HOSEN GROUP LTD.

(Incorporated in the Republic of Singapore)
Company Registration Number: 200403029E

RESPONSE TO QUESTIONS RECEIVED FROM THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE) ON THE ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2021 AND THE CIRCULAR TO SHAREHOLDERS DATED 7 APRIL 2022

Hosen Group Ltd. (the "**Company**") and its subsidiaries (collectively the "**Group**") refer to the questions received from Securities Investors Association (Singapore) ("**SIAS**"), in relation to the Company's Annual Report for the year ended 31 December 2021 ("**FY2021**") and the Circular to Shareholders ("**Circular**") dated 7 April 2022 in relation to the Company's proposed diversification of its existing business to include the property business. The Company's responses (in blue) to the questions from SIAS are set out below:

Q1. The group is one of Asia's leading importers, exporters and distributors of fast-moving consumer goods ("FMCG"), specialising in processed food. It now has an extensive and robust distribution network that spans across Asia, Europe, Middle East, Africa and the Oceanic countries and the group's house brands of products can be found in various continents of the world.

Following a panic-buying induced spike in FY2020, revenue in FY2021 moderated to $68.2 million (from $71.5 million) as consumer behaviour normalised. Net profit for the group in FY2021 was lower at $2.4 million compared to $2.9 million in FY2020.

As noted in the message from the chairman and CEO, to take advantage of the gradual opening of international borders as well as the further relaxation of pandemic restrictions, the group has increased its spendings on advertisement and promotion campaigns.

(i) **In view of the rising material, logistics and manpower costs, how much pricing power does the group have for its house brands products?**

(ii) **How much automation has the group introduced to its manufacturing processes?**

(iii) **Given the group's FMCG focus, especially canned products, can the company clarify on the benefits for the group from the additional advertisement and promotional campaign as international borders are re-open?**

(iv) **Similarly, would the relaxation of pandemic restrictions be viewed as a negative for the group? How does the group "take advantage" of the re-opening of economies?**

A1. *(i) Rising material, logistics and manpower costs have impacted most businesses across industries. People around the world are aware and are making adjustments in this inflationary environment. To a certain extent, with an increased acceptance of our brands of products through the years of brand building and the macro economic and geopolitic situations around the world, our customers are generally receptive to our gradual adjustment in pricing.*

(ii) Most of our products are mainly outsourced to third-party manufacturers under strict quality controls. The issue of automation by the Group therefore does not arise.

(iii) With the easing of national lockdown and the reopening of international borders by various countries, the Group will launch more promotion campaigns and participate in overseas exhibititions in order to increase the awareness of our House Brands' food products to new consumers and new markets.

(iv) Being in the consumer staple sector, our business are generally stable. Our products are consumed by both off-premise consumers as well as on-premise F&B operators. While home consumption may dip with the easing of safe distancing measures, the reopening of F&B outlets will re-juvenate our business in this segment.

Q2. The company is also proposing to diversity into property investment, property development and management of property-related assets (including property management services such as facilities management, serviced apartments, student accommodation, dormitories, landscape management and car park management) in Singapore, Malaysia and China.

As stated in the circular, the company listed as many as 29 risk factors, which include:
- The Group does not have a proven track record and business history in the operation of the Property Business
- The Group may face difficulties in implementing and integrating the Property Business and may be required to devote significant time and resources to the Property Business
- The Group's performance in the Property Business will be subject to exposure to macro-economic risks
- The Group is subject to the cyclical nature of the property market in the Territories
- The Group may not be able to identify, acquire, develop and/or sell profitable property development projects
- The Group is exposed to risks associated with property valuations and decline in property values in relation to its future investment properties

The main rationale for the proposed diversification is to reduce reliance on the existing food business and to create more revenue streams.

(i) **Can management help shareholders understand if it sees limited opportunities in the existing business of FMCG?**

(ii) **With no apparent synergy with the current core business of FMCG (specialising in packaged/canned food), would the group/management be venturing away from its core competence?**

(iii) **Did the group evaluate potential diversification into adjacent industries, such plant-based food start-ups, beverages?**

The group has total bank borrowings of $10.9 million as at 31 December 2021 and cash and cash equivalents amounted to $7.9 million. Total equity attributable to owners of the parent amount to just $32.9 million.

(iv) **How will the group be able to fund any meaningful projects in real estate given that it is capital-intensive?**

A2. *(i) & (ii) The Group does not consider that there will be limited opportunities in the existing FMCG business. The Group is commited to its current core business and will continue to grow our existing products base and range as well as further expansion of our distribution networks internationally.*

As mentioned in the Circular, the reasons for the proposed diversification of the Group's business to include the property business are to reduce reliance on its existing business and create more revenue streams for the Group, enhance shareholders' value and give the Group the flexibility to enter into transactions relating to the property business in the ordinary course of business.

