OCEANUS GROUP LIMITED

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

RESPONSES TO SIAS'S QUERIES IN RELATION TO THE 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 the Company's annual report for the financial year ended 31 December 2023 which was released on 11 April 2024.

The Board wishes to inform shareholders that the Company has received queries from the Securities Investors Association (Singapore) ("**SIAS**") on 16 April 2023 and is providing its responses to these queries below.

Q1. In the message to shareholders, the CEO emphasized the company's ambition to be the Asian leader in food security. The group's mission is to create a more efficient and resilient global food marketplace to facilitate seamless food flow.

The group has made strategic investments to create Oceanus Digital Network, or ODIN, a digital platform for payments and financing of food trade. Management holds significant ambitions for ODIN, positioning it as a 'global blockchain-enabled digital exchange.' ODIN operates through ODIN Pay, ODIN Finance, ODIN Market and ODIN Warehouse Management Service.

Additional information on ODIN can be found on pages 36 to 43 of the annual report.

(i) **Which global leaders in food security does the group aspire to emulate or model its growth after?**

Company Response :

Our search within the global food security sector revealed predominantly state-owned entities focused on needs of their own respective countries, driven by geopolitical or economic agendas. In contrast, Oceanus Group operates with a global, commercial scope, transcending national boundaries.

This unique position underscores a significant opportunity. The global food security ecosystem lacks a commercial intermediary capable of bridging state-owned entities across regions, enhancing interconnectedness and efficiency in the global food trade network.

We are ideally positioned to bridge this gap, especially as a company that carries the Singaporean brand's power of neutrality and the credibility of a public company. By leveraging our expertise and digital platforms, we aim to make a substantial contribution to global food security, in line with our mission to create a seamless and resilient worldwide food marketplace.

(ii) **How much has been invested in ODIN and what were the losses in 2023?**

Company Response :

In developing the ODIN platform, Oceanus Group has strategically used existing resources, drawing on the skills and expertise of our staff across all subsidiaries. This approach allowed us to innovate without the significant financial investments typically required for new technology platforms.

Our research of the competition suggests that developing a similar platform usually takes about five to seven years with an investment of SGD 20 to SGD 30 million. This cost accounts for research, development, testing, and deployment, which is standard for building scalable digital platforms in the global trade sector.

However, Oceanus has set itself apart by using its extensive trade network to develop ODIN. This strategy has allowed us to build the platform more cost-effectively and on a faster timeline than usual. By using internal resources and existing infrastructure, we have significantly cut typical costs and sped up the development process, enhancing our competitive position in the market.

(iii) **What investment hurdle rate was used by the board to approve the group's investments into the digital platform?**

Company Response :

In providing context, it's important to note that Oceanus Group is currently in the Tech Up phase, which forms a core part of our digitalisation process. This strategic move is essential to remain relevant and competitive in today's fast-evolving marketplace.

The development of the ODIN platform, therefore, was not pursued with a conventional investment approach that focuses solely on immediate financial returns. Instead, we recognise that ODIN's value is long-term and widespread, impacting various segments of our group by offering considerable tangible and intangible benefits.

Given ODIN's nature and broad applications, it is crucial to set specific operational milestones rather than conventional financial hurdle rates. These milestones include the number of active customers onboarded, cost savings achieved, speed of transactions, efficiency of virtual account openings, and the development of innovative trade financing solutions. We are pleased to report that our initial phase targets have been successfully met. Moving forward, the Group is setting more ambitious targets to further leverage the platform's capabilities.

(iv) **How much total investment has the board approved for ODIN, and when does it expect ODIN to achieve breakeven?**

Company Response :

As previously noted, the development of the ODIN platform strategically utilised existing resources within Oceanus Group, and the recruitment of talent. This prudent approach allowed us to preserve available cash for other critical areas, particularly in enhancing and growing our trade volumes. The investment in ODIN was thus integrated with our ongoing operations, leveraging our existing capabilities and infrastructure.

Regarding the financial outlook for ODIN, while the platform enhances profitability across all subsidiaries by streamlining operations and improving efficiencies, it is also projected to achieve financial breakeven on its own within the next five years.

