GS HOLDINGS LIMITED

(Company Registration No. 201427862D)
Incorporated in the Republic of Singapore

RESPONSES TO QUESTIONS FROM THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE) IN RELATION TO THE ANNUAL REPORT 2022

The Board of Directors (the "**Board**") of GS Holdings Limited (the "**Company**", together with its subsidiaries, the "**Group**" and each a "**Group Company**") refers to the notice of annual general meeting ("**AGM**") and the Company's Annual Report 2022 released by the Company on 13 June 2023 in relation to the Company's AGM to be held by electronic means on 28 June 2023 at 1.30 p.m.

On 21 June 2023, the Company received some questions from the Securities Investors Association (Singapore) ("**SIAS**") pertaining to the Company's Annual Report 2022. The Board would like to provide responses to questions from SIAS ahead of the AGM as follow. The Company did not receive any questions from shareholders as at the deadline stated in the notice of AGM.

1. **<u>Question 1</u>**

As disclosed in the annual report, the group currently operates two foodcourts/coffeeshops, a chicken rice restaurant under the "Sing Swee Kee" brand name, one food kiosk under the "Sing Swee Kee Express" brand name and four chicken rice stalls in food courts.

In FY2022, the group generated its entire revenue from the food and beverages ("**F&B**") segment. Revenue increased by 19% to $7.11 million in FY2022 from $5.96 million in FY2021.

For the financial year, the group incurred a net loss of $6.43 million, after losing $10.42 million in the previous financial year. Accumulated losses, at the company level, have now increased to $(16.58) million as at 31 December 2022.

(i) **Rental income from food stalls**: The segment generated revenue of $585,000 (2021: $509,000). **What are the plans to increase the group's network of foodcourts and coffeeshops? How do high inflation and high interest rates affect the group's growth plans?**

(ii) **Franchise fee and royalty income**: Total franchise fee and royalty income amounted to just $29,000 in FY2022 (2021: $51,000). The group has entered into a franchise agreement to expand its chicken rice brand, SING SWEE KEE, and Hainanese-styled coffee brand, Raffles Coffee & Toast, into China in 2023. **Can management quantify the potential of its franchising business, especially in China? Can the company elaborate on the experience and track record**

of management in branding and franchising? What is management's level of confidence in the brands, i.e. SING SWEE KEE and Raffles Coffee & Toast?

(iii) **Impairment of goodwill**: Following the impairment testing, the group recognised a full impairment loss of $(3.905) million for the goodwill relating to the Hao Kou Wei Group cash-generating unit ("CGU"). **What are the underlying factors, if any, in the business/environment that led to the impairment of goodwill of $3.905 million? Would the board, especially the independent directors, be reviewing the board approval process relating to acquisitions? Did the company overpay for the acquisition given that the goodwill has been fully written off just years after the acquisition?**

(iv) **Disclaimer of opinion**: In addition, as the basis for disclaimer of opinion in the independent auditor's report, the auditors have stated that they were unable to obtain sufficient appropriate audit evidence with respect to the cash flow forecasts used and the key estimates and assumptions applied in the value-in-use calculations to arrive at the recoverable amount of the non-financial assets (which includes goodwill amounting to $3.905 million). **Can the audit committee ("AC") help shareholders better understand how they have facilitated the audit?** The independent auditors have stated that they were unable to determine whether the impairment loss in relation to goodwill of $3.905 million recognised as at 31 December 2022 is appropriate. **What audit evidence was required by the independent auditors and how did the AC work with management to provide the auditors with the audit evidence? How will the AC be resolving this and other issues highlighted by the auditors in their disclaimer of opinion?**

<u>**Company's Response**</u>

(i) The Group has been and continues to be on the lookout for opportunity to expand the network of foodcourts/coffeeshops especially at new residential and industrial developments. The Group is currently in final stage of negotiations with a landlord to lease a foodcourt premise and targets to open the new foodcourt in Q3 this year.

