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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 SECURITIES INVESTORS ASSOCIATION
(SINGAPORE) IN RELATION TO THE COMPANY'S ANNUAL
REPORT FOR THE YEAR ENDED MARCH 31, 2024**

Willas-Array Electronics (Holdings) Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) has received certain questions (collectively the “**Questions**”) from Securities Investors Association (Singapore) (“**SIAS**”) in relation to the Company’s annual report for the year ended March 31, 2024 (the “**Annual Report**”). The Company’s responses to the Questions are set out as follows.

Unless otherwise defined below, all capitalised terms used in the Company’s responses below shall have the same meanings as ascribed to them in the Annual Report.

Questions from SIAS

1. *For the financial year ended 31 March 2024, the group reported revenue of HK\$2.66 billion and a loss attributable to shareholders of HK\$(169.2) million. Gearing has also increased to nearly 1x at the end of the reporting period. The FY2024 loss was so severe that it almost wiped out three years of profits from FY21 to FY23.*

In the performance review, the group's results were attributed to the global semiconductor market remaining in a downward cycle. There was also a change in control with new controlling shareholders and a refreshed executive team and board of directors since August 2023.

(i) *Can the executive director help shareholders better understand his experience in electronic components distribution? What are the director's roles and responsibilities and does the executive director have P&L responsibilities? It is disclosed that the executive director was a senior manager of Shanghai YCT Electronics Group from October 2021 to July 2023 before joining the group as a financial manager in September 2023, before his appointment as executive director on 14 November 2023.*

Excluding the stock provision of HK\$83.4 million, net impairment losses recognised under the expected credit loss model of HK\$7.8 million, and a net exchange loss of HK\$14.6 million, the adjusted loss attributable to owners of the company in FY2024 would have been HK\$63.4 million.

The allowance for inventories is a key audit matter (KAM) highlighted by the independent auditors in the independent auditor's report. Significant management estimates and judgements are involved in determining the allowance for inventories. The carrying amount of the Group's inventories was HK\$707,663,000, net of allowance for inventories of HK\$90,566,000.

Note 24 Inventories showed a single line stating that “Finished goods held for sale” was HK\$707,663,000 in 2024 (2023: HK\$586,266,000).

24. INVENTORIES

	2024 HK\$'000	2023 HK\$'000
Finished goods held for sale	<u>707,663</u>	<u>586,266</u>

(Source: company annual report)

- (ii) How did the audit committee address the key audit matter (KAM) raised by the independent auditors regarding the allowance for inventories? What specific actions were taken to ensure the accuracy and adequacy of the allowance?
- (iii) What are the assumptions and findings of the inventory aging report, and how did the AC satisfy itself that the allowance was appropriate, neither excessive nor inadequate?
- (iv) Will management commit to including a detailed inventory aging analysis in the annual report to enhance transparency and provide shareholders with a clearer understanding of inventory management?
- (v) Can management help shareholders reconcile the figures of HK\$90,566,000 and HK\$83,389,000 as the actual allowance for inventories?

12. (LOSS) PROFIT FOR THE YEAR		
(Loss) profit for the year has been arrived at or after charging:		
	2024 HK\$'000	2023 HK\$'000
Cost of inventories recognised as expenses (Note i)	2,564,486	2,856,756
Depreciation of property, plant and equipment	14,657	14,975
Depreciation of right-of-use assets	7,928	7,944
Directors' emoluments (Note 13)	5,067	7,841
Audit fees		
– Paid to auditor of the Company	761	727
– Paid to other auditors	2,056	2,020
Non-audit fees		
– Paid to auditor of the Company	230	220
– Paid to other auditors	739	762
Staff costs (excluding directors' emoluments) (Note ii)	<u>102,512</u>	<u>119,886</u>
Notes:		
(i)	During the year ended March 31, 2024, the amount included allowance for inventories amounting to HK\$83,389,000 (2023: reversal of allowance for inventories amounting to HK\$1,000,000).	

KEY AUDIT MATTER – continued

Key audit matter

Allowance for inventories – continued

The management of the Group reviewed the inventory aging report at the end of the reporting period to identify inventories that are obsolete and estimated the net realisable value for those items based on latest selling price.

As disclosed in Note 24 to the consolidated financial statements, as at March 31, 2024, the carrying amount of the Group's inventories was HK\$707,663,000, net of allowance for inventories of HK\$90,566,000

- (vi) Is there a potential risk that the allowance for inventories could be reversed in the future? What circumstances could lead to such a reversal, and how would it affect the group's financial position given that there is an ongoing voluntary cash offer?

