ISDN HOLDINGS LIMITED

(Company Registration Number 200416788Z)
(Incorporated in the Republic of Singapore)

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UNAUDITED FINANCIAL STATEMENTS OF THE COMPANY FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2021 – RESPONSES TO QUERIES RAISED BY THE SINGAPORE EXCHANGE SECURITIES TRADING LIMITED

The Board of Directors (the "**Board**") of ISDN Holdings Limited (the "**Company**", and together with its subsidiaries, the "**Group**") refers to the Company's announcement dated 12 August 2021 in relation to the Company's unaudited financial statements for the financial period ended 30 June 2021 ("**1H2021 Results Announcement**").

Unless otherwise defined or the context otherwise requires, all capitalized terms shall bear the same meaning as ascribed to them in the 1H2021 Results Announcement.

Q1. Please explain why interest income amounted to only $218,000 during the financial period ended 30 June 2021 when the Company has significant cash and cash equivalent amounting to $58.1 million.

Company's Response:

Interest income during the period was reduced due to two principal factors:

First, overall interest rates have remained very low in recent quarters, reducing interest income. The rates at the reputable banks that the Group uses vary between 0.1% to 0.75% for interest-bearing accounts.

Second, the Group maintained a cautious approach to its cash management, preferring flexibility over interest income in the face of the third- and fourth-wave COVID-19 pandemic risk sweeping the global economy including nations where the Group operates.

Consequently, the Group maintained the majority of its cash in bank accounts where it was readily available, although this resulted in lower overall interest income.

A breakdown of the Group's cash and cash equivalents follows:

	As at 30 June 2021 **S$'000**
Cash and bank balances	59,970
Fixed deposits	3,083
Cash and bank balances	63,053
Less: restricted bank deposits	(2,266)
Less: bank deposits pledged	(2,653)
Total cash and cash equivalents	58,134

We note that the fixed deposits have a maturity period of 1 to 24 months which are not held for investment purpose but are placed to have better yield returns than cash at banks. These fixed deposits are readily convertible to cash to meet the Group's cash commitments in the short term, if required.

Q2. Please disclose:-

(i) the Company's plans to recover the trade and other receivables;

(ii) whether they are major customer(s) and whether the Company continues to transact with these customer(s);

(iii) What were the actions taken to recover the trade and other receivables;

(iv) The Board's opinion on the reasonableness of the methodologies used to determine the value of the impairment of the trade and other receivables; and

(v) The Board's assessment of the recoverability of the remaining trade and other receivables.

Company's Response:

(i) Company's plans to recover the trade and other receivables

The management reviews the trade receivables aging monthly and follows up with the respective general managers and/or customers on collection matters. If overdue debts remain unpaid, the Group may stop processing new orders from the customers until the overdue debts are settled. The management may also take legal actions to recover debts, if necessary. The Group continues to monitor its trade and other receivables closely.

(ii) Trade receivables from major customers

The Group has a strategy of using customer- and industry- diversification to reduce enterprise risks including receivables. The Top 5 customers of the Group's accounted for about 15.5% of total trade receivables of S$105,796,000 as at 30 June 2021, and no single customer accounted for more than 10% of the Group's revenue.

With respect to receivables risk from each of these larger customers, the Group considers the credit profiles of the customers as well as their payment track records and sees no reason or indication to impair these receivables. The Group continues to expect to trade and receive payments normally with these customers.

(iii) Actions taken to recover the trade and other receivables

Please refer to Q2(i) above for the action taken to recover the trade and other receivables.

(iv) Board's opinion on reasonableness of the methodologies used to determine the value of the impairment of the trade and other receivables

The Group has applied the simplified approach in SFRS(I) 9 to measure the expected credit losses ("**ECL**") either at lifetime ECL or 12-month ECL for trade and other receivables. The Group determined the ECLs on trade and other receivables by taking into account the historical default experience and the financial position of the counterparties, including their credit characteristics, geographical location, and adjusted for factors that are specific to the receivables and general economic conditions of the industry in which the receivables operate.

