

JAPAN FOODS HOLDING LTD.

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(UEN 200722314M)

Incorporated in the Republic of Singapore

RESPONSES TO QUESTIONS FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE) ON THE ANNUAL REPORT 2017

Japan Foods Holding Ltd. (the “**Company**”) refers to the questions raised by the Securities Investors Association (Singapore) (“**SIAS**”) in relation to the Company’s Annual Report for the financial year ended 31 March 2017 and appends the requisite replies as follows:

Question 1

Q1. As shown in the Value Added Statement (page 15 of the annual report), revenue increased from \$61.3 million in FY2013 to \$65.5 million in FY2017, an increase of 6.9% over 4 years. The depreciation and amortisation, impairment and write-off of plant and equipment over the same period is shown in the table below.

	FY2013 S\$'000	FY2014 S\$'000	FY2015 S\$'000	FY2016 S\$'000	FY2017 S\$'000
Revenue	61,311	62,758	62,682	62,804	65,467
Total value added	26,798	28,508	27,610	27,307	28,338
Depreciation and amortisation	4,107	4,242	4,946	5,308	5,173
--- as a percentage of revenue	6.7%	6.8%	7.9%	8.5%	7.9%
Impairment of plant and equipment	(65)	–	–	(810)	(259)
Plant and equipment written off	(579)	(268)	(188)	(131)	(86)

(Source: Company annual reports)

- a) Can management help shareholders understand if the higher depreciation and amortisation is a new norm? What are management’s plans to control and limit this?

In addition, the group has written off and impaired plant and equipment of \$0.93 million in FY2016 and \$0.35 million in FY2017.

- b) With an excellent 20 year track record at operating F&B outlets, how does the group manage and minimise the risks of new outlets and new brands underperforming? Is there a robust system of picking outlet locations and selecting the most appropriate brand for that location?
- c) Does management expect impairment and write-off of plant and equipment to remain high?

Reply:

- 1a) The amount of depreciation and amortization corresponds with the expansion in the number of stores over the last few years. In fact, our depreciation and amortisation had fallen as a percentage of our sales last year.

We monitor the performance of individual restaurants very closely and if any restaurant is not performing up to our expectations, we respond quickly by converting it into another brand within our portfolio. In doing so, we will try to save on renovation costs by reusing as much of the existing décor or equipment as possible.

- 1b) Japan Foods has a strong track record at operating F&B outlets, which dates back to 1997. In addition, we are a listed company that has a portfolio of 12 franchised and self-developed brands. This makes us attractive to landlords, who often approach us to take up space when new malls open or when space becomes available in existing malls. We will only take up the space if we feel that we have a brand that will do well there.

One of our strengths is the restaurant portfolio management strategy that we have developed over the years. With so many brands, we have the ability to respond quickly when a restaurant is not performing up to our expectations, by switching one brand for another when a restaurant is

not performing up to our expectations. This flexibility increases our chances of doing well in any location and optimises our earnings per restaurant.

- 1c) The impairment and write-off incurred over the past two years were mainly due to the closure of restaurants upon lease expiry.

Estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Property and equipment are tested for impairment whenever there is any objective evidence or indication that these assets may be impaired. The recoverable amounts of these assets and, where applicable, cash-generating units have been determined based on value-in-use calculations. These calculations require the use of judgement and estimates.

Question 2

Q2. As stated in the company's introduction (page 2 – At a Glance), the group's network includes "Ajisen Ramen" restaurants in Malaysia and Vietnam operated by sub-franchisees and "Menya Musashi" restaurants in China and Hong Kong operated by associated companies.

In the Chairman's Message (page 10), it was also stated that:

"In comparing our returns from the two models, we have a preference for the arrangement we have with Ajisen China and are exploring opportunities to replicate it in other overseas markets with strong and established local food & beverage operators".

Having opened the first outlet in Hong Kong in FY2013 and in China in FY2014, the group today has 7 branches in Hong Kong and 6 branches in China.

- a) Given that these two markets can be potentially huge, what are management's growth plans for these two territories in the near future? How many Menya Musashi restaurants can China and Hong Kong absorb?

In Malaysia, the number of outlets have decreased from 6 in FY2015 to just 3 branches in FY2017. For the Vietnamese market, there have been just 2 outlets for the past 2 years, down from 3 in FY2015. The group, through its sub-franchisee in Indonesia, operated 7 outlets in FY2012 before shutting the operations in FY2015.

- b) Can management elaborate further on the difficulties for the group to scale up the operations in the regional countries through the sub-franchise model?
- c) Is the current sub-franchise model sustainable? Is management looking to change the sub-franchise model in the South-east Asian countries?
- d) Are there new overseas markets that the group is looking to enter in the near term?

Reply:

- 2a) We are happy with the performance of the "Menya Musashi" brand in China and Hong Kong. As a minority shareholder in the joint venture that operates these restaurants, we are in charge of the franchise relationship with the brand owner of "Menya Musashi" in Japan. Our joint venture partner ("Ajisen China") is an established operator in these markets and they oversee the daily operations and expansion plans.

The joint venture enables both parties to leverage the strengths of each other in their respective areas. Ajisen China has access to Japan Foods' experience and know-how in managing the business while Japan Foods will be able to tap on the Ajisen China's local knowledge, business network and familiarity as well as its resources in China.

- 2b), 2c) Many of the parties who approach us to franchise our brands are people who come to Singapore, enjoyed the food, and thought that maybe they could do something similar in their own country. We have found that this is not an ideal model as very often, these parties do not have the resources to expand the brand or to enjoy economies of scale such as bulk purchases.

Although we are still working with our existing sub-franchisees in Malaysia and Vietnam, we plan to enter future potential markets via the joint venture model that we currently employ with our

associated companies that operate the “Menya Musashi” brand restaurants in Hong Kong and China.

- 2d) We are constantly exploring opportunities to expand our presence in the ASEAN region by way of joint ventures, acquisitions and/or sub-franchising of brands. .

Question 3

Q3. In the Chairman’s message (page 8), it was disclosed that “a few of our stores started collaborating with food delivery companies including Deliveroo and Honest Bee..... Although we do not foresee food delivery to contribute materially to our sales, we recognise that this as a rising trend we should be a part of and will continue to monitor the effectiveness of this channel”.

- a) Can management elaborate further on how it plans to tap into disruptive model of the food delivery companies? A successful collaboration can increase the productivity and sales of an outlet and it may lead to food delivery contributing materially to the group’s revenue and profits.
- b) On the other hand, in the tie-up with such food delivery companies, how does the group ensure that it captures a fair share of the value created and does not end up just servicing the food delivery companies?

Reply:

- 3a), 3b) As an F&B company, food delivery is a growing trend that we cannot ignore, however we are exercising prudence by doing this on a small scale until we can be very sure that the quality of our food is not compromised.

We are currently working with food delivery companies to deliver food from some of our outlets where it does not affect customer service or the capacity of those stores. As our food is soup-based, we are exploring delivery channels as well as packaging that can ensure that our ramen will be of the right consistency by the time it reaches our customers.

BY ORDER OF THE BOARD

TAKAHASHI KENICHI
Executive Chairman and CEO
1 August 2017

*This announcement has been reviewed by the Company’s sponsor, CIMB Bank Berhad, Singapore Branch (“**Sponsor**”) for compliance with the Catalist Rules. The Sponsor has not independently verified the contents of this announcement. This announcement has not been examined or approved by the SGX-ST. The Sponsor and the SGX-ST assume 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.*