JAPAN FOODS HOLDING LTD

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

RESPONSES TO QUESTIONS RECEIVED FROM SHAREHOLDERS AND THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE) PRIOR TO THE ANNUAL GENERAL MEETING TO BE HELD ON 20 JULY 2023

The board of directors (the "**Board**") of Japan Foods Holding Ltd. (the "**Company**" and together with its subsidiaries, the "**Group**") would like to thank shareholders ("**Shareholders**") and the Securities Investors Association (Singapore) ("**SIAS**") for submitting their questions in advance of the Company's Annual General Meeting to be held on 20 July 2023 at 3.00 p.m.

Unless otherwise defined, capitalised terms used herein shall bear the same meaning as ascribed thereto in the Company's annual report for the financial year ended 31 March 2023 ("**Annual Report**").

The Company's responses to the questions received are set out below:

<u>QUESTIONS FROM SIAS</u>

Question 1

The Group experienced an upturn in market conditions, resulting in record-breaking sales totalling S$78.5 million in FY2023. This surpasses pre-pandemic levels and stands as the highest revenue milestone attained since the Company's establishment. The Group's restaurant network has expanded to 65 outlets as at 31 March 2023, up from 56 outlets as at 31 March 2022. Revenue growth was witnessed across all brands within both the halal and non-halal segments. Profit attributable to owners of the Company was S$4.13 million In FY2023, compared to S$3.23 million in FY2022. The Chairman's message underscored that the Group's robust performance in FY2023 was primarily attributable to the outstanding achievements within the halal segment, surpassing initial expectations.

(i) What is the growth potential in the halal segment? Does the Group have a first-mover advantage and/or market leading position in Singapore? Has Management estimated the Group's market share of the halal F&B segment?

<u>Reply</u>:

As mentioned in the Chairman's message, the potential of the halal segment is that it serves both the Muslim and non-Muslim communities which means that each halal restaurant is able to capture a wider customer base compared to non-halal restaurants.

The food and beverage ("**F&B**") industry in Singapore is fragmented and highly competitive with relatively low barriers of entry. The cosmopolitan environment and diverse cultural mix in Singapore attract many food establishments ranging from upmarket eateries and restaurants to inexpensive hawker stalls offering a wide variety of cuisines. To the best of the knowledge of Management, there are no published statistics that can be used to accurately measure the Group's market share in the halal F&B segment.

Since the Group's initial entry into the halal segment with its first restaurant under the "Tokyo Shokudo" brand in November 2020, the halal segment has grown very quickly. As at 31 March 2023, the Group's halal network comprises of 26 restaurants under 8 brands (compared to 12 restaurants under 5 brands as at 31 March 2022), contributing revenue of S$25.9 million (compared to S$13.7 million in FY2022).

(ii) While the Chairman mentioned that halal restaurants cater to both the Muslim and non-Muslim communities, could Management provide additional clarification on whether the opening of halal outlets, such as under the "Tokyo Shokudo" brand, affects the Group's likelihood of opening other non-halal outlets, such as under the "Ajisen Ramen" brand, within the same mall? Specifically, is there a potential "cannibalisation" effect on the growth of non-halal brands due to the expansion of halal brands?

Reply:

It is imperative to continuously innovate and introduce new food products and concepts in the F&B industry. In line with this strategy, the Group manages its portfolio of multiple brands and concepts to capitalise on market trends and customers' preferences.

The Company believes that "cannibalisation" effect is unlikely because each of the Group's brands offer different concepts and tastes. These brands also have different price points that cater to various segments of the market. Through brand diversification, the Group will be able to enhance its offerings and capture a wider group of consumer segments from families to young professionals.

The Group's halal brands attract a broad community of diners including non-halal customers.

(iii) In terms of financial impact, does the opening of a new outlet under a self-developed brand typically generate a higher contribution to the Group's bottom line compared to a similar outlet under a franchise agreement?

Reply:

Although the Group does not incur payment of franchise fees for self-developed brands, these self-developed brands are relatively unknown and typically take a longer time to market and create brand awareness as well as to attract a following. On the other hand, the Group's franchised brands are usually well-known Japanese brands that tend to create a buzz when the Group launches these brands in Singapore. It may not be meaningful to compare a self-developed brand against a franchised brand on such a hypothetical basis as there are also many other business factors to consider.

