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## **ANNUAL GENERAL MEETING 2022 (“AGM”) – RESPONSES TO QUESTIONS RAISED BY SECURITIES INVESTORS ASSOCIATION SINGAPORE (“SIAS”)**

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The board of directors (“**Board**” or “**Directors**”) of Natural Cool Holdings Limited (“**Company**”, and together with its subsidiaries, “**Group**”) would like to thank the SIAS for submitting their questions in advance of the Company’s AGM to be held on 28 April 2022 at 10.00 a.m. by electronic means in accordance with the Notice of AGM published earlier.

We also wish to inform that the Company did not receive any questions from the shareholders in relation to the resolutions put forth for voting at the Company’s upcoming AGM.

SIAS’s questions and the Company’s responses are as follows:

### **SIAS’s Question 1**

*The theme of the 2021 annual report is “Focus on transformation”. As a recognised leader in air-conditioning, the group has diversified to paint and coatings, property and food and beverages.*

*The group acquired 51% of Nam Fang Co Pte Ltd, a plumbing and sanitary services company, and 51% of iFocus Pte Ltd, a communications product development and engineering company with experience in developing train-borne communications systems, estate monitoring systems and internet of things application design and manufacturing, on 28 December 2021 and 27 January 2022 respectively.*

*In the relatively new food division, the group, through SFB Holdings Pte. Ltd., acquired the assets of Sin Hong Huat Foodstuffs Manufacturing to produce and sell steamed muffins even as SFB wrote-off its soybean beverages business due to the underperformance, with all assets and goodwill related to this business being written-off.*

*Loss for the group was \$(5.9) million in FY2021 after recognising impairment losses of \$(4.6) million on the property, plant and equipment of investment and F&B Divisions. A \$(0.6) million in fair value loss in SPHomes Pte. Ltd was recognised due to underperformance.*

*For FY2021, in the investment, paint and coatings and F&B segments, reportable segment profit/(loss) were \$(5.3) million, \$134,000 and \$(1.3) million respectively. In FY2020, all three segments reported losses of between \$(163,000) and \$(470,000).*

*Accumulated losses have increased to \$(31.4) million as at 31 December 2021.*

- (i) Would the board help shareholders better understand management’s approach to the group’s transformation/diversification and how it can help stem the losses in the new businesses?**
- (ii) How are the investments into F&B and IoT (and other services) aligned to the company’s main competency in air-conditioning and mechanical ventilation and what is the level of commercial due diligence carried out by the board on these new ventures prior to the board approval?**
- (iii) How has the board protected and enhanced long-term shareholder value? How effective has the board in providing leadership and setting the strategic direction for management? Has this led to value creation for shareholders?**
- (iv) Does the board consider it timely to halt the group’s investments and carry out a strategic review to finetune its capital allocation/diversification strategy going forward?**

### **Company's response to Question 1:**

Covid-19 and the conflict in Ukraine has resulted in higher labour costs, higher raw material costs, higher energy costs and supply chain issues. We expect this situation to be a prolonged one, and may have an impact on the growth prospects of our traditional businesses.

With these expected changes in the market landscape, we had decided to take impairments at our Investment Division and Food and Beverage Division – mainly in the value of the plant, property and equipment to reflect some of the specific challenges in these segments. We have however, taken steps to mitigate some of these expected losses, including entering into active discussions with our landlord.

Our transformation strategy involves implementing tools to enhance productivity and to create new revenue platforms. In particular, the Group's participation in the Digital Leaders Programme will give us a leg up in terms of achieving these goals. Projects that we have embarked on include a mobile application platform (Coolfix), and the digitalization and automation of warehouse sales order, processing and delivery processes at our Aircon Division. If successful, we may roll out these solutions to the rest of our Group.

Part of this digital transformation involves our investment into iFocus Pte Ltd (iFocus), a well-established communications and Internet of Things (IoT) engineering company with good project references in the public sector built-environment market. iFocus' knowhow will be beneficial to our Aircon Division, especially where projects require deeper engineering expertise of such nature.

As for Nam Fang Co Pte Ltd (Nam Fang), our objective is to have a plumbing and sanitary contractor within the Group to support our Building and Construction Authority's ME15 Integrated Building Services workhead registration, and hence enhancing our facility management service offerings under the Aircon Division.

