NEO GROUP

RESPONSES TO QUESTIONS FROM SHAREHOLDERS

The Board of Directors (the "**Board**") of Neo Group Limited (the "**Company**") and together with its subsidiaries (the "**Group**") refers to:

(a) the annual report of the Company for the financial year ended 31 March 2020 (the "**Annual Report**"); and

(b) the notice of Annual General Meeting ("**AGM**") and Extraordinary General Meeting ("**EGM**") issued on 2 September 2020 together with the alternative arrangements relating to attendance at the AGM and the EGM via electronic means, informing shareholders that the Company's AGM and EGM will be convened and held by way of electronic means on Thursday, 24 September 2020 at 9.30 a.m. and 10.00 a.m. *(or immediately held after the conclusion of the AGM)* respectively.

The Company would like to thank shareholders for submitting their questions in advance of the AGM and EGM. Please refer to Annex A hereto for the list of questions received from shareholders, and the Management and the Board's responses to these questions.

On Behalf of The Board

Neo Kah Kiat
Chairman and Chief Executive Officer
23 September 2020

This announcement has been prepared by the Company and its contents have been reviewed by the Company's sponsor, CIMB Bank Berhad, Singapore Branch (the "**Sponsor**"), in accordance with Rule 226(2)(b) of the Singapore Exchange Securities Trading Limited ("**SGX-ST**"), Listing Manual Section B: Rules of Catalist.

This announcement has not been examined or approved by the SGX-ST and the SGX-ST assume no responsibility for the contents of this announcement, including the correctness of any of the statements or opinions made or reports contained in this announcement.

The contact person for the Sponsor is Mr. Yee Chia Hsing, Head, Catalist. The contact particulars are, at 50 Raffles Place #09-01 Singapore Land Tower Singapore 048623, telephone: +65 6337 5115.

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ANNEX A

RESPONSES TO QUESTIONS FROM SHAREHOLDERS

Impact from Pandemic

1. How has the COVID-19 pandemic affected the Group's businesses? What is the Group's business outlook and the growth strategy in view of the prolonged pandemic?

We have been able to manage the challenges of the prolonged pandemic by leveraging on the resilience of our business, built upon our four core business segments.

While the traditional catering business has been impacted significantly as a result of safe management measures, we benefitted from the short-term dormitory contracts and focused on growing our recurring income base. As the largest tingkat provider in Singapore, our tingkat business surged three-fold during the Circuit Breaker period, serving close to 10,000 people per day. We also introduced party sharing set, lunch box, bento set, mini buffet, healthy and take-away meals to meet the changing consumer behaviour during this period and focused on obtaining contracts for corporate bento lunch.

In view of our strong market standing and brand recognition, we reduced advertising and promotion expenses. In addition, we postponed all internal events and relooked at our cost structure. Notably, while we have budgeted for the drop in catering revenue and managed our expenses to sustain the business without the expectation of any government grant, the financial support from the government has helped the Group to dampen the impact from COVID-19.

The traditional catering business has gradually improved post-Circuit Breaker. However, the recovery depends on the relaxation of safe management measures, including the restriction on the number of participants at social events and gatherings. With our multi-brand strategy, we are confident in our ability to achieve a gradual recovery to pre-pandemic level of business upon the relaxation of safe management measures and full re-opening of activities.

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For Food Manufacturing, the implementation of safe management measures has resulted in a change in consumer behaviour, leading to an increase in demand for home-cooked and ready-to-eat products. Our manufacturing segment benefitted from this trend with a 50% growth in the supermarket and export business. Coupled with our continuous ‘go lean’ initiative with machinery automation enhancements and increasing production efficiency, we believe the manufacturing business will continue to perform well.

For Supplies and Trading, this year, we acquired a 49% stake in ER Group, a wholesaler and food processing company, with its 60,000 sq ft premises and 3,000 pallets of cold room space. They are one of the largest wholesalers for garlic, potatoes and onion in Singapore. We are consolidating three trading arms into one group. The in-house cold room facilities were co-shared while sales functions were combined to cross-sell, and logistics services were also pooled. Through these shared facilities, manpower resources and process streamlining, we have succeeded in reducing expenses such as overheads, manpower headcount and number of vehicles, thereby unlocking economies of scale. Furthermore, we added a recurring income stream from the external rental with our 6,000 pallets of cold room facilities across the Group.

Our growth strategies include the following:

- **Food Catering**
  We take pride as Singapore’s Number One Events Caterer for 9 consecutive years since 2011, with a 20.5% market share in 2019. We lead the market with 16 catering brands serving a wide variety of cuisine to satisfy dynamic consumer tastes from all market segments. We will expand our market share by remaining firmly focused on growing our number of brands while building upon our strong market recognition and branding.

