

**AVI-TECH HOLDINGS LIMITED**  
(Incorporated in the Republic of Singapore)  
(Company Registration Number 202002889W)  
(the "**Company**")

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**RESPONSES TO QUESTIONS FROM THE SECURITIES INVESTORS ASSOCIATION  
(SINGAPORE) IN RELATION TO THE COMPANY'S FY2023 ANNUAL REPORT**

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The Board of Directors ("**Board**") of Avi-Tech Holdings Limited (the "**Company**" and together with its subsidiaries, the ("**Group**") refers to questions raised by the Securities Investors Association (Singapore) ("**SIAS**") in relation to the Company's Annual Report for the financial year ended 30 June 2023 (the "**FY2023 Annual Report**") and wishes to provide the following responses to the questions:

**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?**

Company's response:

The slight decrease in revenue for our Burn-In Services business segment from \$6.3 million in FY2022 to \$6.2 million in FY2023 was largely due to the global chip shortage. This shortage impacted our production volume during the second half of FY2023, which offset the increased demand and production volumes in the first half of FY2023.

**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?**

Company's response:

The restrictions imposed by the United States of America ("**US**") limiting China's access to semiconductor technology have posed substantial challenges for semiconductor companies, including supply chain disruptions which led to production delays, delivery uncertainties, and increased production costs. In response, semiconductor companies are proactively reshaping their strategies to navigate the evolving global landscape. The Group, for instance, continues to seek an expansion of its supply chain network, implementing initiatives like diversification of its customer base and exploration of new markets. These efforts are aimed at effectively addressing these challenges and securing the Group's long-term sustainability.

- 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?**

Company's response:

Our Group's PCBA and Manufacturing business segment has maintained a growth trajectory in the China market as we acquire more customers in the Greater China region. In response to the growing

demand in the Chinese market, we have strengthened our design resources within our China office. While we are encouraged by the growth prospects of China, we remain committed to explore other markets.

- 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?**

Company's response:

Our Group's PCBA and Manufacturing division has been proactive in pursuing design opportunities in China and has made steady, progressive strides in this business segment, capitalising on our strengths and track record. Notably, our investment in expanding our manufacturing capabilities and successfully optimising our advanced manufacturing line has enhanced our capacity to handle a diverse range of projects, including intricate PCBA requirements. This investment has positioned us well for the growth and expansion in the Chinese market.

Regarding leadership and expertise, while our Chief Executive Officer ("CEO") and Chief Operating Officer ("COO") have not relocated to China, our Group's operations there are overseen by a dedicated and experienced management team. This team is entrusted with the responsibility of driving the Group's growth in China. Moreover, our CEO, COO and Director of Sales have made trips to China to provide oversight and nurture customer relationships. We believe that this approach enables us to effectively leverage our network and experience while expanding our business in China.

- vi. **Do customers exhibit a high degree of "stickiness"? What strategies does management employ to increase the wallet share of its major customers?**

Company's response:

Our customers typically demonstrate a high degree of "stickiness". For instance, one of our major customers has been our customer for over 30 years. This is primarily because of high barriers to entry, demanding quality certifications, lengthy qualification periods, substantial investments, and specialised expertise. As a result, changing to a new supplier would result in a significant loss of time-to-market, and consequently, there is a tendency for customer stickiness.

The Group recognises the value of these long-term customer relationships and continues to focus on delivering quality and service to enhance customer share. We also continually invest in improving our products and services, staying at the forefront of industry advancements, and building strong communication channels with our customers. This approach allows us to gain insights into customers' evolving requirements and ensures that we can adapt and customise our offerings to meet their changing needs.

- 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?**

Company's response:

The Group has not installed solar panels at its Serangoon North site currently. However, the Group has undertaken comprehensive initiatives on sustainability and cost reduction whereby we installed a new chiller for energy efficiency. We also instil a company-wide culture of energy conservation with practices such as switching off lights and using energy-efficient equipment. Going forward, the Group will explore various sustainability measures, including the potential installation of solar panels and implementation of other energy-saving schemes and measures. These efforts are aligned with the Group's commitment to sustainable practices and cost management.

**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 investors<sup>1</sup>. 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?**

**Company's response:**

In 2020, the Group made a strategic investment of \$500,000 in Movel AI Pte. Ltd. ("**Movel AI**"), acquiring a 9% minority stake with a board seat in the company. The primary objective of this minority stake investment is to foster strategic partnerships, enhance business synergy, acquire advanced technology and generate potential customers.

The Group has garnered valuable insights into the potential of robotic solutions and continues to work closely with Movel AI to explore business opportunities.

With the latest funding in Movel AI, we maintain a board seat, actively contributing to the company's growth and value creation for the shareholders. Our exit plan emphasises collaboration with other shareholders, employing a collective decision-making approach to ensure fairness, transparency, and alignment among all exiting parties, with the goal of reaching a mutually beneficial exit strategy.

