



OCEANUS GROUP LIMITED

(the “Company”)

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RESPONSE TO THE SGX-ST'S QUERIES ON THE UNAUDITED FIRST QUARTER FINANCIAL STATEMENTS ANNOUNCEMENT AND ANNOUNCEMENT MADE PURSUANT TO RULE 704(5) OF THE SGX-ST LISTING MANUAL

Oceanus Group Limited (the “Company” and collectively with its subsidiaries, the “Group”) would like to respond to the questions raised by the SGX-ST on 13 June 2014 in respect of (i) the unaudited first quarter financial statements announcement for the 3 months ended 31 March 2014 (“Q1 FY2014 Results Announcement”) and (ii) the announcement made pursuant to Rule 704(5) of the SGX-ST Listing Manual (“Rule 704(5) Announcement”) released by the Company on 13 June 2014.

Q1 FY2014 RESULTS ANNOUNCEMENT

SGX'S QUESTION (1):

Please confirm if the utilization of net proceeds from the S\$28,250,000 is in accordance with its stated use (disclose reasons for deviation).

Company's response:

The Group has utilized the net proceeds of S\$28,250,000 raised from the Rights Issue, after deducting the related expenses of S\$800,000 as of 31 March 2014 as follows:

	Proposed allocation of proceeds S\$'000	Net Proceeds used S\$'000	Balance of Net Proceeds S\$'000	Notes
(i) Repayment of other loans and advances				
Repayment of loan and advances taken for the working capital of the Company's subsidiaries	11,085	11,085	-	
(ii) Repayment of bank loans	445	557	(112) ^F	(1)
(iii) Reconstruction of production facilities	1,555	1,640	(85) ^F	(2)

	Proposed allocation of proceeds S\$'000	Net Proceeds used S\$'000	Balance of Net Proceeds S\$'000	Notes
(iv) General Working Capital	15,168	14,725	443	(3)
Payment of Company's subsidiaries expenses:				
- Repayment of trade payables		2,664		
- Repayment of loan and borrowings		1,818		
- Abalone breeding project expenditure		506		
- Production and other operating expenses		4,672		
Payment of the Company's professional & legal fee		2,723		
Payment of the Company's other operating expenses		2,342		
Total	28,253	28,007		
Balance unutilised			246	
Total net proceeds	28,253	28,253		
Notes:				
(1) Variation due to foreign currency exchange differences and additional interest paid.				
(2) Variation due to foreign current exchange differences.				
(3) S\$197,000 was used for the repayment of bank loans (Item (ii)) and reconstruction of the production facilities (Item (iii)). A balance of S\$246,000 of the net proceeds is still unutilised as at 31 March 2014.				

RULE 704(5) ANNOUNCEMENT

SGX'S QUESTION (2):

Please explain the lack of documentary audit evidence for the following basis for disclaimer of opinion.

- (1) Biological Assets**
- (3) Supporting accounting Documents**
- (4) Property, Plant and Equipment**

Company's response:

The ex-General Manager and ex-CFO were not co-operative, maybe even defiant at times after the changes to the Board following the conclusion of the Company's AGM in July 2013. The change of management became urgent and logical as a result. The handing and taking over of the operations and finance was not easy for the new team as they had to confront the old management to gain access to the farms, records and explanations for certain actions taken. While the computerized accounting records were intact, the new team found that supporting documents were incomplete for some of the transactions recorded for the 9 months prior to the handing/taking over in late 2013 which were highlighted in the audited report. While the new finance team was able to find other evidence with great efforts to support these transactions, the old management should be responsible for the safe keeping of the records and ensuring that all financial transactions passed have sufficient supporting documentary evidence. The Company, together with its lawyers in Singapore and PRC, is currently investigating certain cases of possible improper conduct and transactions that occurred during the period under the old management. If sufficient evidence of such conduct is found, the Company will not hesitate to take appropriate actions.

Taking biological assets as an example which the Group has a set of protocol, the Group can only do a 100% count on a periodic basis such as at the time abalones are moved from juvenile tanks to be caged and kept in grow-out tanks or moved to the sea. Over time, these cyclical counts would have included a 100% count on the entire biological asset. On a weekly basis, during the period of feeding, the farm workers would count the empty shells in each tank. Apart from the above, the farm workers would also count the abalones post major disastrous event, such as being hit by a typhoon. These data would be collated and verified by the old finance team before posting onto the accounting system. However record entries in the past by the farm workers were simple and these records were kept in their personal note books. Post the last audit, the ex-CFO had agreed with the auditors to implement a set of formalized procedures to record and report the mortality of abalones on a regular basis; and to ensure proper documentation of reconciliation of discrepancies and adjustments to biological assets and completeness of count sheets; with proper review and approval by higher management. This was however not implemented. This lack of proper documentation is raised again as a disclaimer of opinion in the current audit for the full year ended 31 December 2013. The new CFO is working closely with the auditors to develop acceptable practices that can meet audit requirements.

