VALUETRONICS HOLDINGS LIMITED
(Incorporated in Bermuda on 18 August 2006)
(Company Registration Number: 38813)
(the "**Company**")

ANNUAL GENERAL MEETING TO BE HELD ON 14 AUGUST 2020 – RESPONSES TO SUBSTANTIVE AND RELEVANT QUESTIONS RECEIVED FROM SHAREHOLDERS

The Board of Directors (the "**Board**") of Valuetronics Holdings Limited (the "**Company**", together with its subsidiaries, the "**Group**") refers to its announcement dated 21 July 2020 and Notice of Annual General Meeting ("**AGM**") dated 21 July 2020.

The Company would like to thank shareholders who submitted their questions in advance of the Company's AGM which will be held via electronic means today (14 August 2020) at 10.00 a.m. (Singapore time).

Please refer to **Appendix A** for the Company's responses to substantive and relevant questions received from shareholders relating to the business of the AGM. Where there are substantially similar questions, the Company has consolidated such questions; consequently not all questions are individually addressed.

BY ORDER OF THE BOARD
VALUETRONICS HOLDINGS LIMITED

Tse Chong Hing
Chairman and Managing Director
14 August 2020

Question 1:

As the US-China trade tensions continue, can the Company update on the impact of these trade tensions and what are the strategies to mitigate these impact? Is management considering moving operations out of China?

Company's Response:

As mentioned in the Operations Review of the Annual Report for the financial year ended 31 March 2020 ("FY2020") (page 6 - 7), the escalating US-China trade tensions has resulted in customers accelerating their diversified procurement strategies outside China. Several customers have indicated that they will start diversifying production between the Group's China and Vietnam plants; while some customers in the auto industry and Consumer Electronics segment have plans to switch over to other suppliers in North America to serve the US market in the financial year ending 31 March 2021 ("FY2021").

With the addition of the COVID-19 pandemic, the Group is facing an unprecedented crisis that is also affecting the entire world and making the outlook for the FY2021 highly uncertain. Even with a series of precautionary and control measures for lowering operating costs being undertaken, the Group expects its FY2021 financial results to be significantly lower when compared to FY2020.

Since the financial year ended 31 March 2019, the Company has been developing a multi-location manufacturing strategy in response to the increasing trend of customer's diversifying their supply chain risk. The company's expansion into Vietnam is part of this strategy and details of this Vietnam expansion plan can be found in the Chairman's Statement in the FY2020 Annual Report (page 2 -3).

As disclosed in Note 6 to the Financial Statements in the FY2020 Annual Report (page 73 – 75), more than half of the Group's revenue in FY2020 was shipped to locations outside the US. Therefore, the Group's China operations will continue to function as a key hub in the Group's global manufacturing network, and the Group will adjust the scale of its operations in China (such as the number of workers/operators deployed, for example) according to amount of customer orders.

Question 2:

What are strategies that have been implemented by the Company during this COVID-19 pandemic in terms of mitigation of business disruption and cost management?

Company's Response:

As a result of the COVID-19 outbreak in China which surfaced in late January 2020, the Group's China factories deferred their original scheduled post-Chinese New Year holiday resumption to mid-February, in accordance with governmental decrees to curtail the spread of the virus. The Group initiated its corporate prevention and containment contingency plan since then by closely tracking the health status and travel history of its employees. Staff returning from provinces outside Guangdong had to go through a 14-day mandatory isolation period before resuming work at the China factory sites.

Other prevention measures were implemented in the Group's China and Vietnam sites, including the temperature monitoring of staff, mandatory face mask wearing, designated entrances to keep track of human traffic, greater use of telecommunication instead of unnecessary human contact, and the increased frequency of personal sanitation and the disinfection of facilities.

With regard to cost controls, as the Group is an electronics manufacturing service (EMS) provider, cost management is always an ongoing effort. The Group takes further precautionary and control measures for lowering operating costs through its ongoing automation efforts and continuous lean management program.

Question 3:

When is the expected completion of the Vietnam Campus development and how long is the lease tenure? Once the Vietnam Campus is completed, what will be its expected capacity?

Company's Response:

As disclosed in the Chairman's Statement of FY2020 Annual Report (page 2 – 3), Valuetronics is now in Phase 2 of its Vietnam expansion, whereby the Group has leased a 4,000 sqm standard factory as its second facility, in which trial production has started in May 2020.