The high inflation does slow down the Group's expansion plans to some extent, particularly the significant increase in rental rates of F&B premises since the 2nd quarter of 2022. The Group faces challenges in terms of manpower shortage and high labour costs while thriving to maintain affordable food prices to the consumers. High interest rates have not impacted the Group's growth plans much so far.

(ii) As the Group is in various stages of discussion with the potential franchisees, the management is not able to quantify the potential results. For the Master Franchise Agreement signed with the franchisee in China, the Company understands that the master franchisee is planning to open 30 to 50 outlets in the Guangdong province once the first outlet is opened in Q3 2023. As announced previously, the Group is entitled to a one-time franchise fee and a continuing franchise royalty fee (based on sales) for each sub-franchise.

The Group has been in the branding and franchising business since November 2019 when the Group entered into a franchise agreement with a F&B operator to develop and operate halal chicken rice outlets, under the brand name of "*RASA CHICKEN by Sing Swee Kee"* in Brunei. Currently, the Brunei franchisee has two F&B outlets in Brunei. The Management has strong confidence in our brands, i.e. Sing Swee Kee and Raffles Coffee & Toast. The *"Sing Swee Kee"* brand name in the Company's view, has a long established history and is a familiar name in Singapore and amongst foreign tourists.

(iii) The Group acquired Hao Kou Wei Pte Ltd ("**HKW**") and its sole subsidiary, Rasa Sayang Village Pte Ltd ("**RSVPL**", collectively the "**HKW Group**") in April 2019. At the time of acquisition, HKW had 3 food courts/food centres located in Bukit Batok and Sungei Kadut Way, while RSVPL had a halal eating house located in Changi Village. Subsequently, HKW Group did not renew the tenancy agreement of one food centre located in Bukit Batok which expired in June 2020 due to uncertainties in the business environment caused by the Covid-19 pandemic. For the same reason, RSVPL also closed its main halal eating house located in Changi Village in early 2022.

HKW has been leasing a premise from its immediate holding company, Hawkerway Pte Ltd ("**Hawkerway**"), for the food centre located in Sungei Kadut Way. The lease term of this property of Hawkerway expires in December 2024, which means that HKW has to close the Sungei Kadut Way food centre by end 2024. At the time of finalising the audited financial statements for FY2022 , HKW Group has yet to secure additional lease(s) to operate food courts/food centres to replace the loss of revenues and earnings from the closed outlets or from the closing outlet in Sungei Kadut Way. In addition, the F&B businesses of HKW Group were badly affected by the Covid-19 pandemic in 2020 and 2021, which resulted in HKW Group reporting losses in FY2020 and FY2021.

The above are the main factors that led to the impairment of goodwill of S$3.905 million.

The Group had followed proper due diligence processes in the process of acquiring the HKW Group, including appointing an indepent financial adviser ("**IFA**") to provide an opinion on whether the proposed acquisition is on normal commercial terms and is not prejudicial to the interests of the Company and its minority shareholders. The IFA noted that the price-to-earnings ratio ("**PER**") in respect of the consideration paid for the Company's acquisition of HWK Group is below the range of the PER of the Comparable Companies (as defined in Appendix A of the IFA letter in the circular dated 11 February 2019).

(iv) The AC has reviewed, discussed and approved the scope and audit plans prepared by the independent auditors prior to commencement of the external audit. The AC has also reviewed and discussed the preliminary results of the external audit with the independent auditors in its AC meeting held around end February 2023 prior to approving the announcement relating to the unaudited financial results for the financial year ended 31 December 2022 released on 1 March 2023.

