

## RESPONSES TO SIAS' QUESTIONS ON NEO GROUP LIMITED'S ANNUAL REPORT FY2016

29 July 2016

Neo Group Limited (“NGL”) has received questions from Securities Investors Association (Singapore) (“SIAS”) relating to the Annual Report for FY2016 as part of their initiative to improve the quality of Annual General Meetings (“AGM”). Our responses to the questions are as follow:

- 1. There are hints in the annual report about the group’s strategies – such as “fully integrated catering solutions provider”, “synergistic acquisitions” and “going global“. Besides solidifying the local leadership position in catering, could the Board share with shareholders the longer term vision for Neo Group Limited (“NGL”) in greater details? What would NGL look like in 5 years’ time? And in 10 years’ time?**

Response:

*Overall, in the long-term, while Food Catering will remain our core business focus, we’ve recently acquired TS Group and CTVeg Group, both leaders in their respective industries, which will allow NGL access to a sizeable distribution network across 29 countries. We hope to leverage on this global network to prudently export our proven business model into new markets and capitalise on growth opportunities – bringing local tastes to global markets;*

*Indeed, NGL has over the years prioritised organic growth through capturing greater market share by leveraging on our ability to provide comprehensive end-to-end food and catering solutions through our vertically-integrated value chain, strong portfolio of brands that appeals to various market segments and our established track record. In 2016, we have once again maintained our position as Singapore’s No. 1 Events Caterer with 14.7% market share in a S\$409 million events catering market, according to a report by Euromonitor dated April 2016;*

*In the near-to-mid term:*

- *We continue to do what we do best – to constantly push boundaries to offer differentiated value to our customers, to maintain the strong growth trajectory of our core Food Catering business;*

...cont’d

- *We are also working on strengthening our recurring income streams by pursuing more corporate clients and venue partnerships, as well as the creation of new and recurring B-to-C income streams, such as bringing TS' flagship products directly to consumers;*
- *Inorganically, through synergistic upstream acquisitions, our sourcing capabilities have been strengthened considerably, which brings along benefits such as diversification of income streams, economies of scale and cost savings. For instance, CTVeg Group now meets 100% of Neo Group's fruits and vegetables needs, giving us better control over cost and quality of supply, and reducing our cost by 20%. We will continue to be on the look-out for synergistic value-accretive M&A targets that complement our businesses, for us to strengthen our value chain to provide comprehensive food and catering solutions to our customers;*
- *On the operations front, we have always taken pride in being at the forefront of driving efficiency and productivity through automation and innovation. With the help of TS Group's expertise in Food Manufacturing, we are gradually upgrading our kitchen processes to achieve full automation that will also boost food consistency. We are also committed to uphold the best food safety standards – all our kitchens are ISO 22000 accredited, adhering to international food management system standards and each kitchen unit has a dedicated Food Safety Officer.*

2. **Specifically on the acquisitions – CTVeg Group and the proposed acquisition of U-Market/JCKC both appear to be immediately accretive, are synergistic to the core business and CTVeg, especially, was acquired at a good price. On the other hand, TS Group, as a surimi based food-manufacturer, does not appear to be significantly synergistic to NGL's core business. What are the new insights gleaned from the surimi/manufacturing business since the acquisition twelve months ago? Can the management share the concrete plans to turn TS Group around? Would the recent purchase of the larger property at 22 Senoko Way over-commit the group towards surimi/food manufacturing and the export business? The concern is that too much of the group's limited resources (including management time) will be diverted away from the core catering business which still generates the highest profit margins.**

Response:

*As for every acquisition, back-end integration and the turnaround of TS Group's bottom line requires some gestation time before the results of which can be reflected in NGL's financials. Relating to TS Group's losses, we have put both top line and margin-accretive turnaround strategies in place as follows:*

*...cont'd*

**Top line:**

- *Creation of new, recurring income streams – exploring opportunities to bring TS Group products, including popular DoDo brand of fish balls, directly to consumers (B-to-C), such as the new retail concept store, Kang Kar No. 1 Noodles and the launch of new consumer product lines;*
- *Exploring opportunities for expansion into new geographical markets, where competition is less intense and margins are potentially higher, while deepening footprint in existing markets;*
- *Ramp up branding/marketing initiatives such as refreshing the DoDo brand and leveraging on Neo Group's to capture greater market share and solidify its market leadership as the choice fish balls brand;*
- *Developing new market segments to bring TS Group products to corporates/hotels/restaurants/cafes; and*
- *Increased internal cross-selling to our Food Catering and Food Retail businesses.*

