



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

**RESPONSE TO QUERIES
FROM THE SINGAPORE EXCHANGE SECURITIES TRADING LIMITED**

The board of directors (the “**Board**” or the “**Directors**”) of Advanced Systems Automation Limited (the “**Company**”) refers to the Company’s announcement dated 27 February 2021 (the “**Announcement**”) in relation to the proposed disposal by the Company of 100% of the issued share capital of Emerald Precision Engineering Sdn. Bhd. , Yumei Technologies Sdn. Bhd., Yumei REIT Sdn. Bhd. and Pioneer Venture Pte. Ltd. (collectively, the “**Sale Companies**”) (the “**Proposed Disposal**”).

The Company sets out below its responses to queries from the SGX-ST on the Proposed Disposal (the “**Responses**”).

Unless otherwise defined herein, capitalized terms used in the Responses shall bear the same meaning ascribed to them in the Announcement.

SGX Queries

1. Please clarify the amount of consideration certain to ASA for the Proposed Disposal, in view of the off-set amount and earn-out consideration.

Company’s Response:

The Base Consideration of S\$12,500,000 is certain to the Company. The following is a breakdown of the Base Consideration:

- (a) Earnest Deposit of S\$1,000,000 paid upon the execution of the SPA;
- (b) an amount of up to S\$8,700,000 (representing all monies owing (including interest) by the Company to the Purchaser up to the Completion Date) shall be set-off against the Base Consideration (i.e. the Set-off);
- (c) on the Completion Date, an amount equivalent to the Base Consideration less the amounts representing: (i) the Earnest Deposit; (ii) the Set-off; and (iii) the Deferred Consideration, which is approximately S\$1,800,000, shall be paid (the “**Completion Amount**”); and
- (d) a Deferred Consideration amount of S\$1,000,000 to be paid in two (2) tranches on the Milestone 1 Payment Date and the Grand Milestone Payment Date post-Completion.

The final amount representing the Set-off is to be determined as at the Completion Date, which in any case shall not exceed S\$8,700,000. Any decrease in the final amount representing the Set-off shall lead to a corresponding increase in the Completion Amount. Hence, for illustration purposes, the minimum amount of Base Consideration to be received by the Company as at the Grand Milestone Payment Date is \$3,800,000 after deducting the Set-off of S\$8,700,000.

The Earn-Out Consideration of S\$3,000,000 is not certain to the Company. Any amounts payable to the Company as part of the Earn-Out Consideration is dependent on the Sale Companies attaining Milestone 1 and/or the Grand Milestone as provided for in the Announcement. The Earn-Out Consideration does not form part of the Base Consideration and is intended to be an additional payment (if any) to the Company above and beyond the Base Consideration.

2. **In the event the profits of the Sale Companies for FY2021 and FY2022 do not meet the milestones amounts, does it mean that the consideration will be reduced by S\$3.0 million?**

Company's Response:

In essence, the amount of Earn-Out Consideration payable to the Company is paid on a dollar-for-dollar earned basis up to a maximum of S\$3,000,000 based on the aggregate net Sale Companies Profit for FY2021 and FY2022. By way of illustration, where the aggregate net Sale Companies Profit for FY2021 and FY2022 is S\$2,000,000, the aggregate Earn-Out Consideration payable to the Company will be S\$2,000,000.

3. **What were the key assumptions adopted by the valuer? Are these assumptions consistent with how the Disposal Consideration (and how such consideration is to be subject to fulfilment of milestones / criteria) was arrived at?**

Company's Response:

The key assumptions adopted by the Independent Valuer as set out at page 9 of the Valuation Report ("**Key Assumptions**") have been extracted and set out in the Appendix to this announcement.

One of the Key Assumptions underpinning the valuation includes the new revenue stream from Yumei Technologies Sdn. Bhd. ("**Yumei Technologies**") ("**New Revenue Stream**") that was to come from the production of steel trailer wheels ("**New Revenue Stream Assumption**"). Full production of the steel trailer wheels was supposed to start upon the completion of the new building scheduled for April 2020 and a corresponding technology transfer from Yumei Technologies' business partner. However due to Covid-19, completion of the new building has been delayed. Travel restrictions have also hindered the transfer of technology from its business partner. The start date for production would accordingly be delayed and has not presently materialised.