(v) **How is revenue related to ODIN recognised in the group's financial statements? Specifically, under which of the four operating segments (Live marine products, Trading, Consultancy or Others) will the revenue be recognised?**

Company Response :

As ODIN is presently in utilised within a sandbox environment across our multi-region subsidiaries, it does not currently contribute significantly to the Group's revenue.

Looking forward, Oceanus Group envisions ODIN evolving into a standalone product targeted at the global trade industry market. Upon reaching this stage, it is the management's intention to establish ODIN as a separate revenue and profit-generating unit. This will involve recognising ODIN's financial contributions independently.

(vi) **What specific performance targets has management set for each of the four services within the ODIN ecosystem?**

Company Response :

Oceanus Group has an expansive operational presence, trade routes and partners across 12 countries, positioning the company as the optimal platform for ODIN to launch its four services on a global scale. Therefore the near term primary performance target we have established is for all our subsidiaries globally to fully integrate ODIN into their operations. We have set a strategic target for complete adoption by the first half of 2025.

(vii) **How many users/customers have been successfully onboarded and how many are considered active users?**

Company Response :

Within the initial six months of launching ODIN, we have successfully onboarded more than 10 active companies. All of these companies are actively transacting through ODIN Pay, which underscores the platform's immediate impact and effectiveness. To date, ODIN Pay has facilitated transactions totalling S$98 million.

We are continuously seeking to expand our client base to further increase the Gross Transaction Value (GTV) through the platform, demonstrating our commitment to enhancing the utility and reach of ODIN in the global trade sector.

Q2. Would the board/management provide shareholders greater clarity on the following matters? Specifically:

(i) **China – Could management provide insight into the factors enabling the significant revenue growth in China (from $63.0 million to $134.4 million), especially amidst reports of economic slowdown and weakened consumption trends? What specific operational achievements contributed to this increase?**

Company Response :

In light of Oceanus Group's significant transformation during our Build-Up phase, moving from abalone farming to a business with diversified pillars, we've aimed to remain relevant by entering new markets ripe with opportunity. Despite a general dip in demand for luxury goods in China, our diverse product offerings, ranging from staples to fast-moving food items, have maintained strong demand and continued to resonate within the market.

Crucial to this growth has been our ability to secure innovative financing solutions in partnership with UOB Bank, alongside global logistics support from Chu Kong Shipping. Another key contribution is our success in obtaining exclusive distribution rights for a variety of fast-moving consumer goods.

(ii) **Similarly, what strategies were employed to drive revenue growth in Singapore?**

Company Response :

As a proud Singaporean company, Singapore remains an important market for us. Our strategy is to build our global presence first, then apply the international experience to nurture and expand our local market, which we believe will yield greater success in a competitive and smaller market like Singapore.

(iii) **With the top two customers accounting for $104.1 million in revenue, has the board evaluated the group's customer concentration risk?**

Company Response :

Customer concentration is a metric that our group continuously reviews and seeks to improve. Notably, the number of new customers have been doubled, and revenue attributed to our top two customers have reduced by 10% in the past 12 months. This is a testament to our ongoing strategy on diversifying our customer base.

(iv) **Likewise, with China and Hong Kong contributing over $245 million in revenue, does the board view a China-centric strategy as advantageous or does it pose potential risks? And what is the group doing to manage this risk?**

Company Response :

Our aspiration as the Asian Food Security Leader naturally includes building our presence across Asia. China's position as the largest consumer in Asia and globally is undeniable, and our expertise and USP in navigating the complex trade barriers have cemented our role in this significant market. Nonetheless, we are expanding our footprint across Asia to ensure a balanced and risk-mitigated approach.

(v) **Is there concern that the management's focus on establishing the digital ecosystem might divert attention and resources from the core trading business?**

Company Response :

ODIN was developed to complement and enhance operations across all our business segments. The platform works in tandem with existing segments, ensuring that our focus on digital integration augments our core trading activities rather than diverting from them.

