

TUNG LOK RESTAURANTS (2000) LTD
(Incorporated in Singapore)
(Registration No. 200005703N)

RESPONSE TO QUERIES RAISED BY SINGAPORE EXCHANGE SECURITIES TRADING LIMITED

The Board of Directors (the “**Board**”) of Tung Lok Restaurants (2000) Ltd (the “**Company**”, together with its subsidiaries, the “**Group**”) wishes to provide the following information in response to queries from Singapore Exchange Securities Trading Limited on 17 August 2020 regarding the Company’s (i) annual report (“**Annual Report**”) for the financial year ended 31 March 2020 (“**FY2020**”) released by the Company on 7 August 2020, and (ii) announcement on the renewal of tenancy agreement entered into with Orchard Central Pte. Ltd. (“**OCPL**”) dated 30 June 2020 (the “**Announcement**”).

Question 1:

In the Company’s message to shareholders in its FY2020 Annual Report, the impact of COVID-19 was highlighted: *...the pandemic has brought about unprecedented disruptions across all countries, industries and people... [The] food and beverage industry has not been spared and was especially impacted by the social distancing measures... The pandemic has weakened the near-term cash-generating ability of our assets. Therefore [the group has] taken a cautious approach in assessing these risks and provided for the necessary impairments based on current assessments.*

On 30 June 2020, the Company announced that its 60%-owned subsidiary, Tung Lok Xihe Restaurant Pte. Ltd., which operates in Unit #07-14/15 in Orchard Central, has renewed the lease term of the existing tenancy agreement entered with OCPL for one (1) year. As disclosed, OCPL would be considered an “interested person” for the purposes of Chapter 9 of the Catalist Rules as it is an associate of the company’s controlling shareholders. The Company has stated that in accordance to the IPT rules, the renewal is for a period not exceeding three years and the terms of the renewal are supported by independent valuation report from TEHO Property Consultants Pte Ltd dated **16 December 2019**. TEHO has stated that the rental value is within the reasonable range of the prevailing market rental as at 5 December 2019.

Accordingly, the Company has stated that the renewal will not require the approval of shareholders as it is exempted under Catalist Rule 916(1).

- i. Would the Board help shareholders understand why it is using an independent valuation report from December 2019 to justify the lease renewal at the end of June 2020 when the pandemic has devastated the F&B landscape since February 2020? This is especially so for high-end dine-in restaurants, and for restaurants along Orchard Road that rely more on tourists.
- ii. What rebates and financial assistance has the subsidiary received from the landlord?
- iii. Would it be more prudent if the audit and risk committee (the “**ARC**”) commission a new independent valuation report?

Company's Response:

The Company's 60%-owned subsidiary, Tung Lok Xihe Restaurant Pte. Ltd. ("TLXH"), operates the restaurant "Dancing Crab" at Unit #07-14/15, 181 Orchard Road, Singapore 238896 (the "Premise"). Dancing Crab is a casual concept that injects fun element into the dining experience and appeals to all ages. Please refer to Page 7 of the FY2020 Annual Report.

- i. There are various factors which the Board have considered, leading to its resolution to renew the lease of the Premise, including the following:
 - 1) Dancing Crab located at the Premise has been profitable and generating positive cashflow to the Group since the brand started operation in the Premise in June 2015.
 - 2) We have been promoting Dancing Crab aggressively through social media as well as to our *Tung Lok First* loyalty card members. Although Dancing Crab at the Premise is located in Orchard Road, this outlet has been well patronized by locals and has built a strong customer base comprising of millennials and families. On average, prior to the Singapore Circuit Breaker, spending from tourists for the outlet comprises less than 25% of its annual revenue.
 - 3) The duration for the renewal of the lease for Dancing Crab at the Premise was originally 3 years. Due to the fluidity arising from the COVID-19 pandemic, it was then deliberated and agreed with the landlord, OCPL, that TLXH would only renew the lease for 1 year in order to manage TLXH's exposure in the event that the COVID-19 pandemic was to prolong longer than expected.
 - 4) OCPL has been supportive and forthcoming in offering substantial rental assistance for the months of April 2020 and May 2020, even before the COVID-19 (Temporary Measures)(Amendment) Act was passed in Parliament on 5 June 2020 which mandated the Rental Relief Framework, granting rental reliefs to eligible tenants. Accordingly, OCPL has thus far granted TLXH more than the rental reliefs stipulated under the Rental Relief Framework mandated by the Singapore Government.
 - 5) The independent valuation report was performed by Teho Property Consultants Pte Ltd prior to the Singapore Circuit Breaker lockdown. The independent valuation performed is to support the rental rate offered by OCPL is fair and to comply with Listing Manual Section B: Rules of the Catalist ("**Catalist Rule**") 916(1) which states that the entering into, or renewal of lease or tenancy of real property of not more than 3 years are not required to comply with Catalist Rule 906 if the terms are supported by independent valuation. Catalist Rule 906 requires an issuer to obtain shareholder approval for any interested person transaction of a value equal to or more than 5% of the group's latest audited net tangible assets. As provided in the Announcement, the estimated value of the renewal of the lease (based on the effective equity interest of the Company in TLXH) amounts to approximately S\$180,000 and represents only 1.20% of the latest audited net tangible assets of the Group as at 31 March 2019 which is S\$14,979,424.
- ii. Please refer to clause 4) of our reply to part i above.
- iii. In considering the factors explained in part i, the lifting of the Singapore Circuit Breaker lockdown on 1 June 2020, and that the actual rental rate agreed with OCPL for the Premise is lower than the median rent rates in Orchard Road for quarter 1 and quarter 2 of Year 2020 (S\$10.19¹ per square feet and S\$9.99¹ per square feet respectively) as stated in