Notwithstanding, the Company believes that the Sale Companies are able to meet the milestones based on past results and the New Revenue Stream will eventually start with the receding Covid-19 pandemic. To obtain a higher Purchase Price for the Sale Companies, the Company was willing for part of the Purchase Price to be structured as an Earn-Out Consideration.

Accordingly, the Company is of the view that the Key Assumptions are consistent with how the Base Consideration and Earn-Out Consideration were arrived at.

4. **What is the rationale for such consideration structure and please provide the Board's opinion on how this structure is in the best interest of the Company and shareholders.**

Company's Response:

The rationale for arriving at a consideration structure split into the Base Consideration of S\$12,500,000 and the Earn-Out Consideration of S\$3,000,000 (the "**Consideration Structure**") takes into account and addresses the following concerns:

- (a) the willingness of the Purchaser to pay a maximum of S\$15,500,000 in consideration for the Proposed Disposal based on arms-length negotiations between Parties given:
 - (i) the uncertainty as to when the New Revenue Stream will materialise, if at all, given the on-going Covid-19 situation in Malaysia; and
 - (ii) the material uncertainty brought about by the COVID-19 global pandemic and the on-going Sino-US decoupling that may impact the value and other revenue streams of the Sale Companies going forward;
- (b) the confidence and ability of the Sale Companies to achieve the Earn-Out Consideration; and
- (c) the need for the Company to settle its estimated debt of up to S\$8,700,000 that it owes to the Purchaser.

In particular, the Consideration Structure incorporating the Earn-Out Consideration component addresses the Company's desire for a higher valuation and higher consideration based on the projected revenue streams of the Sale Companies and the Purchasers' concern should the projected revenue streams be delayed or otherwise fail to materialise. It addresses the commercial realities that the Company faces.

Taking into account all the above factors, the Board is of the view that the Consideration Structure is in the best interests of the Company and Shareholders.

5. Please provide timeline leading to the completion of the Proposed Disposal, assuming shareholders' approval is obtained for the Proposed Disposal and IPT.

Company's Response:

The key events and estimated timeline leading to Completion are as follows:

Date	Event
By mid-April 2021	Company to obtain the finalised updated valuation report from the Independent Valuer.
By mid-May 2021	Company to obtain finalised letter from the IFA.
By 31 May 2021	Company to submit to the SGX-ST its application for continued trading of the Company's shares pursuant to Rule 1017(1) of the Catalist Rules.
By 15 June 2021	Company to despatch circular to Shareholders.
By 30 June 2021	Company to hold EGM to obtain approval of Shareholders in relation to the Proposed Disposal.
26 November 2021	Long Stop Date for Completion under the SPA.

6. The Company has announced that it will become a cash company following the Proposed Disposal. Pursuant to Catalist Rule 1017(a), 90% of the Company's cash and short-dated securities must be placed in an escrow account. Please provide details on the Group's cash and short-term securities, as well as proceeds from the Proposed Disposal, and plans on the opening the escrow account.

Company's Response:

As at 30 December 2020, the Company has a cash balance of S\$258,000. The estimated amount of net proceeds from the Proposed Disposal, after deductions for transactional expenses and the Set-off, is S\$6,665,000 (on the assumption that the Milestone 1 and Grand Milestone are met). The Company estimates that it will have approximately S\$2,300,000 in cash upon Completion. The Company is currently in the midst of discussions with several banks on the opening of an escrow account in accordance with Rule 1017(a) of the Catalist Rules.

7. It seems that the ASA will only receive the earn-out consideration (assuming profit targets are achieved) by end of 2022.

- (i) What are the Company's plans from now to 2022?
- (ii) Does the Company have a RTO target / when will the Company commence its search for a new business which must satisfy the Exchange's requirement for a new listing?
- (iii) Will the Company continue to be listed on the Catalist Board?

