

Response to SIAS Queries on ISOTeam's AR

1. The group has done exceptionally well over the past 5 years. As can be seen in the "Financial Highlights" (page 14 of the annual report), the cumulative annual growth rate ("CAGR") for revenue, gross profit and net attributable profit has been 39%, 56% and 45% respectively for FY12 to FY16. Since the listing, profit margin has increased from 19.3% in FY14 to 25.7% in FY16 but net attributable profit margin has hovered just under 10% in FY15 and FY16. Similarly, return on equity and return on assets showed some small decreases. **As the group broadens its services and geographical reach, can shareholders expect the same quality of earnings? Has the board set certain targets for management?**

On 4 October 2016, the Group announced its dividend policy whereby it intends to recommend and distribute at least 20% of the Company's consolidated profit after tax and minority interests, excluding non-recurring, one-off and exceptional items, in respect of any financial year to its shareholders, subject to compliance with the provisions of the Companies Act, Cap. 50, and the Company's constitution. This is testament to the Board's confidence in the future performance of the Group.

All our acquisitions since IPO have contributed towards our financial performance. We attribute this to the stringent due diligence process we had gone through to ensure that we only invested in companies that can broaden our capabilities and enhance our value.

In FY2016, we made our fifth acquisition – ISOTeam TMG Pte. Ltd. and also announced a shareholders' agreement with parties in Malaysia to established a joint venture company that will engage in the business of providing interior design services in Malaysia. Meanwhile, we are also stepping up our efforts in the area of renewable energy installation to capitalise on the government's goal to have solar energy account for 5% of Singapore's total electricity needs.

A point to note is that these acquisitions made are within our means without ISOTeam overstretching its resources. In addition, we bought companies with principle activities that are related or similar to us.

Looking ahead, we expect our acquisitions to continue to add value to our operations and performance.

2. The company has a proven track record of close to 20 years in Singapore's building maintenance and estate upgrading industry. The group now has eyes on overseas markets, including Indonesia, Malaysia and Myanmar. **While these markets offer huge potential, are these markets structurally very different from the Singapore market where demand is supported by government initiatives and regulatory requirements? What is management's strategy to enter and grow in these three new markets? What would be the focus areas in these markets? As the group enjoys economies of scale in the local market, how will it adapt as it tries to establish a foothold in these new markets?**

The expansion into regional markets was done strategically in partnership with local partners who already have presence in these markets. We will be tapping into their business network and market experience to grow the business. In Myanmar, it is with Nippon Paint (Singapore). For Malaysia, our

agreement is with BT Industrial Coating (M) Sdn. Bhd. These are all developing markets that are undergoing infrastructure boom and we are focusing on our core expertise, which is painting services. Once we have gained substantial market share in these new markets, we may then consider offering our other capabilities.

To continue our expansion regionally, we will be approaching future acquisitions using the same concept/approach as we have in the past which has proven to be successful.

3. The group acquired four subsidiaries in January 2015 which were strategic in expanding the range of the group's capabilities. In January 2016, the group added TMG Projects Pte Ltd. In the joint Chairman and CEO Message, it was disclosed that the group is still "on the lookout for other potential acquisition targets to further widen our capabilities to include providing mechanical and electrical, as well as conservancy cleaning services".

(i) What has the company learnt from the acquisitions and subsequent integration in the past two years?

All these companies are contractors and familiar partners that we had worked with over the years. We had sub-contracted the work out to them because they had expertise that we did not have.

In our quest to achieve our vision to become "Singapore's No. 1 and Preferred Partner for Total Maintenance Solutions", it made sense to make them part of the ISOTeam family because we were already working with them and we knew they do good work and could contribute to our business. It also made integration a much smoother and quicker process because we already had a working relationship. The process was further augmented with training and various activities we organise to foster a cohesive team.

So far post-acquisitions, all five acquired companies have integrated well and have helped to enhance our skillset and presence in the market. In addition, the collaboration with the various experienced management teams from each company has allowed us to grow our client base, increase our knowledge and expand our services.

We foresee more successful acquisitions to come and we will continue to search for compatible companies which will unlock new synergies and help to bring us to greater heights.

(ii) There was a write-off of \$0.6 million in goodwill in FY2015 for the acquisitions done in the year. What guidance does the board give to the management to ensure that the group does not overpay for acquisitions?

Under the guidance of the Board, the management performs the due diligence for the business acquisitions. In addition, the management also engages third party valuers to assess the fair value of the assets and liabilities of the target companies and also to identify the intangible assets if there are any. This is to justify the consideration paid.

(iii) Lastly, how does the company ensure that the ISOTeam “DNA” is not diluted as the group makes more acquisitions?

Most of the acquisitions are 100% which allow the ISOTeam management to have full control over the mode of operations in pursuit of ISOTeam’s vision to become “Singapore’s No. 1 and Preferred Partner for Total Maintenance Solutions”.

We have strict requirements and key performance indicators (KPIs) pertaining to quality, safety and many other standards both for our internal business units as well as third party sub-contractors. All parties are expected to uphold our high standards. To ensure that KPIs are met, we conduct close performance evaluations on a regular and timely basis.

We believe that employee morale and well-being are also important aspects to ensure the ISOTeam “DNA” is kept intact and healthy. To this end, we organise regular team building events / outings to inculcate corporate values to employees, encourage bonding and foster team work as a cohesive team.

In this respect, we believe the ISOTeam “DNA” is preserved.