ELLIPSIZ LTD
Company Registration No. 199408329R
(Incorporated in the Republic of Singapore)

RESPONSES TO QUESTIONS FROM SHAREHOLDERS

The board of directors (the "**Board**") of Ellipsiz Ltd (the "**Company**") refers to:

(a) the annual report of the Company for the financial year ended 30 June 2020 (the "**Annual Report**");

(b) the notice of annual general meeting of the Company ("**AGM**") issued on 5 October 2020 informing shareholders that the AGM will be convened and held by electronic means on Tuesday, 27 October 2020 at 3.00 p.m.; and

(c) the accompanying announcement issued by the Company on 5 October 2020 setting out, *inter alia*, the alternative arrangements relating to attendance at the AGM by electronic means.

The Company has received questions from shareholders of the Company ("**Shareholders**") in relation to the Annual Report. The Company would like to thank Shareholders for submitting their questions in advance of the AGM.

Questions from Shareholders and the Company's responses to these questions are set out in Annex A of this announcement. Due to similarities in some of the questions received from Shareholders, the Company has not reproduced all questions received from Shareholders in Annex A to avoid extensive repetition.

By Order of the Board
CHOW CHING SIAN
JOHNIE TAN WEE LIANG
Company Secretaries
27 October 2020

ANNEX A

RESPONSES TO QUESTIONS FROM SHAREHOLDERS

1. **<u>Question(s):</u>**

(i) Why was there no impairment on investment (in particular the goodwill portion) in JV during 2019 audit? What has changed or triggered (between September to December 2019) that led to the difference in judgements shortly within a few months?

(ii) What are the reasons for Company to extend loan of no lower than $2.4 million in the 6 months between July 2019 to December 2019 with the challenges stated in clause 5(a) of the Company's announcement dated 16 January 2020? We trust the challenges did not surface only in December 2019/ January 2020.

(iii) Company gave up $5.5 million of tangible assets and goodwill of $5.8 million in exchange of the rights to operate in 9 Southeast Asia countries. Logically, we shall assume that future economic benefit was established before the Board and management arrived at this decision. It was noted that there was no capitalisation of such intangible asset. Can the management or auditors share their views on this subject?

(iv) If there are no expected future economic benefits in point (iii), can the Board elaborate and provide more clarity on the rationale for the decision, particularly foregoing the Company's rights to the loan.

(v) Other than investing the rights to operate in 9 Southeast Asia countries, what level of investment (including loans) is Company projecting to place in the newly invested Indovend Group (60% ownership), that distributes vending machines? It is important for shareholders to have clarity on the total risk especially the previous investment of $15 million in the vending business activities took just 19 months to be fully impaired.

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

Subsequent to the initial investment of $10 million, loans aggregating $5.3 million were extended by the Group to the JV till October 2019 for its operations, capital expenditure and expansion plans which included, among others, commencement of operations in China and launching of new vending concepts. New business concepts were also continuously being explored. Based on assessment, there was no impairment required as of 30 June 2019.

As management monitors the progress and performance of the JV, it was ascertained that further substantial funding is required by the JV for its operations to cover capital expenditures, research and development, overheads and other ongoing operational related costs to launch new concepts that the JV partner is exploring. The JV is expected to remain unprofitable in the near to mid-term given the expansion plans. As such, the Board had decided to exit the JV and operate the business independently through a subsidiary where it has control over the management and operations and in driving and directing its strategies, as disclosed in the Company's announcement on 16 January 2020. Accordingly, the investment and the loans were impaired as of 31 December 2019.

The Restructuring Agreement provided that parties to the agreement shall waive the non-competition restrictions contained in the Shareholders Agreement. The waiver of non-competition restrictions does not tantamount to intangible asset to be capitalised.

The Group had invested $500,000 for a 60% interest in Indovend Pte Ltd ("Indovend"). There is no additional investment (including loans) extended to Indovend thus far. Also, its growth and expansion were adversely affected by the current COVID-19 pandemic. The Board would like to assure shareholders that it remains committed to enhancing long-term shareholder value and would exercise due care in making its decisions for any investment. Any future funding requirements for this investment will be deliberated carefully and monitored closely.

2. **Question(s):**

(i) Is there any condition or restriction (eg. restriction on development or there is a timeframe for the rights) attached to the right of use?

(ii) The right of use is unregistered. Can the rights be registered and if yes, has the registration been completed? If the rights cannot be registered, what can the Company do to protect its rights since the right of use resulted from mere occupation or residence on the land?

(iii) Can the management and auditors of the Company advise whether the valuation of S$17 million was on ground that the rights of use is registered or unregistered? (With reference to the comparable).

(iv) Is there any particular reason for the value of the rights of use on the land to increase from S$4.8 million to S$17 million shortly within 8 months?

(v) Please share the development plan for the land (or exit plan) when the Board evaluate this investment. (We presume that there is a plan in place since the decision was made in absence of an independent valuation report.)

(vi) Was the potential upside on the value of the rights of use known at the time of purchase?

