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(Incorporated in the Republic of Singapore on 11 January 2018)
(Company Registration No: 201801590R)

RESPONSES TO QUESTIONS FROM THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE) IN RELATION TO THE ANNUAL GENERAL MEETING TO BE HELD ON 31 OCTOBER 2022

The board of directors (the "**Board**" or **"Directors"**) of ST Group Food Industries Holdings Limited (the "**Company**" and together with its subsidiaries, the "**Group**" and reference to **"we", "our"** and **"us"** means the Group) wishes to announce that it did not receive any questions from shareholders as at the cut-off timeline for submission of questions as at 1.00 p.m. on 22 October 2022.

The Board further refers to the questions raised by Securities Investors Association (Singapore) ("**SIAS**") in relation to the Company's Annual Report for the financial year ended 30 June 2022 ("**FY2022**"), and set out the Company's responses and the corresponding questions from SIAS below:

1. SIAS Question

Despite the pandemic, the group has grown its network to 148 outlets (as at 31 July 2022) from 113 outlets in 2019 when the company was listed. The group's network comprises 50 group-owned outlets and 98 outlets owned by its sub-franchisees and sub-licensees across its key geographical markets. The group continued to expand its network of sub-franchised and sub-licensed outlets, which increased from 82 outlets as at 30 June 2021 to 98 outlets as at 30 June 2022.

(i) How does the group identify new sub-franchisees and sub-licensees to grow its network? What are the criteria used by management to select its sub-franchisees and sub-licensees to ensure that the sub-franchisees and sub-licensees perform?

(ii) What is the typical duration of a sub-franchise and sub-license agreement?

The group disposed of its loss-making operations in Malaysia and acquired (a) an additional 40% stake in the Papparich Australia group of companies and (b) the Papparich trademarks for Australia and New Zealand. The cash consideration for the additional 40% was A$1,393,440. The group now holds 90% of Papparich Australia Pty Ltd. ("PAPL"). A charge to the company's equity of A$415,811 was recognised as the premium paid for acquisition of non-controlling interest.

Revenue for PAPL in 2022 had in fact decreased to A$8.9 million from A$10.5 million a year ago. Loss for the year was A$(1.78) million although A$(1.0) million was allocated to the non-controlling interest.

(iii) Can management elaborate further on the specific challenges faced by PAPL? What are management's plans to improve the operational and financial performance of PAPL?

The group continues to be on the lookout for complementary brands to build up its portfolio and enhance its market position as one of the leading F&B players in Australia, New Zealand and the UK.

(iv) How is management acquiring new brands to build up the group's portfolio? What is the profile of a brand that would be complementary to the group?

Company's Response

(i) To facilitate the growth of our network, the Group seeks out localised potential sub-franchisees and sub-licensees who have a good understanding of local consumers' tastes and preferences. Amongst others, key criteria used in identifying potential sub-franchisees and sub-licensees include their experience in the food and beverage (**"F&B"**) industry, healthy financial resources and their ability and level of commitment to devote time and effort in operating the business.

Despite the COVID-19 impact, we managed to expand our sub-franchised and sub-licensed outlets from either new enquiries through our website or from our existing sub-franchisees and sub-licensees taking on additional brands within our portfolio.

(ii) Typically, the tenure of the sub-franchise and sub-license agreements varies from 3 to 7 years. The lease term of the potential outlets is also taken into consideration.

(iii) Currently most of our "PappaRich" corporate outlets are full service dine-in restaurants offering a diverse range of Malaysian food which can accommodate approximately 70-100 diners. This has resulted in significantly higher operating costs during the COVID-19 period as we were unable to fully utilise the rented space due to COVID-19 restrictions rules. In contrast, during the COVID-19 period, our "PappaRich" kiosks/express outlets offering express menu located at train stations or university campuses recorded better performance due to lower operating costs. Moving forward, the Group plans to focus on expanding our "PappaRich" brand through our express model at strategically located areas with high foot traffic such as airports, train stations, universities and food courts which we believe will be more cost effective to operate.

(iv) As part of the Group's growth strategy, we continually identify global trends in the F&B industry and evaluate potential opportunities for the introduction of new brands which can leverage on our existing central kitchen facilities.

2. SIAS Question

As shown in the consolidated statement of comprehensive income (page 62), revenue increased by 4.7% but staff costs increased by 16.8% to $18.3 million. On page 11, it was disclosed that "*staff costs normalised in FY2022 following rationalisation exercises carried out in FY2021*" (page 11).

However, as a percentage of revenue, staff costs accounted for 38.9% in FY2022 (FY2021: 34.9%). The trend of increasing staff costs as a percentage of revenue is shown below:

FY2018 – 30.6%
FY2019 – 31.3%
FY2020 (restated) – 39.3%
FY2021 – 34.9%
FY2022 – 38.9%

(i) Can management help shareholders better understand the reasons for the increase in staff costs (as a percentage of revenue)?

(ii) What are the challenges faced by management in terms of manpower shortage? Which cities have fared the worst? Have manpower shortages impacted the operations, for example, shorter opening hours or reduced capacity?

(iii) How much automation can be/has been introduced to the group's workflow to raise productivity as a means to mitigate the manpower issue?

(iv) In addition, with more sub-franchised and sub-licensed outlets, would the company be benefitting from greater operational leverage and thus lower staff costs as a percentage of revenue? What guidance/target has the board set for the group in terms of operational and financial performance?

