

SINGAPORE KITCHEN EQUIPMENT LIMITED

(Company Registration No.: 201312671M)

(Incorporated in Singapore)

RESPONSE TO QUERIES BY SECURITIES INVESTORS ASSOCIATION (SINGAPORE)

The Board of Directors (the “**Board**” or “**Directors**”) of Singapore Kitchen Equipment Limited (the “**Company**” or “**SKE**” and together with its subsidiaries, the “**Group**”) wishes to announce the following in response to the queries raised by Securities Investors Association (Singapore) (“SIAS”) on 21 July 2022:

Q1. Would the board/management provide shareholders greater clarity on the following operational and financial matters? Specifically:

- (i) **F&B industry: Can management share their insights into the structural changes in the F&B industry in Singapore since the onset of the pandemic? In particular, what are the opportunities and the challenges given the severe headwinds (including manpower shortage) faced by F&B restaurant/outlet operators, the increasing prevalence of cloud and central kitchens, the rapid adoption of food delivery etc?**

Company’s Response:

The F&B industry has undergone a dramatic structural change and many businesses have no choice but to pivot their business models including growing their online business and cloud and central kitchen network, to meet the associated challenges. In all of these scenarios, having an efficient kitchen is critical and the Company has been working with many of its customers to facilitate and ensure the success of such pivot.

As widely reported, the major key challenge is the significant shortage and/or mismatch of manpower which is expected to persist in the immediate future. As such, F&B businesses will need to focus on higher re-skilling and/or up-skilling of available manpower for operational and management purposes.

This means that repetitive and manual tasks, where possible, will increasingly be handled by robots and/or other technological solutions for the front of house (food delivery, greeting, directing and seating) and back of house i.e. kitchen (delivery of crockery to wash station).

In addition, equipment for central kitchens is now more technologically advanced, not just for increasing volume production as in the past. It has now included intelligent programming to auto cook, reduce resource wastage and cater for environmentally friendly food production, which will aid F&B businesses to improve their operational efficiency and profitability.

These key trends spell opportunities and the Company is well positioned to capitalise on these opportunities.

- (ii) **Cold room systems: What is the group’s competitive advantage in cold room systems? What is the size of the total addressable market?**

Company’s Response:

SKE has the requisite trained and certified technicians and engineers to set up cold room systems. Cold room system is nothing new to the Company and it has been more than 6 years since SKE started on the Company’s first cold room system in Yishun Community Hospital, incorporating cold room systems as part of the kitchen design. Having a renowned and trusted reputation for providing turn-key kitchen solutions and as a kitchen equipment supplier, SKE has also captured the same good reputation for cold room systems.

The market for the cold room systems is estimated to be approximately 5% of the overall kitchen market and is expected to grow as a result of the above mentioned.

- (iii) **Manpower shortage:** As noted in the chairman & CEO's statement, the group introduced cross-training for its technical staff to mitigate the manpower crunch. **Has the group been able to cross-train and retain its technical team to support its growth strategies?**

Company's Response:

Yes.

Supply chain disruption: Is the group experiencing more severe supply chain disruption in 2022 given that the supply chain has been further disrupted due to lockdowns in China? If so, how is the group mitigating the disruption?

Company's Response:

Compared to FY2021, supply chain disruption in FY2022 (up to June) has eased up a lot. In FY2021, the Company experienced bidding for every container to be delivered from China. The incremental cost to secure a shipment ranged between 30% to 85%. Based on how critical the goods were required, the Company leveraged on its strong relationships with its suppliers and logistic expertise to ensure a successful bid for the container. The associated costs were borne by the customers.

Since February 2022, such disruption has eased. The availability of containers and delivery schedule has almost reverted to pre-pandemic days. However, freight costs remain elevated by approximately 30% to 40% and is mainly due to increase in fuel cost as a result of high oil prices. Similarly, such increases in costs are factored into the pricing to customers.

- (iv) **Robotic delivery system:** At the AGM, can management share videos of its robotic delivery system in action? How is the group scaling up sales of the robotic delivery system to become the market leader? How "smart" are these robots?

Company's Response:

In the interest of time, videos of the robotic delivery system will not be shown during the AGM. Through our Q'son brand, the Company has been addressing its customers' needs as a one stop kitchen solution provider, with robotic delivery system being an increasingly essential component of the overall solution for F&B businesses. These "smart" robots are capable of delivering food to the table and sending used utensils or crockery back to the kitchen wash area. Future "smart" robots are expected to be equipped with artificial intelligence to learn.

