Natural Cool Holdings Limited
(Incorporated in the Republic of Singapore)
Company Registration No. 200509967G

RESPONSES TO QUESTIONS RECEIVED FROM SIAS IN RELATION TO THE ANNUAL GENERAL MEETING ("AGM") FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2024 ("FY2024")

The Board of Directors (the "**Directors**" or the "**Board**") of Natural Cool Holdings Limited (the "**Company**", and together with its subsidiaries, the "**Group**") refers to the publication of its annual report and related documents on the SGXNET on 7 April 2025. The Company wishes to provide the following responses to the questions raised by Securities Investors Association (Singapore) on 11 April 2025.

Q1. As seen in Note 29 Operating segments, the group has reportable segments:

- **aircon and engineering**
- **paint and coatings**
- **food and beverages**
- **technology**

Information about reportable segments

	Aircon and Engineering $'000	Paint and Coatings $'000	F&B $'000	Technology $'000	Total $'000
2024					
External revenue	125,183	5,464	5,561	4,447	140,655
Inter-segment revenue	30	36	47	–	113
Total revenue of reportable segments	125,213	5,500	5,608	4,447	140,768
Interest income	18	–	9	–	27
Finance costs	(1,685)	(6)	(91)	(6)	(1,788)
Depreciation and amortisation	(2,819)	(213)	(1,028)	(496)	(4,556)
Reportable segment profit/(loss) before tax	472	1,424*	(947)	327	1,276
Other material non-cash item:					
Gain on debt settlement	–	1,155*	–	–	1,155
Reportable segment assets	86,269	3,158	2,027	6,430	97,884
Capital expenditure	2,043	8	48	29	2,128
Reportable segment liabilities	66,684	6,638	7,554	4,698	85,574

*Adjusted segment profit of $269,000

(Source: company annual report)

For FY2024, total revenue was $140.7 million, and the group reported a net profit of $0.7 million. Excluding the $1.54 million one-off gain on debt settlement, the group would likely have reported a loss for FY2024.

(i) Are there meaningful synergies among the group's four reportable segments? Specifically, are there opportunities for vertical integration, cost-sharing, or cross-selling across customer bases and geographies?

(ii) Given the operational diversity of the four segments, how does management ensure that each segment receives the necessary operational depth, strategic oversight, and capital discipline to scale sustainably?

The group regained control of Cougar Paint Industries Sdn Bhd, the manufacturing arm of the paint and coating division, in October 2024.

(iii) What revenue or margin improvement does management expect as a result of regaining control of Cougar Paint Industries?

(iv) Separately, what are management's key operational priorities to stabilise and turn around the F&B segment? What performance milestones have been set for FY2025?

Company's response:

(i) The Group's four business divisions are Aircon & Engineering, Paint & Coatings, Technology and Food & Beverages. Some of these divisions comprise of a number of business units that offer differentiated services, or deal with different segments of the markets that the Group serves.

Apart from the typical corporate shared services provided such as financial reporting, legal, information technology support and human resources, these divisions also collaborate on an intra and inter-division basis.

Such collaborations include the sharing of human resources on projects and co-bidding of tender opportunities, to marketing and selling the Group's products in Singapore and overseas. Some business units have also started to explore joint business initiatives, working towards the Group's goal of moving up the building technology value chain.

(ii) The Group's business units are helmed by managers who have extensive experience in their respective areas of business and who hold regular meetings with management (sometimes weekly) to provide operational and business updates. These meetings allow management to review the unit's operating results, business plans, assess proposed strategies, and consider the corresponding capital requirements to ensure alignment with the Group's overall direction.

These management meetings are supplemented by separate discussions with the Group's finance teams to review financial performance and capital expenditure and working capital needs.

(iii) Prior to being deconsolidated from the Group, Cougar Paint Industries Sdn Bhd ("CPISB") was the manufacturing arm and an integral part of the Paint and Coatings Division. Regaining control of CPISB allows the division to reestablish control over its supply chain in areas such as production cost, raw material procurement, inventory management and production scheduling. With its own factory, the division can mitigate risks associated with supplier dependencies.

