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WILLAS-ARRAY
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 AUGUST 29, 2022**

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 July 29, 2022 (the “Circular”); (ii) the notice of the annual general meeting of the Company dated July 29, 2022, in particular, the invitation to shareholders to submit questions in advance of the 2022 AGM; and (iii) the Company’s annual report FY2022 (the “Annual Report”).

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

The Company thanks shareholders for the questions received. The Company sets out herein the substantial and relevant questions that it has received from shareholders as at 9:30 a.m. on August 23, 2022 and the accompanying responses of the Company.

Questions from Shareholders

Where questions overlap or are closely related, they have been merged and rephrased for clarity.

1. *How long do you expect the imbalance between supply and demand of semiconductors to last?*

Company's response: The situation depends on many factors that are beyond our control and therefore it is difficult to predict how long it will last. However what we have done is to closely monitor our customers' demand forecasts and production situation and to match that with the supply volume from our suppliers so that we can best meet the needs of our customers while managing our own business risks at the same time.

2. *How are you planning for the risk that the semiconductor shortage eases more quickly than expected? Which segments do you think are most at risk?*

Company's response: We have a monitoring system with triggers in place that will alert us to adjust our order planning and inventory levels to minimize the impact or potential risk of over-supply in the market. We have experienced numerous similar cycles in our over 40 years of experience in this business and we are confident of our longstanding business partnerships and extensive network, which have enabled us to overcome volatilities in our various segments in the past.

3. *Currently, what are the lead-times for the components for the Automotive, Home Appliance and Industrial segments?*

Company's response: Lead-time of components varies a lot and it depends on each part number. It can range from weeks to months. In general, the lead-time of parts related to the Automotive and Industrial segments are longer than for consumer electronics or mobile phones.

4. *Referring to the Ordinary Resolution 4 of the 2022 AGM, can the Board explain why the director’s fees for the non-executive director, Mr. Leung Chun Wah (“Mr. Leung”), are much higher than for the other non-executive directors? Can you elaborate on the roles and responsibilities of Mr. Leung?*

Company’s response: Mr. Leung Chun Wah (“Mr. Leung”) is the Non-executive Director and chairman of the Board and is paid higher fees than other Non-executive Directors taking into account the nature of his additional responsibilities as chairman of the Board. As the chairman of the Board, he gives guidance on the corporate direction of the Group and takes on additional responsibilities by also being involved in the scheduling and chairing of Board meetings and he is also tasked with controlling the quality, quantity and timeliness of information supplied to the Board. Mr. Leung also (a) leads the Board to ensure its effectiveness on all aspects of its role; (b) promotes a culture of openness and debate at the Board level; (c) ensures effective communication with Shareholders; (d) encourages constructive relations within the Board and between the Board and management; (e) facilitates the effective contribution of independent non-executive directors; and (f) promotes high standards of corporate governance.

5. *Referring to the Ordinary Resolution 10 of the 2022 AGM, why is the limit for issue of new shares (other than on a pro-rata basis to existing shareholders) increased from 10% to 20% of the total number of issued shares?*

Company’s response: The limit for issue of new shares (other than on a pro-rata basis to existing shareholders) is proposed to be increased to 20% of the total number of issued shares. This is in line with the limits under the rules of the Hong Kong Listing Rules and SGX-ST Listing Manual, which provide that the general mandate obtained from shareholders in general meeting (the “Issue Mandate”) authorizing directors to allot, issue and deal with such number of new shares (other than on a pro-rata basis to existing shareholders) does not exceed 20% of the number of issued shares as at the date of the resolution granting the Issue Mandate. If the Issue Mandate is approved by shareholders, in the event the Company needs to raise funds (other than on a pro-rata basis from the existing shareholders) through the issue of shares of the Company, such Issue Mandate will provide maximum flexibility for the Company to do so efficiently.

In addition, the Company has received certain questions from the Securities Investors Association (Singapore) (“SIAS”) in relation to the Annual Report. The Company’s responses to SIAS’s questions are also set out below.

Questions from SIAS

1. *As noted in the chairman’s statement, the group marked its 40th anniversary in 2022 which was a challenging year for the entire industry that had to grapple with a resurgence of the COVID-19 pandemic in China and supply-demand imbalances.*

Due to the severe shortage in semiconductors, sales revenue for the group was 3.7% lower at HK\$3,425.8 million and profit attributable to owners of the company was HK\$82.2 million, 11.1% lower compared to the level achieved in the previous year.

