GS HOLDINGS LIMITED
(Incorporated in Singapore on 19 September 2014)
(Company Registration Number: 201427862D)

RESPONSES TO QUERIES FROM THE SGX-ST DATED 26 DECEMBER 2019
IN RESPECT OF THE CIRCULAR DATED 13 DECEMBER 2019

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1. INTRODUCTION

The Board of Directors of GS Holdings Limited, (the "**Company**" and together with its subsidiaries, the "**Group**") refers to the Company's circular dated 13 December 2019 (the "**Circular**").

Unless otherwise defined, all capitalised terms used herein shall bear the same meanings ascribed to them in the Circular.

The Company sets out below the queries raised by the SGX-ST on the Proposed Disposal and the Proposed Expansion and Diversification, and the Company's responses.

2. SGX-ST'S QUERIES ON THE PROPOSED DISPOSAL AND THE PROPOSED EXPANSION AND DIVERSIFICATION

SGX-ST Query 1: With regard to the Group's growth strategy and to improve shareholders' value via the expansion of the BOP business, how exactly does the Group intend to do so? Does the Group have the expertise if it is also venturing into other (non-F&B) industries?

Company's Response:

As stated in Section 2.1 of the Circular, the Group has seen much progress in the BOP Business with Wish Hospitality having entered into exclusive agreements with 14 F&B outlets for the provision of BOP services ("**BOP Service Agreements**"). As set out in the Corporate Presentation released by the Company on 1 October 2019 ("**Corporate Presentations**"), the Company receives an aggregate quarterly BOP service fees of RMB 50 million, pursuant to the BOP Service Agreements. This has contributed to the Company's financial position, resulting in the increase from net loss of S$3.54 million in FY2018 to net profit of approximately S$7.18 million in HY2019. Please refer to the unaudited half-year financial statements and dividend announcement for HY2019 announced by the Company on 12 August 2019. Based on the foregoing, the Company is of the opinion that the BOP Business will enable the Company to see even more financial growth, which will improve Shareholders' value.

The existing joint venture between the Group and Ms Zhang Liying (the "**JV Partner**") under Wish Hospitality has provided the Company with an existing platform for the Group to assess the commercial viability and acquire the know-how of the BOP Business in the F&B industry. Through the joint venture with Wish Hospitality, the Group has also been able to establish business relationships with other service providers (i.e. the third party contractors to whom the Group may outsource its services) that complements the BOP services being provided by the Group, as stated in Section 2.4 of the Circular. The Group intends to leverage on the network of business relationships it has established, the JV Partner's network and the expertise it has developed through the provision of

BOP services via the BOP Service Agreements, to companies outside the F&B industry as and when such opportunity arises.

Presently, the Group does not have any expertise in industries other than the F&B industry. The Company recognises this and has therefore included such limitation as one of the risk factors in relation to the Proposed Expansion and Diversification – in particular, please refer to Section 2.6.3 of the Circular for the specific risk factor. However, based on the existing BOP Business undertaken by the Group so far (albeit restricted to the F&B industry), the Company notes that the BOP services requested by the clients range from:

- general support services (i.e. support services which companies in general may require which may include branding development, selling and marketing strategies, customers services and retention skills, costs saving from bulk purchasing and shared services, general business management skills, recruitment and training of talented employees, public relations, etc.); and

- services which are industry-specific (for e.g. specific branding and marketing strategies, market research and identifying business opportunities in the specific industry, developing training manual on the use of the company's products and services, etc.).

In addition, based on the business relationships which the Group has established through the existing BOP Business, the Group notes that there is a demand for BOP services in general from clients in Shanghai that are not only in the F&B industry. The Group therefore sees this as a viable business opportunity. As the Group is only starting out in the BOP Business, the intention is to focus the expansion and diversification of the BOP Business in the PRC market. The Group intends to leverage on the experience of and connection available to some of its Directors and the JV Partner to enable it to successfully undertake the Proposed Expansion and Diversification.

The experience of the relevant Directors and the JV Partner are set out below:-

- Mr Pang, the Company's Executive Chairman and Chief Executive Officer has over 20 years of experience in the F&B industry and had previously ran Aik Hua, a F&B business of 56 coffee shops, restaurants and food courts from December 1990 to December 2012.

  Mr Pang also has had experience doing business in the PRC.

  Please also refer to the Company's announcement released on 3 January 2019 in respect of the above.

