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") of Singapore Kitchen Equipment Limited (the "Company") wishes to announce the following in response to the queries raised by Securities Investors Association (Singapore) ("SIAS") on 23 April 2018:

Q1. As noted in the Chairman and MD Statement, both business segments showed good growth and the group recognised a revenue of $30.7 million in FY2017, up $26.2 million from a year ago (page 6 of the annual report). Net profit attributable to equity shareholders slipped to $1.3 million for FY2017 (2016: $2.6 million).

It was further disclosed that:

> *Against a challenging operating environment and labour market, the Group was able to achieve a steady performance during the year by executing strategies that increased revenue for FY2017 with an* ***<u>adjustment in profitability</u>.*** *We strive to further build up the Group's presence in large corporations and government agencies through* ***<u>very competitive pricing</u>*** *[emphasis added].*

a) **Would the board clarify that the group's new strategy is to gain market share primarily by cutting prices?**

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

The Company would leverage on the strength of its 2 core business divisions, the service/maintenance division and the sales division, to provide a complete customer engagement solution strategy. As the industry is highly competitive, we intend to continuously adjust our pricing strategies on our equipment in order to maintain our customer base and gain market share.

b) **Have the board and management carefully analysed the competitive landscape and unanimously agree on such a strategy?**

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

With the best of our efforts, the Board and management had reviewed the competitive landscape in Singapore and debated and developed potential business strategies to overcome our challenges.

Profit margin (before tax) for the Fabrication and distribution business dropped from 14.9% to 8.2% in FY2017. In the Maintenance and servicing segment, profit margin (before tax) dropped from 5.4% to 1.4%.

c) **Going forward, what kind of profitability can shareholders expect if the group is going to be a price leader?**

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

The Company's business strategy is to be operationally profitable. However, we are not in liberty to share any forward looking forecasts.

Q2. As the business scales up, the group has also taken on increasing credit risks. The "recoverability of trade receivables from third parties" is one of two key audit matters highlighted by the Independent Auditor in their Report on the audit of the financial statements. Key audit matters are those matters that, in the professional judgement of the Independent Auditor, were of most significance in the audit of the financial statements of the current period.

As at 31 December 2017, the carrying value of the Group's trade receivables from third parties amounted to $8,045,098, which constitutes approximately 30% of the Group's total assets.

The age analysis of trade receivables that are past due but not impaired is as follows (page 105 – Note 30.1 Credit risks):

The age analysis of trade receivables as at the end of the reporting period that are past due but not impaired is as follows:

	Group	
	2017	**2016**
	$	**$**
Past due 1 to 60 days	3,756,660	3,833,533
Past due 61 to 180 days	1,084,154	1,621,423
Past due 181 to 365 days	711,687	534,952
Past due over 365 days	1,180,703	404,672
	6,733,204	6,394,580

(Source: Company annual report)

Trade receivables past due over 365 days but not impaired have increased by nearly two-fold to $1.18 million as at 31 December 2017, up from just $404,672 a year ago.

a) Are there extenuating circumstances that led to trade receivables past due over 365 ballooning to $1.18 million?

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

The increase is due to the increase in projects with longer lead time which the management believes is a common feature within the industry.

b) What is the breakdown of the trade receivables past due over 365 days by the number of debtors, amount owed, aging and the financial condition of the debtors.

<u>Company' Response</u>:

Management has monitored the Company's debt levels and has made adequate provisions.

c) What guidance has the audit committee (AC) given to management to ensure that the group does not take on excessive credit risk?

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

The audit committee has emphasized to management the importance of proper credit review and control.

d) How robust is the group's credit evaluation process? How does the AC oversee this?

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

The group has placed high importance on the credit evaluation process. The AC reviews the receivables on a regular basis.

Q3. On 17 January 2018, the company announced that it would be seeking a dual primary listing of its ordinary shares on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "SEHK") by way of a share offer.

Reasons provided for the GEM listing were:

- Ready access to two different equity markets in the Asia Pacific region
- Increase market visibility of the Company to potential customers
- Attract investors with different profiles such as private and institutional investors
- Potentially widen the investor and shareholder base of the Company, thereby improving the liquidity of its Shares

a) **Which of the reason is deemed mission-critical for the company at this stage of its growth?**

Company's Response:

The Company deems all the reasons for the GEM listing as equally important.

b) **Has the company estimated the total costs of the proposed secondary listing?**

Company's Response:

We have estimated the total costs of the proposed dual listing in HK.

c) **Although the proposed listing may increase market access, how does the board intend to position and market the group to investors in the HKEx since the group has no operations in the market (other than its first deal made in December 2017)?**

Company's Response:

We are not in a position to comment as this relates directly to HK dual listing.

d) **Would it be pre-mature for the company to seek a Hong Kong listing even before it achieves any foothold and/or scale in the Hong Kong/China market?**

Company's Response:

We are not in a position to comment as this relates directly to HK dual listing.

e) **Should the company successfully list on the HKEx, would the listing requirements of two exchanges be prohibitively high for a small company?**

Company's Response:

If the Company successfully lists in HK, the continuing listing costs will be higher.

f) **How does management ensure that the core operations in Singapore/Malaysia will not be disrupted or affected as management works towards the dual primary listing?**

Company's Response:

The management is still actively involved in the operations, whilst working towards the dual listing.

By Order of the Board

Chua Chwee Choo
Managing Director

27 April 2018

This announcement has been prepared by the Company and its contents have been reviewed by the Company's sponsor, CIMB Bank Berhad, Singapore Branch (the "Sponsor") for compliance with the relevant rules of the Singapore Exchange Securities Trading Limited (the "SGX-ST"), this being the SGX-ST Listing Manual Section B: Rules of Catalist. The Sponsor has not independently verified the contents of this announcement.

This announcement has not been examined or approved by the SGX-ST. The SGX-ST and the Sponsor assume 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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