

Sim Leisure Group Ltd.

(Company Registration Number: 201808096D)

(Incorporated in the Republic of Singapore)

RESPONSE TO QUESTIONS FROM SHAREHOLDERS IN RELATION TO ANNUAL GENERAL MEETING OF THE COMPANY TO BE HELD ON 31 MAY 2021

The board of directors (the “**Board**” or “**Directors**”) of Sim Leisure Group Ltd. (the “**Company**”, and together with its subsidiaries, the “**Group**”) refers to:

- (i) the Company’s annual report for the financial year ended 31 December 2020 (“**Annual Report 2020**”);
- (ii) the notice of annual general meeting (“**AGM**”) issued by the Company on 16 May 2021 informing shareholders of the Company (“**Shareholders**”) that the Company’s AGM will be convened and held by way of electronic means on Monday, 31 May 2021 at 11.00 a.m.; and
- (iii) the letter to Shareholders dated 16 May 2021 regarding the AGM of the Company to be held on 31 May 2021 setting out, *inter alia*, the alternative arrangements for Shareholders’ participation at the AGM, in particular, the invitation for Shareholders to submit questions in advance of the AGM.

The Company has received questions from Shareholders in respect of the Annual Report 2020 and the Board is pleased to provide the Company’s responses to these questions as set out below:

Question 1

I refer to page 135 of the Annual Report about “Subsequent events”. It was stated that “The Group’s operations in Malaysia remained affected due to the COVID-19 pandemic as the Government of Malaysia had imposed a Movement Control Order (MCO) which resulted in the Group’s theme parks remaining closed from 13 January 2021 to 5 March 2021 and from 6 May 2021 to the date of this report.” When the theme parks were not closed from 6 Mar 2021 to 5 May 2021, compared to pre-Covid levels (i.e. 2019), how many percentage (%) in capacity cut were imposed by the Government of Malaysia at ESCAPE Penang and ESCAPE Challenge respectively?

Company’s Response

The Group has adhered to the Malaysia Government’s recommendation to operate at 50% of normal capacity. This applies to all of the Group’s operations, including ESCAPE Penang, ESCAPE Challenge and KidZania.

Question 2A

I refer to page 121 of the Annual Report about "Revenue", particularly "Disaggregation of revenue". Noted that there was a new source of income from "Sponsorship income" in 2020. What was the nature of this "Sponsorship income" of RM730,107 in 2020?

Company's Response

The Group's "Sponsorship income" is derived from its newly acquired subsidiary, Rakan Riang Sdn Bhd ("RRSB"). Such income consists of initial and annual fees from sponsors, such as AirAsia and Tealive, for advertising and promoting their brand image (including name, trademarks, mascots and logos) at the role-play establishments setup inside KidZania.

Question 2B

For KidZania, Sponsorship income made up as much as 28.7% of "FYE 2019 Revenue split per ticket" (i.e. Ticket, Merchandise, Food and beverage, Photo, Sponsorship). For ESCAPE Penang and ESCAPE Challenge, how possible is it to increase the % of Sponsorship income in its "Revenue split per ticket" to 28.7% (like KidZania) post-pandemic years?

Company's Response

Prior to the COVID-19 pandemic, the Company had been in discussions to invite some reputable brands to advertise and promote their brand image inside the Group's theme parks. However, these discussions have been postponed due to the COVID-19 pandemic. Barring unforeseen circumstances, the Company intends to resume such discussions at an appropriate time depending on the then COVID-19 situation.

Question 3

I refer to page 125 of the Annual Report about "Income tax expense". It was stated that "On 11 March 2016, a subsidiary of the Group had obtained approval for pioneer status from the Ministry of International Trade and Industry in Malaysia for a period of 5 years, where 70% of income derived from the promoted business is exempted from corporate income tax." Which subsidiary is this? Any possibility in extension of the exemption from corporate income tax in view of the MCO?

Company's Response

Due to inadvertent oversight, certain information on Note 25 to the Financial Statements as set out on page 125 of the Annual Report 2020 is not updated. Please refer to the Company's announcement dated 30 May 2021 in relation to the corrigendum to the Annual Report 2020 for more information.

