



KOUFU GROUP LIMITED
(Incorporated in the Republic of Singapore)
(Company Registration Number 201732833D)

BUSINESS UPDATES ON IMPACT OF COVID-19

The Board of Directors of Koufu Group Limited (the “Company” and together with its subsidiaries, the “Group”) wishes to provide an update to shareholders on the impact of the COVID-19 pandemic on the Group’s operating environment.

IMPACT OF THE COVID-19 PANDEMIC

The impact of COVID-19 is unprecedented on many fronts. Despite the difficulties, the Group is committed to ensuring our essential products and services that support the community will carry on with minimal or no disruption, while ensuring the health and safety of our employees, business partners and customers. The Group has implemented necessary COVID-19 mitigation measures as required by the respective governments and regulators in its countries of operations, mainly Macau and Singapore and has also activated its business continuity plans.

Singapore

The Group has resumed operations of all outlets including dine-in services since Phase 2 of the reopening of the economy on 19 June 2020. On 28 December 2020, Singapore transitioned to Phase 3 whereby dine-in can now allow up to 8 persons from the initial 5 in Phase 2 and we have seen further improvements to the footfalls and revenue of the food courts, coffee shops, restaurants and F&B kiosks with slight improvements for outlets located near offices, down-town areas and tertiary institutions after the opening of Phase 3.

However, since April 2021, the number of unlinked and community cases have been on the rise, with several clusters formed. Consequently, the Government has moved Singapore to Phase 3 (Heightened Alert) from 8 May 2021 and was further elevated to Phase 2 (Heightened Alert) from 16 May 2021 to 13 June 2021 in a bid to curb COVID-19 transmission. Under the Phase 2 (Heightened Alert), further restrictions were imposed. This includes but not limited to prohibition of dining-in at all food outlets, capping of social gatherings and activities to up to two persons, reduced capacity for malls and working from home as the default mode.

With the economy in a Phase 2 heightened alert level, the Group’s business operations in food courts, coffee shops and restaurants have been impacted with lower footfalls in the malls and tertiary institutions. Despite the prohibition of dining-in at food outlets, we remain open for takeaways and deliveries. On the other hand, we have seen an increase in the takeaway kiosks business ie. *Dough Culture* and *R&B Tea* as both in-store takeaway and delivery sales increase.

To support the F&B sector during this period where dining-in is prohibited, the Government has announced that the support under the Jobs Support Scheme will be enhanced to 50% instead of the initial 10%. In addition, the Government will also provide a one-month rental relief for food outlets leased from Government agencies.

It is still preliminary and uncertain if Singapore will be entering into another round of tougher Circuit Breaker measures, but the Group expects its business operations to improve once restrictions are eased and dining-in allowed again.

F&B retail business

While the Group's food outlets remain operational for takeaway and delivery, certain food court operations have nonetheless been impacted by significantly lower footfall at food courts near offices, down-town areas, tourist hotspots and in tertiary institutions where staff and students have transitioned to home-based learning. For the remainder of food court and coffee shop operations, footfall remains reduced during the Phase 2 (Heightened Alert) period where only takeaways and deliveries are allowed. Tapping on the experience gained in launching delivery services during the Circuit Breaker last year, the Group is more prepared with improved capabilities in provision of delivery services using various delivery platforms as well as our own *Koufu Eat* application this time round.

Meanwhile, the Group has temporarily suspended the operations of both the *Koufu* food court and *Grove* quick service restaurant at Singapore Management University and two *R&B* Tea kiosks at Far East Square and Change Alley Mall during this period due to low footfalls at these outlets. The Group will closely monitor the situation to determine if operations of other food outlets need to be suspended temporarily to reduce operating costs during this period.

Outlet & mall management segment

Whilst the Group's revenue from the outlet & mall management segment comprises largely fixed rental income from stall tenants, a portion of the Group's revenue is also directly linked to the performance of stallholders in certain food outlets, where a component of the fee is variable in nature and pegged to the gross turnover of the stall in question. The Group's variable fee income from stallholders is correlated to the footfalls which is impacted by COVID-19 and any further tightening measures. The Group has been actively sourcing for new tenants to replace any outgoing stallholders as we closely monitor the stall occupancy rate.

The negative impact has been mitigated to an extent by grants from the government and rental waivers and rebates passed down by the landlords. The Group is also mindful of the impact to stallholders, and cost-savings like rental rebates or reductions in cleaning fees where received, have also been passed on to stallholders.

