

AVI-TECH ELECTRONICS LIMITED

(Company Registration No. 198105976H)

Unaudited Financial Statements for the First Quarter ended 30 September 2019

PART 1 – INFORMATION REQUIRED FOR ANNOUNCEMENTS OF RESULTS

- 1(a) An income statement and statement of comprehensive income, or a statement of comprehensive income (for the Group) together with a comparative statement for the corresponding period of the immediately preceding financial year.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME For the first quarter ended 30 September 2019

	Group		Change	
	1st Quarter Ended			
	30-Sep-19	30-Sep-18	\$'000	%
	Unaudited	Unaudited		
Revenue	8,122	7,837	285	3.6
Cost of sales	(5,067)	(5,599)	532	(9.5)
Gross profit	3,055	2,238	817	36.5
Other operating income	268	244	24	9.8
Impairment loss on other financial assets ^[1]	(50)	-	(50)	n.m.
Distribution costs	(14)	(13)	(1)	7.7
Administrative expenses	(1,306)	(1,385)	79	(5.7)
Net foreign exchange gain/(loss)	125	(27)	152	n.m.
Finance costs	(10)	(1)	(9)	n.m.
Profit before income tax	2,068	1,056	1,012	95.8
Income tax expense	(359)	(194)	(165)	85.1
Profit for the period	1,709	862	847	98.3
Other comprehensive income for the period:				
<i>Item that may be reclassified subsequently to profit or loss</i>				
Foreign currency translation differences for foreign operations	10	-	10	n.m.
Other comprehensive gain for the period, net of tax	10	-	10	n.m.
Total comprehensive income for the period	1,719	862	857	99.4
Profit for the period is arrived at:-				
Depreciation of property, plant and equipment	(303)	(311)	8	(2.6)
Depreciation of right-of-use assets	(57)	-	(57)	n.m.
Interest expenses	(10)	(1)	(9)	n.m.
Interest income	170	130	40	30.8
Rental income	73	77	(4)	(5.2)
Allowance for inventories obsolescence	-	(100)	100	n.m.

n.m. : not meaningful

^[1] Represents an impairment loss of bond investment issued under Hyflux Ltd's Medium Term Note Programme.

1(b)(i) A statement of financial position of the Company and the Group, together with a comparative statement as at the end of the immediately preceding financial year.

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 September 2019**

ASSETS	Group		Company	
	30-Sep-19 \$'000 Unaudited	30-Jun-19 \$'000 Audited	30-Sep-19 \$'000 Unaudited	30-Jun-19 \$'000 Audited
Current assets				
Cash and bank balances	4,980	6,479	4,375	5,627
Fixed and call deposits	32,444	27,387	32,444	27,387
Trade receivables	5,144	6,624	5,210	6,918
Other receivables and prepayments	319	410	319	409
Inventories	2,722	3,036	2,722	3,036
Other financial assets at amortised cost	75	628	75	628
Total current assets	45,684	44,564	45,145	44,005
Non-current assets				
Property, plant and equipment	12,033	12,065	12,033	12,065
Right-of-use assets ^[2]	1,638	-	1,638	-
Total non-current assets	13,671	12,065	13,671	12,065
Total assets	59,355	56,629	58,816	56,070
LIABILITIES AND EQUITY				
Current liabilities				
Trade payables	2,043	2,947	2,114	2,990
Other payables	1,925	1,999	1,915	1,989
Finance leases	-	35	-	35
Lease liabilities ^[2]	258	-	258	-
Income tax payable	1,487	1,135	1,487	1,135
Total current liabilities	5,713	6,116	5,774	6,149
Non-current liabilities				
Finance leases	-	41	-	41
Lease liabilities ^[2]	1,451	-	1,451	-
Deferred tax liabilities	928	928	928	928
Total non-current liabilities	2,379	969	2,379	969
Total liabilities	8,092	7,085	8,153	7,118
Capital and reserves				
Share capital	31,732	31,732	31,732	31,732
Treasury shares	(973)	(973)	(973)	(973)
Reserves	20,504	18,785	19,904	18,193
Total equity	51,263	49,544	50,663	48,952
Total liabilities and total equity	59,355	56,629	58,816	56,070

^[2] The Group adopted SFRS(I) 16 Leases with effect from 1 July 2019. The effects of changes in accounting standard are disclosed in Note 5.

