P5 CAPITAL HOLDINGS LTD.
(Company Registration No. 199806046G)
(Incorporated in the Republic of Singapore)

RESPONSE TO QUERIES FROM THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE) ON THE ANNUAL REPORT

The Board of Directors (the "**Board**") of P5 Capital Holdings Ltd. (the "**Company**", and together with its subsidiaries, the "**Group**") would like to provide its responses to the queries received from the Securities Investors Association (Singapore) ("**SIAS**") in relation to the Company's Annual Report for the financial year ended 31 March 2021 ("**FY2021**") prior to the upcoming annual general meeting for FY2021 to be held by way of electronic means on 28 July 2021 at 10.00 am. For avoidance of doubt, the Company does not respond to the commentaries made by SIAS since they merely set out the context of the questions raised.

QUERIES FROM SIAS

Q1. As noted in the corporate profile, the lifestyle business comprises the distribution and retail of a collection of mid-range and high-end European brands of furniture, lighting and accessories, serving both business-to-business ("B2B") and business-to-consumer ("B2C") customer types across the retail, commercial and hospitality sectors. To date, there are 3 retail showrooms and an online store

(i) What is the business model for the lifestyle business? Does the group have the economies of scale to run the lifestyle business profitably?

Company's response:

Since November 2019 (prior to the onset of the COVID-19 pandemic), the team has already started to evaluate, refine and evolve a more growth-centric business model for the lifestyle business ("**P5 Lifestyle Group**") to focus on, namely (1) being a prominent go-to solution for mid-to-high end furnishing products, (2) being a multi-brand distribution/retail partner for mid-to-high end European product brand owners, and (3) building extended capabilities such as eCommerce and private labels to grow market share and grow beyond Singapore.

Based on the publication by Graphical Research Report[1], Asia Pacific Furniture Market size exceeded USD 271 billion in 2020 and is estimated to witness over 5.7% growth rate from 2021 to 2027. The rapid investment in the construction sector in-line with the development of smart city projects is expected to open new opportunities for furniture industry players in the coming years. In the same publication, it was disclosed that offline distribution channels dominate the furniture industry in 2020 as several customers prefer to visit retailers and want to experience the exact size

[1] Asia Pacific Furniture Market | Growth Outlook 2021-2027 (graphicalresearch.com)

and other aesthetics of products. The entry of major furniture players in emerging economies to set up retail stores is further driving the segment growth.

In light of the above, the P5 Lifestyle Group seeks to serve the needs of this growing affluent, high disposal income consumer market in furniture-lighting-accessories, with the following 3-prong approach:

- Establish greater brand presence by capitalizing on strategic location for the luxury brand that we promote, to drive consumer experience at the luxury, experience-driven segment

- Establish a collection of mid-and-high end brands as well as in-house private label to cover more markets, and mitigate risk arising from over dependency on few select brands

- Establish online capabilities to provide comprehensive product information to engage/capture buying interest at early design phase rather than at post-renovation furniture shopping stage.

The P5 Lifestyle Group has made decisive and timely adjustments to support its growth-centric mission both in operational capabilities and manpower adequacy. With the continuing disruptions and changes in the economy, the Management constantly maintains a balance between financial prudence and investment for long term growth, so to be ready to capture the early waves in pent-up demands when the pandemic normalizes, and market demand returns.

(ii) Can management also elaborate further on the plans for "PlayGround"? The inhouse private-label, "PlayGround", was launched in the first quarter of FY2020 to allow the group to move upstream from pure retail and to position itself as a lifestyle product distributor for furniture and accessories.

Company's response:

PlayGround came about as a 3-year strategic plan (2020 – 2023) for the P5 Lifestyle Group to achieve the following objectives:

- Work with European original equipment furniture manufacturers with productions in Asia to cut down both shipment time and freight cost which are competitive factors for online commerce. It is also a counter measure to rising production cost and higher freight charges for products purchased from Europe.

- Create an in-house label to collaborate with regional retail partners with ready showrooms in growing our footprints beyond Singapore, without the corresponding financial liabilities usually associated with buying into additional distribution/retail rights for third party brands as we regionalize.

- Leverage on our existing clientele, manpower resource, logistics capabilities, product knowledge, consumer analytics and showrooms to build and establish the PlayGround label more quickly and with less capital expenditure.

