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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 SHAREHOLDERS IN RESPECT
OF THE ANNUAL GENERAL MEETING
TO BE HELD ON JULY 29, 2021**

The board of directors (the “Board”) of Willas-Array Electronics (Holdings) Limited (the “Company” and together with its subsidiaries, the “Group”) refers to (i) the circular of the Company dated June 28, 2021 (the “Circular”); (ii) the notice of the annual general meeting of the Company dated June 28, 2021; and (iii) the checklist contained in the joint statement by the Accounting and Corporate Regulatory Authority, Monetary Authority of Singapore and Singapore Exchange Regulation updated on October 1, 2020 (the “Additional Guidance Checklist”).

Unless the context otherwise requires, capitalized terms used in this announcement have the same meaning as defined in the Circular.

In accordance with point 3.3 of the Additional Guidance Checklist, all substantial and relevant questions submitted by shareholders and members must be addressed by the board of directors and/or management of a company prior to, or at, the general meetings of that company. Accordingly, the Company sets out herein the substantial and relevant questions that it has received from shareholders as at 9:30 a.m. on July 26, 2021 and the accompanying responses of the Company.

Where questions overlap or are closely related, they have been merged and rephrased for clarity. For easy reference, the questions are grouped into the following key topics:

- Financials
- Operations
- Strategy

Financials

1. *Refer to Financial Highlights on page 4 of the Company's annual report for FY2021 (the "Annual Report"), Net Gearing. The net gearing ratio has been decreasing for the past 3 years from 1.08x to the current year of 0.4x. The current net gearing ratio of 39.6% (on page 17 of the Annual Report) is the lowest in the past 5 years.*

(i) *Is this trend of reducing net gearing ratio indicates a change of capital structure of having lower debts for the Company going forward?*

Company's response: No, the distribution business still requires financing support from banks. In a comparatively low interest rate environment, cost of borrowing when compared to profit generated from increased sales, justifies our decision to make use of the loan leverage to support our business growth when appropriate.

(ii) *Is there a range of net gearing ratios that the Company targets to maintain?*

Company's response: We will monitor the ratios closely and generally will try to keep net gearing at less than 1.1 where practicable. However, the actual ratio will depend on a combination of factors such as cost of borrowing and growth of sales volume etc. We aim to maintain a healthy cash position for the Company. Please also see our response to Question 1(iii) below.

(iii) *One of the reasons for the reduction of net gearing ratio is due to a decrease in trust receipt loans, may the Company elaborate on the reasons for the decrease in "trust receipt loans"? Does this decrease in trust receipt loans indicate a decline in sales orders for the coming quarters?*

Company's response: As stated on page 15 of the Annual Report, the decrease in trust receipt loans towards the end of FY2021 was mainly due to the decrease in inventory level, which indicates a decrease of inventory turnover days arising out of global shortage of supply of electronic components. We expect the net gearing ratio to increase when the supply and demand of the electronic component market strikes a balance.

Operations

2. *Refer to the Management Discussion and Analysis on page 13, Telecommunications “As we await the 5G launch, we intend to uphold our service standards and support for the supply chain.”*

How does the Company benefit from the 5G launch? What are the electronic components that the Company distributes directly benefits from the 5G launch?

Company’s response: We expect the 5G launch to spur new demand for handset replacements and intensify the building of 5G infrastructure. This is expected to trigger demand for more components used in mobile phones and also power-related components used in 5G base stations.

3. *How has the outlook for the Automotive segment changed, compared to 3 months ago?*

Company’s response: We continue to see a trend to migrate to New Energy Cars (e.g. electric vehicles).

4. *How will chips shortages for automotive industry and shutdowns of automotive factories around the world affect this year revenues?*

Company’s response: The automotive market rebounded very rapidly and strongly following the easing of Covid-19 safety measures in various countries. The sudden and unexpected surge in demand was overwhelming and could not be fulfilled by the existing capacity of the semiconductor chip makers.

Although most chip makers have expanded their capacities in response to global demand, the culmination of several factors, including higher electronics content in cars and the push towards electric vehicles, has led to higher than expected chip demand. We believe the situation will continue at least until the end of 2021. In order to support our key customers in China’s automotive industry, we will work closely with our chip suppliers to fulfil their orders.

5. *Has recent demand for the Home Appliance segment moderated due to the relaxation of COVID restrictions?*

Company’s response: There was a huge surge in demand at the start of the pandemic as consumers rushed to buy the appliances they needed to work and as they spend more time at home. However these are durable goods that are unlikely to be replaced unless damaged so demand has since stabilized as the pandemic has been ongoing for more than a year.

Strategy

6. *Refer to Chairman’s Statement on page 9, “In fact, demand for certain electronic components has been so overwhelming that there is now a global shortage of semiconductor chips that is expected to lead to manufacturing and production delays for many consumer goods and also for the automotive industry. In view of this, the Group will continue to support our customers by doing our best to source what they need.”*

(i) *What is the net impact of the shortage of semiconductor chips to the Company’s FY2022 result? Will this shortage be favourable or unfavourable for the Company? How is the shortage of semiconductors in the market affecting Willas-Array, e.g. in terms of pricing and sourcing?*

Company’s response: The situation is such that there is just not enough supply to meet the current demand. We are working closely with our suppliers to make sure to minimise the impact to our customers’ production. Notwithstanding such tight supply situation, the price pressure from our customers is not strong and in general our margin has stayed relatively stable.

