OCEANUS GROUP LIMITED

(Incorporated in the Republic of Singapore)
(Company Registration No. 199805793D)

RESPONSE TO QUERIES FROM SINGAPORE EXCHANGE SECURITIES TRADING LIMITED ON COMPANY'S ANNOUNCEMENT DATED 23 APRIL 2024 ON COMPANY'S ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2023

The Board of Directors ("**Board**") of Oceanus Group Limited ("**Company**" and together with its subsidiaries, the "**Group**") refers to queries raised by the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") dated 24 April 2024 regarding the Company's announcement on annual report for the financial year ended 31 December 2023 which was released on 11 April 2024.

Query #1:

1. Please provide further information regarding the following audit adjustments disclosed, including but not limited to the figures adjusted and accounting entries. With regard to point (c) below, please also elaborate on the reclassifications made.

(a) Variance regarding non-current assets: This variance mainly pertains to audit adjustments to lease liabilities and right-of-use assets arising from the Group's leased offices and facilities.

(b) Variance regarding non-current liabilities: In addition to the reclassification of loans and borrowings from non-current to current liabilities as detailed above in (iii), this variance is due to audit adjustments to non-current lease liabilities that were previously overstated.

(c) Net cash flow in operating activities/ Net cash used in investing activities/ Net cash used in financing activities: These variances are predominantly due to audit adjustment for the reclassification of cash flows between operating cash flow and financing cash flows.

Company's Response:

Please refer to the tables and notes

Consolidated Statement of Financial Position	Group FY2023 (Unaudited)	 FY2023 (Audited)	Variances	Note
Non-Current Assets				
Property, plant and equipment	3,925	3,846	-79	1
Right-of-use assets	3,890	2,815	-1,075	2
Investment properties	9,873	9,879	6	
Goodwill	579	579	-	
Intangible assets other than goodwill	243	288	45	
Investments in subsidiaries	-	-	-	
Investment in associate	170	151	-19	
Financial assets at FVTPL, non-current	2,340	2,063	-277	3
Other financial assets, non-current	-	-	-	
Total non-current assets	21,020	19,621	-1,399	
Non-Current Liabilities				
Lease liabilities	3,586	2,059	-1,527	4
Other financial liabilities	33,757	21,981	-11,776	5
Total non-current liabilities	37,343	24,040	-13,303	

Consolidated Statement of Cash Flows	Group FY2023 (Unaudited)	 FY2023 (Audited)	Variances	Note
Cash flows used in operating activities				
Loss before tax	-2,190	-1,107	1,083	6
Adjustments for:				
Allowance for impairment on investments				
Depreciation of property, plant and equipment	1,452	1,452	-	
Depreciation of right-of-use assets	-	1,075	1,075	7
Deprecation of investment properties	2,456	2,394	-62	
Depreciation of intangible assets other than goodwill	-	127	127	8
Gain on disposal of property, plant and equipment	-	-39	-39	
Gain on disposal of subsidiaries	-	-580	-580	9
Interest expense	-	5,214	5,214	10
Interest income	-	-114	-114	11
Goodwill written off	-	-	-	
Share of loss from equity-accounted associate	-	-	-	
Share-based payments	880	880	-	
Net effect of foreign exchange rate in consolidating foreign operations	1,878	5,095	3,217	
Operating cash flows before changes in working capital	**4,476**	**14,397**	**9,921**	
Inventories	17,412	17,412	-	
Trade and other receivables	-23,144	-29,056	-5,912	12
Other non-financial assets	-8,727	-1,997	6,730	13
Derivative financial instruments	-	27	27	
Trade and other payables	-2,972	-630	2,342	14
Other non-financial liabilities	-6,780	-8,326	-1,546	15
Net cash flows used in operations	**-19,735**	**-8,173**	**11,562**	
Income taxes paid	-1,198	-1,105	93	
Net cash flows used in operating activities	**-20,933**	**-9,278**	**11,655**	
Cash flows used in investing activities				
Purchase of property, plant and equipment	-	-808	-808	16
Purchase of intangible assets other than goodwill	-	-415	-415	
Increase in other financial assets	-246	234	480	
Disposal of property, plant and equipment	-	114	114	17
Interest received	-	114	114	18
Net cash flows used in investing activities	**-246**	**-761**	**-515**	

