A-SMART HOLDINGS LTD.
(Company Registration Number: 199902058Z)
(Incorporated in the Republic of Singapore)

RESPONSE TO QUERIES FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE) ("SIAS") ON THE ANNUAL REPORT

The Board of Directors ("**Board**") of A-Smart Holdings Ltd. ("**Company**" and together with its subsidiaries, collectively the "**Group**") refers to the Company's Annual Report for the financial year ended 31 July 2018 ("**FY2018**") released on 15 November 2018. The Board would like to respond to the following queries raised by the SIAS on 26 November 2018 (each, a "**SIAS Query**") as follows:

SIAS Question 1:

Guideline 2.2 of the 2012 Code of Corporate Governance (2012 CG Code) recommends that independent directors to make up at least half of the Board where the chairman is not an independent director. As Mr Ma Weidong is the non-executive non-independent chairman, under Guideline 2.2 of the 2012 CG Code, independent directors should make up at least half of the board.

As disclosed in Principle 2 of the Corporate Governance Report (page 12), of the six directors on the board, the company has deemed Mr. Sam Chong Keen and Ms. Chu Hongtao independent and thus the independent directors make up one-third of the board.

(i) Would the board, the nominating committee ("NC") and the lead independent director help shareholders understand if they are familiar with Guideline 2.2 of the 2012 CG Code?

(ii) What deliberations did the board have regarding Guideline 2.2?

Company's response to Question 1(i) and 1(ii):

The size and composition of the Board is reviewed annually by the NC and examined by the Board, with a view to determining the impact of the its number upon effectiveness of the Board, taking in account the scope and nature of the Company's operations. For FY2018, the Board is of the view that the current Board size is appropriate and able to function effectively and efficiently and there is a strong and independent element with Independent Directors making up one-third of the Board.

SIAS Question 1(iii) and 1(iv):

In addition, in August 2018, the Monetary Authority of Singapore issued a revised Code of Corporate Governance ("2018 CG Code"). As a consequence of the revised 2018 CG Code, the Singapore Exchange has made amendments to its Listing Rules which will come into effect on 1 January 2019, except for the rules on the 9-year tenure for independent directors and the requirement for independent directors to comprise one-third of the board which come into effect on 1 January 2022. Under the revised Listing Rules, the term of an independent director will be limited to nine years after which the long tenured directors will be subject to a two-tier vote by shareholders.

(iii) Has the company evaluated the impact of the 2018 Code and the amendments to the Listing Rules on the Board?

(iv) What are the board's near-term plans to reconstitute the board to meet the recommendations of Guideline 2.2 and the 2018 CG Code that will come into effect in 2022?

Company's response to Question 1(iii) and 1(iv):

The Board is aware of the 2018 CG Code and the amendments to the Listing Rules on the Board. The NC and the Board would review the composition of the Board to ensure that there is an appropriate size for the Board and fulfil the recommendation of Guideline 2.2 and 2018 CG Code which will come into effect on 1 January 2022.

SIAS Question 1(v) to 1(ix):

As noted in the profile of directors (pages 6 and 7 of the annual report), Mr. Sam has been associated with the group since 2001. Mr. Sam Chong Keen is retiring at the conclusion of the annual general meeting pursuant to Regulation 94(2) of the Constitution of the company and will be seeking re-election.

In the notes to Principle 2 of the Corporate Governance Code (page 15), it was disclosed that:

"Mr. Sam Chong Keen was first appointed as an Independent and Non-Executive Director on 5 December 2001 and re-designated as Executive Director and CEO on 16 February 206. Mr. Sam Chong Keen was re-appointed as Non-Executive and Non-Independent Director on 2008 and re-designated as Independent and Non-Executive Director on 30 November 2012. He was appointed as the Lead Independent Director and Non-Executive Chairman on 29 November 2013 and 19 September 2014 respectively and relinquished as Non-Executive Chairman on 9 July 2015".

On Page 12, in the Corporate Governance Report, the company has stated that:

"There is no Independent Director who has served on the Board beyond nine years from the of his first appointment".

Guideline 2.4 of the 2012 CG Code states that the independence of any director who has served on the board beyond nine years from the date of his first appointment should be subject to particularly rigorous review (emphasis added).

(v) Would the board confirm that it is familiar with Guideline 2.4 of the 2012 CG Code and that it is cognisant that the independence of any director who has served on the board for more than nine years from the date of his first appointment should be subject to particularly rigorous review?

