



Advanced Systems Automation Limited

(Incorporated in the Republic of Singapore)
Company Registration Number: 198600740M

RESPONSES TO SGX QUERIES REGARDING THE COMPANY'S CIRCULAR DATED 5 JULY 2024

The board of directors (the “**Board**”) of Advanced Systems Automation Limited (the “**Company**” and together with its subsidiaries, the “**Group**”) would like to provide the following information in response to the queries raised by the Singapore Exchange Regulation (“**SGX**”) in respect of the Company’s circular to shareholders dated 5 July 2024 (“**Circular**”) in relation to, *inter alia*:

- (i) proposed acquisition of 100% of the issued and paid-up share capital of LSO Organization Holdings Pte. Ltd. as a “Major Transaction” under Chapter 10 of the Catalist Rules (“**Proposed Acquisition**”);
- (ii) proposed issuance of Tranches 1 and 2 Redeemable Convertible Notes (“**RCN**” or “**Notes**”) (“**Proposed RCN Issuance**”); and
- (iii) proposed diversification of the Existing Business of the Company to include the Proposed New Business (“**Proposed Diversification**”).

Unless otherwise defined, all capitalised terms used in this announcement shall bear the same meanings as ascribed to them in the Circular.

SGX Query 1

In relation to the Proposed RCN Issuance:

- (a) **To enable shareholders to fully understand the risks associated with such instruments and to balance the rationale for the Proposed RCN Issuance and use of proceeds against such risks, please disclose the following in plain English easily understood by shareholders:**

- (i) **features and risks associated with the issuance of the RCN;**

The salient features of the issuance of the Notes are as follows:

- (A) The Notes are a form of debt security which carries an interest at 5.0% per annum, payable by the Company on a quarterly basis.
- (B) The Noteholder can convert the Notes into Shares at the Conversion Price, or the Notes may be redeemed at the option of the Noteholders or the Company for cash upon the respective maturity of the Notes. The T1 & T2 Maturity Date is a date falling twelve (12) months from the date of issuance of the T1 Notes.

- The Conversion Price shall be equivalent to 80% of the average of the Closing Price per Share on any three (3) consecutive Business Days, to be determined by the Noteholder during the forty-five (45) Business Days before the Conversion Date. Further, the Conversion Price shall not be lower than the Minimum Conversion Price of S\$0.01 per Share. The number of Shares the Noteholder will receive is equal to the face value of the Notes being converted divided by the Conversion Price.
 - Redemption can be carried out by the Noteholder if (a) there is an occurrence of any Events of Default (as set out in Appendix C on page C-1 to C-3 of the Circular); and (b) in the event the Maximum Conversion Shares have been reached. The Company also has the option to redeem the Notes at its election in cash at any time before the T1 & T2 Maturity Date subject to there being no Event of Default. Further details on the redemption of the Notes are set out in the paragraphs entitled “*Default Redemption*”, “*Non-Default Redemption*” and “*Redemption in the event the Maximum Conversion Shares has been reached*” on page 40 of the Circular.
- (C) The Maximum Conversion Shares that may be issued pursuant to the conversion of all the Notes shall be 171,722,656 Shares, which may be adjusted in the event of stock split and/or consolidation of the Shares. Further details on the adjustment mechanisms of the Notes are set out in the paragraphs entitled “*Adjustments to the Maximum Conversion Shares*” and “*Adjustments to the Conversion Price*” on pages 39-40 of the Circular.
- (D) The salient conditions precedent for the issuance of the Notes include (i) approvals of Shareholders being obtained by the Company for the T1 Notes, T2 Notes and issuance of Maximum Conversion Shares, (ii) approval from SGX-ST for the listing of and quotation for the Maximum Conversion Shares, and (c) all other necessary Corporate Approvals and Other Approvals, and such approvals have not been amended, withdrawn, revoked or cancelled. Further details on the conditions precedent of the Notes are set out in the paragraphs entitled “*T1 Conditions Precedent*” and “*T2 Conditions Precedent*” on pages 41 to 44 of the Circular.
- (E) Each tranche of Notes can only be issued after the preceding tranche of Notes have been converted. As such, the Company can only proceed with the issuance of subsequent tranches of Notes after the Noteholders convert all existing Notes in issue into Shares. As for the sub-tranches in each tranche of Notes, the Subscribers shall be entitled in their sole discretion to subscribe for one (1) or more sub-tranches even though the preceding sub-tranche in that tranche of Notes have yet to be converted.
- (F) The Noteholder shall not be entitled to convert the Notes into Conversion Shares if such conversion would result in the Noteholder and its concert parties’ obligation to make a general mandatory offer for all the issued Shares in the Company in accordance with the Takeover Code. If such a situation arises, the Noteholder shall request for the Company and the Company shall redeem the outstanding Notes at the Redemption Sum. Further details on the redemption of Notes in such event are set out in the paragraph entitled “*Conversion and Redemption of outstanding T1 Notes and T2 Notes on T1 & T2 Maturity Date*” on page 41 of the Circular.
- (G) The Subscribers may terminate the Subscription Agreement in the event of, *inter alia*, (i) a breach of the representations and warranties provided by the Company to the Subscribers; (ii) the conditions precedent not being satisfied and the Company not being able to fulfil its obligations with regard to the issuance of the Notes; (iii) an Event of Default has occurred; (iv) the trading of the shares of the Company has been suspended by SGX-ST and/or there has been a delisting or an order for delisting or a threatened delisting of the Company from SGX-ST; and (v) any of the Corporate Approvals, Authority Approvals or Other Approvals, consents or waivers obtained by the Company are revoked, rescinded or cancelled. Further details on the termination of Notes are set out in the paragraph entitled “*Subscribers Ability to Terminate*” on page 47 of the Circular.

