HOSEN GROUP LTD.

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

**RESPONSE TO QUESTIONS RECEIVED FROM A SHAREHOLDER
ON THE ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2020**

Hosen Group Ltd. (the "**Company**") and its subsidiaries (collectively the "**Group**") refer to the questions received from a shareholder of the Company, Mr Lin Yong Sheng Desmond, in relation to the Company's Annual Report for the year ended 31 December 2020 ("**FY2020**"). The Company's responses (in blue) to the questions from Mr Lin are set out as below:

[Q1] I refer to page86 of the Annual Report about "Segment information", particularly "Non-house brands". Despite increased revenue, why "Non-house brands" segment still suffered from segment loss of -$103K in 2020?

[A1] With the increase in revenue on Non-House Brands and the decreased loss allowance and write-down of inventories in FY2020, the loss on Non-House Brands segment in FY2020 decreased as compared to the higher loss in FY2019.

[Q2] I refer to page73 of the Annual Report about "Trade and other receivables". In the 1st sentence, it was stated that "Loss allowance on non-trade amounts due from subsidiaries arose mainly from a subsidiary with balance of $7,091,000 (2019: $6,214,000) which is suffering from significant losses from its operations where it is not probable that the balances due from this subsidiary will be recoverable in the foreseeable future." Which subsidiary is this? Why was it "suffering from significant losses"? What have the Board and Management planned to do to turn it around?

[A2] As our chocolate factory in Malaysia is relatively new, it requires more working capital support from the parent company for new product development as well as in developing new markets. As this subsidiary is currently loss making, the accumulated loan to this subsidiary of $7,091,000 has been treated as loss allowance over the past years. The Group has been looking for new customers and developing new products with an aim to increase productivity and sales.

[Q3] I refer to page73 of the Annual Report about "Trade and other receivables". In the 1st paragraph, at the last sentence, it was stated that "In addition, an allowance of $517,000 (2019: $471,000) has been made in respect of another subsidiary which had significant increase in credit risk based on lifetime ECL model." Which subsidiary is this? What went wrong? What have the Board and Management planned to do to turn it around?

[A3] The above-mentioned subsidiary was incorporated in FY2019 and is in the business of trading of frozen, dried, canned and seafood products. Due to the COVID-19 pandemic, it was not fully operational during FY2020. In view of this, the Group has provided the accumulated amount of $517,000 as loss allowance over the years.

[Q4] I refer to page70 of the Annual Report about "Financial assets, at fair value through comprehensive income". Noted that the Group's "unlisted equity investment in Singapore of $49,000 to be measured at FVOCI" now has a "carrying amount of $Nil". What is the nature of this "unlisted equity investment"? What went wrong? What have the Board and Management planned to do about it?

[A4] This item refers to an unlisted investment in equity shares of one of the Group's trading partners for long-term and strategic investment purposes. An allowance for impairment loss on the full amount of $49,000 had since been recognised in the income statement and therefore the carrying amount as at 31 December 2020 was nil. The Group will continue to hold the investment, notwithstanding that the cost of investment was fully provided for.

[Q5] I refer to page63 of the Annual Report about “Property, Plant and Equipment”. What was the nature of the Reclassification of $7.124m in 2020 from “Construction-in-progress” to “Leasehold building”?

[A5] The Company has announced on 7 September 2018 that its wholly-owned subsidiary, Hock Seng Food Pte Ltd, has entered into a contract, amongst others, for the construction of a new six-storey building for the purposes of future business expansion and as a warehouse at an estimated contract sum of S$7,200,000. The reclassification of $7.124 million from Construction-in-progress to Leasehold building was necessary following the completion of the building in FY2020.

[Q6] I refer to page66 of the Annual Report about “Property, Plant and Equipment”. Under the sub-header “Impairment testing”, it was stated that “Following the impairment assessment, the Group recorded an impairment loss of $517,000 in respect of the CGU’s plant and machinery, included in the “Other expenses” in the Group’s profit or loss.” Which “plant and machinery” suffered impairment of $517,000? What went wrong?

[A6] The plant and machinery were used by our chocolate factory in Malaysia. The Group carried out an impairment assessment and recorded an impairment loss of $517,000 in FY2019 in view of the under-utilisation of plant and machinery.

