



TEHO INTERNATIONAL INC LTD.

(Incorporated in the Republic of Singapore on 10 June 2008)
(Company Registration Number: 200811433K)

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

The Board of Directors of TEHO International Inc Ltd. (the “**Company**” and together with its subsidiaries, the “**Group**”) (the “**Board**”) refers to the query raised by the SIAS on 18 October 2016 in relation to the Group’s Annual Report for the financial year ended 30 June 2016 and appends the replies as follows:

Question 1

The “Marine & Offshore” segment reported a 6% drop in revenue to \$52.3 million and eked out a segmental profit before tax of \$18,320. This is credible given that the marine and offshore sector has been facing severe headwinds. **Can management advise shareholders on which of the sub-segments of (i) Rigging, Mooring, Lifting & Safety Systems, (ii) Electrical & Mechanical Engineering Systems, and (iii) Water & Environmental Solutions are performing relatively better? Is the resilience likely to persist in the new financial year? Based on the geographical information (page 89), revenue from European countries and “Other countries” have increased. Can management provide further elaboration on the group’s business in Europe? What constitutes “Other countries”?**

Company’s response:

- Our sub-segment in Rigging, Mooring, Lifting & Safety Systems, which serve mainly the Marine customers, is performing relatively better than the other two sub-segments of Electrical & Mechanical Engineering Systems and Water & Environmental Solutions, which serve mainly the offshore customers, including workboats and supply vessels.
- We expect our Marine business to continue to underpin overall growth for the Group in the financial year ending 30 June 2017 (“**FY2017**”).
- However, there is generally still caution in the marketplace about the direction of oil prices and whether the current stability in oil prices will be sustained and for how long. As it is, the price trend for oil is hovering in the mid-US\$40s to US\$50s range in recent months. The stability is good for our customers.
- Internally, we have been proactive in taking measures to ensure that our Marine, Offshore Oil and Gas segment remains competitive and resilient, so that we are fighting fit in weathering through the industry down cycle.
- Not only are we keeping costs under control, we are also closely monitoring our exposure to credit risk and to maintain an optimal amount of inventory.
- We are also looking at new markets for our products and are reaching out to customers in new geographical areas and industries to identify new sources of income. Our longer-term aim is to have a diversified and synergised portfolio in terms of geographical footprint and customer base.

- In Europe, our Marine and Offshore units are progressing well despite Europe's market being in the doldrums. We have consolidated our Rotterdam operations, previously at two different locations, into a centralised venue at our new property in Ridderkerk, The Netherlands, which has a total site area of about 4,034 square meters. This allows us to improve on our existing internal infrastructure and facilities to better serve our customers in Europe.
- "Other countries" which accounted for about S\$6 million in the Group's revenue consists of countries that each contribute to less than 2% of the Group's total revenue. Please refer to our unaudited full year financial results announcement made on 26 August 2016 for details.

Question 2

The group has made several acquisitions in the past years to grow the core business and to expand into property development. Some of the acquisitions included substantial amount of goodwill. The table below shows the recent acquisitions and the impairment on goodwill in the past two years.

Subsidiary	Acquisition Date	Consideration Transferred (\$)	Goodwill (\$)	Impairment (\$)
TIEC Holdings Pte. Ltd.	May 2014	11,053,844	5,597,614	FY2016 – 2,211,110 FY2015 – 2,209,048
ECG Property Services Pte. Ltd.	November 2014	13,570,000	12,475,753	FY2016 – 12,475,753
TEHO Engineering Pte. Ltd.	May 2012	6,382,000	2,515,562 (Additional \$2,353,000 for intangibles)	FY2016 – \$1,400,000
TEHO Water & Envirotec Pte. Ltd.	April 2013	2,369,000	844,364 (Additional \$957,000 for intangibles)	FY2016 – 844,364

(Source: TEHO International Inc Ltd Annual Reports)

- What guidance does the board give management for its acquisitions in terms of being prudent and not to overpay to preserve shareholders' value?**
- Can the board give shareholders assurance that they will be more pro-active in guarding against aggressive acquisitions based on overly-optimistic assumptions?**

As new shares were often used in the acquisitions at a price below the net asset value ("NAV") per share, and coupled with the impairments and losses, the NAV per ordinary share has dropped from 31.5c in FY2014 to 17.36c in FY2016.

- Issuing shares at a price below NAV to fund acquisition is dilutive to existing shareholders and makes the acquisitions even more costly. Would the company consider not issuing any more new shares at prices below NAV?**

Company's response to (i) and (ii):

- The Board's principal guideline to the Management is to ensure that there are sufficient bases and satisfactory due diligence outcome to support that a potential acquisition will bring strategic benefits to the Company and enhance shareholder value. We conduct thorough pre-acquisition assessment process and engage professionals to assist us in conducting due diligence reviews on the potential acquisition target(s). These reviews include, but are not limited to, financial, commercial, tax and legal due diligence reviews. In addition, we source

for relevant market studies and conduct valuation analyses on the potential acquisition targets.