The salient risks associated with the Proposed RCN Issuance are as follows:

- (A) The Conversion Shares will be issued at a discount to the prevailing market prices of the Shares and will thus result in a dilution of existing Shareholders' interest in the Company. In view that the Maximum Conversion Shares has been capped at 171,722,656 Shares (which amounts to approximately 50% of the existing share capital of the Company), the maximum shareholding interest that may be held by the Subscribers assuming full conversion of the Notes will amount to 23.56% of the Enlarged Share Capital (assuming Consideration Shares, Introducer Shares, ZICAP Shares and ILAW Shares are also fully issued).
- (B) In view that there is no moratorium attached to the Conversion Shares, the Noteholders may elect to sell any or part of the Conversion Shares in the open market at any time. This may cause the market price of the Shares to decrease significantly if the selling volume is higher than bidding volume.
- (C) As the Conversion Price for the Notes is derived from the current market price of the Shares, a decrease in the market price may also result in a decrease in the Conversion Price, and consequently the Company will be required to issue more Conversion Shares to the Subscribers (subject to the Maximum Conversion Shares) to fulfil the Conversion Right. An increase in the number of Conversion Shares issued to the Subscribers will therefore result in a higher number of total Shares in issue, thereby widening the dilutive impact to existing Shareholders' and investors' shareholding interests in the Company.

The costs to be incurred by the Company for the Proposed RCN Issuance comprise:

- (A) an administrative fee of 6% on any monies raised payable to ZICOAM as the discretionary investment manager appointed by the Subscribers;
- (B) an interest of 5% per annum for so long as the Notes are outstanding. Default interest of 3% per month shall apply to all unpaid interest; and
- (C) in the event of cash redemption of the Notes at the election of the Company and not as a result of an Event of Default, the Company must pay a 15% premium on top of the principal value of the Notes. If there is an Event of Default, the Company must pay a 18% premium on top of the principal value of the Notes ("**Default Redemption Amount**"). Default interest of 3% per month shall apply to the unpaid Default Redemption Amount.

(ii) terms of the RCN, including any restrictions and pre-emptive rights; any up-front fees and / or break fees...etc.;

In addition to the terms of the RCN as set out in response 1(a)(i) above, the following terms of the RCN apply:

- (a) The Noteholders shall have the first right of refusal to subscribe for future debt security issued by the Company or any of its subsidiaries; and
- (b) The Noteholders shall have the first right of refusal to subscribe for future Shares issue in respect of any proposed issue of new Shares.

