WILLAS-ARRAY ELECTRONICS (HOLDINGS) LIMITED
威雅利電子(集團)有限公司
(Incorporated in Bermuda with limited liability)
(Hong Kong stock code: 854)
(Singapore stock code: BDR)

RESPONSES TO SUBSTANTIAL AND RELEVANT QUESTIONS RECEIVED FROM SHAREHOLDERS AND THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE) IN RESPECT OF THE ANNUAL GENERAL MEETING TO BE HELD ON JULY 28, 2020

The board of directors (the "Board") of Willas-Array Electronics (Holdings) Limited (the "Company" and together with its subsidiaries, the "Group") refers to (i) the circular of the Company dated June 26, 2020 (the "Circular"); (ii) the notice of the annual general meeting of the Company dated June 26, 2020; and (iii) the checklist contained in the joint statement by the Accounting and Corporate Regulatory Authority, Monetary Authority of Singapore and Singapore Exchange Regulation dated April 13, 2020 (and updated on June 22, 2020) (the "Additional Guidance Checklist").

Unless the context otherwise requires, capitalized terms used in this announcement have the same meaning as defined in the Circular.

In accordance with point 3.2 of the Additional Guidance Checklist, the board of directors and/or management of a company must, among others, address all substantial and relevant questions submitted by shareholders and members prior to, or at, the general meeting of that company. Accordingly, the Company sets out herein the substantial and relevant questions that it has received from shareholders as at 9:30 a.m. on July 24, 2020 and the accompanying responses of the Company.

In addition, the Company has received certain questions from the Securities Investors Association (Singapore) ("SIAS") in relation to the Company's annual report for FY2020 (the "Annual Report"). The Company's responses to SIAS' questions are also set out below.

Questions from Shareholders

1. *Refer to Note 26 page 155 of annual report 2019/20, "As at March 31, 2020, included in the Group's net trade receivables balance are debtors with aggregate carrying amount of HK$183,572,000 (2019: HK$187,650,000) which are past due as at the reporting date. Out of the past due balances, nil (2019: HK$22,942,000) has been past due 90 days or more and is not considered as in default as the balances were related to customers with sound repayment history and no recent history of default. The Group does not hold any collateral over the balance."*

    (i) *Can management help shareholders understand the profile of the major debtors with long-outstanding receivables?*

    Company's response: The major debtors with long-outstanding receivables mainly belong to the Automotive and Telecommunications segments. For completeness, the net trade receivables amount of HK$183,572,000 which was past due as at March 31, 2020 has since been fully settled.

    (ii) *What improvements have the Group made to its credit control?*

    Company's response: The Group conducts its customers' credit checks regularly and monitors their repayment track record as well as other relevant information such as financial information and external credit report. In order to reduce credit risk, we have increased the credit review frequency and tightened the credit limit whenever appropriate. Furthermore, to secure adequate credit insurance coverage, we actively seek new potential credit insurance companies to provide coverage for the Group's customers.

(iii) *Is there a sign that credit quality has deteriorated significantly due to the pandemic?*

Company's response: The global spread of the coronavirus disease 2019 ("COVID-19") has impacted commercial and manufacturing activities in many economies, pushing the world's economy towards a recession. As the Group is not directly involved in the sectors most severely affected by COVID-19, our debtors turnover days remained at 2.5 months as at March 31, 2020, which was the same as March 31, 2019. Nevertheless, the pandemic has caused severe supply chain and business disruptions, which has affected our customers' earnings and in turn their financial strength. In addition, some customers have requested for extensions on the payment period, hence we are expecting a longer payment cycle. Overall, while the credit quality of the Group's customers has been affected due to the pandemic, it has not deteriorated significantly.

(iv) *Out of the HK$183 million receivables past due, how much of the receivables has been collected?*

Company's response: The net trade receivables amount of HK$183,572,000 which was past due as at March 31, 2020 has since been fully settled.

