

## SGXNET Announcement



**AEM Holdings Ltd**  
(Registration No. 200006417D)

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### **ANNUAL GENERAL MEETING TO BE HELD ON 21 MAY 2020 RESPONSES TO QUESTIONS**

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The Board of Directors (the “**Board**”) of AEM Holdings Ltd. (“**AEM**” or the “**Company**”, together with its subsidiaries, the “**Group**”) wishes to thank shareholders for submitting their questions in advance of the Annual General Meeting (“**AGM**”) to be held by electronic means on 21 May 2020 at 3.00 p.m. The following are the responses to the questions being raised.

**Q1.** *For the financial year ended 31 December 2019, the Group reported a record high revenue of S\$323.1 million, an increase of 23% from the previous financial year. The Equipment Systems Solutions (“**ESS**”) segment contributed S\$307.9 million, or 95.3% of the Group’s total revenue.*

*The Group’s other core business segments, namely System Level Test & Inspection (“**SLT-I**”), Micro Electro-Mechanical Systems (“**MEMS**”), and Test and Measurement Solutions (“**TMS**”), all recorded growth in sales in FY2019. The segment growth rates were 91.4% for SLT-I, 6.9% for MEMS and 197.8% for TMS. The growth in these segments could be partly attributed to the successful acquisitions made in recent years.*

*The revenue concentration from the Group’s major customer is approximately 94%, or S\$303.2 million out of S\$323.1 million.*

*(i) Can the Board, especially the Audit and Risk Management Committee (“**ARC**”), help shareholders understand if it has identified the revenue concentration risk to its major customer as a key risk for the Group? On pages 58 to 59 of the annual report, the ARC has listed the following 5 key risks, namely compliance risk, operational risk, financial risk, investment risk and IT risk.*

*(ii) What are the addressable market sizes and the growth opportunities for the other core business segments of SLT-I, MEMS and TMS?*

**Response:**

**1.** The Company recognises the risk of having its revenue that is highly dependent on a key customer and the potential risk and effect on its operations and financial performance. AEM has more than 18 years of business relationship with its key customer which is the largest semiconductor company in the world and it is very well-established and diversified as its products are critical to many business segments.

In the last 3 years, the Company has acquired 4 companies to expand its technical capabilities as well as the products and solutions that it can offer to existing and potential customers. The total addressable market sizes of the newly formed business segments in the last 3 years of SLTi, MEMS and TMS are US\$1.2 billion, US\$50 million and US\$500 million respectively.

As guided in the Company’s quarterly results and business update announcements, the Group has been working with various potential customers on its AMPS (Asynchronous Modular Parallel Smart) platform, MEMS Testing Solutions (Afore) and TMS services, to grow its customer base. The TMS division has completed the development project on optical fibre cable-test equipment for 5G backhaul networks. It is currently working with several customers on initial orders. The SLT-i division has successfully installed initial commercial systems for a memory manufacturer and gained traction on its collaboration efforts with some customers to develop AMPS platform for them. The Group remains positive on the outlook of these business segments.

The Company will continue to expand strategically through merger and acquisitions and in-house technology development as it solidifies its position as a global leader offering application specific intelligent system test and handling solutions for semiconductor and electronics companies serving advanced computing, 5G and AI markets.

**Q2.** *As disclosed in the Management discussion and analysis (page 20), total staff costs increased at a disproportionately higher rate of 45.8%, from S\$32.5 million to in FY2018 to S\$47.4 million in FY2019.*

*This increase of S\$14.9 million was attributed to (a) higher staff bonus, (b) share plans expense and (c) higher staff salary from additional headcounts for business development and engineering projects. Can Management provide a breakdown of the increase due to higher staff bonus, share plans expense and higher headcount? Is this rate of increase sustainable?*

*For instance, the Group recognised S\$1.94 million in expenses for share options granted and an additional S\$2.9 million for the first tranche of performance shares granted on 7 October 2019. In addition, a further 1.16 million performance shares were granted on 21 January 2020 for the performance year 2019 to certain key management personnel.*

