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Issuer: Avi-Tech Holdings Limited

Stock code: 1R6

Meeting details:

Date: 30 Oct 2023

Time: 11.00 a.m.

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

Q1. For the financial year ended 30 June 2023, revenue increased by 13.1% to \$34.9 million boosted by higher revenue from the “Manufacturing and PCBA Services” and “Engineering Services” business segments, and offset by marginally lower revenue in the “Burn-In Services” segment.

- (i) **What challenges did the group encounter in the Burn-In Services business segment that led to a slight revenue decrease from \$6.3 million to \$6.2 million in 2023?**

In June 2022, the group incorporated a wholly-owned subsidiary, Avi-Tech Electronics (Suzhou) Limited, in China to expand its market footprint to better support its customer needs. Based on the disclosure in Note 32 Segment information, revenue from customers based in China amounted to \$4.6 million (2022: \$4.1 million).

- (ii) **Can management help shareholders better understand the impact on the group resulting from the United States imposing restrictions to limit China's access to semiconductor technology, including export restrictions on advanced chips and the sophisticated equipment required for their production?**
- (iii) **Could management provide additional insight into the group's prospects in China? Is the management primarily focused on expanding the manufacturing and PCBA business segment in China?**
- (iv) **What opportunities have been identified and actively pursued by the management in China, and what is the group's competitive advantage in the Chinese market?**
- (v) **Does the group possess sufficient experience and a network to scale up its business in China? What progress has the group made since establishing Avi-Tech Electronics (Suzhou) Limited in June 2022? Have the chief executive officer or chief operating officer relocated to China to actively drive the group's growth? If not, who is tasked with growing the group's operations in China?**

As shown in Note 32 (page 122; Segment information: Information about major customers), details of the major customers are as follows:

- Customer A: a major customer from the Burn-in Services business segment and Manufacturing and PCBA Services business segment with sales of \$10.0 million (2022: \$9.1 million)
- Customer B: a major customer from the Manufacturing and PCBA Services business segment with sales of \$3.6 million (2022: \$Nil)
- Customer C: a major customer from the Engineering business segment with sales of \$6.3 million (2022: \$5.9 million)

- (vi) **Do customers exhibit a high degree of “stickiness”? What strategies does management employ to increase the wallet share of its major customers?**
- (vii) **Separately, on the sustainability front, has the group installed solar panels at its Serangoon North site as it has identified the cost of electricity as a key factor that affects the profitability of the group’s Burn-In Services operations?**

Q2. The company made a \$500,000 investment in Movel AI during FY2020, acquiring a 9% stake. The associate generated revenues of \$230,000 in 2021, \$265,000 in 2022, and \$168,000 in 2023. Notably, the financial status of the associate shifted from a net asset position of \$1.1 million in 2020 to a net liabilities position of \$(373,000) in 2023.

On 2 October 2023, the associate announced on its website that it has successfully closed its latest investment round from strategic investors¹. The round was led by Silicon Solution Ventures (SSV) and joined by JR Kelmscott, SEEDS Capital, Siix-AGT Medtech, Miltonia Investments, and Ngen Capital (Group) AG.

This “*substantial influx of funds*” will allow Movel AI to accelerate its product development and it aims to unveil Seirios FMS 2.0 later this year. Seirios FMS 2.0 is an advanced and comprehensive mobile robot fleet management system, designed to address the challenges of robot integration and interoperability.

- (i) **What were the factors taken into account by the board/management when deciding on the group's involvement in the most recent funding round? What is the current post-money valuation of Movel AI, and can this round be characterised as an “up round”?**
- (ii) **Can management elaborate further on the strategic intent of the company’s investment in Movel AI?**
- (iii) **With the latest funding round, can management confirm that it continues to have significant influence over Movel AI?**
- (iv) **What is the strategy for exiting or monetising the investment in Movel AI?**
- (v) **Separately, out of the group’s total assets of \$59.4 million, \$26.4 million (or 44%) has been placed in fixed deposits (2022: \$28.5 million). Would the board consider a return of capital to shareholders to allow them to make their own capital allocation decisions?**

¹ <https://news.movel.ai/successful-closure-of-our-latest-investment-round>

Q3. As noted in the corporate governance report, Mr Lim Eng Hong, the CEO of the company, was appointed as the executive chairman of the board with effect from 27 October 2022 following the cessation of Mr Khor Thiam Beng as the independent non-executive chairman at the AGM held on 27 October 2022.

With all due respect to Mr Lim Eng Hong, Provision 3.1 of the Code of Corporate Governance 2018 issued by the Monetary Authority of Singapore states that the chairman and the chief executive officer (“CEO”) are to be separate persons so as to ensure an appropriate balance of power, increased accountability, and greater capacity of the board for independent decision making.

With the appointment of the CEO of the company as the board chairman, the company has deviated from the CG Code 2018. The company’s disclosure on the matter can be found on pages 37 and 38 of the annual report.

- (i) **Can the board, especially the nominating committee (NC), help shareholders better understand the deliberations it has had regarding the appointment of a successor to the former independent chairman, particularly in light of the stipulations of Provision 3.1 of the CG Code 2018? What specific criteria were employed in the process of selecting and appointing the board chairman? Were any candidates shortlisted and subjected to interviews?**

The NC further stated in the corporate governance report that “... vesting the roles of both chairman and CEO in the same person who is knowledgeable in the business of the group provides strong and consistent leadership and enables the effective planning and execution of long-term business strategies. (page 38)”

- (ii) **Were there any challenges encountered by the board and the group during the period when it had an independent chairman from 2006 to 2022?**

It is noted that Mr Michael Grenville Gray was appointed to the board on 30 October 2006 and has served on the board for nearly 17 years. In addition, Mr Lim Eng Hong is the founder of the group and is the largest shareholder with over 36% (direct and deemed) interest in the company.

- (iii) **Other than the appointment of Mr Michael Grenville Gray as the lead independent director, what are the other safeguards put in place by the board?**
- (iv) **In the opinion of the NC, how did it assess the impact of appointing the CEO as the executive chairman on the balance of power, level of accountability and capacity of the board for independent decision making?**



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