# JEP HOLDINGS LTD.

(Registration No. 199401749E)
(Incorporated in the Republic of Singapore on 12 March 1994)

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## ANNUAL GENERAL MEETING TO BE HELD ON 22 APRIL 2021
## RESPONSES TO SUBSTANTIAL AND RELEVANT QUESTIONS

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The Board of Directors of JEP Holdings Limited (the "**Company**" and together with its subsidiaries, the "**Group**") refers to the announcement released by the Company on 6 April 2021 relating to the details of the Company's annual general meeting to be held by electronic means on 22 April 2021 at 9:30 a.m.

As mentioned in the said announcement, the Company will endeavour to address substantial and relevant questions relating to the resolutions to be tabled for approval at the annual general meeting or the Company's businesses and operations, which are submitted not later than 5:30 p.m. on 15 April 2021.

The Company would like to thank all shareholders who have submitted their questions by the submission deadline. The responses to the substantial and relevant questions received by the Company are set out in the Appendix to this announcement.

By Order of the Board

Andy Luong
Executive Chairman and Chief Executive Officer

For and on behalf of Board of Directors of
JEP Holdings Ltd.
19 April 2021

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This announcement has been prepared by the Company and its contents have been reviewed by the Company's Sponsor, RHT Capital Pte. Ltd. (the "**Sponsor**"), for compliance with the relevant rules of the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") Listing Manual Section B: Rules of Catalist. The Sponsor has not independently verified the contents of this announcement.

This announcement has not been examined or approved by the SGX-ST and the SGX-ST assumes no responsibility for the contents of this announcement including the correctness of any of the statements or opinions made or reports contained in this announcement.

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**APPENDIX**

**Question 1**

As noted in the chairman's statement, 2020 was an especially difficult year as the coronavirus pandemic caused unprecedented disruptions to the aerospace industry. The group made a strategic move to preserve a resilient operation so as to be ready to meet ramp-up of demand when customer demands returns. It is in the midst of setting up a new factory in Penang, Malaysia. Management expects the factory to be completed in Q2 of 2022 and reach full operating capacity by year 2024. It has also guided that the new site will work on relatively lower complexity work.

**(i) Penang: Would management help shareholders understand the capacity and the capability of the new Penang site? Does the site serve both the precision machining and equipment manufacturing segments?**

**Company's Response:**

- The Company has obtained an In-Principal Approval from Malaysia Investment Development Authority ("MIDA") for the Penang site's manufacturing activities.
- Total factory land size is approximately 133,000 square feet with an estimated additional capacity of 200,000 hours per annum.
- The site will serve both business segments.

**(ii) First article inspections ("FAIs"): The company has disclosed that it has commenced FAIs for many new complicated and high value-added parts. It is expected that these low volume FAI will turn into volume production within the next two years. Can management help shareholders understand what are the other (internal and external) milestones to be achieved before these FAIs can go into high-volume production?**

**Company's Response:**

- Before FAI can go into high volume production, the company shall go through a preliminary discussion on product design drawings; technical study of respective drawing requirements; feasibility study of the manufacturing processes and make a prototype of product for customer inspection and qualification clearance. Due to the proprietary rights reason, the Company is not able to provide the details of the milestones without a written consensus from the rights holders.

**Question 2**

The "Impairment review of goodwill" is a key audit matter (KAM) highlighted by the Independent Auditors in their Report on the Audit of the Financial Statements (page 37). Key audit matters are those matters that, in the professional judgement of the Independent Auditors, were of most significance in the audit of the financial statements of the current period.

As mentioned in the KAM, goodwill was recognised following the group's acquisition of Dolphin Engineering Pte. Ltd. ("DEPL"), JEP Precision Engineering Pte. Ltd. ("JEPS") and JEP Industrades Pte. Ltd. ("JEPI").

As of 31 December 2020, the carrying amount of the group's goodwill is $11.3 million after an impairment loss of $6.25 million during the current financial year. In particular, the goodwill for JEPS (Precision machining) was reduced from $11.45 million to $5.2 million. The goodwill for Equipment manufacturing (DEPL) and Trading and others (JEPI) remained at $5.3 million and $0.8 million respectively.

The key assumptions for the value in use calculations include discount rates, growth rates (shown below) and expected changes to selling prices and direct costs during the period.

The assumptions used to discount the forecast cash flows is as follows:

| | Gross margin | | Discount rate | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Group | | | | |
| Precision machining - JEPS | 8% | 13% | 11.58% | 9.63% |
| Trading and others - JEPI | 20% | 20% | 10.57% | 9.92% |
| Equipment manufacturing - DEPL | 25% | 21% | 10.52% | 10.01% |

**(i) What were the growth rates used in the value in use calculations?**

**Company's Response:**

- Refer to **Annual Report page 78**, *"The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next five years and thereafter budget a perpetual growth rate of 1% - 2% (2019: 2%). This rate does not exceed the average long term growth rate for the relevant markets".*

Despite the complexity of the precision machining segment, management has estimated a gross profit margin that has been consistently lower than the gross profit margin from trading and from equipment manufacturing.

**(ii) Is the group able to obtain sufficient profit margins in the precision machining segment to generate a long-term, sustainable return that is commensurate with the level of risks taken?**

**Company's Response:**

- The Company is continuing its focus on the following aspects for its sustainability during these uncertain economic outlook:
  - On-going streamlines its operation and improve its engineering capabilities
  - Actively explore into market business segment and customer base.

