

## **ISDN HOLDINGS LIMITED**

Company Registration No. 200416788Z  
(Incorporated in the Republic of Singapore)

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### **RESPONSES TO QUESTIONS RECEIVED FOR ANNUAL GENERAL MEETING TO BE HELD ON 30 APRIL 2021**

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The Board of Directors (the “**Board**”) of ISDN Holdings Limited (the “**Company**”, and together with its subsidiaries, the “**Group**”) refers to the announcements dated 29 March 2021 in relation to the Company’s annual report for the financial year ended 31 December 2020 and its annual general meeting to be held on 30 April 2021.

The Company would like to thank all shareholders for their active participation in the upcoming AGM by submitting their questions in advance.

The Company has consolidated the questions submitted by shareholders and have set out responses to the questions at Annex A of this announcement.

By Order of the Board  
**ISDN Holdings Limited**

Teo Cher Koon  
President and Managing Director  
29 April 2021



## Annex A: Responses to Questions from Shareholders

### Questions regarding the overall business

QUESTION 1:

- a) China is spending huge amounts of capital expenditures to become self-sufficient in semiconductor manufacturing. Can we expect ISDN to enjoy a multi-year tailwind in the next few years?
- b) The brewing trade tensions have caused a shift with talks of companies moving their manufacturing out of China to other parts of Asia. Will this trend benefit ISDN?
- c) How does the ongoing shift to advanced IC manufacturing & packaging bring about increased demand for industrial automation solutions? Does such process require a higher degree of automation?
- d) Company's 4Q results have been weaker than other quarters in recent years. Is there a seasonality in cost recognition or certain accounting policies in place that are causing the year end weakness?

- a) Yes, we expect ISDN to benefit from the multi-year tailwind in semiconductor expansion in China.  
Today we're already seeing the benefit of China's broad ramp in semiconductor capex in our business. We've worked hard over many years to develop our strengths in semiconductor capital equipment, as well as our on-the-ground presence in China's semiconductor hubs including Shenzhen, Beijing and Shanghai.  
Today ISDN's components and solutions power front-end, back-end and packaging/assembly manufacturing equipment for semiconductors.
- b) Yes, we believe the US-China strategic competition (the "Trade Tensions") will persist for years to come, and that this geopolitical competition benefits ISDN in several ways:
  - First, there is already strong evidence that the Trade Tensions have diverted trade, supply chains and capital to Southeast Asia as a beneficiary<sup>1</sup>. ISDN is well-positioned to benefit from this shift because we have strategic presence and proven capability in China, Singapore, and Vietnam: three eminent nations participating in the massive global transition in supply chains. ISDN has already seen the positive impacts of these shifts in our business.
  - Second, we believe Trade Tensions have accelerated China's industrial push towards Industry 4.0 automation as it seeks to avoid competing with Southeast Asia on cost, and seeking instead to push up the value chain into advanced industry. We're seeing this acceleration reflected in rising demand throughout our automation businesses in China.

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<sup>1</sup> See for example <https://www.uschamber.com/series/above-the-fold/us-china-tariff-fight-leaves-se-asia-the-winners-circle>

- Third, by now it's well known that China's technology ecosystem is looking to reduce its reliance on US and European technology in favour of Asia-centric suppliers. We believe this shift will continue, and that it is already benefiting ISDN as an Asia-centric supplier of advance automation solutions.
- c) We believe the ongoing shift towards advanced, heterogeneous IC manufacturing & packaging should benefit ISDN. We're seeing this shift already evident in our business as our semiconductor segment has been growing.

We highlight two effects of the shift towards advanced IC manufacturing and packaging:

- First, along leading IC nodes, there is a need for much higher mechanical precision and control in manufacturing equipment, which benefits our high-end (and higher margin) motion control business.
  - Second, there is overall a stronger need to link manufacturing equipment together with intelligence, which provides opportunity for our machine-to-machine communications and software businesses.
  - Third, along all IC nodes there is a need to ensure increasing reliability at lower cost, which means automation becomes more important. Chips are increasingly being used in mission-critical medical, autonomous driving, and industrial applications where failure can be catastrophic. For these applications, there seems to be a strong need to reduce human error in favour of automated manufacturing.
- d) Overall, we believe the business environment for ISDN remained robust and not weak in 4Q2021. Our 1Q2021 results, as described in our press release on 26 April 2021, attest to the continued strength of our business and our core markets.

We note that the Company took several end-of-year risk reserves out of caution, and also made certain accounting policy adjustments following the adoption of new and revised Singapore Financial Reporting Standards (International) ("SFRS(I)s"). The Group has adopted the new or amended SFRS(I) that are mandatory. We believe the reserves and adjustments are non-recurring in nature.

QUESTION 2

**What is the sales guidance?**

We do not currently provide sales guidance.

However, we've been steadily improving our sales and IT systems over time. This long-term, strategic effort has already provided productivity gains to ISDN that have helped grow profit faster than revenue in the last few years, and we continue to advance our internal capabilities today.

As forecasting visibility improves and we deepen our relationships with our customers, we may eventually be able to provide sales guidance to investors, but we're not ready to do that yet.