- **Food Manufacturing**
  Food Manufacturing performed well with higher profitability in FY2020, and is our second-largest revenue driver. Today, TS Group, from a 160,000 sq ft factory at 22 Senoko Way, with another 80,000 sq ft factory in Malaysia, is Singapore’s No. 1 surimi manufacturer, distributing to over 25 countries worldwide

Our production plants are only operating at 40% of the total capacity. We will increase the product variety through R&D and work with overseas partners to bring in quality premium products. We will also introduce new machineries to expand our production capacity to capture a bigger market share.

- **Overseas expansion**
  Over these years, our strategies in acquisitions and establishment of companies have turned positive. With our wide global network as an anchor, we will be focused on growing our overseas presence by setting up regional offices and building management teams to enter markets in China, Europe and North America.

- **Merger & Acquisitions**
  Merger and acquisitions will continue to be Neo Group's 'oxygen'. We will nurture and look out for companies with the makings of creating further positive synergies for the Group.

- **New HQ - 30B Quality Road**
  To better support our longer-term expansion plan, our upcoming state-of-the-art headquarters at 30B Quality Road will house 80% of our catering brands and supplies & trading, thereby consolidating operations under one roof. This new home will boast a well-designed '8th Generation' central kitchen, consequently accelerating the Group's growth strategy. Moving forward, we will leverage on technology and improve workflow efficiencies, to maximise our potential and returns.

- **Diversification into the property sector**
  Our diversification into the property business will provide us with additional recurring income streams and increase our assets portfolio, potentially worldwide.

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2. Has the construction progress of your new headquarters been affected as a result of COVID-19 and when will it be completed? Do you intend to set up cloud kitchens in your new headquarters?

The construction progress has been delayed as a result of COVID-19. We now expect to move in to our new headquarters by the end of 2021.

We do not plan to set up cloud kitchens at our new headquarters at this time, but we may consider doing so in the future.

3. Please elaborate on the specifications of an 8th generation kitchen.

The 8th generation kitchen refers to our experiences in the setting up central kitchens, being the eighth time since the founding of Neo Garden Catering.

By leveraging on our experiences, we have advanced from a basic shared kitchen to a larger-sized central kitchen featuring more automation and digital functions.

For our 8th generation kitchen, we will focus on improvements and enhancements observed over the years, moving towards the concept of an automated manufacturing plant for the preparation of cooked food.

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Business Operations

4. **The Company's surimi-based processed seafood manufacturing obtained the highest-grade AA in the BRC Global Standard for Food Safety. Please elaborate more on this certification.**

Originally developed and published in 1998, the British Retail Consortium ("**BRC**") Global Standards specify safety, quality and operational criteria for food producers and suppliers. Used worldwide, the standards are recognised by the Global Food Safety Initiative ("**GFSI**"), which aims to reduce the need for multiple supplier audits by harmonising international food safety standards. BRC standards are accepted by many of the world's largest retail groups, manufacturers and food service organisations - providing an international mark of excellence for the certificate holder.

BRC Global Standards deliver confidence across the entire supply chain by ensuring the standardisation of quality, safety and operational principles. By setting the benchmark for excellent manufacturing practice, they provide assurance to customers that products are safe, legal and of high quality.

The BRC Global Standard for Food Safety certification gives our brand an internationally recognised mark of food quality, safety and responsibility.

5. **Will Neo Group continue to operate the loss-making segments such as Food Retail?**

Our Food Retail is now lean, and we will continue to review the performance of our outlets to maximise returns. Moving forward, we see more opportunities to grow this segment, backed by 13 years of established experience.

We are on the lookout to grow more retail concepts and expand our presence, with the creation of new and innovative offerings to appeal to different market segments. Solidifying our presence in the food delivery scene is also integral to success, given the strong demand amidst the pandemic. Having started delivery service from 10 years ago, we are definitely well endowed to thrive with quality offerings. We have been ahead of competition by embracing digitalisation earlier on and diversifying onto different platforms. These have put us in a good stead amidst the unpredictable situation.

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6. In FY2020, the Company recorded an impairment loss of S$2.8 million in subsidiary. Can the Group share which subsidiary was this impairment pertaining to and the reason for impairment?

The impairment loss, at holding company level, on the investment in subsidiaries of S$2.8 million arose from one of our supplies and trading subsidiaries due to an internal restructuring exercise to transfer the business within the Group as part of our consolidation plan for our supplies and trading segment. There is no impact on the Group's profit or loss for FY2020.

Financials

7. The Group's net profit margin has improved to 3.4% in FY2020 from 2.9% in FY2019. What is the Group's net profit margin target?

The increase in net profit margin comes on the back of the stronger performance from our core Food Catering business in FY2020, coupled with a reduction in low margin trading transactions of the Supplies and Trading business.

