JAPAN FOODS HOLDING LTD

(Incorporated in the Republic of Singapore on 3 December 2007)
(Company Registration No. 200722314M)

RESPONSES TO QUESTIONS FROM
SECURITIES INVESTORS ASSOCIATION (SINGAPORE) AND SHAREHOLDERS

The board of directors (the "**Board**") of Japan Foods Holding Ltd (the "**Company**", together with its subsidiaries, the "**Group**") would like to thank the Securities Investors Association (Singapore) ("**SIAS**") and the Company's shareholders ("**Shareholders**") for submitting their questions in advance of the Company's Annual General Meeting to be held on 21 July 2021 at 3.00 p.m.

Unless otherwise defined, capitalised terms used herein shall have the same meaning as ascribed there to in the Company's annual report for the financial year ended 31 March 2021 ("**Annual Report**").

The Company's responses to the questions received from SIAS and Shareholders are set out below.

QUESTIONS FROM SIAS

(1) In a year that saw the world get hit by the COVID-19 pandemic, the Group reported revenue of S$51.0 million and a net profit attributable to equity holders of the Company of S$3.6 million in FY2021 (FY2020: S$1.0 million), in part due to government grants from the Jobs Support Scheme, foreign workers' levy rebates and receipt of rental concession amounting to a total of S$10.4 million.

The Group has stated that it opted to focus on profitability and became highly selective when considering the renewal of tenancy agreements during the year under review because of the tight manpower situation, higher raw material costs and capacity constraints. As such, the number of restaurants was reduced to 50 as at 31 March 2021 from 59 as at 31 March 2020. Would the Board/management provide Shareholders with greater clarity on the following operational and financial matters? Specifically:

(i) Dining-in: What is the reduction in seating capacity for the current Phase 3 (Heightened Alert)?

In accordance with the safe management measures in Phase 3 (Heightened Alert), between 12 July 2021 and 18 July 2021, groups of up to 5 persons were initially allowed to dine-in at food and beverage ("**F&B**") establishments. With effect from 19 July 2021 through 8 August 2021, unless the groups of up to 5 persons comprise eligible individuals (such as those fully-vaccinated), dining-in at F&B establishments has been dialled back to groups of up to 2 persons[1]. Individual F&B establishments have the flexibility to decide whether to introduce the vaccination-differentiated group sizes, depending on their own operating model and clientele, and their ability to check the status of dining-in individuals. As at the date of this announcement, most of the Group's restaurants have implemented seating capacity restriction according to vaccination-differentiated group sizes.

[1] Please refer to https://www.moh.gov.sg/news-highlights/details/updates-on-phase-3-(heightened-alert)-measures for further details.

It is estimated that the overall seating capacity of the Group's outlets could have reduced by approximately 30% to 40% compared to the seating capacity without any safe management measures. Shareholders should note that the aforementioned is a general estimate only as seating capacity varies widely across the Group's outlets depending on floor area as well as the layout and configuration of each outlet. The impact of the reduction in seating capacity is mitigated by the staggering of meal hours with people working from home.

(ii) Food deliveries: How has the Group adjusted to the new norms of takeaways and food deliveries in terms of its menu and food quality? For instance, the time taken to deliver food to customers may affect the texture and quality of ramen. In addition, how does the Group ensure that it maintains its profit margin when it leverages third-party food delivery services to reach its customers especially during the pandemic?

To ensure quality, the Group offers a limited menu with items that are more suitable for deliveries and takeaways. The broth and noodles are also packed in separate containers to reduce sogginess.

To maintain its profit margin, the Group leverages economies of scale from bulk purchase of raw materials. In addition, the Group also enjoys operational efficiency in food preparation as it utilises its central kitchen to prepare the bulk of its ingredients.

The Group has also received government subsidies and discounts from some delivery platforms which offset the extra costs incurred on food deliveries.

(iii) Joint venture with Minor Singapore: As disclosed in the Chairman's statement, the Group was set to open a Thai cuisine restaurant in Japan before COVID-19 pandemic scuppered that plan and that the Group will work with Minor Singapore on plans for the Japanese, Thai and Chinese markets. What is the Group's contribution to the joint venture, other than capital? What is the experience and track record of the Group in directly operating restaurants in overseas markets? Can management elaborate further on the market entry strategy?

