

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 29 JUNE 2020

The Board of Directors (the “**Board**”) of ISDN Holdings Limited (the “**Company**”, and together with its subsidiaries, the “**Group**”) refers to the announcements dated 27 May 2020 in relation to the Company’s annual report for the financial year ended 31 December 2019 and its annual general meeting to be held on 29 June 2020.

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

Gwendolyn Gn
Joint Company Secretary
28 June 2020

Annex A

Responses to Questions from Shareholders

Query 1:

What is the effect of the Covid-19 on the company?

Company's Response:

The Company was hit by the extended lockdown in the People's Republic of China ("PRC" or "China"), and most operations were shut for about 8 weeks. Fortunately, we were permitted to continue operations in Singapore even through the recent circuit breaker period as we were deemed an essential service in the city-state.

To withstand these challenges, we stayed focussed on two key priorities – the health and safety of our employees and preparing the business to snap back into operation once the strict restrictive measures were lifted. Through the rigorous precautionary measures in place, we also managed to sustain a healthy employee base all the way to the present.

Thanks to the hard work of the ISDN team and contributions from our energy business, ISDN was able to post S\$3.1 million in net profit after tax and non-controlling interests for 1Q2020 despite the 2-months lockdown in the PRC. On top of that, we had a solid April as China's industrial operations resumed, and we were able to post 31.4% year-on-year growth in net profit after tax and non-controlling interests for the 4 months from the start of 2020 to 30 April.

We are now actively looking forward to the post-lockdown period.

Impacted industries, for one, will have a deeper appreciation for the many benefits that automation brings. Machines, unlike humans, do not fall sick and are capable of operating in any kind of safe-distancing environment. Furthermore, these machines will not incur running operating costs when they are idle. Thus, industrial automation is set to grow in importance in the post- COVID-19 environment, a trend that our core business is built for and well-positioned to capture.

The pandemic has also triggered new demand for innovative anti-COVID-19 industrial products and we are ramping up the supply of such post-pandemic industrial products. The disinfectant products we introduced recently are an example of using ISDN's strong connections with European manufacturers to bring state-of-the-art industrial solutions to Asia. This business delivers solid margins for us, and our initial investment is very small. We have already secured strong customers like Centurion Corporation and First Sight International.

Query 2:

How much are the hydropower plants worth today? Can you provide some visibility for the revenue and income that we should expect from FY2020 to FY2023?

Company's Response:

As of 31 December 2019, the total book value of our hydropower plants project is approximately S\$46.2 million. Navigating the clean energy business in developing countries has always been a challenge, and now, more so with the Covid-19 impact. We look forward to providing timely updates on these projects. We are still looking forward to send our EPC contractors and Singapore employees back to our hydropower site.

Query 3:

Are there any plans to acquire a software solution provider to speed up the E2E solutions?

Company's Response:

We are very interested in growing our E2E solutions and have had good early commercial traction with customers seeking such solutions. It is a natural complement to our 30+ year hardware skills and we also have a good opportunity to help our 10,000+ customers deploy more software control and machine intelligence in their automation strategy.

We are working very closely with Novo Tellus who has strong expertise in software, merger and acquisition ("M&A") and machine intelligence to look at all approaches to building software including partnering, acquisitions, and in-house research and development ("R&D") which is already underway.

M&A is never predictable as a strategy, so we will look opportunistically but we are also growing our in-house capabilities in parallel, in partnership with Novo Tellus.

Query 4:

What is the estimated timeline to consolidate both the Engineering and Administrative Operations? How much value in terms of saving and efficiency is expected to be reaped from this process?

Company's Response:

We started this process last year, and we will continue for at least the next few years. The goal of what we are doing is not just purely on cost efficiency. Yes, there will be cost reductions for us, but we will also re-invest at least some of the savings to increase our engineering systems and software capabilities as well.

While this may be a 2-3 years process, it will create values along the way. For example, with the consolidation work in progress, we had the enhanced capabilities to react with agility to manage customer credit, cash, and costs when the facilities were in lockdown during the pandemic period.