When we invested in the Food and Beverage business in the second half of 2019, we said that the principal rationale was to allow the Group to foray into this business as a means to build a potentially new source of revenue and profits. After adjusting for the expected changes in the market landscape as a result of the factors set out above, this still remains the case.

All of our significant investments undergo a level of due diligence commensurate with the investment amount and apparent risk factors of each project. The type of commercial due diligence that we may carry out include screening of individuals and talent involved in the businesses, their respective experience in the said business, analysis and evaluation of risk exposure and financial impact to the company, and potential collaboration opportunities.

Indeed, in the case of iFocus, the company and our Aircon Division has already collaborated to jointly bid for infrastructural monitoring projects and are working on a new aircon related service offering that require deeper communications engineering expertise.

The Board is collectively responsible and works with the Management for the long-term success of the Company. The Board provides leadership, assesses the Group's strategic direction, and establishes risk policy and goals for the Management.

This is primarily achieved by the Board's oversight of the governance structure supporting a disciplined approach. This ensures that the Company implements sustainability strategic processes across the business. They manage goal-setting and reporting processes, strengthen relations with external stakeholders, ensures overall accountability, and long-term growth and creating shareholder value.

The Board believes that these actions have supported the Group's strategy of both growing its promising business segments, and mitigate losses from unviable businesses. It also notes that it has for two years running, recommended a modest dividend to reward shareholders for their support and patience.

The Board recognises that the Group has made a number of acquisitions in the last 12 months and these will require a period of transition to monitor and review their performance.

## **SIAS's Question 2**

*In the financial review, the increase in rental expenses by \$0.4 million was mainly due to a "sub-let penalty fee charged by government agency" in respect of the group's property at 87 Defu Lane 10.*

*The property was acquired by the group in 2017 for \$17.5 million after the transfer was approved by the Housing and Development Board.*

- (i) Can the audit and risk committee (ARC) help shareholders better understand the circumstances that led to the "sub-let penalty fee" charged by the government agency, presumably HDB? Has the cause or causes of the sub-letting lapse been investigated and mitigating actions taken to avoid future lapses?***
- (ii) Is the penalty a one-off fine by HDB? Is the rent for 87 Defu Land 10 affected/adjusted?***
- (iii) What is the current use of 87 Defu Lane 10, other than housing the group's airconditioning and engineering business?***
- (iv) How much of the space is used by the group and sub-leased to third-parties? Did the group exceed the sub-lease limit set by HDB?***
- (v) What was the level of involvement and oversight by senior management in the management/leasing of the group's properties? What is the level of oversight of the ARC on the group operations?***
- (vi) Given the sub-letting lapse and the penalty that was imposed, would the ARC be carrying out a comprehensive review of the group's risk assessment and internal controls systems to assure shareholders that the group's operations are in line with government regulations and relevant laws?***

## **Company's response to Question 2:**

The one-off sub-let levy was imposed by Jurong Town Corporation (JTC) in response to some of our sub-tenants having occupied space in the building which was beyond the prescribed limits under JTC's sub-letting rules during the period from 2020 to 2021. The sub-let levy was imposed by JTC when we applied to have the land lease for the building extended in 2020. This sub-let levy did not have any impact on our land rent for the building, the land lease for which was renewed for another 30 years from 2020.

Acquired in late 2017, our plan was to house some of the new precision fabrication equipment that we had proposed to purchase, and to relocate some of the Group's business units into the building, replacing some of the then existing sub-tenants.

However, due to Covid-19 in 2020, we were unable to fully clear the building of sub-tenants to comply with JTC's sub-letting rules until 2021. Currently, the building is in compliance with JTC's sub-letting rules, and is occupied mainly by business units from our Air Con Division. However, the circumstances leading to this sub-let levy was unfortunate due to the Covid-19 pandemic and the related Covid-19 Temporary Measures Act (the "Act"). This Act afforded temporary relief for landlords and tenants in 2020, thus preventing the Management from executing plans for the building until 2021.

The ARC has taken note of this issue which will be addressed at the Group's annual Enterprise Risk Management review exercise which its internal audit program (conducted by an external independent professional firm) is based on.