1(b)(ii) Aggregate amount of Group's borrowings and debt securities.

Amount repayable in one year or less, or on demand

30 September 2019 (*)		30 June 2019	
Secured \$'000	Unsecured \$'000	Secured \$'000	Unsecured \$'000
258	-	35	-

Amount repayable after one year

30 September 2019 (*)		30 June 2019	
Secured \$'000	Unsecured \$'000	Secured \$'000	Unsecured \$'000
1,451	-	41	-

(*) Unaudited

Details of any collaterals

Certain plant and equipment with a carrying amount of \$135,000 (30 June 2019: \$154,000) are secured by the lessors' titles to the leased assets.

1(c) **A statement of cash flows for the Group together with a comparative statement for the corresponding period of the immediately preceding financial year.**

CONSOLIDATED STATEMENT OF CASH FLOW

For the first quarter ended 30 September 2019

	30-Sep-19 1st Quarter Ended \$'000	30-Sep-18 1st Quarter Ended \$'000
Operating activities		
Profit before income tax	2,068	1,056
Adjustments for:		
Depreciation of property, plant and equipment	303	311
Depreciation of right-of-use assets	57	-
Impairment loss on other financial asset	50	-
Allowance for inventories obsolescence	-	100
Interest expenses	10	1
Interest income	(170)	(130)
Operating cash flows before movements in working capital	<u>2,318</u>	<u>1,338</u>
Trade receivables	1,480	(551)
Other receivables and prepayments	91	29
Inventories	314	(589)
Trade payables	(903)	833
Other payables	(74)	(268)
Cash generated from operations	<u>3,226</u>	<u>792</u>
Income tax paid	(7)	-
Interest paid	(10)	(1)
Interest received	170	130
Net cash from operating activities	<u>3,379</u>	<u>921</u>
Investing activities		
Additions to property, plant and equipment	(271)	(211)
Proceeds from maturity of other financial assets at amortised cost	503	256
(Placement of)/Withdrawals from fixed deposits	(7,412)	3,968
Net cash (used in)/from investing activities	<u>(7,180)</u>	<u>4,013</u>
Financing activities		
Repayment of lease liabilities	(62)	-
Repayment of finance lease obligations	-	(9)
Net cash used in financing activities	<u>(62)</u>	<u>(9)</u>
Net effect of exchange rate changes in consolidating subsidiaries	10	-
Net (decrease)/increase in cash and cash equivalents	(3,853)	4,925
Cash and cash equivalents at beginning of financial period	9,833	11,176
Cash and cash equivalents at end of financial period (NOTE A)	<u><u>5,980</u></u>	<u><u>16,101</u></u>

NOTE A

	The Group 1st Quarter Ended	
	30-Sep-19 \$'000	30-Sep-18 \$'000
Cash and cash equivalents consists of:		
Cash and bank balances	4,980	6,359
Fixed and call deposits	1,000	9,742
	<u>5,980</u>	<u>16,101</u>

Cash and cash equivalents comprise cash on hand, cash at bank and demand deposits (maturity within 3 months) that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

1(d)(i) A statement for the Company and the Group showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalization issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year.

STATEMENTS OF CHANGES IN EQUITY
For the first quarter ended 30 September 2019

GROUP	Share capital \$'000	Treasury shares \$'000	Currency translation reserve \$'000	Retained earnings \$'000	Total reserves \$'000	Total \$'000
Balance at 1 July 2019	31,732	(973)	10	18,775	18,785	49,544
Total comprehensive income for the period	-	-	10	1,709	1,719	1,719
Balance at 30 September 2019 (*)	31,732	(973)	20	20,484	20,504	51,263
Balance at 1 July 2018	31,732	(973)	16	17,721	17,737	48,496
Total comprehensive income for the period	-	-	-	862	862	862
Balance at 30 September 2018 (*)	31,732	(973)	16	18,583	18,599	49,358

