

INNOTEK LIMITED

(Incorporated in the Republic of Singapore)
(Company Registration No. 199508431Z)

Page 1 of 5

RESPONSES TO QUESTIONS RECEIVED

The Board of Directors (the “**Board**”) of InnoTek Limited (the “**Company**”), together with its subsidiaries (the “**Group**”) wishes to announce the following in response to the questions from analysts from several research houses.

Questions were addressed by Mr Neal Chandaria, Chairman of InnoTek and Mr Lou Yiliang, InnoTek’s Chief Executive Officer.

1. *Please provide us details about your capex plans for 2023 as well as 2024 and please let us have the details what these capex budget will be spent on?*

The Group takes a prudent approach to its capital expenditure (CAPEX) to ensure sustainable corporate growth. In 2022, CAPEX was primarily focused on maintaining and upgrading our facilities’ production capacity and technology. In 2023 we increased our investment in equipment to support our newly established facilities overseas, such as our joint venture in Vietnam.

Looking ahead, we will continue to invest in enhancing operations at our existing facilities. Depending on customer demand, we will also explore other opportunities to increase our footprint, which will require higher CAPEX.

2. *Please share the payback period expected for the capex budget that you are expecting to spend*

The Group carefully assesses and deliberates the returns on each of its investments; the payback periods vary based on factors such as type of product and investment region. InnoTek generally targets a payback period of 3 – 5 years, with shorter-term investments for existing facilities and longer-term ones when incorporating new facilities overseas.

3. *What is the estimated running losses for your Thailand facility on an annualized basis and when are you expecting to breakeven and/or turnaround your Thai facility and which are the customers driving your Thai facility?*

InnoTek’s Thailand facility, Mansfield Thailand, has recorded higher order flows from existing customers, and also secured new Office Automation (OA) products. This marks a recovery from earlier impacts due to the pandemic and global economic downturn. Mansfield Thailand is expected to see a turnaround in 2024.

4. *What’s the utilization rate that your China and Thailand plants are running for 1H’23 and 2H’23 and how much additional production capacities are you planning to add for both countries for 2024?*

All of the Group’s facilities recorded higher utilisation rates this year compared to FY2022, albeit to varying degrees, with our higher-performing facilities in China exceeding 70%.

INNOTEK LIMITED

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Page 2 of 5

Looking ahead, the Group will continue to accelerate business momentum and invest in increasing production capacity to meet growing demand.

5. *Due to the divergent path of inflation in the USA and deflation in China, interest rates have been rising in the USA but falling in China. How has this impacted your operating costs and selling prices given that the USD have risen significantly against the Chinese RMB? Has this benefitted your sales and profit margins and, if possible, please share the percentage of your sales in USD, RMB and other currencies as well as your costs in USD, RMB and other currencies please?*

While the appreciation of the US dollar has contributed positively to the Group's earnings, this has been offset by the depreciation of other currencies.

6. *In previous meetings, management has shared that new customers in the AI, Gaming, battery storage, semiconductor, EV charging and medical areas will be new growth drivers for InnoTek starting in 2H'23 and accelerating in growth and contributions in 2024. Can management share how these new customers are doing so far in 2H'23 and if they have been performing in line or above management's previous expectations and is management deciding to add new geographical locations to service these new customers? Can management share the outlook and expected contributions from these new customers for FY23 and FY24 in percentage terms and also their expected growth rates?*

Our new field business has been steadily growing, particularly in the gaming machine and servers market, and we expect the trend to continue going into the second half of the year.

7. *Management shared previously that because their new AI customer is serving the top global AI MNC player and that InnoTek is the sole source supplier, this segment can contribute more than 10% of sales for FY23 and become a new growth driver for the company going into 2024. Is management's target still on track and can we expect more capex to be spent on this new AI customer? Currently how many AI customers are you serving and is there a possibility of increasing the number of customers in this arena given that they are the sole source for the GPU components, which are critical parts?*

We have been working closely with our customers in the server industry, one of whom is the main supplier to global leaders in the Artificial Intelligence ("AI") sector, to increase our production capacity to meet growing demand, and we expect this to positively contribute to our financial performance in the coming months.

8. *The company's net cash position fell from near \$100mIn to \$60+mIn for 1H'23. Can management explain what happened, why did the cash fall so much and what's the outlook for their cash position in 2H'23 and 2024? How is InnoTek capitalizing on the rapidly rising interest rate environment to earn more interest on their strong cash position?*

InnoTek's net cash position stood at S\$38.1 million as of 30 June 2023, compared to S\$59.0 million as of 31 December 2022, mainly due to higher working capital requirements, higher CAPEX as we acquired a 70%-stake in our Vietnam JV and increased investments in fixed asset.