2. *Refer to Note 20, Investment property, "During the year, a residential apartment has been classified and accounted for as investment property since date of change in use, and are measured using the fair value model. The fair value of the property at the date of transfer amounted to HK$8,522,000."*

(i) *May the board elaborate why there was a change in use of this property? What was the property previously used?*

Company's response: This property in Shanghai was previously used as staff quarters. Since the usage rate is low, the Board decided to lease out the apartment to earn rental income so as to increase the value generated by the property to the Group.

(ii) *Has the property been leased out? If it is, what is the expected annual rental income?*

Company's response: The property was leased out in July 2019 with a yearly rental income of RMB240,000.

(iii) *What is the plan for this investment property? Hold permanently for leased or for sale?*

Company's response: The Group intends to hold such property for leasing in the medium-term.

3. *Refer to chairman statement on page 9 "Meanwhile, in response to the downside risks and overall bearish macro-environment, we have taken several measures, including further tightening our costs and expenses."*

   May the chairman elaborate on what are cost and expenses tightening measures due to the uncertain macro-environment?

   Company's response: In view of the uncertain macro-environment, we have reduced our headcount and implemented measures to control daily administrative expenses including (i) review and negotiate with existing service providers/suppliers/vendors to reduce expenses as much as possible; and (ii) monitor all expenses to prevent unnecessary expenditure.

4. *Page 4, Financial highlights, "Profit (loss) attributable to shareholders", out of the 5 financial years from FY2016 to FY2020, the company has suffered 3 profit losses (FY2016, FY2019-FY2020) and 2 (FY2017-FY2018) profit gains.*

   Has the board and management thought of the measures to counter such volatility in business performance and grow shareholders' funds?

   Company's response: In view of the current situation, the Group will continue to focus its efforts and resources on China as we see high potential and long-term yields in its domestic consumer market. We have developed our network and technical capabilities in three major segments – Automotive, Home Appliance and Industrial – that are supported by China's strong domestic demand. We believe the long-term prospects of these three segments are positive and will generate stable returns for the Group.

   At the same time, the Group will continue to be prudent in managing its resources and expenses to ensure that our operations remain sustainable to tide over the uncertain business environment.

5. *With the uncertain business environment due to pandemic, would the board provide a brief update on the performance and outlook for Q1FY2021 for Willas Array?*

   Company's response: On July 9, 2020, we disclosed via SGXNet that based on the Board's preliminary assessment of the unaudited consolidated management accounts of the Group for the three months ended June 30, 2020 ("1Q FY2021") (the "Unaudited Management Accounts"), it is expected that the Group is likely to record a consolidated net profit of approximately HK$6.5 million for 1Q FY2021 as compared to a consolidated net loss of approximately HK$24.6 million for the three months ended June 30, 2019 ("1Q FY2020").

   The expected consolidated net profit is mainly attributable to the following factors:

   i. no stock provision would need to be made in 1Q FY2021 while a stock provision of approximately HK$8.3 million for slow-moving inventories was made in 1Q FY2020;

   ii. there was a substantial decrease in staff costs due to lower average headcount as compared to 1Q FY2020;

   iii. there was a decrease of travelling expenses due to the outbreak of the COVID-19 pandemic and the subsequent quarantine measures as well as travel restrictions imposed by the governments of various countries/districts when compared with 1Q FY2020; and

   iv. there was no significant exchange difference in 1Q FY2021 whereas there was an exchange loss of approximately HK$9.7 million arising from the depreciation of the Renminbi in 1Q FY2020.

   As the Company is in the process of preparing and finalising the Group's results for 1Q FY2021, Shareholders are advised to read the Company's announcement of the 1Q FY2021 Results in detail once it is available.

6. *How did the COVID-19 restrictions impact your operations in Hong Kong and China? How much of your operations have resumed?*

   Company's response: The COVID-19 restrictions impacted the mobility of our sales and marketing teams in Hong Kong and China. However, through video and audio conferencing solutions, our teams could continue to conduct meetings and discussions with customers and suppliers. With virtual meetings rapidly becoming the new normal, the Group has also looked at improving the efficiency and effectiveness of such meetings.