Query 5:

With the Covid-19 affecting some of your businesses in China, what are the long-term business continuity plans?

Company's Response:

We believe that our business has already demonstrated good resilience with effective business continuity plans. After all, we were able to deliver a profit despite our largest market and largest facilities in China being in a lockdown for almost two months in 1Q2020.

However, that does not mean we cannot do better. We are believers in Industry 4.0, so the work we are doing includes creating centres of excellence to share engineering and technical knowledge, and improving our IT systems to provide more intelligent customer, operational and financial data. The objective is to equip and grow our capabilities to be able to deliver strategic and long-term services that will add greater value to our customers. We will also continue concerted efforts to continually diversify our customers, business lines, and suppliers.

All of the above should help to build and strengthen the resilience in our business model.

Query 6:

By splitting the revenue segments into (i) ISDN Software (ii) ISDN Motion Control (iii) ISDN Precision Engineering (iv) ISDN System Solutions and (v) ISDN Renewable Energy, it would provide more clarity.

Company's Response:

Thank you for the feedback. To provide an update, we have recently begun to re-organise our business into these segments, where we seek to combine and capitalise on our existing strengths. As we are still in the early stages of this process, we will not be making any announcement on the reorganisation project.

Query 7:

When will the hydropower plants in Indonesia be completed? What are your future plans on these plants – to obtain recurring revenue?

What are some of the plans for the hydropower plants over the next 3-5 years?

Please provide an update on the progress on the hydropower plant project.

It was mentioned in the AR2015 that the hydropower plant project takes about two years to complete. However, there have been repeated delays till now. May I know what is causing the repeated delays?

Company's Response:

Construction work for the three mini-hydropower plants in North Sumatra was delayed due to the Covid-19 outbreak and it is likely that they can only be completed either by the end of this year or the first quarter of 2021.

In light of the situation, we will only start to roll out the rest of the construction work after these three plants that supply up to 24.6MW of power are up and running. This, we believe, will be the most prudent approach going forward, given the many uncertainties.

Query 8:

Has the Novo Tellus investment brought positive synergies to ISDN? What are the plans going forward?

Company's Response:

When Novo Tellus joined as an investor in 2019, they re-looked at our business and set into motion a full suite of initiatives to upgrade our operational capabilities and efficiencies. The large-scale consolidation project launched in our PRC businesses, for instance, proved to be very successful. Combining our different PRC businesses into one entity enabled us to reap cost savings from leaner operations as we reduced many task duplications.

In 4Q2019, we also began utilising new CRM and SAP systems to generate and gather useful data metrics to make key decisions quicker in order to deliver growth at the lowest possible cost. We are now working to streamline our Singapore business.

As for enhancing our capabilities, with the guidance from Novo Tellus, we reorganised our businesses into five major vertical segments – ISDN Software, ISDN Motion Control, ISDN Precision Engineering, ISDN System Solutions, and ISDN Renewable Energy. This will allow us to pool our best engineering capabilities together to gain new synergies.

Query 9:

How big is market potential for the disinfectant solutions?

Please share some of the latest developments on your new Covid-related business venture.

What is the expected revenue growth for the disinfectant solutions business for the next 2 to 3 years?

How is the new business doing so far? Do the benefits of venturing into the disinfectant market outweigh the cost?

Company's Response:

As we have just brought this product range into the market, we do not know the size of the potential yet. There is, however, no question that the demand for industrial sanitisation globally has increased. We seem to be in the market at the right time when Asia is beginning to figure out how to regulate and clean workplaces as the lockdowns are lifted.

Our products, Waterliq and Erstotizer, are differentiated by their performance in the market. They are ecologically safe, can be deployed to clean both air and surfaces, and have long-lasting disinfectant effects on surfaces. Both products are tested by independent laboratories and satisfy EPA criteria on effectiveness against viruses. We are already seeing strong initial customers for Waterliq and Erstotizer, and the early results look very good.