Q2. The trading of the company's share was suspended on 5 August 2021 to allow the group to investigate the 8 payments amounting to \$1.4 million made by the company's majority shareholder, QKE Holdings Pte Ltd ("QKEH") on behalf of the company's main operating subsidiary, Q'son Kitchen Equipment Pte Ltd ("QKE").

In their investigations, Rajah & Tann Singapore ("R&T") found that the CEO, purportedly upon assurance from the former CFO, instructed QKEH to make payments on behalf of QKE to allow the group to conserve cash and to reduce expenses before the intended listing of Singapore Kitchen Equipment Ltd ("SKE") on the Hong Kong Stock Exchange. The expenses would be reimbursed to QKEH after the conclusion of the listing application by SKE.

The executive summary of the fact-finding review by R&T dated 8 June 2022 can be found at: <https://links.sgx.com/FileOpen/SKE%20Executive%20Summary-Appendix%20A.ashx?App=Announcement&FileID=720274>

R&T had noted the authenticity of the transactions although they also discovered documentary alterations purportedly made by the former CFO to "simplify the audit process". Baker Tilly Consultancy (Singapore) Pte. Ltd. ("Baker Tilly") was engaged by SKE to review and evaluate the internal controls of the company and prepare an internal audit report. Baker Tilly made various observations of shortfalls in SKE's internal controls.

R&T further added that although unintended by the executive directors, the natural consequence of QKEH making payments for the transactions on behalf of QKE is that financial statements, which were issued by SKE/QKE during the relevant period, would be inaccurate. In relation to any inaccuracies in SKE's financial statements, they may be viewed as breaches of section 201(2) of the Companies Act (Cap. 50, Rev. Ed. 2006), as well as SGX Catalist Rules such as Rules 705(1), 705(3)(b), 709A, 719(1), 745 and 1202. If the inaccuracies to the financial statements are found to be material impacting the market for the Company's securities, there may also be potential liability under section 199 of the Securities and Futures Act (Cap. 289, Rev. Ed. 2006). R&T also noted that their findings are not conclusive nor exhaustive for breaches under the Companies Act, Penal Code and/or the Securities and Futures Act.

On 4 July 2022, the company also announced that the Commercial Affairs Department (the "CAD") has requested the company's assistance with an investigation into an offence under the Penal Code.

(i) Can the board provide an update on the status of the investigation?

Company's Response:

The CAD investigation is still on going. The Company will monitor the progress of the investigations and make such further announcements as and when required.

Rule 406(3) in the SGX Catalist Rulebook states that directors and executive officers should have appropriate experience and expertise to manage the group's business and the listing rules also require a consideration of the character and integrity of the directors, management and controlling shareholders.

(ii) For the benefit of shareholders, would the nominating committee elaborate further on its assessment and provide the basis that the following directors were assessed to be suitable to remain as directors of the company?

- a. Ms Chua Chwee Choo (currently executive director and chief executive officer); and
- b. Mr Lee Chong Hoe (currently executive director)

Company's Response:

In consideration that i) the R&T investigation has found that both executive directors did not direct or commit any alteration of documents although they (being non-accountants) relied on the wrong accounting advice of the previous financial controller, and ii) both executive directors have proven their competence in establishing and growing SKE to be a market leader (approximately 35% market share), the NC is of the view that the executive directors remaining in their current positions is in the best interest of the Company and in the absence of there being anyone else who have as much competence and interests (and therefore commitments) in the Company as them.

As disclosed on page 37, notwithstanding the 8 payment transactions, the board has received assurance from the CEO and the CFO that, to the best of their knowledge, the financial records have been properly maintained and the financial statements give a true and fair view of the group's operations and finances.

(iii) How can shareholders be assured that the group's financial statements were prepared in accordance with the relevant Act and financial reporting standards?

Company's Response:

The Group's financial statements are subjected to annual audit by the external auditors to ensure that the financial statements are drawn up in accordance with the provisions of the Companies Act 1967 and Singapore Financial Reporting Standards (International) ("SFRS(I)"). In addition, the Group engages external professionals to conduct periodic internal audits. During the year where abnormalities in the financial statements were identified, the Company expanded the internal audit to cover also the control weaknesses that failed to detect the abnormalities identified.

Q3. The disclosure on remuneration of directors for FY2020 and FY2021 is shown below:

A breakdown of the Directors' remuneration for FY2020 is as follows:

Name	Remuneration Band						Total %
	Disclosable Amount Below \$5250,000 (\$\$)	\$5250,000 to \$5500,000	Above \$5500,000	Salary %	Bonus %	Other Benefits %	
Chua Chwee Choo		✓		72.3	7.5	19.8	100
Lee Ching Hie		✓		72.5	8.0	19.5	100
Tan Bee Hwe	55,000			0	0	0	100
Ng Hwe Huan, Kevin	40,000			0	0	0	100
Lui Hin Weng Samuel	40,000			0	0	0	100

Note:
= The Directors' Fees for the independent non-Executive Directors are subject to approval by shareholders at the forthcoming Annual General Meeting.