Products of PlayGround are already being sold and are on display at our Henderson Road showroom. Initial plans to hold product launches and evolve PlayGround more aggressively into the market targeting designers and architects have been hampered by Covid-19 safe distancing restrictions and safe management measures that prohibit mass gathering.

(iii) Please provide the URL of the online store

Company's response:

The URL is: https://p5collective.com/

(iv) Who is driving the group's lifestyle business?

Company's response:

Mr Roger Khoo ("**Mr Khoo**"), the Deputy CEO of P5 Lifestyle Group is responsible for the strategy and operational development of the lifestyle business. Ms Leow Sau Wan ("**Ms Leow**"), the Executive Director of the Company is also responsible for overseeing the P5 Lifestyle Group and developing new growth and strategic transformation for the P5 Lifestyle Group. Both Mr Khoo and Ms Leow report to the Group CEO, Mr Aviers Lim, and work with the General Managers of the respective subsidiaries.

Q2. In Note 25 (page 110 – Acquisition of subsidiaries), it was disclosed that the company acquired 100% of the shares and voting interests in Green Energy Investment Holding Private Limited ("GEI") and Green Waste Recycling Company Private Limited ("GWRC") from the controlling shareholder, Mr Lim Shao-Lin, who is the current chief executive officer and executive director on 13 November 2019.

The acquisitions were to start the group's diversification into the renewable and sustainable energy industry by investing in the production of advanced biodiesel and activated carbon, including the provision of plant maintenance services.

For the year ended 31 March 2020, GEI and GWRC contributed no revenue and a loss of $(13,090) to the group's results. In FY2021, the group recognised revenue of $1,278 in the energy segment.

(i) Can the board provide shareholders with more clarity on the market entry strategy and the road map for GWRC and GEI?

Company's response:

As disclosed in the Company's announcement on 31 October 2019, the acquisition of GEI and GWRC presented an opportunity for the Group to venture into the renewable energy business, through the foray advanced by GEI and GWRC in this area, by investing into the production of advanced biodiesel and activated carbon, including the provision of plant maintenance services. The Company obtained Shareholder's approval on 29 September 2020 for the diversification of its core business to include the energy business. ("**P5 Energy business**").

As part of P5 Energy business, the Company aims to introduce new technology and innovative products to complement or replace existing market models. It will market and sell the proven second generation biofuel system developed by its USA partner, into the rich biomass region of Asia. In order to prove the commercial viability of the technology, it has invested heavily to setup a demonstration system for the technology in Singapore.

Once the system is commissioned, the Company plans to invite potential buyers for evaluation and eventual sales, subject to the re-opening of borders in light of the COVID-19 pandemic. In addition to system sales, it will also offer alternative fuel sources like LNG, Biofuel and other products such as Biochar for sale.

(ii) Can the company elaborate further on the patented and unpatented technologies that were acquired as intangible assets valued at $587,920?

Company's response:

The patented technology refers to the patent for the "Method and apparatus for torrefaction of Biomass Materials" which is a technology that dries and maintains Biomass at low moisture content.

Unpatented technology refers to the "Devices comprising a carbonaceous material and uses of the material" relating to an energy storage device (Batteries) comprising of carbonaceous material.

(iii) How much of the receivables amounting to $2,322,371 have been collected, impaired or remain outstanding?

Company's response:

The other receivables of $2,322,371 mainly relates to an advance payment made to a vendor in relation to the purchase of the Biofuel demonstration equipment at $2,320,584. The prepayment was reclassified as Plant and Equipment upon full payment and delivery of the equipment in the current year.

(iv) In the company's announcement dated 31 October 2019, it was stated that the existing loans from director taken by GEI and GWRC were interest-free and "will remain interest-free". On page 99 (Note 15 – Lease liabilities), it was shown that there were "interest expense" and "other payables" for the loans from the director (and also amount due to affiliated companies) under "Other changes". Can the audit committee help shareholders understand what these "interest expense" and "other payables" are for?

Company's response:

The accounting standards require the interest-free loans to be measured at fair value at inception i.e. date of acquisition. The fair value of interest-free loan from a director and his affiliated companies, are determined based on the present value of future cash flows discounted using the Singapore prime lending rate at 5.25%. The unwinding of the difference between the fair value and the interest-free loans are recognised as interest expenses over the expected repayment period.

Other payables are the expenses paid on behalf by a director and its affiliated companies.