   In addition, the Group's local China team has gradually resumed business operations and is actively travel to visit customers and suppliers. Likewise, the Hong Kong team is ready to resume operations inside local China including physical meetings with customers and suppliers once restrictions are lifted.

7. *How has the outlook for the Automotive segment changed, compared to 3 months ago?*

   Company's response: According to the figures provided by the China Association of Automobile Manufacturers ("CAAM"), in respect of Q2 2020 (Apr-Jun 2020), China car sales was 6.56 million units, which is a 77.9% quarter-on-quarter growth compared to Q1 2020 (Jan-Mar 2020), and a 11.5% growth compared to last year Q2 2019 (Apr-Jun 2019). This is a strong indication of pent-up demand following the COVID-19 lock-down measures. CAAM projected that the momentum would continue under the expectations that the Chinese Government would launch incentive programmes[1]. In view of this, the Group intends to continue to deploy more resources into this segment.

8. *How has the outlook for the Telecommunications segment changed, compared to 3 months ago?*

   Company's response: According to the latest figures by China Internet Watch, China's smartphone shipments in the first 6 months of 2020 declined by 16% year-on-year[2], and shows no signs of near-term recovery. In addition, International Data Corporation recently forecast the total worldwide smartphone shipments in 2020 will drop by 11.9%[3]. This segment is expected to feel the combined impact of weak consumer confidence due to COVID-19 and the delay of the 5G launch. The Group intends to put more resources into the Automotive, Home Appliance and Industrial segments to partially offset the weaker Telecommunications segment.

Questions from SIAS

1. *As noted in the chairman's statement, with nearly four decades of experience, the group has weathered at least two financial crises (in 1997 and 2008) and one health crisis (SARS in 2003). It was stated that the group always came away with important lessons that enabled it to improve and become more efficient so that the group is better prepared for whatever the future brings. This includes building up strong reserves during good times so that it can sustain the group during difficult times and managing the operations and resources stringently.*

   However, in the financial year ended 31 March 2020, several large orders were cancelled as a result of customers' project delays and cancellations (page 8 of the annual report). This in turn led the group to hold excessive inventories and buffer stocks and large amounts of aging inventory. Management was diligent on clearing its excess stock and successfully reduced its inventories from HK$689.9 million as at March 31, 2019 to HK$375.1 million as at March 31, 2020.

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1. "2020年6月汽車工業經濟運行情況", China Association of Automobile Manufacturers, July 10, 2020
(http://www.caam.org.cn/chn/3/cate_17/con_5231057.html)
2. "China smartphone shipments down 16% in the first half of 2020" by China Internet Watch Team, July 14, 2020
(https://www.chinainternetwatch.com/30902/mobile-phone-shipments/?utm_source=email&utm_medium=Social&utm_campaign=SocialWarfare)
3. "IDC Expects Worldwide Smartphone Shipments to Plummet 11.9% in 2020 Fueled by Ongoing COVID-19 Challenges", International Data Corporation, June 3, 2020
(https://www.idc.com/getdoc.jsp?containerId=prUS46466720)

For FY2020, the group recorded a loss attributable to owners of the company of HK$(72.6) million in FY2020.

(i) Would management elaborate further on the group's inventory/stocking policy?

Company's response: As a key channel partner for our customers and suppliers, we must be able to support their respective production needs and requirements. To that end, we plan our inventory volume to ensure that we are able to meet market demands while ensuring that we adhere to our internal risk management guidelines. However, as the market can be unpredictable, we are constantly monitoring our stock levels to ensure we remain flexible enough to quickly respond to any change of requirements.

(ii) In particular, what safeguards are there to ensure that the group does not face undue inventory risks when customers belatedly cancel their orders?

Company's response: We are selective in the customers we take on and we endeavour to take adequate measures to mitigate inventory risks. For example, with specific or custom products, we will negotiate a non-cancellable agreement with our customers. In addition, we have flexibility on rescheduling and cancellation arrangement with our suppliers.