We see a vast opportunity for Erst's products in this region. We are focusing on waterliq and Erstotizer during this pandemic period. They are eco-friendly and non-toxic and extremely effective in disinfecting and provide a long term coating on surfaces. For post covid19, we will focus on ERST's mainstream products, the coating solution for anti-mould, anti-algae, and additives. The additives could be added to paint, cement, and coating materials to make it anti-mould and anti-Algae and reduce the weight of the prefabricated material in the construction industries. Waterliq is a non-chemical, water-based product, so besides being a disinfectant, it could be sprayed on fresh foods to prolong the freshness and anti-bacteria. We see good potential in the agriculture and food and beverage ("F&B") industries.

Query 10:

Please give an update on the hydropower plant project in the Kingdom of Cambodia.

Why did ISDN pull out from the Joint Venture in the Kingdom of Cambodia?

Company's Response:

We spent the last three months deliberating and re-examining the risks and rewards of the joint venture ("JV") in Cambodia and concluded that the best course of action is to withdraw from the JV to minimise the risk exposure of the Company and its shareholders.

Query 11:

The remuneration for the founder at \$3-3.5 million is about 43-49% of the net profit after tax for FY2019 when profit attributable to shareholders is around \$7.05 million. Please explain why the Board thinks that this is a fair and reasonable pay-out.

Company's Response:

Since the initial public offering of ISDN Holdings, our Managing Director and President, Mr Teo Cher Koon, has entered into a service agreement with ISDN Holdings Limited. In the agreement, it is stipulated that the remuneration to Mr Teo includes a fixed salary component, benefit in kind and allowances, and a variable performance bonus that is computed based on the Group's profit before tax and non-controlling interests.

In May 2019, the Remuneration Committee (RC) appointed Carrot Consulting Pte Ltd, an independent human resource management consultancy firm, to conduct an industry remuneration benchmarking exercise to make a recommendation on Mr Teo's remuneration package. The RC has recommended, and the Board has approved of the recommended change in Mr Teo's variable performance bonus component calculations metric with effect from FY2020. Based on the new metric, Mr Teo's remuneration package for FY2019 would be in the range of S\$2,000,001 to S\$2,500,000, had the new service agreement been in effect since 1 January 2019.

Query 12:

As a minority shareholder, I would like to propose for the Board to consider a remuneration policy that is based on the share price movement.

Company's Response:

To better align top management compensation with long-term shareholder value creation, Carrot Consulting Pte Ltd recommended a share based variable component through the Performance Share Plan ("PSP").

The Board is currently deliberating on this approach to issue shares through the PSP as compensation for the top management bonus incentives to alleviate ongoing concerns of high cash bonuses. The Board will announce on their recommendation once a decision has been made.

Query 13:

I would also like to ask the Board to review its dividend policy, given the healthy cash position.

Increasing of dividend payout to at least 1.0 Singapore cents per ordinary share.

Company's Response:

We have no plans to change the current dividend policy as we are at the stage of ramping up our capabilities to move up the value chain to capture the wider opportunity in Industry 4.0. A healthy cash position will give us greater flexibility in scaling up the business.

Query 14:

Both the Erstotizer and Nomobac seem to be long-lasting disinfecting solutions according to your previous announcement. Please tell us more about these products, and particularly the difference between them.

Company's Response:

Erstotizer is a water-based, odourless, colourless, scratch-resistant, and non-leaching functional surface coating unique in nature and effectiveness. It comes in a set of pre-coat and main-coat. When coated on surfaces, it acts as a protective shield that kills more than 99.9% of pathogens and can last up to 24 months. While Nomobac is mostly similar to Erstotizer in terms of characteristics and is effective against resistance germs and pathogens, it requires more extended hours to create a strong bonding with the surface coated whereas Erstotizer only needs 3 hours. Both products are proven to be effective against a wide range of viruses.