(*) Unaudited

COMPANY	Share capital \$'000	Treasury shares \$'000	Retained earnings \$'000	Total reserves \$'000	Total \$'000
Balance at 1 July 2019	31,732	(973)	18,193	18,193	48,952
Total comprehensive income for the period	-	-	1,711	1,711	1,711
Balance at 30 September 2019 (*)	31,732	(973)	19,904	19,904	50,663
Balance at 1 July 2018	31,732	(973)	17,237	17,237	47,996
Total comprehensive income for the period	-	-	853	853	853
Balance at 30 September 2018 (*)	31,732	(973)	18,090	18,090	48,849

(*) Unaudited

1(d)(ii) Details of any changes in the company's share capital arising from rights issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State the number of shares that may be issued on conversion of all the outstanding convertibles, if any, against the total number of issued shares excluding treasury shares and subsidiary holdings of the issuer, as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year. State also the number of shares held as treasury shares and the number of subsidiary holdings, if any, and the percentage of the aggregate number of treasury shares and subsidiary holdings held against the total number of shares outstanding in a class that is listed as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year.

Since the end of the previous period reported on (i.e. 30 June 2019), there was no change in the Company's share capital during the three months ended 30 September 2019.

The Company does not have any subsidiary that holds shares issued by the Company.

	As at 30 September 2019	As at 30 September 2018
Number of shares that may be issued on conversion of all the outstanding convertibles	-	-
Treasury Shares	4,154,000	4,154,000
Total number of issued shares excluding treasury shares	171,046,041	171,046,041

Pursuant to the share buyback mandate originally approved by the shareholders on 29 October 2008 and renewed subsequently and the share buyback mandate approved by the shareholders on 27 October 2015, the Company purchased and currently holds as treasury shares a total of 4,154,000 shares through on-market purchases transacted on the SGX-ST. The total amount paid for these purchases was approximately \$973,000 which has been deducted from shareholders' equity. All the repurchased shares are held as treasury shares.

1(d)(iii) To show the total number of issued shares excluding treasury shares as at the end of the current financial period and as at the end of the immediately preceding year

Total number of issued shares excluding treasury shares	Number of shares
Balance as at 30 September 2019	171,046,041
Balance as at 30 June 2019	171,046,041

1(d)(iv) A statement showing all sales, transfers, cancellation and/or use of treasury shares as at the end of the current financial period reported on.

As at 30 September 2019, there were no sales, transfers, cancellations and/or use of treasury shares.

1(d)(v) A statement showing all sales, transfers, cancellation and/or use of subsidiary holdings as at the end of the current financial period reported on.

Not applicable as the Company does not have any subsidiary that holds shares issued by the Company.

2. Whether the figures have been audited or reviewed and in accordance with which auditing standard or practice.

The figures have not been audited or reviewed by the Company's auditors.

3. Where the figures have been audited or reviewed, the auditors' report (including any qualifications or emphasis of a matter).

Not applicable.

4. Whether the same accounting policies and methods of computations as in the Company's most recently audited annual financial statements have been applied.

Except as disclosed in Note 5 below, the Group has applied the same accounting policies and methods of computation as in the Group's most recently audited financial statements.

5. If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change.

The Group and the Company adopted SFRS(I) 16 Leases on 1 July 2019. The Group and the Company adopted the simplified transition approach and the comparative amount for the year prior to first adoption was not restated. All right-of-use ("ROU") assets are measured at the amount equal to the lease liability (adjusted for any prepaid or accrued lease payments) at the date of initial application. Under SFRS(I) 16, qualifying lease payments were no longer taken to other operating expenses but capitalized to the statement of financial position as ROU assets and depreciated over the term of the lease. Cash paid for the interest portion of lease liability is presented as part of operating activities, in accordance with the Group's and the Company's accounting policy.

As at 30 September 2019, the Company recorded ROU asset and corresponding lease liability of approximately \$1.6 million. Such adjustments have no material impact on the net assets and net income attributable to shareholders.

6. Earnings per ordinary share of the Group for the current financial period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends.