Company's Response:

The Company is in the midst of exploring a potential acquisition of a new business / assets. No definitive agreement in connection with the foregoing has been entered into at this stage. The Company will make the necessary announcements in compliance with the Catalist Rules as and when there are material developments in relation to such a potential acquisition. Depending on the new business / assets to be acquired, the Company may continue to be listed on the Catalist Board or apply for a transfer to the Mainboard of the SGX-ST.

By Order of the Board

Dato' Sri Mohd. Sopiyan B. Mohd. Rashdi
Chairman
Advanced Systems Automation Limited
3 March 2021

This announcement has been reviewed by the Company's sponsor, SAC Capital Private Limited (the "Sponsor"). It has not been examined or approved by the Singapore Exchange Securities Trading Limited (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.

The contact person for the Sponsor is Ms Tay Sim Yee (Tel +65 6232 3210), at 1 Robinson Road, #21-00 AIA Tower, Singapore 048542.

Appendix

Key Assumptions

The following is an extract from Page 9 of the Valuation Report in respect of the key assumptions adopted by the Independent Valuer:

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- *The Targets will operate on a going concern basis.*
- *There will be no adverse change in the economic, legal and financial conditions in general that will affect future operations of the Targets.*
- *The Targets will continue to meet all regulatory requirements going forward.*
- *The unaudited management accounts of the Targets provided by the Management is assumed to fairly reflect its financial position and performance as at the Valuation Date.*
- *Other than the new revenue stream of YT, the production of steel trailer wheels (“Rim Project”) for its new business partner, Nakareg International Company Limited (“Nakareg International”), there will be no significant change in the operations and business strategies of the Targets subsequent to the Valuation Date.*
- *There are no material differences between the basis of reporting presented in the audited financial statements of the Targets and the unaudited management accounts of the Targets provided by the Management.*
- *The Targets do not have any significant contingent liabilities, including pending or threatened litigation as of the Valuation Date.*
- *The Targets do not have any significant off-balance sheet items as of the Valuation Date.*
- *The adjusted trailing 12 months earnings before interest, tax, depreciation and amortisation (“EBITDA”) of EPE and PV are based on the sum of the following:*
 - *Half of EPE and PV’s EBITDA for financial year ended 31 December 2019 (1 January 2019 to 31 December 2019);*
 - *EPE and PV’s EBITDA for 6 months ended 30 June 2020 (1 January 2020 to 30 June 2020); less*
 - *EPE and PV’s allocated proportion of the Chief Executive Officer, Mr Seah Chong Hoe’s salaries of SGD650 thousand.*
- *EPE, PV and YT will be allocated to pay for Mr Seah Chong Hoe’s salaries over the forecast period as he is key management personnel to the business of EPE, PV and YT. Mr Seah Chong Hoe’s salaries are estimated at SGD650 thousand for FY2020 and thereafter will be increased at 1.2% annually over the forecast period.*
- *The level of capital expenditure and net working capital projected in the financial forecast is assumed to be sufficient to meet the forecast growth. In particular, the annual capital expenditure of EPE, PV and YT is estimated over the forecast period, as follows:*

<i>Entity Name</i>	<i>Forecast Capital Expenditure</i>
<i>EPE</i>	<i>RM1.8 million per annum</i>
<i>PV</i>	<i>SGD100 thousand per annum</i>

<i>Entity Name</i>	<i>Forecast Capital Expenditure</i>
YT	<i>RM700 thousand and RM1 million for the Rim Project for 6M2020 and FY2021 respectively, and RM700 thousand per annum thereafter</i>

- *The amount due from parent company, ASA of RM6.4 million on EPE's balance sheet as at the Valuation Date will serve as capital reduction, and will not be collected from ASA.*
- *YT will complete the construction of the building extension and commissioning of the machineries in relation to the Rim Project for Nakareg International by end 31 December 2020.*
- *YT will fully automate the production of the steel trailer wheels for the Rim Project starting from FY2021.*
- *The machineries for the Rim Project can manufacture and generate up to an annual revenue of RM51.4 million at full capacity.*
- *Nakareg International will stay committed to outsource its production of steel trailer wheels to YT.*
- *Unabsorbed tax losses and reinvestment allowance will not be used to offset against future taxable profits of YT."*