- Mr Zhang Rongxuan ("**Mr Zhang**") was appointed as the Company's Non-Independent and Non-Executive Director on 3 September 2019. Mr Zhang is the 100% shareholder of Henan Jufeel Technology Group Co., Ltd. and is the President, Chief Executive Officer and Director of Jufeel International Group. Mr Zhang has been doing business in the PRC for more than 20 years and, in particular, he has been involved in the F&B industry of which his group of companies have been primarily involved in developing and supplying aloe-vera related beverages and health products. With Mr Zhang's appointment as Director, Mr Zhang is and has been primarily responsible for developing, expanding and overseeing the Group's business in the PRC.

- Mr Liu Changsheng ("**Mr Liu**") was appointed as the Company's Non-Independent and Non-Executive Director on 10 January 2019. Prior to joining the Company, Mr Liu worked in one of the banks in the PRC providing personal and corporate finance advisory services before starting his own advisory business in 2015 in the PRC. Mr Liu presently sits on the board of a number of companies in various industries in China.

- As set out in the announcement released by the Company on 17 January 2019, the JV Partner has more than 10 years of experience helping companies (including a company listed on Australian Securities Exchange) with their investment and expansion activities in the PRC. She has investment and advisory interests in the hospitality, restaurant, recreational parks and food trading businesses. Please refer to the Company's response to Query 9 below for more information on the JV Partner.

SGX-ST QUERY 2: What exactly does the BOP business entail, and how does this business source for its clients?

Company's Response:

As set out in Section 2.2 of the Circular, the BOP Business entails, among others, the provision of BOP services relating to (i) branding management, (ii) operational support, (iii) central procurement, (iv) recruitment, customised training and development of human resource.

The Group sources its clients for the BOP Business via business contacts of some of its Directors, the JV Partner as well as through its existing business partners and associates.

SGX-ST QUERY 3: Why would clients want to engage the Group for the BOP business? What is the value proposition by the Group?

Company's Response:

The value proposition by the Group, which would attract clients to engage the Group for the BOP business, are as follows:-

(i) The Group will be providing the BOP services "under one roof", which offers clients a comprehensive and integrated solution to their business needs, and confers them with the following advantages:

(a) the Group, as BOP service provider, can assist clients to secure more contracts and/or to gain more customers through the branding and marketing services and referrals provided by the Group, by leveraging on the Group's extensive business network. Please refer to sub-paragraph (iv) below for more information on the Group's network;

(b) the clients can achieve cost savings through bulk purchasing and shared business services which will be sourced and co-ordinated by the Group as the BOP service provider;

(c) the Group provides public relation services by assisting the client in the management of its media, roadshow and marketing matters, as well as liaising with local authorities and regulatory bodies relevant to the client's business; and

(d) the BOP services is convenient and time-efficient for the clients, as it limits the number of service providers the clients have to communicate with, as the Group will be taking the lead in coordinating all services that are to be provided to the clients.

(ii) The Group has a proven record based on the BOP Service Agreements which the Group has undertaken and performed. Due to the track record of these BOP Service Agreements, Henan Jufeel Technology Group Co. Ltd., with which the Group has entered into a master services agreement, will recommend and assist the Company in securing more F&B outlets for the Group to provide further BOP services on a best effort basis.

(iii) The Group has a strong management team, consisting of a key personnel in finance, marketing and branding. Such key personnel include, among others, (a) Mr Pang, the Chief Executive Officer and Executive Chairman, who has more than 20 years of industry and experience network in F&B businesses, (b) Mr. Paul Chong, the Chief Financial Officer, who has more than 25 years of working experience gained in different industries with various corporations and public listed companies in Singapore and overseas, (c) Mr Jason Lam and Ms Eliss Pang, the Director of Operations, both of whom have experience in F&B franchises, branding, marketing and operation, and (d) an experienced management team in the PRC engaged by the Group's subsidiaries in the PRC.

(iv) The Group can leverage on its strong network of JV Partner and other partners, such as Henan Jufeel, who can provide their respective expertise in managing businesses in a range of industries.

SGX-ST QUERY 4: Does the Group tie up with certain franchisors, for instance, such that there will always be a ready pool of potential clients (i.e. the franchisees)? And if it is tied to franchise agreements, would the franchisees be able to engage the Group to advise on branding since the franchise may have to follow certain way of conducting operations?

Company's Response:

As at the date of this announcement, the Group has not tied up with certain franchisors providing a ready pool of potential franchisees. Nonetheless, the Company is open to such arrangement.

The Company wishes to clarify that, in the event the Company enters into any franchise agreements with such franchisees, and if such franchisees require additional services which are not typically provided for in the franchise agreements, such as the management of business operations, recruitment and training of employees and procuring certain suppliers, the Company may enter into a BOP service agreement with such franchisees.

