



VALUETRONICS HOLDINGS LIMITED

(Incorporated in Bermuda on 18 August 2006)
(Company Registration Number: 38813)
(the “Company”)

**ANNUAL GENERAL MEETING TO BE HELD ON 26 JULY 2021 – 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 2 July 2021 and Notice of Annual General Meeting (“**AGM**”) dated 2 July 2021.

The Company would like to thank shareholders who submitted their questions in advance of the Company’s AGM which will be held by way of electronic means today (26 July 2021) 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
26 July 2021

Question 1:

With the US – China trade tensions causing a loss of orders from certain customers, what is the Company’s plan to win back orders from new customers? What is Valuetronics’ competitive advantage and how does it intend to compete in this increasingly difficult manufacturing world?

Company’s Response:

As mentioned in the Chairman’s message of the Annual Report for the financial year ended 31 March 2021 (“**FY2021**”) (pg 2 - 4), Valuetronics has encountered numerous challenges in its history. These challenges include economic and financial crises, natural disasters, supply chain issues and more. By remaining steadfast in its course, relying on foresight and discipline, financial prudence, and a strong focus on its core capabilities, Valuetronics has navigated many challenges successfully. Navigating the ongoing Sino-US trade tensions which began in 2018 remains a challenge for the Company. This situation is further compounded by the COVID-19 global pandemic which is still far from over and the global components shortage that has recently emerged.

Winning and losing a customer’s business is a normal reality that Valuetronics faces as an Electronics Manufacturing Service (“**EMS**”) provider and the acquisition of new customers and new product lines is an ongoing exercise for the Company. Conversion time of new business opportunities to revenue varies by product nature. The Company has also expanded its sales team covering the US and Asia-Pacific regions and is constantly engaging customers, who are seeking for manufacturing solutions in China and Vietnam.

With its track record as a design and manufacturing partner for many world leading brands, Valuetronics is also able to support customers’ supply chain diversification requirements and multi-countries production strategy with its multiple manufacturing sites. The Company focuses on having a proactive engagement with customers so as to understand market and industry trends and initiate product-oriented solutions to meet their ever-changing needs. This proactive customer engagement leverages on the Company’s Design and Development (“**D&D**”) capabilities, which is supported by integrated manufacturing capabilities from plastic tool fabrication and injection moulding, to surface mount technology and full turnkey finished product assembly. As a one-stop manufacturing solution provider, Valuetronics is set apart from traditional EMS providers as its capability in providing vertical integrated services under one roof gives customers the advantage of a faster time-to-market, better quality control, and a competitive total cost of ownership. At the same time, the Company is also able to accommodate customers’ requirements for various volume mix, complexity and industrial standards, while demonstrating its spectrum of competence. Based on the above, the Company believes that it is able to compete in an increasingly difficult and complex operating environment for the manufacturing industry.

Question 2:

Can you provide an update of how the company response to the latest Covid19 pandemic in Vietnam?

Company's Response:

Recently, there have been increasing number of new cases reported in Vietnam, with the majority of them reported in Southern Vietnam. The Company's factory premises are however, located in Northern Vietnam. The rising COVID-19 cases has resulted in the Vietnamese government tightening quarantine rules and social distancing measures. and the containment measures include limiting travelling between provinces in the country. Thus far, the COVID-19 situation in Vietnam does not have a material adverse impact on the Company's manufacturing operations and ongoing construction of the Vietnam campus. Unless the COVID-19 situation in Vietnam deteriorates further, the Company does not foresee it having any significant impact on the target production commencement date of its Vietnam campus in the last quarter of the financial year ending 31 March 2022 ("FY2022"). However, any increased cross border travel restrictions may delay factory audits and qualifications of the Vietnam campus.