The independent auditors have requested the Management to prepare profit and cash flow forecasts with appropriate bases and assumptions for their review for the purpose of impairment assessment of property, plant and equipment, intangible assets, investments in subsidiaries and amounts due from subsidiaries. The Group has forecast/ projected a certain percentage of growth for the F&B business segment and the opening of new outlets in its profit and cash flow forecasts and projections for the next 5 years following the recovery of our F&B business segment in FY2022 due to relaxation of COVID-19 pandemic restrictions and opening of borders by the governments. The profit and cash flow forecasts and projections were given to the auditors on or around mid-February 2023. The Management had a meeting with the independent auditors on 21 February 2023 to discuss various audit issues, including explaining the bases and assumptions used in preparing the profit and cash flow forecasts to the auditors. During the meeting, the independent auditors requested the Management to provide documents to show proof of price increases by our F&B companies and the management accounts from January to March 2023 of the F&B companies in order for them to ascertain whether the recovery of business in FY2022 is sustainable. The Management had provided these required information and documents to the independent auditors.

As stated in the Company's announcement dated 13 June 2023 pertaining to the Board's comments on Disclaimer of Opinion issued by the independent auditors relating to the Impairment Assessment on Property, Plant and Equipment and Intangible Assets, the Management did not receive any comments from the auditors on the assumptions used in the profit forecast and cash flow projections, even though the Management has explained the bases and assumptions used in one of the meetings with the auditors. The auditors released their Audit Opinion Report to the Company on 12 June 2023 for typesetting for inclusion in the Annual Report, just one day before the Company issued the Annual Report and Notice of the Annual General Meeting on 13 June 2023. Therefore, the AC and the Management did not have a chance to discuss the content of the Auditor's Report with the independent auditors prior to them finalising the Auditor's Report.

The AC will discuss the impairment assessment issues with the new incoming independent auditor, particularly to reach an agreement with the new incoming auditor on the bases and assumptions used in the preparation of the profit and cash flow forecast and projections.

Please refer to the Company's announcement dated 13 June 2023 with regards to how the Company intends to resolve other issues as highlighted by the auditors in their audit report.

2. **<u>Question 2</u>**

On 13 June 2023, the company announced that there are material variances between the unaudited financial statements and the audited financial statements for the financial year ended 31 December 2022 following the finalisation of audit.

The announcement on the unaudited financial results was first released via SGXNet on 1 March 2023. The announcement of material differences came nearly 3.5 months after the company first announced the unaudited financial statements.

Following the finalisation of audit, loss for the year jumped from $(2.1) million to $(6.4) million, an increase of over $4.3 million. Retained earnings of $0.9 million turned into accumulated losses of $(3.4) million.

Some of the reasons for the changes include:

- reversion of other income arising from a rebate from a gas supplier and recognising it as a deferred income
- (due to omission) impairment loss on goodwill recognised from the acquisition of Hao Kou Wei Group amounting to $3.91 million and an impairment loss on property, plant and equipment amounting to $0.27 million
- reclassification of part of the lease liabilities from current liabilities to non-current liabilities
- adjustment to the interest rates applied in the computation of lease liabilities

This is the third time in four years that the company reported material variances between the unaudited and audited financial statements, i.e. for FY2022, FY2021 and FY2019.

(i) Can the AC help shareholders better understand the underlying reasons for the material variances, such as the omission of the goodwill impairment in the unaudited financial statements?

(ii) What are the challenges faced by the company's finance and accounting staff in meeting the Singapore Financial Reporting Standards (International) (SFRS(I))?

(iii) What role did the AC play in the preparation of the financial statements? Was it adequate?

(iv) How can shareholders be assured that the internal financial reporting/finance team is sufficiently resourced with experienced and qualified staff to ensure the integrity of the financial statements?

(v) What changes have been made/will be made to the group's financial reporting systems and processes?

(vi) To ensure a fair, orderly and transparent market, has the board evaluated the need to suspend the trading of the shares of the company until it improves its financial reporting and internal controls to ensure the integrity of the financial statements?

Company's Response

(i) FY2022

The key material variances between unaudited and audited financial statements for FY2022 was due to the "omission" of the goodwill impairment in the unaudited financial statements for FY2022. The Management recognised the goodwill impairment subsequent to the release of the unaudited financial statements for FY2022 on 1 March 2023 as the independent auditors only concluded their impairment assessment of Property, Plant and Equipment and Intangible Assets subsequent to 1 March 2023 and adjusted the Group's financial statements to recognise the goodwill impairment. We understand that part of the reasons was due to a much higher discount rate being used by the independent auditors in computing the recoverable amounts of the cash-generating units (''**CGUs**"). The details of the computation of the discount rate as well as the additional audit evidence that was required by the independent auditors were not previously made known to the Company as alluded to in our reply to Question 1 (iv) above.