Macau

Business operations in Macau started to be impacted in February 2020 when casinos were first closed for fifteen days in February. The Macau Government had subsequently closed the border in phases in March 2020.

On 16 March 2021, Macau eased its border restrictions by reopening its borders to foreigners via Mainland China provided they hold a mainland China visa issued by the Office of the Commissioner of the Ministry of Foreign Affairs of the People's Republic of China in the Macao Special Administrative Region. Given Macau's dependence on mainland Chinese visitors, we have seen slight improvements to the footfalls to the malls and our food courts especially during the labour day holidays in May 2021.

All our food courts at the University of Macau, Nova City and Cotai Sands remain operational, but at a much reduced footfall and revenue level of pre-COVID. The negative impact has been mitigated to an extent from the rental waivers and rebates passed down by the landlords. Similarly, any waivers and rebates received have also been passed down to stallholders.

Integrated Facility

The progress of the construction of the integrated facility has been delayed due to the COVID-19 measures introduced in both Singapore and Malaysia (where certain materials have been sourced from). However, the Group has obtained its Temporary Occupation Permit (TOP) in April 2021 and expects to commence operations from the integrated facility in Q3 2021. The Group will be occupying 75% of the total Gross Floor Area (GFA) while the balance of 25% will be tenanted out. Of the total area allocated for tenancy, the Group has to-date finalised and secured full tenancy. As for the 75% GFA to be used for own operational purposes, the Group will operate a coffee shop, a cloud kitchen and a staff dormitory where we will also derive rental income from the tenancy of the 9 stalls in the coffee shop, 21 cloud kitchen spaces and 132 beds in the staff dormitory. We are actively looking for tenants to occupy the mentioned spaces.

The Group expects to combine and commence the production of the bakery products, dim sum snacks and the dough products in the Integrated Facility in Q3 2021, which is of a larger production capacity to cater to our revenue diversification and network expansion. Our supply chain and logistics can also be strengthened with the broadening and expansion of the production manufacturing capabilities to achieve higher productivity and product margins.

Group's Plans

Notwithstanding the challenges amidst the COVID-19 situation, the Group continues to have a strong balance sheet and expects to remain competitive with cautious growth and expansion plans. Where opportunities arise, the Group will look to capitalise on these opportunities with its strong cash position.

The Group has opened 2 new locations for R&B Tea kiosks at Fusionopolis in January 2021 and Sun Plaza in April 2021 and at the same time closed 2 locations at The Kinex and SMU as part of our consolidation efforts to close down loss-making outlets so as to improve profit margins. In addition, the Group has also opened one new food court at Sun Plaza in April 2021 and have also further secured 3 new outlets at Marina Square, NTU and Outram Community Hospital to be opened in Q2 and Q3 2021. We will also operate a coffee shop in our new Headquarter at the Integrated Facility in Q3 2021.

The Group is also actively looking for new locations for the expansion of the retail brand, Dough Culture. Further to the opening of SingPost Centre in Q1 2021, the Group has opened 2 new kiosks at Sun Plaza in March 2021 and Oasis Terrace in April 2021. In addition, the Group has also secured one new location for Grove quick-service restaurant to be opened at Northshore Plaza in Q4 2021.

The Group will remain vigilant and explore strategies to support and reinforce its relationships with stakeholders.

Financial Impact

As the COVID-19 situation continues to evolve, not knowing if further tightening measures including another round of Circuit Breaker will be implemented, the full extent of the financial impact on the Group for FY 2021 is difficult to ascertain at present.

Nonetheless, the Group expects that both revenue and operating profits will continue to be impacted and not recover back to pre-COVID levels. The Group's total revenue on a same stores basis excluding new outlets decreased by 10% for the period 1 January 2021 to 30 April 2021 as compared to the same period in 2019 (pre-COVID levels). Though the Group's revenue for the first 4 months of 2021 has shown further improvement as compared to last few months in 2020, the Group expects revenue and operating profits for the period starting from May 2021 to be impacted again due to the dining-in restrictions.

The Group has been vigilant in managing its cash and balance sheet over the years. It will continue to preserve liquidity and manage its balance sheet prudently. The Group has a strong and healthy cash flow and is confident of meeting its operating requirements during this period.

The Group will continue to monitor the situation in the key markets it operates in, including any national regulations issued to address the spread of the virus and will adapt its preparedness and business continuity plans accordingly. The Board will keep Shareholders updated on any further material impact of COVID-19 on the Group's business activities.

By Order of the Board
Koufu Group Limited

Pang Lim
Executive Chairman and Chief Executive Officer

20 May 2021