

ELSOFT RESEARCH BERHAD

Registration No. 200301015084 (617504-K)
(Incorporated in Malaysia)

QUESTION RECEIVED FROM THE SHAREHOLDER OF ELSOFT RESEARCH BERHAD DURING THE 20TH ANNUAL GENERAL MEETING HELD ON 23 MAY 2023

Question or Comment from Shareholder	The Company's Response/Answer																		
<p>The shareholder expressed his appreciation to the Group for successfully disposed off the Property*.</p> <p>He then referred to page 11 of the 2022 Annual Report and enquired the utilisation of the proceeds from the Disposal.</p> <p>* The Company has at the Extraordinary General Meeting held on 10 June 2022 obtained the approval from its shareholders for Siangtronics Technology Sdn Bhd, a wholly-owned subsidiary of the Company to dispose of a piece leasehold land together with a 2-storey factory-cum-office building with ancillary buildings erected thereon, held under Pajakan Negeri No. 4026, Lot No. 12459, Mukim 12, Daerah Barat Daya, Negeri Pulau Pinang ("Property") to SRM Integration (Malaysia) Sdn Bhd, for a total cash consideration of RM38,000,000 ("Disposal").</p>	<p>Mr. TCE informed that the Company has announced the utilisation of the proceeds from the Disposal and has also provided the relevant information in the Circular to Shareholders dated 13 May 2022.</p> <p>He explained and directed the shareholders to page 50 of the 2022 Annual Report where the details of the utilisation of proceeds and actual utilization as at 31 December 2022 were presented:</p> <table><tr><th>Details of use</th><th>RM ('000)</th><th>Actual utilisation RM ('000)</th></tr><tr><td>Expansion of the Group's business and/or production facility</td><td>14,740</td><td>-</td></tr><tr><td>General working capital</td><td>13,160</td><td>3,059</td></tr><tr><td>Special Dividend</td><td>6,760</td><td>-</td></tr><tr><td>Estimated expenses in relation to the Disposal (Advisers fees, valuation fees and RPGT)</td><td>3,340</td><td>1,515</td></tr><tr><td>Total</td><td>38,000</td><td>4,574</td></tr></table> <p>With regards to the expansion of the Group's business and production facility, Mr. TCE informed that Elsoft has planned to build a small factory on its vacant land but had postponed this plan due to the high construction costs. However, the construction costs have now gone down.</p> <p>Mr. TCE indicated that the existing production facility is sufficient to cater for the Group's current needs. However, if the shareholders approve the Proposed Acquisition of Xyrius at the Extraordinary General Meeting, which will be held after this AGM, the Company may have to enlarge its manufacturing facility to integrate Xyrius' operations and support the growth of the merged entity.</p> <p>He further informed that the Company had declared a Special Dividend of 1 sen per share on 17 February 2023 as a means to reward the shareholders with part of the gain arising from the Disposal, and it was paid on 14 April 2023.</p>	Details of use	RM ('000)	Actual utilisation RM ('000)	Expansion of the Group's business and/or production facility	14,740	-	General working capital	13,160	3,059	Special Dividend	6,760	-	Estimated expenses in relation to the Disposal (Advisers fees, valuation fees and RPGT)	3,340	1,515	Total	38,000	4,574
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**QUESTIONS RECEIVED FROM THE SHAREHOLDERS OF ELSOFT RESEARCH BERHAD
OR THEIR PROXIES/ CORPORATE REPRESENTATIVES DURING THE EXTRAORDINARY
GENERAL MEETING HELD ON 23 MAY 2023**

