



RESPONSES TO SUBSTANTIAL AND RELEVANT QUESTIONS

AEM ANNUAL GENERAL MEETING TO BE HELD ON 24 APRIL 2024

RESPONSES TO SUBSTANTIAL AND RELEVANT QUESTIONS

Singapore, 19 April 2024 - AEM Holdings Ltd. ("AEM" and the "Company") would like to thank our shareholders for submitting their questions in advance of the 2024 Annual General Meeting ("AGM"). The AGM will be convened and held on 24 April 2024 at 3.00 p.m. (Singapore time) in person at The SingPost Auditorium, 10 Eunos Road 8, Level 5, Singapore 408600, Singapore Post Centre.

Please refer to our responses to the questions submitted by shareholders before 5.00 p.m. on Tuesday, 16 April 2024. Substantial and relevant questions received after 5.00 p.m. on Tuesday, 16 April 2024, which are not similar to the questions already addressed in this announcement, will be addressed at the AGM.

AEM would also like to take this opportunity to thank Securities Investors Association (Singapore) (SIAS) for their questions on AEM's 2023 Annual Report.

By Order of the Board

Chandran Nair
Chief Executive Officer



RESPONSES TO SUBSTANTIAL AND RELEVANT QUESTIONS

SIAS – Question 1

As noted in the chairman's message to shareholders, despite the challenges and errors in FY2023, the big picture looks positive with generative AI driving multi-year need for the entire IT cloud and edge infrastructures to be re-tooled. New-generation semiconductor chips for AI are based on the most advanced nodes and packaging methods, a trend that the chairman sees as favouring the group's approach to semiconductor testing, Test 2.0.

- (i) **Can the management explain, using layman's terms, why the chairman has such high confidence that the company's Test 2.0 is "undeniably" the standard going forward?**

The adoption of heterogenous integrated packages (chiplets) has created significant challenges in the testing of the latest advanced logic devices. These challenges are directly correlated with an increase in test time, which results in a higher cost-of-test. A key way for a semiconductor manufacturer to overcome this increase in cost-of-test is via innovation in test flows and methodologies. Our Test 2.0 solution set features leading thermal capabilities, advanced automation with massively parallel solutions and Factory 4.0, and finally application optimized test instrumentation which enables elements of the current dominant Final Test insertion to shift test content into the Burn-In and/or System Level Test insertions. These capabilities combine to offer an attractive solution for the next generation advanced logic devices under development.

- (ii) **Currently, what percentage of the industry is using the group's Test 2.0?**

Our Test 2.0 solutions are applicable to Logic and Logic enabled chips. In terms of this particular segment, we estimate that we have about 30% of the installed test systems base. Additionally, this is applicable for High Bandwidth Memory that is increasingly used in conjunction with Logic enabled chips.

- (iii) **Besides from the group's current key customer, how many of the top 10 AI chip players such as NVIDIA (Hopper H100/Blackwell B200) and AMD (Instinct MI300X) are utilising Test 2.0? Does management perceive greater potential with hyperscalers who are designing their in-house AI chip solutions?**

We have announced initial wins at various test stages (burn-in, functional, system level) at 2 other customers for their AI chip programs. One of the new customers is in the top five AI chip players and the other we estimate to be in the top 20. We do see excellent potential with hyperscalers and are actively engaged with several.



RESPONSES TO SUBSTANTIAL AND RELEVANT QUESTIONS

- (iv) **Separately, has the board identified the risks associated with the transition to a build-to-stock business model, compared to the previous build-to-order model? Does the new operating model require substantially more working capital?**

The transition from a build-to-order model to a build-to-stock model is viewed as a temporary event due to the long-dated purchase order program with our key customer. All new engagements will be following the build-to-order model that we have had in place for years.

- (v) **Are there concerns that the key customer may delay deliveries under its long-term non-cancellable purchase orders?**

We do not have any concerns regarding potential delays in the deliveries under our non-cancellable purchase order program with our key customer. The program is governed by contractual agreements between both parties and we have no reason to believe the other party would violate any terms of the agreement.

SIAS – Question 2

The group has been successful in its diversification journey with the onboarding of “several new customers”. Of the five new customers, two are in the xPU segment, two in “Systems & Hyperscalers” segment and one in the Memory segment.

Nevertheless, the key customer still contributed \$238.8 million in revenue, with the Test Cell Solutions segment registering \$271.5 million in revenue for FY2023.

- (i) **What insights has the group gained from acquiring these five new customers that will inform its approach to future customer acquisition?**

(1) Receptivity of AEM’s technology solutions: The acquisition of these five new customers has confirmed that our technology strategy and roadmap are aligned with the market’s needs. Our thermal technology is highly differentiated due to its scalability and flexibility, which makes it very desirable.