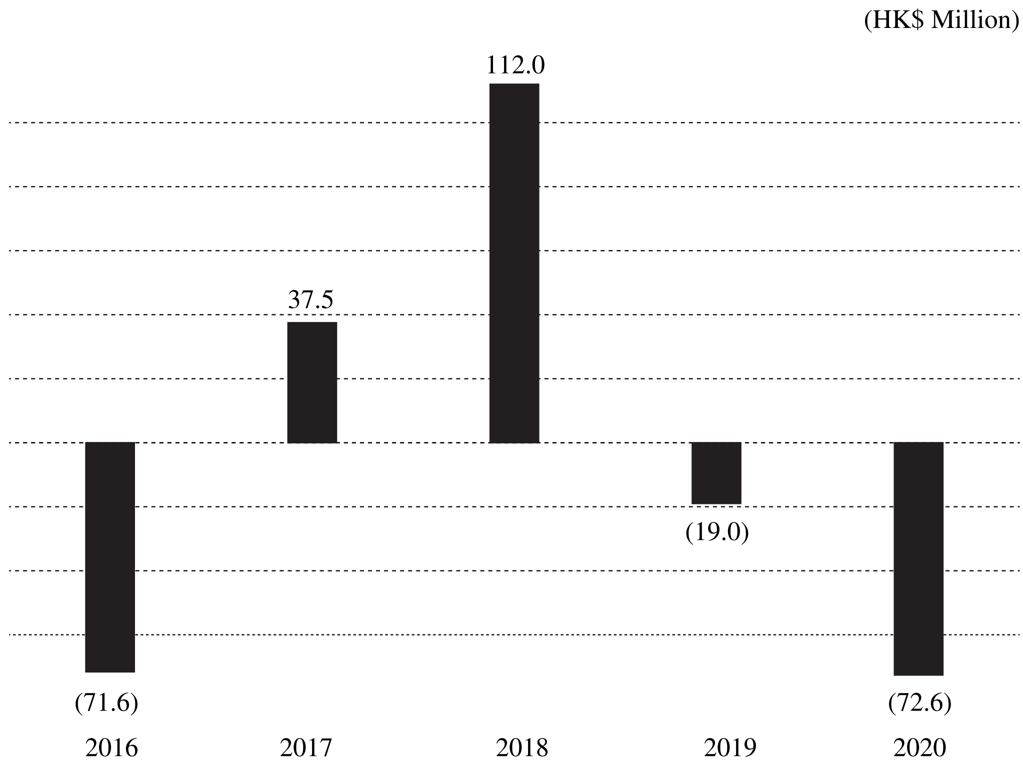
(iii) The group also recognised impairment losses of HK$24 million in FY2020 (FY2019: HK$8.8 million) (before trade credit insurance). Would the board, especially the audit committee, be reviewing the group's credit risk framework? Given the disruption to businesses caused by the pandemic, what changes has management made to the group's credit risk assessment?

Company's response: To clarify, the Group recognised net impairment losses of HK$13 million (impairment of HK$24 million minus income received from trade credit insurance of HK$11 million (page 136 of the Annual Report) in FY2020 (FY2019: HK$8.8 million), and not HK$24 million.

The Group has an existing team responsible for credit control practices including determining the credit limit, credit approval and follow-up action to recover overdue debts. Moreover, the Group has also insured certain trade debtors with credit agencies. The Board is closely monitoring the reports from the team to ensure timely action is taken to mitigate losses. Given the disruption to businesses caused by the pandemic, the Board has further enhanced the effectiveness of the monitoring process by identifying and keeping a close watch on debtors with large outstanding amounts.