(vi) The group achieved a 40% increase in overall product offerings in 2023. **What measures does the group undertake to ensure robust food safety standards, considering its emphasis on food security?**

Company Response :

As an organisation that holds food security at its core, maintaining robust food safety standards is paramount. We adhere to global best practices and stringent safety protocols, which are integral to our operations and product development. Ensuring the highest food safety standards is not just our legal obligation but also our ethical commitment to consumers and stakeholders.

Q3. Reading the annual report, the financial highlights and the 4-page CEO message provided comprehensive insights into the group's operational and financial achievements. However, detailed information on the group's profit and loss (P&L) was absent until the 'Consolidated statement of profit or loss' on page 88 of the report.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

YEAR ENDED 31 DECEMBER 2023

	Notes	Group 2023 $'000	Group 2022 $'000
Revenue	5	344,277	234,501
Other operating income	6	4,967	1,525
Cost of inventories		(318,798)	(216,129)
Employee benefits expense	7	(9,316)	(6,011)
Depreciation and amortisation expense		(5,048)	(3,979)
Other operating expenses	6	(11,975)	(16,572)
Finance costs	8	(5,214)	(4,144)
Share of loss from equity-accounted associate	16	–	(5)
Loss before tax		(1,107)	(10,814)
Income tax expense	10	(1,137)	(917)
Loss for the year		(2,244)	(11,731)
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations, net of tax		4,055	7,917
Other comprehensive income for the year, net of tax		4,055	7,917
Total comprehensive income / (loss) for the year, net of tax		1,811	(3,814)
Loss attributable to owners of the parent, net of tax		(1,879)	(13,160)
(Loss) / income attributable to non-controlling interests, net of tax		(365)	1,429
Loss net of tax		(2,244)	(11,731)

(Source: company annual report; emphasis added)

(i) **What are management's top priorities for FY2024 aimed at returning the group to profitability?**

In addition, as shown in the Consolidated statement of cash flows, the group experienced negative cash flow from operations of $32.95 million in FY2022 and $9.28 million in FY2023. Also, net debt has increased from $58.9 million to $74.3 million as at 31 December 2023. The debt-to-adjusted capital ratio stood at 121% at the end of the reporting period (2022: 100%).

Company Response :

Our main goal for FY2024 is to build a consistently profitable Oceanus Group – this is already in action. We're focusing on operations that allow us to quickly turn investments into profits, mainly by investing in goods that sell fast and bring in steady earnings for long-term success.

The loans we've taken out for buying these goods have been carefully checked and supported by major financial institutions. Their thorough checks confirm they trust in our future growth and the solid plans we have for new ventures.

We are focused on more than just short-term profit boosts like improving margins or growing our customer base. Our sights are set on lasting profitability and becoming leaders in the global food market.

23. **Share capital (cont'd)**

Capital management: (cont'd)

The management monitors the capital on the basis of the debt-to-adjusted capital ratio. This ratio is calculated as net debt / adjusted capital. Net debt is calculated as total borrowings less cash and cash equivalents.

	Group 2023 $'000	Group 2022 $'000
Net debt:		
All current and non-current borrowings including leases	93,281	69,014
Less cash and cash equivalents	(19,007)	(10,098)
Net debt	74,274	58,916
Adjusted capital:		
Total equity	61,371	58,680
Debt-to-adjusted capital ratio	121%	100%

The unfavourable change as shown by the increase in the debt-to-adjusted capital ratio for the reporting year resulted primarily from the increase in new debts.

(Source: company annual report; emphasis added)

(ii) **What guidance has the board given to management regarding cash flow management, working capital optimisation and leverage?**

Company Response :

Oceanus Group recognises that prudent leverage is a vital component of scaling operations in the global food trade. Therefore clear guidance is provided on the cautious use of debt, underscoring the importance of maintaining high levels of financial prudence.

This includes ensuring that any incurred debt is dedicated exclusively to growing trade volumes and procuring goods. In addition, inventory financed through such means must be highly liquid in nature, a stipulation that serves as a fundamental aspect of our risk management strategy. Additionally, working capital is meticulously monitored, with a specific emphasis on evaluating the cash conversion cycle for each subsidiary.

By adhering to these rigorous standards, we aim to sustain a robust balance between leveraging opportunities for growth and maintaining the financial health of the Group.

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