ADVANCED SYSTEMS AUTOMATION LIMITED

(Incorporated in the Republic of Singapore)
(Company Registration No. 198600740M)

RESPONSE TO QUESTIONS FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE)

The board of directors (the "**Board**") of Advanced Systems Automation Limited (the "**Company**") and together with its subsidiaries, collectively the "**Group**") refers to the announcement dated 13 June 2023 in relation to the Notice of Annual General Meeting informing shareholders that the Company's annual general meeting will be convened and held by electronic means on Wednesday, 28 June 2023 at 10.00 a.m. ("**AGM 2022**").

The Company has received certain questions from the Securities Investors Association (Singapore) ("**SIAS**") in relation to the FY2022 Annual Report and would like to set out in this announcement its responses to the questions from SIAS.

Please refer to the Appendix A of this announcement for details of the questions and the responses of the Group.

By Order of the Board
Advanced Systems Automation Limited

Dato' Sri Mohd Sopiyan B. Mohd Rashdi
Chairman
27 June 2023

Appendix A

Q1. Following the divestment of Microfits Pte Ltd in January 2021, the group retained Equipment Contract Manufacturing Services (ECMS) as its sole core business segment. The ECMS division specialises in the production of electromechanical components and parts for the semiconductor and consumer electronics sectors. In 2018, the group successfully completed the acquisition of Pioneer Venture Pte Ltd, Yumei REIT Sdn. Bhd., and Yumei Technologies Sdn. Bhd. These additions provided the group with additional expertise in die-casting and plastic injection molding, enabling it to offer a more comprehensive range of value propositions to a broader customer base and extend its geographical presence in the region.

For the financial year ended 31 December 2022 (FY2022), the group generated revenue of $15.0 million, representing a decline of $4.0 million or 21% compared to the previous year. This decrease in revenue can be primarily attributed to reduced sales demand from customers. The gross profit margin was 32%, primarily driven by changes in the sales mix and cost savings in sub-contractor expenses.

For FY2022, the group reported a net profit attributable to owners of the company of $23,000.

(i) **What are the management's strategies and priorities to improve the profitability of the group going forward?**

(ii) **How does the group acquire new customers? Please disclose the profile of the top 3-5 customers of the group.**

(iii) **What are the major products of the group? What are the growth drivers identified by management going forward?**

(iv) **Can the board/management (re)state the group's business model and competitive advantage, if any?**

Despite losses incurred by the group in the past years, it was noted that the executive director received base remuneration of $707,000 in FY2020-FY2022 while the former executive director received remuneration of $875,000 from FY2017-FY2019.

(v) **Has the remuneration committee reviewed the remuneration of the executive director to ensure that the level and structure of remuneration of the board and key management personnel are appropriate and proportionate to the sustained performance and value creation of the group (Principle 7 of the Code of corporate governance 2018)?**

Company's Response:

(i) The Management's focus is to invest in revenue-generating initiatives while managing our margins, resources and costs effectively to meet our profitability targets.

After the restructuring in FY2019 and FY2020 to dispose the loss-making entities, the Management is focused on cost optimization, revenue growth and operational efficiency to improve its profitability of the Group by strengthening its Computer Numerical Control ("**CNC**") Machining, Die Casting, Plastic Injection Molding, and Power Coating industries.

(ii) The Group provides a wide spectrum of Equipment Contract Manufacturing Services which allows us to serve a broad customer base and acquire new customers. The Group also constantly participate in trade events to expand its networking to reach out to new customers. The Management is constantly looking for ways to expand the Group's business and facilities to attract and acquire new customers.

The Company believes that it is not in the best interests of the Company to disclose the names of its top customers taking into consideration the competitive industry in which the Group operates.

(iii) The Group provides Equipment Contract Manufacturing Services and specializes in Die Casting, Plastic Injection Molding, Powder Coating and High-end Precision Engineering using 5 Axis CNC and Vertical CNC Machines.

The Management has identified customer satisfaction and operational efficiency as its key growth drivers:

- Customer Satisfaction – By delivering quality products meeting or exceeding customers' expectations, good customers' relationship management and personalized offerings can help retain existing customers and drive additional sales through upselling or cross selling.

- Operational efficiency – By improving internal processes, streamlining workflows and enhancing productivity to reduce waste, the Group is able to lower operating costs and invest in more technologies and advanced machinery. These operational efficiencies will translate into cost savings and hence, the Group can be more competitive in terms of pricing, which will help to drive additional sales.

(iv) The Group believes its key competitive advantage is providing quality services with products meeting or exceeding customers' expectations by leveraging on its extensive know how and years of experience in the market which it operates.

(v) In setting remuneration packages, the remuneration committee ("**RC**") considers the level and mix of remuneration to attract, retain and motivate the Executive Director and key management personnel to run the Company successfully in the long-term, and to align their interests with those of shareholders, by linking rewards to corporate and individual performance and therefore promoting the long-term success of the Group.

The current Executive Director has been instrumental in leading the restructuring of the Group ever since he came on board. Over the last 2 years, the Group has disposed of loss making entities, significantly reduce headcount and corporate expenses resulting in a slight profit of S$23,000 in FY2022 despite adverse market conditions. This has been a much improvement over the huge losses incurred by the Group over the past years' performance.