**Response:**

2. The breakdown of the staff costs is as follows:

|                           | <b>FY2019</b><br>S\$'000 | <b>FY2018</b><br>S\$'000 | <b>Variance</b><br>S\$'000 | <b>Variance</b><br>% |
|---------------------------|--------------------------|--------------------------|----------------------------|----------------------|
| Salary and other benefits | 29,428                   | 26,448                   | 2,980                      | 11.3                 |
| Bonus                     | 13,156                   | 4,837                    | 8,319                      | 172.0                |
| Share plans expense       | 4,838                    | 1,236                    | 3,602                      | 291.4                |
| <b>Total staff costs</b>  | <b>47,423</b>            | <b>32,521</b>            | <b>14,902</b>              | <b>45.8</b>          |

The staff costs excluding bonus and share plans expense increased by 11.3% from S\$26.4 million in FY2018 to S\$29.4 million in FY2019 compared to revenue increase of 23.2%. The profit before tax after net of the staff costs has increased by 59.5% from S\$40.0 million in FY2018 to S\$63.7 million in FY2019. As a result of the better performance in FY2019, higher variable bonus and share plans expenses were therefore granted to share the success of the Company with Management and employees so as to motivate and retain staff to perform better. Furthermore, Management understands that bonuses and performance shares are paid only when the Company is profitable and when targets are met.

**Q3.** *On 21 January 2020, independent directors, namely Basil Chan, Adrian Chan Pengee, Loh Kin Wah and Lavi Lev Alexander, along with non-executive director James Toh Ban Leng, were each granted 25,000 performance shares.*

*The Remuneration Committee (“RC”) comprising Basil Chan (as chairman), Adrian Chan Pengee and non-executive non-independent director James Toh Ban Leng administers the Performance Share Plans (“PSP”).*

*(i) Since all the members of the RC received share grants, please help shareholders understand how effective the RC was in administering the share plans.*

**Response:**

**3(i).** The PSP award to non-executive members of the Board was suggested by Management in order to align the long term interests of the Board with the Company and its shareholders. Following this, the RC commissioned our remuneration consultant, Carrots Consulting Pte Ltd, to conduct a benchmarking study of non-executive director compensation comparing AEM with our peers. The study showed that AEM's compensation to its non-executive directors was below the average of our peers, and suggested an adjustment. The RC has adopted the results of this study, which includes the PSP shares awarded in January 2020.

*(ii) Would the RC also elaborate further on the “performance” criteria for the directors to receive the Performance Share Plan? Given that Mr Lavi Alexander Lev was only on the Board for 9 months, can the RC help shareholders understand if his contribution was assessed to be equal to that of other directors?*

**Response:**

**3(ii).** Mr Lavi Alexander Lev was appointed on 1 April 2019. The grant of shares to Mr Lavi was partly in recognition for his contribution in the introduction and recruitment of several senior executives for our US and SLTi leadership teams. It is not based on time period alone. The PSP award was made to the non-executive members of the Board, who together have wide ranging responsibilities to steer the Company towards a secure, profitable future. The individual members make very different contributions to the Board, which are not easy to measure in the short term. The best performance measure for the Board is the continued financial success of the Company, while maintaining its standards and commitments in Environmental, Social and Corporate Governance.

*(iii) Is there a sale restriction moratorium for the PSP shares? It is observed that James Toh Ban Leng disposed 400,000 and 206,600 shares on 16 January 2020 and 17 January 2020 respectively before being awarded 25,000 shares on 21 January 2020.*

**Response:**

**3(iii).** There is no sale restriction moratorium for the PSP shares issued in 2019 and 2020. The 400,000 and 206,600 shares disposed by Mr. James Toh on 16 January 2020 and 17 January 2020 respectively were held by Orion Phoenix since 2011 and distributed to him in March 2018.

**Q4.** *In the Corporate Governance Report, it was stated that the Board, including the Nominating Committee (“NC”) have reviewed the independence of Mr. Basil Chan and Mr. Adrian Chan with particular regard to the Guideline 2.1 of the Code of Corporate Governance which suggests a rigorous review of directors whose tenure exceeds 9 years (page 51).*

*On page 166, in the table showing the additional information on directors seeking reelection, Mr. Adrian Chan Pengee’s date of appointment was disclosed as 1 October 2017. Thus, it was not clear why Mr. Chan’s independence was subject to a rigorous review.*

*Long-standing shareholders would be familiar with Mr. Adrian Chan Pengee as Mr. Chan had served on the Board as an independent director from 22 December 2006 to 29 April 2015 before returning to the Board as independent director on 1 October 2017.*