Company's responses:

There are different types of land ownership in Indonesia for acquisition. The Group will need to convert the Alas Haks to a "Right to Build" or "HGB" certificate through a registration process. HGB is granted for an initial term of 30 years and can be extended for another 20 years and thereafter another 30 years. The Group intends to commence the registration process to obtain HGB certificate at the appropriate time. Alas Hak is also a form of ownership of land which is recognised by the local authorities.

The valuation of the land was conducted by KJPP Willson & Rekan in association with Knight Frank, adopting the Market Approach with plus minus method. This approach derives the fair value of the land by comparing it with other parcels of land in the vicinity and by making adjustments to the values of comparable lands for factors such as land size, land condition, beachfront facing and accessibility. The land prices per square metre of the comparable lands in the vicinity ranged between Indonesian Rupiah 300,000 per square metre to Indonesian Rupiah 375,000 per square metre. The valuer advised that the legal title of the land will not have a significant impact on the valuation.

The decision to acquire the land was made after careful due diligence on the prospects of investing in Bintan. Research showed that tourists visiting Bintan had increased over the years, crossing the 1 million mark in 2018, an 18.4% growth year-on-year. The Indonesia government is enhancing infrastructure (for example, building a 7km sea bridge connecting Batam and Bintan, and construction of a new Bintan airport) to improve connectivity and boost tourism activities on the island. Taking into account these and other factors, the Board concluded that there is potential upside in investing in Bintan.

Management made field trips to the site as well as other land parcels in Bintan to ascertain land prices in different areas on the island. A well-developed tourist area is the Lagoi Bay area which has good infrastructure in place and hotels already in operation. Berakit area, where the land is located, is to the east of Lagoi Bay area. It was noted that the asking price by the seller for the land was much lower than the land prices in the prime areas. The fact that further steps would have to be taken if development of the land is to be proceeded with, including obtaining HGB certificate, might have been the reason for the low asking price by the seller. The Group anticipated that there could be uplift in the land value given the asking price.

The land which the Group acquired is approximately 580,000 square metres. The sizeable plot presents various possible options including a variety of tourism-related uses. The Board comprises directors with relevant experience in real estate industry. In particular, the CEO, Mr Kelvin Lum Wen-Sum, was the former managing director of LCD Global Investments Ltd (now known as AF Global Limited) which was in the business of property investment and development. Each of Mr Chng Hee Kok, Mr Clement Leow Wee Kia, Ms Iris Wu Hwee Tan and Mr Adrian Lum Wen-Hong has the relevant experience relating to real estate and/or property industries. Management, guided by the Board, is evaluating various options for the land. Updates will be provided via SGX announcements as and when there are material developments.

3. **Question(s):**

We noted that DSS business segment is the segment that contributes to a large part of the Company's performance. Unfortunately, it lost a key principal during the year. Going forward, will the segment be able to maintain its performance?

Was the segment affected by covid_19 situation? If yes, what are the mitigating actions that the Company has in place to minimise the impact?

More than 20% of the consolidated revenue came from China. Is there impact on the business in this region given the current macro and political environment?

Company's responses:

Keysight Technologies Singapore (Sales) Pte Ltd ("Keysight") changed its strategy from channel sales to direct sales. As such, a written notice was issued to Ellipsiz DSS Pte Ltd to cease the manufacturer's representative and service provider agreement. The direct sales strategy had been adopted by Keysight before. The Board expects the cessation of the agreement to impact the performance of DSS in FY2021. The Group had undertaken a restructuring exercise to rightsize its DSS operations with a 38% reduction in headcount for this segment.

To mitigate the impact of the loss of the principal and to continue to pursue opportunities to support our customers, we have been actively establishing new channels and distributorships. We have secured two new distributorships with Dynamic Test Solutions Asia Pte Ltd and EXFO Inc as announced on 24 April 2020 and 18 May 2020 respectively.

During the initial phase of the COVID-19 pandemic which began in early 2020, many companies had to shut down their operations and/or telecommute to contain the spread of the pandemic. Being part of the key essential services supply chain, some of our offices were able to continue operations in order to support our customers during the critical period. For FY2020, the segment's revenue was $51 million, $0.7 million or 1.3% higher than FY2019. The segment results was $4.4 million in FY2020, lower as compared to $4.8 million in FY2019, mainly due to restructuring costs of $0.6 million as a result of the cessation of the Keysight agreement. As the COVID-19 situation and the existing trade wars are still evolving and may continue for an extended period, the distribution business could be impacted.

As the semiconductor industry is critical to a suite of advanced technologies including the next generation of wireless network, artificial intelligence and connected devices, the Chinese government is expected to accelerate its plans to boost its self-reliance in core technologies as the US continues to impose restrictions on Chinese companies' access to such technologies. The Chinese government initiative to produce 70% of semiconductor it uses by 2025 will require new capital investment and may see further increase of capital spending in China. We also saw some shift in production lines of non-Chinese semiconductor companies out of China to countries such as Taiwan and South East Asia. We will capitalise on our regional presence, capabilities and expertise to capture opportunities from these migration activities.