No.	Question or Comment from Shareholder/ Proxy/ Corporate Representative	The Company's Response/Answer
1.	Can you kindly provide an explicit explanation on the benefit of the collaboration between Xyrius and Elsoft?	<p>Xyrius is principally involved in the design and manufacture of automation machinery and industrial equipment. More than half of its revenue for the FYE 31 May 2022 was contributed from the medical device industry, which is an area that Elsoft does not cover. Although Elsoft has presence in medical device industry, but it focuses on peritoneal dialysis equipment which is a medical end-product. Whereas, Xyrius is providing automation solutions for assembly line used in medical device industry. We believe the Proposed Acquisition will potentially broaden our market reach through product cross-selling.</p> <p>The Proposed Acquisition is in line with the long-term strategy of our Group to expand into business activities that are complementary to our existing business.</p> <p>In summary, Mr. TCE reiterated that the Proposed Acquisition will enable our Group and Xyrius to leverage on each other's resources and expertise as well as our respective business relationships with industry stakeholders. This will allow the development of a wider range of solutions and/or products required by our customers and contribute towards the business growth of our Group.</p> <p>Lastly, we are confident that Xyrius's founder, Mr. Ang, who is a young and energetic leader, and coupled with our support, he and his team will continue to grow Xyrius's business as well as improve Elsoft's existing capabilities in mechanical and automation.</p>
2.	If <u>Has</u> the Company has encountered any resistance from the existing staff after Xyrius's Team join Elsoft.	<p>We do not encounter any resistance from our existing staff. However, we are delighted to see our staff, who are also our shareholders, are interested to know about the Proposed Acquisition during the EGM.</p> <p>In Elsoft, we emphasize on the importance of teamwork and mutual support. We always encourage our employees to assist each other to excel in their individual roles and this will eventually help us to perform better.</p> <p>With the Proposed Acquisition, we believe that everyone will benefit from the synergistic results coupled with growth potential arising from combined resources and expertise.</p>

<p>3.</p>	<p>Xyrius is in medical business and Elsoft management plan to integrate Xyrius's business model for expansion, would there be foreseeable plans to integrate Xyrius's products into Elsoft products portfolio?</p> <p>Further, how is Xyrius and Elsoft running the business operations in the future as Elsoft intends to allocate space to cater for Xyrius, however operation and management are run separately?</p> <p>Moving forward, when Elsoft bid for new project which involve mechanical and automation solutions, it will be under Elsoft or Xyrius?</p> <p>How many staff do Xyrius have?</p> <p>To confirm whether there is three years lock in period for Vendors to stay in the business.</p> <p>How <u>did</u> Elsoft persuaded Mr. Ang to sell his company where purchase consideration is satisfied by majority Consideration Share and only receive RM500,000 in cash.</p> <p>Will Mr Ang be offered a Directorship in Elsoft?</p> <p>The shareholder also expressed the desire to meet Mr. Ang at the next meeting so that as to understand Mr. Ang's role in</p>	<p>Yes, there will be. The immediate plan is to relocate Xyrius's operations to our Company's facility as soon as possible. In the short run, we will still operate and manage the two businesses in separate entity, but with the intention to integrate them gradually over time.</p> <p>Our Company has enough space reserved for Xyrius's existing operations and future expansion. Upon completion of the Proposed Acquisition, Xyrius will move its operations into Elsoft's facility. Xyrius will no longer using its current production and operations at Hexagon Tech Park, George Town, which is now rented from Mr Ang and his spouse.</p> <p>The medical device business will continue to be carried out under Xyrius, unless it involves test functions which shall be carried out under Elsoft.</p> <p>Upon completion of the Proposed Acquisition, Xyrius will become a wholly-owned subsidiary of Elsoft, thereby enabling our Company to consolidate all the financial results of Xyrius. Therefore, it has no impact to our Group's results to place the new project under Elsoft or Xyrius.</p> <p>Xyrius has a total workforce of 6 employees, excluding the Vendors. Xyrius is in the midst of hiring two (2) more new engineers.</p> <p>As part of the terms and conditions of the Share Sale Agreement, the Vendors have agreed to undertake that they will not sell, transfer, assign or otherwise dispose the consideration shares received by them respectively without obtaining the prior written consent from Elsoft, for a moratorium period of five (5) years.</p> <p>Both Elsoft and Mr. Ang viewed this Proposed Acquisition as a long-term strategic plan and the issuance of Consideration Shares to Mr. Ang is intended to encourage him to continue participating and contributing to the future growth of Xyrius via his shareholdings in Elsoft. As such, Mr. Ang will also benefit from the consideration shares he received.</p> <p>The Board does not intend to offer Mr. Ang a directorship in Elsoft at this juncture. However, the Board may consider offering him in the future. Should there be any change of board composition, we will make the necessary announcement to Bursa Securities accordingly.</p> <p>Mr. TCE replied that Mr. Ang will be in the SEMICON Southeast Asia 2023 event at Setia Spice Arena starting on 23 May 2023. We will invite him to join the next meeting, however, it is subject to his work schedule and availability.</p>
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	bringing better opportunities for the business of Elsoft.	
4.	<p>In addition to the query raised earlier, the shareholder further seeks confirmation on the number of staff from Xyrius joining Elsoft.</p> <p>Page 30 mentioned that “Ang shall continue to work in Xyrius and he may terminate his employment with Xyrius by serving 1 year notice”. He founded the company, and he is the key person, therefore, how can Elsoft prevent Mr. Ang from starting a competing business in the future. In addition, he could sell his Consideration Shares without the knowledge of the Company if he is not a director. The shareholder also expressed his concern and the need for the Management to learn from him his expertise expeditiously.</p>	<p>Mr. TCE clarified that Elsoft is acquiring Xyrius which includes 6 employees (excluding the Vendors) and after completion of the Proposed Acquisition, all the businesses will be operating under one roof under Elsoft Group.</p> <p>There is a common understanding with Mr. Ang and an agreed working collaboration to make Elsoft better and to resolve any problem that may arise in the course of business.</p> <p>To ensure some security for Elsoft, there was a moratorium imposed on the Consideration Shares where the Vendors will not sell, transfer, assign or otherwise dispose the consideration share received by them respectively without obtaining the prior written consent from Elsoft for a period of five (5) years, which was accepted by Mr Ang. Elsoft appreciates Mr. Ang’s genuine commitment, as he has agreed to a moratorium period of five years, which is longer than the IPO moratorium period.</p> <p>In addition, the Agreement has also included an “exit clause” in the event either party decides to terminate the partnership.</p> <p>Under the arrangement, Mr. Ang will continue to manage Xyrius, and he will also assume the additional role of “Chief Automation Officer” to lead Elsoft automation division. Mr. TCE expressed that merging the two entities in business does not guarantee success, but he expressed his confidence that this working relationship is good with attractive growth prospect and will achieve our goals through open discussion.</p>
5.	<p>Elsoft is a company with a lot of cash reserves. In addition, its subsidiary has sold off a piece of land and the transaction is almost completed. What is the rationale of Elsoft not utilizing the proceeds to acquire Xyrius?</p> <p>This payment of Consideration Shares will result in the shareholders dilution of their shareholdings.</p>	<p>Mr. TCE acknowledged that the disposal of land deal is completed, and the lawyer has received the proceeds from the disposal of land end of last year. However, the only outstanding matter is pending transfer of the land title. The proceeds were placed in fixed deposit to earn interest. The disposal of land has provided Elsoft with more cash reserves. Therefore, Elsoft declared 2nd interim dividend of 1 sen and a special dividend of 1 sen for the year ended 31 December 2022 on 17 February 2023 and the dividends were paid on 14 April 2023.</p> <p>The decision on settling the payment for this Proposed Acquisition, i.e. whether by shares and/or by cash depends on various factors. The issuance of Consideration Shares to Mr. Ang is intended to encourage him to continue participating and contributing to the future growth of Xyrius via his shareholdings in Elsoft. Mr. Ang foresees the value in Elsoft shares which has potential for further growth. This is more meaningful for someone who does not need that much money and has a long-term perspective of the business. This will also enable Elsoft Group to conserve its cash and channel it towards financing its day-to-day operations and/or pursue other business opportunities in the future.</p>