[Q7] I refer to page40 of the Annual Report about “Key Audit Matters’, particularly “Recoverability and Expected Credit Loss (“ECL”) of trade receivables from third parties”. It was stated that “As at 31 December 2020, the carrying amount of the Group’s trade receivables from third parties was $9,271,000, net of loss allowance of $1,781,000.” The loss allowance rate was very high at 19.2%. What went wrong? What have the Audit Committee planned to do to recover it?

[Q8] I refer to page70 of the Annual Report about “Trade and other receivables”. Noted that there was a “Loss allowance” for “Third parties” “other receivables” of -$423K in 2020, representing a higher Loss allowance rate of 40.0%. What were these “Loss allowance” pertaining to? What went wrong? What have the Audit Committee planned to do to recover it?

[Q9] I refer to page70 of the Annual Report about “Trade and other receivables”. Noted that there was a “Loss allowance” for “A related party” “other receivables” of -$387K in 2020, representing a total Loss allowance rate of 100.0%. On page84 of the Annual Report, it was stated that “Related parties refer to entities not within the Hosen Group, owned by family members of the executive director of the Company.” Which “related party” was it in this case? What went wrong? What have the Audit Committee planned to do to recover it?

[A7,8&9] As disclosed in the audited financial statements, the loss allowances provided for trade and other receivables were mostly bought forward from past years, summarised in the table below. The amount shown is on accumulated basis and has not been written off against the receivables.

Loss allowance provided	Balance at beginning of financial year	Balance at end of financial year
	$	$
Trade receivables	1,764,000	1,781,000
Other receivables	455,000	423,000

The term “related party” as stated on page 70 of the annual report bears a different meaning to that stated on page 84. The related party’s loss allowance of $387,000 was impaired for the advance payment to a company related to a corporate partner in a subsidiary and is not related to family members of the Executive Directors.

Although the chance for recovery of the loss allowance of the abovementioned doubtful debts is slim, the Group is still exploring ways to recover the sums where possible.

[Q10] I refer to page74 of the Annual Report about "Trade and other payables". Noted that "Accrued expenses" increased by 59% from $1.860m in 2019 to $2.963m in 2020?

[Q11] I refer to page25 of the Annual Report about "Corporate governance report". The following Directors' remuneration has increased during 2020.

No.	Name	Remuneration band (2019)	Remuneration band (2020)	Reason(s)
1	Lim Hai Cheok	S$250.000 to S$499,999	S$500,000 to S$749,999	
2	Lim Kim Eng	S$250.000 to S$499,999	S$500,000 to S$749,999	
3	Lim Hock Chye Daniel	Below S$250.000	S$250.000 to S$499,999	

Can the Remuneration Committee share what remuneration factor(s) specifically led to the increase for each of the 3 Directors? How much is attributable to each of these remuneration factor(s)?

[Q12] I refer to page81 of the Annual Report about "Profit/(Loss) before income tax". Noted that "Directors' remuneration" for "Directors of the Company" increased by $1.076m from $930K in 2019 to $2.006m in 2020. If the increase in "Directors' remuneration" in 2020 was in part due to increase in topline and bottomline in 2020, may I ask the Remuneration Committee what will happen to "Directors' remuneration" when demand/sales of our products "gradually revert to the pre-COVID-19 days in 2021"? And what will happen to "Directors' remuneration" if bottomline sinks into negative again?

[A10,11&12] The increase in directors' remuneration and in trade and other payables as well as a shift in remuneration bands are mainly due to profit sharing payable to the Executive Directors in accordance with their existing Service Agreements. The profit sharing payable to Executive Directors is based on the profit of the Group and not on the demand/sales of our products. When the Group records a loss for a financial year, for example in FY2019, there will not be any profit sharing for any of the Executive Directors.

[Q13] I refer to page84 of the Annual Report about "Capital commitment". How will the "capital commitment" trend be like over the next 2-3 years? How will they be funded?

[A13] Capital commitment refers to capital expenditure which has been contracted but not provided for in the statement of financial position. There is currently no material planned capital commitment for the next 2 to 3 years. Whether there is any capital commitment will depend on whether the Group has entered into any contract in respect of capital expenditure and not provided for on the financial year end date. Depending on the size of the capital expenditure, the Group may fund the capital expenditure by internal resources and/or borrowings.

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