Katrina GROUP LTD.
100 Beach Road #16-09/13 Shaw Towers Singapore 189702 Tel: (65) 6292 4748 | Fax: (65) 6292 4238
Website: www.katrinagroup.com UEN: 201608344N

RESPONSE TO QUERIES FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE) ON THE ANNUAL REPORT

The Board of Directors ("**Board**") of Katrina Group Ltd. ("**Company**", and together with its subsidiaries, "**Group**") refers to the queries raised by the Securities Investors Association (Singapore) ("**SIAS**") of the Company in relation to the Group's Annual Report for the financial year ended 31 December 2019 ("**FY2019**") and appends the replies as follows:

Question 1

The group's financial highlight is shown on page 9 of the annual report and reproduced below:

FINANCIAL HIGHLIGHT

	FY2016	FY2017	FY2018		FY2019	
	F&B	F&B	F&B	Hospitality	F&B	Hospitality
Sales Revenue ($'000)	56,823	57,966	64,308	485	**68,915**	**15,441**
Gross profit ($'000)	8,411	5,712	6,102	73	**5,833**	**1,742**
Net profit ($'000)	2,368	1,002	491	(60)	**(3,988)**	**(2,334)**
Earnings per ordinary share ("**EPS**") (cents)	1.12	0.43	0.21	(0.02)	**(1.72)**	**(1.01)**
Net Asset Value ("**NAV**") (S$'000)	14,575	14,175	13,543	440	**4,589**	**3,105**
NAV per ordinary share (cents)	6.30	6.12	5.85	0.19	**1.98**	**1.34**

(Source: company annual report)

As seen in the table above, the profitability of the F&B segment has declined from $2.37million in FY2016 to $491,000 in FY2018, and to a loss of $(3.99) million in FY2019. This was before the Singapore economy came to a standstill during the circuit breaker period to stop the spread of COVID-19 in the community.

(i) With a 25-year successful track record of running restaurants, can management help shareholders understand the particular challenges in the last two years that have caused the group's profit in the F&B segment to slide?

Company's response

In the last two years, the Group's F&B segment was operating in a challenging environment with intense competition, inflationary pressures, tight labour supply, rising business costs and uncertain economic outlook even before the onset of the COVID-19 pandemic.

Referring to page 87 of the annual report under note 9 (Loss)/profit before tax and reproduced below, the decrease in gross profit was mainly due to the increase in employee benefits and commission fees resulting from the increase in online sales.

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9. (Loss)/profit before tax

The following expense items have been included in arriving at (loss)/profit before tax:

	Note	Group 2019 $'000	Group 2018 $'000
Depreciation of property, plant and equipment	12	2,867	2,670
Depreciation of right-of-use assets	14	14,980	–
Depreciation of investment property	15	58	39
Employee benefits	10	24,705	20,618
Commission fees		2,930	2,386
Professional fees		306	154
Fixed rental expense on short term leases and low value assets	14	1,920	–
Fixed rental expense on operating leases		–	15,856
Contingent rental expense on operating leases	14	1,002	775
Write-off of property, plant and equipment	12	3	220
Provision for lease liability of loss-making outlets		–	42

In particular, despite its experience, the group has had to close several non-performing outlets in each of the past two years. As at 31 December 2019, the group had a total of 44 outlets in Singapore, of which 4 were new outlets. 3 non-performing outlets were closed in FY2019, and an additional outlet was rebranded. In FY2018, three non-performing outlets were closed as well.

(ii) How is the group carrying out its due diligence before opening its stores? What is the group's success rate with new store openings in the past 2-3 years?

Company's response

The Group has its internal set of evaluation criteria, which includes but not limited to location, customers' demographics, outlet tenants' experience, menu offerings, as well as pricing, to evaluate before opening its stores.

Considering a weaker domestic and global economy, the performance of the new store openings in the past 2-3 years are in the midst of reaching breakeven due to the gestation period that needed to stabilise the operations. The Group continues to monitor the performance of those stores closely to focus on achieving profitability to enhance shareholder value.

In the financial review, the group had stated that existing outlets contributed a decrease in turnover of $0.8 million in FY2019 as compared to FY2018.

(iii) What were the main reasons for the drop in same-store sales?