**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?**

**Company's response:**

As previously communicated in our full-year results announcement dated 22 August 2023, the Group will continue to explore new business opportunities through mergers, acquisitions, joint ventures and other collaborations. Recognising the Group's status as a going concern, the Board acknowledges the necessity of retaining sufficient funds to facilitate the potential implementation and completion of these opportunities. As a result, the decision regarding returning capital to shareholders will be determined following the conclusion of any of such opportunities and a comprehensive assessment of the cash requirements for future business operations of the Group.

Nonetheless, the Group remains dedicated to sharing its profits with shareholders based on the annual profits generated. Our commitment is underlined by our consistent distribution of dividends over the years. The Group has distributed dividends for FY2008, FY2009, FY2010, FY2011, and subsequently,

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

each year from FY2015 to FY2022. We have also proposed dividends for FY2023 (subject to shareholders' approval at the forthcoming AGM).

**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?**

*Company's response:*

The Company notes that Rule 710 of the Listing Manual of the Singapore Exchange Securities Trading Limited ("**Listing Manual**") and the CG Code 2018 provides that variations from the Provisions are acceptable to the extent that the company explains the reason for variation, and explains how its practices are consistent with the intent of the relevant Principle. The Board and the Nominating Committee ("**NC**") are aware that the Company has deviated from Provision 3.1 of the CG Code 2018, and have given its reasons for the deviation, as well as an explanation on how its practices are consistent with the intent of Principle 3 of the CG Code 2018 on pages 37 to 38 of the Annual Report.

As explained on Page 38 of the Annual Report, the NC, with the concurrence of the Board, is of the opinion 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. The NC, with the concurrence of the Board, is of the view that under the present circumstances, it is beneficial to the Company that the roles of the Chairman and CEO are not separated. The role of Mr Lim Eng Hong as the Executive Chairman and CEO of the Company does not affect Board independence as the majority of the Board is made up of Independent Directors in compliance with Provision 2.2 of the CG Code 2018, and all of the Board Committees (including the Chairman of the respective Board Committees) are formed by Independent Directors. In addition, it is worth noting that since the Company became publicly listed in 2007, there have been no transactions between the CEO and the Company that would give rise to concerns about conflicts of interest. This track record underscores the absence of any issues that would compromise the integrity of merging the roles of CEO and Chairman of the Board. Nevertheless, to further ensure good governance, the Board has appointed Mr Michael Grenville Gray ("**Mr Gray**") as the Lead Independent Director of the Company also with effect from 27 October 2022, in compliance with Provision 3.3 of the CG Code 2018. Mr Gray will be available to shareholders where they have concerns for which contact through the normal channels of communication with the Chairman or Management are inappropriate or inadequate. He will also meet periodically with the other Independent Directors (without the presence of Management or the Executive Directors), and provide feedback to the Executive Chairman after such meeting.

Given the above arrangements, the Board and the NC are of the view that there is an appropriate balance of power on the Board, the Board members are accountable for their decisions, there is a strong and independent element on the Board, and the intent of Principle 3 has been met. The NC will periodically review the need to separate the roles of the Chairman and CEO and make its recommendations accordingly for the Board's consideration.

In light of the above, no candidates were shortlisted and interviewed for the position of Chairman after the resignation of Mr Khor Thiam Beng as the independent non-executive Chairman.

**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?**

Company's response:

The time span from 2006 to 2022 encompasses a significant period of time of 16 years, and it would be challenging to recall specifics about the hurdles the Board faced over these years. However, it is worth noting that whenever challenges did arise, the Board acted with professionalism and responsibility. For example, the Board and the Group were able to navigate and resolve the challenges faced by the Group during the Covid-19 pandemic. Despite formerly having an Independent Chairman, the Board members came together as a cohesive team and worked closely with the CEO, with the collective focus being on protecting the interests of all shareholders and relevant stakeholders. This collaborative approach ensured that the Company navigated through challenges in a manner that upheld the Company's values and objectives.

In addition, over the extended period of working closely with the former Independent Chairman, the CEO has internalised the level of good corporate governance practices expected of a CEO leading a publicly listed company. This long-term collaboration has allowed the CEO to become accustomed with the high standards of accountability, transparency, and ethical conduct that are requisite for the Company's success.

Further, as disclosed on page 5 of the Annual Report, in 2019, the Company was conferred the Singapore Corporate Awards 2019 “Best Managed Board (Bronze)” award as a recognition of upholding best practices in corporate governance and transparency. The Company will continue to place a high value on our Board independence and professionalism which is in the best interest of the Company.

**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?**

Company's response:

The Company would like to highlight that the continued appointment of Mr Gray as an independent director had been sought and approved by the independent shareholders of the Company at the AGM held on 27 October 2022 (prior to the removal of the former Rule 210(5)(d)(iii) of the Listing Manual).