Gross profit margin increased by 0.4% to 9.8% in FY2022.

- (i) ***COVID-19: Can management help shareholders better understand the sentiments on the ground in China due to the zero-COVID policy? In particular, what was the impact on the group’s operations due to the lockdown in Shanghai? Are the group’s operations currently restricted in any way?***

Company’s response: Yes, the lockdown in Shanghai earlier this year had an impact on our operations as it prevented us from visiting our customers and affected logistical arrangements for factories of customers located in the city. During this period, as far as possible, we continued our engagement with customers in Shanghai via virtual means. For areas in China other than Shanghai, we were able to tap on our logistical operations in Hong Kong and Shenzhen for support. Once the lockdown was lifted, logistical arrangements in Shanghai returned quickly to normal. However, travel and customer visits remain under movement restrictions. To mitigate the situation, we continued to engage and meet with customers and suppliers via virtual means.

- (ii) ***Automotive: Management has stated that the automotive segment was the bright spark for the year, achieving strong revenue growth of 11.7% despite the dire shortage of semiconductors. Has the group developed any niche(s)/ specialised areas in the automotive segment? What is the group’s competitive advantage? Does management see the trends of electrification of automobiles and the rapid adoption of electric vehicles resulting in a sustained, multi-year growth phase for the automotive segment?***

Company's response: The Automotive segment has been our key focus segment for a long time. The share of the Group's revenue attributable to the Automotive segment rose from a single digit to around 20% in FY2022. This is a strong affirmation of our strategic decision to deploy more resources into this segment and illustrates a good return from our investment in this segment.

Climate change is on the agenda of many governments worldwide and various countries have rolled out policies that support the development and adoption of electric vehicles. This has in turn fueled strong demand for electronic components because of the high degree of digitalisation and electrification of electric cars. The electronics content of each electric car is far more than that of traditional internal combustion engine cars. Assuming this trend continues, we believe this rapid development of electric vehicles will therefore likely continue to fuel growth in the Automotive segment in the coming years.

- (iii) **Industrial: Does management see a drop-off in demand following 2 years of COVID-19-led surge in demand?**

Company's response: For consumer electronic goods, demand for work and home entertainment equipment rose during the pandemic as people stayed at home a lot more. Although this has tapered off in line with the resumption of normal activities, it has also created a larger replacement market due to the increase in the market size over the past two years.

In terms of applications that are related to city infrastructure, energy saving and renewable energy, we believe these will continue to expand given the overall trend towards achieving carbon neutrality and in the long run, it is also our key focus application segment.

- (iv) **Inventory turnover: Inventory turnover days increased from 1.0 month as at 31 March 2021 to 1.4 months as at 31 March 2022. What are the reasons for the increase in inventory turnover days?**

Company's response: In FY2022, many of our customers faced difficulties because of the strict zero-Covid stance in China. We tried to support them as best as we could while maintaining a healthy stock level and keeping efficient operations. We will monitor our inventory status closely to cope with any changes in the market.

2. *The Impairment assessment of trade receivables is a key audit matter (KAM) highlighted in the independent auditor’s report. As at 31 March 2022, the group’s net trade receivables were HK\$862,816,000, representing approximately 46% of the total assets of the group.*

Out of these trade receivables, HK\$191,133,000 were past due.

Trade receivables increased by HK\$18.8 million from a year ago due to the increased sales revenue towards the end of the current year. Debtors turnover days were 3.1 months as at 31 March 2022 (31 March 2021: 2.9 months) (page 16).

- (i) ***Has management experienced slower collection of trade receivables in recent months?***

Company’s response: Due to the slowdown in some export markets, some of our customers with business in these markets were a bit slower in settling their payments. We will continuously monitor these customers closely.

- (ii)

The remaining trade receivables with gross carrying amount of HK\$874,973,000 (2021: HK\$860,317,000) are assessed based on the internal credit rating of the Group for its customers in relation to its operation. The following table provides information about the exposure to credit risk for trade receivables which is assessed on a collective basis as at March 31, 2022 and 2021 within lifetime ECL (not credit-impaired).

Gross carrying amount

	2022			2021		
	Average loss rate	Gross carrying amount HK\$'000	Allowance amount HK\$'000	Average loss rate	Gross carrying amount HK\$'000	Allowance amount HK\$'000
Low risk	0.02%	128,724	26	0.03%	68,820	21
Normal risk	1.04%	590,476	6,141	1.40%	607,060	8,519
High risk	3.85%	155,773	5,990	4.19%	184,437	7,728
		<u>874,973</u>	<u>12,157</u>		<u>860,317</u>	<u>16,268</u>

(Source: company annual report)

Can management help shareholders better understand how the average loss rate was calculated? Given the heightened uncertainties in the market, what are the reasons for the lower average loss rates across the board?

