

**RESPONSES TO SUBSTANTIAL AND RELEVANT QUESTIONS FOR THE
ANNUAL GENERAL MEETING, COURT MEETING AND EXTRAORDINARY GENERAL MEETING
OF THE COMPANY TO BE HELD BY WAY OF ELECTRONIC MEANS
ON THURSDAY, 28 OCTOBER 2021 AT 11.00 A.M., 11.30 A.M. AND 12.00 P.M.**

RESPONSES TO SIAS QUERIES

The Board of Directors (the “**Board**”) of Avi-Tech Electronics Limited (the “**Company**”) refers to the questions submitted by shareholders prior to the Annual General Meeting, Court Meeting and Extraordinary General Meeting of the Company to be held by way of electronic means on Thursday, 28 October 2021 at 11.00 a.m., 11.30 a.m. and 12.00 p.m. respectively (“**Shareholders’ Queries**”).

The Board further refers to queries from Securities Investors Association (Singapore) on 20 October 2021 (“**SIAS Queries**”).

The Board would like to provide the following responses to the substantial and relevant questions received by the Company and the SIAS Queries:

Shareholders’ Queries

Q1. What is the principle objective of the corporate restructuring?

The corporate restructuring exercise (“**Restructuring**”) is a risk management initiative to interpose Avi-Tech Holdings Limited (“**NewCo**”) as a new holding company between the Shareholders and the Company.

The Restructuring enables the establishment of a corporate structure where:

- (a) NewCo (which is an investment holding company with no business operations) becomes the listed vehicle in place of the Company and holds one hundred per cent. (100%) of the issued share capital of the Company; and
- (b) the Company ceases its function as the listed vehicle within the NewCo Group (as defined in the Scheme Document) and continues as the operational company carrying out the existing Business (as defined in the Scheme Document).

For more details on the rationale for the restructuring and the scheme, please refer to paragraph 3.6 of the section entitled “Letter from the Board to the Shareholders” on page 19 of the Scheme Document.

Q2. How does the restructuring works and what are the benefits?

The rationale for the restructuring and the scheme has been set out in paragraph 3.6 of the section entitled “Letter from the Board to the Shareholders” on page 19 of the Scheme Document.

Also, the Company had posted the rationale and proposed organisation chart for the restructuring exercise on 24th February 2020, which is accessible at this weblink: http://avitech.listedcompany.com/newsroom/Restructuring_Exercise_Appendix.pdf

SIAS Queries

Q1. As disclosed in the letter to shareholders, revenue for the financial year ended 30 June 2021 saw a marginal decline of 0.2% from \$29.4 million to \$29.3 million. Revenue from Singapore accounted for 31.8% of the group's total revenue, down from 58.5%. Specifically, revenue from the group's burn-in services decreased significantly from \$11.1 million in FY2020 to \$6.7 million in FY2021. In the operations review (page 14), the company has explained that the weaker performance of the business segment was due to lower demand for burn-in services arising from manufacturing disruptions caused by the global semiconductor chip shortage.

(i) How much visibility does management have for its burn-in services? Has management estimated the negative impact of the global semiconductor chip shortage on its burn-in services segment for the next 6-12 months? How is management mitigating this challenge?

Our customers consistently provide the Company with forecasts for up to 6 months. Nonetheless, as the development of the COVID-19 pandemic remains unstable, these forecasts may have to be adjusted from time to time to take into consideration disruptions to the global semiconductor supply chain.

While we see efforts by governments around the world to ease up restrictions to resume business, the Company with its strong balance sheet is prepared for the challenges that may result from the worst-case scenarios of the global semiconductor chip shortage.

The Company will continue to be disciplined in cost management and at the same time, take this opportunity to invest in our staff and position the Company so that we can capitalise on any opportunities which may come our way once the economy recovers.

(ii) What was the utilisation rate in the burn-in services segment in FY2020?

The utilisation rate in the burn-in services segment in FY2020 is considered to be average and the Company has capacity to take on more volume.

(iii) Can management elaborate further on its efforts to widen its customer base and to significantly scale up its Burn-In Service Segment?

The Company has been engaging with new and existing business partners who may move their business or product lines to Singapore. At the same time, the Company is exploring other businesses related to semiconductor services to be added to the Burn-In Service Segment. However, due to recurring waves of the COVID-19 infections which has disrupted semiconductor chip production and brought about a semiconductor supply crunch, this has delayed the progress of the Company's efforts on this front.

