



ELLIPSIZ LTD

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

RESPONSES TO QUESTIONS FROM THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE)

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 2024 (the “**Annual Report**”); and
- (b) the notice of annual general meeting of the Company (“**AGM**”) issued on 7 October 2024 informing shareholders that the AGM will be convened and held at 1 Orchid Club Road, Orchid Country Club, Emerald Suite, Singapore 769162 on Tuesday, 22 October 2024 at 3.00 p.m..

The Company has received questions from Securities Investors Association (Singapore) (“**SIAS**”) in relation to the Annual Report.

Questions from SIAS and the Company’s responses to these questions are set out in Annex A of this announcement.

By Order of the Board

LIM POH YEOW

Company Secretary

21 October 2024

ANNEX A

RESPONSES TO QUESTIONS FROM SIAS

Q1. The distribution and services solutions (DSS) segment was the bright spark for the group as it reported segment results of \$2.1 million for the financial year ended 30 June 2024 despite revenue falling from \$56.1 million to \$49.8 million. The group's comprehensive range of products and services catering to the semiconductor and electronics manufacturing industries can be found at the following URL: <https://www.ellipsoidss.com/products/>

(i) Can management elaborate on the specific growth opportunities within key regional markets such as Singapore, Malaysia, and Vietnam? What are the profiles of the potential customers?

Company's Response

Management has and will continue to explore growth opportunities in key regional markets, including Singapore, Malaysia, Vietnam, and India. These countries have plans to develop their domestic semiconductor industries over the next 20 to 30 years, presenting potential areas for DSS to expand its existing product range, which includes lab analysis and quality check tools, wafer cleaving machines, chemicals and consumables. Additionally, DSS is considering new distributorships and principals to enhance market penetration.

(ii) How many strategic partnerships with Chinese suppliers are currently in place, and what kind of collaboration does management intend to form with Chinese equipment suppliers?

Company's Response

Management has recently formed several strategic partnerships with Chinese suppliers to strengthen our customers' production capabilities and drive technological advancements. These partnerships involve key Chinese suppliers providing advanced production equipment for front-end wafer fabrication and failure analysis, serving markets in both Malaysia and Singapore.

Management intends to deepen collaboration with these suppliers by leveraging their expertise and innovative technologies. This includes exploring joint development projects, enhancing equipment efficiency, and sharing best practices to drive continuous improvement in our customers' manufacturing processes.

In the automated precision system solutions (APSS) segment, a total of \$2.1 million in impairment in intangible assets (customer relationships) and goodwill has been recognised for Axis-Tec (ATPL) due to its underperformance.

(iii) What are the exact supply chain bottlenecks affecting ATPL's performance? What specific measures are being taken to navigate these issues?

(iv) What are the challenges to developing a portfolio of standard products under its own brand? How well recognised is ATPL and does it have any critical intellectual property that can be leveraged for competitive advantage?

Company's Response

ATPL is strategically shifting from End-of-Line Automation solutions to a Standard Products platform in response to changes in the fast-moving consumer goods sector, where relocation of operations to other countries has impacted demand. This transition allows ATPL to reduce reliance on location-specific projects, enhance scalability, and better position the company to seize broader market opportunities. Consequently, the company has had to impair intangible assets (customer relationships) and goodwill associated with its End-of-Line Automation segment due to declining revenues and order books, as well as the strategic shift in focus towards Standard Products platform.

ATPL has seen progress in Standard Products platform, having started to deliver silicon photonics equipment to one of its key customers, indicating its ability to meet market demands and establish a foothold in the industry. The company is actively expanding its customer base, reaching out to potential clients beyond Singapore.

On a macro level, the recent slowdown in the semiconductor industry has created significant challenges for ATPL's order fulfilment. Customers have faced high financing costs over the past two years, leading to delays in investments and expansion projects. This has resulted in reduced capital expenditures directly impacting demand for ATPL's products and services.

On a micro level, the photonics industry is grappling with a pronounced shortage of skilled labour. The sector faces difficulty in recruiting engineers and technicians with expertise in both electronics and photonics. The skills gap may impact innovation and the capacity to meet changing market demands.

