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 FY2019 Annual Report, and wishes to respond to the questions as follows:

| Question Reference | Question | HRnetGroup's response |
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| **1** | In response to the COVID-19 pandemic, governments all over the world have implemented various measures including social distancing and the closing of work premises to reduce the transmission of the virus. Since the company's full year result that was announced on 27 February 2020, management has not provided shareholders with any updates to its business operations. | |
| **(I)** | **Would the company be providing shareholders with timely updates on the business environment, its operations and an assessment of any material financial impact as required by the Listing rules?** | We have been 100% operational throughout this COVID-19 episode, though where the various governments have mandated working from home, we have done so in accordance with our Business Continuity Plans. Currently our employees in Singapore, Kuala Lumpur, Jakarta and Tokyo are all actively working from home with our rhythms of meetings and tech platforms, generating results. Others in cities such as |

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| | | Shanghai, Beijing, Guangzhou and Suzhou have progressively resumed business activities in the office since 1 Mar 2020.<br><br>The highly fluid and uncertain environment makes it difficult for the Company to give clear guidance as to the financial impact of COVID-19, though what is certain is that we have not been spared from the wide-ranging impact of the pandemic. Many clients across the cities in which we operate have had to implement Work-From-Home plans or in certain cases cease operations. This impacts strongly upon talent acquisition and flexible staffing. |
| **(II)** | For the financial year ended 31 December 2019, the group's Flexible Staffing ("FS") business generated $324.1 million in revenue and $48.3 million in segment profit. In the section titled "Key financial highlights" (page 18 of the annual report), it was stated that the FS revenue is generally more resilient than revenue from Professional Recruitment ("PR").<br><br>**Is the FS segment particularly affected by the measures implemented by governments?** | During this Circuit Breaker period in Singapore, our FS teams continue to service clients who are providing essential services such as healthcare and social services, information and communication services, banking and finance services, facilities management and critical public infrastructure, transportation and storage, online retail and related supply chain, food services, defence and security, and energy services. Unfortunately, certain clients, including in the retail, insurance, education and tourism sectors, are not able to be fully operational at this point in time, and thus have terminated some of our contractors. |
| **(III)** | In recent years, the group has benefitted from various schemes such as the Special Employment Credit ("SEC") and the Wage Credit Scheme ("WCS"). The government has announced various support packages, such as the Jobs Support Scheme ("JSS"), to assist workers and companies in this time of economic uncertainty.<br><br>**How is the group helping its clients during this challenging period with respect to the government support schemes?** | We are working out with certain clients on initiatives to help each other in the spirit of seeing continuous employment of local employees for at least 6 months. |

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| **2** | As noted in the “Letter to shareholder” (page 14), the group has made an opportunistic investment in UK AIM-listed Staffline Group plc. As disclosed in Note 9 (page 115 – Other financial assets), the company does not have significant influence over Staffline as it does not have a board representation despite its 29.95% stake. The company has no access to the detailed financial information of Staffline other than their published financial statements. There has been no further update on the appointment of Ms Adeline Sim as a non-executive director since Staffline announced their intent to do so on 16 September 2019. In fact, Staffline appointed Mr Albert Ellis as non-executive director on 17 March 2020. Mr Ellis held the position of Group Chief Executive Officer at Harvey Nash for 14 years. The company also announced the resignation of the non-executive director, Dawn Ward, and the resignation of the non-executive chairman, Tracy Lewis, on 23 April 2020 and 24 April 2020 respectively. Staffline’s CEO has also tendered his resignation on 19 February 2020, amongst other changes in the C-suite of Staffline.<br><br>When the company obtained the 25.02% stake in Staffline in August 2019 for $46.1 million, it recognised Staffline as an associate. It then added a 4.93% stake in September 2019 for $9.4 million. The estimated cost of Staffline is $55.5 million. However, the company has since recognised Staffline as an equity investment designated at fair value through other comprehensive income. |

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| **(I)** | **Can the audit committee help shareholders understand if it is prudent for the company to invest an estimated $55.5 million when it does not appear that the company has access to detailed financial information to carry out due diligence nor had it been able to appoint a non-executive director to the board of Staffline?** | The audit committee is satisfied that the company has made due and appropriate enquiries with the key management and relevant personnel, obtained independent reference checks and performed onsite fieldwork with key managers and operational staff in various cities of operations in the U.K. |
| **(II)** | **How is the board managing the relationship with Staffline so that it does not consider this as a hostile approach?** | The board is in regular and professional contact with the Staffline board and management, with a long-term view towards helping them to regain profitability and effectiveness. |
| **(III)** | **Is there a timeline for Ms Adeline Sim to be appointed to the board of Staffline?** | None that is envisaged at the moment. |
| **(IV)** | **How much more has the board earmarked to invest/support Staffline?** | None that is envisaged at the moment though we conduct assessments of all our portfolio holdings on a regular basis to determine the best course of action at each point in time. |
| **(V)** | The 29.95% stake is carried on the books as “Investments in equity instruments designated at fair value through other comprehensive income (FVTOCI)”. Together with the investment in Bamboos, the group has spent $63.4 million and recognised a net fair value loss of $(25.24) million as at 31 December 2019. The loss of $(25.24) million does not affect the group’s P&L which was $55.78 million in 2019. Staffline closed at 87p on 31 December 2019. At the closing price of 28.89p on 24 April 2020, the group’s holding is estimated to be worth $10.50 million, down from $31.79 million as at 31 December 2019 and down $45 million from the estimated cost of investment. Since the end of the financial year, the company could potentially | We are of the view that Staffline now has a lean board comprising three very senior, well-qualified and experienced executives whom we believe would be effective in leading the company and partnering the 3 managing directors of the businesses towards short-term recovery, mid-term profitability and long-term sustainability. Our management will continue to work through regular dialogue and exchange of ideas on best practices and industry knowhow with the board and executive team. |