*In the notice of cessation dated 27 April 2015, the reason given by Mr. Chan was that he decided to make way for succession planning purposes and to enable the Board to be refreshed, after serving on the Board for more than 8 years.*

*(i) Would the NC help shareholders understand if it has leveraged on professional search firms when looking for appropriate director candidates? Doing so may enable the company to cast its net wider and further improve the diversity of the candidate pool.*

*(ii) Would Mr. Chan help shareholders understand the changes in the circumstances that led him to rejoin the Board as he had retired in 2015 for succession planning purposes and to enable the Board to be refreshed?*

**Response:**

**4(i).** The Company and NC did not engage any professional search firms when looking for appropriate director candidates. Suitable director candidates are normally found by way of industry contacts and introduction. The preference of the NC and Board is to have directors who possess industrial or semiconductors background and knowledge.

**4(ii).** In 2017, the Company started to experience high business growth, investor relations and merger and acquisition activities. Mr. Loke was therefore re-designated to become Executive Chairman on 1 October 2017. The Board had only 4 directors at that point and the directors were familiar with the quality of advice and knowledge of Mr. Adrian Chan, thus, he was invited back to be a member of the Board.

In addition, the Company has stated that the schedule for Board and Board committee meetings is firmed up before the end of each financial year for the following year to allow directors to arrange their schedules accordingly.

**Table 1 – Attendance at Board and Board Committee Meetings**

The attendance of the directors at the scheduled Board and Board Committees meetings during the year is as follows:

| Name of Director                  | Board           |            | Audit and Risk Management Committee |            | Remuneration Committee |            | Nominating Committee |            |
|-----------------------------------|-----------------|------------|-------------------------------------|------------|------------------------|------------|----------------------|------------|
|                                   | No. of meetings | Attendance | No. of meetings                     | Attendance | No. of meetings        | Attendance | No. of meetings      | Attendance |
| Loke Wai San (Executive Chairman) | 5               | 5          | NA                                  | NA         | NA                     | NA         | 1                    | 1          |
| Adrian Chan Pengee                | 5               | 4          | 4                                   | 4          | 4                      | 4          | 1                    | 1          |
| Basil Chan                        | 5               | 5          | 4                                   | 4          | 4                      | 4          | 1                    | 1          |
| James Toh Ban Leng                | 5               | 4          | 4                                   | 4          | 4                      | 4          | NA                   | NA         |
| Loh Kin Wah                       | 5               | 5          | NA                                  | NA         | NA                     | NA         | NA                   | NA         |
| Lavi Alexander Lev *              | 4               | 4          | NA                                  | NA         | NA                     | NA         | NA                   | NA         |

(Source: company annual report)

As shown in the table above (page 68), two directors, including Mr. Adrian Chan Pengee, attended 4 out of 5 Board meetings. Mr. Chan is also the Lead Independent Director. In the director's profile on page 9, Mr. Chan's other commitments are listed, as follows:

- non-executive chairman of Hong Fok Corporation
- the lead independent director of Yoma Strategic Holdings, Bowsprit Capital Corporation (the manager of First REIT) and Ascendas Funds Management (the manager of Ascendas REIT)
- independent director of Best World International
- a director on Astrea III Pte. Ltd., Astrea IV Pte. Ltd., Astrea V Pte. Ltd. and Azalea Asset Management, wholly-owned subsidiaries of Temasek

Mr. Adrian Chan Pengee is also the Head of the Corporate Department and a Senior Partner at one of Singapore's leading law firms.

(iii) Would Mr. Chan let shareholders know if there were any extenuating circumstances that led him to miss one of the Board meetings? As a senior lawyer and with his extensive list of directorships in 5 other listed companies (including one that is going through an independent review), how does Mr. Chan devote sufficient time, energy and attention to matters of the Group especially since he is also the Lead Independent Director?

**Response:**

**4(iii).** Mr. Adrian Chan missed an ad hoc Board meeting called in December 2019 that was not previously scheduled as he was overseas on a prior scheduled family trip that was unconnected

with his other work commitments. He was separately briefed and provided feedback to the Board before his departure and after his return.