(iv) How much automation has been introduced in the burn-in services segment?

Our current adoption rate for automation is relatively high at around 90%.

(v) What is the size of the opportunity in the assembly and testing of modules? How well placed is the group to carry out testing of modules?

The Company is in the business of assembling and testing equipment modules used in the front-end semiconductor business. With the Company's experienced employees who continually upgrade their expertise, the Company has a competent workforce to support the Company's growth in this business area.

Q2. The group has ventured into agri-tech in a bid to diversify its revenue. In the letter to shareholders, the group's progress in agri-tech was highlighted:

One exciting area is intelligent and advanced agricultural systems which leverages on technology to attain exponential leaps in productivity. We have begun applying our deep turnkey integration and engineering capabilities to this area of advanced farm management systems which has growth potential in land-scare countries such as Singapore (page 5).

(i) Can management elaborate further on the group's experience in agriculture/farm management? How did the group venture into agri-tech? Would management provide shareholders with a holistic overview of the group's entry into agri-tech in a presentation during the AGM?

With the growing emphasis on the impact of global warming and environmental sustainability, the sustainability of the current methods of crops harvesting may become a challenge in the years to come. The Company sees an opportunity to explore the use of technology to mitigate the environmental impact of crops harvesting and the potential to build a business that can generate long term growth.

The Company currently has no plans to venture into farm management. We have invested in and are working closely with local and overseas agricultural experts, companies and higher education institutions in Singapore to explore the use of technology to provide an environmentally sustainable method for crop harvesting, such as providing Advanced Vertical Farms Agri-Tech solutions to local and regional farms, by leveraging on our strengths and expertise in the Electronic Subsystem and Reliability for selected components.

(ii) In addition, please elaborate further on the uses and applications and quantify the addressable market in Singapore.

The vertical farming solution is a fully automated system with robot cars which are able to move around the trays where crops are grown and can accommodate 5 to 10 tiers depending on the crops which are grown. As the vertical farming solution has a fully automated feature, it allows for better utilisation of space, and has a fully controlled environment setting so the user does not have to worry about the weather or climate or the sustainability of harvest.

The Singapore Government is supportive of growth in this sector and in the Singapore Budget 2021, the Singapore Government, through the Singapore Food Agency, has established a \$60 million Agri-Food Cluster Transformation (ACT) Fund to support the transformation of the agri-food sector into one that is highly productive, climate-resilient and resource-efficient. With the government leading the way, we believe that the growth prospects for this business area are promising. We also have plans to expand regionally in respect of the vertical farming solution.

(iii) Has the board set a limit to the amount of capital to be invested in agritech?

Generally, when the Board's approval is sought for an investment, it is the Company's practice and in accordance with good corporate governance to indicate the investment sum in the business proposal provided to the Board which will detail the business plan, objectives, participation rate and the sum of investment.

As detailed on page 51 of the Company's annual report in respect of FY2021 ("**Annual Report**"), any proposed investment will be subject to identification, assessment, management, reporting and monitoring of risks in accordance with the Company's Risk Governance and Internal Control ("**RGIC**") framework, which sets out, *inter alia*, the Board's approved Risk Appetite and Risk Tolerance guidance in the context of evaluating targets for M&A.

Nonetheless, the investment sum for a project or partnership can be increased subsequently subject to further Board's approval being obtained in accordance with the RGIC framework. Any proposed increase in the investment sum will be based on updates on the development of such project or

partnership, the financial position of the Group at that point in time, and considerations on the best allocation and utilisation of the Company's excess funds, among other considerations.

(iv) Would the investment into agricultural systems significantly alter the risk profile of the group?

The Company's agriculture-related investment is still at an early stage, and hence the Company's capital commitment and revenue contribution are negligible at this point in time and will not alter the risk profile of the group, which remains primarily in the semiconductor industry.

In addition, the group has invested \$500,000 in Movel AI Pte Ltd for a 9% stake. Revenue increased to \$230,000 although losses widened from \$(343,000) to \$(680,000) in FY2021. The carrying amount of Movel AI has been reduced to \$410,000.

(v) What are the criteria used by the board/management in shortlisting and investing in new businesses/start-ups?

In general, beside looking at whether the potential yield returns of an investment are short term or long term, the Board and Management of the Company will also consider how the investment contributes to other objectives of the Company, including: -

- i) Business Synergy, which includes generating more customers for the group, eliminating competition, fostering strategic partnerships;
- ii) Acquisition of new technology; and
- iii) Growth in terms of the long term prospects of the group.