Company's response

The main reasons for the drop in same-store sales are the rise of e-commerce, as well as the changing customers' habits and preferences. Due to the rise of e-commerce, shopping centres

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experienced closure of retailers and as such, had increased F&B components from 10% to 50%. The proportion of F&B stores is likely to now contribute a substantial part to a mall's overall retail mix. As a result of the competition in the shopping centres and customers' preferences for convenience, our same store dining in sales has decreased by around 30%. In order to increase sales, the Group has embarked on several online delivery platforms to offer delivery of more than 80% of its dishes in the dine-in menu so that customers could enjoy similar choices even if they choose to dine at home. In line with the increase of our online sales from 15% to 30% for various stores in FY2019 as compared to FY2018, the cost of commissions also increased.

Since the first week of April 2020, the government has put in place circuit breaker measures to stop the spread of COVID-19 in the community. Dining-in at F&B outlets were banned.

(iv) What assistance has the group received from the landlords? With just cash and cash equivalents of $5.7 million as at 31 December 2019, will the group have enough working capital to tide it over this challenging period? Lease payment in FY2019 was $25.8 million and interest on finance lease liabilities was $4.6 million.

<u>Company's response</u>

The Group has been able to receive support from and is continuing to work with the landlords in the form of rental waivers or rebates in addition to the 100% of the property tax rebates passed down from the landlords.

During the Circuit Breaker, the Group had temporarily closed the operations of 31 F&B outlets at locations which are largely patronised by professionals, managers, executives and technicians, and tourists to reduce the operating costs as these outlets have low footfalls during this challenging period. These outlets are in the malls located near business district areas and tourist hotspots.

As the Group continues to assess the situation post-Circuit Breaker, our F&B outlets have opened gradually except for the 3 outlets in Sentosa, Esplanade and Marina One. Nevertheless, to mitigate the impact on the Group's F&B business, we continue to partner with delivery platforms and launch delivery services to boost online sales. Some of the menus are re-invented to cater for bento meals that are available for home delivery during this time.

In addition to the rental waivers, the Group also benefited from the Jobs Support Scheme under the Budgets by the Government which assisted in conserving cash of the Group. The Group has also applied for the Temporary Bridging Loan to further ease the working capital for business needs. At the same time, the Group is working with the banks to reschedule the loans for better terms to improve our cash flow management amidst this challenging period.

In view of the above measures and support, the group would have enough working capital to tide it over this challenging period.

Looking ahead in terms of business and operations, the Group expects its businesses to improve from the gradual easing of movement restrictions and recovery of footfall post-Circuit Breaker. The Group will continue to monitor its working capital needs and remain competitive with cautious growth and expansion plans.

(v) What are management's strategies to reverse the down trend in net profit?

Company's response

The management continues to be vigilant and adapt accordingly to refine its various strategies to monitor the performance, which includes but not limited to closing the non-performing outlets upon lease expiry, deploying technology to improve operating cost structure, and implementing cost control measures to reduce expenses and wastages across the Group.

The rise of social media and influencers has changed the consumers' spending behaviours. To create awareness, the management is working to use social influencers to allow the dining experiences at our restaurants to be reviewed and profiled independently via word of mouth.

Management is constantly reviewing and assessing its business model and growth trajectory to tide over any crises and economic downtrends, as well as to explore opportunities when they arise.

It can also be seen from the table above; the group's hospitality business reported a substantial loss as well. In FY2018, over a short period of ownership, the company recognised a loss of $(60,000) which has increased to $(2.3) million for the whole of FY2019. When the company acquired the hospitality business, it showed a profit after tax of $64,273 for a 10-month period. The acquisition was said to "enhance shareholders' value".

(vi) Similarly, can management elaborate further on the operational performance of SOPL, including the occupancy rate? What were the reasons for the loss and what are management's plans to turn it profitable?

Company's response

SOPL currently operates two brands, namely ST Residences and ST Signature, that specialize in different market segments. ST Residences offers serviced apartments for corporates and travellers for stay ranging from 6 nights to a few months and has an average occupancy rate of 89%. ST Signature is a co-living hotel brand that offers hotel stays for travellers on shorter term and since its opening in July 2019, the average occupancy has been consistently above 80%. Both brands received stellar reviews and ratings on various platforms and had won several hospitality awards.

In 2019, SOPL devoted significant resources to the development and building of the ST Signature brand. 4 properties in Chinatown, Tanjong Pagar, Bugis Beach and Jalan Besar were being developed with the two former ones opened in second half of 2019 and the latter two opened in first quarter of 2020. Besides renovation and fitting out expenses, there was also technology development expenses arising from the building of our unique enterprise software that allowed full self-check-in and out capability from guests' devices. Branding and public relations investment brought about positive public feedback and media publications from major local newspapers, and other travel and technology platforms. Establishing a strong reputation, healthy occupancy and sound management foundations are the on-going objectives of SOPL.