(2) Timing of revenue ramp: The migration from lab evaluations to production volumes takes between 9 months to 3 years depending on the intercept for new chips to be launched and the trials’ assessment of platform stability, yield management and financial Return-on-Investment. No customer changes over to new test platforms mid-stream in a production ramp.

(3) R&D investment by AEM is relatively high at the qualification stage as customer feedback is integrated into the equipment modifications with support from our engineering teams.



RESPONSES TO SUBSTANTIAL AND RELEVANT QUESTIONS

(4) Getting to a production Plan-of-Record at a customer takes time but is valuable as it requires customer buy-in at many levels and usually lasts through many new product cycles.

- (ii) **The group has not declared a dividend as it is prioritising investments in “new customer programs”. What are the costs related to customer acquisition?**

See answer above.

- (iii) **What can the group do to shorten the gestation period that includes “engineering validation” and “production intercept” before the group reaches the ramp up stage?**

We believe a natural outcome of the development and refinement work we have done on our platforms and the customer acquisitions to date will be a shorter gestation period from initial engagement to initial high volume manufacturing orders. It is important to remember that the ramp rate is dictated entirely by the customer and the demand for the device families being run through our test equipment.

SIAS – Question 3

The company has announced a 1-for-100 bonus issue “aimed at rewarding and giving due recognition to shareholders for their loyalty and continuing support” for the group.

- (i) **Can the board explain the rationale behind the decision to issue 1 bonus share for every 100 shares held by eligible shareholders?**

The board's rationale behind the decision to issue 1 bonus share for every 100 shares held by eligible shareholders was to conserve cash to enable the group to continue to invest in R&D programs, while adhering to the spirit of the group's dividend policy and providing a payout of shares in kind that was of greater value than a cash payout per our dividend policy.

- (ii) **Considering this is essentially a non-monetary transaction, did the board consider a higher bonus rate such as 10 bonus share for every 100 shares held? This would help to alleviate the issue of shareholders being left with odd lots.**

During the board's discussion on this matter, a variety of payout rates was considered, and it was deemed a rate of 1 bonus share for every 100 shares held was the most reasonable rate that matched the contemplated dividend amount.



RESPONSES TO SUBSTANTIAL AND RELEVANT QUESTIONS

- (iii) **Is the board aware of the situation faced by smaller shareholders and what can the board do to help mitigate the issue caused by the 1% bonus issue that it is proposing? For instance, has the company considered working with major stockbrokers to facilitate odd lots trades at no/low brokerage fees during a specific period?**

The “odd lot” dilemma was considered during the discussion on the bonus issue payout rate. SGX has a Unit Share Market where odd lots can be traded. It is accessible through major stock brokers in Singapore and some offer same commission rates as the Ready Market for broad lots. We welcome any suggestions that SIAS or our shareholders may have on how we can assist with the odd lots issue.

Shareholder – Question 1

What is the status of the investigation into the shortfall in inventories?

For details on the shortfall in inventories, please refer to the group’s FY2023 earnings press release dated 28 February 2024, titled “AEM reports FY2023 revenue of S\$481.3M and profit before tax, excluding exceptional items, of S\$38.3M.” The Audit & Risk Management Committee (ARC), along with the board have completed their investigation into the shortfall in inventories with the help of the group’s external independent 3rd party consultant, as well as an internal cross-functional teams. The investigation was run by the Audit & Risk Management Committee, with the Chairwoman acting as chair of the investigation. The investigation concluded that there was no evidence of fraudulent activities. Additionally, the investigation determined that the issue was limited to FY2023.

Shareholder – Question 2

How have the Management been held accountable for the shortfall in inventories?

Through the investigation, the Management and staff responsible for the failures that led to the shortfall in inventories have had their employment terminated or are no longer with the group, and the senior leadership has volunteered to forgo all discretionary bonuses. This decision is supported by the board.

Shareholder – Question 3

Did the external auditor uncover the stock discrepancy, and if not, should the group change auditors?

The shortfall in inventories was uncovered during the group’s internal year-end stock take exercise, prior to the year-end audit exercise by the group’s external auditors. The events leading up to the shortfall in inventory occurred within the fiscal year, and as such neither our external nor internal auditors had a chance to discover the issue.



RESPONSES TO SUBSTANTIAL AND RELEVANT QUESTIONS

Shareholder – Question 4

Have the Board of Directors volunteered to have a cut in their director fees in view of such a big loss in stock discrepancy?