(v) Did the board, especially the independent directors, consider that the total consideration should include the director's loans amounting to USD1,595,275 (or approximately S$2,203,553) since the transaction is an IPT? Based on the audited consolidated financial statements of the group for FY2019, the group's consolidated NTA as at 31 March 2019 was approximately S$13,951,117. As seen on page 99, a sum of $1,834,367 has already been repaid to the director even though GEI and GWRC contributed no revenue in FY2020 and might have contributed $1,278 (under the energy segment).

Company's response:

As disclosed in the Company's announcement on 31 October 2019 in relation to the acquisition of GEI and GWRC, the purchase consideration was a commercial point negotiated between the Company and Mr Lim Shao-Lin ("**Mr Lim**") during the preparation of the Sale and Purchase Agreement.

The Board took into consideration the net capital deficiency position of GWRC and the existing loans owing by the Targets respectively, as well as the potential for growth of the Targets' business, and determined the paid-up capital of the respective Target as an appropriate indication of the purchase consideration for the Proposed Acquisition.

(vi) Can the sponsor elaborate further on the advice it has given to the company, including the justification not to include the director's loans in the consideration even though this is an IPT?

Sponsor's response

As disclosed in the announcement made by the Company on 31 October 2019, the consideration for GEI and GWRC was arrived on a willing buyer and willing seller bases between the Company and Mr Lim, having taken into account the aggregate paid-up capital, financial position and business prospects of GEI and GWRC.

The director's loan was provided by Mr Lim to GEI and GWRC for the initial set up costs incurred relating to the biofuel production equipment, other pre-operating and business expenses. This loan was interest-free and Mr Lim had provided an undertaking as part of the salient terms of the sales and purchase agreement not to seek immediate repayment upon the completion of the acquisition of GEI and GWRC.

Post-completion of the acquisition of GEI and GWRC, they became subsidiaries of the Company and the loan would consequently constitute an ongoing interested person transaction between Mr Lim and the Group.

Q3. Mr Lim Shao-Lin was appointed as an executive director of the company on 29 July 2019. Mr Lim had a 1.38% stake and entered into a sale and purchase agreement with the previous substantial shareholders of the company to acquire a 28.52% stake at $0.063 per share. With a 29.90% stake in the company, Mr Lim became the new controlling shareholder without having to make a mandatory general offer to minority shareholders. Mr Lim Shao-Lin currently has direct and deemed interests of 163,699,808 shares or 23.74% (following a placement of 132 million new shares that was completed on 4 February 2021).

As noted in his profile (page 7), Mr Lim was subsequently tasked to lead the group as the Chief Executive Offcer (sic) ("CEO") given his "29 years of experience successfully starting and leading multiple businesses in Singapore" [emphasis added]. It was further disclosed that, as CEO, Mr Lim is responsible for the overall performance, strategic direction and business development of the group.

(i) Has the board evaluated the group's performance? In the past three years, the results from operating activities were $(1.34) million in FY2019, $(1.91) million in FY2020 and $(2.82) million in FY2021.

<u>Board response:</u>

The Board conducts regular scheduled meetings, at least (4) times a year to discuss the Group's performance, financials and operations. Ad hoc meetings are also conducted throughout the year, involving Board members as and when the circumstances require.

Before each meeting, the Group's financial performance is circulated to all Directors. During the meetings, all the Directors are briefed on the Group's business development, financial operation and group's performance are reviewed and questioned concurrently.

The Board acknowledged that COVID-19 had impacted the Group's performance as disclosed in the Annual Report for FY2021. Towards P5 Energy Business, the prolonged COVID-19 pandemic has disrupted its plan to set up a demonstration plant in Batam, including the provision of maintenance services and biofuel production.

In relation to P5 Lifestyle Business, the COVID-19 pandemic also disrupted global supply chain, curbing free movement arising from multiple global travel lockdowns, resulting in delays or rescheduling of lifestyle projects though there were no cancellations. As at the end of FY2021, there were advance consideration received from customers at S$2,043,721 for sales of furniture, lightings, and bespoke carpentry works that could not be delivered, materially and adversely affecting the Group's financial performance.

In particular, as seen in the consolidated statement of profit or loss (page 63), even as revenue decreased by 38%, distribution and administrative costs increased by 14% and 4% to $1.4 million and $4.3 million respectively. Gross profit for the year was only $2.2 million.