Cash flows from financing activities				**Note**
Issue of shares	-	-	-	
Lease liabilities – principal and interest portion paid	-	-1,177	-1,177	19
Increase in new loans and borrowings	13,167	13,167	-	
Increase / (decrease) in loans and borrowings	17,298	11,167	-6,131	20
Net movements in amounts due to directors	-	933	933	
Interest paid	-	-5,214	-5,214	21
Net cash flows from financing activities	**30,465**	**18,876**	**-11,589**	
Net increase / (decrease) in cash and cash equivalents	9,286	8,837	-449	
Effect of cash and cash equivalent denominated in foreign currencies	-204	72	276	
Cash and cash equivalents, consolidated statement of cash flows, beginning balance	10,300	10,098	-202	
Cash and cash equivalents, consolidated statement of cash flows, ending balance	19,382	19,007	-375	

Note

1 Reclassification of SGD29,000 in subscriptions fees that was previously recorded as property, plant and equipment (IT hardware & software). The balance being a reclassification to to intangible assets relating to software.

2 Reclassification of rental expenses to depreciation (and hence reduction) of right-of-use assets pursuant to FRS116

3 Reclassification of SGD277,000 to loans receivable (current asset) from financial assets at FVTPL (non-current asset)

4 Reclassification of SGD964,000 in lease liabilities from current to non-current liabilities, with the balance mainly being adjustment for office rental charges to be taken up to lease liabilities (hence reduction.

5 Reclassification of loans from third parties from non-current to current portion.

6 Variance is largely attributed to two audit adjustments. The first being a SGD0.58 million adjustment to account for gain on disposal of subsidiary Oceanus Food Group (HK) Limited, and the second being an SGD0.46 million adjustment for additional unrealised foreign exchange gain in subsidiary Season Global Trading Pte. Ltd..

7 Please refer to Note 2 above.

8 This includes adjustment in relation to Note 1 above in respect of PPE (software), and also adjustment for the amortisation of intangible assets in subsidary AP Media Pte. Ltd. following capitalisaiton of costs.

9 Due to audit adjustment to recognise gain from disposal of subsidiaries Oceanus Food Group HK Limited and Zhangzhou Oceanus Food Company Limited

10 Due to correction in relation to expense presented in the financing cash flows below, which was previously erroneously omitted.

11 Due to correction of error in relation to expense presented in the investing cash flows below.

12 Mainly due to audit adjustment to remove intercompany receivables and allowances from the disposal of subsidiaries Oceanus Food Group HK Limited and Zhangzhou Oceanus Food Company Limited on 19 July 2023,

13 Predominantly attributed to reclassification of trade payables balance of SGD7.1 million to advances to suppliers (other non-financial assets)

14 Please refer to Note 13 above. The remaining variance is mainly due to audit adjustments to reverse bank trade facilities (trust receipts) as a result of year-end cut-off procedures.

15 Please refer to Note 5 above.

Note

16 Due to correction as net proceeds from purchase and disposal of property, plant and equipment was erroneously recognised in foreign exchange effect in consolidating foreign operations.

17 Please refer to Note 16 above.

18 Please refer to Note 11 above.

19 Please refer to Note 2 above.

20 Please refer to Note 5 above.

21 Please refer to Note 10 above.

<u>Query #2:</u>

2. Please also clarify whether and how Listing Rule 704(6), which provides that an issuer must immediately announce if it has previously announced its preliminary full-year results, any material adjustments to its preliminary full-year results made subsequently by auditors, has been complied with.

