



Securities Investors Association (Singapore)

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GST Reg No: M90367530Y

Issuer: Koufu Group Limited

Security: Koufu Group Limited

Meeting details:

Date: 24 April 2019

Time: 10.00 a.m.

Venue: HDB Hub Convention Centre, Basement 1, Punggol Room, 480 Lorong 6 Toa Payoh, Singapore 310480

Company Description

Koufu Group Limited is a Singapore-based food and beverage (F&B) establishment operators. The Company operates in two divisions: outlet and mall management division and F&B retail division. Through the outlet and mall management division, the Company manages and operates 47 food courts, 14 coffee shops, one hawker center, and a commercial mall. The Company's food courts are operated under the brand names, Koufu, Cook House, Rasapura, Gourmet Paradise, The Kitchen, Fork&Spoon, and 1983. The Company operates its coffee shops under the name, Happy Hawkers. Under the F&B retail division it operates 81 F&B stalls, five F&B kiosks, 11 quick-service restaurants, and three full-service restaurants. The F&B retail restaurants and kiosks are operated under the brand names, Grove, Element, 1983, R&B Tea, and Superte.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=VL6)

1. Would the board/management provide shareholders with better clarity on the following operational matters? Specifically:

- (i) **Growth (outlet and mall management):** Given that there are several other established food court management chain/coffeeshop operators competing for the same operating assets, how does the group differentiate itself from the competitors and secure the contracts from mall owners/landlords?
- (ii) **Quality growth:** The group's multi-brand business model is driving the group's growth. The group has earmarked 12 new sites for the group's expansion of R&B Tea, Supertea and Elemen. The new brands under the group could be thought as more "discretionary" in nature, unlike the main business of food courts and coffee shop (which is subsistence in nature). **Does the group have the right mindset, management team and strategies to grow the new businesses given that the profile of the consumer is very different?** At IPO, the group had operated other brands such as The Western Plate, Hungry Jack etc. **Is the risk profile of the full/quick service restaurant and F&B kiosks different from the food court/coffee shop business?**
- (iii) **Niche market:** **Has the group reviewed the risk/reward and challenges of going into sub-segments?** For example, meatless/meat-free dining appeals to a small subset of the general population and thus it may be hard to scale up such brands meaningfully although it may be able to attract loyal customers.
- (iv) **Macau:** **Would the board help shareholders understand why/how Macau was the first overseas foray for the group? What competitive advantage does the group have in Macau?**

2. The "Valuation of property, plant and equipment/provision for onerous contracts" is a key audit matter (KAM) highlighted by the Independent Auditors in their Report on the Audit of the Financial Statements (page 39). Key audit matters are those matters that, in the professional judgement of the Independent Auditors, were of most significance in the audit of the financial statements of the current period.

As noted in the KAM:

Management regularly reviews the performance of the food courts, coffee shops, quick-service restaurants, hawker centres and central kitchen (the "outlets") to determine if there were any impairment indicators on the related property, plant and equipment. For this purpose, each outlet is a separate cash generating unit ("CGU"). Impairment indicators were identified for those outlets that had recurring losses. For these outlets, management performed an impairment assessment and recognised impairment loss of \$1,017,000 during the year.

The impairment loss on property, plant and equipment in FY2017 was \$1.3 million. Prior to the IPO, the group recognised \$0 impairment losses in FY2016 and \$152,000 in FY2015. From Note 4 (page 104 - Property, plant and equipment), it was disclosed that the seven

(2017: three) CGUs were loss making and determined that the CGUs are not expected to have any recoverable amount.

- (i) Would management help shareholders understand which outlets have been impaired in the books?**
- (ii) What is the threshold/trigger for impairment testing?**
- (iii) Given that the impairment on property, plant and equipment was immaterial in FY2015 and FY2016, is the elevated amount of impairment recognised in the past two years a result of the changes in the business model?**
- (iv) Has the board reviewed the underlying reasons for the impairment and provide guidance to management on the group's growth strategy?**

3. Dr Yu Lai Boon was appointed to the board on 28 June 2018. Dr Yu is the board's lead independent director.

As noted in the director's profile (page 8), Dr Yu is recognised for his expertise in real estate and over 25 years of experience in wealth fund investment, private equity investment, fund management, real estate development and real estate-related consultancy work. Dr. Yu was employed as the Chief Financial and Investment Officer of Nakheel Developments in Dubai, the developers of The Palm Islands and Atlantis, The Palm from April 2006 to July 2006, and was subsequently employed as the Group Chief Investment Officer of Dubai World Holdings from July 2006 to April 2010.

As disclosed in the Corporate Governance report (page 30), the executive directors and Dr. Yu Lai Boon (the latter being the lead independent director) have no prior experience as a director of a company listed on the SGX-ST.

All three above-mentioned directors went through the mandatory training programme conducted by the Singapore Institute of Directors in 2018.

- (i) Would the company disclose the roles and responsibilities of the lead independent director?**
- (ii) How was the lead independent director selected?**
- (iii) Given that Dr. Yu did not have any prior experience as a director of a company listed on the SGX-ST, would the company help shareholders understand how the choice of Dr. Yu as lead independent director?**
- (iv) In addition, has the nominating committee (NC) reviewed the training and professional development programs for the board? This was listed as a key responsibility of the NC on page 31.**