Moreover, protecting intellectual property in certain jurisdictions can be complex and challenging. In some countries, the legal frameworks for safeguarding innovations may not be robust enough, making it difficult for ATPL to enforce its patents and proprietary technologies. This situation could potentially enable competitors to replicate ATPL's advancements without significant investment in research and development.

ATPL will need to monitor the evolving market conditions and customer behaviour closely. This awareness will be crucial to timing investments and scaling production capabilities to align with any renewed demand.

Separately, the group holds a 86-hectare land parcel on the northeastern coast of Bintan, Indonesia.

- (v) **Could management provide an update on the development timeline? Given the group's core competencies, how will management ensure the development of this land remains within its circle of expertise, or is this a diversification into an unrelated sector?**

Company's Response

The intent behind the acquisition of the 86-hectare land parcel in Bintan is to strategically expand the Group's portfolio and create value for stakeholders. Although the Group is not directly involved in property development, the land is co-owned with a related party, which holds a 25% stake, and specialises in construction and property development. This partnership enables the Group to leverage the co-owner's expertise and industry knowledge to ensure the successful development of the land.

Given the favourable location, strategic plot layout, and substantial size of the land, there are several potential tourism-related and other opportunities available. Management is currently evaluating a range of options with the co-owner to determine the most viable and beneficial use of the land. The Company is committed to ensuring that decisions regarding the land in Bintan align with the Group's broader objectives.

Management understands the importance of transparency and will provide updates as the evaluation progresses and material developments occur.

- Q2. Since the sale of the probe card business in 2017, the group diversified into technology enabled retail business (vending machines) and expanded its operations to the trading of used semiconductor equipment (Adell Solutions). It then ventured into egg production and distribution. As announced by the company, the group is faced with higher development costs and added complexities in project execution for its proposed egg farm. There has been a \$4.2 million impairment loss on goodwill on the investment in ISE Foods Holdings Pte Ltd, the subsidiary company developing the egg farm. This comes after the group acquired additional shares in ISE Capital Management Pte Ltd (ICM) from its noncontrolling interest for**

a consideration of \$4.0 million, thereby increasing the group's shareholding interest in ICM to 80%. This resulted in a \$(4.68) million charge to owner's equity given that the carrying amount of the non-controlling interest was \$(676,000). The group had also fully funded the capital needs of ICM despite there being non-controlling interest of 60% in the initial stage.

- (i) Has the board critically assessed its own effectiveness at providing entrepreneurial leadership and managing the risks of the group's business (including safeguarding of shareholders' interests) given that the group's business ventures since 2017 have not created long-term sustainable value for shareholders? How is the board enhancing its governance model to ensure more rigorous strategic oversight and risk mitigation, particularly in non-core ventures like agri-tech?

Company's Response

The Board recognises that its effectiveness has been a critical area of focus, particularly given that the Group's business ventures since 2017 have not consistently created long-term sustainable value for shareholders. This lack of value creation is attributed to several challenges in these ventures, including changes in market conditions and operational difficulties.

The Group has taken a decision to diversify its business as a result of the cyclical and competitive nature of the semiconductor and electronics sectors. Diversification process may take time before it comes to fruition and be able to create value for the Group. There will always be a gestation period where we ride through various challenges. We believe diversifying into the egg farm business will bring long-term sustainable value to the Group in future. The Group, as such, needs to start somewhere.