¹ https://data.gov.sg/dataset/median-rentals-and-vacancy-of-retail-space?resource_id=2d201915-f5cb-401c-8ed4-2171af9f3403

Data.gov.sg, the ARC and the Board are of the view that the renewal of the lease of the Premise for one (1) year can be duly supported and justified without commissioning a new independent valuation report.

Question 2:

In August 2018, the Monetary Authority of Singapore issued a revised Code of Corporate Governance (“**2018 CG Code**”) and the Singapore Exchange has made amendments to its Listing Rules which came into effect on 1 January 2019, except for the rules on the 9-year tenure for independent directors and the requirement for independent directors to comprise one-third of the board which come into effect on 1 January 2022. Under the revised Listing Rules, the term of an independent director will be limited to nine (9) years after which the long tenured directors will be subject to a two-tier vote by shareholders.

- i. Has the company evaluated the impact of the 2018 CG Code and the amendments to the Listing Rules on the board, especially the independence of the long-tenured directors?

At the annual general meeting scheduled to be held on 25 August 2020, Dr Ker Sin Tze is retiring pursuant to Regulation 91 of the company’s Constitution and will be seeking his reelection. Dr Ker was appointed as an independent director on 1 March 2001 and has been a director on the board for more than 19 years. He is the chairman of the nominating committee (NC) and also a member of the audit and risk committee and remuneration committee.

- ii. Would the board, especially Dr Ker Sin Tze as the NC chair, elaborate further on the plans (including the pace) to refresh the membership of the board to comply with the new 2018 Code in good time? Reconstituting the board early to comply with the new 2018 Code would avoid undue disruption and help to maintain institutional knowledge and continuity in the board.
- iii. Has the NC evaluated the pros and cons of appointing independent directors with F&B experience?

Company’s Response:

- i. The Board is aware of following changes to Catalist Rule which will come into effect on 1 January 2022:
 - Catalist Rule 406(3)(c) requiring independent directors to make up at least one-third of the Board; and
 - Catalist Rule 406(3)(d)(iii) requiring the re-appointment of directors who have served the Board beyond nine (9) years from the date of their first appointment to be subjected to a two-tier shareholders voting.

The Company has explained in Page 29 of the FY2020 Annual Report (*under “2.1 and 2.2 and 2.3 Strong independent element of the Board”*) the basis which the Nominating Committee, with the concurrence of the Board, is satisfied that both long-tenured directors (Dr Ker Sin Tze and Dr Tan Eng Liang) have remained independent in their judgement and are able to discharge their duties objectively. The Company also noted that Dr Ker Sin Tze has abstained from voting on his own re-election.

As further disclosed in Page 29 of the FY2020 Annual Report (*under “2.1 and 2.2 and 2.3 Strong independent element of the Board”*), the Company is currently considering the directorship renewal process and will share further information during such appropriate time.

- ii Currently, the Board has a strong and independent element whereby the Chairman and CEO are separate persons, and four (4) out of eight (8) board members (or 50%) are independent. In addition, the Board composition of having 6 out of 8 directors to be Non-Executive Directors complies with provision 2.3 of the 2018 CG Code that Non-Executive Directors make up a majority of the Board.

The independent directors (“IDs”) of the Company have over time developed significant insights in the Group’s business and operations and can continue to provide noteworthy and valuable contribution objectively to the Board as a whole. Against the current backdrop of the COVID-19 pandemic, the Board is of the view that the experience of the IDs and their deep knowledge of the Group’s operations will be even more valuable and relevant so that the Board can better advise and guide the Management as they respond and navigate through the various challenges posed by the COVID-19 pandemic.

Notwithstanding, the Company is currently considering the directorship renewal process as stated above.

- iii. As disclosed in Page 29 of the FY2020 Annual Report (under “2.4 Board composition and size”), the Board endorses the principle that there should be a balance of skills, knowledge and experience and diversity of perspectives appropriate to its business so as to mitigate against groupthink and to ensure that the Company has the opportunity to benefit from all available talents.

The NC ensures that the composition of the Board provides an appropriate balance and diversity of skills, experiences (including F&B experience), gender and knowledge of the Company so as to be able to provide effective governance and stewardship for the Group.

BY ORDER OF THE BOARD

Tjioe Ka Men
President/Chief Executive Officer
Date: 20 August 2020

This announcement has been reviewed by the Company’s Sponsor, SAC Capital Private Limited. This announcement has not been examined or approved by the Singapore Exchange Securities Trading Limited (“Exchange”) and the Exchange assumes no responsibility for the contents of this announcement, including the correctness of any of the statements or opinions made or reports contained in this announcement.

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