In 2020, though the COVID-19 pandemic hit the Singapore hospitality sector hard, the impact was buffered by government's quick response. The Group's hospitality business was expecting a drop in its occupancy rate, but the initial participation to serve as quarantine quarters for those serving "Stay Home Notices" as well as the swift retargeting of market segment to attract Malaysians affected by Movement Control Order and Singaporeans whose home renovations were prolonged due to the Circuit Breaker, has mitigated the impact on its occupancy rates, narrowing the Group's hospitality loss. In addition, the services offered by the hospitality business tailored for business travellers that require accommodation for 3 months or longer has continued to see recurring income from the hospitality business. The occupancy rates are in the range of 60% to 80% during this period.

In respect of ST Residences, SOPL is going through a consolidating exercise to review and reduce our commitments from the properties so as to increase the occupancy rates. We believe when the macro environment picks up, we will be able to regain the scale and market share based upon the positive relationships with our landlords and customers.

The loss reported in the Group's hospitality business was mainly due to the development, renovation and fitting out expenses of the properties, technology development expenses, and the increase of headcount to ensure that the operations, administration, sales and marketing capability of the brands were able to have sustainable development.

We are utilising our advertising and promotion budget carefully to target travellers from countries that have and will establish safe travel bubbles and green lanes with Singapore. With that intention, we have boosted our marketing efforts through channels with multi-lingual capabilities to target travellers from China, Vietnam, South Korea, Japan for the initial phase and extend to other regions progressively.

SOPL will leverage on technology and marketing grants from the government to build capabilities to ensure that we keep up with the competition and even ahead with Virtual Reality and Facial Recognition development. In the year 2020, the Company will also see the complete automation of our CRM development with loyalty program being conceived at group level.

Lastly, as the traveling pattern of leisure travellers will be impacted for much of 2020, SOPL is looking to target Singaporeans and residents to our staycation and micro-stay experience. We believe with our capability development to deliver unique and satisfying experiences to our customers, and by improvement in our processes to ensure the entire customer journey is coordinated and accountable, we will be able to improve SOPL's financial performance.

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Question 2

In April 2019, Mr Chow Wen Kwan retired as a director of the company at the conclusion of the annual general meeting. Mr Chow has been a director for less than three years. In August 2019, Mr Eric Low Siak Meng resigned as an independent director "due to personal reasons" and became an advisor to the group with effect from 1 September 2019. Mr Eric Low has been a director for just over three years from his date of appointment of 29 June 2016.

The company has appointed Ms Joan Lau Sau Chee on 1 May 2019 and Mr Tan Kong King on 1 September 2019. The profiles of the two new directors can be found on page 12 of the annual report.

(i) Can the board help shareholders understand if there is sufficient continuity and stability on the board to provide guidance to management?

Company's response

Following the resignations of independent directors, the Company has looked for suitable candidates with valuable experience as replacement to ensure continuity and stability on the board. Ms Joan Lau Sau Chee was formerly the head of corporate finance in Hong Leong Finance Limited which acted as the financial advisor and sponsor of the Company in its listing in 2016. As such, she is familiar with the Company's management, background and business. Mr Tan Kong King was formerly the Group Managing Director of QAF Ltd, which is also involved in the F&B business. Together with the independent directors, the Company looks forward to better continuity and stability on the board.

(ii) Would the board benefit from having independent directors with a good track record in running F&B/dining and/or hospitality operations?

Company's response

As mentioned above, Mr Tan Kong King has extensive experience in the F&B operations. When required, the Company will continue to look for suitable candidates as independent directors who can add value to the Board and the Company.

In addition, as shown in the company's announcements on SGX, in less than four years since the company's listing, there has been four cessations of the chief financial officer. The company newly appointed a CFO on 20 April 2020.