As part of the performance evaluation process, the Board conducts annual assessments of its effectiveness. While it may not possess all the necessary expertise in the Group's new business ventures, the Board is committed on critically evaluating its performance. This evaluation is demonstrated through several key initiatives:

1. **Strategic Reviews:** In light of the Group's ventures since 2017, including the agri-tech project, the Board has undertaken strategic reviews to analyse past performance, identify lessons learned, and recalibrate its strategic focus. This process includes acknowledging the challenges faced and assessing their impact on long-term value creation. The Board is always open to engaging external advisors to obtain objective insights and offer fresh perspectives and will do so where necessary.
2. **Training and Development:** To strengthen capabilities, the Company supports Board members' attendance of relevant training programmes to acquire necessary knowledge and skills. This investment enhances their effectiveness in governance and risk management.
3. **Stakeholder Engagement:** The Board recognises the importance of engaging with stakeholders, including shareholders. While they meet with shareholders only once a year during annual general meetings, this opportunity allows them to gather feedback and views from shareholders which are valuable for informed decision-making and accountability.
4. **Management and Board of Directors Meetings:** The management meets with the Board periodically to provide updates on the business and discuss strategic matters. This direct communication helps ensure alignment between management and the Board.
5. **Monitoring and Reporting:** On a quarterly basis, management provides updates to the Board on the financial performance of each business segment, including the agri-tech project, market developments, outlook, industry trends, challenges faced, and resolutions implemented. Acknowledging specific challenges allows the Board to better assess the Group's performance against strategic objectives and make informed decisions regarding risk management.

6. **System Review:** The Company carries out an Enterprise Risk Assessment exercise annually to identify key risks of the Group and to implement risk mitigation measures. This exercise is reviewed by an outsourced internal auditor.

Through these initiatives, the Board is committed to enhancing its effectiveness in leadership and governance, ensuring it can navigate the complexities of the business environment while safeguarding shareholders' interests and creating long-term sustainable value.

- (ii) **Can the board elaborate on the group's risk management framework, especially in relation to investments like Kalms and ISE? Did these ventures align with the group's predefined risk thresholds, and what specific risk mitigation strategies were implemented prior to pursuing these opportunities?**

Company's Response

The Group's risk management framework is designed to systematically guide investment decisions, ensuring alignment with the Group's long-term strategic goals. This framework seeks to identify and evaluate significant business risks early in the process, mitigating potential threats to operational success and shareholder value.

In assessing new investments, management undertakes a comprehensive process of financial and legal due diligence, performs detailed market research, analyses potential financial, operational, and market risks, and establishes appropriate mitigation measures. This holistic approach is aimed at enhancing decision-making and safeguarding the Group's interests.

Financial due diligence would involve examining the financial statements of the target and performing financial modelling to assess the fair value of the investment. One of the three approaches, namely, cost-based approach, income-based approach and market-based approach, whichever is most appropriate under the circumstances, will be used to assess the fair value. For legal due diligence, the Company's procedure is to carry out a review of the statutory and legal documents and also carry out the required searches. As mitigation measures, the Company engages external valuation specialists to review the financial model and validate the reasonableness of the assumptions used in the projections; and external legal counsels to advise the Company on the terms and conditions in the agreements.

Key findings from the due diligence process will be presented by management to the Board for consideration of the investment. In its deliberation and before giving its approval, the Board will consider, *inter alia*, the acceptable level of projected return and payback period, financial resources available, the timeframe of the investment, and risk factors and strategic fit of the investment (the "**Thresholds**") with an aim to achieving the overall strategic objectives of the Group.

Risk mitigation strategies are a core part of the Group's governance. They include:

1. **Engagement of Specialist Valuers:** To ensure the reasonableness of financial projections, specialist valuers are engaged to validate the assumptions used for new investments. This additional layer of oversight strengthens the reliability of the financial due diligence process.
2. **Proactive Review:** If significant concerns or deviations from established risk parameters arise, the Board will intervene to ensure management takes appropriate actions. Substantial changes or newly identified risks prompt a thorough review and discussion to adjust strategies as needed.
3. **Ongoing Monitoring:** Risk management is integrated into the Group's business processes, with management regularly monitoring the performance and developments of the investments. Continuous monitoring ensures that risks are identified early and managed effectively.

4. **Quarterly Updates:** The Board receives quarterly updates on project progress, financial performance, and any emerging risks, allowing for timely intervention if necessary. This ensures the Board remains well-informed of all developments.

The KALMS and ISE ventures were evaluated against the Group's Thresholds. However, challenges had surfaced during implementation.