We will continue to provide business updates through press releases via SGXNet and HKEXnews, such as the 1Q2021 press release issued on 26 April 2021.

QUESTION 3

**Does ISDN have any upcoming acquisition plans?**

Our principal focus is always on continuing to grow our existing business organically. We have strong customers and good capabilities in a very large, multi-year market opportunity for Industry 4.0 solutions and clean energy, so believe we do not need M&A to deliver growth and good results to shareholders.

However, we know that ISDN's unique access to strategic Asia markets, our 10,000+ customers, and our engineering capabilities make us a potentially attractive acquirer with many potential synergies to bring to the table. So while we don't depend on inorganic growth, we keep a healthy lookout for compelling acquisition opportunities to advance our business.

QUESTION 4

**To reach a wider group of investors from various backgrounds, would the Management consider including detailed case studies showing how the company help its clients automate and save time and cost in ISDN's collaterals?**

Yes. We plan to provide more case studies to share with investors some of the many solutions we're proud to deliver to our customers!

We're resolving a process for sharing case studies with the investment community without jeopardising the good faith and confidentiality of our customers, including the competitive advantages that ISDN solutions provide.

QUESTION 5

**People say that ISDN is the next AEM. What is your take on this?**

ISDN and AEM are different companies with different business models, so investors are advised to evaluate ISDN's prospects on the company's own merits.

We would draw attention to the following selection of qualities of ISDN:

- A large core market that benefits from the massive, multi-year, global shift towards advanced manufacturing;
- A global Industry 4.0 shift towards customised and modular automation platforms, with increasing demand for machine connectivity and intelligence that benefits our business;
- A strong focus on understanding customers' needs and growing our capabilities to help customers advance their technology capabilities over time;
- A commitment to developing long-term competitive advantage in our core markets; and
- A clear focus and emphasis on advancing our core business growth and earnings, while developing new horizons of potential future adjacencies with prudent investment.

Shareholders should make their own determinations on any similarities to AEM as we can speak only for ISDN.

QUESTION 6

**What are the other initiatives that ISDN is working with Novo Tellus upon the completion of the business reorganisation project?**

Novo Tellus (“NT”) wishes to note to shareholders that it does not hold executive office at ISDN, and therefore ISDN initiatives to grow its business are led appropriately by ISDN’s management team and not by NT. This comports with NT’s “built to last” approach to its attempts to build lasting value and stewardship at companies.

ISDN has sought NT’s views around a range of initiatives including upgrading finance and IT systems, consolidating operational controls, increasing productivity, deepening customer relationships, increasingly our solutions and engineering sophistication, and potential acquisitions.

We’re pleased to have delivered clear progress already on many of these management-led initiatives. However, we consider these initiatives as *continuing* rather than *completed*: growing operations and customers is a long-term commitment for ISDN, so our focus is on continuing to build our agility and our capabilities every year so that we can continue to grow what we can do for our customers.

## Questions regarding the core business

QUESTION 7

**At the last AGM, ISDN stated that 20% of its income are recurring. Beyond regular income streams from the hydropower plants and disinfectant solutions, are there plans to target multi-year industrial automation/engineering contracts to grow recurring revenue?**

For our industrial automation and engineering business, our first priority is to anticipate and grow alongside the technology needs of our customers.

But even as we advance alongside our customers, there are shifts in Industrial Automation that create opportunity for more recurring revenue in our future:

- First, customers are increasingly looking to integrate and upgrade modular platforms continuously rather than buy and replace entire machines. This gives ISDN the opportunity to keep serving customers across the build-operate-upgrade life cycle of machine platforms rather than simply being active at the “capex” phase of a machine.
- Second, customers are increasingly connecting machines and looking to build advanced analytics and intelligent control and coordination across machines. This gives ISDN the opportunity to provide ongoing or subscription-based software and services in addition to its engineering solutions.
- Third, customers are recognising that Industry 4.0 demands a vast “stack” of technology expertise from building digital customer experiences to building cloud computing fabric, all the way down to selecting motors and components that power automated factories.

We’re seeing customers increasingly open to outsourcing more of that “stack” to experienced providers like ISDN so that they can focus on more core priorities. This provides ISDN with an opportunity to deepen our long-term, recurring commercial relationships with customers as they look to outsource more design, engineering, integration, software, and other technology layers in their automation plans.

We are actively exploring these growing opportunities and have made progress already by establishing with ISDN Solutions, ISDN Software, and other centres of excellence where we can grow our capabilities and expand our presence across the life cycle of industrial automation with our customers.

QUESTION 8

**What is the Total Addressable Market for the entire Industry 4.0 solutions for indoor farms? What is ISDN's market share today?**

Indoor farming automation is an example of a full Industry 4.0 distributed automation solution delivered by ISDN. To be clear, ISDN is not interested in becoming a farming company! Rather, the entire global farming industry is going through Industry 4.0 transformation, so ISDN has developed a paid commercial opportunity to deliver a full automation solution to operators in this industry.