(iv) *As shown in the financial highlights (page 4; reproduced below), loss attributable to shareholders was HK$ (72.6) million in 2020. Over a five-year period, the group made a cumulative loss of HK$ (13.7) million. Has the board assessed the performance of the group and is the board satisfied with the long-term performance achieved by management?*

PROFIT (LOSS) ATTRIBUTABLE TO SHAREHOLDERS



Company's response: The performance of the Group in the past 5 years was a reflection of market conditions including uncertainty in US-China trade relations as well as rapidly changing trends in our key segments. As a Group with more than 40 years of history, we remain very focused on our long-term strategy to develop and capitalise on growth sectors while reinforcing risk controls and keeping an eye out for short term volatility. Our management is keenly aware of the current business environment and we will continue to focus on our strength on the China market to develop higher value-added return business to drive future growth.

2. *As shown in the management discussion and analysis section, the home appliance and automotive segments were the bright sparks in FY2020, increasing by 18.8% and 8.4% respectively. The telecommunications segment experienced the greatest decrease in absolute and relative terms, slipping by HK$403 million or 59%.*

Revenue by Market Segment Analysis

	FY2020		FY2019		Increase/(Decrease)	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Industrial	**879,670**	**27.7%**	979,314	26.5%	(99,644)	(10.2%)
Home Appliance	**643,635**	**20.3%**	541,679	14.7%	101,956	18.8%
Automotive	**485,697**	**15.3%**	448,141	12.1%	37,556	8.4%
Dealer	**286,188**	**9.0%**	356,319	9.7%	(70,131)	(19.7%)
Telecommunications	**280,189**	**8.8%**	682,676	18.5%	(402,487)	(59.0%)
Electronic Manufacturing Services ("EMS")	**210,516**	**6.6%**	216,503	5.9%	(5,987)	(2.8%)
Audio and Video	**204,177**	**6.4%**	256,787	7.0%	(52,610)	(20.5%)
Lighting	**114,022**	**3.6%**	104,157	2.8%	9,865	9.5%
Others	**71,165**	**2.3%**	102,251	2.8%	(31,086)	(30.4%)
	3,175,259	**100.0%**	3,687,827	100.0%	(512,568)	(13.9%)

The group has also stated that it is cautiously optimistic in 3 key focus segments, namely Automotive, Industrial and Home Appliance.

(i) Home appliance: Can management elaborate further on the group's strength in inverter application, including any exclusive distributorship or intellectual properties? Management has attributed the increase in revenue in the home appliance segment to the group's product portfolio and engineering capabilities in inverter application.

Company's response: The Group's strength in inverter application lies in the skills and knowledge of our hardware and software engineers. Their technical expertise lends confidence to our suppliers to commit to a partnership with us. At the same time, our engineers work closely with customers to develop inverter solutions that are specific to their needs, which then makes it more difficult for these customers to switch to someone else. The Group is therefore well-positioned to generate long-term returns from our Home Appliance segment.

(ii) *Automotive: Although the Chinese automotive industry achieved lower sales and production quantity in 2019, the group achieved a year-on-year increase in revenue of 8.4% in the automotive segment. Can management help shareholders understand the reasons for its strong performance? What are the products or solutions driving this increase?*

Company's response: Despite the overall decline in industry production quantity, the shift to vehicle electrification has led to a significant increase in electronic content per vehicle. More features and functions are being introduced in vehicles to improve efficiency, comfort, convenience, security, safety, and the overall communication and entertainment experience. This is the driving force behind the Group's strong performance in the Automotive segment.

(iii) *Telecommunications: Given the challenges in the segment, has management made an informed decision to significantly scale back the group's exposure to the telecommunications segment in the near term?*

Company's response: Yes, the Group intends to focus our resources on Industrial, Automotive and Home Appliance segments, being our identified key growth segments.