Two subsidiaries of the Company have been granted pioneer status from the Ministry of International Trade and Industry in Malaysia, where 70% of income derived from the promoted business is exempted from corporate income tax. Further details are as follows:

- 1) Sim Leisure Adventureplay Sdn Bhd was granted pioneer status on 12 November 2021 for a period of 5 years, and a further extension was approved and obtained on 28 December 2017 for another 5 years, effective from 12 November 2017. The pioneer status granted to Sim Leisure Adventureplay Sdn Bhd will expire on 11 November 2022, and there is no further extension of the pioneer status; and

- 2) Sim Leisure Waterplay Sdn Bhd was granted pioneer status on 11 March 2016 for a period of 5 years, effective from 17 November 2017 to 18 November 2022. The Group intends to seek an extension of the pioneer status for another 5 years, subject to authorities' approval.

Question 4

I refer to page106 of the Annual Report about "Acquisition of subsidiary". When KidZania was not closed from 6 Mar 2021 to 5 May 2021, compared to pre-Covid levels (i.e. FYE 2019), how many percentage (%) in capacity cut were imposed by the Government of Malaysia at KidZania?

Company's Response

Please refer to our response to Question 1 above.

Question 5

I refer to page107 of the Annual Report about "Acquisition of subsidiary". Despite RRSB seeing growing revenue & EBITDA from FYE2017 to FYE2019 (i.e. pre-Covid days), why its "Loss before tax" remained elevated?

Company's Response

Based on the audited financial statements of RRSB for FYE 2017 to FYE 2019 ("Period Under Review"), the Company noted that the loss before tax recorded by RRSB during the Period Under Review was mainly attributable to the following:

- (i) There were significant increases of purchases of merchandise and consumables over the Period Under Review. The total purchases of merchandise and consumables accounted for approximately 5% of RRSB's total revenue in FYE 2017, while the total purchases of merchandise and consumables accounted for approximately 20% and 21% in FYE 2018 and FYE 2019 respectively; and
- (ii) High staff costs were recorded during the Period Under Review. Total staff costs accounted for an average of approximately 35% of RRSB's total revenue during Period Under Review.

Following the completion of the acquisition of RRSB by the Company, the Company is in the midst of restructuring the operations of RRSB to implement more cost efficient measures, such as right-sizing and elimination of non-essential expenses to ensure a leaner headcount and costs.

Question 6

I refer to page10 of the Annual Report about "Financial Review". In the 4th paragraph, it was stated that "Other income increased significantly by RM17.34 million, from RM0.01 million in FY2019 to RM17.35 million in FY2020. The increase was mainly due to (i) a gain on bargain purchase of RM16.69 million arising from the acquisition of RRSB which consisted of a waiver of debt of RM14.05 million as stipulated under the sale of shares agreement". Who or which bank(s) provided the waiver of debt of RM14.05 million? Is there any key terms and conditions (e.g. clawback clauses) for this "waiver of debt of RM14.05 million"?

Company's Response

As disclosed under section 2.3.6(d) of the Company's circular to shareholders dated 17 February 2021 ("RRSB Circular") in relation to the Company's acquisition of the entire issued and paid-up share capital of RRSB ("RRSB Acquisition"), pursuant to the terms of the sale of shares agreement for the RRSB Acquisition, the sellers of RRSB and the Group had agreed that all inter-company liabilities due and owing from RRSB to one of the sellers, its holding company and each of its respective group of companies including related corporations as at the date of completion of the RRSB Acquisition ("RRSB Completion Date") shall be written off ("Waiver of Debt"). The Waiver of Debt amounted to RM14.05 million as at the RRSB Completion Date and was written off in full. There are no other key terms and conditions or clawback clauses in relation to this Waiver of Debt.

Question 7

I refer to page 120 of the Annual Report about "Amount due to a director". It was stated that "The loan is secured by the Agreement and a memorandum of charge over the entire shares in a subsidiary held by the Group and assignment of proceeds being 5% of the total revenue of the subsidiary, interest-bearing at the rate of 8% per annum and is repayable in 5 yearly instalments of RM 1,325,000 in year 1, RM 567,857 in years 2 to 4 and RM 2,271,429 in year 5, commencing from 30 November 2020 which was the date when the loan was first drawn down." Based on calculations below, the "assignment of proceeds" is estimated at RM5.4m over the 5 years. In addition, based on page 47 of the Annual Report, assuming the Aggregate Loan Amount of RM7.0m would be fully drawn down, the aggregate interest payable on the Loan is approximately RM1.880m. Therefore, the total cost of the Loan is estimated at RM7.28m (i.e. RM5.4m + RM1.880m) over the 5 years. Are we overpaying for this Loan, just so to acquire a loss-making RRSB (since pre-Covid FY2017) during 2020 in the midst of a pandemic?