		<p>We trust "right-minded" people to view things positively. He is financially well and stable, but what he lacks is a bigger platform to work together to achieve greater heights.</p> <p>Mr. TCE opined that there is no right or wrong decision in structuring the purchase consideration between cash or shares.</p>
6.	<p>The shareholder commented that the payment structure of Consideration Shares to Mr. Ang should be viewed positively. However, his absence at this meeting has propelled the shareholders to seek further clarification.</p> <p>The shareholder noted that Mr. Ang is not motivated by money but only about his expertise and he foresees the potential increase in the share price in the future. He believes that he can contribute more by focusing on his own skills.</p>	Mr. TCE agrees to this.
7.	<p>Refence was made to page 62 and the shareholder highlighted that Elsoft is paying the price which represents a price-to-earnings ratio (PE) of approximately 10 to acquire Xyrius.</p> <p>He also noted that Elsoft has compared this PE with the average PE of the listed companies (in Page 4) however, Xyrius is only a private company with a few employees.</p> <p>Therefore, to this, he enquired on the basis of arriving at this PE which is comparatively at a higher end.</p>	<p>Mr. TCE explained that the value is very subjective. In all deliberation and discussion with Mr. Ang, there is no reference to PE and there is no profit guarantee imposed on the Vendors.</p> <p>Further, the true value is the synergistic effect between Elsoft and Xyrius. Both parties wanted to "go together" because of the synergy that could be created by combining our strengths and resources. It was not a "financial thing" that can be easily measured or compared, but a vision that can lead to growth.</p> <p>Elsoft plans to undertake some expansion and therefore will focus to develop new products or design during this challenging economic situation.</p>