Natural Cool Holdings Limited

(Incorporated in the Republic of Singapore)
Company Registration No. 200509967G

RESPONSE TO SGX-ST QUERIES

The board of directors ("**Board**" or "**Directors**") of Natural Cool Holdings Limited ("**Company**") refers to the queries received from the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") on 18 January 2022 in relation to the Company announcement dated on 17 January 2022 ("**Announcement**") regarding the proposed acquisition of 51.0% of the shares in the capital of iFocus Pte Ltd. ("**iFocus**") and wishes to respond to the queries as follows.

Unless otherwise defined, all capitalized terms used herein shall have the same meaning as the Announcement.

1 SGX-ST's Query 1:

The purchase consideration for the Proposed Acquisition is S$3.06 million. One of the conditions for the completion of the Proposed Acquisition is the Target having a NAV of not less than S$1.0 million and cash balance of not less than S$790K, which shall include the amount to be utilised by the Company as incentive payments and staff retention payments to certain employees to be specified by the Vendors and the refundable cash deposit paid by the Company to the Housing Development Board.

(i) The Company is paying S$3.06 million for its 51% interest in the Target while the targeted NAV of the Target is only S$1.0 million. Please provide more information and basis in arriving the purchase consideration, and the Board's assessment on whether this is a fair value for the Proposed Acquisition.

(ii) What is the rationale for such incentive and staff retention payments and who are certain employees specified by the Vendors? What does the refundable cash deposit to HDB pertain to?

(iii) What is the Target's current cash balance and NAV?

Company's Response:

(i) In arriving at the purchase consideration, in addition to the factors already disclosed in the Announcement (in particular, paragraph 4.1), the Company had also considered, *inter alia*, the following factors:

(a) the Target's financial performance disclosed in its unaudited management accounts for the 9 months period ended 30 September 2021, which reflected a profit before tax of approximately S$684,000 and revenue of approximately S$1.97 million; and

(b) the quality and location of the Target's key customers. In particular, the Company considered the fact that the Target's key customers comprise primarily Singapore

statutory boards or government linked corporations, various town councils in Singapore, Singapore based engineering companies as well as multinational engineering corporations or their local Singapore subsidiaries. Apart from project-based services, the Target also provides contracted and ad hoc maintenance services to these customers on a regular basis.

(c) The contribution from the provision of maintenance services for each of FY2019, FY2020, and the 9 month period ended 30 September 2021 accounted for between 69.5% and 78% of the Target's revenues in the relevant period.

Having regard to the factors taken into account in determining the Consideration as set out in the Announcement and the foregoing, the Board is of the view that the Consideration is a fair value for the Proposed Acquisition.

(ii) The Target is proposing to pay such incentive and staff retention payments to all its existing employees who intend to continue with their employment with the Target following the Proposed Acquisition, with a view to ensuring staff stability and such employees' continued service to the Target despite the proposed change in major shareholder pursuant to the Proposed Acquisition.

The refundable cash deposit paid by the Target to the Housing Development Board represents a security deposit placed with the Housing Development Board in respect of services to be provided by the Target to the Housing Development Board. The security deposit will be refunded upon the issuance of the completion certificate upon completion of the project with the Housing Development Board.

(iii) The Target's cash balance as at 30 September 2021 based on its unaudited management accounts for the 9 months period ended 30 September 2021 was approximately S$3 million and its NAV as at 30 September 2021 was approximately S$4.1 million.

It is the Vendors' intention that prior to Completion, the Target will declare and pay certain dividends in addition, the Target will accrue incentive and staff retention payments in (ii) above, such that the Target will have an aggregate cash balance in its bank accounts of not less than S$790,000 and a net asset value (including the said cash balance) of not less than S$1,000,000 as Completion, in compliance with the condition precedent set out in paragraph 4.2(d) of the Announcement.

2 <u>SGX-ST's Query 2:</u>

It was disclosed that "The Company had outsourced the financial due diligence on the Target to an external professional firm which is also a qualified valuer. Whilst no formal valuation of the Target was conducted, as part of the financial due diligence, the external professional firm had reviewed the financial forecast of the Target. Based on the outcome of their review, they had commented that the Consideration falls within the range of values in respect of the Target. The Target has project order books of at least S$7.7 million as at 31 December 2021."

