kitchen culture

KITCHEN CULTURE HOLDINGS LTD.
(Company Registration No: 201107179D)
(Incorporated in the Republic of Singapore on 25 March 2011)

RESPONSES TO SGX'S QUERIES RECEIVED ON 21 MAY 2020

The Board of Directors (the "**Board**") of Kitchen Culture Holdings Ltd. (the "**Company**" and together with its subsidiaries, the "**Group**") refers to the Company's announcement dated 20 May 2020 (the "**Announcement**") relating to the Company's entry into a non-binding term sheet (the "**Term Sheet**") with Guangdong Fon-neus Environment Protection Technology Inc. (广东丰能环保科技股份有限公司) (the "**Seller**" and together with the Company, the "**Parties**"), in relation to the proposed acquisition by the Company of 40% of the equity interest in Beijing Anxin Health Products Co., Ltd (北京安心卫生用品有限公司) ("**Target Company**") (the "**Proposed Acquisition**").

Unless otherwise defined, all capitalised terms used herein shall bear the same meanings as ascribed to them in the Announcement.

The Company's responses to the queries received from the Singapore Exchange Securities Trading Limited ("**SGX**") on 21 May 2020 are set out below.

Query 1: The SGX notes that the Company had in its announcements since March 2020 indicated that it is exploring new business opportunities in the healthcare and AI business, and will seek shareholders' approval for the diversification of its core business.

While the Company intends to convene an EGM to seek shareholders' approval for the issuance of new shares pursuant to the Proposed Acquisition, please clarify if the Company is seeking shareholders' approval for the diversification of new businesses into the healthcare and AI areas in a separate resolution.

Yes, as stated in paragraph 3 of the Announcement, the Company will seek shareholders' approval for the proposed diversification into the new businesses in separate resolutions at general meetings to be held, at an appropriate time. Further announcement(s) will be made as and when appropriate.

Query 2: What is the Company's basis for acquiring only 40% interest (hence only an associated company) in the Target Company instead of 50% (to become a subsidiary)?

As set out in paragraph 2 of the Announcement, the Seller is principally engaged in the business of manufacturing environmental friendly plastics and rubber materials for running tracks, flooring, artificial grass fields as well as various rubber parts for the automobile industry.

The operations of the Target Company, being the manufacture of medical supplies such as masks and sanitizers, will be carried out in the Seller's premises. Hence, it is in the best interests of the Parties for the Seller to remain as a majority shareholder in the Target Company, as the Seller is best positioned to run and manage the operations of the Target Company optimally.

On the other hand, the Company's role will be focused on building shareholders' value through the Proposed Acquisition.

Query 3: The purchase price for the Proposed Acquisition will be based on a valuation of 5 times the price-to-earnings ratio of the Target Company (the "Purchase Consideration"). What is the basis for determining the Purchase Consideration? Is it within the market/industry for similar acquisition?

To the best knowledge of the Company, the industry's acceptable norm for the valuation of purchase consideration for similar acquisition in private companies is in the range of 4 to 6 times of the price-to-earnings ratio of the target company. Accordingly, the Board is of the view that the Purchase Consideration is reasonable, taking into consideration that the issue of Consideration Shares by the Company to satisfy the Purchase Consideration will be deferred to the time when the Target Company achieves the Target Profit, based on the transaction structure under the Term Sheet.

Query 4: The Purchase Consideration will be satisfied via issuance of new shares, which will only be issued when the Target achieves the Target Profit stated in the announcement. Does it mean that in the event the Target Profit is not achieved, the Proposed Acquisition will be aborted and the Company need not pay the Target any compensation (whether in cash or shares)?

As mentioned in paragraph 4.4 of the Announcement, based on the Term Sheet, subject to the Parties' entry into a definitive agreement for the Proposed Acquisition on mutually acceptable terms, in the event that the Target Profit is not achieved, the Company will have the option to either (i) terminate such definitive agreement, without having to pay for any compensation (in cash or in shares), or (ii) amend the terms of such definitive agreement to the satisfaction of the Company (such as renegotiating a lower purchase consideration), including, at the discretion and election of the Company, the return of the Equity Interest to the Seller at no cost to the Company or KC Medical Supplies Pte. Ltd..

Query 5: Does it mean that the Company and Seller have up till 31 August 2020 (the "Exclusivity Period") to enter into a binding SPA agreement? Does it mean that the Proposed Acquisition will be aborted in the event the parties did not enter into a binding SPA agreement by 31 August 2020?

Yes, as set out in paragraphs 4.6 and 4.7 of the Announcement, based on the Term Sheet, the Parties will have exclusive rights during the Exclusivity Period to, amongst others, complete the signing of all definitive documents in relation to the Proposed Acquisition. The Term Sheet will automatically terminate on the expiry of the Exclusivity Period and the Proposed Acquisition will be aborted, if Parties do not enter into a definitive agreement within the Exclusivity Period.

Query 6: In the event that the Proposed Acquisition is not completed, will the Company still pay the Introducer Fees to Mr Ong Wei Liang Eugene (whether in cash or shares)?

As stated in paragraph 5 of the Announcement, the Introducer Fee shall be satisfied by way of the allotment and issuance of the Introducer Shares, concurrently with the allotment and issuance of the Consideration Shares to the Seller upon the Target Company achieving the Target Profit. Accordingly, in the event that the Proposed Acquisition is not completed due to the Target Company not achieving the Target Profit, the Company will not pay any fees to the Introducer (whether in cash or shares).

By Order of the Board

Lim Wee Li
Executive Chairman and Chief Executive Officer
21 May 2020

The contact person for the Sponsor is Ms. Lee Khai Yinn (Tel (65) 6232 3210), at 1 Robinson Road, #21-00 AIA Tower, Singapore 048542.