In particular, under the Company's RGIC framework, considerations include assessing the amount of free cash that can be deployed for such investment and recognising the Group's overall risk appetite and tolerances; whether the investment is aligned with and generate further value to the Group's core businesses; and whether the investment is aligned with the overall strategy for the Group's core businesses over the next 12 months.

(vi) Has the Board considered right-sizing its balance sheet and returning excess cash to shareholders?

The Board does not have immediate plans to right-size its balance sheet and return excess cash to shareholders. As previously announced by the Company in its periodic results announcements, the Company is actively seeking new business opportunities and as the Company is a going concern, the Board has taken into consideration the need to retain sufficient funds to cater to the potential implementation and completion of such proposed business opportunities.

Nonetheless, the Company believes in sharing its profits with shareholders and has consistently paid dividends to shareholders over the past years. Please refer to page 66 of the Annual Report on the Company's current policy on payment of dividends.

The Company has in fact declared and paid out dividends in respect of FY2008, FY2009, FY2010, FY2011, FY2015, FY2016, FY2017, FY2018, FY2019, FY2020 and will be declaring dividends in respect of FY2021.

Q3. In October 2019, the company was one of the first listed companies on SGX to carry out a two-tier voting for the continued appointment of Mr Khor Thiam Beng as an independent director before Rule 210(5)(d)(iii) of the Listing Manual comes into effect on 1 January 2022.

Mr Khor received 99.99% of the votes in October 2019. At the annual general meeting scheduled to be held on 28 October 2021, Mr Khor would be seeking his re-election and his continued appointment as independent director by a two-tier vote.

In fact, all the independent directors of the company, namely Mr Khor Thiam Beng, Mr Michael Grenville Gray and Mr Goh Chung Meng, have served on the board for more than 9 years from the respective date of his first appointment. The directors were appointed on 30 October 2006, 30 October 2006 and 16 October 2001 respectively.

The nominating committee (NC) comprises Mr Goh Chung Meng (chairman), Mr Khor Thiam Beng and Mr Michael Grenville Gray.

(i) With all three long-tenured non-executive directors forming the NC, how effective and independent is the NC, especially in its role to review the succession plans for directors and the review of the independence of each director?

(ii) What deliberations did the NC have on the need for the progressive renewal of the board (Principle 4 of the Code of Corporate Governance 2018)?

In determining the independence of each Independent Director, the Company takes guidance from the requirements set out in Rule 210(5)(d)(i) and (ii) of the Listing Rules and also the guidelines set forth in the Code of Corporate Governance 2018 ("**Code**"), which includes Provision 2.1 and Practice Guidance 2 to the Code.

As detailed on pages 30 to 32 of the Company's Annual Report, each Director is requested to disclose to the Board if there is any relationship with the Company, its related corporations, its 5% shareholders or its officers that could interfere, or be reasonably perceived to interfere, with the exercise of the Director's independent business judgement with a view to the best interests of the Company (the "**Associated Relationships**"), as and when it arises. Each of Mr Khor Thiam Beng, Mr Michael Grenville Gray and Mr Goh Chung Meng has confirmed that he has no Associated Relationships.

Each of Mr Khor, Mr Gray and Mr Goh has also disclosed that he is not, nor has any of his immediate family members:

- (i) in the current financial year or immediate past financial year, provided to or received from the Company or any of its subsidiaries any significant payment or material services (which may include auditing, banking, consulting and legal services), where such payments or services aggregated over any financial year is or was in excess of S\$50,000, other than Directors' fees received by Mr Khor, Mr Gray and Mr Goh (after obtaining shareholders' approval) for board service; and
- (ii) in the current financial year or immediate past financial year, is or was a substantial shareholder or a partner in (with 5% or more stake), or an executive officer of, or a director of, any organisation which provided to or received from the Company or any of its subsidiaries any significant payments or material services (which may include auditing, banking, consulting and legal services), such payments or services aggregated over any financial year is or was in excess of S\$200,000.

Each of Mr Khor, Mr Gray and Mr Goh has also disclosed that:

- (a) he is not, and has not been employed by the Company or any of its related corporations for the current financial year or any of the past 3 financial years; and
- (b) none of his immediate family members are or have been employed by the Company or any of its related corporations for the current financial year or any of the past 3 financial years, and whose remuneration is or was determined by the Remuneration Committee of the Company.