Following the review of the annual report in October 2022, SIAS asked the company several questions on the diversification to egg production and distribution, including if the board had identified the risks to fully fund the capital needs of ICM, whether management is able to value-add to this new agri-tech business and if the risk profile of the group would change.

- (iii) **Would the board provide insights into the level of due diligence carried out prior to the diversification into egg production? Was the complexity of setting up biosecure operations and other regulatory hurdles fully appreciated during the early stages? Given the challenges, were these risks accurately projected in the feasibility assessments?**

Company's Response

The Board recognises the importance of conducting proper due diligence when considering new investments. Prior to taking the decision to invest in the egg production business, the Company had performed thorough background checks on ISE Foods Holdings Pte Ltd ("**IFH**"). Notably, two funds affiliated with Temasek Holdings, Vertex Ventures SEA Fund IV Pte Ltd and Vertex Exploratory Fund Pte Ltd, have invested in IFH, which, together with the fact that the other shareholders of IFH were affiliated with a major established Japanese egg producer, underscores the credibility of the investment. Furthermore, the Company acknowledges that this initiative aligns with the Singapore government's national strategy to enhance food resilience.

On top of the consideration that this project in catering to the local demand for eggs will contribute positively to Singapore's food security goal, the Company carried out its legal, financial as well as commercial due diligence which covered research into the egg production and distribution business through obtaining relevant information from market players, to assess its investment.

Management also took proactive measures, including making a study trip to visit an egg farm in Japan. With support from ISE Japan Inc. and advice from the former chief executive officer of IFH, projections for the egg farm project were prepared and industry experts were consulted to gain a deeper understanding of the egg farm business model to enhance the robustness of the projections.

Recognising that this is the Group's first foray into the agri-food industry, the Company exercised caution by seeking advice from third parties including construction experts, established equipment vendors and feed suppliers. The Company also engaged a veteran in the egg business as its consultant and worked on the project with a technical expert seconded from ISE Japan Inc. In fact, the Company was careful to ensure that necessary steps were taken to ensure that operational aspects were appropriately addressed.

The Company carried out financial modelling and sensitivity analysis; and engaged an external valuation specialist to review the financial model and key assumptions applied in the financial projections. Other than basing on information provided by the Company as well as publicly available information, the valuation specialist had also performed their own research. The valuation specialist had concluded that the basis of the key assumptions considered by management were reasonable, indicating that the complexities and risks associated with the project had been taken into consideration basing on the prevailing economic, market, industry, regulatory, and other conditions then.

However, as updated in our announcements, unforeseen external factors which had arisen, such as, the ongoing impact of the COVID-19 pandemic, supply chain disruptions and inflationary pressures due to geopolitical tensions, the need to enhance the egg farm's biosecurity measures in light of increased disease incidents in the region, and issues related to climate change have caused development costs to rise significantly above the initial estimates, leading to challenges in project execution, and resulting in delays in the development of the egg farm. These challenges were not fully anticipated at the time the feasibility assessments were carried out. Projections require the making of judgements, assumptions and estimates based on conditions prevailing at the time the projections were prepared. However, assumptions about the future may change due to market changes or circumstances arising beyond control. Owing to changes in circumstances and new situations arising, the challenges which arose had resulted in the need to revisit the viability of this project.

Notwithstanding, the Company is exploring strategies to reduce costs while actively engaging with the Singapore Food Agency to address the key challenges in seeking more funding support, securing more land for biosecurity requirements, adjusting development timelines and extending the land lease periods, before moving forward. The Company is committed to continuously assessing and managing risks to navigate the complexities of this project.

- (iv) When does management expect to complete the re-evaluation of the egg farm project's viability? If the project is deemed unviable, will the \$12.7 million in loans to ICM be unrecoverable, and what alternative strategies will be pursued to minimise shareholder losses?**

Company's Response

The egg farm is an important project for the Group. Management has been continuously evaluating its viability and exploring ways to reduce development costs and maximise land space to increase egg production, thereby enhancing overall viability. Lowering costs and boosting egg production will not only improve profitability but also increase the project's resilience to market fluctuations.