Additionally, other safeguards (aside from the fiduciary duties that all Directors owe individually to the Company) ensuring independence of the Board include:

- a. the Company has an Audit and Risk Committee comprised entirely of non-executive and independent Directors to oversee internal controls and risk management;
- b. the Company has a Nominating Committee comprised solely of independent directors to handle the selection and appointment of new Board members;
- c. the Board and Committees conduct board evaluations to assess the performance and independence of individual Directors;

- d. the Board has established and functions within a defined set of terms of reference and procedures, including a clear policy on conflicts of interest in the Company's Directors' Manual, which covers instructions on the duty to avoid conflicts of interest and to give disclosure of conflicting interest, where necessary. The terms of reference also provide that a Director facing conflicts of interest should not vote on the matter under discussion and should recuse himself from the portion of the meeting where there is a potential conflict. A Director should not be counted towards the quorum of any meeting for any resolution where he is recused or debarred from voting;
- e. the Company emphasizes the importance of independence, ethics, and fiduciary duties, and Board members continually receive training on relevant new laws and regulations, from time to time. Some of the training programmes and seminars attended by our Board members are described on page 27 of the Annual Report;
- f. the Board conducts regularly scheduled meetings for each quarter of the financial year to receive updates on significant business activities and the overall business environment, with ad-hoc meetings being called as and when required to address any significant issues that may arise;
- g. the Independent Directors meet regularly and at least once annually without the presence of management and the Executive Directors to review any matters that they wish to raise privately, constructively challenge and help develop proposals on company strategy, review the performance of management in meeting agreed goals and objectives and monitor the reporting of performance;
- h. the Group has implemented a whistle-blowing policy which is independently overseen and monitored by the Audit and Risk Committee ("**ARC**"), which comprises 3 Independent Directors. The ARC will be informed immediately of any whistle-blowing reports received, and to ensure independent investigation into such matters and for appropriate follow-up action, all whistle-blowing reports are reviewed by the ARC. In the event that the whistle-blowing report is about a Director, that Director shall not be involved in the review and any decisions with respect to that whistle-blowing report. Details of the whistle-blowing policy have also been made available to all Directors, employees and contractors of the Group and their staff. Please refer to Pages 61 to 62 of the Corporate Governance Report for further details on the Company's whistle-blowing policy;
- i. all Directors have separate and independent access to: (i) the Company's senior management, which provides them (upon request) on a timely basis with additional information needed to make informed decisions; and (ii) the Company Secretary and external advisers (if needed); and
- j. as disclosed on Page 41 of the Annual Report, an important issue that is considered as part of the process for the selection, appointment and re-appointment of Directors include the progressive renewal of the Board. The Board has been actively reviewing the succession plans for Board members and has taken steps to facilitate the progressive renewal of the Board, in particular, in relation to the Independent Directors who have served on the Board for more than 9 years. For example, Mr Goh Chung Meng (who has served on the Board for more than 9 years) will be retiring and will not be seeking re-election in the forthcoming AGM to facilitate the renewal process of the Board, and the Board has accepted the NC's nomination for Mr Tan Ka Huat to stand for election as an Independent Director. Further, in 2022, Mr Khor Thiam Beng (who had served on the Board for more than 9 years) retired and did not seek re-election at the AGM held on 27 October 2022, and Mr Chan Yu Meng was appointed as an Independent Director at the AGM held on 27 October 2022. The Board is also in the process of reviewing the succession plans for Mr Gray, taking into account the new Rule 210(5)(d)(iv) of the Listing Manual which limits the tenure of independent directors serving on the boards of listed companies to 9 years, which takes effect for AGMs to be held for the financial year ending on or after 31 December 2023.

- 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?**

Company's response:

Recognising that combining these roles could centralise authority, the Board studied the potential impact on the balance of power within the Board, and measured it against the safeguards implemented, such as having a strong lead independent director, periodic executive sessions without the CEO/Chairman, and clearly defined scopes of authority.

To maintain a high level of accountability, the Board has insisted on confirmation and assurances from, *inter alia*, the Chief Financial Officer and CEO/Chairman that for each financial year, the financial records have been properly maintained and the financial statements give a true and fair view of the Group's operations and finances.

To preserve the board's ability to make independent decisions, the Board ensured that key committees like the Audit and Risk, and Remuneration Committees, are chaired by and predominantly made up of Independent Directors. These committees have the authority to seek independent external advice when needed.

Additionally, the Board has established and functions within a defined set of terms of reference and procedures, including a clear policy on conflicts of interest in the Company's Directors' Manual, thereby ensuring that the CEO/Executive Chairman would not have undue influence over Board decisions. To further facilitate independent decision-making, the Board have ensured transparent reporting lines and distinct delineation of responsibilities.

Having considered all of the above and the matters described in the Company's response to part (i) of Question 3 above, as well as the safeguards put in place as described in the Company's response to part (iii) of Question 3 above, the NC is of the opinion that, there is an appropriate balance of power on the Board, the Board members are accountable for their decisions, and there is a strong and independent element on the Board. The NC will periodically review the need to separate the roles of the Chairman and CEO and make its recommendations accordingly for the Board's consideration.

**BY ORDER OF THE BOARD**

Lim Eng Hong  
Chief Executive Officer &  
Executive Chairman

24 October 2023