The Group focuses on Japanese cuisine brands while Minor Singapore has several brands including one that focuses on Thai food. The Group's CEO is familiar with the Japanese market, while Minor Singapore has presence in the Thai and Chinese markets. Each party brings with them to the joint venture their respective market know-how and brand management expertise. The Group's intention is to introduce Minor Singapore's brands, including *Thai Express*, to Japan and the Group's brands to Thailand.

As at 31 March 2021, the Group, through its associated companies, has 19 overseas restaurants in Hong Kong, China and Indonesia. There is also 1 outlet in Malaysia under a sub-franchise arrangement. In entering a new market, the Group's strategy has always been to work with a local partner or a partner who is already established in that local market.

(iv) Tokyo Shokudo: What is management's strategy to scale up the new Halal concept brand and to ensure that its contribution will be meaningful and sustainable? As seen on page 15 of the Annual Report, the Group has many brands with 1 to 2 outlets, such as Fruit Paradise, Curry is Drink, New ManLee Bak Kut Café, that have not scaled meaningfully. Others such as Botejyu, Dutch Baby Café, and Hanamidori have been closed. Some brands

that have enjoyed early success, such as Menya Musashi and Shitamachi Tendon Akitmitsu, have also experienced several closures.

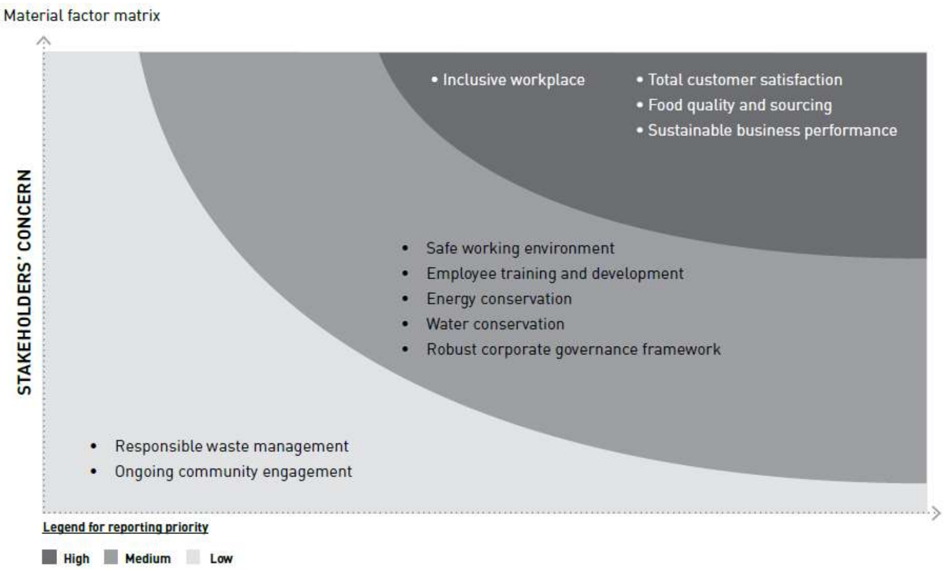
For every new brand that the Group introduces, it is always the Group's intention to open more stores under that brand if it proves to be popular. Likewise, as long as there is demand for Tokyo Shokudo, the Group will be on the lookout for suitable locations.

It is imperative to continuously innovate and introduce new food products and concepts in the F&B industry. The Group monitors market trends and customers' preferences closely and regularly update its portfolio of brands and menus with new dishes created to refresh the dining experience of regular patrons. To stay competitive, the Group has to continuously source, identify and introduce new and interesting food concepts with market potential, particularly of the Japanese food culture.

(v) The reduction in the number of restaurants from 59 to 50 as at 31 March 2021 can be predominantly attributed to Menya Musashi (from 9 to 6), Shitamachi Tendon Akimitsu (from 6 to 3), and Ajisen Ramen (from 16 to 14) (see page 15 of Annual Report). Can management elaborate further on how it is being "more selective" when considering the renewal of tenancy agreements, i.e. what are the factors considered? Also, is the Group looking to re-optimise its portfolio of brands at the same time?

A good location possesses characteristics such as heavy traffic flow, reasonable rental costs, safe and conducive environment for dining and close proximity to target patrons. As reported widely in the media, players in the F&B industry are re-considering locating their restaurants in the Central Business District and/or Orchard Road District area. The Group is also closely monitoring such new trends in the market brought about by work-from-home arrangements and considers a confluence of factors in its negotiation on lease renewal.