Query 15:

Please elaborate on ISDN's role in the joint venture. Does ISDN have to make new investments in property, plant, and equipment? What is the level of capital expenditure that we are looking at to build up this business?

Company's Response:

We refer to the announcement dated 6th of May 2020. As per the announcement, ISDN entered into a joint venture with German company ERST Project GmbH and established ERST Asia Pacific Pte Ltd where ISDN and ERST take ownership of 51% and 49% respectively. For this partnership, ERST will oversee the entire supply chain and product development like the disinfecting gantry, and ISDN will utilise its large network to market these solutions in Asia.

Query 16:

What percentage of ISDN's sales are recurring in nature? Are the sales for these new disinfectant solutions also recurring in nature?

Company's Response:

Approximately 20% of ISDN's sales are recurring in nature, and the new disinfectant solutions will also be recurring in nature.

Query 17:

Was ISDN's stellar April performance a one-off?

Company's Response:

Our order visibility is short; hence it is always difficult for us to project the future; however, the trade we are in will not be obsoleted after covid19, and Industrial automation and Industrial 4.0 are here to stay for a long time. The 4th industrial revolution has just begun.

Query 18:

Has the Covid-19 accelerated the adoption of ISDN's solutions to drive greater automation and efficiency? Which markets do you see an uptick in enquiries?

Company's Response:

Covid-19 has changed the way we live and do business; certainly it has inspired the industries to adopt more automation and reduce the dependence on the human workforce if possible. Besides, automation will undoubtedly increase the Productivity and efficiency of any enterprise.

Query 19:

Would you be able to share some insights into some of the hurdles you are facing?

Company's Response:

Since its founding 30 years ago, ISDN has never stood still. We evolved with the needs of industry, from a distributor to a full engineering solutions provider, from just a few customers to 10,000+ customers today.

Our business has stayed resilient through the pandemic, so today we are challenging ourselves to keep growing with the needs of customers as the whole world moves towards Industry 4.0. These include:

- Growing our solutions and software business as Industrial Automation needs more intelligence and connectivity
- Navigating the US-China trade tensions and making sure we stay relatively neutral as a Singapore-based supplier

Query 20:

What competitive advantage does ISDN have over its competitors in China and across the region?

Company's Response:

We have quite a few competitive advantages over our competitors:

- Experience — IA is not easy to deliver, and we have over 33 years
- Scale — we have over 10,000 customers and almost S\$300m in revenue
- Multi-brand — we have access to both domestic and global technology, so we are not stuck with one brand: we can deliver the best possible combination of technology for our customers
- Engineering — almost 37% of our staff are engineers, higher than many competitors. And through our JVs we have direct access to top engineers at our strategic suppliers too.

Query 21:

In FY2019 financial results, it seems that the profit margin for the motion control segment is the highest. Isn't it better to focus more on growing the core business, especially with trends like Industry 4.0, IoT, Robotics, Made in China 2025?

Company's Response:

We will always focus on our core Motion Control business. In fact, you will note that ISDN Motion Control is one of the 5 centres of excellence we announced.

However, we cannot stand still as a company because the industry continues to grow. Customers want more connected and more intelligence automation, so we have the opportunity to use our strength motion control to open the door to customers and seek to deliver more and more additional solutions to each customer over time. Industry 4.0, Robotics, and Made in China 2025 as well as OBOR are all themes we working to capitalise on.

But, we are a large company so we have the opportunity and the resources to make additional bets on the side, especially if they involve small amounts of investments and could create strong payoff. So the disinfectant products are an example: the investment is quite modest, it does not distract our staff from the core business, and there is a big potential industrial market and need for it right now.

Our focus will always be on our core, but like all large technology companies, we look to make very small bets to incubate future business lines also.

Query 22:

What is the market share of ISDN in China's motion control market, and who are the main competitors?

Company's Response:

Novo Tellus commissioned an independent market study of China before they invested in ISDN in 2019 and found that ISDN is one of the top 4 providers of motion control in China.

