence.

(iv) *In addition, the group received quoted equities with a market value of $1,653,650.23 instead of cash as settlement from the vendor.* ***Has the company liquidated the quoted equity securities received? If so, did the company suffer any market losses subsequent to the transfer (and prior to the sale of the equities)? Did the company incur additional costs (i.e, commissions) to liquidate the quoted equity securities?***

Company's response

The Company has liquidated the quoted equity securities received during FY2021 and recorded a gain on disposal of S$95,000.

By Order of the Board

Hoon Chi Tern
Company Secretary
26 January 2022

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.

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