FY2021

The key material variances between unaudited and audited financial statements for FY2021 was due to the Group making an additional provision for impairment loss on outstanding BOP service fees amounting to S$3,740,000 after further assessment made by the directors and management of the Company on the recoverability of the outstanding BOP service fees in view of the longer period and higher frequency of lockdown which started from March 2022 due to the fresh outbreak of the Covid-19 pandemic in the People's Republic of China. As announced previously by the Company in various announcements on the update of BOP business, the businesses of these BOP outlets have been adversely affected by the outbreak of COVID-19 pandemic since early 2020. As of 31 May 2022, a total of 11 BOP outlets have closed their physical stores and moved their operations entirely to an online platform. In addition to that, none of the BOP outlets has responded to the letters of demand issued by our Shanghai law firm in February 2022 and the outstanding BOP service fees have been outstanding for more than a year. With that, the Company has made a full provision for impairment loss on the entire outstanding BOP service fees of S$7,608,000 as at 31 December 2021.

FY2019

The key material variances between unaudited and audited financial statements for FY2019 was due to additional tax expense provision amounting to S$768,000 made by the Group following the advice by its appointed professional tax adviser on the estimated tax payable on the Branding, Operations and Procurement ("**BOP**") service fee income. The Group received the advice from its appointed professional tax adviser subsequent to the release of its unaudited financial statements announcement for FY2019 on 27 February 2020.

(ii) As explained above, the reported material variances between unaudited and audited financial statements for FY2022, FY2021 and FY2019 were mainly due to information or factors which was made known to and that the Company had to take into consideration prior to finalising the financial statements for inclusion in the annual report.

(iii) Please refer to pages 70 to 76 of the Company's Annual Report 2022 for AC's duties.

(iv) The current Chief Financial Officer of the Group, Mr Chong, has more than 30 years of working experience gained in different industries with various corporations and public listed companies in Singapore and overseas. He is assisted by an Assistant Financial Controller who has 5 years of working experience in big 4 audit firms in Singapore and 12 years of working experience in companies listed on the Main Board of the SGX-ST. The Assistant Financial Controller is also a member of CPA Australia.

(v) The Company always ensures that the consolidated financial statements of the Group and the statement of financial position of the Company are prepared in accordance with the provisions of the Singapore Companies Act 1967 and Singapore Financial Reporting Standards (International). Besides that, the Management always seeks improvements in the financial reporting processes in line with new accounting standards and/or listing requirements.

(vi) We believe this question from SIAS arose from its wrong impression of the Company's financial reporting and internal controls. Please refer to page 92 of the Company's Annual Report 2022 for confirmation of adequacy of internal controls by the Board and the AC of which their opinion was particularly based on the work done and reports by the internal auditors and external auditors.

As stated in the recent Company's announcement dated 13 June 2023 pertaining to the Board's comments on Disclaimer of Opinion issued by the independent auditors, the Board has stated that to the best of the Board's knowledge, all material disclosures have been announced for the trading of the Company's shares to continue. On this basis, the Board confirms that sufficient information has been disclosed for the trading of the Company's securities to continue in an orderly manner.

3. <u>Question 3</u>

The attendance of directors at board and board committee meetings is shown on page 29 of the annual report.