*Additional comment: In the Directors' statement, on page 70, the company has disclosed the following:*

We are pleased to submit this annual report to the members of the Company together with the audited financial statements for the financial year ended 31 December 2019.

In our opinion:

- (a) the financial statements set out on pages 81 to 156 are drawn up so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2019 and the financial performance, changes in equity and cash flows of the Group for the year ended on that date in accordance with the provisions of the Singapore Companies Act, Chapter 50 and Singapore Financial Reporting Standards (International); and
- (b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

The Board of Directors has, on the date of this statement, authorised these financial statements for issue.

#### **Directors**

The directors in office at the date of this statement are as follows:

Loke Wai San

Basil Chan

Adrian Chan Pengee

James Toh Ban Leng

Loh Kin Wah

Levi Lav Alexander

(Appointed on 20 March 2019)

*(Source: company annual report; emphasis added)*

*(iv) Would the company clarify if "Levi Lav Alexander" refers to Mr. Lavi Alexander Lev and if the date of appointment of Mr. Lavi Alexander Lev was 1 April 2019 and not 20 March 2019 as indicated in the Director's statement?*

#### **Response:**

**4(iv).** The date of appointment of Mr. Lavi should be 1 April 2019.

**Q5.** *In AEM results briefing in Feb, it was mentioned that the TAM for semiconductor Testers is US\$1200m. (i) Who are the main competitors for low cost ATE and Intelligent Load Boards? (ii) Is the market for these products fragmented with no dominant leaders? (iii) What is the estimated cost savings in adopting AEM's solution versus traditional low cost ATE and Intelligent Load Boards?*

**Response:**

**5(i) and (ii).** Our main competitors in the business of test handlers and semiconductor testers are Teradyne Inc, Cohu Inc., Advantest Corp and Chroma ATE Inc. These companies are listed companies and therefore information about their size and products are readily available.

**5(iii).** Our strategy for acquiring Mu-TEST which offers highly customizable and low-cost testing solutions is to complement our AMPS platform to deliver complete System Level Test (SLT) solutions that cater to the diverse needs of our customers. We believe our solutions offer cost savings to our customers and the amount of cost savings will vary based on the requirement of our customers.

**Q6.** *In the same briefing, it was mentioned that Cable Testers and Vector Network Analyzers has a TAM of US\$500m. (i) Who are the main competitors in these two field? (ii) Are these two markets fragmented with no dominant leaders at the moment? (iii) Is AEM's current solution self sufficient to capture these two markets or additional technical capabilities are required in order to do so?*

**Response:**

**6(i) and (ii).** Our main competitors in the business of TMS are Fluke Corporation, Keysight Technologies Incorporation, Rohde & Schwarz GmbH & Co KG and Anritsu Corporation. These companies are established companies and therefore information about their size and products are readily available.

**6(iii).** The TMS management and technical teams possess the required knowledge and expertise in the field of cable testing and network analysis. The Management is confident of its high-performance testers and solutions that TMS can offer and the result can be seen from the growth in revenue over the last 2 years since we acquired the TMS business unit and the significant customer wins include Huawei.

**Q7.** *Understandably with Covid-19 in place, Singapore and Malaysia has both implemented similar measures in terms of Circuit Breaker and Movement Control Order (MCO). In this case, how much of the workforce (in percentage terms) is working towards the fulfillment of sales orders in Q1, and what is your confidence level of the revenues in the subsequent quarters?*

**Response:**

**7.** The MCO in Malaysia started in late March and the Circuit Breaker in Singapore started on 7 April 2020, therefore the impact on production workforce in 1Q2020 is minimal. On 6 May 2020 the Company raised its sales guidance to S\$430 million to S\$445 million as a result of higher sales orders received.

**Q8.** *What is the management's view if the impact of Covid-19 prolongs further and what steps is the company doing in order to respond to this change in operating environment?*

**Response:**

**8.** As provided in the announcement dated 16 April 2020 regarding an update on the Group's operations, the Company's Singapore and Malaysia operations provide manufacturing services that are part of the essential supply chain. Therefore, during the Circuit Breaker and MCO periods, our Singapore and Malaysia operations are allowed to continue to operate. Under the current classifications and levels of government permissions for essential services, Management believes that the Company will be able to continue to operate despite any prolong Covid-19 situation.

By Order of the Board

Loke Wai San  
Executive Chairman

20 May 2020