**Bottom line:**

- *The management is in the midst of refining the pricing strategies to optimise margin efficiencies as well as consolidating and streamlining operations such as the acquisition of the new facility at 22 Senoko Way. We hope that the costs will start to reduce once these processes and functions have been streamlined:*
    - *TS Group's current facility is operating at maximum capacity, the new and larger facility will allow sufficient space for automation projects and machinery upgrades;*
    - *The new facility, unlike TS Group's currently facility, has an existing cold room that is expected to generate significant rental savings as TS Group no longer needs to rent cold room facilities from external parties;*
    - *Consolidation of business functions and processes will allow TS Group to reap greater cost savings and operational synergies; and*
    - *With increased capacity, TS Group will look to ramp up B-to-C initiatives when the new facility is up and running;*
- ...cont'd*

- *Reduce financing and sourcing costs by leveraging on NKK's sourcing expertise; NKK is already starting to source for TS Group's surimi needs and hope to reach a sizeable scale soon for economies of scale to start kicking in;*

*With regards to business expansion costs, our M&A activities may incur costs in the near-term, but we are maintaining a long-term view on our business strategies so as to ensure long-term sustainable growth. We are concurrently exercising prudence in identifying potential M&A targets to ensure shareholders' interests are well protected – we are on the look-out for value accretive, 'bite-size' deals that add value.*

## QUESTION ON GOVERNANCE

3. **Mr Eugene Wong was instrumental in helping the group achieve its listing. He has the relevant experience and network to help the group, especially in the food retail segment. The group would have benefitted tremendously with him on the board as a Non-executive Director in the past 4 years. We note that Mr Wong has a near exemplary attendance at board meetings in the first three years but, for this financial year (page 35 in the annual report), Mr Wong attended 4 out of 7 board meetings and 3 out of 4 audit & risk committee meetings. Shareholders would like to hear from Mr Wong his commitment and past contributions to the group and how he envisages his continued contributions to the group.**

*Response:*

*Mr Eugene Wong responded that he is involved in various Boards and has been constantly involved and fully committed to attend Board meetings. As disclosed in the Annual Report, the attendance of Mr Eugene Wong in FY2016 was only 4 out of 7 Board meetings and 3 out of 4 Audit and Risk Committee Meetings as compared to the past years' full attendance. This is due to the adhoc meetings convened for the purpose of discussion on two major acquisitions projects which were not able to be scheduled in advance as speed for discussion to obtain approval is critical, unlike the 4 scheduled board meetings to discuss quarterly/full-year financial results as required by the Catalist Rules of Singapore Exchange, which Mr Wong has attended. Mr Wong was of the view that those adhoc meetings should be convened as soon as possible when there was quorum for meeting presented even though it is not able to accommodate his availability.*

*Despite of his absence at the physical adhoc meetings, Mr Wong has made efforts to review and study the related issues. He had raised his questions and comments as well as giving his valuable inputs to the Lead Independent Director and Chairman of the Group to facilitate the discussion so as to obtain favorable and justifiable results for the discussions. Mr Wong had also followed up on the discussions post adhoc meetings and contributed his feedback where necessary.*

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*From the standpoint of shareholder, Mr Wong is also deemed interested through his shares held in the name of Sirius Venture Capital Pte Ltd by virtue of Section 7 of the Companies Act, Cap. 50. He commented that he shares the same interest of other shareholders to constantly concern of the growth of Neo Group Limited. Based on Mr Wong's areas of expertise in business strategy, venture finance and F&B investments, he is truly committed and contributed his expertise and experience towards the growth of Neo Group's performance as a Non-Executive Non-Independent Director. Together with the Independent Non-Executive Directors, he aims to contribute by challenging and acting as a balance to Executive Directors, and be bold enough to question Management on behalf of shareholders so as to move towards achieving the business goal of the Group, mitigating the risks. Last but not the least, Mr Wong also serves to promote best practices of good corporate governance practice in the Group.*

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*This announcement has been reviewed by the Company's sponsor, CIMB Bank Berhad, Singapore Branch (the "Sponsor") for compliance with the Singapore Exchange Securities Trading Limited ("SGX-ST") Listing Manual Section B: Rules of Catalyst. The Sponsor has not independently verified the contents of this announcement. This announcement has not been examined or approved by the SGX-ST. The Sponsor and the SGX-ST 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. The contact person for the Sponsor is Mr Yee Chia Hsing, Head, Catalyst. The contact particulars are 50 Raffles Place, #09-01 Singapore Land Tower, Singapore 048623, telephone: +65 6337 5115.*