(iv) The Group's Food & Beverages Division recorded a loss in FY2024 but continued to report positive EBIDTA. The division has increased its sales and distribution headcount and plans to increase the reach of its supermarket sales channel beyond the current 50 plus outlets island-wide. In addition, the division intends to expand the wholesale channel. Furthermore, there are plans to increase the number of festive promotions that it participates in beyond the traditional lunar new year and dumpling festive seasons.

As part of its reorganization in FY2024, the division closed a non-performing food outlet, sold its central kitchen in Woodlands and closed one central kitchen unit in Bedok to right-size its production capacity. Moving forward, the division will continue to look for opportunities to trim its administrative expenses, and remain EBIDTA positive.

Q2. In FY2024, the group recognised interest expenses of $1.75 million (FY2023: $1.23 million), which was more than double its profit for the year of $697,000 (FY2023: $403,000). A breakdown of the group's loans and borrowings is disclosed on page 137 of the annual report, showing that the cost of certain loans is as high as 7.72% per annum.

Terms and conditions of outstanding loans and borrowings are as follows:

	Nominal interest rate %	Year of maturity	Face value $'000	Carrying amount $'000
Group				
2024				
Variable interest rate loans	4.20% to 7.72%	2025 to 2035	**17,940**	**14,624**
Fixed interest rate loans	2.00% to 6.75%	2025 to 2027	**4,629**	**4,540**
Bills payable	4.18% to 4.83%	2025 to 2025	**5,548**	**5,490**
Lease liabilities	1.68% to 5.65%	2025 to 2050	**16,262**	**11,022**
			44,379	**35,676**
2023				
Variable interest rate loans	1.30% to 7.74%	2024 to 2044	21,227	16,388
Fixed interest rate loans	2.00% to 6.75%	2024 to 2027	8,202	7,939
Bills payable	4.98% to 5.67%	2024 to 2024	3,063	3,028
Lease liabilities	1.40% to 5.50%	2024 to 2050	15,859	10,338
			48,351	37,693

(Source: company annual report; emphasis added)

(i) Has the board assessed whether the group's financing costs are competitive, and whether they are materially below the return generated or achievable by the underlying businesses?

(ii) What alternative sources of funding have been explored to reduce the group's interest expenses?

(iii) What is the weighted average cost of capital (WACC), and how does it compare with the internal hurdle rates used when evaluating new investments or acquisitions?

The group has total equity of $16.3 million.

(iv) What is the optimal capital structure and has the board set an internal threshold or ceiling for leverage?

<u>Company's response:</u>

Group's total outstanding loans and borrowings as at 31 December 2024 was $35.7 million. Of this amount, $14.3 million (40.0%) are property term loans, $8.5 million (23.8%) are right of use liabilities, $5.5 million (15.4%) are trust receipt trade financing facilities, and $2.5 million (7.0%) are hire purchase loans. These are loans and borrowings for which rates are highly competitive and transparent in Singapore, or (as in the case of the right of use liabilities) for which the rates are based on market norms. The right of use assets and the related lease liabilities arose from accounting treatment of properties that the Group occupies on a long-term lease and are not strictly bank loans or borrowings.

Of the remaining loans and borrowings, $3.7 million (10.4%) are Singapore government supported temporary bridging loans granted during the COVID-19 pandemic which carries preferential interest rates.

Management regularly compares the interest rates offered by the Group's bankers against those offered by other financial institutions and continue to negotiate with its banks to ensure the Group secures the best rates possible.

Based on this, the Board believes the Group's financing costs are fairly competitive.

The Group does not compare the returns generated from its business operations with internal hurdle rates, as it does not operate under a capital allocation model. Instead, it is guided by a long-term business strategy and keeps its resources aligned with core business plans, prioritizing stability, synergies and sustainability. However, the Company is cognizant of a need to provide its shareholders with a return on their investment based on proper execution of its corporate strategy.