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Date & Time	Issuer Name	Security Name	Title	Category
17 Apr 2020 05:41 PM	KATRINA GROUP LTD.	KATRINA GROUP LTD.	Change - Announcement of Cessation::Resignation of Chief Financial Officer	Announcement of Cessation
30 Aug 2019 05:27 PM	KATRINA GROUP LTD.	KATRINA GROUP LTD.	Change - Announcement of Cessation::Announcement of Cessation of Independent Director	Announcement of Cessation
30 Apr 2019 08:32 PM	KATRINA GROUP LTD.	KATRINA GROUP LTD.	Change - Announcement of Cessation::Announcement of Cessation of Independent Director	Announcement of Cessation
27 Apr 2018 07:22 PM	KATRINA GROUP LTD.	KATRINA GROUP LTD.	Change - Announcement of Cessation::Cessation of Chief Financial Officer	Announcement of Cessation
19 Jan 2018 05:17 PM	KATRINA GROUP LTD.	KATRINA GROUP LTD.	Change - Announcement of Cessation::Cessation of Chief Financial Officer	Announcement of Cessation
21 Apr 2017 06:29 PM	KATRINA GROUP LTD.	KATRINA GROUP LTD.	Change - Announcement of Cessation::Cessation of Lead Independent Director	Announcement of Cessation
02 Dec 2016 05:17 PM	KATRINA GROUP LTD.	KATRINA GROUP LTD.	Change - Announcement of Cessation::Cessation of Non-Executive Director	Announcement of Cessation
31 Aug 2016 05:53 PM	KATRINA GROUP LTD.	KATRINA GROUP LTD.	Change - Announcement of Cessation::Resignation of Chief Financial Officer	Announcement of Cessation

(Source:https://www.sgx.com/securities/company-announcements?value=KATRINA%20GROUP%20LTD.&type=company&ANNC=ANNC04)

(iii) Do the audit committee/independent directors think it is opportune to review the circumstances leading to the resignations of the CFOs and make commendations on how to improve the retention of key finance personnel? The shortest tenure of its CFO was just over 3 months.

<u>Company's response</u>

The board recognises that being a SME in the challenging business of F&B and hospitality has always been a challenge to find ideal candidates, within the Group's affordability, who are familiar with the SGX reporting regime and our businesses, willing to work under the constant pressure especially in the recent few years and who can fit into the Group's culture. The board will work together with the management, to improve the retention of key finance personnel and to provide the necessary support to help the CFO in discharging her responsibilities. The board believes that the Group's current CFO who is from a F&B background will work well with the board and the management.

Question 3

As noted in the Corporate Governance report, the group appointed BDO LLP to carry out the internal auditor function in FY2019. The role of the internal auditors is to assist the audit committee ("AC") in ensuring that the controls are adequate, effective and functioning as intended, to undertake investigations as directed by the AC and to conduct regular in-depth audits of high risk areas.

As a result of the internal audit, the internal auditors highlighted an issue to ensure compliance with the relevant regulations arising from early termination of stay by its tenants. In addition, other issues were highlighted such as controls of rental rates, rental agreements, cash collections, staff claims and disbursements, management of receivables and data protection policy.

(i) Is the board satisfied with the adequacy and effectiveness of its risk management and internal control systems, especially in the hospitality segment? When will the implementation of the recommended control measures be completed?

Company's response

The Board is satisfied with the adequacy and effectiveness of the risk management and internal control systems of the Group but recognises that further improvement will be required to address the issues highlighted by the Internal Auditors. The Board is constantly working with the Internal Auditors to look at areas with higher risks, to ensure timely identification and rectification of such risks.

In respect of the hospitality segment, SOPL is currently tightening the processes at all levels in order to ensure that issues highlighted by our internal and external auditors are being addressed with appropriate measures. SOPL management is expecting to put in place all necessary procedures and measures by end of 2020.

The AC had also commissioned BDO LLP to facilitate the development of a risk management framework ("ERM") for the group.

(ii) Did the AC consider if there would be any threat of self-review by the internal auditors?

Company's response

The role of BDO LLP in the ERM exercise was limited to facilitating the development of the ERM framework for the Group, and the Group's management remains responsible for risk management activities. BDO LLP is not involved in managing any of the risks identified on behalf of management. The identification and assessment of the risks was done by the senior management of the Company covering the various areas of functions and business and the risks identified are being monitored by management on an ongoing basis.

Hence it has been assessed that there should not be any threat of self-review with regards to the role of BDO LLP as internal auditors and their role in facilitating the development of the ERM framework. This is also consistent with the recommended roles for Internal auditors with regards to ERM exercises based on a Position Paper issued by the Institute of Internal Auditors.

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BY ORDER OF THE BOARD

Alan Goh Keng Chian
Executive Chairman and Chief Executive Officer
22 June 2020

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*This announcement has been reviewed by the Company's Sponsor, Hong Leong Finance Limited (the "**Sponsor**"). It has not been examined or approved by the Exchange and the Exchange assumes 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 Mr. Tang Yeng Yuen, Vice President, Head of Corporate Finance, Hong Leong Finance Limited, who can be contacted at 16 Raffles Quay, #01-05 Hong Leong Building, Singapore 048581, Telephone: (65) 64159886.