



Securities Investors Association (Singapore)

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UEN No: S99SS0111B

GST Reg No: M90367530Y

Issuer: Avi-Tech Electronics Limited

Security: Avi-Tech Electronics Limited

Meeting details:

Date: 29 October 2018

Time: 11.00 a.m.

Venue: 19A Serangoon North Avenue 5, 6th floor, Singapore 554859

Company Description

Avi-Tech Electronics Limited provides burn-in and manufacturing services for the semiconductor, electronics, and life sciences industries. Its Burn-in Services segment offers static, dynamic, test during, and high power burn-in services for semiconductor manufacturers; and tape and reel services. The company's Manufacturing and Printer Circuit Board Assembly (PCBA) Services segment designs and manufactures a range of burn-in boards for various types of burn-in systems, as well as boards for other types of reliability tests, such as high temperature operating life test and highly accelerated stress test. Its Engineering Services segment is involved in the design, development, and turnkey outsourced manufacturing and system integration of semiconductor equipment and lab-automation systems for the life sciences and biotech industries. This segment also distributes and services third-party mixed signal testers; and offers technical services. The company operates in Singapore, Malaysia, Thailand, the Philippines, Taiwan, the People's Republic of China, Japan, the United States, and Europe. Avi-Tech Electronics Limited was incorporated in 1981 and is headquartered in Singapore.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=BKY)

1. As noted in the Letter to shareholders, the Burn-In Services segment was a strong performer in the year, although it could not offset the weaker showing by the Engineering Services segment. The Manufacturing and Printed Circuit Board Assembly (“PCBA”) Services business segment’s was largely steady.

Overall, after a stellar 2017, the group’s performance in 2018 was more modest, with revenue slipping 10.7%, gross profit decreasing by 15.7% and net profit lower by 30.8%.

- (i) **Burn-in:** The increase in demand for burn-in services was attributed to mainly to automotive semiconductor segment, and also to semiconductor chips for the networking and cloud computing and data security industries. **What is the impact, if any, from the tariffs that might be imposed on cars as the United States and China are drawn deeper into a trade war? Has the segment built up its automotive customer base or is it highly dependent on a single large customer?**
- (ii) **Manufacturing and PCBA Services:** The segment streamlined its productive processes with a new manufacturing operations management software. This was a concrete step by the segment towards digitalisation and smart manufacturing. **Have all the systems and processes been transited to the new software? If not, when will the transition be completed? With its new machinery, enhanced processes and better automation, what is the expected improvement in efficiency and cost?**
- (iii) **Engineering Services:** **How does the segment acquire new customers? What is the value proposition offered by the segment to its potential customers? What is the strategic value of the segment in the group’s long term plans?**

2. In the Letter to shareholders, the company has expressed its willingness and commitment to explore merger and acquisition opportunities which present a synergistic fit with the group’s current service offerings and which can offer the group new opportunities for growth.

- (i) **Who is leading the search for new business opportunities? What is the role of the CEO and/or the board in this?**
- (ii) **Can the board/management help shareholders understand the criteria it has for any such acquisition?**
- (iii) **With the experience gained from the group’s expansion to the US, what are the safeguards put in place by the board/company to ensure that the acquisitions are not overly aggressive and the deals are structured to safeguard the interests of its shareholders so that it leads to long term value creation for all shareholders?**
- (iv) **Has the board also considered right-sizing its balance sheet based on the organic growth prospects? This would be in the form of a special**

dividend/capital reduction to return capital to owners of the company if there are no attractive opportunities for the group.

3. The three independent directors, namely Mr Khor Thiam Beng, Mr Michael Grenville Gray and Mr Goh Chung Meng, have each served on the board for more than nine years from the date of his first appointment. Mr Khor, Mr Grenville and Mr Goh were first appointed on 30 October 2006, 30 October 2006 and 16 October 2001 respectively.

As all three long tenured directors are members of the nominating committee (NC), the company has assured shareholders that none of the directors took part in the review of his own independence.

- (i) Can the NC confirm that Mr Goh's independence was reviewed by Mr Khor and Mr Grenville, Mr Khor's independence was reviewed by Mr Goh and Mr Grenville and Mr Grenville's independence was reviewed by Mr Khor and Mr Goh?**

- (ii) Given that all three members of the NC are each subject to the particularly rigorous review of his own independence, how effective was the NC in discharging its duties?**

Notwithstanding that the board considers all three long-tenured directors as independent, Guideline 2.4 of the Code of Corporate Governance 2012 issued by the Monetary Authority of Singapore requires the board to "also take into account the need for progressive refreshing of the Board".

Further, in August 2018, the Monetary Authority of Singapore issued a revised Code of Corporate Governance ("2018 Code"). As a consequence of the revised 2018 Code, the Singapore Exchange will be making amendments to its Listing Rules. The Listing Rule changes will come into effect on 1 January 2019, except for the rules on the 9-year tenure for independent directors and the requirement for independent directors to comprise one-third of the board which come into effect on 1 January 2022. Under the revised Listing Rules, the term of an independent director will be limited to nine years after which the long tenured directors will be subject to a two-tier vote by shareholders.

- (iii) Has the board evaluated how the changes to the Code and the Listing Rules will impact the board?**

- (iv) As all three independent directors have been appointed to the board for more than 9 years, what are the company's plans to refresh the board membership progressively and in an orderly manner, to avoid losing institutional memory?**

[Additional comments: It is commendable that the company is preparing its Sustainability Report (SR) for release in November 2018. When the SR is realised, would the company be discussing in detail how the material issues identified in the SR affect the strategy of the company and its subsidiaries?]



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A copy of the questions for the Annual Report for the financial year ended 30 June 2017 and 30 June 2016 could be found here:

<https://sias.org.sg/qa-on-annual-reports/?company=Avi-Tech%20Electronics%20Ltd>

The company's response could be found here: -----