For Phase 3, the Group expects to commence mass production at a new Vietnam Campus by the last quarter of financial year ending 31 March 2022. As per the sub-lease agreement signed on 20 November 2019 previously announced, the Group has acquired the land use rights of the new Vietnam Campus for a period of 46 years until 13 October 2065. The capital expenditure for the construction of the Vietnam campus, estimated to be around HK$200 million is intended to be financed through internal resources. It is also intended for the capital expenditure for the fit-out of the production equipment and any subsequent increase in production capacity to be financed through internal resources which would be done progressively in tandem with the Group's business growth and new customer acquisitions.

The Group envisages the new Vietnam campus to mirror the capabilities of its Daya Bay campus in China providing one-stop manufacturing solutions including PCBA, plastic injection moulding and assembly. Some of the Group's existing customers have indicated their interest to diversify their production between the Group's China and Vietnam sites upon the completion of the Vietnam Campus.

Question 4:

What are the reasons for reducing FY2020 dividends to 20 HK cents per share when the Group had cash on hand approximately HK$1 billion? Will the Group consider reducing dividends if operating environment gets worse in future fiscal years?

Company's Response:

Despite this unprecedented challenging environment, the Board of Directors (the "Board") believes that it is still crucial to follow the dividend policy. That is why in FY2020, the Company has proposed the amount of final dividends in adherence to the Company's formal dividend policy which states a payout ratio 30-50% of the total net profit attributable to shareholders. The dividend payout yield under the proposed dividend is 48.5%, which is at the upper end of the dividend payout range.

The Board endeavours to maintain a balance between meeting shareholders' expectations and prudent capital management with a sustainable dividend policy. For the benefit of long-term shareholder interest, the Board will continue to review, and revise if necessary, the dividend policy in accordance with the latest business and operating environments.

Valuetronics has a long history of being prudent in its use of cash. This has enabled the Company to build a strong net cash position to support various uses of its cash including dividend payment, capital investments, overseas expansion, as well as investing in the long term growth opportunity through mergers and acquisitions. Such requirements for cash will be carefully considered by the Board alongside with the latest operating environment in determining the Board's proposals on dividends in future fiscal years.

Question 5:

Would Directors adjust their remuneration package in this US-China trade tension/COVID-19 pandemic situation?

Company's Response:

As disclosed in Principle #7 of the Corporate Governance Report in the FY2020 Annual Report (page 22 – 23), the Executive Directors' remuneration packages are based on service agreements and comprise a basic salary component and a variable component. As disclosed, the fixed component represents under 20% with the variable representing over 80% of their total remumernation. The fixed component is in the form of a base salary and the variable component is based on set performance targets and weightage in respect of Group revenue, profitability, return on equity, total shareholder return, new products launches, corporate governance, and sustainability practices.

As the variable component matrix comprises both financial and non-financial elements, it contributes to value creation through improving revenue, profits, and business growth, thereby increasing the return to shareholders. The performance-related remuneration is to align Executive Directors' interests with that of shareholders and other stakeholders for the long-term success of the Company, and link rewards to corporate and individual performance.

The Independent Non-Executive Directors ("INED") fees, which are subject to shareholders' approval at the AGM, comprise a basic fee and an additional fee for serving on any of the Board Committees as disclosed on page 23 of the Annual Report. The fees take into account their responsibilities, effort and time accorded in the discharging of their duties. The INEDs do not receive other forms of remuneration linked to the financial performance of the Group or benefits such as share options/awards. The INED fee structure is not adjusted based on the Group's financial performance.

Question 6:

There is an online article on Valuetronics that states "FY21 will surely be much weaker than FY20 as the company lost a major automotive client", why was this not disclosed to shareholders?

Company's Response:

In the Company's FY2020 Results Announcement released via SGXnet on 3 June 2020, the Company had disclosed in the Section 10 (page 13) that:

"This escalating trade tension has resulted in customers accelerating their diversified procurement strategies outside China. Several customers have indicated that they will start diversifying production between the Group's China plant and Vietnam plant; while some customers in the auto industry and Consumer Electronics segment have plans to switch over to other suppliers in North America to serve the US market in the financial year ended 31 March 2021 ("FY2021")."

"With COVID-19 pandemic and Sino-US trade tensions, the Group is facing an unprecedented crisis that is also affecting the entire world and making outlook for the FY2021 highly uncertain. Although a series of precautionary and control measures for lowering operating costs are being undertaken to mitigate the impact, the Group's FY2021 financial results are expected to be significantly lower compared with FY2020."

The Company has alluded to the loss of revenue in that announcement and a significantly lower financial results for FY2021 compared with FY2020.