(iv) Has the Company explored entering other adjacent market segments, such as ready-to-eat food, apart from establishing the halal F&B segment?

Reply:

Ready-to-eat meals is currently not an area of focus for the Group.

Question 2

Despite the Group's best efforts to actively recruit new staff and retain existing ones, Management has highlighted that a key challenge in the near term is the industry's manpower crunch. As announced by the Company, following the conclusion of the investigation by the Ministry of Manpower ("**MOM**"), Japan Foods Enterprises Pte Ltd ("**JFE**") was found to have committed infringements under Section 25 (1) of the Employment of Foreign Manpower Act (Chapter 91A, 2009 Revised Edition) and the MOM had indicated that a financial penalty of $75,000 would be imposed on JFE. MOM had also banned JFE from applying for new work passes until 31 May 2024.

(i) How will MOM's ban on JFE impact the Group in terms of recruitment and manpower staffing?

(ii) Are the Group's employees deployed across different subsidiaries to allow the Group to better optimise its resources?

Reply:

As stated in the Company's announcement dated 22 June 2023, JFE will not be allowed to apply for new work passes until 31 May 2024. The Company wishes to reiterate that its other subsidiaries are not affected.

During the pandemic era, it was challenging for the Group to hire foreign workers because of border closures and the Group had to think of ways to reduce its reliance on foreign help. Since then, the Group has been taking active steps to streamline the operational work flow at its outlets including setting up a halal central kitchen in keeping with the growth of its halal segment. The central kitchen takes care of all the preparatory work, which reduces the number of kitchen staff required per restaurant. Additionally, the Group has also adopted a QR code ordering system at its restaurants to increase service efficiency. The Group constantly endeavours to right-size its workforce by hiring contract staff and regular part-timers to better match the required staff strength during different seasons and hours.

(iii) Could the Audit and Risk Committee ("**ARC**") provide additional details regarding the circumstances that led to the administrative oversight? For how long did the administrative oversight persist and how was MOM alerted to JFE's administrative oversight?

Reply:

The infringements related to erroneous CPF contributions which inflated JFE's foreign employee entitlement. The confusion arose due to a common practice in the F&B industry where workers are seconded from one outlet to another to cope with high staff turnover. JFE had been paying the salaries and CPF contributions of certain seconded local workers. Due to administrative oversight, JFE continued to pay the salaries and CPF contributions of these workers even after the secondment had ceased. This led to its foreign worker entitlement being inflated. The Board takes this matter seriously and has instructed Management to take the necessary steps to ensure that such infringements do not recur.

(iv) Are the Group's hiring and payroll matters (including foreign employee entitlements) subject to review by the internal auditor? If so, when was the last review conducted by the internal auditor and what were the findings?

Reply:

Hiring and payroll matters are covered under the internal audit rotational plan of the Group. The focus of the internal audit was on compliance with internal policies and procedures and no material findings were identified in the last review conducted in the financial year ended 31 March 2022. Following the matter concerning MOM, the ARC has instructed the internal auditors to cover the relevant hiring and payroll practices in its internal audit scope for the financial years ending 31 March 2024 and 31 March 2025.

(v) Has the ARC conducted a review of other subsidiaries to ensure compliance with relevant rules and regulations regarding the Group's CPF and employment practices?

Reply:

The ARC has instructed Management to implement additional measures such as monthly tracking reports, on a Group-wide basis, for monitoring purposes and to prevent recurrence. Reports are prepared based on information extracted from the payroll system to be reviewed by the CFO and the CEO.

Question 3

The Company established a joint venture ("**JV**") named Dining Collective Pte. Ltd. in collaboration with Minor Food Group (Singapore) Pte Ltd ("**Minor Singapore**"). This JV aims to facilitate the franchising and operation of the Group's existing restaurant brands, as well as those owned by Minor Singapore, across key markets such as Thailand, Japan, and the People's Republic of China.

In FY2023, the JV remained loss-making. The losses were not recognised in the consolidated profit and loss statements because the accumulated losses have now exceeded the capital contribution of S$100,000. As at 31 March 2023, the Group had not recognised its share of losses of the investment in a joint venture amounting to S$453,000 (2022: S$185,000). The cumulative unrecognised losses of this entity were S$701,000 (2022: S$248,000) as at financial position date (refer to page 131 of the Annual Report).