(ii) Can management help shareholders understand the reasons for the increase in distribution and administrative costs? Please provide a breakdown of the distribution and administrative costs.

Company's response:

While aware of the need to contain cost, the Group was mindful that short-term expenses cuts could significantly impact mid-to-long term profitability at a time when the Group was entering new market segments.

Our success and first breakthrough into Singapore's prestigious, high end developer project (Park Nova) to supply wardrobes and kitchen system and new premium styling German brand 'House of JAB Anstoetz' is evident of our enhanced capabilities as a result of forward growth-investing, paving the way for more development projects. As such, the Group had increased its marketing expense, as part of its marketing strategy, so to give an edge over its competitors (whilst most brands cut down) and communicate to drive the brand in the long term.

In light of the above, this has resulted in near term increase in distribution (mainly skilled labour, centralised warehouse-logistic, marketing support) and administrative cost (mainly for research and development) as reflected in the annual report for FY2021, in upskilling the existing staff so to 'future-proof' their skills instead of replacing them. Such transitionary expense will land the Group in good stead as these are directed at building capabilities, capacity and our market relevance in a fast-changing retail environment.

Breakdown of distribution expenses and adminstrative expenses

	2021	2020
	$	$
Distribution expenses		
Staff and logistics costs	1,276,917	1,149,090
Marketing expenses	89,430	48,561
	1,366,347	1,197,651
Administrative expenses		
Audit fees paid and payable to auditors of the Company	108,733	122,826
Depreciation of property, plant and equipment	163,160	172,254
Depreciation of right-of-use assets	922,634	811,105
Entertainment	24,097	28,564
Legal and Professional Fee	277,279	294,028
Maintenance	73,282	141,374
Non audit fees paid and payable to auditors of the Company	28,000	13,789
Other	520,754	518,489
Recruitment expense	3,736	11,199
Rental	4,829	73,329
Research and development expenses	124,311	-
Staff costs	2,009,923	1,916,011
Training expense	15,712	13,750
	4,276,450	4,116,718

(iii) How effective was management at cost cutting and containment especially given the uncertainties in the economy with the COVID-19 pandemic?

Company's response:

Given the uncertainties in the economy with the evolving COVID-19 pandemic and its unprecedented effects, cost cutting will be the most immediate measure to conserve cash to tide through the months ahead.

From FY2020 to FY2021, the Group was going through a wide-scale digitalisation transformation and business diversification to better meet future challenges and opportunities, as well as adapt to the changes brought about by the COVID-19 pandemic.

In terms of cost management, the Group leveraged on the various Government assistance programs at an aggregate net receivable of $1,058,230 as of FY2021. The breakdown is as follows:-

- To seek co-fund digitalisation of enterprise resource planning and human resource management system project so to minimise financial burden on capital investment (Productivity & innovation grant: realised: $14,000, In the process: $87,085)
- Upskills staff and fair employment practice as well as technology adoption to ensure we remain relevant (Realised: $552,950, In the process:$167,687)
- Negotiated a rent reduction or waiver with landlord, government subsidy (Rental concessions: $216,888)
- Speeding up online presence, to create brand awareness (E-marketing grant: $19,620)

In addition to the above, the Group conducted other measures to contain its costs by implementing discretionary spending cut such as business entertainment, office supplies & maintenance. In terms of its talent strategy, the Group had also implemented a hiring freeze on headcount that is not core to the businesses. The Group was transparent on its performance and conducted discretionary pay reduction up to 20% from June 2020 for higher remunerated staff, instead of laying off its employees.

In the long term, the Group will continue to leverage on its existing core competencies to build on its business strategies. The Group believes that the successful implementation of its business strategy and processes lies with its ability to retain and engage talent. For full details, Shareholders should refer to the Company's Sustainability Report that is announced together with its Annual Report on 13 July 2021.

(iv) In addition to the roles of CEO and executive director, Mr Lim is also the CEO of the GasHub Group. Can the director help shareholders understand how he is able to devote sufficient time, energy and attention to matters of the group?

<u>Company's response:</u>

Similar to any director with multiple directorships and/or principal commitments, Mr Lim may be perceived to be unable to devote sufficient time, energy and attention to matters of the Group by virtue of his roles as CEO and executive director of the Group and CEO of Gashub Group (non-public-listed company). It is the responsibility of each Director to assess his/her own capacity and ability to undertake their respective commitments and obligations whilst serving on the Board effectively. Contributions of each director should not be purely based on his perceived time commitments, but rather the quality of his contributions in discharging his duties on the board. Mr Lim's expertise and experience in the renewable energy sector would be beneficial and translatable to the Group going forward as the Company continues to build up on its energy business.