In view of the significant impairment in goodwill and land premium, the Board understands that this has raised concerns among shareholders regarding the recoverability of \$12.7 million in loans to ICM. Management is diligently working with the Singapore Food Agency to seek funding support, secure further land allocation for IFH to accommodate increased biosecurity measures, and address development timelines and lease extensions. The Company has made some positive progress in these areas., However, it is not a single factor but a combination of all these factors that have to be dealt with, and considerable amount of time and effort will be needed to address these issues carefully. Additionally, management is in discussions with banks to partially finance development costs whilst also exploring potential partnerships for the project.

Management is of the view that with strong support from the government, and once the various issues on hand are being addressed satisfactorily, the project remains a viable long-term initiative that will contribute to national goals and shareholder value. This perspective is concurred with by the Board.

The Company remains committed to transparency and will keep shareholders informed of any material developments.

The chairman has stated that the diversification in various industries was to "broaden operations and reduce concentration of risks in the semiconductor and electronics industries" (page 3).

- (v) **Would the board consider a special dividend to return excess capital to shareholders so that they can make their own capital allocation decisions?**

Company's Response

The Company recognises that some shareholders may seek the return of excess capital through a special dividend, particularly in light of our strong cash position, and question our capital allocation strategy in the context of the Group's FY2024 performance. The Company's strategy is to adopt a balanced approach to capital management, supporting both potential future growth and long-term shareholder value. Given the cyclical and competitive nature of the semiconductor and electronics industries, the Group has strategically focused on diversifying its earnings through new business ventures. This approach aims to reduce concentration of risk with the goal of creating more stable, recurring income streams. Management continues to carefully evaluate the most effective ways to allocate capital, balancing potential investment opportunities with the need to sustain operations. While we do not rule out the declaration of any special dividend in future, such a payout will largely depend on factors such as the working capital requirements, ongoing investments, and the overall financial health and performance of the Group.

- Q3. Would the board, especially the independent directors, provide shareholders greater clarity on the following governance matters? Specifically:**

- (i) **Core competence: Can the board explain why Mr Joseph Kang, with over three decades of experience in semiconductor-related sales and marketing roles, was appointed as the CEO of ISE Foods Holdings, a business outside his core industry expertise? What specific skill sets or leadership qualities did the board identify that make Mr. Kang a suitable fit to lead the egg production and distribution business?**

Company's Response

The Board acknowledges that while Mr Joseph Kang's background is primarily in the semiconductor industry, his leadership qualities and transferable skills brings great value to IFH. His Honours degree in business management coupled with graduate diploma in marketing management and extensive experience in strategic sales, market expansion, and relationship building are critical for growing a business. These qualifications position him to enhance IFH's market presence and establish strong supply partnerships.

Mr Kang's attention to details, combined with his good grasp of financial management and his business acumen, equips him to make informed decisions that align with the Company's strategic goals. His experience in managing complex regulatory requirements in the semiconductor industry, enables him to navigate the food industry's regulatory challenges. This experience is relevant in the egg production sector, where adherence to food safety and sustainability regulations is vital for success.

As the egg production industry continues to evolve, focusing on sustainable practices, technology integration, and supply chain optimisation, Mr Kang's involvement in change initiatives will allow him to contribute his valuable experience in support of these developments at IFH. His proactive engagement with stakeholders, including close collaboration with the Singapore Food Agency, consultants, equipment vendors, feed suppliers, and the technical team from ISE Japan from the outset of the project, has equipped him with important insights into the industry. This hands-on experience, along with his broader leadership background, attention to details, and business acumen, prepares him to contribute effectively to IFH's growth and strategic direction.