Furthermore, as stated in the Operations Review of the FY2021 Annual Report (pg 6 - 7) the occupational health and safety ("**OHS**") of the Company's workforce continues to be a top priority. Valuetronics will strictly adhere to all administrative guidelines and containment measures issued by the authorities in China and Vietnam. The Company's factories in China and Vietnam already have various safe distancing and hygiene practices in place at all its manufacturing sites. These include temperature monitoring, social distancing among workers, the widespread use of facemasks, designated entrances and exits to control human traffic, the use of telecommunication to prevent unnecessary human contact, and the regularly disinfection of facilities. Workers are also required to declare their travel history so that those that visited high risk areas can be quarantined on return as a precaution.

Question 3:

What is the impact of the current global component shortage on the Company's operations and how is the Company managing the impact?

Company's Response:

As disclosed in the Chairman's message in the 2021 Annual Report (pg 2 - 4), the global components shortage that has recently emerged on top of US-China trade tensions and the COVID-19 pandemic has made the operating environment more challenging. The components shortage affects manufacturers worldwide, with increasing demand for components from growing segments like electric vehicles causing supply constraints. Until this component demand and supply problem finds its own equilibrium, it is going to be increasingly more difficult for EMS players including Valuetronics to meet demand due to longer order lead times, allocation of component supply and increased prices. Although the Company is working with its customers and suppliers to deal with the current global components shortage, it has to contend with the possibility that higher component prices due to the short supply and a strong Renminbi, will have a negative impact on profit margins. Nevertheless, the Company is trying to diversify supply sources and negotiate new prices with customers in order to mitigate the situation.

Question 4:

Why has the remuneration of Executive Directors in FY2021 not decreased as compared to FY2020? Would the Executive Directors adjust their remuneration package under the current challenging environment?

Company's Response:

With regard to the remuneration of the Executive Directors, as disclosed in Principle #7 of the Corporate Governance Report in the FY2021 Annual Report (pg 21 – 22), the Executive Directors' remuneration packages are based on service agreements which the Company has entered into with them 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 remuneration. The fixed component is in the form of a base salary and the variable component is based on a set of performance targets and weightage in respect of Group revenue, profitability, return on equity, total shareholder return, new products launches, corporate governance, and sustainability practices and thus will be adjusted corresponding to the Group's performance on the aforesaid targets.

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.

Question 5:

Will the Company consider revising the dividend policy or paying out special dividends given its high level of cash. Why has dividends being falling in recent years? Why has the Company's free cash flow dropped in FY2021 as compared to FY2020?

Company's Response:

The Company has adhered to its formal dividend policy of declaring 30% - 50% of net profit as normal dividends since the adoption of the dividend policy in 2014. In the recent two years, total dividends (including interim dividend and proposed final dividend) declared were HK\$20 cents in FY2020 and HK\$21* cents in FY2021, representing a payout ratio of 49% in both years, which is at the upper end of the dividend payout range.

As disclosed in Principle #11 of the Corporate Governance Report in the FY2021 Annual Report (pg 28 – 29), in proposing any dividend payout and/or determining the form, frequency and/or the amount of such dividend payout, the Board takes into account, inter alia –

- i. the Group's actual and expected financial performance and financial conditions;
- ii. retained earnings and distributable reserves;
- iii. results of operations and cash flow;
- iv. the level of the Company's debts to equity ratio and return on equity;
- v. the ability of the Company's subsidiaries to make dividend payments to the Company;
- vi. restrictions on payment of dividends that may be imposed on the Company by any of its financing arrangements;
- vii. the Group's expected working capital requirements, the Group's expected capital expenditure, future expansion, other investment plans and other funding requirements;
- viii. general economic conditions and other internal or external factors that may have an impact on the business or financial performance and position of the Group, including such legal or contractual restrictions as may apply from time to time or which the Board may consider appropriate in the interests of the Company; and
- ix. such other factors that the Board deems appropriate.

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.

The reason for the drop in free cash flow is due to the capital expenditure investment in the Company's Vietnam operations, including the construction of the Vietnam campus.

** The proposed final dividend of HK\$16 cent is subject to shareholders' approval at the upcoming Annual General Meeting*