ST Group Food Industries Holdings Limited
Company Registration No.: 201801590R

120 Turner Street
Port Melbourne VIC 3207 Australia

TEL (03) 9645 4667
stgroup.net.au

STGROUP

RESPONSE TO QUESTIONS FROM THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE) FOR ANNUAL GENERAL MEETING TO BE HELD ON 30 OCTOBER 2024

The Board of Directors ("**Directors**" or "**Board**") of ST Group Food Industries Holdings Limited (the "**Company**" and together with its subsidiaries, the "**Group**") would like to provide its responses to the queries received from the Securities Investors Association (Singapore) ("**SIAS**") in relation to the Company's Annual Report for the financial year ended 30 June 2024 ("**FY2024**") prior to the forthcoming annual general meeting to be held on 30 October 2024 at 10.00 a.m., as set out below. There were no questions received from shareholders as at 5.00 p.m., 22 October 2024.

Question 1

(i) Gross profit margin: The group's profit has fallen to A$0.52 million in FY2024 from A$1.86 million in FY2023, despite an increase in revenue. What is the gross profit margin across brands and how closely does management monitor this metric? Can management disclose the gross profit margins of its businesses in future annual reports to enhance transparency?

The Group acknowledges the request for enhanced transparency through disclosure of gross profit margins across brands. However, for reasons of confidentiality and protection of business interests, the Group will not be providing specific disclosure and will be providing further information on a business segment basis. The Group is organised into business units based on its business segments. The reportable segments are food and beverage retails, supply chain and franchise which are disclosed on page 135-139 of the Annual Report, Note 31 segment information. Management closely monitors the operating results of its business units separately for making decisions about allocation of resources and assessment of performances of each segment.

Gross profit margin	**FY2024**	**FY2023**
Revenue	69,046,647	65,811,128
Changes and purchases of inventories	(21,939,439)	(20,313,607)
Franchise stores related establishment cost	(534,406)	(846,794)
Gross profit	46,572,802	44,650,727
Gross profit margin	67.5%	67.8%

To clarify, the Group's gross profit margin is relatively consistent at 67.5% in FY2024 and 67.8% in FY2023.

Profit before tax margin (adjusted)	FY2024	FY2023
Profit for the year	515,813	1,863,680
Add back: Tax expense	1,153,363	1,086,358
	1,669,176	2,950,038
Add back: Non-recurring items		
- Impairment losses on property, plant and equipment	840,014	89,334
- Impairment losses on intangible assets	350,000	-
- Gain on sale of Group-owned stores	(126,770)	(704,089)
Adjusted profit before tax	2,732,420	2,335,283
Adjusted profit before tax margin	4.0%	3.5%

Despite increased revenues in FY2024, the profit for the year dropped from A$1.86 million in FY2023 to A$0.52 million in FY2024, mainly due to a higher effective tax rate and non-recurring items which comprised of impairment losses on property, plant and equipment of A$0.84 million, intangible assets of A$0.35 million and gain on sale of Group-owned stores of A$0.13 million. Referring to the above after adjusting for tax expense and these non-recurring items, the profit before tax margin for FY2024 is 4.0% as compared to 3.5% in FY2023.

(ii) Other expenses: The line item "Other expenses" amounted to A$8.94 million in FY2024. Could the company provide a detailed breakdown of what is included to help shareholders better understand the nature of these expenses?

The table below provides for the detailed breakdown of key components included in the other expenses, amounting to A$8.94 million in FY2024 and A$8.56 million in FY2023.

	FY2024	FY2023
Operating expenses (ie utilities, supplies, repair and maintenance, merchant fees)	2,683,368	2,456,798
Royalty fees	2,020,175	1,982,496
Legal and prefessional fees (ie audit, tax, accounting, sponsor, legal fees)	1,021,313	1,203,369
Advertising and marketing expenses	556,856	654,588
Others (ie insurance, logistic , travelling and other expenses)	2,654,617	2,262,590
	8,936,329	8,559,841

(iii) Maita (supermarket): What is the capital investment required to open an additional Maita supermarket? Has the first Maita outlet reached breakeven, and what are management's expectations regarding the timeline for profitability?

The Group expects to open its second Maita supermarket of approximately 1,400 square meters, located in Chadstone Shopping Centre, Melbourne in March 2025. The estimated total capital investment is A$3 million, jointly funded by the Company (A$1.5 million) and its joint-venture partner (A$1.5 million).