The Board and Management will continue to work to improve the group's results despite the current state of world economies which include inflation, climate change, Ukraine war and trade wars.

Q2. On 9 June 2022, the company announced that it had terminated the proposed acquisition of 100% of the shares in the issued and paid-up share capital of Excelgames Interactive Asia Holdings Pte. Ltd. from the vendors.

In addition, it was stated that the company remains on the lookout for "*other suitable business ventures, including but not limited to potential targets for mergers or acquisitions*".

(i) **What was the total amount of payments made to the vendors and other professional fees incurred due to the proposed acquisition of Excelgames Interactive Asia Holdings Pte. Ltd?**

(ii) **With the benefit of hindsight, were there any challenges or red flags that the board or management identified early in the negotiation process of the proposed acquisition, which indicated a high risk of non-completion of the acquisition? Currently, how is the company carrying out its search of "other suitable business ventures" and how has the board finetuned its investment criteria?**

(iii) **Has the company engaged professional and reputable investment bankers to help it with its search?**

(iv) **Has the board limited its search to certain industries and/or geographies?**

Company's Response:

(i) The Company did not make any payments to the Vendors and in fact, pursuant to the Termination Agreement, the Company has received a payment of S$100,000 from the Vendors in respect of the Transactional Costs incurred. The Company had incurred a net S$349,000 professional costs in relation to the proposed acquisition of Excelgames Interactive Asia Holdings Pte. Ltd.

(ii) There were no particular red flags that were identified by the board or management. Given the scale of the transaction, there were challenges which naturally had to be addressed, and conditions were put in place to ensure that the Company was sufficiently protected.

The Company is currently looking out for and evaluating other suitable business ventures, including but not limited to potential targets for mergers or acquisitions.

(iii) The Board and management are currently focusing on the Group's operations and has not engaged any professionals in this regard even though they are always on the lookout for possible acquisitions through their business contacts and professionals in the industry.

(iv) The board is open to any possible acquisitions in any industries and/or geographies that would benefit the shareholders. The Board and management will stick to its strategies and priorities and evaluate all opportunities that arises.

Q3. As at 31 December 2022, the group has net current liabilities of $(1.5) million and net liabilities of $(2.7) million.

On 6 June 2023, the group entered into the following revised loan repayment agreements with its ultimate holding company and a shareholder:

With the ultimate holding company	With the shareholder
• A sum equivalent to S$1,000,000 to be payable on 31 July 2024; • A sum equivalent to S$1,000,000 to be payable on 31 July 2025; • A sum equivalent to S$2,000,000 to be payable on 31 July 2026; • A sum equivalent to S$2,000,000 to be payable on 31 July 2027; • A sum equivalent to S$2,000,000 to be payable on 31 July 2028; and • The balance sum outstanding under the loan agreement inclusive of any interest that has accrued shall be paid on 31 July 2029.	• A sum equivalent to S$400,000 to be payable on 31 July 2024; • A sum equivalent to S$400,000 to be payable on 31 July 2025; • A sum equivalent to S$400,000 to be payable on 31 July 2026; • A sum equivalent to S$400,000 to be payable on 31 July 2027; and • Balance to be payable on 31 July 2024;

(i) **Can the board, especially the independent directors, reviewed the benefits of carrying out a restructuring of the group possibly via judicial management so as to safeguard the interests of shareholders, especially minority shareholders?**

(ii) **With a net liability position of $(2.7) million, how can the board/management create value for shareholders going forward? With the revised loan repayments extending to 2029, does the board expect the company to be in a position to pay out dividends in the near future?**

(iii) **Has the board held management accountable for the performance (or the lack thereof) of the group given that the accumulated losses amount to approximately $(150) million and have exceeded the share capital?**

Company's Response:

(i) The Company continues to operate on a going concern basis and it is not the Board's consideration to place the Company under judicial management. The Board continues to make its decision in the best interests of the Company and appointing judicial management would not be beneficial to the shareholders especially the minority shareholders as any proceeds from the disposals would most likely be utilized to repay all the outstanding liabilities.

(ii) The Board does not expect the Company to be in a position to pay out dividends in the near future or commit to a fixed timeline as the Company is still in an accumulated loss position and all cash generated from operating activities should be prioritized to strengthen the balance sheet and generate revenue.

The Board believes that a stronger balance sheet and higher profit will eventually attract investors and in return the shareholders will potentially gain from capital appreciation from their shareholdings.

(iii) The new management has undertaken a significant restructuring exercise between FY2019 to FY2020 where they disposed of loss-making subsidiaries, significantly reduce headcount and corporate expenses. This has resulted in slight loss in FY2021 due to effect of the restructuring exercise and a slight profit in FY2022 which is the first recorded profit over past years' performance.

The Board continues to hold meetings with the management to discuss the business plans and guide the Company towards improving the results further. The RC will continuously review the compensation package of the management to ensure base salary and performance-related remuneration are aligned with the interests of shareholders and promotes the long-term success of the Company.