ISOTEAM

ISOTEAM LTD.

(Company Registration No: 201230294M)
(Incorporated in the Republic of Singapore on 12 December 2012)

RESPONSE TO QUERIES FROM THE SINGAPORE EXCHANGE SECURITIES TRADING LIMITED ON THE PROPOSED DISPOSAL OF THE PURE GROUP ENTITIES

Unless otherwise defined or the context otherwise requires, all capitalised terms used herein bear the same meanings as in the Announcement (as defined below).

The Board of Directors (the "**Board**" or "**Directors**") of ISOTeam Ltd. (the "**Company**" and together with its subsidiaries, the "**Group**") refers to the Company's announcement dated 20 September 2021 (the "**Announcement**") relating to the Proposed Disposal of the Target Companies.

The Company sets out below its responses to the SGX-ST's queries received on 20 September 2021.

<u>Question 1</u>

The Company acquired the Pure Group entities in January 2020 from Coney International Ltd. (the "Original Seller") for S$24 million consideration (S$12m in cash and $12m in shares). The consideration for the Proposed Disposal back to Coney International Ltd. is S$4.5 million in cash. It was stated that "*The Consideration was arrived at on a willing-buyer, willing-seller basis after arm's length negotiations, and taking into account, among others, the book value of the Sale Shares, the rationale and benefits to the Group for the Proposed Disposal as set out in section 2 above, and the amounts due by the Target Companies to the Group (excluding such amount to be paid to the Group pursuant to a settlement with a former major customer of PGS).*"

(a) Please provide further details and breakdown on how the S$4.5 million was derived, including indicating the amounts due by the Pure Group entities to the Group.

(b) Did the Company conduct/intend to conduct a valuation on the Pure Group entities?

(c) What is the Company's rationale for selling the Pure Group entities back to the Original Seller? Which party – the Company or the Original Seller – had initiated the Proposed Disposal? Under what circumstances was the Proposed Disposal initiated?

(d) Did the Company approach other potential buyers and obtain other quotes?

(e) Please elaborate on the Board's considerations in deciding on the Proposed Disposal, and in agreeing to the disposal consideration of S$4.5 million. Please explain how these (the Proposed Disposal and the disposal consideration) are in the best interest of the Company and its shareholders.

Company's response

(a) As set out in the announcement dated 20 September 2021, the Board had deliberated and agreed to the Proposed Disposal for S$4.5 million in cash after taking into account the following:

1. The book value of the Sale Shares is approximately S$1.29 million and the Consideration represents a premium of approximately 249.1% over the book value of the Sale Shares;
2. The Target Companies had incurred a net loss of approximately S$0.9 million for FY2021 and as a result, the profit target of S$5.0 million forecasted for FY2021 was not met;
3. The Target Companies have continued to be adversely impacted from the COVID-19 pandemic which has led to cancellation and/or deferment of projects by customers around the region;
4. The Proposed Disposal is in line with the Group's plan to restructure and consolidate its commercial interior design business;
5. The Proposed Disposal will allow the Group to stop incurring further operating costs and liabilities relating to the Target Companies;
6. The Proposed Disposal presents an opportunity for the Group to re-deploy the Net Proceeds for potential strategic investments and higher yielding assets as and when opportunities arise, which can also be plough back for general working capital requirements of the Group, including operational expenses for on-going projects; and
7. The amount due by the Pure Group entities to the Group is approximately S$240,000.

(b) The Company did not conduct a valuation on the Pure Group entities as it did not want to incur further costs.

(c) Subsequent to the completion of the acquisition of the Target Companies in January 2020, the outbreak of the COVID-19 pandemic has adversely impacted the global economy including the construction and built environment sectors which the Group operates in, and the Company was not spared. Due to the adverse impact of COVID-19 on the Target Companies, the Target Companies had recorded net loss after tax of approximately S$0.5 million and S$0.9 million for FY2020 and FY2021 respectively, and consequently the profit target of S$3.0 million and S$5.0 million for FY2020 and FY2021 respectively were not achieved.

In light of the above and for the considerations mentioned in the response to Q1(a) above, the Company initiated the negotiations with the Original Seller on the Proposed Disposal.

(d) The Company did not approach other buyers as the business of the Target Companies is unique and specialised which is the provision of project and construction management services, as well as commercial and retail fitting-out works for the integrated resorts and hospitality segments, and is reliant on the Original Seller's know-how in managing the business. In addition, the Target Companies is in a net liability position and had recorded net loss after tax for the past two financial years. As such, the Company is of the view that there would not be any interested parties save for the Original Seller.

(e) For the considerations set out in the response to Q1(a) above, the Board is of the view that the Proposed Disposal is in the best interests of the Group and its shareholders.

Question 2

When the Group acquired the Pure Group entities in 2020 for S$24 million, it recorded Goodwill arising from acquisition of S$12.339 million.

(a) What due diligence was performed on the Original Seller and the Pure Group prior to the acquisition in 2020?

(b) Did the Group impair/write-off this goodwill and the investment amount? If so, when and how much was written-off?

Company's response

(a) Prior to the acquisition of the Pure Group entities, the Company has an existing business relationship with the Original Seller as the Original Seller had engaged the Company for its projects, and hence the Company was aware of the Original Seller's capabilities and experience.

As mentioned in the announcement dated 7 January 2020, the Company had performed financial due diligence on the Pure Group entities and had also commissioned an independent professional valuer to undertake a valuation of the Pure Group entities prior to the acquisition in 2020.

(b) In FY2020, the Group had assessed and impaired goodwill of S$4.9 million. At the Company level, the Company had assessed and impaired investment of S$5.9 million.

In FY2021, the Group had assessed and impaired goodwill of S$5.4 million. At the Company level, the Company had assessed and impaired investment of S$5.6 million.

Question 3

As at 30 June 2020, the Pure Group was handling approximately 11 ongoing projects and expected to be completed in 2022. The key projects include IKEA Mall of Asia in Philippines, Swarovski KL and several retail malls in Malaysia.

(a) What is the status of these 11 projects?

(b) Please provide details of the revenue generated by Pure Group.

(c) What is the Pure Group's current order book?

Company's response

(a) 10 projects have been completed, and the IKEA Pasay City in Manila project is on-going.

(b) Pure Group recorded revenue of S$1.6 million and S$2.6 million in FY2020 and FY2021 respectively.

(c) The current balance order book is approximately S$0.3 million.

By Order of the Board

Koh Thong Huat
Executive Director and Chief Executive Officer
21 September 2021