Our first Maita outlet located in Caulfield, Melbourne has reached breakeven within 12 months of operation. We anticipate achieving profitability in financial year 2025.

(iv) Impairments: The recoverable amounts relating to STG Food Industries Pty Ltd and STG Food Industries 5 Pty Ltd were impaired by A$600,000 and A$698,463 respectively, with the recoverable value of the latter being written down to A$Nil. Can management elaborate on the underlying assets and the specific challenges that led to these impairments?

During the financial year, management performed an impairment test on the investments in subsidiaries as the cost of investments of subsidiaries exceeded the Company's share of the respective net assets of the subsidiaries as at 30 June 2024 which resulted in impairment charges of A$600,000 and A$698,463. This was mainly due to reduced forecasted cash flows from increased market competition and changing consumer preferences. The economic downturn and inflationary pressures have, as a whole, impacted the Group. In particular however, it has led to a decrease in customer dine-in frequency, causing full-scale dine-in restaurants to experience significant declines[1].

(v) Entry into Singapore (Homm): With plans to introduce the "Homm" brand in Singapore, what measure has the group taken to prepare for operations in this new market? How will this be structured – will it be company-owned, sub-franchised, sub-licensed, or set up as a joint venture?

After conducting thorough market research, our Group, together with its partners, tailored the business model of "Homm" for Singapore. Through a sub-licensing partnership, the Group's first Homm store in Singapore was soft-launched on 16 October 2024, with the grand opening scheduled for the end of October 2024. Our Homm Singapore store launch has also received media attention[2].

(vi) Papparich, iDarts, Pafu & Ippudo: While the group has experienced growth in recent years, the number of brands for certain brands have stagnated or decreased. How does management assess the growth potential for these brands going forward, and what strategies are there to optimise its brand portfolio?

We continuously evaluate each brand's performance, market trends, and consumer preferences. Whilst some brands have experienced stagnation or decline, we have also identified opportunities for growth and optimization.

In optimising our brand portfolio, we have considered/adopted the following strategies:

PappaRich: We have refined menu offerings to enhance our customer's experience, optimized our operations to improve efficiency and placed focus on high-performing locations

iDarts: We have decided to maintain the number of iDarts outlets we have, opting to focus on the Group's core operations instead, and prioritize resources on other growing brands that better align with our Group's strategic objectives.

PAFU: We intend to expand with additional stores in the Southeast Asian region. Our Group has entered into a sub-licensing agreement with local business partner(s) and intends to enhance its regional presence to drive growth.

IPPUDO: We currently intend to maintain the number of IPPUDO outlets we have as amongst others, we note that the full-scale IPPUDO stores have not performed well.

[1] https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/consumer-price-index-australia/jun-quarter-2024

[2] The Straits Times - "Melbourne's Thai-style dessert cafe Homm debuts on Oct 16 at Raffles City"
https://www.straitstimes.com/life/food/melbourne-s-thai-style-dessert-cafe-homm-debuts-on-oct-16-at-raffles-city
Time Out Singapore - "Homm, a popular Thai-style dessert cafe from Australia, opens in Singapore"
https://www.straitstimes.com/life/food/melbourne-s-thai-style-dessert-cafe-homm-debuts-on-oct-16-at-raffles-city

Question 2

The company's FY2024 annual report is titled "*Success through synergy*". However, on 3 July 2024, the company announced that it will be investing in 4D Lottery Australia Pty Ltd through the subscription of new shares, representing 1.21% of the investee's share capital for approximately A$0.7 million[3].

This investment constitutes an interested person transaction (IPT) under Chapter 9 of the Catalist Rules given that the Mr Saw Tatt Ghee (executive chairman and chief executive officer), Ms Saw Lee Ping (executive director and chief administrative officer) and their immediate family members hold more than 60% interest in the lottery startup.

(i) Can the board, particularly the independent directors, clarify if the service agreement with Mr Saw Tatt Ghee requires him to devote his full attention to the group's operations as executive chairman and CEO? Was his involvement in 4D Lottery Australia Pty Ltd approved by the board?

The Executive Directors of the Group are required to have the capacity, time and ability to diligently discharge their respective duties. and these requirements are included in their respective service agreements.

Whilst Mr Saw is a director of 4D Lottery Australia Pty Ltd ("**4D**"), the day-to-day operations of 4D are undertaken by a separate team (the "**4D Management Team**"). Mr Saw's involvement in 4D is substantially in respect of high-level decision making, as advised by the 4D Management Team and relevant professionals.