Company's response:

Response to Question 1(i):

Shanghai YCT group is the top distributor of electronic components in China in terms of reputation and market share. The Executive Director has held a significant position in Shanghai YCT and has extensive experience in the distribution of electronic components. Under the Executive Director's and other key management's leadership, Shanghai YCT achieved consistent revenue growth, improved profit margins, enhanced customer satisfaction, and listed on the Shenzhen Stock Exchange. We believe that his deep industry expertise and proven track record of driving profitable growth making him well-equipped to guide our Company's continued success in the electronic components distribution market, drive profitability for the Company and deliver value for our Shareholders.

The Directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS Standards issued by the IASB and the disclosure requirements of the relevant laws and regulations, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair consolidated financial statements and to maintain accountability of assets.

Response to Question 1(ii):

The Audit Committee addressed the key audit matter ("KAM") as follows:

1. Understood the issue: The Audit Committee had thoroughly discussed the nature and scope of the KAM with the independent auditors.
2. Reviewed the Company's policies and processes: The Audit Committee had reviewed the Company's accounting policies and processes related to inventory valuation and the determination of the allowance.
3. Evaluated management's judgments and estimates: The Audit Committee had scrutinised management's judgments and estimates used in calculating the allowance, such as the aging of inventory, and net realisable values.
4. Assessed the work of the independent auditors: The Audit Committee had evaluated the audit procedures performed by the independent auditors, the evidence they obtained, and their conclusions regarding the adequacy of the allowance.

5. Discussed with management: The Audit Committee had discussed the KAM with management, understanding their perspective and rationale for the allowance.
6. Reached its own conclusion: Based on the information above, the Audit Committee has formed its own independent assessment of the appropriateness of the allowance for inventories.
7. Oversight and monitoring: The Audit Committee has continued to request the management to monitor the KAM, including any changes to the allowance for inventories, throughout the audit and financial reporting process.

Response to Question 1(iii):

The inventory aging report categorises our electronic components inventory into the following buckets based on aging:

0-30 days
31-60 days
61-120 days
121-180 days
181-270 days
271-360 days
Over 361 days

The report found that a significant portion of our inventory (approximately 89%) falls into the 0-360 days categories, indicating healthy turnover. However, the older inventory buckets (361 days and above) were identified as carrying higher risk, and had been mostly provided for in the allowance for inventory.

As explained in our response to Question 1(ii) above, the Audit Committee concluded that the allowance for inventory was appropriate – sufficient to cover the estimated risks without being excessive.

Response to Question 1(iv):

We appreciate SIAS' feedback on enhancing transparency around our inventory management. The Company will consider including a detailed inventory aging analysis in our annual report going forward.

Response to Question 1(v):

Please see below reconciliation of allowance for inventories:	\$
Allowance for inventories at April 1, 2023.	8,117,000.00
Provision for FY2024.	83,389,000.00
Provision written back	(906,000.00)
Currency realignment.	(35,000.00)
Allowance for inventories at March 31, 2024.	<u>90,565,000.00</u>

Response to Question 1(vi):

While we believe the current allowance is appropriate, there are a few circumstances that could lead to a future reversal:

- (i) Improved inventory turnover, if we are able to sell older stock more quickly than expected; or
- (ii) Positive shift in the overall market conditions, improved sales and market demands, the Company may have less slow-moving inventory.

Any reversal would have a positive impact on our reported financial performance, as it would result in a reduction in the cost of goods sold and an increase in the Group's net income. However, we remain committed to maintaining a prudent allowance that accurately reflects the risks facing our inventory. We will continue to monitor the situation closely and disclose any material changes, if any.

2. *At the annual general meeting scheduled to be held on 31 July 2024, the company is seeking shareholders' approval to re-elect four independent directors, namely Mr Chong Eng Wee, Mr Lau Chin Huat, Mr Tso Sze Wai and Dr Jiang Maolin.*

Additional information on retiring directors seeking re-election can be found in the circular dated 8 July 2024. The circular can be accessed at the following URL:

<https://links.sgx.com/FileOpen/eWAE-20240705-Circular.ashx?App=Announcement&FileID=808936>