(2) The Group's sustainability report can be found on pages 25 to 49 of the Annual Report. The Group has identified 11 material factors which include total customer satisfaction, sustainable business performance, energy and water conservation, food quality and sourcing, inclusive workplace, etc. The material factors matrix is reproduced below for reference:



(Source: Annual Report)

In addition, the Group's sustainability trends from FY2019 to FY2021 can be found on page 46 of the Annual Report.

(i) Can the Directors help Shareholders understand their level of involvement in the sustainability report?

To secure a long-term future for the Group, the Board is committed to strike a balance between growth and profit, and governance, environment, development of people and well-being of communities. In line with this commitment, the Board having considered sustainability issues as part of its strategic formulation, has determined the material sustainability factors. The Board oversees the management and monitoring of such material sustainability factors. Please refer to Section 8.1 entitled "Reporting Structure" where it is shown on the chart that the Board is the highest authority over the Group's sustainability matters.

(ii) How is "total customer satisfaction" measured?

The data points established to measure customer satisfaction are: (i) the number of restaurants; and (ii) the number of members. These data points measure market presence and customer support and loyalty respectively. Please also refer to Section 9.1 entitled "Total Customer Satisfaction" for further details.

(iii) In addition, the Group has identified energy conservation, water conservation and responsible waste management as the 3 material environmental factors. What were the underlying reasons that the Group failed to meet its targets for energy and water consumption rates (see pages 36 and 37 of the Annual Report) in FY2021?

As explained on pages 36 and 37 of the Annual Report, the targets for energy and water consumption rates were not met as the decrease in revenue was more than proportionate to the decrease in energy and water consumption during the COVID-19 pandemic. During the period when safe management measures were in place (in particular, the circuit breaker period from April to June 2020), there was a significant reduction in revenue but energy was still consumed for maintenance purposes (such as refrigerators at restaurants and central kitchen, and office equipment at the corporate head office) whilst water was also consumed for cleaning purposes.

(iv) In addition, with demand for takeaway services increasing significantly during the pandemic, there would have been a major increase in the use of packaging material. Has the sustainability committee identified the Group's use of plastic/packaging as a material factor? What are the efforts by the Group to switch to more environmentally-friendly bags and biodegradable packaging?

This factor was considered by the sustainability committee. However, this was not deemed a material factor as the revenue generated from takeaway services (which contributed to the usage of packaging materials), as a proportion of the Group's total revenue, was not significant. In addition, the Group does not expect the increase in the use of packaging materials to remain or increase over the long term as effects of the COVID-19 pandemic tapers off. Nonetheless, the Group will continue to monitor the consumption patterns closely and assess the materiality of this factor.

As far as packaging is concerned, the Group's efforts, as far as practicable, include sourcing for takeaway containers that are mainly made from biodegradable materials and encouraging the Group's customers to opt out of receiving plastic cutlery for takeaway sales.

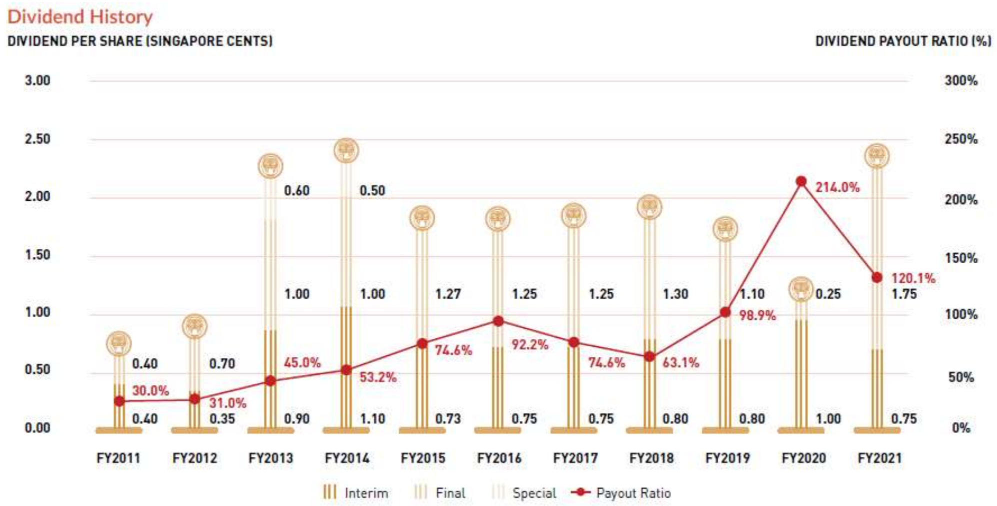
(v) As at 31 March 2021, 98% (FY2020: 100%) of the Group's restaurants were graded "A" by the Singapore Food Agency ("SFA") for overall hygiene, cleanliness and housekeeping standards. Can management help Shareholders understand what caused the one restaurant to lose its "A" grade?