The improvement in our net profit margin from 0.8% in FY2017 to 3.4% in FY2020 is a good indication of the success of our restructuring efforts as we prepare for our next phase of growth.

Moving forward, we will continue to improve our net profit margin by increasing our productivity and operational efficiency. Our next milestone is our upcoming headquarters at 30B Quality Road, which will include larger central kitchens and allow us to improve productivity and lower our operating costs through the use of automation and technology.

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8. Please comment on the Group's continuous high gearing and the projected capital expenditure for FY2021. Has the Company faced any liquidity or debt refinancing issues?

As we pursue our growth strategies, we remain mindful on balancing between business expansion and financial performance.

For FY2021, we expect to incur capital expenditure for our upcoming headquarters at 30B Quality Road, which will provide us with more capacity to meet our growing business. Please refer to Note 36 to the financial statements, page 158 of the Annual Report FY2020, for the disclosure on the Group's capital commitments for FY2019 and FY2020.

We do not face any liquidity or debt refinancing issues. The Group has strong operating cash flows and with the support of our lenders, we have been able to meet our financial commitments, repay and refinance our debts with the banks to lower our interest expenses.

Notably, our strong operating cash flows have also allowed us to reduce our gearing over the past four years, from 1.91 times in FY2017 to 1.67 times in FY2020.

Diversification into Property

9. On the diversification into property sector, what is the expected contribution from the new segment? Do you expect any significant change in the Company's overall revenue mix?

Subject to shareholders' approval, the diversification into the property business will provide us with additional recurring income streams and increase our assets portfolio, potentially worldwide.

As we will only be in the early stages of the venture, we do not expect any immediate or significant change in the Company's overall revenue mix.

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10. Why is the Company not seeking opportunities in the catering and food manufacturing segments, but venturing into property instead?

We are constantly seeking opportunities in our core business of Food Catering and Food Manufacturing.

As explained earlier, we intend to increase our market share in Food Catering, by remaining firmly focused on growing our number of brands while building upon our strong market recognition and branding. We also intend to expand Food Manufacturing as the existing production plants are only operating at 40% of the total capacity. We will increase the product variety through R&D and work with overseas partners to bring in quality premium products. We will also introduce new machineries to expand our production capacity to capture a bigger market share.

Through our diversification into the property business, we aim to unlock additional and recurring revenue streams through rental fees and management fees, potential and beneficial synergies with our existing businesses, and new business opportunities. This will further diversify our business and strengthen our income base for future growth, reduce reliance on existing businesses and enhance shareholders' value.

11. Has there been any capital committed to the new property venture with Boldtek Holdings ("Boldtek")?

Subject to shareholders' approval, we will hold a 50% shareholding in the joint venture company, which will have an initial issued and paid-up share capital of S$1,000,000.

12. Boldtek recorded a decrease in revenue for FY2020 and a net loss of S$3.7 million. Is Boldtek the best partner for Neo Group's new venture?

Boldtek engages in the business of general building, precast manufacturing and properties development and investment. While we are unable to comment on Boldtek's financial performance, we have selected Boldtek as our joint venture partner as we recognise their networks and experiences in the property business.

Notably, we will hold a 50% shareholding in the joint venture company and any potential opportunities undertaken by the joint venture company will be based on our joint decision-making by both parties.

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Others

13. Will there be any reduction in directors' fee until business recovers?

The Board has assessed the impact of the COVID-19 pandemic on the Group's businesses and at present, there is no plan to reduce the directors' fee.

14. Are there any plans to increase the liquidity of Neo Group's shares?

While we recognise that liquidity is an important factor in stock market, we would like to highlight that such trading activity is largely dependent on a willing-buyer, willing-seller basis.

At present, the Company does not plan to take any action to increase the liquidity of its shares. We may consider increasing the liquidity in future.

15. Neo Group's dividend payout ratio is only 11.6%. Are there any plans to increase the dividend payout ratio?

While we do not have a fixed dividend policy, we are committed to enhance shareholders' value and have consistently paid out dividends since IPO. However, as a growing company, we will need to strike a balance between distributing dividends and retaining capital for financial flexibility and funding growth. As such, there was a decrease in dividend payout ratio due to the funding needs in our business expansions through merger and acquisition in the past years, as well as the construction of our headquarters and catering hub at 30B Quality Road.

We believe the Group's profitability will improve through our growth strategies. Consequently, we will be more confident in paying out more dividends to our shareholders when the Group achieves higher profitability in the coming years.

The form, frequency and amount of future dividends on our Shares will depend on our earnings, financial position, results of operations, cash flows, capital needs, general business conditions, the terms of the borrowing arrangements (if any), plans for expansion and other factors which our Directors may deem appropriate.

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