In respect of the lack of supporting accounting documents highlighted in the disclaimer of opinions by the auditors, these could be mainly grouped into electricity billings, payroll, feed and sales. The insufficient supporting documentary evidence should not affect the true and fair nature of the financial statements because these transactions can be traced or tested in other ways.

- (1) Taking the example of electricity billings, the payment to the utility company which is a government organization can be traced via bank statements even though the original electricity bills were missing. The Company also managed to retrieve copies of most of these bills from the utility company but this was incomplete.
- (2) Similarly, the staff costs of the employees in Lianjiang and Huailai branches can be traced via bank statements and comparing these values with historical records even though the payroll documents could not be found.
- (3) The purchase of feed is recorded daily based on goods receipt notes and weighing records. Although these documents were missing, the feed amount can be traced via cash books, bank statements and monthly feed consumption against available abalone quantities.
- (4) Sales transactions are supported by sale agreements and payment receipts although the goods delivery notes were missing.

As to the Property, Plant and Equipment, this refers to the sea based farm in Lianjiang. The Company has been unable to access the sea-based farm as it is located in the village where the ex-General Manager is from. The Company is in the process of seeking legal recourse to claim the asset. Meanwhile, the Company has fully impaired the assets in its books and the abalones were already sold off in the audit year. Hence, this issue has no financial impact on the financial statement.

SGX'S QUESTION (3):

In relation to the Biological Assets in question (2) above, please explain how the auditors established the balance for biological assets as at 31 Dec 2013.

Company's response:

Due to the inherent nature and massive quantity of the inventories, the Company performed a sample count of the abalones on a periodic basis and a physical count of the abalones as at December 2013 according to its protocol. The auditors performed a physical count of a sample of the quantity of abalones in February 2014. The auditors then proceeded to review

the supporting documents on the reconciliation of the sampled items of abalones with the quantity of abalones from 31 December 2013 to February 2014 provided by the management. The auditors issued a disclaimer of opinion on the changes in quantity and existence of inventories at 31 December 2013 due to the insufficiency of supporting documents.

SGX'S QUESTION (4):

Following the lack of documentary audit evidence mentioned in question (3) above, please explain how the Company has addressed this internal control weakness.

Company's response:

The Company recognises the importance of maintaining a sound system of internal controls and risk management to safeguard the accounting records. After the change of management in late 2013, the internal control practice of the Group has been greatly strengthened. The current financial records have been properly maintained to ensure that financial statements give a true and fair view of the Company's operations and finances, and an effective risk management and internal control system has been put in place. In addition, a firm of internal auditors had been engaged by the Company to perform the internal audit function. The Audit Committee will review the activities of the internal auditors, including overseeing and monitoring the implementation of improvements required to address the internal control weaknesses.

SGX'S QUESTION (5):

On the issue of Going Concern, please provide the Directors' opinion on whether the Group and Company are able to meet liabilities as and when they fall due and the basis for such opinion.

Company's response:

The Company is in advanced discussions to obtain approximately S\$30 million loan and warrants from a new lender. The term sheet contains conditions involving the existing warrant holders and the Company is assisting to negotiate with these warrant holders. The term sheet is expected to be finalized and signed in the near future. In the interim, the Company plans to obtain bridging loans from shareholders to meet its operating capital needs. After the term sheet is signed, the Company may, if the need arises, seek financing from banks on the basis of this committed round of financing pending approval by the SGX-ST and shareholders. In the event the Company still requires funds to meet its operating needs, the Company may, as a last resort, dispose some of its farm assets. On this basis, the Board of the Company is of the view that the Group and Company will be able to meet liabilities as and when they fall due.

SGX'S QUESTION (6):

Please provide confirmation from the Board that there is sufficient information for the Company's securities to continue trading.

Company's response:

Although the supporting evidence of some of the accounting transactions in 2013 was either insufficient or unavailable, the Board was assured by the current CFO that the computerized accounting records were intact. The Board was further advised that the major items, in value terms, such as payrolls and electricity billings can be traced via bank statements. The new management team is dealing with government agencies or staff to ascertain whether the payments have been made. For another major item, feed, which involved cash transactions; the finance team has found that the expenses are consistent with the historical feed

consumption records, and daily recordings of the trucks and weighing records support this as well. In other words, while the records may not be satisfactory from the auditing point of view, other avenues of verification are nonetheless available to support these past transactions. Since the new CFO has taken over, there has been substantial improvement made by the new CFO and his team in terms of internal control and recordings of transactions. From this perspective, the Board is of the opinion that there is sufficient information for the Company's securities to continue trading.

BY ORDER OF THE BOARD

Dr. Ng Cher Yew
Executive Chairman

18 June 2014