



**OCEANUS GROUP LIMITED**  
(Incorporated in the Republic of Singapore)  
(Company Registration No. 199805793D)

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**RESPONSES TO QUESTIONS FROM THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE) FOR  
THE ANNUAL GENERAL MEETING TO BE HELD ON 29 APRIL 2021**

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The Board of Directors ("**Board**") of Oceanus Group Limited ("**Company**") refers to the notice of Annual General Meeting ("**AGM**") dated 14 April 2021 and the Company's announcement dated 14 April 2021 pertaining to the alternative arrangements for the AGM.

The Company has received certain questions from The Securities Investors Association (Singapore) and wishes to announce its responses to these questions ahead of the AGM.

Please refer to the Appendix for the list of questions and the Company's response to these questions.

**BY ORDER OF THE BOARD**

Peter Koh Heng Kang, PBM  
Executive Director and Chief Executive Officer  
28 April 2021

## Appendix

**Q1.** As noted in the message from the CEO, the group has successfully gone through the Clean Up Phase and is now concluding the Build Up Phase. The achievements in the past 5 years can be seen on page 34 (Financial & operational highlights).

The next Tech Up Phase will see the group focus on developing deep tech solutions aimed towards the development of a sustainable food production and distribution framework.

In FY2020, revenue increased by 858% to \$92.1 million, the highest turnover since the group's listing in 2008. The group now spans the following services:

### FOOD PRODUCTION



### DISTRIBUTION



### SERVICES



### INNOVATION



(Source: company annual report)

In the distribution segment, the group now has over 2,000 different FMCG products with distribution in 16 countries (page 31), focusing on frozen meat and fresh seafood goods.

- (i) **Can the company let shareholders know where they can find the group's products in Singapore and/or online?**

#### **COMPANY'S RESPONSE**

Although our FMCG distribution business is primarily focused on business-to-business ("B2B") distribution for economies of scale, we have several products (i.e. canned abalone, bird's nest etc) that is offered to consumers and which is available on online marketplaces such as Shopee, Qoo10 and our own e-commerce platform SGfarmer.com.

*The FMCG distribution business is carried out by the new 50.1%-owned subsidiary, Season Global Trading Pte Ltd.*

- (ii) **Can management help shareholders understand this new and major operating subsidiary that boosted the group's performance in FY2020? Please disclose the management team, its staff strength, the business model, value proposition and the main products.**

**COMPANY'S RESPONSE**

Our operating subsidiary, Season Global Trading Pte. Ltd. ("**SGT**"), was incorporated in collaboration with Season Hong International Trade Limited, a company that operates a FMCG business and has over the past 40 years established itself as a FMCG distribution leader in China, Middle East as well as Asia Pacific.

Currently, SGT has a team size of 6 including the following 3 key management personnel all based in Singapore:

- Sammul Lin (CEO)
- Shero Dong (COO)
- Derrick Tan (Procurement Director)

Pursuant to the collaboration agreement between the parties, financial control of SGT is ceded to Oceanus Group and the SGT team is supplemented by the Oceanus Group finance department which includes Tan May Ling, our Group Financial Controller.

The team is currently being expanded in view of increasing levels of business activities.

SGT's current business model involves the global procurement of FMCG goods and selling these goods to an established customer base, predominantly comprising of large distributors in Hong Kong and Mainland China. SGT's value proposition lies in its access to a wide network of suppliers as well as customer base.

The main products traded during FY2020 were beverages. There are plans to expand into meat, seafood and snacks products this year.

- (iii) **Can management confirm that the main market is Hong Kong? If so, what is management's experience and track record of trading in Hong Kong?**

**COMPANY'S RESPONSE**

SGT's main market is Hong Kong and Mainland China. It also deals extensively with global suppliers, based across Europe, Asia and the Middle East.

The management team has over 35 years in cumulative experience within the areas of sales and procurement, having spent significant periods of their careers both in the Hong Kong/China region, as well as other countries.

- (iv) **What is the contribution by its 49.9% partner (Season Hong), other than capital?**

**COMPANY'S RESPONSE**

Season Hong International Trade Limited is an established FMCG player with a matured network of global suppliers and customers in Hong Kong and Mainland China and their contribution is this network as well as their expertise in the product lines that they have been sourcing and distributing prior to the collaboration.