There was no significant incident that resulted in the "B" grade for that particular restaurant. Under the grading system of the SFA, a "B" grade is given for a score of 70 per cent to 84 per cent which the Group believes still reflects reasonably good standard in cleanliness and food hygiene. Nonetheless, the Group will continue to strive for better food hygiene standards at its premises.

(vi) In addition, what is the level of oversight by the Board to ensure that safe management measures are observed in the outlets?

The Group has in place a set of key safe management measures, as mentioned on page 38 of the Annual Report whereby designated managers have been assigned to oversee the implementation of the measures. Any significant incident or breach of safety management measures will be promptly reported to the Board by the management.

(3) As noted on page 3 of the Annual Report, the Company has been focused on growing long-term shareholders' value and the Company has been consistently rewarding Shareholders with cash dividends since FY2009 (as shown below).



(Source: Annual Report)

The Company has stated that it will be revising its dividend policy to distribute at least 100% of net profit attributable to equity holders of the Company annually, up from 50% previously. This will be applicable from the financial year ending 31 March 2022. Shareholders will welcome the Company's new dividend policy and the Chairman has stated that this change is a reflection of confidence in the Group's long-term prospects.

(i) Would the Company help Shareholders better understand the deliberations the Board had in updating the dividend policy? Does it mean that there are limited growth opportunities that would meet the hurdle rate for the Group?

The Group operates a principally cash business. Unless the Group has significant uses for cash such as material capital expenditure or acquisitions of businesses or assets, its free cash flows ordinarily exceed its net profit after tax. As at 31 March 2021, the Group did not have any borrowings and its cash and cash equivalents amounted to approximately S$20.6 million. As such, the Company is able to reward Shareholders who have supported the Group and invested in the Company.

The dividend policy, as described in the Annual Report, reflects the Board's current intention on minimum dividend pay-out ratio in relation to its audited consolidated net profit attributable to shareholders annually. Shareholders should note that this does not constitute legally binding obligations on the part of the Company in respect of payment of dividend and which shall be subject to modification at the Directors' sole and absolute discretion.

The amount of dividends will depend on the Group's operating results, financial conditions such as cash position and retained earnings, other cash requirements including capital expenditure, restrictions on payment of dividends imposed on the Group by financing arrangements (if any) and other factors deemed relevant by the Directors including but not limited to circumstances arising from the Covid-19 pandemic.

(ii) Has the Group reached a plateau especially in the key market of Singapore?

The Board is encouraged by the growth of the Group achieved to-date and remains optimistic of the Group's future prospects. The F&B industry plays a vital role in the Singapore's economy with its vibrancy supporting the cosmopolitan flavour of Singapore. F&B and dining-out is very much a part of local culture. The Group has successfully established itself and will continue to leverage its competitive strengths to expand its market share.

(iii) With the new dividend policy, does the Board expect the Group to be able to generate sufficient cash flow to support its strategic growth objectives without significant impact on the Group's growth going forward?

Please refer to the Company's response to Question 3(i) above.

(iv) For the benefit of new and long-standing Shareholders, please re-state the long term growth objectives of the Group.

The Group continually evaluates strategies for the growth and expansion of its businesses in Singapore and overseas.

Within the Singapore market, the Group plans to build on its competency and capabilities in brand management and continuously seek new potential brands and food concepts. More importantly, the Group also aims to build quality profits and this means that in addition to restaurant portfolio management, the Group is focused on increasing the earnings per store by stringent selection of locations, assigning the most suitable brand to match the customer base of that location and also to have dining concepts and brands that are appealing and cater to customers' tastes.

In venturing overseas, the Group has established a framework for expansion into new markets and has made progress in recent years. Specifically, the Group has set the stage to enter the Thai, Japanese and Chinese markets through its joint venture with Minor Singapore.

QUESTIONS FROM SHAREHOLDERS

(1) Based on the Group's business performance in recent months, what is the estimate of the Group's current revenue as a percentage of that prior to the COVID-19 pandemic?