As disclosed in the Company's corporate governance report for FY2021, each director is required to declare that he/she has sufficient time and attention to the affairs of the Company. In addition, Mr Lim has attended all scheduled Board meetings and annual general meetings from 1 April 2020 to 31 March 2021. Notwithstanding that Mr Lim is the CEO of and executive director of the Group, he is supported by a strong team of C-suite executive, Executive Directors, Deputy CEOs and General managers. The C-Suite executives oversee the organisation's day-to-day operations on behalf of the CEO, creating the policies and strategies under the guidance of the CEO that govern operations.

(v) The company has also entered into a binding memorandum of understanding in relation to the proposed acquisition of shares in the capital of Gashubunited Holding Private Limited. What safeguards are put in place by the independent directors to ensure the interests of the company and of the minority shareholders? What is the experience of the independent directors in deal structuring and valuation to ensure that the company enters into a deal that is fair and reasonable, with due consideration given to protect the company from downside risks.

Company's response:

As disclosed in the Company's announcement on 8 June 2021, the proposed acquisition of shares in the capital of Gashubunited Holding Private Limited ("**Proposed Acquisition**") is conditional upon and subject to the parties' entry into a definitive sale and purchase agreement ("**Definitive SPA**"), which will include conditions precedents such as obtaining shareholder's approval for the transactions contemplated in the Definitive SPA.

With reference to the Company's annual report in its Corporate Governance report, the Board is supported by Board Committees that is chaired by independent directors to assist in the discharge of the Board's function and execution of its responsibilities. The Board independently and objectively assesses the organisation's decisions and oversees the performance and activities of management. As its existing Board composition comprises directors with diverse backgrounds such as financial (including audit and accounting), engineering, banking and management backgrounds, all decisions pertaining to the Company will be made collectively on a Board level. The Board has in place practices and policies to address potential conflicts of interests. For the purposes of the entry into the binding memorandum of understanding ("**MOU**"), Mr Lim had abstained from the deliberation, decision and voting on any resolution in respect of the MOU.

In relation to the Proposed Acquisition, the independent directors were involved in leading the negotiations on the terms of the MOU, appointment of the professionals involved and amongst others, determined the scope and review the ongoing due diligence. Upon entry into the Definitive SPA, the Audit Committee in forming its view, will also obtain an opinion from the independent financial adviser, which will also be disclosed in the circular, stating as to whether the Proposed Acquisition is on normal commercial terms and is not prejudicial to the interests of the Company and its minority shareholders.

(vi) The Energy Business has been identified as one of the two strategic pillars for the group. What is the group's progress on its R&D collaboration with the local academic institution (page 6)? What are the objectives and scope of the R&D?

Company's response:

With reference to the Energy business, Green Energy Investment Holding Private Limited entered into an industry research collaboration agreement between Nanyang Technological University (NEWRI) for a study on identifying and exploring different types of feedstocks using various methods aimed at achieving goal of a higher value sustainable and renewal fuel. Phase 1 of the research to be completed in August 2021 covers:

- Raw Materials characterisation
- Pellet production
- Pallet characterisation

The Group is also in research with Nanyang Technological University (ERI@NTU) for green powering management of marine vessel's propulsion. This project is currently in progress and will end in 2022.

It has also been appointed by Enterprise Singapore to be on the working group for Singapore Standardisation Programme on Biochar. As part of the work group, the business will contribute and be on the development front for its Biochar product.

In addition, the Group has also formed a strategic alliance with an established USA business partner to exchange information of green sector for reformulations, improvement at sustainable green energy.

(vii) What limits has the board set on the capital allocation to the lifestyle business, to the advanced biodiesel and activated carbon business (through GEI and GWRC) and to the LNG business (through GUPL and GHPL)?

Company's response:

For all investments and capital allocations, the CEO will present the investment proposal to Board, setting out the limits and allocations taking into account the environment it operates in. The Board will consider the viability of the available investment options, evaluate each one's potential effects on the firm, and allocate the resources appropriately and in a manner that will produce the best overall results for the Group.

By Order of the Board

Lim Shao-Lin
Executive Director, CEO

27 July 2021