Board members of SGT are as follows:

1. Peter Koh (Group CEO of Oceanus Group)

2. Duane Ho (Group CFO of Oceanus Group)
3. Daphne Lim (Group Director of Oceanus Group)
4. Sammul Lin (CEO of SGT)
5. Lin Shaonan (Director of Season Hong)

The AC has assessed that Oceanus has effective control over SGT based on the following grounds:

- the Board of SGT comprises a majority of directors nominated by Oceanus and the Board is in charge of the management of the business of SGT.
- Oceanus has majority voting rights in SGT allowing Oceanus to vote for and pass any ordinary resolutions relating to SGT.
- the bank accounts of SGT are controlled by the finance department of Oceanus Group
- the relevant terms of the shareholders' agreement ("**Agreement**"), SGT's constitution and the facts and circumstances of SGT's business and operational arrangements do not derogate from the above control exercised by Oceanus.
- the current internal reporting structure and their knowledge of SGT's present business arrangements and practices

Based on the above, the AC assessed that, and the independent auditors have accepted that, the Group has satisfied the requirements in SFRS(I) 10 and Consolidated Financial Statements (SFRS(I) 10) in accounting for SGT as a subsidiary and that the Group has the ability to exercise control over SGT.

**Q2.** *As can be seen from the consolidated statement of cash flows, profit before tax from continuing operations amounted to \$9.09 million in FY2020. The group net cash flow used in operating activities was \$(20.5) million (page 98). The main changes in the group's working capital were:*

- *Inventories: \$(15.0) million*
- *Trade and other receivables: \$(15.1) million*
- *Trade and other payables \$4.3 million*

*For FY2020, net cash flows used in operations was \$(20.5) million, up from \$(2.2) million in FY2019. Cash and cash equivalents at the end of the year amounted to \$11.5 million (page 99). The group's net debt-to-adjusted capital ratio was 35% (page 159).*

- (i) *In Note 20 (page 154 – Inventories), it can be seen that inventories comprised mainly of \$14.6 million of "Goods in transit". The group held just \$42,000 in inventories (at cost) but has \$14.6 million of "Goods in transit". As seen from the consolidated statement of profit or loss, cost of inventories for FY2020 was \$82.738 million. **Can management help shareholders better understand the business model/logistical aspect of its trading business? In its accounting policy, when are goods considered as "inventory" and when is revenue recognised?***

#### **COMPANY'S RESPONSE**

Our B2B FMCG distribution business, which contributes most of our distribution revenue, predominantly runs on an "inventory-light" model. This means that immediately upon receipt of goods from suppliers at receiving docks, goods are then sold and collected by customers at the port of destination. "Goods in transit" relates to such goods that are still in shipment and yet to reach its port of destination. This forms the bulk of the company's inventory balance.

The SGD42,000 of inventories (at cost) pertains to stock held for consumer-level sales located at our Singapore warehouse.

Revenue is recognised when the title of goods are transferred to customers and such customers are simultaneously invoiced for the goods.

- (ii) *Net trade receivables as at 31 December 2020 amounted to \$16.2 million (Note 21 – Trade and other receivables; page 155). On page 157, it was disclosed that the top #1 customer had receivables of \$8.155 million while the next largest customer accounted for \$6.786 million as at 31 December 2020. The third largest customer had receivables of just \$167,000. Can the company disclose the identities/profiles of its top 2 customers? Has the board evaluated the customer concentration risks of the group? What is the level of oversight by the board on the group's compliance to its credit risk policies? Are the receivables current?*

**COMPANY'S RESPONSE**

Due to the high level of competition within FMCG trading industry, it will not be in all stakeholder's interest to disclose the names of our customers as this is commercially sensitive.

SGT commenced its business in Q2 of FY2020 with its most reliable and key customers as it was careful to ensure that SGT will be successful from commencement and result in higher levels of trade and receivables. Over time, SGT intends to grow its customer base and reduce the concentration risk of the business.

The independent auditors and the Group's bank lender (UOB) have conducted reviews on our customers in relation to their credit risk and onboarding due diligence processes. The Board is provided with periodic detailed updates on all aspects of SGT's business, including its credit risk policies and its compliance with such policies.

In fact, as at 31 December 2020, 86% of the group's SGD16.2 million trade receivable balances were current. To date, 98% of this balance has been fully collected.