### **SIAS's Question 3**

The attendance of directors at board and board committee meetings are shown in the table below:

|                                    | <b>Board</b>                       | <b>ARC</b> | <b>NC</b> | <b>RC</b> |
|------------------------------------|------------------------------------|------------|-----------|-----------|
| Number of Meetings Held            | 4                                  | 2          | 2         | 1         |
| <b>Name of Director</b>            | <b>Number of Meetings Attended</b> |            |           |           |
| Goh Teck Sia                       | 4                                  | 2          | 2         | 1         |
| Tsng Joo Peng                      | 4                                  | 2*         | 1*        | 1*        |
| Choy Bing Choong                   | 4                                  | 2*         | 1*        | 1*        |
| Lau Lee Hua                        | 4                                  | 2          | 2         | 1         |
| Tan Siew Bin Ronnie <sup>(1)</sup> | 3                                  | 1          | 0         | 0         |
| Mahtani Bhagwandas <sup>(2)</sup>  | 1                                  | 1          | 1         | 1         |

Notes:-

\* By Invitation

(1) Mr Tan Siew Bin Ronnie was appointed as Independent Director with effect from 28 July 2021, hence he could only attend three (3) Board meetings and one (1) ARC meeting held after his appointment date.

(2) Mr Mahtani Bhagwandas retired as Independent Director of the Company on 28 April 2021 at the conclusion of the AGM.

(Source: company annual report)

As seen in the table above, the executive directors (being the Group chief executive officer and Group chief operating officer) attend the board committee meetings by invitation. It would appear the board committee meetings are attended by all directors, making them the same as board meetings.

Can the board help shareholders understand the following:

**(i) Is it a board approved practice for non-board committee members (i.e. the executive directors) to attend board committee meetings?**

Such board committee meetings would have included agenda items on interested person transactions, performance assessment, remuneration of the executive directors and on the audit/financial reporting/internal controls of the group. **What is the board's governance structure and "Chinese walls" that are put in place at the board committee meetings when the independent directors on the board committee may be reviewing and discussing matters that are related to or affect the executive directors?**

**(ii) Do the executive directors also actively participate in the discussions during the board committee meetings? If so, how are board committee meetings different from board meetings?**

**(iii) Are the independent directors able to conduct the board committee meetings without the executive directors in attendance?**

**(iv) Are the committees able to make decisions objectively and independently?**

### **Company's response to Question 3:**

The Company's Board is chaired by an independent director, and all of its Board Committees are staffed by independent directors. It is an established practice of the Company to make its executive directors available to the Board Committees to answer questions and provide clarification to assist the committee in their deliberations.

In situations involving sensitive issues relating to a specific director or where there exists possible conflict of interests that require an abstention of voting, the relevant director (both non-executive and executive) may be asked to step out of the meetings. This has happened before on a number of occasions.

In addition, the Board Committees maintain discussions outside of the formal meetings to deliberate sensitive issues.

Board Committee meetings are chaired by their respective committee chairmen setting out and approving the agenda for the meetings. These meetings are supported by the company secretaries and the finance team.

With such a strong independent culture, with the independent directors comprising a majority of the Board, the Company is of the view that the Board and the Board Committees can operate objectively and independently.

## **BY ORDER OF THE BOARD**

Tsng Joo Peng  
Group Chief Executive Officer  
22 April 2022

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## **About Natural Cool Holdings Limited**

Established in 1989 and listed on Catalist (formerly known as SESDAQ) in May 2006, Natural Cool provides installation, maintenance, repair and replacement services for air-conditioning systems to the residential segment, both public and private; and commercial sectors, which includes factories, offices, condominiums, schools and hospitals, in Singapore. In addition, the Group sells air-conditioning components and tools used for the installation and servicing of air-conditioning business.

The Group is also engaged in manufacturing and sale of industrial paints and solvents, principally under the 'Cougar' brand.

In addition, the Group has a food and beverage division which manufactures, distributes and retails cooked dim sum in Singapore.

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*This announcement has been reviewed by the Company's sponsor, PrimePartners Corporate Finance Pte. Ltd. (the "**Sponsor**"). It has not been examined or approved by the Singapore Exchange Securities Trading Limited (the "**Exchange**") and the Exchange assumes no responsibility for the contents of this document, including the correctness of any of the statements or opinions made or reports contained in this document.*

*The contact person for the Sponsor is Ms Lim Hui Ling, 16 Collyer Quay, #10-00 Income at Raffles, Singapore 049318, sponsorship@ppcf.com.sg.*

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