Company's Response:

To support the increasing scale of business, the Company executed an upgrade of its Enterprise Resource Planning (ERP) system during the course of second half FY2023. The extensive transition involved a comprehensive cutover and migration of data, which extended the duration required for auditors to finalise the adjustments. This resulted in the release of the annual report, with a view to subsequently release details on the materials adjustments of the results as soon as practical prior to the annual general meeting. We expect that the implemented improvements will significantly streamline our audit processes, ensuring full compliance with Rule 704(5) going forward.

<u>Query #3:</u>

3. Query 2 states "Listing Rule 1207(10C) requires that the Audit committee's comment on whether the internal audit function is independent, effective and adequately resourced. On page 64 of the FY2023 Annual Report, we note that "In view of the above, the ARC will review and assess the adequacy, effectiveness and independence of the internal audit function of the Company from the financial year ending 31 December 2024 onwards.". Please disclose whether and how Listing Rule 1207(10C) has been complied with.".

The Company's response that "The Audit and Risk Committee ("ARC") is of the opinion that the Group's internal controls, including financial, operational, compliance, information technology controls and risk management systems are adequate and effective in its current business environment." does not address the query above. Please provide the relevant information as required under Listing Rule 1207(10C).

Company's Response:

As described on page 62 of the Annual Report FY2023, the Audit Committee of the company, now renamed the Audit and Risk Committee (ARC) as of 26 February 2024, has expanded its scope in response to the company's growth and evolving risk factors, including post-pandemic food security and digital transformation initiatives. The ARC is chaired by Mr. Edward Loy Chee Kim, a Certified Public Accountant with extensive experience in audit, financial restructuring, and risk management.

Key functions of the ARC include overseeing the audit process, assessing the external auditors' independence, ensuring effective internal audits, evaluating the company's internal controls, and reviewing risk management strategies and procedures. The ARC also addresses any potential conflicts of interest or corporate governance concerns, including reviewing transactions with interested persons and handling whistleblower cases.

To ensure that the Company's internal audit function is adequate and effective, the ARC has engaged the internal auditors at Mazars LLP ("Mazars"). Mazars is an international audit and advisory firm with more than 245 professionals in Singapore. It serves clients of all sizes across the Asia-Pacific, offering services in audit & assurance, consulting, financial advisory, outsourcing, tax, legal services, and internal audit. Mazars is a corporate member of the Institute of Internal Auditors Singapore.

The engagement team is led by Mr. Chester Liew, who leads the Risk Consulting and Sustainability practice in Singapore. Chester brings with him over 15 years of experience gained from international consulting firms and commercial companies. He has worked with multiple blue-chip listed companies in Southeast Asia and some of the world's largest multinational corporations, delivering a broad range of client-focused solutions, ranging from Business Process Improvements and Pre-IPO Internal Controls Review to Enterprise Risk Management, Quality Assessment Review, and Internal Audit. He has served various clients across Asia-Pacific, Europe, and the US in industries including manufacturing, distribution, technology, energy & utilities, healthcare, consumer services and products, e-commerce, as well as government bodies.

The ARC is also satisfied that the internal audit function is independent, as the internal auditors report directly to the Chairman of the ARC on internal audit matters. The ARC approves the appointment, termination, evaluation, and compensation of the internal auditors. The internal auditors adhere to the Standards for the Professional Practice of Internal Auditing and the International Professional Practices Framework (IPPF) set by the Institute of Internal Auditors.

Based on the above, the ARC is satisfied that the internal audit function of the Company is independent, effective, and adequately resourced.

Query #4:

4. Taking into consideration the material audit adjustments proposed by the auditors for FY2023 and prior years, please explain whether and how the Company's internal controls including financial, operational, compliance, information technology controls and risk management systems are adequate and effective as disclosed in its FY2023 annual report

Company's Response:

Taking into consideration improvements in the context of prior years of the Company, as opposed to indicating gaps in internal controls, they instead underscore the Company's commitment to continuous improvement and transparency in its financial reporting processes over the years.