- (iii) **Investment in debt assets instruments at FVTPL:** *The group invested \$5 million in a Principal Protected Note with a principal amount of \$5 million (page 150). Is this investment in line with the group's long-term growth objectives? Did the board approve the investment? How was the note selected?*

**COMPANY'S RESPONSE**

This is part of the Group's plans to efficiently invest capital that is not expected to be deployed in the nearer term into investments that would allow higher returns beyond that of bank deposits. Details of this investment were provided to and approved by the board.

- (iv) **Investment in quoted fund at FVTPL:** *Similarly, the group has \$2 million in a quoted fund (page 151). Is this investment in line with the group's long-term growth objectives? Are these investments made with using what the group considers as excess capital that cannot be deployed in the core business?*

**COMPANY'S RESPONSE**

Investments in quoted funds represents investments in an Investment Grade A money market fund that not only provides returns higher than that of bank deposits, but also preserves a high level liquidity, with the ability to draw down within a 2-day period. This is in line with the Group's growth objective as it allows the Group to deploy near-term working capital and obtain a higher return which can be easily drawdown for use in our core segments.

**Q3.** *The company has stated that the audit committee (AC) is assisted by various independent professional service providers and the company's Compliance Department.*

- (i) **Can the AC elaborate further on the identities of the independent professional**

**service providers and describe in detail the scope of their engagements?**

**COMPANY'S RESPONSE**

Apart from the Compliance Department, reviews have been conducted by IT specialist service provider (eWorkz Information Pte Ltd) in ensuring controls against cyber risks and leakage of confidential or market-sensitive information. Various risks reviews have also been conducted by RSM Chio Lim LLP during the course of their independent audit which has been presented to the company by way of a management letter.

As part of the company's plans to improve further on its risk assessment and internal control reviews, it has commenced plans to engage an independent third-party internal auditor that will report directly to the company's AC. The company plans to engage such a service provider by Q2 FY2021.

- (ii) **Can the AC clarify if it has delegated the responsibility to review the internal audit to the company's Compliance Department?**

**COMPANY'S RESPONSE**

The Compliance Department is responsible for the company's internal audit function. The AC remains responsible for the review of (i) the adequacy and effectiveness of the company's internal controls and risk management systems and (ii) the adequacy, effectiveness, independence, scope and results of the company's internal audit function carried out by the Compliance Department. The Compliance Department, in its conduct of the internal audit function, reports to the AC.

As part of the company's plans to improve further on its risk assessment and internal control reviews, the company has commenced plans to engage an independent third-party internal auditor that will report directly to the company's AC. The company plans to engage such a service provider by Q2 FY2021.

- (iii) **Can the AC clarify if the Compliance Department complies with the standards set by nationally or internationally recognised professional bodies, such as the International Standards for the Professional Practice of Internal Auditing set by The Institute of Internal Auditors?**

**COMPANY'S RESPONSE**

The Compliance Department's work scope takes reference from the relevant standards. Policies are in place to ensure the adequacy and effectiveness of the company's Compliance Department in carrying out the internal audit function. This includes a direct primary reporting line from the department to the AC, whereby the Compliance Department is to conduct a review and present findings in respect of the Group's internal controls and risk management procedures on a quarterly basis directly to the AC. The AC approved the hiring of department based on relevant qualifications and experience. The AC is also responsible for reviewing the Compliance Department's performance and determining its work scope and areas of focus for each period.

The AC also reviews the adequacy and effectiveness of the Oceanus Group's internal audit function on an annual basis.

- (iv) **For FY2020, what was the scope of the group's internal audit workplan? Were all the major operating subsidiaries, including foreign subsidiaries, covered in the internal audit?**

**COMPANY'S RESPONSE**

For FY2020, the scope of the Group's internal audit workplan covers the entire

Oceanus Group and its various operating segments. A summary of this scope is separately at the end of this appendix as “Compliance Department Scope of Review FY2020”.

The AC has formally granted the Compliance Department full authority to carry out its work scope which is as follows:

- Conducting internal reviews and audits;
- Conducting operational audits to ensure the Group meets operational requirements;
- Advising internal management and business partners on the implementation of compliance programs;
- Developing risk management strategies;
- Following up on compliance issues that require investigation;
- Evaluating compliance systems issues that require investigation;
- Reporting on compliance-related findings and recommendations; and
- Ensuring the Group’s internal controls are updated and in line with best practices in the industry.

Given the volume and nature of the Group’s distribution business in FY2020, significant focus was placed on the review of subsidiaries within the its Distribution segment (i.e. Season Global Trading, Oceanus Food Group Pte Ltd).