The Company is unable to comment on unpublished current financial information. Shareholders may however wish to analyse the Group's revenue achieved in FY2021 and compare that against the Group's historical revenue in past years prior to the COVID-19 pandemic. As the Group derives the bulk of its revenue from dine-in customers, it was expected that its revenue would be impacted by restrictions imposed under Phase 2 (Heightened Alert) when no dining-in was allowed between 16 May 2021 and 13 June 2021. Although the measures are being lifted gradually, it is expected that there will be an impact on the sales generated per store so long as there remains restrictions on store capacity and group size per table. The Singapore government has indicated that more restrictions will be lifted once a sizeable proportion of the population is vaccinated. The Company's management is optimistic of a stronger recovery in business when that takes place.

(2) Of the Group's various food outlets, which and how many of them are still closed as a result of the COVID-19 pandemic measures? Or have all of the Group's food outlets now reopened for business?

During Phase 2 (Heightened Alert) between 16 May 2021 and 13 June 2021, the Group closed some outlets temporarily to conserve and optimise its resources. Since 1 July 2021 and as at the date of this announcement, all of the Group's outlets have been fully operational.

(3) Did the Group implement any cost-cutting/cost control measures during last year's pandemic? If so, can the Group elaborate what cost-cutting/cost control measures were instituted during last year's pandemic?

In view of the lower footfalls at its restaurants, the Group reduced the number of its part-time staff and also negotiated with its suppliers and contractors for better pricing of raw materials and work done.

(4) Is the Group still receiving wage support from the Singapore government? If so, how much and until when?

It has been announced that the Singapore government will provide enhanced Jobs Support Scheme (JSS) support[2] for the food and beverage sector, as follows:

(i) From 16 May 2021 to 11 July 2021, 50%;
(ii) From 12 July 2021 to 25 July 2021, 10%; and
(iii) From 26 July 2021 to 8 August 2021, 10%.

[2] Please refer to https://www.iras.gov.sg/irashome/schemes/businesses/jobs-support-scheme--JSS-/ for further details.

The Group is eligible for the above JSS support.

(5) Is the Group still receiving rental relief from landlords? If so, how much and until when?

It has been announced that as part of a new Rental Relief Scheme[3], the Inland Revenue Authority of Singapore (IRAS) will disburse a 0.5-month rental relief cash pay-out directly to qualifying tenants at privately-owned commercial properties. The pay-out will be disbursed starting from mid-August 2021. The Group is eligible for the aforementioned rental relief. In addition, the Group has also negotiated with landlords to provide additional support during the Phase 2 (Heightened Alert) period.

(6) Shareholders are encouraged to note that "*Japan Foods will be revising its dividend policy to distribute at least 100.0% of net profit attributable to equity holders of the Company annually, up from 50.0% previously. This will be applicable from the financial year ending 31 March 2022*."

Is the pay-out ratio of at least 100% of net profit sustainable? Why does the Company think that paying out at least 100% of the net profit going forward is sustainable? Is this commitment to pay out at least 100% of net profit, a tad too optimistic? Is this commitment to pay out at least 100% of net profit permanent? When will this commitment to pay out at least 100% of net profit cease?

The Group operates a principally cash business. Unless the Group has significant uses for cash such as material capital expenditure or acquisitions of businesses or assets, its free cash flows ordinarily exceed its net profit after tax. As at 31 March 2021, the Group did not have any borrowings and its cash and cash equivalents amounted to approximately S$20.6 million.

The dividend policy, as described in the Annual Report, reflects the Board's current intention on minimum dividend pay-out ratio in relation to its audited consolidated net profit attributable to shareholders annually. Shareholders should note that this does not constitute legally binding obligations on the part of the Company in respect of payment of dividend and which shall be subject to modification at the Directors' sole and absolute discretion.

The amount of dividends will depend on the Group's operating results, financial conditions such as cash position and retained earnings, other cash requirements including capital expenditure, restrictions on payment of dividends imposed on the Group by financing arrangements (if any) and other factors deemed relevant by the Directors including but not limited to circumstances arising from the Covid-19 pandemic.

By Order of the Board

TAKAHASHI KENICHI
Executive Chairman and CEO

19 July 2021

[3] Please refer to https://www.iras.gov.sg/irashome/Schemes/Property/Government-Cash-Payout--2021-Rental-Support-Scheme-/ for further details.

*This announcement has been reviewed by the Company's sponsor, CIMB Bank Berhad, Singapore Branch (the "**Sponsor**") in accordance with Rule 226(2)(b) of the Singapore Exchange Securities Trading Limited ("**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 Tan Cher Ting, Director, Investment Banking, CIMB Bank Berhad, Singapore Branch, at 50 Raffles Place, #09-01 Singapore Land Tower, Singapore 048623, Telephone (65) 6337 5115.*