SGX-ST QUERY 5: The Company announced that it may outsource certain components of its BOP services to third party providers. Does this mean the Group does not have the expertise required and need to rely on other outsourced parties?

Company's Response:

The Company wishes to clarify that notwithstanding that the Company may outsource certain components of its BOP services to third party providers, this does not mean that the Group does not have the relevant expertise to undertake the BOP Business. The Company has itself managed several F&B brands and outlets, and is aware of the different aspects of operations of a business, including the development process of a brand, the recruitment and training process for employees, day-to-day operations of the business (including payroll, finance-related requirements), where and how to procure the requisite supplies it required. Therefore, the Company believes it would be able to leverage on its own experience, expertise and connections to manage the business operations and provide support services for its clients. Furthermore, the Company has also performed its obligations as a BOP service provider under the BOP Service Agreements, including assisting the relevant clients with their branding development, selling and marketing strategies, strengthening the clients' customer services and retention skills, assisting them with bulk purchases so as to reduce cost, recruitment and training of talented employees and overseeing public relations matters, conducting market research and identifying business opportunities, among others.

Nonetheless, the Company is open to explore the possibility of outsourcing certain labour-intensive or jurisdiction-specific functions to third parties. For instance, the Group may outsource the training of employees of certain foreign clients in the event there are certain statutory requirements for employees working in specialised industries, or a local marketing firm to execute certain campaigns which the Company has developed for its client. The Group may also outsource certain components of such BOP services to third parties (a) if such outsourcing allows the Group to enjoy more costs savings by being able to negotiate for more cost efficient rates with its third party service providers on the basis of the increased work being referred to such service providers, or (b) if the Group does not have the expertise or resources in respect of certain niche and industry-specific business and operational functions and requirements beyond the F&B industry. The Company wishes to highlight that in the event it chooses to work with third party service providers, the Company will retain a stringent supervisory role in ensuring that such service providers perform their duties duly.

SGX-ST QUERY 6: On the Proposed Disposal, in the Company's IPO offer document in 2016, the Company has positive outlook and prospects for future growth in its dishwashing services segment. What has changed since its listing for the Company to conclude that the Proposed Disposal is in the best interest of the Company now?

Company's Response:

As set out in Section 3.6 of the Circular, the Target had been loss-making even though the Cleaning and Dishwashing Business had represented a significant business segment of the Group. The poor performance of this particular business segment has mainly been attributable to the following factors which have since changed since the Company's listing in 2016:-

1. <u>Decrease in government subsidies</u>: The Group noted that there has been a reduction in the subsidies provided by the government for the dishwashing business. This has substantially led to lesser incentives for new F&B establishments to go into centralised dishwashing or engage the services of centralised dishwashing providers.

2. <u>Increased competition</u>: Around the time of the Company's listing, there were initially few players in the dishwashing business sector, with the Target having an estimated 40.0% of the market share then. With a large portion of the market potential still untapped around that time, it was inevitable that the industry will see a surge in new market entrants, and especially so with the low barriers to entry. As such, since the Company's listing in 2016, the Group has seen increased competition from small players that try to get a market share by driving prices low. While the Group was one of the bigger players in the market that would have been able to withstand such competition due to greater economies of scale, the Group eventually was unable to compete with the substantially low prices offered by new market entrants for an extended period of time. The increased competition coupled with other aggravating factors set out below led to the Group's Cleaning and Dishwashing Business to continually sustain losses.

3. <u>Slower take up rate:</u> The Cleaning and Dishwashing Business has seen a slower take-up rate since the Company's listing in 2016. The Group noticed that fewer F&B establishments were keen to outsource centralised dishwashing. For HY2019, the Group's revenue from the Cleaning and Dishwashing Business decreased by approximately S$0.8 million or 16% from S$5.0 million in 6-month period ended 30 June 2018 to S$4.2 million in H2019 due to, among others, certain existing customers of the Group not renewing their contracts after their initial contracts expired. Please refer to the unaudited half-year financial statements and dividend announcement for HY2019 announced by the Company on 12 August 2019 for more information.

   The slower take-up rate than expected means that the Group would require more capital and time for the business to become profitable.

4. <u>Increased need for manual dishwashing:</u> Based on the needs and requests from clients, the Group has observed that with the different types of F&B businesses in Singapore, there are various types of distinctive and differentiated crockery used, instead of standard utensils. This has led to a higher percentage of manual washing, instead of automated washing, which is not efficient and productive in the long-run.