Table 1.5 – Attendance of Directors at Company Meetings								
	Board		ARC		NC		RC	
Name of Director	No. of Meetings Held	No. of Meetings Attended	No. of Meetings Held	No. of Meetings Attended	No. of Meetings Held	No. of Meetings Attended	No. of Meetings Held	No. of Meetings Attended
Zhang Rongxuan	6	1[(3)]	4	–	1	–	1	–
Pang Pok	6	6	4	–	1	–	1	–
Chong Eng Wee	6	6	4	4	1	1	1	1
Chan Chun Kit[(1)]	2	2	1	1	1	1	1	1
Lim Kee Way Irwin	6	6	4	4	1	1	1	1
Lim Chee San[(2)]	2	2	1	1	–	–	–	–

(Source: company annual report)

Note 3 states the following:

> *While Mr. Zhang Rongxuan had been unable to attend most of the board meetings during FY2022, he had conveyed his views/instructions to Mr. Dou Le, the Administration Manager of Wish Hospitality Holdings Pte Ltd., for Mr. Dou Le to attend these meetings for and on his behalf, including providing updates for and on his behalf, so that he may be adequately represented at these meetings.*

(i) Would the board help shareholders better understand the reasons that Mr. Zhang Rongxuan had been unable to attend most of the board meetings?

(ii) Given that directors can also attend board meetings through means of video conference or other forms of telecommunication, are there valid underlying reasons for Mr. Zhang Rongxuan to miss the board meetings?

(iii) Given that Mr. Zhang Rongxuan is the non-executive chairman of the board, how effective has the director been given that he has only attended 1 out of 6 board meetings?

(iv) In addition, has the effectiveness of the board been impaired as a result?

Under the disclosure related to Provision 4.5 of the Code of corporate governance 2018 (Code), the nominating committee (NC) noted that all the directors have been able to devote themselves to the company's affairs, notwithstanding their other commitments.

(v) Would the NC elaborate further on how it had assessed the commitment of Mr. Zhang Rongxuan as a director and as the board chairman?

(vi) Would the NC disclose the key findings of the formal annual assessment of the effectiveness of the board and individual directors?

(vii) Would Mr. Zhang Rongxuan be committing himself to attend the board meetings in person? How can the company secretary and the company work together with the board to improve the attendance of directors at board meetings?

Company's Response

(i) Mr Zhang Roungxuan ("**Mr Zhang**") had previously been unable to attend most of the board meetings due to clashes in his schedules and commitments to his business in China.

(ii) As responded in (i) above.

(iii) As mentioned in the Corporate Governance section on page 29 of the Company's Annual Report 2022, while Mr Zhang had been unable to attend most of the board meetings during FY2022, he had conveyed his views/instructions to Mr Dou Le, the Administrative Manager at Wish Hospitality Holdings Pte Ltd, for Mr Dou Le to attend these meetings for and on his behalf, including providing updates for and on his behalf, so that he may be adequately represented at these meetings. Mr Zhang has also been responding via emails to requests from Management on review and approval of announcements released by the Company.

(iv) As explained in (iii) above, the effectiveness of the Board has not been impaired as a result of absence of Mr Zhang in the board meetings.

(v) As mentioned in the Corporate Governance section on pages 46 & 47 of the Company's Annual Report 2022, the NC is satisfied that all Directors have discharged their duties in respect of attending and/or preparing for the meetings for FY2022. In particular, notwithstanding the above, as mentioned, the NC will discuss with Mr Zhang regarding his principal commitments for FY2023 and assess if Mr Zhang will be able to adequately devote sufficient time to discharging his duties as a director of the Company.

(vi) NC is of the opinion that it is not appropriate to disclose the key findings of the formal annual assessment of the effectiveness of the board and individual directors.

(vii) Mr Zhang has committed to the Company that should he continue to serve as a Director of the Company, he will attend the Company's board meetings whenever possible. The Company Secretary and the Company have been and will continue to work closely to ensure that Directors are informed in advance on the meeting schedules.

By Order of the Board

Pang Pok
Executive Director and Chief Executive Officer

27 June 2023

This announcement has been prepared by GS Holdings Limited (the “**Company**”), and its contents have been reviewed by the Company’s Sponsor, Evolve Capital Advisory Private Limited (the "**Sponsor**"), for compliance with the relevant rules 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 accuracy, completeness or correctness of any of the statements or opinions made or reports contained in this announcement.

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