The annual aggregate amount of the total remuneration paid to the Directors of the Company in FY2020 is approximately **\$630,124**.

A breakdown of the Directors' remuneration for FY2021 is as follows:

Name	Remuneration Band						Total %
	Disclosable Amount Below \$5250,000 (\$\$)	\$5250,000 to \$5500,000	Above \$5500,000	Salary %	Bonus %	Other Benefits %	
Chua Chwee Choo		✓		82.1		17.9	100
Lee Ching Hie		✓		78.8		21.2	100
Lim Chee San	17,245						100
Ang Cheong Weng	18,409						100
Choo Kok Kiong Kelvin	13,696						100
Tan Bee Hwe	38,587						100
Ng Hwe Huan Kevin	33,333						100
Lui Hin Weng Samuel	24,581						100

Note:
= The Directors' Fees for the independent non-Executive Directors are subject to approval by shareholders at the forthcoming Annual General Meeting.

The annual aggregate amount of the total remuneration paid to the Directors of the Company in FY2021 is approximately **\$997,000**.

(Source: company annual reports; emphasis added)

For FY2020, if the annual aggregate amount of total remuneration paid to the directors was \$630,124 (see above; left), then the two executive directors would have received \$495,124, with the independent directors getting \$135,000. The company indicated that both executive directors received remuneration in the \$250,000 to \$500,000 band in FY2020. If so, the minimum total remuneration for the two executive directors would be \$500,000, above \$495,124 as calculated.

- (i) **Can the board/remuneration committee confirm if the aggregate amount of remuneration paid to the directors in FY2020 was \$630,124 (highlighted in red above)? If not, what was the actual amount?**

Company's Response:

In the FY2020 Annual Report, the annual aggregate figure erroneously does not include the 3 independent directors' fees. If included, the actual amount should be S\$765,124. This has since been corrected in the Company's FY2021 Annual Report.

The directors received "Other benefits" amounting to 18-21% of the total remuneration in both years.

- (ii) **What is the nature of such benefits and the basis for giving these "other benefits" to the executive directors?**

Company's Response:

"Other Benefits" refers to allowances (car/living) which are contractual allowances based on service agreements between the Company and the EDs.

In addition, in Note 21 (page 106; Profit before taxation), it can be seen that the two executive directors were paid \$850,729 (the sum of \$783,300 and \$67,429) which is a 34% increase from the remuneration paid to them in FY2020.

Staff costs

Directors of the Company:

Directors' fees	146,567	135,000
Directors' remuneration other than fees		
- Salaries and other related costs	783,300	600,761
- Contributions to defined contribution plan	67,429	29,363
	997,296	765,124

(Source: company annual report)

- (iii) Given that no bonus was given to the executive directors in FY2021, would the higher remuneration be the result of a (base) salary adjustment for the executive directors? If so, how does the remuneration committee justify the upward adjustment given the weak operating performance, the challenging market environment, the involvement of the executive directors in the 8 transactions and the \$0.7 million increase in professional (legal, consultancy and special audit) fees?

Company's Response:

FY2021 was a challenging year, albeit a profitable year with a 40% increase in revenue to S\$28m. Without supply chain disruption, causing non delivery and project delay in FY2021, FY2021 revenue would have exceeded S\$30m instead. Due to the extraordinary ability, efforts and commitments of the executive directors, SKE was able to achieve revenue in FY2021 which is close to pre-pandemic levels i.e. FY2019.

- (iv) Has the board considered "clawing" back the additional professional fees from QKEH and/or the executive directors involved to hold them accountable?

Company's Response:

Based on reviews by the professionals, there was no indication that any of the executive directors were directly involved in the 8 Transactions. Consequentially, the Board did not seek recovery from QKEH or the executive directors. Furthermore, QKEH which is two-third owned by the executive directors, only received reimbursement for expenses paid on behalf of QKE which relates to the ordinary course of the Company's business and these expenses were for the benefit of the Company.

By Order of the Board

SINGAPORE KITCHEN EQUIPMENT LIMITED

Chua Chwee Choo

Executive Director and Chief Executive Officer

28 July 2022

This announcement has been reviewed by the Company's sponsor, RHT Capital Pte. Ltd. (the "Sponsor"), for compliance with the relevant rules of the Singapore Exchange Securities Trading Limited ("SGX-ST"). 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 correctness of any of the statements or opinions made or reports contained in this announcement.

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