



HRNETGROUP LIMITED
(Incorporated in the Republic of Singapore)
(Company Registration No. 201625854G)

RESPONSE TO SIAS' QUESTIONS ON HRNETGROUP LIMITED'S ANNUAL REPORT

The Board of Directors (the "Board") of HRnetGroup Limited (the "Company", together with its subsidiaries, the "Group") refers to the questions raised by the Securities Investors Association (Singapore) ("SIAS") on the Group's FY2018 Annual Report, and wishes to respond to the questions as follows:

Question Reference	Question	HRnetGroup's response
1	In the Letter to shareholders, the founding chairman and executive director have titled the section "Reporting success, Surging Forward". For FY2018, the group has reported an impressive set of results, with revenue, gross profit, contractor employees and permanent placements all hitting record high.	
(I)	Permanent placement: The jump in permanent placement to 9,448 in FY2018 reversed a 3-year slide (FY2014: over 9,900, FY2015: over 9,400, FY2016: 8,528 and FY2017: 8,216). Would management elaborate further on the reason(s) for the jump in permanent placement achieved in 2018? How much of it was due to organic growth and how much of it can be attributed to the new business units?	The number of permanent placement jumped 1232, out of which majority came from organic units, particularly HK and China while a smaller number came from the inorganic units which were only consolidated for 4 months of operations.
(II)	Government subsidies: Can management confirm that the group is entitled to receive the government subsidies such as the Wage Credit Scheme, Special Employment Credit and Temporary	Yes.

	Employment Credit, and recognise these subsidies in its profit or loss statement for the group’s “Contractor Employees”?	
(III)	New markets: The group has successfully added the new businesses of Rimbun, Glints, REForce and Career Personnel to the group’s network. The company has stated that it will continue to look for new markets, good companies to co-own, strategic alliances and investments, whether in Southeast Asia, Indochina or beyond. What are the specific plans for Indochina?	We are evaluating some opportunities to make an acquisition there.
(IV)	New line of business (YesPay!): On 4 March 2019, the group increased the capitalisation of YP! Solutions Pte. Ltd. with the injection of S\$500,000.00 capital in cash. Formerly a division of PeopleSearch, the group has been using YesPay! to provide human resource and payroll solutions. The company announced that, with immediate effect, YesPay! will be spun off and operated a separate business line. What is the addressable market size? Will this be introduced to all the markets?	YesPay!’s HR and payroll outsourcing services is complementary to our recruitment businesses and our customers have been asking us for it. The business is insignificant to the group and it is still early days to look at addressable market size and introducing to all markets.
2	2. Rule 704 (30) of the Listing Manual of the SGX-ST Listing Manual relating to the “Use of proceeds” states the following: <i>The use of the IPO proceeds and any proceeds arising from any offerings pursuant to Chapter 8 as and when such funds are materially disbursed and whether such a use is in accordance with the stated use and in accordance with the percentage allocated in the offer document or the announcement of the issuer. Where there is any material deviation from the stated use of proceeds, the issuer must announce the reasons for such deviation.</i> Other than the \$8.22 million (or 4.7%) that has been allocated for underwriting commission and professional fees (and miscellaneous expenses), the group has stated that it intends to use the net proceeds “for business expansion and/or potential opportunistic acquisitions”.	

(I) Can the company provide shareholders with better clarity on the proposed use of proceeds (and not the actual use, and reported on an ex-post basis)?

Please refer to page 25 of our Growth Story deck posted on the SGX website and our company website on 1 Mar 2019. We indicated that 23% already expended on IPO and invested in strategic entities; 9% has been committed for acquisitions and 12% earmarked for expansion and investment projects in the pipeline, accounting for a total of 44% utilization of the S\$174m proceeds. The balance of 56% (approx. S\$97.4m) would be used for these opportunities in and with companies in HR and HR-related businesses:

1. M&A – Acquire well-run companies where co-owners and core team stay invested in the company, and enable them to leverage on our infrastructure and capabilities to achieve greater success.
2. Strategic investments – Acquire minority stake in companies or businesses where collaboration possibilities in the HR business exist, including business referrals.
3. Organic startups where we are able to assemble a core team of like-minded employees to co-invest and operate HR business from scratch.