Group	1 st Quarter ended 30 September	
	FY2020	FY2019
Earnings per ordinary shares (cents) ("EPS")		
Basic	1.00	0.50
Diluted	1.00	0.50
Weighted average number of ordinary shares in issue for basic EPS	171,046,041	171,046,041
Weighted average number of ordinary shares in issue for diluted EPS	171,046,041	171,046,041

7. **Net asset value (for the Company and the Group) per ordinary share based on the total number of issued shares excluding treasury shares of the issuer at the end of the: (a) current financial period reported on; and (b) immediately preceding financial year.**

	GROUP		COMPANY	
	30-Sep-2019	30-Jun-2019	30-Sep-2019	30-Jun-2019
Net assets value per ordinary share (cents):	29.97	28.97	29.62	28.62
Number of ordinary shares at period/year end	171,046,041	171,046,041	171,046,041	171,046,041

As of the balance sheet date, the numbers of ordinary shares of the Group and Company used for the above calculation have been adjusted to exclude the number of treasury shares.

8. **Review of Group Performance for the First Quarter ended 30 September 2019 (“1Q 2020”) vs. First Quarter ended 30 September 2018 (“1Q 2019”).**

STATEMENT OF COMPREHENSIVE INCOME

Revenue

In 1Q 2020, the Group reported revenue of \$8.1 million, an increase of \$0.3 million or 3.6% as compared to 1Q 2019 of \$7.8 million. The Burn-In Services business segment registered higher revenue of \$3.2 million in 1Q 2020 as compared to the revenue of \$2.4 million in 1Q 2019. The Manufacturing and PCBA Services business segment registered revenue of \$4.0 million in 1Q 2020, which was a slight decrease of \$0.2 million as compared to the revenue of \$4.2 million in 1Q 2019.

The Engineering Services business segment registered lower revenue of \$0.9 million in 1Q 2020 as compared to the revenue of \$1.2 million in 1Q 2019.

Gross profit

The Group reported a gross profit of \$3.0 million in 1Q 2020, an increase of \$0.8 million or 36.5% as compared to \$2.2 million in 1Q 2019. The gross profit margin also increased from 28.6% in 1Q 2019 to 37.6% in 1Q 2020.

The increase in gross profit was primarily attributed to the increase in revenue accompanied by a reduction in unit cost of production as a result of the ongoing cost control measures and the enhancement in productivity across all business segments.

Profit for the period

The Group reported a profit of \$1.7 million in 1Q 2020 as compared to \$0.9 million in 1Q 2019. The Burn-In Services business segment continues to be the main contributor to the Group's profit, while the Manufacturing and PCBA Services business segment also reported a higher profit in 1Q 2020 as compared to 1Q 2019.

STATEMENT OF FINANCIAL POSITION

Total Group's assets increased by \$2.7 million or 4.8% from \$56.6 million as at 30 June 2019 to \$59.3 million as at 30 September 2019. The increase was primarily due to the increase in fixed and call deposits of \$5.0 million and the recognition of \$1.6 million ROU assets in relation to the land lease with JTC, in accordance with the adoption of SFRS(I) 16 *Leases*. Overall increase were partially offset by the decrease in cash and bank balances of \$1.5 million, trade and other receivables of \$1.6 million, inventories of \$0.3 million as well as other financial assets at amortised cost of \$0.5 million.

Other financial assets at amortised cost as at 30 September 2019 include bond investment of \$500,000 in the \$100 million tranche at 4.25 per cent which matured in September 2018, issued under Hyflux Ltd's Medium Term Note Programme.

In respect of this bond investment, the Group has recognised impairment loss of \$375,000 for the financial year ended 30 June 2019. During the three months ended 30 September 2019, a further impairment loss of \$50,000 was recognised in view of the developments in relation to Hyflux Ltd's financial situation. A total impairment loss of \$425,000 was recognised as at 30 September 2019 with the remaining book value of \$75,000.

Total Group's liabilities increased by \$1.0 million or 14.2% from \$7.1 million as at 30 June 2019 to \$8.1 million as at 30 September 2019. The increase was primarily due to the recognition of \$1.6 million lease liability in relation to the land lease with JTC, in accordance with the adoption of SFRS(I) 16 *Leases* and income tax payable of \$0.4 million. Overall increase was partially offset by the decrease in trade and other payables of \$1.0 million.