The costs associated with the Proposed RCN Issuance are set out in response 1(a)(i) above. Save as disclosed, there are no other associated costs, and there are no up-front fees and break fees in relation to the Proposed RCN Issuance.

(iii) rationale for the Proposed RCN Issuance as a form of financing and the use of proceeds;

As set out in the Circular, the Company recorded negative working capital of S\$3.7 million (unaudited) and a net liability position of S\$7.5 million (unaudited) as at 31 December 2023. Given its current financial position, the Board has considered that the Company has limited options of financing available, and does not qualify for loans and/or equity investments from banks, credit funds and/or mainstream equity investors. As such, the Board views the Proposed RCN Issuance as a viable option to raise funds for, *amongst others*, the Company's general working capital requirements, future value accretive expansion plans, including but not limited to, the Proposed Acquisition, and investments.

Further, in view of the convertible nature of the Notes, the Subscribers will be able to convert the outstanding Notes into new Shares in the Company, instead of redeeming the outstanding Notes (including any premium or interests payable on the outstanding sum, as set out in response 1(a)(i) above) in cash. The Board views that the conversion option enables the Company to conserve its existing cash position, thus providing an avenue for the Company to strengthen its balance sheet and reverse or partly reverse the deficit position in equity.

The RCN Net Proceeds of approximately S\$4.7 million will be utilised as follows:

- (a) 42.5% of the RCN Net Proceeds (or S\$2.0 million) has been used to advance the Bridging Loan to the Vendors;
- (b) 42.5% of the RCN Net Proceeds (or S\$2.0 million) will be used for general working capital, of which S\$0.5 million has been used; and
- (c) 15.0% of the RCN Net Proceeds (or S\$0.7 million) will be used for future expansion plans and investments.

(iv) basis for the discount to the market price at the time of conversion;

The Conversion Price of 80% of the average of the Closing Prices per Share commensurate with the risk the Subscribers take on to finance the Company and the Proposed Acquisition, as well as the timeline towards completion of the Proposed Acquisition. It is a commercial term which has been mutually negotiated and agreed between the Company and the Subscribers.

(v) whether the Board had sought alternative sources of financing and the outcome of these exercises;

Please refer to response for 1(c) below.

(vi) how the Proposed RCN Issuance could cause a downward spiral of the Company's share price and result in massive dilutions to investors; and

As the Conversion Price is at a discount to the current market price of the Shares (with a floor price of S\$0.01), the trading of the Conversion Shares in the open market by the Subscribers may cause a downward spiral of the Company's share price in the event the Shares are traded below the Conversion Price, and selling volume is higher than bidding volume. Nonetheless, the Board wishes to emphasise that movement in Share prices is subject to market forces and/or other factors which often cannot be attributed with certainty to the Proposed RCN Issuance.

Further, the issuance of the Conversion Shares would result in a potential dilutive effect to the existing Shareholders' shareholdings interest due to the enlarged total Shares in issue comprising, *amongst others*, the Consideration Shares issued to the Vendors and the Conversion Shares issued to the Subscribers.

In addition, as the Conversion Price for the Notes is derived from the current market price of the Shares, a decrease in the market price may also result in a decrease in the Conversion Price, and consequently the Company will be required to issue more Conversion Shares to the Subscribers (subject to the Maximum Conversion Shares) to fulfil the Conversion Right. An increase in the number of Conversion Shares issued to the Subscribers will therefore result in a higher number of total Shares in issue, thereby widening the dilutive impact to existing Shareholders' and investors' shareholding interests in the Company.

Nevertheless, the Company has sought to mitigate the abovementioned risks and manage the perception of the Notes potentially causing a downward spiral of the Company's share price by imposing the (a) Maximum Conversion Shares at 171,722,656 Shares, and (b) Minimum Conversion Price at S\$0.01 per Share.

- (vii) opinion by the Board that the Proposed RCN Issuance as a form of financing is in the interest of the Company and its shareholders.**

Having regard to the present financial circumstances of the Company as further elaborated in the responses to 1(a)(iii) to 1(a)(v) above and 1(c) below, the Board is of the opinion that the Proposed RCN Issuance as a form of financing is in the interest of the Company and its Shareholders.