Once we are able to deliver a full solution, we have the opportunity to replicate the solution to help other customers in the space, creating a recurring commercial opportunity. By establishing our ISDN Solutions centre of excellence, we hope we can better take advantage of these opportunities to replicate our know-how efficiently across many customers in many industries and geographies.

Our investments in customer intelligence should help this effort, because over time our systems can help us "connect the dots" between our vast solutions experience and new customer opportunities.

Research and Markets<sup>2</sup> recently forecasted that the global indoor farming technology market to grow at a compound annual growth rate ("CAGR") of 9.4% to US\$24.8 billion by 2026. We know that the addressable market is very large. What is important to us is that we have started with a commercially paid opportunity with a sophisticated customer, rather than investing R&D without commercial customers: this is a key benefit of ISDN's strategy of staying close to customer needs.

## Questions regarding the emerging energy business

QUESTION 9

**At current operating cost and revenue, what will be the projected ROI over the next three years for the hydropower plant projects? What are the potential challenges / risks that may result in the power plants not being able to be commissioned this year?**

We expect to complete commercialisation in 2021 and we continue to drive progress actively. We currently don't foresee any significant overruns to this schedule. In terms of ROI, we're looking at double digit returns.

QUESTION 10

**For the Hydropower projects, could you give a breakdown of those units that are in construction and the units that are already in operation? Any update on when the hydroplant will be commercialised?**

**(similar question) What are the current outstanding activities before they can be commissioned / "Go-live"? Are all 3 plants at the same status?**

We have three hydropower projects under construction, with two on track to commence commercial operations in 2021. The COVID-19 pandemic stalled all three projects in Indonesia in 2020 and we managed to extend the commercial operating date under the force majeure provision as per the power purchase agreement. The Management is consistently monitoring the pandemic situation in Indonesia and assess whether there is any contingency plan to be taken.

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<sup>2</sup> Global Indoor Farming Technology Market Report <https://www.globenewswire.com/news-release/2021/03/09/2189254/28124/en/Global-Indoor-Farming-Technology-Market-Report-2021-Market-is-Estimated-at-14-5-Billion-in-2020-and-is-Projected-to-Grow-at-a-CAGR-of-9-4-to-Reach-24-8-Billion-by-2026.html>

QUESTION 11

**How much is the capital deployed in the hydropower plant investment?**

As at 31 December 2020, we have invested approximately S\$76.8 million, net of the profit from construction revenue of S\$4.3 million, into the hydropower plants, of which about 64% is funded by equity and 36% is funded by debt.

QUESTION 12

**ISDN exited from the Joint Venture with Suzhou Comtec Tianyi Solar Technology Ltd. Is ISDN still exploring solar power business opportunities?**

We divested this joint venture in 2019 and note that ISDN made a profit on the venture. Additionally, we note that ISDN has now gained engineering capabilities to create industrial automation solutions for customers in the growing solar industry.

## Questions regarding other emerging business lines

QUESTION 13

**Can you share how sustainable is your disinfectant business and are there any barriers to entry?**

ISDN's disinfectant business is non-core, but represents a very modest investment to address a large need for commercial, industrial and retail disinfectants during and after the COVID-19 pandemic.

The business line provides the following potential benefits to ISDN:

- First, there are potential customer synergies with our core business as we believe many of our industrial customers throughout Asia are rethinking their post-COVID working environment as employees return to workplaces. This provides an opportunity for ISDN to explore uptake of its ecologically friendly disinfectant products.
- Second, ISDN has been able to structure a flexible business model that allows it to scale production rapidly if uptake is good, but limit cost exposure if the business does not grow. We consider this an appropriately risk-weighted investment for the Group.
- Third, the eco-friendly disinfectant allows ISDN to improve the overall environmental and social impact of its Group business. Steward and sustainability are not just important to ISDN: they are important corporate concerns for industrial customers and governments in the key regions where we operate (China, Singapore, Vietnam).

We believe that our ongoing commitment to ESG<sup>3</sup> creates favourable standing for ISDN with our customers, our employees who value the Company's commitment to responsible stewardship, and our government and regulatory relations. We note also that ESG factors are increasingly important to public shareholders in Singapore and around the world<sup>4</sup>.

We believe the disinfectants business has commercial barriers to entry as the combination of environmental friendliness, broad efficacy across many microbes, and lab-tested performance is rare in the growing marketplace for disinfectants.

<sup>3</sup> Environmental, Social and Governance factors

<sup>4</sup> See for example [https://www.ey.com/en\\_gl/assurance/why-esg-performance-is-growing-in-importance-for-investors](https://www.ey.com/en_gl/assurance/why-esg-performance-is-growing-in-importance-for-investors)

## Questions regarding the investor relations

QUESTION 14

**ISDN's deliberate efforts in building relationships with investors/analysts is laudable. Would the management consider holding live virtual results briefing / company updates / Q&A sessions with minority shareholders?**

We've been steadily increasing the depth of our communications with investors over time, and we're appreciative to our shareholders for their positive feedback on our efforts over time.

We will continue growing our investor relationships as ISDN expands its business and broadens its investor base over time. We're considering the best platforms to grow investor relations in a post-COVID environment.