- Please provide information on the qualified external professional valuer and the indicative valuation amount.
- Please provide information on the Target's customer base. Is the projected order book of S$7.7 million from Singapore customer base?

Company's Response:

(i) The Company had engaged an external professional firm, Vanden Advisory Services Pte Ltd ("**Vanden**"), to carry out a financial due diligence on the Target. Vanden was established in 2005 and provides *inter alia* services to support various business decisions, including assistance in compliance with tax regulations and financial reporting standards, specialist valuations, talent attraction, management and retention, mergers and acquisitions and due diligence.

As stated in the Announcement, no formal valuation of the Target was conducted, but as part of the financial due diligence, Vanden had reviewed the financial forecast of the Target. Based on the outcome of their review, they had commented that the Consideration falls within the range of values computed using the discounted cash flow valuation method in respect of 51% of equity value of the Target.

(ii) As stated in the response to Query 1(i) above, the Target's key customers comprises primarily Singapore statutory boards or government linked corporations, various town councils in Singapore, Singapore based engineering companies as well as multinational engineering corporations or their local Singapore subsidiaries.

The Target has project order books (comprising installation and contracted maintenance services) of at least S$7.7 million as at 31 December 2021. Such order books are in respect of confirmed projects where the Target has been engaged by its Singapore customers, and are expected to be completed over the next six years.

Besides revenue from projects, the Target also books revenue from providing maintenance services (contracted and ad hoc). The contribution from provision of such maintenance services for each of FY2019, FY2020, and the 9 month period ended 30 September 2021 accounted for between 69.5% and 78% of the Target's revenues in the relevant period.

3 SGX-ST's Query 3:

In Dec 2021, the Company acquired 51% interest in Nam Fang Co Pte Ltd, whose business is a plumbing and sanitary contractor.
For the current Proposed Acquisition, the Target is 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.

(i) How will the Company classify the new business segment from the Proposed Acquisition in the Group's accounts?

(ii) Considering that the Company's recent acquisitions are rather diverse from the Company's core business which is in the trading of air-conditioning units and spare parts, installation services for commercial air- conditioning systems and mechanical ventilation, and maintenance services, does the Board intend to seek a diversification mandate from its shareholders? Otherwise, at which juncture will the Board seek a diversification mandate from shareholders?

What is the Board's plans for the Company going forward in terms of its focus on business segments?

Company's Response:

(i) The Company will classify the new business segment from the Proposed Acquisition as a separate operating segment in the Group's accounts for the financial year ending 31 December 2022.

(ii) For reasons as stated in the paragraph 3 of the Announcement, the Proposed Acquisition is not expected to result in a change in the risk profile of the Company. Based on the relative figures computed on the basis set out in Rule 1006 of the Catalist Rules, the Proposed Acquisition constitutes a discloseable transaction as defined in Chapter 10 of the Catalist Rules, for which approval from shareholders is not required.

The Board will seek a diversification mandate at the appropriate juncture prior to any potential or expected change in risk profile and/or if the relative figures of the next relevant acquisition in any industry outside the Group's core business divisions (namely, aircon, paints and food divisions) (when aggregated with the Proposed Acquisition) exceeds the relevant thresholds computed on the basis set out in Rule 1006 of the Catalist Rules.

The Company will continue to focus on its core business segments, namely its aircon division, paint division and food division, and will continue to monitor the progress of this new technology business segment in which the Target operates.

4 SGX-ST's Query 4:

Are there non-competition clauses in the service agreements entered with the Vendors?

Company's Response:

Yes, in addition to the non-competition restrictions set out in the Shareholders' Agreement as disclosed in the Announcement, the Vendors will be subject to non-competition restrictions under their service agreements with the Target for the duration of their appointment under the service agreements and for a period of 18 months thereafter. Please refer to para 4.4 of the Announcement.

5 SGX-ST's Query 5:

Who introduced the Vendor to the Company for the Proposed Acquisition?

Company's Response:

The Company's Head of Digitalization had introduced the Vendors to the Company.

The Company's Head of Digitalization and one of the Vendors had been partners in a technology startup business more than 20 years ago, and had continued to keep in contact through the years.

BY ORDER OF THE BOARD

Tsng Joo Peng
Group Chief Executive Officer
20 January 2022

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 and soya bean beverages 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.*

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