- (ii) **Remuneration of Mr Kelvin Lum Wen-Sum: The former executive director (ED) and CEO resigned effective 13 September 2024. In a year when the company reported a loss of \$(5.5) million, the former ED and CEO received a remuneration of \$792,000, with 11% as bonus. In light of the group’s reported loss of \$(5.5) million, can the remuneration committee (RC) help shareholders better understand the justifications for the 11% bonus paid to the executive director and CEO? Can the RC elaborate further on how the current compensation practices align with shareholders’ interests? Specifically, can the RC help shareholders understand if the level and structure of remuneration are appropriate and proportionate to the sustained performance and value creation (Principle 7 of the Code of Corporate Governance 2018)?**

Executive Directors and Key Management Personnel

The remuneration (rounded to the nearest thousand) of Executive Directors in FY2024 are disclosed in the table below.

Executive Director	Total (\$)	Salary and Allowance (%)	Bonus (%)
Kelvin Lum Wen-Sum ¹	792,000	89	11
Kenneth Ho Siew Keong ²	NA	NA	NA

¹ Mr Kelvin Lum Wen-Sum had resigned as Executive Director and CEO, effective 13 September 2024.

² Mr Kenneth Ho Siew Keong was appointed as an Executive Director on 1 August 2024.

Company’s Response

The Remuneration Committee (“RC”) acknowledges these concerns and would like to explain that Mr Lum’s total remuneration in FY2024 of \$792,000 was lower than the \$848,000 he received in the previous financial year, reflecting the linking of remuneration to Group performance. As disclosed in page 71 of the Company’s annual report, his bonus was determined based on both financial and non-financial criteria that are aligned with strategic directions set by the Board for the Group.

It is important to note that the 11% bonus for FY2024 was lower than the 17% awarded in FY2023, 24% in FY2022 and 26% in FY2021. While acknowledging the weaker financial performance of the Group, the RC also considered that under Mr Lum’s leadership, and despite a challenging business environment, the Distribution and Services Solutions segment delivered commendable results. His operational leadership was pivotal in navigating these difficult circumstances. Furthermore, the RC considered his dedication and sacrifices, including taking a voluntary pay cut from August 2020 to May 2022 when the Group implemented a cost cutting measure.

The RC reviews at least once a year the key management compensation framework, benchmarking it against industry practices and norms and seeing to it that remuneration packages are in correlation with Group performance as well as individual performance, to ensure alignment with shareholders’ interests, as outlined in Principle 7 of the Code of Corporate Governance 2018.

- (iii) **Board independence: With Mr Amos Leong Hong Kiat and Mr Clement Leow Wee Kia retiring at the conclusion of the annual general meeting on 22 October 2024, there will be just one independent director left on the board. What is the progress made by the company in the search and nomination process for new independent directors? What criteria are being prioritised to ensure that the new appointees, if any, bring relevant expertise, independence, and fresh perspectives to the board? Are there challenges in onboarding new directors?**

Company’s Response

In light of the upcoming retirements of Mr Amos Leong and Mr Clement Leow at the conclusion of the annual general meeting on 22 October 2024 (“AGM”), the Company acknowledges the importance of maintaining an independent and diverse board to ensure effective governance.

As part of Board renewal from time to time, the Company identifies suitable candidates who may be appointed to the Board including filling vacancies left by outgoing directors. The Company has made good progress in identifying suitable replacements for the outgoing directors and will make formal announcements on the appointment of these replacements once the process is finalised. The Company hopes to do so shortly after the AGM.

In the Company's current search for new directors, it prioritised the following criteria to ensure that the appointees bring relevant expertise, independence, and fresh perspectives to enhance Board diversity and core competencies that will contribute to the effectiveness of the Board as a whole:

1. **Industry Experience:** Given that our core business is in the semiconductor industry, the Board recognises the need for a new appointee with extensive experience and knowledge, and a strong track record in this area to guide the Group strategically in its business.
2. **Business Management Skills:** Professional expertise and experience in managing businesses and investments of corporate groups is another consideration of the Board. A person with such relevant knowledge and experience would provide valuable insights to the decision-making and direction setting of the Group.
3. **Diversity:** Currently, the Company has one non-independent female Director on the Board and is committed to further enhancing board diversity to include more female directors. This would enrich discussions and ensure that a variety of perspectives are represented.

Based on past experience, the Company has not encountered any significant challenges in the onboarding of new directors.