The Group will take a conservative approach to utilising its cash position, to ensure it remains nimble and ready to adapt to changes in the operating environment. Meanwhile,

INNOTEK LIMITED

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Page 3 of 5

the Group will continue to implement cost control and maintain a healthy sales volume to improve our margins and bottom line.

9. *Last year despite only making a small profit, management was generous in maintaining dividends at 2 cents per share. This year with better prospects on profitability as well as brighter outlook thanks to strong orders from new customers and new products, would there be a chance for shareholders to expect better dividends for the final dividend when full-year results are announced in Feb'24?*

The Board and management's main priority is delivering a robust and sustainable financial performance and will consider reviewing the dividend payout once it can show sustainable financial growth.

We want to remain prudent with our balance sheet in order to maintain a consistent dividend payout, which in turn benefits shareholders in the long term.

10. *Given the company's strong net cash position and its depressed share price trading at less than half its book value, why is the company not using its cash to buy back shares in the open market to help enhance shareholder value?*

While InnoTek is open to considering strategies to enhance shareholder value, its main priority is to deliver long-term sustainable financial performance.

11. *We have seen other tech manufacturing companies with similarly strong net cash positions buying back their shares in the open market such as Venture Corp and Valuetronics, hence would management consider getting a new buyback mandate to execute share buybacks?*

The Group notes this suggestion and will consider this at the appropriate time.

12. *Can management share what the impact of raw material prices have been on profit margins in 2H'23 and what are the raw material price trends for 2024?*

While raw materials prices in China have generally stabilised, they have continued to remain elevated. Looking ahead, prices are expected to gradually increase, driven by capacity restriction of steel mills due to the implementation of carbon-neutrality policies, even as demand rises on the back of a recovering Chinese economy.

13. *How is the new acquisition doing in Vietnam and has it broken even or started to turnaround to make a profit for 2H'23. What's the outlook like for 2024?*

Since its establishment in March 2023, our Vietnam JV has made significant progress and commenced mass production of products in May 2023. Despite volatile demand from Europe and America, the Company has already commenced mass production of sheet metal processing parts for financial equipment and EV charging station orders, as well as stamping parts for OA orders.

As customers establish their manufacturing operations in Vietnam, we are optimistic performance at our JV will improve in FY2024.

14. *Can management share any other risk factors that we may have overlooked or any other positives that we should be made aware of to help us write a good and effective report on*

INNOTEK LIMITED

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Page 4 of 5

InnoTek to help the market better understand the investment merits of InnoTek?

The rapid adoption of Electric Vehicles (EVs) has shaken up the automotive industry in China. International automakers have lagged in their EV rollout in China, resulting in lower sales for InnoTek's auto segment. Hence, the Group is closely monitoring the developments in this market.

In addition, the Group is also monitoring the costs of labour and operations in our facilities in Thailand and Vietnam.

15. *Given the many M&A in the tech sector over the years and also given the cheap and depressed share price of InnoTek, are there any plans to delist or sell InnoTek to a bigger entity to help realize the intrinsic value of InnoTek?*

Please refer to our response to Question 10.

16. *How is the factory utilisation rate in China? Do you continue to see seasonality in customer demand?*

Please refer to our response to Question 4 for the utilisation rates of our facilities. The Group sees seasonality in its consumer electronics orders.

17. *Given that China is going through a challenging time with weak macro outlook do you see weaker demand from the Chinese customers? How many % of your China's production is for local and how many % is for export? Which countries are the main export destination?*

The sluggish Chinese economy has impacted our European, Japanese and American customers. They have adjusted their production strategies and accelerated their efforts to relocate overseas. This accelerated shift out of China is a key reason behind InnoTek's overseas expansion.

18. *Do you have plans to set up plants in new locations outside of China other than Thailand and Vietnam?*

Our expansion strategy depends on our customers' requirements, market demand and the Group's own financial position at the time. We are taking a careful and deliberate approach to our expansion.

19. *Do you see an improving supply chain situation compared to last year? Are you able to keep lesser inventories now compared to last year and should see improvement in working capital?*

As supply chain bottlenecks for major components have eased, customers have adjusted their production strategy and inventory accordingly. Hence, our inventory and working capital have also reverted to a normal operational range.

20. *How well is the company managing the excess cash? What currencies are most of the cash kept in? Is the company able to generate higher interest income from the high-interest rate? Given the excess cash on your balance sheet, it is a drag on your ROE and ROA, can management explain why they need so much cash and what management intends to use with the cash to generate better returns for shareholders?*

INNOTEK LIMITED

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Page 5 of 5

The Group's prudent approach to its cash reserves has served it well throughout the pandemic, and we will continue to maintain a robust balance sheet to remain adaptable while funding our expansion plans into Southeast Asia. This, in turn, generates long-term value for shareholders.

By Order of the Board
Lou Yiliang
Executive Director / Chief Executive Officer
29 November 2023