FY	Basis	Revenue (RM)	Rate	Assignment of proceeds to Director (Tan Boon Seng)
2019	Audited	27,250,000		
2020				
2021	Total visitors of 86,711 based on FYE 2019 Revenue per ticket of RM83.78	7,264,648	5%	363,232
2022	50% for first half, 75% for second half based on FYE 2019 Revenue per ticket of RM83.78	17,660,112	5%	883,006
2023	100%	27,244,921	5%	1,362,246
2024	100%	27,244,921	5%	1,362,246
2025	105%	28,607,167	5%	1,430,358
			Total	5,401,088

Company's Response

The assignment of proceeds being 5% of the total revenue of RRSB is not a repayment of the Loan but rather as a security to the Loan by a Director, whereby in the event of default, the Director can then claim from the Company for the outstanding amount, up to a maximum of 5% of RRSB's total revenue. Please refer to the Company's announcements dated 24 and 30 November 2020 for more information on the Loan.

The total costs for this Loan, assuming that the aggregate Loan amount of RM7.0 million is fully drawn down on the date of the loan agreement at the interest rate of 8.00% per annum and repaid in accordance with the repayment schedule, is estimated at approximately RM1.88 million over the 5-year period. For the avoidance of doubt, as at 31 December 2020, the Group has drawn down approximately RM5.3 million of the aggregate Loan amount of RM7.0 million pursuant to the loan agreement on 3 December 2020.

The purchase consideration of the acquisition of RRSB was determined based on arm's length negotiations and arrived at on a willing-buyer willing-seller basis, after taking into account, the financial performance of RRSB for the financial year ended 31 December 2019 and the six (6)-month financial period from 1 January 2020 to 30 June 2020, the writing off of the Waiver of Debt as at the RRSB Completion Date (as aforementioned under the Company's response to Question 6), as well as the potential benefits to the Group arising from the RRSB Acquisition. Please refer to the RRSB Circular for more information on the RRSB Acquisition.

Question 8

I refer to page111 of the Annual Report about "Investment in subsidiaries", particularly "Sim Leisure Milan Sdn Bhd". Noted that the "Total comprehensive loss" for Sim Leisure Milan Sdn Bhd had widened from –RM3,792 in 2019 to –RM76,484 in 2020, while its Net liabilities position had worsened from –RM3,790 at FYE2019 to –RM70,276 at FYE2020. Is there any going concern issue for Sim Leisure Milan Sdn Bhd (Business in design, project management and installation of adventure parks), in respect of ESCAPE Sri Lanka business?

Company's Response

Sim Leisure Milan Sdn Bhd ("SLM") was dormant since its incorporation on 30 October 2019 and had only started its operations in FY2020. All of its revenue arose from intercompany transactions, which were eliminated upon consolidation of the Group's financial statements. Losses recorded in FY2019 relate mainly to startup costs, while the losses in FY2020 relate mainly to employees' salaries.

SLM currently does not have any going-concern issues as it had been awarded various projects by third-party clients in 2021.

Question 9

I refer to page111 of the Annual Report about "Investment in subsidiaries", particularly "Sim Leisure Creative Pte Ltd". Noted that Sim Leisure Creative Pte Ltd has no revenue for 2020. Since there was "granting of our IP rights to the theming business", why was there no revenue from China-based Guangzhou Daxin Water Park Equipment Co Ltd and Dubai-based Sim Leisure Gulf Contracting LLC? Shouldn't a monthly cooperation fee of RM0.55m/month be accrued?

Company's Response

As announced by the Company on 9 December 2020, the cooperation agreement with Dubai-based Sim Leisure Gulf Contracting LLC ("SL Gulf") was entered into by Sim Leisure Creative Pte Ltd ("SLC") on the same day. Pursuant to the agreement, SLC shall charge SL Gulf a cooperation fee on a quarterly basis, calculated based on 10% of the total gross revenue recorded by SL Gulf in each calendar quarter. There was no transaction recorded from the date of the agreement till the end of the financial year of FY2020. The first billing from SLC to SL Gulf was for the first quarter of 2021.

There was no transaction recorded between SLC and Guangzhou Daxin Water Park Equipment Co Ltd during FY2020.

Question 10

I refer to page 128 of the Annual Report about "Credit risk". May I ask the Audit Committee why "Trade receivables" from "Others" has increased significantly from RM270 in 2019 to RM614,338 in 2020? So far, how much of the RM614,338 have been collected?