**(v) What were the key findings of the internal audit?**

**COMPANY’S RESPONSE**

Set out below are key findings by the Compliance Department’s during their review in FY2020:

<b>Key findings</b>	<b>Inherent risks</b>	<b>Recommendations / Conclusion</b>
Inefficient storage usage and limited space for goods	<ul style="list-style-type: none"> <li>• Spill over of stock outside storage results in misappropriation risks</li> <li>• Unauthorised access</li> <li>• Stock count errors</li> </ul>	<ul style="list-style-type: none"> <li>• To conduct physical reorganisation</li> <li>• Conduct periodic review of security footage</li> </ul>
Significant time lag between goods receipt and invoices from suppliers	<ul style="list-style-type: none"> <li>• Erroneous supplier transaction documentation</li> </ul>	<ul style="list-style-type: none"> <li>• Found to be instances whereby suppliers were willing to ship goods prior to invoicing/order confirmation due to longstanding relationship</li> <li>• Management to monitor closely</li> </ul>
Shipper and consignee parties details differ in various bill of lading	<ul style="list-style-type: none"> <li>• Incorrect shipment data recorded</li> </ul>	<ul style="list-style-type: none"> <li>• Found to be due to specific instructions from both suppliers and customers</li> <li>• Staff to keep record on file of such specific instructions</li> </ul>
Customer and supplier information on file varying in details	<ul style="list-style-type: none"> <li>• Impaired transparency on customer/supplier information</li> <li>• Impact on ability to tap on financing facilities provided by banks</li> </ul>	<ul style="list-style-type: none"> <li>• Ensure complete information during onboarding and due diligence phase</li> </ul>

All the above recommendations have been accepted by the AC and are currently being put into action by management.

**[Additional comment] Q3.** *On 13 April 2021, the company announced that it had submitted its application to SGX-ST to exit the watch-list. The company was first put on the watch-list on 14 December 2015. The company was granted its fourth extension of a further 19 months until 1 March 2021 to meet the requirements to exit the Watch-List as set out in Listing Rule 1314.*

- (i) **When does the company expect a reply from SGX-ST?**

**COMPANY'S RESPONSE**

As announced on 13 April 2021, the company has submitted an application to exit the watch-list. To date, save for clarificatory queries, we have not received any updates from the SGX-ST. We will be providing shareholders with a timely update on further developments.

- (ii) **Is there a sufficient track record by Season to demonstrate that the group is profitable given that there are still significant receivables outstanding?**

**COMPANY'S RESPONSE**

As at Q1 2021, all outstanding trade receivables in Season Global Trading as at 31 December 2020 have been fully paid up. Significant attention is paid towards the quality and credibility of customers onboarded, which is evident in the track record of zero doubtful debts allowances throughout FY2020.

- (iii) **Has the group's business been affected as a result of the company being watch-listed?**

**COMPANY RESPONSE**

The Company carried out its plans and business whilst being on the Watch-List, making it more challenging for the Company to grow its business. As the Company pushes forward to further improve and better its business for its stakeholders, the company is looking forward to being able to take the Group to further heights once it exits the watch-list.



**Compliance Department Scope of Review FY2020 (in response to question 3(iv))**

Segment	Operating Entities	Country	Strategic		Operations						Financial		
			Governance	Resource Allocation	Physical assets	IT	Sales & Marketing	Supply Chain	People / Human resources	Hazards	Cash management	Tax	Reporting
Holding	Oceanus Group Limited	Singapore	x	x						x			
Food Production	Oceanus (China) Aquaculture Co. Ltd	China			x	x	x			x	x	x	
	Zhangzhou Oceanus Food. Co Ltd	China								x	x	X	
	Fujian Sheng Li Seafood Co Ltd	China					X			x	X	x	x
	Asia Fisheries Pte Ltd	Singapore / Indonesia	x	x		x	x	x		x		x	x
Distribution	Oceanus Food Group Pte Ltd	Singapore								x			
	Season Global Trading Pte LTd	Singapore / China	x				X	x		X			
	Xiamen Oceanus Import and Export Ltd	China	x				X	x			x	x	x
Services	Oceanus Tech Pte Ltd	Singapore								x			
	AP Media Pte Ltd	Singapore	x		x		X			x	x		
	Capy Comm Pte Ltd	Singapore								X			
	AP 360 Marketing Sdn Bhd	Malaysia	x							X	x		x