5. <u>Further Automation required:</u> With the varying needs of the clients, to ensure that the Group is consistently able to keep costs low and reap profits for the Cleaning and Dishwashing

Business, the Group will need to invest in further automation. This will in turn require more capital.

Ultimately, the Board's decision to proceed with the Proposed Disposal, was taken after due consideration and deliberation, taking into consideration the changing business needs of the Group and the evolving landscape of the Cleaning and Dishwashing Business. As set out in Section 3.6 of the Circular, the Board believes that the Company's continued investment in the Target is unlikely to reap any material benefits in the foreseeable future without significant additional capital investment. The Proposed Disposal will thus allow the Company to focus on its other business and re-strategise and re-allocate its financial and capital resources, resulting in more working capital for the expansion of its other business,

SGX-ST QUERY 7: On the Proposed Disposal, who is the Purchaser? Who is the businessman owning the Purchaser? How is he/she acquainted with the controlling shareholder, Mr Pang, and how did he/she come to know about the Proposed Disposal?

Company's Response:

As set out in Section 3.2 of the Circular, the Purchaser is a company incorporated in Singapore and is in the business of investment holding and management consultancy services. The Purchaser is wholly owned by Mr Tay Joo Heng ("**Mr Tay**"), a businessman who is an acquaintance of Mr Pang. Mr Tay and Mr Pang got acquainted with each other through their common social circles. Mr Tay and Mr Pang know each other on a personal basis but are not related to each other. They do not have any commercial or working relationship with each other.

Management had approached a few prospective purchasers (with Mr Tay being one of them) for the disposal of the Target. Mr Tay was approached as the management understands that Mr Tay had intended to seek new business ventures.

The Company wishes to clarify that in deliberations on the terms of the Proposed Disposal, in the interests of good corporate governance, Mr Pang had abstained from any deliberations by the Board on the Proposed Disposal notwithstanding that Mr Tay is not related to or an immediate family member of Mr Pang.

SGX-ST QUERY 8: On the Loyang Property, did the Board consider selling this separately instead? If not, why not? And why is the Proposed Disposal in the best interest of the Company?

Company's Response:

The Board had considered selling the Loyang Property separately but as the property is subject to JTC Corporation's regulations including certain restrictions on sale, it would be more expedient to dispose the Loyang Property together with the business.

SGX-ST QUERY 9: What is the background and past track record of Zhang Liying?

Company's Response:

Ms. Zhang Liying, the JV Partner, has been a director of Marvel Earn Limited since August 2008, providing investment and development services to China companies for seeking overseas listings and fundraising. Marvel Earn Limited is one of the substantial shareholders of the Company holding 10.08% interest in the Company, as at the date of this announcement. The JV Partner is also the sole shareholder of Marvel Earn Limited.

The JV Partner has been in the business of providing financial advisory services for the investment and development of companies in the catering industry, food retail wholesale, biotechnology, energy, mining, property and service industries. As such, the JV Partner has extensive experience in working closely with investment banks, auditors, lawyers, valuers and other professionals to assist companies in preparing for listings, reverse takeovers, buyouts, joint ventures, and alliances.

SGX-ST QUERY 10: In the summary valuation report, it is stated that the Target has debt of S$7.9 million. In calculating the adjusted NAV of the Target, it is further noted that the GS Group will waive S$12 million owed by the Target Group to the GS Group. Is the S$7.9 million debt related to the S$12 million amount owed to the Group?

Company's Response:

No, the S$7.9 million debt is not related to the S$12 million amount owed by the Target Group to the GS Group. The S$7.9 million debt is made up of bank borrowings, hire purchase loans and lease liability owing by the Target.

SGX-ST QUERY 11: In the summary valuation report, an adjustment for private company discount of 30% was used in deriving at the Market Value of the Target. Can we understand why a 30% marketability discount was used?

Company's Response: The Company understands from the Valuer that when performing valuation based on discount cash flow, there are certain parameters that are based on public listed companies such as the beta. Given that the Target is a private company, the Valuer had applied a marketability discount which is based on historical empirical studies including but not limited to Securities and Exchange Commission Institutional Investor Study, Maher Study and Trout Study.

BY ORDER OF THE BOARD

Pang Pok
Executive Chairman and Chief Executive Officer

27 December 2019

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*This announcement has been prepared by GS Holdings Limited (the "**Company**") and its contents have been reviewed by the Company's sponsor, UOB Kay Hian Private Limited (the "**Sponsor**") for compliance with the relevant rules of the Singapore Exchange Securities Trading Limited ("**SGX-ST**") Listing Manual Section B: Rules of Catalist.*

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