- (i) Would the nomination committee (NC) elaborate further on the rationale, selection criteria, board diversity considerations and the search and nomination process, that led to the nominations and appointments of the independent directors, as required in the SGX template?*
- (ii) Can the NC clarify if the new controlling shareholders had any influence on the nomination and selection of the independent directors, and if so, how this aligns with the company's commitment to maintaining an independent and effective board?*

In particular, ordinary resolution 3 pertains to the re-election of Mr Chong Eng Wee, who serves as the lead independent director, chairman of the nomination committee, as well as member of the audit committee, remuneration committee and compliance committee. Mr Chong Eng Wee is the managing director of a Chevalier Law LLC, partner of Nixon Peabody CWL, director of Heatec Jietong Holdings Limited, AJJ Medtech Holdings, China Yuanbang Property Holdings Limited and Polaris Limited.

- (iii) Did the NC consider establishing guidelines on a reasonable and maximum number of directorships and principal commitments for directors, in line with the Practice Guidance dated 11 January 2023 to the Code of Corporate Governance 2018 issued by the Monetary Authority of Singapore?*
- (iv) As the lead independent director and NC chairman, does Mr Chong Eng Wee believe that his numerous roles are optimal, or could his multiple commitments lead to perceptions of overboarding?*
- (v) If re-elected, would Mr. Chong Eng Wee be willing to reassess his other commitments to ensure full dedication to his board responsibilities, particularly during this critical period of significant losses and challenging market conditions for the group?*

Company's response:

Response to Question 2(i):

In accordance with the nomination policy of the Company, the Nomination Committee evaluate, select and recommend candidate(s) for directorships to the Board by giving due consideration to the criteria, including but not limited to the following (collectively, the "**Criteria**"):

- (a) Diversity in the aspects, amongst others, of gender, age, cultural and educational background, professional experience, skills, knowledge and length of service;
- (b) Commitment for responsibilities of the Board in respect of available time and relevant interest;
- (c) Qualifications, both academic and professional, including accomplishment and experience in the relevant industries in which the Company's business is involved;
- (d) Independence;
- (e) Reputation for integrity;
- (f) Potential contributions that the individual can bring to the Board; and
- (g) Plan(s) in place for the orderly succession of the Board.

The Nomination Committee evaluate and recommend retiring Directors to the Board for re-appointment by giving due consideration to the criteria, including but not limited to:

- (a) The overall contribution and service of the retiring Director(s) to the Company, including but not limited to the attendance at the meetings of the Board and/or its committees and general meetings of the Company where applicable, in addition to the level of participation and performance on the Board and/or its committees; and
- (b) Whether the retiring Director(s) continue(s) to satisfy the above Criteria.

The Nomination Committee also consider whether the composition of the Board is compliant to the requirements under HK Listing Rules and the SGX-ST Listing Manual.

Response to Question 2(ii):

The nomination and selection of the independent Directors are not influenced by the controlling shareholders.

Response to Question 2(iii):

The Nomination Committee does not currently impose a limit on the maximum number of listed company directorships to be held by an independent non-executive Director. However, the Nomination Committee notes the ongoing public consultation in Hong Kong on proposals to limit independent directorships to a maximum of six per person, each tenure capped at nine years.

Response to Question 2(iv):

As mentioned in our announcement dated August 9, 2023, as Mr. Chong can plan his business development and origination activities for Chevalier Law LLC and/or Nixon Peabody CWL to accommodate the scheduled meetings and/or time to be incurred or arising in connection with his duties as independent non-executive directors in listed companies, and with his familiarity with the listing rules and applicable laws in both Singapore and Hong Kong and his prior experience as an independent non-executive director of both Singapore and Hong Kong listed companies, Mr. Chong is confident that he can effectively discharge his duties as the lead independent Director and as the chairman and/or member of the various committees which have been established by the Board.

Response to Question 2(v):

Mr. Chong believes that he currently devotes sufficient time and energy to adequately and effectively discharge his board responsibilities. If re-elected and should circumstances require, Mr. Chong is prepared to devote additional time and energy to attend to the Company's affairs.

By Order of the Board
Willas-Array Electronics (Holdings) Limited
Fan Qinsheng
Executive Director

Hong Kong/Singapore, July 30, 2024

As at the date of this announcement, the Board comprises two Non-executive Directors, namely Xie Lishu (Chairman) and Huang Shaoli; one Executive Director, Fan Qinsheng; and four Independent Non-executive Directors, namely Chong Eng Wee (Lead Independent Director), Lau Chin Huat, Tso Sze Wai and Jiang Maolin.

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