- The largest impairment loss incurred in FY2016 arose from the impairment loss on goodwill attributable to the acquisition of ECG Property Services Pte. Ltd. This acquisition had given rise to goodwill due to the synergies expected from the acquired business and the Group's property development project, The Bay in Cambodia. As The Bay project is faced with unfavourable macro-economic outlook in the condominium sector in Phnom Penh, we are repositioning the development (comprising condominiums, retail space and hotel) in a way that will meet expected market conditions going forward. As a result of these changes, a full impairment loss on the goodwill attributable to the acquisition of ECG Property Services Pte. Ltd. amounting to \$12.5 million was recognised.
- Market conditions are dynamic and the Management and Board are constantly seeking for new business opportunities to improve the Group's performance. It would be incorrect to suggest that the Company used overly-optimistic assumptions and was aggressive in its past acquisitions. As mentioned in the earlier paragraph, the decision of the acquisitions was made based on the due diligence outcome produced by the professionals, as well as various considerations undertaken by the Board and the Management. The current slowdown in economic activities which is unpredictable at the point of acquisition may have caused an adverse impact on the Group's performance which has in turn resulted in impairment losses on goodwill.

Company's response to (iii):

- We will consider both the appropriate usage of debt or equity financing, whichever option that best optimises our capital structure. Though issuing equity below NAV is not an ideal option, we are not ruling out the option of equity issuance below NAV should the need arises and on a case to case basis, although none is foreseen at this point in time.
- Additionally, in our past acquisitions, the Company has a track record of issuing shares to vendors at a premium to the prevailing market price then. This reflects our commitment in involving our vendors in the growth of the Company.

Question 3

The change in the joint venture partner of TEHO-SBG Development Co., Ltd was announced by the Company on SGXNET on 23 February 2016 but it was not mentioned in the annual report.

- (i) **Can the company give shareholders an update on how the change in the JV will affect/has affected the plans?**

The hotel management agreement was signed with Hotel Okura Co., Ltd in February 2016.

- (ii) **What is the progress of the construction of the hotel? When would the hotel be completed and when would Okura be ready to welcome guests?**

In addition, during the official launch in August 2015, it was said that "The Bay comprises condominiums, retail space and a luxurious 250-room hotel". In the Chairman's statement (page 2), it was disclosed that "In reviewing the condominium sector in Phnom Penh, Cambodia, where The Bay development is based, the Group has decided to put on hold this residential project due to a heightened risk of oversupply of condominiums in Phnom Penh, possibly stretching to 2018".

- (iii) **Please provide shareholders with more detail of the plans for the condominium towers and the retail space.**

Company's response to (i):

- Change in the development plans was not a result of the change in the JV partner. In our unaudited half year financial results announcement ended 31 December 2015 which was announced on 12 February 2016, which is more than half a year after the resignation of our former Joint Venture (“**JV**”) partner on 10 July 2015, we mentioned that our JV company obtained the necessary approval and construction permits from the relevant authorities for The Bay project. Nevertheless, over the course of this period, there was a heightened risk of oversupply of condominiums in Cambodia and it is foreseeable that the condominium supply will increase significantly through to 2018. We have also observed an increase in the number of drop out cases of potential buyers of our initial residential development phase of The Bay.
- After having considered the market conditions in Phnom Penh and other factors as previously announced in our unaudited full year financial results announcement dated 26 August 2016, we have put on hold the residential development phase of the project with mutual consent of our current JV partner.

Company's response to (ii):

- Construction of the hotel has not commenced as of to date as we intend to reposition the development (comprising condominiums, retail space and hotel) in a way that will meet expected market conditions going forward.

Company's response to (iii):

- Our plans for repositioning the development are in the early stages and we do not have a concrete plan at this juncture. The Board will update shareholders on any material developments in due course and the Company will make further announcements as and when there are any subsequent developments.

BY ORDER OF THE BOARD

Lim See Hoe
Executive Chairman and Chief Executive Officer
26 October 2016

This announcement has been prepared by the Company and its contents have been reviewed by the Company's Sponsor, SAC Capital Private Limited (the “**Sponsor**”), for compliance with the relevant rules of the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”). The Sponsor has not independently verified the contents of this announcement.

This announcement has not been examined or approved by the SGX-ST and the SGX-ST assumes no responsibility for the contents of this announcement, including the correctness of any of the statements or opinions made or reports contained in this announcement.

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