(ii) *What are the mitigation plans by the Company for the shortage of semiconductor chips?*

Company’s response: The order planning is very important as we target to fulfil the requirement and forecast of our customers and also meet the lead time and production capacity of our suppliers where practicable. We have to frequently adjust the forecast and order planning to ensure supply to our customer.

(iii) *How long do you expect the shortage of semiconductors in the market to last?*

Company’s response: In view of the current backlog of orders, we expect the situation to continue at least until the end of 2021. We understand from our suppliers that they are building more capacity by year end and this may ease the shortage situation. We are in constant contact with our suppliers and monitoring the situation closely so that we can plan our orders and manage our stock better.

(iv) *It appears that the Company has benefitted from electronics component shortages, will the Company suffer if the components shortages are eased in future?*

Company's response: With around 40 years of experience in the market, the Company has weathered many economic cycles and the supply chain volatility, and can draw on our prior experience in planning for such exigencies. It is a key priority of the Company to keep an efficient and effective operation in order to support our suppliers and customers to maintain a smooth manufacturing and supply, respectively.

7. *The Company is a distributor of electronic components and this business has had a low net profit margin range from -2.3% to 2.6% for the past 10 years. There are many risks associated with the business e.g. defaults of receivable by customers, obsolete inventory due to change of market conditions and devaluation of RMB, these events will erode the thin profit margin for the business. What are the plans for the Company to protect and improve the net profit margin for the business going forward?*

Company's response: In our role as a distributor, we have to provide distinctive value-added services to both our customers and suppliers in order to protect and improve our margin. We are a key distributor for our suppliers in the China market. Over the years, we have established an efficient and effective sales network in China to cover the potential market segments for our suppliers to expand their business. Moreover, our professional engineering team supports the design-in activities of new products from our suppliers to help the development of new markets and applications. At the same time, we are stringent about accounts receivable and also our inventory status so as to minimise potential losses in these areas.

8. *Looking over the Company's historical performance, the business has been subject to exaggerated boom and bust cycles. Will this continue to be the situation going forward? Is there a way to achieve steadier, less volatile sales and earnings?*

Company's response: Cyclicalities are part and parcel of running a business but what we are focused on is building a company that is resilient and able to withstand challenges, drawing upon our experience from having operated in this industry for around four decades.

The Company proactively identifies potential growth segments and trends and allocates its resources in order to take advantage of market opportunities. At the moment, we are very much focused on our Industrial, Automotive and Home Appliance's segments. These segments have generally achieved steady revenue growth over the past few years and we expect this to continue because of the global trend towards energy saving and reduced carbon emission. At the same time, we continue to exercise prudence in order planning and inventory management to minimise the volatility in supply chain.

9. *Given the China/US trade tensions, how does the Company position itself in this reality?*

Company's response: We keep a close eye on the relationship between the two countries as it affects trade between the two nations. However China remains our key market and its domestic growth remains robust, which bodes well for our business and investment in this market.

China's GDP in 2020 was around 70% of the US¹. Despite the Covid-19 pandemic, China was still able to achieve GDP growth of about 2.3% in 2020 (as compared with 2019). We believe that given its performance in Q1 and Q2 of 2021, China is on track to achieve around 8% GDP growth that the International Monetary Fund has projected in 2021².

¹ Source: [The 20 countries with the largest gross domestic product \(GDP\) in 2020, Statista.com \(April, 2021\)](#)

² Source: [Gross domestic product \(GDP\) growth rate in China 2010-2026, Statista.com \(April 12, 2021\)](#)

10. *Is the Company still relevant to China market if China builds up its capability to be less reliant on imports from outside?*

Company's response: To maintain an extensive and attractive product portfolio that will continue to be relevant to our customers, we need to source for components from both local and overseas suppliers.

An important point to note is that we are more than a components distributor. We are also a technology partner to our customers and we work with them closely to provide value-added services by developing new applications together.

11. *Beside the global shortage of semi-conductor chips, what other key challenges are likely to affect the Company's revenue and profitability going forward?*

Company's response: The health of China's economy is key to our Company's business and we have to align our growth strategies with trends in the market. We have to carefully monitor the trends in China's domestic consumption, the direction of China government's economic and industry support measures and the trade tensions between the US and China. Please also see our response to Question 9 above.

By Order of the Board
Willas-Array Electronics (Holdings) Limited
Leung Chun Wah
Chairman and Non-executive Director

Hong Kong/Singapore, July 28, 2021

As at the date of this announcement, the Board comprises one Non-executive Director, Leung Chun Wah (Chairman); three Executive Directors, namely Hon Kar Chun (Managing Director), Leung Hon Shing and Leung Chi Hang Daniel; and three Independent Non-executive Directors, namely Wong Kwan Seng, Robert, Iu Po Chan, Eugene and Lim Lee Meng.

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