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| | recognise further net fair value loss of $21.3 million due to the decline in the share price of Staffline.<br><br>**Given that management should be fully occupied with operational issues in its core markets during this pandemic, does the group have the bandwidth to safeguard its non-controlling investments without stretching itself too thinly?** | |
| **(VI)** | Can the board help shareholders understand its plans for Staffline and Bamboos? | We have long-term intentions with Staffline and Bamboos. As we get to know the respective boards and executive teams over time, we look to work together and continue to discover each other's strengths and mutual synergies and ways to enhance shareholder value. |
| **3** | On 17 April 2020, the company announced a company share buy-back of 200,400 shares at a price of $0.485 per share which was two-thirds of the day's total volume of shares traded. On 26 November 2018, SGX Regco, in its Regulator's Column, had highlighted the risks in companies doing share buy-back. In particular, companies must not pay more than 105% of the average closing market price of the security over the last 5 consecutive active trading days. In addition, SGX guided that companies should aim to buy back shares at relatively low prices and not be seen to buy at increasing higher prices which could be interpreted as influencing the closing prices. Also, the regulator stated that purchases that exceeded 30% of the daily on-market traded volume were excessive. Doing so may interfere with the normal trading of shares and result in the artificial inflation of the trading volume and price of the security. The Regulator's Column on share buy-backs can be found here: https://www.sgx.com/media- | |

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| | centre/20181126-what-companies-should-observe-whenconducting-share-buy-backs | |
| **(I)** | **Would the board, particularly the independent directors, help shareholders understand their level of oversight and the guidance given to the company on share buy-backs?** | The Board has instructed and guided that the execution of share buybacks to be done in accordance with the annually approved Share Buyback Mandate. The independent directors are kept apprised of all share buy-back transactions on a timely basis. |
| **(II)** | **Would the board be reviewing the company's share buy-back practices (both in price and volume) to ensure that they are more in line with SGX rules?** | The board has reviewed the company's share buy-back practices and has implemented additional safeguard measures, in particular requiring written approval to be given by an executive board member before the execution of every single share buyback order in terms of timing, price and volume. The company's brokers have also been given a standing instruction to ensure that the respective caps on 30% daily volume and 105% of average of last 5 days' closing price are complied with at all times.<br><br>This would ensure that the company buys back shares in a responsible manner that does not artificially interfere with the price and volume of the security, as noted in the Regulator's Column. |
| **(III)** | On 18 April 2020, the company announced a "clarification" and disclosed that the buyback order carried out on 17 April "had been placed erroneously due to an inadvertent error in the calculation of the maximum price permissible for on-market share buy-backs by the Company". Based on our calculations, the maximum price was $0.4775 per share. The company bought back shares at $0.485 per share. **Would the board, especially the directors with legal background, help shareholders understand if there had been any breaches of relevant Acts and rules given that the shares were bought back at above** | The board has taken legal advice on this matter and are satisfied that there was no breach of the relevant legislation as completion of the share acquisition had not taken place.<br><br>The inadvertent error was discovered internally prior to settlement, and a breach was avoided by rebooking the buy order to SIMCO Limited. SIMCO Limited voluntarily accepted the rebooking and no fees or charges were paid or are payable by the Company to SIMCO Limited. For the avoidance of doubt, the original buy order was not originally placed with the intention of facilitating the acquisition of such shares by SIMCO Global Ltd. The re-booking was done purely with the intention to prevent the |

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| | **the maximum price?** The company then added that the share buy-back was then rebooked as an order by SIMCO Global Ltd, which is the holding company controlled by the Sim family. | Company from breaching the terms of its existing share purchase mandate. |
| **(IV)** | **As a listed company, can the independent directors provide added assurance that the company is managed professionally and not used interchangeably with the private holding company?** | Yes. The independent directors are certain that the above described situation was a one-off incident arising from an inadvertent error in the purchase of the company's shares and the Company would like to assure investors that it is managed professionally and that the Company is not used interchangeably with the private holding company. |

By Order of the Board

Adeline Sim
Executive Director & Chief Legal Officer
06 May 2020