(II) As there been any deviation from the stated use of proceeds?

There has been no deviation from the use of IPO proceeds which were “for business expansion and/or potential opportunistic acquisitions” as stated in page 49 of our Prospectus.

(III) As shown on page 4x (Use of IPO Proceeds), the company has shown the use of IPO proceeds, but not the intended use. As at 31 December 2018, the company has stated the following:

Use of IPO Proceeds

Pursuant to the Company's IPO, the Company received gross proceeds from the IPO of approximately S\$174.1 million.

The utilisation of the gross proceeds from the Company's initial public offering as of 31 December 2018 is set out as below:

	Amount utilised
	S\$ million
Underwriting commission	4.7
Professional fees and other miscellaneous expenses (including listing fees)	4.4
Purchase of marketable securities	22.0
Purchase of unquoted investments	6.3
Acquisition and investment in subsidiaries	1.8
Startup of subsidiaries	0.3
	<u>39.5</u>

(Source: Company annual report)

Would the board confirm that the purchase of marketable securities of up to \$22.0 million worth conform with the intended use of proceeds from the IPO?

Yes. The board confirms that the purchase of marketable securities of up to S\$22.0m conforms with the intended use of proceeds from the IPO.

The Group invested in companies in HR-related businesses, which the management has in-depth knowledge and experience, and where collaboration possibilities exists.

Listed HR companies in established stock exchanges provides transparency to allow the assessment of financial, operational and management effectiveness and efficiencies. Our engagement as shareholders with management gives us a platform for exchange of ideas and perspectives, especially about insights into markets we do not yet operate in.

These investments, as supported by robust ground work in research, assessment, monitoring and engagement, is relevant for the Group to be ready when situations arise that allow us to acquire bigger stakes in companies that the Group is already familiar with.

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In addition, the company has stated that it recognised a net fair value loss on financial assets mandatorily designated at fair value through profit or loss ("FVTPL") of \$(4.8) million in the financial year. This follows the FVTPL gain of \$1.0 million in the previous financial year. In addition, the company further disclosed that \$4.0 million of the unrealised revaluation loss has been reversed as at the end of February. This presumably is related to the group's holding of \$22.0 million in marketable securities.

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(I)	<p>Would the board, especially the independent directors/audit committee, elaborate further on the purchase of marketable securities? How does it fit in with the group’s long term strategy?</p> <p>It is noted that the group has bought shares in listed professional recruitment companies, such as Gattaca PLC and Harvey Nash, on the London Stock Exchange.</p>	Please refer to our response to Question 2 (III).
(II)	<p>Would the board provide shareholders with a holistic overview of the group’s investments in marketable securities?</p>	Please refer to our responses to Question 2 (1) and 2 (III).
(III)	<p>What is the level of oversight provided by the board and what are the risk management policies with regard to the group’s investments into marketable securities?</p>	<p>Significant investments are made in consultation and approval from the Board, and updates on our investment portfolio are made to Board at quarterly Board meetings.</p> <p>The Board takes into consideration the potential business risks (e.g. the strategic angle of the proposed investment to the Group’s business, sustainability of the business, profit accretion to the Group etc.) and market risks (e.g. stock liquidity and foreign exchange exposure), and ensure that the Investment Committee is prepared with necessary safeguards to manage the relevant risks.</p>

By Order of the Board

Adeline Sim
Executive Director & Chief Legal Officer
26 April 2019

The admission and listing of the Company on the Singapore Exchange Securities Trading Limited (the “Listing”) was sponsored by Deutsche Bank AG, Singapore Branch. Credit Suisse (Singapore) Limited, Deutsche Bank AG, Singapore Branch, DBS Bank Ltd. and Nomura Singapore Limited were the joint book runners and underwriters for the Listing. Credit Suisse (Singapore) Limited, Deutsche Bank AG, Singapore Branch, DBS Bank Ltd. and Nomura Singapore Limited assume no responsibility for the contents of this Announcement.