Company's response: The Group applied the simplified approach in IFRS 9 to measure the loss allowance of trade receivables at lifetime expected credit loss ("ECL") on a collective basis grouped by internal credit rating. The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort.

As supported by promising historical settlement pattern of trade receivables noted during FY2022, an improved actual customer default rate is noted during FY2022, and since the Group insured certain trade debtors with credit insurance agencies with credit insurance coverage on trade receivables, the estimated loss rate is further adjusted by this factor together with the macroeconomic data available without undue cost or effort. Accordingly, the Group considered the average loss rate used by the Group to estimate the ECL for FY2022 is reasonable.

- (iii) *As at 31 March 2022, the group has recognised credit-impaired lifetime expected credit loss of HK\$29.562 million (assessed individually) (pages 219 and 223).*

What are the profiles of the customers that have outstanding trade receivables that are credit-impaired? What are the efforts by management to recover these long-outstanding debt?

Company's response: The major customers that have outstanding trade receivables that are credit-impaired belong to the Telecommunications segment. We have already taken legal actions to recover these debts, including but not limited to carrying out bankruptcy proceedings against these customers in mainland China.

3. *As noted in the corporate governance report, the company has outsourced the internal audit function to an external consulting firm, RSM Consulting (Hong Kong) Limited.*

For two weeks in August to September 2021, the internal auditors had visited the company's office in Hong Kong and had conducted a review on the company's purchase and payment, inventory turnover management, human resources and payroll, and information and technology general controls for Hong Kong operation.

In October 2020, the internal auditors had conducted a review on the company's revenue and accounts receivable management for Hong Kong and Shanghai operations and visited the company's office in Hong Kong in October 2020 for two weeks.

- (i) ***For the benefit of shareholders, what were the key findings of the internal audit in FY2022?***

Company's response: The findings of the internal audit in FY2022 were related to human resources and payroll, of which the key finding was that there should be an independent review on the accuracy of the detailed payroll report in order to ensure the payroll information is reliable and accurate. To address the findings, the management of the Company has established and implemented a new payroll procedure to enhance the monitoring process.

- (ii) ***How long is the internal audit cycle? How is the scope of the internal audit plan for the year determined?***

Company's response: We have a five-year internal audit plan covering key areas of the Company's core businesses and support functions. Our internal auditor assesses risk and ranks audit subjects using business and other relevant risk factors to identify the audit scope and major subsidiaries for the five-year internal audit cycle.

- (iii) ***Can the board/audit committee confirm that the internal audit covered all material subsidiaries and/or operations, including Shenzhen?***

Company's response: Yes, the Audit Committee reviewed and approved the five-year internal audit plan from FY2022 to FY2026, which covers our material operations and subsidiaries including those in Hong Kong, Shanghai and Shenzhen.

- (iv) *How were the scope and the effectiveness of the IA function affected in the past two years due to travel restrictions?*

Company's response: The scope of the internal audit ("IA") function in the past two years was not materially affected by the travel restrictions and the internal auditors managed to perform the internal audit areas in accordance with the five-year plan that was previously approved by the Audit Committee.

For the IA function performed in October 2020 (in FY2021), the interviews and work done for Shanghai operations were performed by electronics means, documents were obtained by emails. More follow up actions were required for email communication but minimum disruptions were noted.

The effectiveness of the IA function in FY2022 was also not affected by the travel restrictions as the internal audit covered the Hong Kong operations. The interviews and reviewing work were performed in Hong Kong and were largely unaffected by movement restrictions.

- (v) *What is the level of oversight by the audit committee on the actions taken by management to follow up on the IA's recommendations?*

Company's response: The Audit Committee meets at least once a year with the external consulting firm which performs the Company's IA function to review the progress of the internal audit and ensure the follow up actions as recommended by the internal auditor have been taken by the management.

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

Hong Kong/Singapore, August 24, 2022

As at the date of this announcement, the Board comprises one Non-executive Director, Leung Chun Wah (Chairman); three Executive Directors, namely Hon Kar Chun (Managing Director), Leung Hon Shing and Leung Chi Hang Daniel; and three Independent Non-executive Directors, namely Lim Lee Meng, Tang Wai Loong Kenneth and Tong Kai Cheong.

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