For us it is not just about market share. It must be about competitive advantage and profits too, and the study helped confirm that our products are suitably in the mid- to high- end of the China market, which makes them quite well positioned as industry will need higher performance going forward.

Query 23:

How does the company protect its intellectual property ("IP") in China?

Company's Response:

We take IP seriously, and we are proud that ISDN is one of the stronger players in IP in China. Our headquarters are in Singapore, where IP laws and protection is quite strong. We are able to place selected engineering here, for example.

We are also proud of our longstanding partnerships with leading global suppliers. This is proof that global technology providers have trusted ISDN with their products and IP over many years.

Query 24:

ISDN's revenue has been hovering around \$290-300 million for the past three years. With the expertise of Novo Tellus and the positive broader trends, is there potential for a notable increase in revenue in the foreseeable future?

Company's Response:

Yes, we believe the Industrial Automation market is very large, and ISDN is well positioned.

We do not like to overpromise, and we don't believe in pumping up revenue just to show some growth. Instead, both we and Novo Tellus believe in building solid foundations for growth that will last many years.

So we will not give long term growth guidance, but instead we point to what we are doing to establish the foundations for a bigger and more advanced ISDN. Just in the past year we have made progress with:

- Establishing ISDN Software and ISDN Solutions, together with Precision, Motion Control and Energy. This allows us to concentrate our focus so we can scale powerfully.
- Upgrading our IT systems so we can improve customer intelligence and productivity.
- Concentrating our operations so that we improve controls and also drive better cost and risk controls.

These are all aimed at increasing ISDN's capabilities to deliver more advanced solutions to customers. And they are consistent with our philosophy of building strong growth foundations for the business.

Query 25:

Has the company been able to realize its expected benefits from the Hong Kong listing? Given the costs of listing both in Hong Kong and Singapore, is it still necessary to maintain the dual listing?

Company's Response:

We are adopting a wait and see attitude. The business and geopolitical climate has changed a lot before and after our listing. It is not easy to get on board. We know the relationship between Hong Kong and China is always closer than Singapore and China, no matter what happens to the political climate.

Query 26:

Are there significant costs overrun as a result of these delays in the hydropower plants? Are these investments still profitable?

Company's Response:

There is for sure a budget overrun however it is still manageable the big picture is still interesting to any investor.

Query 27:

How competitive is the hydropower plant market in Indonesia?

Company's Response:

It is an infrastructure project and we compete with our own operation readiness and we generate recurring income on a fix tariff of 0.0789 US cents per Kwh for 20 years and the water resources is abundance.

Query 28:

In AR2018, several initiatives were mentioned. Are there any updates to the following (i) blockchain (ii) energy storage capacity (iii) Emmett Capital fund (iv) A*Star Collaboration?

Company's Response:

The blockchain venture did not take off, and it was abandoned. Energy storage is a relatively small investment. The energy storage company is producing battery packs for the third-largest energy storage company in The States and some companies in China. Energy storage is a long-term investment. We will benefit in time to come for the energy trend is moving towards microgrid, and renewable energy like solar will continue to be more and more affordable. There is not much activity in Emmett after a few projects fell through. We started a Join lab with A*star about nine months ago, and we have since secured a project to supply a 3D LAAM hybrid machine for prototyping applications, and there is some project in the discussion stage.

Query 29:

Since the establishment in December 2018, how much has the Maxon joint venture contributed to the top and bottom line? What is the future prospect of the joint venture?

Company's Response:

2019 is a transition period between ISDN to the JV. Half of the business is still done in ISDN. Moving forward we could see more impact on our top line.

Query 30:

Reducing of external auditor's fees.

Company's Response:

We are a complex multinational business, so we look closely at auditor fees, but ultimately it has to be a balance between good governance and good cost control.

We could go with a cheaper auditor, but our preference will always be to be biased towards quality in our audits. We know we have a complex business, so a solid external auditor is one way we try to provide good governance and confidence for shareholders.