- (b) In view of the above, please clarify how the proposed Tranche 2 RCN issuance “will also allow the Company to increase its market capitalisation, and be better positioned to capture additional investor interest and consequently, improve the trading liquidity of its shares”, which was disclosed by the Company in Section 3.5 of the Circular.**

The conversion of Notes into the Conversion Shares will increase the Company's share base, and therefore will result in an increase in the market capitalisation of the Company. Further, the Board expects trading liquidity to improve should the Subscribers trade in the Conversion Shares in the open market. Coupled with the additional funds to be raised from the Tranche 2 RCN Issuance, which is expected to improve the Company's financial position, the Company may benefit from the increased trading activity and be better positioned to capture additional investor interest.

- (c) Please explain the alternative sources of financing considered before arriving at the decision to issue the RCN and how is it in the best interests of the Company and its shareholders.**

In addition to the Proposed RCN Issuance, the Company has considered alternative sources of funding such as (i) borrowings from financial institutions, (ii) advances from existing key Shareholders or other third-party investors, and (iii) other forms of equity fund-raising such as rights issues or private placements. However, the Company's current negative equity position and financial standing limits its ability to obtain, and does not enable the Company to qualify for, alternative sources of financing such as loans and/or equity investments from banks, credit funds and/or mainstream equity investors. Furthermore, the key shareholders of the Company are not keen in making further advances/investments in the Company. Taking into consideration the above, the Board views the Proposed RCN Issuance as a viable and operationally efficient option to obtain financing from the Subscribers, and is of the opinion that the Proposed RCN Issuance as a form of financing is in the best interests of the Company and its shareholders.

- (d) Please provide more details on the basis upon which the conversion price which is “80.0% of the average of the closing prices per share on any three (3) consecutive business days, to be determined at the sole discretion of the noteholder during the forty-five (45) business days immediately preceding the relevant conversion date of the outstanding Tranche 1 RCN and Tranche 2 RCN” was determined.

The basis for determining the Conversion Price commensurate with the risk that the Subscribers take on to finance the Company and the Proposed Acquisition, as well as the timeline towards completion of the Proposed Acquisition. The basis for determining the Conversion Price was arrived at pursuant to arm’s length negotiations between the Company and the Subscribers, having regard to the risks taken by the Subscribers and allowing the Subscribers some flexibility to mitigate any volatile share price movements of the Shares arising from, *inter alia*, market vagaries and general trading sentiment, over a determined period of time.

- (e) It is stated in the Circular that the Maximum Conversion Shares of 171,722,656 shares shall be subject to adjustments in the event of stock split and/or consolidation of the Shares (including the Share Consolidation), where such events have taken place.

We note that the Share Consolidation as defined in the Circular was completed by the Company on 11 June 2024. Please clarify whether the Maximum Conversion Shares is still subject to adjustments pursuant to the Share Consolidation? If yes, what is the rationale for doing so, and what is the Maximum Conversion Shares post-Share Consolidation?

We wish to clarify that the Maximum Conversion Shares is derived based on the Company’s existing Shares in issue after the completion of the Share Consolidation on 11 June 2024. There shall be no further adjustments to the Maximum Conversion Shares arising from the Share Consolidation.

- (f) Please clarify if the RCN ranks ahead of ordinary shares when the Company is repaying its creditors.

The Notes rank *pari passu* with all other unsecured obligations of the Company from time to time outstanding, and ahead of ordinary Shares when the Company is repaying its creditors.

- (g) It is stated in Section 3.6.2 of the Circular that “The Subscribers shall not be entitled to exercise its Conversion Right unless written consent of the Company have been obtained in the event the number of Conversion Shares to be issued pursuant to a single exercise of its Conversion Right, when aggregated together with any existing Shares held by the Subscribers, would exceed 15.0% of the then enlarged share capital of the Company.”