(iii) The Group considers plant-based food is still in the infancy stage in this part of the world and requires a different supply chain infrastructure from our existing setup. While the Group is keeping ourselves abreast of this food trend, the new food category does not fit into our current product mix for the time being. Nevertheless, the Group does not rule out the possibility of carrying such product or products in other adjacent industries in the future if it adds business value to our portfolio.

(iv) The Property Business will be financed by the funds generated from operations of the Group, through secondary fund-raising exercises and/or borrowings from external parties (including banks and other financial institutions). The Directors will determine the optimal mix of internal funding and external borrowings, taking into account the Group's cash flow and prevailing bank financing costs, amongst other factors. The Group will remain prudent and take into account the financial health of the Group in deciding the types of property development and/or investment projects it undertakes, and the amounts thereof.

Q3. At the annual general meeting scheduled to be held on 29 April 2021, Mr Wee Piew will retire by rotation pursuant to regulation 106 of the company's constitution and will be seeking his re-election (Resolution 3).

The profiles of the directors can be found on pages 9 of the annual report. Additional information as required under Rule 720(5) of the SGX-ST Listing Manual Section B: Rules of Catalist on directors to be re-elected at the forthcoming AGM are set out in the Appendix to the Annual Report (pages 22 to 27).

Mr Wee Piew was appointed an independent director of the Company on 5 July 2004 and was re-designated as independent chairman after 13 years on the board in April 2017. Mr Wee Piew is the chairman of the audit and remuneration committees, and a member of the nominating committee.

(i) Mr Wee Piew has been on the board for approximately 18 years. **As the independent chairman, would Mr Wee Piew be holding himself to higher governance standards and lead by example, especially in setting the tone with regard to the tenure of independent directors?**

On 30 November 2021, Mr Tan Boon Gin, chief executive of Singapore Exchange Regulation (SGX RegCo), gave guidance that companies are expected to use the two-tier rule sparingly to promote renewal and succession planning.

(ii) **Can the NC provide shareholders with greater clarity on the near-term plans to facilitate the progressive renewal of the board in view of the guidance from SGX RegCo?**

(iii) **Will the continued appointment of the long- tenured independent directors delay the progressive renewal of the board?**

At the AGM on 29 April 2021, Mr Wee Piew's continued appointment as an independent non-executive director was approved by shareholders by way of two-tier voting process. As stated in the notice of meeting dated 7 April 2021, if approved, resolutions 8 and 9 on the continued appointment of Mr Wee Piew as an independent director shall remain in force until the earlier of: (a) the retirement or resignation of the director; or (b) the conclusion of the third AGM following the passing of this resolution.

(iv) **Given that Mr Wee Piew is slated to retire by rotation at the annual general meeting on 29 April 2022, should he be re-elected, will Mr Wee Piew be deemed non-independent as the approval for his continued appointment as independent director would have lapse upon his retirement?**

A3. *The Company has at its AGM held on 29 April 2021, obtained the approval from shareholders for the re-appointment of Mr Wee Piew as an Independent Non-Executive Director in accordance with Rule 406(3)(d)(iii) of the Listing Manual (Section B: Rule of Catalist) of the SGX-ST ("Catalist Rules"). As such, following the passing of the resolution in that AGM, Mr Wee Piew will remain as an Independent Director until the conclusion of the third AGM of the Company in 2024. Mr Wee Piew is also considered independent by the Board of Directors of the Company for the purposes of Rule 704(7) of the Catalist Rules.*

Notwithstanding that Mr Wee Piew had served as an independent director of the Company beyond nine years since the date of his first appointment on 5 July 2004, the NC and the Board, before putting up the re-appointment of Mr Wee Piew as an Independent Non-Executive Director in the last AGM and as reaffirmed in the annual report for FY2021, were of the view that Mr Wee Piew is independent as:

- *neither he and nor his immediate family members have any relationship or business dealings with the Group and the Company's substantial shareholders in the current or immediate past financial year;*
- *neither he and nor his immediate family members have been employed by the Company or any of its related corporations for the current or any of the past three financial years;*
- *he has, over the years, actively participated in the proceedings and decision-making process of Board meetings. The Board considers Mr Wee Piew to have made impartial advice and insights and have exercised independent judgement in doing so without dominating the Board discussions in these proceedings and/or meetings;*
- *he has constructively challenged and helped develop proposals on strategy and reviewed the performance of Management in achieving agreed goals; and*
- *he has provided overall guidance to Management and in protecting the Company's assets and shareholders' best interests.*

The NC and Board recognise that Mr Wee Piew has developed substantial insight of the Group's business and operations and will continue to add value to the Board.

Issued by
HOSEN GROUP LTD

23 April 2022

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