4. **<u>Question(s):</u>**

We noted that Company incurred technology licence cost during the year. Please share the nature of the technology licenced and the business segment of the group that is using the licence. What are the potentials of this business?

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

KIPL had collaborated with certain vending machine manufacturers and provided know-how and input to the manufacturers it works with in the development, production and supply of certain types of vending machines. As the Group does not have any established relationships with vending machine manufacturers and Indovend was a newly incorporated entity at the time of the restructuring, an agreement was entered into between Indovend and a subsidiary of KIPL, whereby the Indovend group can over 5 years purchase vending machines with inputs from KIPL, from manufacturers that KIPL collaborates with.

5. **<u>Question(s):</u>**

Other than the purchase of investment properties, the largest capital expenditure incurred by the Company for the two consecutive years were for motor vehicles. (2020: incurred S$1 million or 93% of total plant and equipment expenditure and 2019: $750,000 or 87% of total expenditure). Please share the new business that the Company is venturing with these fleet of new (or used?) vehicles. Please also advise the reason for disposing the vehicles purchased in 2019 shortly within a year at a loss.

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

The Group is continuously evaluating investment opportunities to create value and deliver sustainable returns. Plant and equipment, including motor vehicles, were purchased for the Group's use. As part of the renewal process, replacement models would hold values comparatively better than older models.

6. **<u>Question(s):</u>**

The Company had two consecutive years of negative EPS of $0.31 and $0.41 for 2019 and 2020, respectively. What are the Company's recovery plans to move out from the loss-making position?

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

The Group will continue to pursue growth strategies to strengthen its current core businesses and at the same time explore other areas of growth including forging new synergies for additional revenue and earning streams so as to have a more sustained financial performance in the long run.

7. **<u>Question(s):</u>**

The company has been trading well below cash value per share for some time, despite having cash inflow (post the KALMS debacle). If shareholders approve the share buyback mandate, can we trust the Board to exercise this mandate in good faith to increase shareholder value please.

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

The Company has to comply with authority and limits placed on share purchases pursuant to the Listing Manual of the Singapore Exchange Securities Trading Limited and Companies Act (Chapter

50) of Singapore. The Company will purchase shares pursuant to the share purchase mandate after considering, *inter alia*, the prevailing market conditions, availability of financial resources and the working capital requirements of the Group.

8. **Question(s):**

May we gain the Board's assurance to stay within the scope of competency to build up the OEM business, and avoid investment in new segments which may lead to the erosion of shareholder's value please. (namely to avoid huge investments in businesses such as KALMS).

Company's responses:

Given the cyclical nature of the semiconductor industry, the Board believes that the Group, while continuing to pursue growth strategies to strengthen its core businesses, should also explore other areas of growth so as to provide a more diversified business and income base beneficial for the growth of the Group. By diversifying its business activities and spreading its portfolio of investments, the Group will be able to reduce risk concentration and enhance its risk management.

9. **Question(s):**

There were a few million dollars of negative fair value losses for the company's financial assets from Jul 2018 to Jun 2020. Can the company clarify what assets it bought and why so much losses were made when the equity market has gone up in general?

Company's responses:

These financial assets are quoted equity securities and are accounted for at fair value where the changes in the fair value are recorded in the fair value reserve reflected in Other Comprehensive Income. The financial assets balance as at 30 June 2020 was $4.5 million (2019: $5.3 million, 2018: $8.6 million). The decrease is mainly due to disposal of certain quoted equity securities. The Company recorded gain of $0.6 million and $3.2 million in FY2020 and FY2019 respectively from the disposals as disclosed in Note 10 (page 122) of the Annual Report.

As the Company is holding the quoted equity securities for long term purposes, the changes in the fair value of these assets are recorded in the fair value reserve (page 132 of the Annual Report).

10. **Question(s):**

While I understand that 2020 is a difficult year, with the net shareholders loss and the sensitivity that comes with the restructuring of operations, however, the dividends proposed is significantly smaller than prior periods. In addition, the dividends amount to be paid is even lower than the cash interest income earned by the Company during the year. May I gain an understanding of the Board's stance for such a conservative dividends stance please.

Company's responses:

In view of the adverse impact on the global economies and uncertainties ahead posed by the unprecedented COVID-19 pandemic and the ongoing US-China trade tensions, the Board considers it necessary to remain prudent and conserve the cash for the Group's operations and expansion.

Further to the questions raised by Shareholders above, the Board is of the view that the following may be of interests to the Shareholders.

Mr Chng Hee Kok's abstention from participating in 1 of the Board and Nominating Committee Meetings during the year

The Board and Nominating Committee held a total of 7 (above the usual 4 quarterly meetings) and 3 meetings respectively during the year. Mr Chng had recused and abstained from participating in 1 of the Board and Nominating Committee meetings during the year as the subject matter for discussion in both these meetings relates to him.