Company's Response

The significant increase of approximately 91.7% of RM614,338 was mainly due to receivables from sponsors that arose from the completion of the RRSB Acquisition. As of to-date, the Company has collected approximately RM54,000 and will continue to make efforts on the collections of these outstanding amounts due to RRSB. The Company is of the view that these outstanding receivables are collectable as the debtors are reputable brands/companies.

Question 11

I refer to page 119 of the Annual Report about "Trade and other payables". May I ask the Audit Committee why was there a 10.7times increase in "Other payables" (not Trade payables) to "third parties" from RM509,830 in 2019 to RM5,439,286 in 2020?

Company's Response

The significant increase of other payables to third-parties was mainly contributed from the completion of the RRSB Acquisition. Majority of these other payables are related to rentals of the building complex for Kidzania and other services such as expenses related to marketing and promotional activities and janitorial services.

Question 12

I refer to page 98 of the Annual Report about "Property, plant and equipment". Where were the "Additions" in "Construction-in-progress" of RM5,297,665 in 2020?

Company's Response

The additions in the Construction-in-progress are the additional upgrading works and new installation of attractions in the Group's theme parks. The Group continuously conducts upgrading works of current attractions in the Group's theme parks to ensure customer safety and satisfactory experience at the theme parks, especially ESCAPE Challenge.

Question 13

I refer to page 77 of the Annual Report about “Consolidated Statement of Cash Flows”. Noted that there were “Purchase of property, plant and equipment” of RM13.55m in 2019 and RM7.37m in 2020. Also noted from page 110 of the Annual Report that for RRSB, “preventive maintenance is estimated at approximately RM2.00 million per year ... expected to increase to RM3.00 million per year from FYE 2023” and “estimated capital expenditure of RM2.00 million per annum from FYE 2023 onwards”. What is the aggregate estimated preventive maintenance of the Group for the next 2-3 years? In addition, what is the aggregate estimated capital expenditure of the Group for the next 2-3 years? How will they be funded?

Company’s Response

The Group’s typical preventive maintenance expense usually ranges from 2% to 3% of the gross revenue. ESCAPE theme parks are outdoor theme parks that embrace the nature, and hence no regular preventive maintenance works are required to be conducted to its environment, but focuses on the attractions.

As for KidZania, it is located inside a building complex (indoor), and hence apart from the maintenance works on the attractions, preventive maintenance works are required to be conducted to the environment.

The Group needs to ensure that the buildings and environment of all its theme parks are well maintained to bring comfort to the visitors.

The capital expenditure of RRSB is estimated to be RM2.0 million from FY2023 onwards as the Group’s plans to bring in more brand names for role-play activities to ensure that the activities at KidZania are in line with current trends.

For the Group’s theme parks (including ESCAPE Penang and ESCAPE Challenge), the estimated aggregate capital expenditure is approximately 5% to 10% of the Group’s gross revenue annually. Such capital expenditure is generally for the installation of additional attractions to the theme parks and is expected to be funded via the Group’s usual revenue stream (ticketing and sponsorship income).

Question 14

I refer to page 123 of the Annual Report about “Profit before income tax”. May I ask the Remuneration Committee what is the difference in nature between “salaries, bonus and other benefits” of RM960,129 and “salaries, bonus and other benefits” of RM647,624?

Company’s Response

Due to an inadvertent oversight, certain information on Note 23 to the Financial Statements as set out on page 123 of the Annual Report 2020 is not updated. Please refer to the Company’s announcement dated 30 May 2021 in relation to the corrigendum to the Annual Report 2020 for more information.

Salaries, bonus and other benefits of RM960,129 were payable to directors of the Company and its respective subsidiaries (which includes directors’ fees for Independent Directors of the Company), while salaries, bonus and other benefits of RM647,624 were payable to employees of the Group.

By order of the Board

Sim Choo Kheng
Executive Director and Chief Executive Officer
30 May 2021

*This announcement has been prepared by the Company and its contents have been reviewed by the Company's sponsor, ZICO Capital Pte. Ltd. ("**Sponsor**"), in accordance with Rule 226(2)(b) of the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") Listing Manual Section B: Rules of Catalist.*

This announcement has not been examined or approved by the SGX-ST and the SGX-ST 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.

The contact person for the Sponsor is Ms Goh Mei Xian, Associate Director, ZICO Capital Pte. Ltd. at 8 Robinson Road #09-00 ASO Building, Singapore 048544, telephone (65) 6636 4201.