However, we note that it is stated in the Company’s announcement dated 2 July 2024 (“Announcement”) that “The Subscriber’s undertaking in the Subscription Agreement and Conditions to not cross 15% shareholding interest in the Company, and the limitations placed on the Subscribers’ Conversion Rights to ensure no exercise will cause it to cross 15% shareholding in the Company, shall be deleted in their entirety.”

Please clarify whether the statement in Section 3.6.2 of the Circular is accurate. If yes, please reconcile the statement in Section 3.6.2 of the Circular with the statement in the Announcement. If not, then please disclose what the public float will be assuming that the Company issues the Maximum Conversion Shares to the Subscribers.

We wish to clarify that Section 3.6.2 of the Circular was inadvertently not updated in accordance with the Second Supplemental SA. According to the Company’s announcement dated 2 July 2024, the Subscribers’ undertaking to not cross 15% shareholding interest in the Company is now no longer applicable. Subject to Shareholders’ approval being obtained for the Proposed Transfer of Controlling Interest, the Subscribers may convert the Notes into Conversion Shares in excess of 15% of the issued shares in the Company, but in any case subject to the threshold of the Maximum Conversion Shares.

Assuming the Company issues all the Maximum Conversion Shares, Consideration Shares, Introducer Shares, ZICAP Success Shares and ILAW Success Shares, the public float will be 12.48% of the Enlarged Share Capital of the Company.

SGX Query 2

As stated in Section 5.1 of the Circular, the Group is primarily engaged in the manufacturing of automated equipment for the encapsulation in semiconductors as at the latest practicable date (“Existing Business”). In view of the Proposed Diversification, please disclose the Company’s future plans in relation to its Existing Business.

The Group’s current operations are focused on contract manufacturing services. The Board and management are evaluating the performance of these businesses and may consider downsizing or divesting non-performing segments.

Specifically, the Yumei Group has reported losses for FY2023, prompting the Company to reassess its future viability. Conversely, the Group’s other existing business, Emerald Precision Engineering, remains profitable despite operating in a competitive environment that demands significant capital expenditure for growth.

The Company is committed to continuously monitoring and optimising its portfolio to enhance overall performance and Shareholders’ value.

SGX Query 3

Please provide a table showing the resultant shareholdings of existing and new directors and substantial shareholders of the Company pursuant to the Proposed Acquisition and assuming full conversion of the Maximum Conversion Shares pursuant to the Proposed RCN Issuance.

The resultant shareholdings of the existing and new Directors and substantial shareholders of the Company, after the Proposed Acquisition and issuance of the Consideration Shares, and assuming (a) full conversion of the Maximum Conversion Shares pursuant to the Proposed RCN Issuance and (b) issuance of the Introducer Shares, the ZICAP Success Shares and the ILAW Success Shares, are as follows:

	Number of Shares (direct and/or deemed interest)	%
<u>Director</u>		
Seah Chong Hoe	17,948,723	2.46
Dato’ Sri Mohd Sopiyan B Mohd Rashdi	-	-
Mandi Chong Man Sui	-	-
Steven Shen Hing	-	-
Lim Chen Chong (proposed)	61,538,461	8.44
<u>Substantial Shareholder</u>		
Lee Su Hui Lena	76,923,076	10.55
Dato’ Michael Loh Soon Gnee	68,376,068	9.38
ASTI Holdings Limited	89,242,952	12.24
Subscribers	171,722,656	23.56
Victoria Lim Yu	61,538,462	8.44
Structured Capital Solutions Inc	61,538,462	8.44

**BY ORDER OF THE BOARD
ADVANCED SYSTEMS AUTOMATION LIMITED**

**DATO' SRI MOHD SOPIYAN B. MOHD RASHDI
CHAIRMAN**

17 July 2024

*This announcement has been prepared by the Company and its contents have been reviewed by the Company's sponsor, ZICO Capital Pte. Ltd. ("**Sponsor**"), in accordance with Rule 226(2)(b) of the Singapore Exchange Securities Trading Limited ("**SGX-ST**") Listing Manual Section B: Rules of Catalist.*

This announcement has not been examined or approved by the SGX-ST and the SGX-ST assumes no responsibility for the contents of this announcement, including the correctness of any of the statements or opinions made or reports contained in this announcement.

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