The Nominating Committee of the Group ("**NC**") reviews the adequacy of each director in carrying out his/her duties from time to time, and at least annually, with each member of the NC recusing itself from review on his/her own performance. Taking into consideration the above and Mr Saw's representations, it was noted by the Board that Mr Saw continues to have the capacity, time and ability to diligently discharge his duties as Executive Chairman and CEO of the Group.

(ii) Given that management has acknowledged the investment is a diversification with no synergy to the group's core business, how does this fit within the company's strategy of 'Success through Synergy'? How does the board justify this deviation?

The Company has identified with "Success through Synergy" as its business strategy for the recent brands that it has invested into. The Company has shifted from operating brands through wholly-company-owned stores to collaborating with business partners that are able to provide different areas of expertise. For example, the Company has collaborated with different business partners for "Maita" to tap on their supermarket expertise, for "Tam Jai" to tap on their expertise in product recipes (*mixian*) and most recently, "Homm", to tap on their expertise in the Singapore F&B market. Further details on "Maita" have been set out in our response to Q1(iii). This remains the focus of the Group's overall strategy.

The Board believes that an opportunity to invest in a company in the gaming business is likely to yield a positive return on investment in the long term and is in the best interests of the Company and its minority shareholders.

In coming to a decision on the investment, the Board had amongst others, considered (i) the terms of investment such as quantum of investment and shareholding percentage as well as the risk-reward of the investment; (ii) the prospects of 4D's business which leverages on software infrastructure automation for maximisation of operational efficiency; (iii) that 4D is

[3] https://links.sgx.com/FileOpen/ST%20Group%20-%20Interested%20Person%20Transaction%20-%20Investment.ashx?App=Announcement&FileID=808663

expected to generate positive cash flow within its first year of operations; (iv) that 4D operates on an online platform which could be scaled up easily with minimal additional costs; and (v) its licence (for 20 years) also includes operating physical outlets which gives 4D further opportunity to grow.

Further, the Board had considered that the financial risk to the Group is limited to the investment amount of approximately A$700,000 which is less than 5% of the Group's NTA as at 30 June 2024, whilst there is potential for positive returns from such an investment in the long term.

(iii) Was an independent valuation of 4D Lottery Australia Pty Ltd conducted to ensure that the terms of the Interested Person Transaction are fair and in the best interest of the company?

No valuer was appointed by the Company as the Board has considered that the quantum of investment and shareholding percentage to be acquired is minimal, and as at the point in time of investment, 4D had yet to commence business.

(iv) How did the audit committee (AC) determine that the investment was on normal commercial terms and not prejudicial to the interests of the group or minority shareholders? Can the board provide specific details?

Please refer to our response to Q2(ii). Amongst others, the AC considered that the consideration for the investment had been arrived at on a willing-buyer, willing-seller basis, taking into consideration the terms of the most recent financing round completed by 4D being on substantially similar terms as the investment, the business opportunity afforded by investing in 4D (having secured a lottery license), as well as the quantum of investment and shareholding percentage to be acquired being minimal. The Group is of the view that a small investment into 4D at such stage would allow the Group the opportunity to capitalise on the potential future return on investment and any dividends to be declared by 4D. In addition, the AC notes that there are controls in place, including the regular review of interested person transactions and other internal policies and procedures of the Company to ensure compliance.

(v) What other costs, if any, have been incurred or are expected as a result of this investment, including professional fees, legal fees or stamp duties?

We did not and do not expect to incur any other costs in relation to this investment.

(vi) Did management consider whether it would be more prudent to allocate capital towards its core business or to return excess capital to shareholders rather than invest in a lottery startup?

Please refer to our response to Q2(ii) and (iv). The Group is predominantly in the F&B industry and for the past few years, the Group's operating environment has continued to remain challenging. It was noted that 4D, having obtained the relevant business licence, is expected to be cashflow-generating with the commencement of its business. The Group is of the view that a small investment at this stage would allow the Group the opportunity to capitalise on the potential future return on investment and any dividends to be declared by 4D Australia. In addition, it is noted that the investment quantum was minimal.

(vii) What was the hurdle rate applied by the board when evaluating this investment, and did the conflicted directors fully recuse themselves from all discussions and decisions related to this transaction? Was the investment initially proposed by the executive chairman and CEO to the board?

Please refer to our response to Q2(ii) and (iv). The investment opportunity was initially highlighted by the Executive Chairman and CEO to the Board for their consideration. As part of the Board's deliberations, Mr Saw Tatt Ghee and Ms Saw Lee Ping had recused themselves.