(i) To what extent does the Group exert influence and control over the JV in terms of strategic and operational decision-making? Has Management been able to actively contribute and value-add to the JV, leveraging its successes in core operations?

Reply:

The Group has joint control of the JV. All major decisions, including the opening and closure of shops, investments in new brands and capex requirements, will require the consensus of both JV partners before execution. Both JV partners are experienced and established restaurant operators specialising in different cuisines. Each contributes their area of expertise including market and conceptual know-how.

(ii) Has the Board conducted a thorough review to identify the factors that have contributed to the relatively weak performance of the JV?

Reply:

In Japan, the JV's operations were seriously hampered by the Covid-19 pandemic. Even after the easing of health and safety measures, the JV's only restaurant in Shibuya, Tokyo which opened in August 2022 did not perform up to expectations because of the cautious mood and post-pandemic hybrid working lifestyle. The JV closed that restaurant in April 2023. Since then, the situation has improved and the JV opened a new restaurant in another location in Tokyo in April 2023.

In Singapore, the "Pizzakaya" brand has undergone a revamp and the JV is seeing more encouraging response from diners. The "Extra Virgin Pizza" brand which is also under the JV has also received positive response.

(iii) How relevant is the Group's experience and track record regarding the specific brands/cuisine operated by the JV?

Reply:

Both partners are experienced and well-established restaurant operators specialising in different cuisines. Each contribute their areas of expertise including market and conceptual know-how.

(iv) Has the Board set a limit to the Group's investment (including loans) in the JV?

Reply:

As disclosed in the Company's announcement dated 29 January 2019 in relation to the entry of the JV agreement, the initial investment by the Company was limited to S$1,250,000.

The Board reviews and approves the annual budget and business plans of the Group which will include any further investment into the JV.

(v) Has the ARC conducted an assessment of the risk associated with potential impairment of the loan provided to the JV?

Reply:

The past losses incurred by the JV were mainly due to the impact of the Covid-19 pandemic. The recent loan disbursement was used for the purchase of plant and equipment for the JV's new outlets in April 2023 which would take time to acquire customer base and reach their potential.

The Company will closely monitor the performance of the JV and assess the need for provision if there is any indication of impairment loss.

QUESTIONS FROM SHAREHOLDERS

Question 1

Is there a breakdown of the profit margins between the halal segment and the non-halal segment?

Reply:

The profit margins for both segments are similar as both share similar cost of sales and operations. Menu pricing for both halal and non-halal brands are also similar in keeping with the Company's corporate philosophy of bringing good quality Japanese cuisine to the masses.

Question 2

Is it possible to increase pricing going forward to combat cost inflation?

Reply:

There are several ways to combat cost inflation and increasing menu prices is just one of the methods. The Group has also reconfigured set meals and portion sizes to better manage costs and customers' expectations. In addition, the Group sources its raw materials from several suppliers so that it is able to get the best price while also ensuring that it spreads risks by not being overly reliant on any one source.

Question 3

As compared to FY2019, the number of members under the loyalty programme in FY2023 has tripled but revenue has not increased at the same rate. Is there a reason for this?

Reply:

The JF Rewards Programme is a free membership programme that is meant to retain customer loyalty in a highly competitive F&B scene. It is also a channel by which the Group is able to share marketing and seasonal promotions with its loyal customers. While the Company believes that the programme has been successful in helping the Group to attract repeat customers, the Company does not expect the growth in the number of members to have a linear relationship with the Group's topline.

Question 4

Does the current suspension of hiring new foreign workers applies to both the halal and non-halal restaurants? Does the suspension significantly slow down the Group's growth and increase the cost of operation?

Reply:

Please refer to the responses to SIAS's Question 2(i) and Question 2(ii) above.

Question 5

Does the Group use a central kitchen for its halal segment?

Reply:

The Group's central kitchen at Kampong Ampat was housed on two separate floors of an industrial building. In keeping with the rapid expansion of its halal segment, the Group had converted the upper unit into a halal central kitchen in September 2022.

BY ORDER OF THE BOARD

TAKAHASHI KENICHI
Executive Chairman and CEO

14 July 2023

*This announcement has been prepared by the Company and its contents have been reviewed by the Company's sponsor, UOB Kay Hian Private Limited (the "**Sponsor**") for compliance with the relevant rules of the Singapore Exchange Securities Trading Limited (the "**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 information, statements or opinions made or reports contained in this announcement.

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