After taking into consideration the above by the management, the Board is of the opinion that the carrying amount of trade and other receivables were measured at fair value.

(v) Board's assessment of the recoverability of the remaining trade and other receivables

The Board has assessed reasonable recoverability of remaining trade and other receivables and has not seen indications or reasons for non-recoverability or impairment.

Q3. It is noted that the Company has a net cash outflow from operating activities of $727,000 and a net profit of $19.3 million for the financial period ended 30 June 2021. Please explain why the Company is unable to generate net cash inflow from its operating activities, despite the Company's net profit position for the financial period.

Company's Response:

The Group delivered record half-year revenues in 1H2021 as a result of strong demand for its solutions. This increase in bookings resulted in a corresponding increase in inventory purchases to fulfil customer orders in the second half of 2021 and increase in trade receivables. The increase in working capital drove a consequent reduction in cash flow from operating activities.

The Group expects that working capital increases to support growing orders and demands should generate cash profits over time as working capital normalises.

Q4. Please provide the reason(s) for the significant borrowings of $42.3 million when the Company recorded cash and cash equivalent of $58.1 million as at 30 June 2021.

Company's Response:

The Group believes it maintains healthy net liquidity (cash and cash equivalent less borrowings) of $15.8 million. The Group's debt and cash position reflects its cautious approach to preferring cash liquidity during a period where third- and fourth- wave pandemic infections are disrupting nations around the world including geographies where the Group operates.

As a result of the Group's liquidity strategy:

(a) Cash and cash equivalent are $58.1 million compared to current bank borrowings of $28.7 million. Given the low gearing ratio of the Group at 23.1%, the Group is able to secure lower interest rates for borrowings, which increases the Group's flexibility and liquidity in a volatile pandemic environment.

(b) Non-current borrowings are $13.6 million reflecting (1) the financing of our capital expenditure investments for our hydropower plant projects; and (2) the relocation of new office in Singapore as part of the Group's strategic decision to consolidate the majority of its 7 Singapore offices into a larger workspace to promote better synergies and efficiencies between Group companies. The loan tenure of non-current bank borrowings is between 5 to 11 years.

Q5. Please provide the reason(s) for the significant accounts payables/trade and other payables of $98.1 million when the Group recorded a cash and cash equivalent of $58.1 million as at 30 June 2021.

Company's Response:

The S$10.3 million increase in trade payables is proportionate to and driven by the significant revenue growth of the business during the period.

Trade payables are usually due within 30 – 90 days. As at 30 June 2021, the payables and accruals were not yet due for payment as per respective business arrangements.

The Group prefers to maintain a healthy payables balance to offset inventories and receivables, thereby maintaining leaner net working capital as well as a larger cash balance. This approach is consistent with the Group's overall conservative posture of favouring cash liquidity and flexibility in a global pandemic environment.

Subsequent to the financial period ended 30 June 2021, the Group has collected S$26.1 million due from customers as at 31 July 2021. In addition, as at 30 June 2021, the Group has a total of S$52.4 million undrawn credit facilities. Accordingly, the Group believes it can comfortably meet its current obligations when they fall due.

Q6. Please provide the background for the impairment loss for funding to investee companies and promissory note amounting to S$0.9 million.

Company's Response:

The Group provided funding to investee companies for energy and mining ventures and issued promissory notes to an individual to explore an overseas opportunity in sustainable forestry in the past. The management has periodically assessed the recoverability of the amounts due based on the methodology discussed in above Q2(iv).

With the rising uncertainties of the business environment during the COVID-19 pandemic, the Group believed it appropriate to record an additional impairment loss for funding to investee companies and promissory note. As at 30 June 2021, the carrying amount due from promissory note was measured at fair value and recoverable.

By Order of the Board

ISDN Holdings Limited
Teo Cher Koon
President and Managing Director
20 August 2021