3. *As disclosed in the Corporate governance report, the board comprises nine members, five of whom are executive directors and four of whom are independent non-executive directors. Mr. Leung Chun Wah, an executive director, is the chairman of the board.*

The company has further stated the following:

During the year, the Board at all times met the requirements of the HK Listing Rules relating to the appointment of not less than three INEDs representing at least one-third of the Board. The Board also complied with the requirement that at least one of such INEDs should possess the appropriate professional qualifications or accounting or related financial management expertise under Rule 3.10 of the HK Listing Rules. Further, the Company has received from each INED an annual written confirmation of his independence pursuant to Rule 3.13 of the HK Listing Rules and the Board is satisfied that all the INEDs were independent and met the independence guidelines set out in Rule 3.13 of the HK Listing Rules throughout the Year or from his appointment date and up to the date of this annual report.

Provisions 2.2 and 2.3 of the Code of Corporate Governance 2018 ("CG Code 2018") are as follows:

Provision 2.2	*Independent directors make up a majority of the board where the chairman is not independent.*
Provision 2.3	*Non-executive directors make up a majority of the board.*

(i) *Would the company elaborate further on how the board's current composition complies with Provisions 2.2 and 2.3 of the CG Code 2018?*

Pursuant to Rule 710 of the SGX Listing Manual, where there are variations from the Provisions of the CG Code, the issuer must explicitly state the provision from which it has varied, provide the reason(s) for the variation, and explain how the practices it had adopted are consistent with the intent of the relevant principle.

(ii) *If not, would the board elaborate with greater clarity how the deviations from Provisions 2.2 and 2.3 are consistent with the intent of the Principle?*

(iii) *As the company has declared its commitment to "good corporate governance practices and procedures" (page 25), would the board be reviewing its current practices, especially the deviations from the Code, and make changes to its practices to better comply with the Code of Corporate Governance 2018?*

Company's response: Principle 2 of the Code of Corporate Governance 2018 (the "CG Code 2018") requires that "*the Board has an appropriate level of independence and diversity of thought and background in its composition to enable it to make decisions in the best interests of the company*". The Company notes that the current Board composition is a variation from Provision 2.2 and Provision 2.3 of CG Code 2018. Notwithstanding the foregoing, the Board is of the view that the intent of Principle 2 has been met based on its current composition as there is sufficient diversity in the skills, experience and knowledge of Board members based on the Company's current size and operations. Taking into account the Board Diversity Policy established by the Company, the independent directors of the Company ("Independent Directors") appointed on the Board come from diverse backgrounds and academic qualifications and collectively, with their accounting, financial management and legal expertise, bring with them varied experiences to contribute effectively to the Board's decision-making process. As part of the Board's decision-making process, thorough discussions are undertaken at Board meetings, with the Independent Directors engaging the Board in constructive debate, and ensuring that proposals put forth to the Board are constructively challenged and rigorously examined. The Board collectively considers all inputs and further endeavours to seek consensus from all directors before proceeding with any decision. In addition, the four key board committees, namely, Audit Committee, Nomination Committee, Remuneration Committee, and Compliance Committee are each comprised of only Independent Directors, which acts as a further check and balance on management in each of these areas of responsibility.

Going forward, the Board will continue to ensure that the Board continues to comprise directors with an appropriate mix of expertise and experience to enable it to make decisions in the best interests of the Company. The Board also has plans for board renewal and orderly succession planning, and will continually review its composition to take into account the recommendations in Provision 2.2 and Provision 2.3 of the CG Code 2018, and will adopt the necessary measures. Such measures may include having some of the existing Executive Directors step down at the appropriate juncture, and/or appointing new Independent Directors, if suitable candidates are identified.

By Order of the Board
Willas-Array Electronics (Holdings) Limited
Leung Chun Wah
Chairman and Executive Director

Hong Kong/Singapore, July 27, 2020

As at the date of this announcement, the Board comprises five Executive Directors, namely Leung Chun Wah (Chairman), Kwok Chan Cheung (Deputy Chairman), Hon Kar Chun (Managing Director), Leung Hon Shing and Leung Chi Hang Daniel; and four Independent Non-executive Directors, namely Jovenal R. Santiago, Wong Kwan Seng, Robert, Iu Po Chan, Eugene and Lim Lee Meng.

In the case of inconsistency, the English text of this announcement shall prevail over the Chinese text.