Since the commencement of the Company's restructuring and management renewal exercise in 2015, significant strides have been made in enhancing governance, reporting quality and operational structures, this includes:

Technical Insolvency to Financial Health: The Company progressed from a state of technical insolvency to successfully exiting the SGX watch-list in September 2021, after a six-year period.
Audit Opinions: For the first time in nine years, Oceanus achieved a "clean" unqualified audit opinion in FY2019, resolving all legacy issues that had previously led to disclaimers of opinion from FY2011 to FY2017.
Governance and Transparency: The Company's Singapore Governance and Transparency Index (SGTI) ranking improved remarkably from 646th in FY2011 to 307th in FY2022, marking the best performance in the last decade.
Enhanced audit quality and resource in FY2023: Engaged a new audit partner and significantly expanded the audit team, tripling its size from prior year FY2022 to ensure more rigorous and independent evaluation.

The recent successful implementation of a new cloud-based ERP system (Oracle NetSuite) in FY2023 is a part of our ongoing efforts to improve internal process efficiencies and control mechanisms. This system is expected to further refine our financial reporting and operational controls, building on the strong foundation we have established.

To that end, the ARC and management team acknowledge the need to continue the Company's improvement in its standards of internal controls and financial reporting.

Query #5:

5. It is disclosed in the Company's response to our queries that, "The Company has complied with provisions 8.1 (as disclosed on page 56 to 59), whereby remunerations for each director, the CEO and as well as the CFO and COO were disclosed in bands of S$250,000 to below S$500,000."

Please note that (i) provision 8.1(a) requires the disclosure of the names, amounts and breakdown of remuneration of each individual director and the CEO, and (ii) provision 8.1(b) requires (1) the disclosure of the names, amounts and breakdown of remuneration of at least the top five key management personnel (who are not directors or the CEO) and (2) in aggregate the total remuneration paid to these key management personnel.

Please explain the reason for variation and clarify how the practices the Company had adopted are consistent with the intent of Principle 8 of the Code, which requires transparency on the Company's remuneration policies, level and mix of remuneration, the procedure for setting remuneration and the relationships between remuneration, performance and value creation.

Company's Response:

In the FY2023 Annual Report, the Company acknowledges a variation from Provision 8.1(a) of the Code, which mandates the disclosure of the remuneration of each individual director and the CEO. The Company has chosen to disclose this remuneration in bands of S$250,000. This approach provides shareholders with a clear overview of director and CEO compensation while maintaining alignment with the intent of Principle 8, which calls for transparency concerning remuneration policies, levels, and mixes. The detailed breakdown and the rationale behind our remuneration practices, which consider performance and value creation, are fully described in the report, ensuring that shareholders have sufficient insight into how remuneration is structured and its direct correlation to company performance and strategic objectives.

For Provision 8.1(b), concerning the disclosure of remuneration for the top five key management personnel, the Company notes that it has only two other key management personnel besides the directors, namely the CFO and COO. Given this smaller group, we have chosen to handle this information with a high degree of sensitivity due to its potentially disadvantageous impact on our competitive standing in the industry. Full disclosure of specific remuneration figures for these individuals could negatively affect our strategic human resource goals and our competitive position in a highly competitive market. By providing remuneration details in broader bands, we ensure necessary confidentiality while upholding the spirit of Principle 8, facilitating an understanding among shareholders of the general remuneration framework and its effectiveness in aligning management's interests with long-term shareholder value.

The Board and the Remuneration Committee believe that these measures, while varying from the exact provisions of the Code, are prudent and necessary, and do not compromise the governance principle of transparency as intended by Principle 8. The Company remains committed to providing sufficient information to shareholders to make informed decisions, while balancing this with the need to protect sensitive competitive information that could impact our business operations and strategic human resource objectives.

Peter Koh Heng Kang, PBM
Executive Director and Chief Executive Officer
26 April 2024