(v) Separately, while the company had paid an interim dividend of A$0.0017 per ordinary share on 11 March 2022, the board did not recommend a final dividend for FY2022 as the group plans to "*conserve cash for future outlet expansions*" (page 45). However, it is noted that the company invested $200,000 in a private equity (PE) fund that focuses on investments in the construction industry (page 128 – Note 22 Financial assets at fair value through profit or loss). Can the board help shareholders understand if it had approved the investment in the PE fund? Is the investment in a PE fund that focuses on the construction industry aligned with the group's strategic plans? What is the total commitment to the PE fund?

(vi) Given also that the company has sold treasury shares and bought back shares (sometimes just one day apart, such as on 24 & 25 February 2022), would the independent directors be reviewing the group's capital management framework and dividend policy? Would the dealing in the company's securities by the company itself be considered short-term?

<u>Company's Response</u>

(i)&(ii) In the midst of the pandemic for the financial year ended 30 June ("**FY**") 2021, the Group took various measures to rationalise staff costs including reducing staff wages based on business activity levels. These measures resulted in lower staff costs as a percentage of revenue in FY2021. Although COVID-19 lockdowns have generally been lifted in FY2022, the Group's operating environment remains challenging particularly in retaining existing staff and hiring new staff at pre-COVID 19 cost level due to the high inflationary conditions. The general staff shortages regardless of skill level across the countries in which the Group operates in and the increase in wages have contributed to the higher staff costs as a percentage of revenue in FY2022.

(iii) To provide positive customer experience and enhance production efficiencies, the Group has introduced self-ordering kiosks, contactless payment systems and various automated manufacturing equipment and inventory management system.

(iv) With more sub-franchised and sub-licenced outlets, the Group will benefit from better operational leverage as the Group will have higher royalty income without the need to incur direct outlet operational costs. Further, the Group will also benefit from an increase in demand for our central kitchen products which would increase the Group's revenue and income.

(v) Pending the use of the Company's funds for its future plans in accordance with the Group's growth and business strategies, the Company may use the funds to invest in short-term money market instruments and other suitable financial products from time to time. The decision to invest in such financial products is made by the management and subject to regular checks by the Board. As stated in the Group's audited consolidated financial statements for the year ended 30 June 2022, the Group has cash and cash equivalents of $7.76 million as of 30 June 2022.

(vi) The Board reviews the Group's capital management framework and dividend policy from time to time, including policies on when to sell treasury shares and to repurchase its shares. In managing the business of the Group, the management will monitor the available share capital of Company and existing market conditions and will only undertake the sale of treasury shares and/or the repurchase of its shares if it believes that it is in the interests of the Company and its shareholders

3. SIAS Question

On 14 October 2022, the company announced that there are material variances between the unaudited financial statements and the audited financial statements for the financial year ended 30 June 2022 following the finalisation of audit.

The announcement on the unaudited financial results was first released via SGXNet on 25 August 2022. The announcement of material differences came more 7 weeks months after the company first announced the unaudited financial statements.

Following the finalisation of audit, the loss of $(339,115) (unaudited) turned into a bigger loss of $(919,713) (audited). Non-current lease liabilities increased from $16.3 million to $20.0 million, an increase of $3.74 million.

Some of the reasons for the changes include:

- additional impairment losses on the right-of-use assets of non-performing outlets in view of recent unfavourable global economic outlook
- reclassification of capital reserves relating to NNCFI disposal group of A$0.4 million to retained earnings
- recognition of lease extension of 120 and 130 Turner Street, Port Melbourne of A$3.7 million
- reclassification of non-cash rent receivable in relation to a new sub-lease entered into during FY2022
- reclassification of a cash deposit payment for leasing of a vehicle from “Lease incentives received” to “Upfront payment for right-of-use assets”
- reclassification of a cash deposit payment

(i) Can the audit committee help shareholders better understand the underlying reasons for the material variances, such as the omission of the lease extension that happened in March 2022?

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

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

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

<u>Company's Response</u>

(i) Further to the Company's announcement on the Group's unaudited financial results for FY2022 on 25 August 2022, based on actual results subsequent to FY2022, the Group believes that additional impairment losses were required for non-performing outlets.

As for the recognition of lease extension of 120 and 130 Turner Street, Port Melbourne, Victoria, the Group exercised its option to extend its lease period for another 7 years earlier than its original option extension date. There was no change to all the other lease terms and conditions including the yearly rental. In view that there was no change to any of the other terms and conditions, it was an oversight of the Group to recognise the additional right-of-use assets of $3.7m and the corresponding lease liabilities of the same amount.

(ii) Due to shortage of staff force and preference of work from home arrangement, the Group had to hire staff with the right skills at higher cost as compared to pre Covid-19

(iii) The Audit Committee (**"AC"**) reviews the key financial risk areas, significant financial reporting issues and judgements made in the preparation of financial statements as well as results announcements and the audited financial statements of the Group. In the Board's opinion, the AC's role is adequate in overseeing significant financial misstatements or omissions in the financial statements.

(iv) The Group plans to integrate the production/manufacturing financial information with the accounting software to reduce and to minimise the workload and to enhance efficiency and accuracy.

BY ORDER OF THE BOARD

Saw Tatt Ghee
Executive Chairman and Chief Executive Officer
26October 2022

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*This announcement has been prepared by ST Group Food Industries Holdings Limited (the "**Company**") and has been reviewed by the Company's sponsor, United Overseas Bank Limited (the "**Sponsor**"), for compliance with Rules 226(2)(b) and 753(2) 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. 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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