Each of Mr Khor, Mr Gray and Mr Goh has served on the Board for more than 9 years from the respective date of his first appointment. As such, the Board rigorously reviewed their independence in conduct, character and judgement, including determining whether any of the Directors have any Associated Relationships. This review included an assessment by all the other members of the Board of the independence of judgement of Mr Khor, Mr Gray and Mr Goh, in view that they have each served on the Board for more than 9 years. The Board also took into consideration and is highly conscious that these Directors have in their conduct and in the discharge of their duties throughout their respective appointment, continuously and constructively challenged management on business decisions, continued to demonstrate strong independence in character and judgement and have remained objective in the discharge of their respective duties and responsibilities.

In addition, it was noted that each of Mr Khor, Mr Gray and Mr Goh had diligently carried out their roles and discharged their duties in a professional and objective manner, and ensuring the exercise of independent judgement in their views on sensitive matters.

The Company is therefore of the view, that notwithstanding the long tenure of Mr Khor, Mr Gray and Mr Goh, who are all members of the Nominating Committee (NC), each of the Independent Directors continue to exhibit effective independence in the manner as prescribed under and guided by the relevant provisions of the Code, the Listing Manual and the rigorous review of their independence in conduct, character and judgement, including determining whether any of the Directors have any Associated Relationships.

The Board recognises that over time, an Independent Director will develop a deeper understanding of the Group's business and operations, and despite having served an increasing number of years, or beyond 9 years, an Independent Director can still continue in the role to provide significant and valuable contribution to the Board as a whole, and as an independent and objective check on management. The Board also recognises the value in maintaining the asset of the continuity of deep understanding of the Group's business and operations in its Directors.

As detailed on page 35 of the Annual Report, the Board has also considered that the present composition of the Board and of each Board committee provides an appropriate balance and mix of skills, knowledge, experience and other aspects of diversity, taking into account the nature and scope of the Group's operations, requirements of the business and the need to avoid undue disruptions from changes to the composition of the Board and Board committees.

The Company has therefore weighed the need for Board refreshment against tenure, against the continued effective independence of each Independent Director, against the present composition of the Board and mix of skills, knowledge, experience and other aspects of diversity, and against the value in maintaining the asset of the continuity of deep understanding of the Group's business and operations in its Directors, and the Board has determined that the current composition, mix and size of the Board continues to be appropriate to serve the needs of the Company.

As a safeguard, for good corporate governance practice, and notwithstanding that Rule 210(d)(iii) of the Listing Manual has yet to come into force, the Company has been requiring independent shareholders' approval for the continued appointment of its Directors as Independent Directors, since the Company's annual general meeting in respect of FY2019.

The Board recognises the importance for progressive renewal of the Board and as detailed on page 36 of the Annual Report, the NC will take steps to conduct an annual review to assess if the existing attributes and core competencies of the Board are complementary and will continue to enhance the efficacy of the Board; and an annual evaluation by the Directors of the skill sets the other Directors possess, with a view to understanding the range of expertise which is lacking by the Board.

The NC will consider the results of these exercises in its recommendation for the appointment of any new Directors and/or the re-appointment of incumbent Directors.

(iii) The company is cognisant that it has deviated from Provision 2.4 of the 2018 CG Code 2018 which requires a formal board diversity policy. What is the reason that the company has not formalised a written board diversity policy?

Notwithstanding there was no written board diversity policy, the Board still undertook the relevant processes as described above in determining that the current composition, mix and size of the Board continues to be appropriate to serve the needs of the Company.

The Board is however in the process of formalising a written board diversity policy to make further progress in setting up written objectives for promoting and achieving diversity on the Board and making recommendations for consideration and approval by the Board.

(iv) In addition, has the board considered appointing independent directors with experience in burn-in, PCBA, robotics, AI or agri-tech?

While the Company is open to appointing independent directors with experience in these areas, the Company believes that experience in such areas is more relevant to key executive appointments such as executive directors and executive officers. The CEO and Executive Director, Mr Lim Eng Hong, is well supported by an executive team, who have relevant experience in such areas and/or have industry knowledge and experience to develop their skills in such related areas. The Company is also guided by the Independent Directors who have long standing experience in the corporate field with significant experience in publicly listed companies. The diversity of thought and background in the existing Board composition, with wide spectrum of knowledge and skills, enables strategic discussions and effective debates over key corporate matters.

BY ORDER OF THE BOARD

Khor Thiam Beng
Non-Executive Chairman &
Independent Director
27 October 2021