Funding requirements are primarily met through internally generated cashflow to minimize financing costs and support sustainable growth. The Group's current priority is to generate operating cashflows to fund its capital investments and debt repayment obligations. External funding options may be considered where appropriate, depending on the Group's needs and strategic priorities.

The Company has not set an optimal capital structure nor has it formalised a debt ceiling for the Group. Instead, the Board regularly reviews the Group's level of borrowings and loans, its debt profile, financial performance and financial liquidity to ensure ongoing financial stability and flexibility.

Q3. As disclosed in the corporate governance report, the internal audit function of the group is outsourced to Messrs Forvis Mazars LLP.

(i) What is the duration of the internal audit cycle?

(ii) What were the scope, key findings and recommendations by the internal auditor for FY2024?

(iii) What input did the audit and risk committee (the "ARC") provide to the internal auditor in determining the audit scope and areas of focus?

(iv) Can the ARC confirm whether non-wholly owned subsidiaries, such as Natural Cool Asia Pte. Ltd., Yummy (S) Pte. Ltd., JAD Solutions Pte. Ltd., Nam Fang Co Pte Ltd., and iFocus Pte Ltd, were covered in the FY2024 internal audit programme?

<u>Company's response:</u>

(i) The Group's internal audit function is outsourced to Forvis Mazars LLP who, in consultation with the management and based on their risk methodology, have proposed a three-year audit cycle for the concurrence of the ARC. The current cycle is for the period from FY2023 to FY2025.

(ii) For FY2024, the internal audit program covered the Aircon & Engineering Division's inventory management processes, a review of the Group's sustainability reporting processes, a review of the Group's Enterprise Risk Management report, and follow up reviews on past internal audit findings. Whilst no major findings were identified during the audit, several recommendations were provided, all of which have since been implemented.

(iii) In setting the internal auditor's scope and focus, the ARC, in consultation with the management and auditors, will discuss and agree on the entities and processes to be covered based on a structured risk assessment taking into consideration the nature of the Group's operations, past audit findings, prior audit visits, personnel changes and potential impact to the Group.

For instance, in discussing the coverage of the current internal audit cycle, the ARC requested changes in the internal audit plan to cover business divisions and business units that were new to the Group. As a result of these suggestions, the internal audit timelines for some business units were brought forward. The ARC also provided guidance on their expectations on the level of analyses required to support the selection of business units and the types of processes to be audited.

(iv) The audits for SFB Holdings Pte Ltd, Yummy (S) Pte Ltd and JAD Solutions Pte Ltd were completed in the current internal audit cycle in FY2023. Nam Fang Co Pte Ltd and iFocus Pte Ltd are also covered under the current internal audit cycle but will commence in FY2025.

BY ORDER OF THE BOARD

Choy Bing Choong
Executive Chairman

16 April 2025

About Natural Cool Holdings Limited

Natural Cool's principal businesses are Airconditioning and Engineering, Paints and Coatings, Technology, and Food and Beverages.

Natural Cool's Airconditioning and Engineering Division distributes, supply and installs Air-Conditioning and Mechanical Ventilation systems ("**ACMV**") and provides ACMV services to customers in the retail, commercial and industrial sectors. In addition, the Division is also involved in providing facilities management, mechanical and electrical, fire protection, critical environment, and plumbing and sanitary products and services.

The Group's Paints and Coatings Division manufactures and sells industrial paints and solvents, principally under the 'Cougar' brand. Furthermore, the Division also represents a number of leading overseas brands in Singapore.

Natural Cool's Technology Division specialises in communications engineering and Internet of Things solutions. With its core engineering capabilities located in Singapore, the Division serves the train-borne communications market and the estate management market both domestically and overseas.

In addition, the Group has a Food and Beverages arm which manufactures, distributes and retails cooked snack food and dumplings in Singapore. It also operates a number of restaurant outlets.