The Group had a positive working capital of \$40.0 million as at 30 September 2019 as compared to \$38.4 million as at 30 June 2019.

STATEMENT OF CASH FLOW

The Group generated net cash from operating activities of \$3.4 million in 1Q 2020. This was primarily due to the profit generated during the quarter.

Net cash used in investing activities was \$7.2 million, which was mainly attributed to the placement of fixed deposits with financial institutions with over three-month tenures.

There was a decrease in cash and cash equivalents of \$3.9 million for 1Q 2020.

The Group closed the period with cash and cash equivalents of \$6.0 million.

9. Where a forecast or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results.

The Company did not make any forecasts and prospect statements in respect of the Group's results for the period ended 30 June 2019. The Group's results for the first quarter ended 30 September 2019 were generally in line with the commentary under paragraph 10 of the Group's previous results announcement in respect of the period ended 30 June 2019.

10. A commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which the Group operates and any known factors or events that may affect the Group in the next reporting period and the next 12 months.

The Group remains cautiously optimistic and continues working towards leveraging its core competencies, strengthening its capabilities and extending its customer base, while at the same time exploring new growth opportunities, including mergers and acquisitions, to further enhance its business performance and shareholder value.

11. Dividends.

(a) Any dividend declared for the current financial period reported on.

No.

(b) Any dividend declared for the corresponding period of the immediately preceding financial year?

No.

(c) State the tax rate and the country where the dividend is derived.

Not applicable.

(d) The date the dividend is payable.

Not applicable.

(e) Books Closure Date.

Not applicable.

12. If no dividend has been declared/recommended, a statement to that effect and the reason(s) for the decision.

The Company's practice is to consider the declaration or recommendation of dividend on a half-yearly basis. As such, no dividend is to be declared for 1Q 2020.

13. If the Group has obtained a general mandate from shareholders for interested person transactions ("IPT"), the aggregate value of such transactions as required under Rule 920(1)(a)(ii). If no IPT mandate has been obtained, a statement to that effect.

The Group has not sought a general mandate from shareholders for IPTs.

14. Please disclose the status on the use of proceeds raised from IPO and any offerings pursuant to Chapter 8 and whether the use of proceeds is in accordance with the stated use. Where the proceeds have been used for working capital purposes, a breakdown with specific details on how the proceeds have been applied must be disclosed.

The Group raised approximately \$29.0 million from its IPO on 25 July 2007. As at 30 September 2019, the total net proceeds of approximately \$26.7 million (after deducting the IPO expenses of approximately \$2.3 million, as disclosed on page 33 of the Company's prospectus dated 11 July 2007) from the IPO were used for the following purposes:

	Use of IPO proceeds as at 30 September 2019 (S\$ million)	Balance as at 30 September 2019 (S\$ million)
Expansion of our customer base and widen our portfolio of services	6.0	0.0
Potential mergers and acquisitions	2.8	5.2
Expansion of our overseas operations	3.0	0.0
Working capital	9.7	0.0
Total	21.5	5.2

The IPO proceeds used for working capital purposes have been applied to the following uses:

- Purchase of plant and equipment;
- Purchase and replenishment of inventories;
- Payments to suppliers and service providers;
- Loan repayments; and
- Payments for other day to day operations.

Management has confirmed that the above use of proceeds was in line with the Company's planned utilisation of funds.

15. Negative Confirmation pursuant to Rule 705(5) of the Listing Manual.

To the best of our knowledge, nothing has come to the attention of the Board of Directors which may render the unaudited interim financial statements of the Group and the Company for the first quarter ended 30 September 2019 to be false or misleading in any material aspect.

16. Confirmation that the issuer has procured undertakings from all its directors and executive officers (in the format set out in Appendix 7.7) under Rule 720(1).

The Company confirms that it has procured undertakings from all its directors and executive officers in the format set out in Appendix 7.7 under Rule 720(1) of the Listing Manual.

On behalf of the Board of Directors of Avi-Tech Electronics Limited.

Lim Eng Hong
Chief Executive Officer and Director

Khor Thiam Beng
Chairman and Independent Director

BY ORDER OF THE BOARD
Lim Eng Hong
Chief Executive Officer
14 November 2019