The Board of Directors of AEM are retained on a fixed fee basis. Since 2022 directors are not given bonuses or shares even when our company does well. This is to ensure that the Board is not incentivized by short term actions but rather acts as stewards for the long-term value of the Company. The Board does not have visibility and authority over daily operations but at quarterly reviews. The inventory discrepancy was explained earlier and was mainly related to the migration of systems during the transfer of production from Singapore to Penang. The Board took immediate action to investigate the issue when it was alerted and took active steps to guide management in its remediation.

Shareholder – Question 5

Can the group elaborate on the settlement of the confidential arbitration, elaborating on the lessons learnt and steps taken to protect the company's intellectual property and prevent a recurrence of an arbitration happening?

For details on the confidential arbitration, please refer to the group's announcement dated 28 July 2023, titled "AEM reaches settlement in confidential arbitration." AEM has always considered Intellectual Property a cornerstone of our technology roadmap, both before and after the arbitration. Following the arbitration settlement, we remain committed to aggressively defending our intellectual property by expanding our patent portfolio globally.

Shareholder – Question 6

It has been noted that Other Audit Fees increased from S\$22K to S\$49K, while Non-Audit Fees increased from S\$135K to S\$150K. Can the board explain the reason for the increase in the fees? Are the Non-Audit Fees paid to the group's external auditor, and if so, what are they for and why did they increase? Are the fees associated with the 3rd party consultant that was engaged for the investigation into the shortfall in inventories issue reflected in Other Audit Fees or the Non-Audit Fees? If not, where can they be found?

The increase in the fees was due to an increase in the scope of work engaged for the year, as well as for inflationary reasons. The non-audit fees were paid/payable to auditors of the Company as disclosed in the financial statements. The fees associated with the 3rd party consultant are reflected in FY2024's financial statements and not FY2023, as the consultant was both engaged, and the work rendered, in FY2024.



RESPONSES TO SUBSTANTIAL AND RELEVANT QUESTIONS

Shareholder – Question 7

The finance cost of bank loans had increased from S\$1.8K to S\$5.8K, what is the average interest rate charged?

The interest rate of the group's bank loans range from 2.20% to 5.45%.

Shareholder – Question 8

In relation to customer concentration, can the group elaborate on the plan to diversify its customer base and give a preliminary indication of how much concentration risk is expected to be reduced by?

The group has looked to diversify its customer base in two ways – through deep technical engagements with large semiconductor chip manufacturers and via the growth of its non-semiconductor business, primarily in the PCB assembly space. Within the semiconductor space, we are working with a select number of leading customers to win share of wallet, and after the initial win, the expectation is to be able to expand across the insertions and then across device families. This would replicate our winning strategy at our key customer. We do not provide an indication of how much concentration risk is expected to be reduced by as our goals are to maximize revenue within each account, regardless of the concentration risk.

Shareholder – Question 9

As AEM's test capabilities and offerings develop, would it be possible to provide a comparison of the type of business opportunities it may not capture or capture less in the past and what it may capture or capture more going forward, based on the following:

- a. Chip architecture – x86, Arm, etc.
- b. Chip type – memory, CPU, GPU, etc.
- c. End-user sector – PCs, mobile, data centres, automotive, etc.

Any other classifications/themes which investors may commonly relate to from industry news/ reports?

AEM's test capabilities have primarily targeted high volume advanced logic devices. Prior to 2022, this has primarily meant a focus on CPUs for PCs and data centres, while being chip architecture agnostic. Post 2022, and the shift towards chiplet technologies, High Bandwidth Memory (HBM), and an AI world, we continue to focus on advanced logic devices which includes CPUs, GPUs, xPUs, while also addressing the HBM market.



RESPONSES TO SUBSTANTIAL AND RELEVANT QUESTIONS

Shareholder – Question 10

Does AEM provide separate test solutions for chip design firms (fabless) and foundries or similar respective units in the case of integrated device manufacturers (IDMs)?

AEM's test solutions are composable, platform-based solutions that are designed per the test needs of the individual customer. Examples of attributes that a solution would be designed to are: test insertion (burn-in, final test, system level test), package size, device power, thermal profiles, expected test time, throughput demands, etc.

Shareholder – Question 11

The semiconductor industry is inherently cyclical despite the positive long-term prospect. Apart from customer diversification, does AEM have other diversification strategies or measures it is actively pursuing to make its business more resilient to industry cycles?

Two main diversification strategies that the company has undertaken is to execute acquisitions of companies that have a capability that is critical to AEM's growth, while simultaneously having their own independent growth vector and to increase the consumable content of its test solutions. An example of the former would be AEM's acquisition of CEI given CEI's primary exposure to medical technology, oil and gas, and aerospace.