(viii) What is the exit strategy for the group's investment?

Whilst there is no certainty of the future plans of 4D, and we understand that at this stage, 4D does not intend to seek for additional financing, it is noted that as with any new start-up or growing business, 4D may from time to time consider subsequent rounds of financing, listing and/or trade sale in the future that will provide its shareholders with the opportunity to exit by selling their shares.

<u>Question 3</u>

On 20 December 2023, the company announced a placement of 9,382,641 shares to three subscribers at an issue price of $0.17, a premium of approximately 1.19% to the volume weighted average price of $0.168 based on trades done on the day before the announcement. The subscription shares represent approximately 3.68% of the enlarged issued share capital of the company of 254,875,041 shares (excluding treasury shares). The placement was completed on 28 March 2024, after a slight delay. The company stated that 60% of the net proceeds would be allocated towards expansion, with the remaining funds intended for general investment purposes.

(i) Can the board clarify whether the company has sufficient funds to support its growth ambitions, given that it has generated strong operational cash flows of $11.5 million to $12.7 million over the past two years?

As confirmed by the Directors in the Company's announcement of 20 December 2023, amongst others, the present bank facilities and working capital available to the Group is sufficient to meet its present requirements as at such date.

The growth plans of the Company have also been budgeted for, taking into consideration amongst others, the strong cashflow position of AUD 9.94 million as at 30 June 2024 and the expected revenue to be generated. As at 30 June 2024, our Group's F&B diversified business model, featuring 2.6 franchise stores for every company-owned store, generates significant revenue through franchise fees and supply chain operations, ensuring sufficient funds for future growth initiatives.

(ii) Given the company's strong cash flow and the IPO price of $0.26 per share, was the share placement necessary? Did the board perceive how this placement may unduly dilute existing shareholders?

Whilst the Group is in a sufficiently strong cash position, the Board was of the view that the Placement would strengthen the Group's financial position and provide flexibility to capitalise on growth opportunities in its business, as part of the Group's strategy for long-term business growth. Weighing up the potential benefits and potential dilutive effects of the Placement being minimal, the Company was of the view that it remains in the interests of the Group to undertake the Placement. In addition, it is noted that the issue price per placement share was at a premium of approximately 1.19% to the volume weighted average price of S$0.168 based on trades done on 19 December 2023 on the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") being the last full market day on which there was trading in the Shares prior to the date on which the subscription agreements were executed.

In addition to the share placement, the company has carried out share buybacks from the open market at prices slightly below the placement price.

(iii) While the net effect has been positive, can the board explain the rationale behind conducting share repurchases while raising funds through a placement? What are the key considerations behind these decisions, and could the share buyback negatively impact the liquidity of the stock?

Amongst others, it has been considered that share buybacks may enhance the return on equity and provides the Company with greater flexibility in managing its capital and maximising returns to its shareholders. In FY2024, the Company has declared an interim dividend of AUD 0.004 per share and proposed a final dividend of AUD 0.0016 per share to be approved by shareholders at the forthcoming annual general meeting to be held on 30 October 2024. In undertaking share buybacks during FY2024, the Company has repurchased not more than 10% of the issued shares as at the date of the Company's annual general meeting held on 25 October 2023 (which does not include the increased number of shares arising from the Placement). As announced in its Annual Report, approximately 28.31% of the Company's shares remains held in the hands of the public as at 18 September 2024.

(iv) Could the board address whether the corporate actions (share buybacks and placement) might distract management from core business operations and potentially impact overall performance?

Our Group is well-equipped with a management team that has experience and expertise in the Group's business. This is evidenced through the strong, consistent financial performance of our Group. The share buybacks and placement undertaken by the Company in FY2024 were not complex in nature and professionals had been engaged to advise and assist as necessary. On balance, for the potential benefits as set out in our response to Q3(ii) and 3(iii), it was considered that it remains in the interests of the Group to undertake such corporate actions, and that such corporate actions will not distract management from core business operations.

BY ORDER OF THE BOARD

Saw Tatt Ghee
Executive Chairman and CEO

24 October 2024

This announcement has been reviewed by the Company's Sponsor, Hong Leong Finance Limited. It has not been examined or approved by the 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.

The contact person for the Sponsor is Ms Vera Leong, Vice President, Hong Leong Finance Limited, at 16 Raffles Quay, #01-05 Hong Leong Building, Singapore 048581, telephone (+65) 6415 9881.