**(iii) Can management elaborate further on JEPS' value proposition? How strong is JEPS' position in setting its selling price?**

**Company's Response:**

- JEPS is constantly reviewing its existing engineering processes and enhancing its capabilities and skillsets to provide the one-stop solutions to its customers and achieve a competitive edge against competitors.
- JEPS is facing a stiff foreign competition and all selling prices and its terms are negotiated and fixed at the best interest of the company.

In addition, revenue from the equipment manufacturing segment increased by 45% from $15.1 million in FY2019 to $21.9 million. This was largely due to strong demand globally in the semiconductor and industrial manufacturing equipment segments. The group has guided that the outlook remains positive on strong demand for manufacturing equipment due to the pandemic-accelerated digitalisation, 5G proliferation and cloud expansion. Segment result have also increased from $1.99 million in 2019 to $4.19 million in 2020.

**(iv) What is management's strategy to further grow the equipment manufacturing business (including its strategy to acquire new customers)**

**Company's Response:**

- The management is continuing to grow its business by investing high capability solutions equipment and offering more solutions to both existing customers and new potential customers.

## Question 3

During these uncertain times, management focused on liquidity and conserving cash. The group carried out cost saving measures such as shorter work weeks; freezing pay rise, hiring and overtime; as well as a retrenchment exercise during the second half of FY2020 and pivoted its excess resources to other well-performing business unit.

While total employee benefits expense has decreased from $16.3 million to $13.8 million in FY2020 (page 69), key management compensation increased from $1.52 million to $1.97 million (page 89; reproduced below)**.**

Key Management Compensation

Key management personnel are directors and those persons having authority and responsibility for planning, directing and controlling the activities of the company, directly or indirectly. The below amounts are key management compensation:

| | Group | |
|---|---|---|
| | 2020 | 2019 |
| | S$'000 | S$'000 |
| Salaries, bonuses and related benefits | 1,889 | 1,436 |
| Defined contribution plans | 84 | 86 |
| | 1,973 | 1,522 |

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(i) **Can management help shareholders reconcile the increase in key management compensation when the group carried out cost saving measures such as shorter work weeks; pay freeze; retrenchment exercise? What were the growth rates used in the value in use calculations?**

**Company's Response:**

- For performance bonus, refer to **Annual Report 2020, page 21** *"The Company has in place a performance Incentive Scheme ("**Scheme**"). The Scheme serves to motivate eligible participants towards better performance through increase dedication and loyalty.*

- With an exclusion of performance bonus, the reported KMP remunerations for FY20 was marginally different with FY19.

| | Group | |
|---|---|---|
| | **2020** | **2019** |
| | S$'000 | S$'000 |
| Salaries, bonuses and related benefits | 1,889 | 1,436 |
| **Less: performance bonuses *n1** | **(795)** | **(385)** |
| | **1,094** | **1,051** |

***n1**
- ***Performance Bonuses for FY2020 was related to FY2019 performance***
- ***Performance Bonuses for FY2019 was related to FY2018 performance***

In addition, excluding a key management personnel (KMP) whose contract has expired, the directors and KMPs received bonuses of between 24% and 62% of their packages (average of 42%) in FY2020. In FY2019, the bonuses ranged from 17% to 45% and averaged 27%.

The top remuneration band for the executive directors has increased to S$500,000 – S$749,999 in FY2020. In FY2019, it was S$250,000 – S$499,999.

(i) **Would the board/remuneration committee elaborate further on its review and recommendation on executive remuneration in FY2020? This was a year when the group carried out cost-saving measures and retrenched workers. The group also received grants (Jobs Support Scheme and Covid-19 Relief) from relevant government agencies amounting to $3,788,000 (page 67).**

**Company's Response:**
- Executive remuneration is based on a contractual terms stated in the signed service agreement and refer to **Annual Report 2020 page 21***, "The RC reviews the reasonableness of the contracts of service of Executive Directors and Key Management Personnel to ensure that their compensation commensurate with the responsibilities and risks involved in being a Director.."*

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**(ii) What were the key performance indicators used to assess executive directors and KMPs?**

**Company's Response:**

- All primary duties are stated in each KMPs' contract of services and refer to **Annual Report 2020 page 21**, "T*he RC reviews the reasonableness of the contracts of service of Executive Directors and Key Management Personnel to ensure that their compensation commensurate with the responsibilities and risks involved in being a Director..*"

**Question 4**

**Where future areas of synergies is JEP able to benefit from its relationship with UMS?**

**Company's Response:**

- Refer to FY2020 **Annual Report page 6** "*The decision to have an alternate operation base by shifting some of the non-critical manufacturing activities to Malaysia in FY2019 had effectively mitigated business disruptions during circuit breaker period and the lockdown period in Singapore and Malaysia.*"

**Question 5**

**Does management foresee any acceleration in growth trajectory over 2021-22 period?**

**Company's Response:**

- Refer to FY2020 **Annual Report page 6** "*Covid-19 pandemic shockwaves continued to reverberate through the global economy particularly the aerospace industry, and recovery to pre-pandemic levels in this sector is not likely to happen any time soon. There are high levels of infections at some regions, ongoing international travel restrictions, and possible changes in travelers demand and pace of vaccines distributed globally, recovery to pre pandemic levels in this sector is unlikely to be swift.*"