(vi) Would Mr. Sam help shareholders understand if Guideline 2.4 would apply to him?

(vii) Would the NC elaborate further on the deliberations it had, if any, on how it had determined Mr. Sam's independence?

(viii) Has the company subjected Mr. Sam Chong Keen to a particularly rigorous it had determined Mr. Sam's independence?

(ix) Under the 2018 CG Code, Mr. Sam's independence would be subject to a two-tier vote by shareholders when the new rules come into effect. What are the board's near-term plans to refresh the board membership progressively and in an orderly manner, to avoid losing institutional memory?

Company's response to Question 1(v) to 1(ix)

Mr. Sam was appointed as an Independent and Non-Executive Director on 5 December 2001 and re-designated as Executive Director and CEO on 16 February 2006. Mr. Sam was re-appointed as Non-Executive and Non-Independent Director in 2008 and re-designated as Independent and Non-Executive Director on 30 November 2012. As Mr. Sam's appointment as the Company's Independent Director was 30 November 2012, he was not considered to have served on the Board as an Independent Director for more than 9 years.

Annually, the Independent Directors of the Company are required to provide their confirmation of independence based on the criteria of an independent director provided in 2012 CG Code for the NC's review. For FY2018, the NC is of the view that Mr. Sam is independent (as defined in the 2012 CG Code) and is able to exercise judgement on the corporate affairs of the Group and is independent of the Management.

As stated above, the NC and the Board would review the composition of the Board to ensure that there is an appropriate size for the Board and fulfil the recommendation of Guideline 2.2 and 2018 CG Code which will come into effect on 1 January 2022.

SIAS Question 2:

On 9 July 2015, in the appointment announcement of Mr. Ma Weidong, the company stated that Mr. Ma has no prior experience as a director of a listed company and it will arrange training for Mr. Ma to familiarise himself with the roles and responsibilities of a director of a listed company. In the company's corporate governance report, the company has also stated that all directors who have no prior experience as director of a listed company will undergo intensive training and briefing on the roles and responsibilities as director of a listed company.

(i) Would the company and Mr Ma help shareholders understand the training he has received since his appointment as director of the company on 9 July 2015?

(ii) Can the company also disclose the training that Ms. Chu Hongtao has received since her appointment as an independent director on 9 July 2015?

Company's response to Question 2:

Lectures by our corporate lawyers were arranged for the Directors who have no prior experience as directors of listed companies. The lectures included topics such as the scope and responsibilities of directors of listed companies, Code of Corporate Governance as well as the SGX mainboard listing rules, in particular the continuing obligations for Mainboard listed companies.

From time to time, the Directors also attend talks and seminars that are organised for listed companies by SGX-ST or other organisations such as the Singapore business federation.

SIAS Question 3(i):

The Group reported its first segment revenue from the Smart Technologies segment of $107,000 in 2018. The segment loss was $(119,000).

What are some of the significant/high profile projects that the group has delivered or is working on?

Company's response to Question 3(i):

In the Smart Technologies segment, we provide full suite of tailored new technology and automation solutions for the retail and service sectors. In particular for the food and beverage industry, we deliver projects from ordering and payment, to smart automated waste recycling and management system for large conglomerate enterprises. The group is also actively doing research and development for Artificial Intelligence (AI) solutions for the retail and services industries for the past year.

SIAS Question 3(ii):

What is the strategy to grow the Smart Technologies segment? What is the group's value proposition in the Smart Technologies segment since the industry is highly competitive? Who is driving the group's efforts in the segment?

SIAS Question 3(iii):

What are the key priorities for management in the next 12-24 months?

Company's response to Question 3(ii) and 3(iii):

Serving Singapore's growth as a Smart Nation and the rise of smart cities globally, A-Smart Technologies provides intelligent IT, augmented reality and automated solutions for various aspects including mobile e-commerce, data-driven productivity and ecological sustainability. Led by the CEO, the team is constantly doing market research with leading overseas technological providers to bring the latest, cutting-edging products and services to the Singapore market and the region.

SIAS Question 3(iv):

Can management also elaborate on the "partnership" with Google on Google Home following the launch?

Company's response to Question 3(iv):

A-Smart is the exclusive B2B partner of Google for Google Home in Singapore.

Since the launch of Google Home, we have been developing local contents for the smart home device as well as running corporate roadshows. Our clientele include real estate developers and contractors, clubs and associations, and government agencies.

SIAS Question:

In addition, for the group's Print segment, revenue slipped 9.8% to $6.9 million even as the group "*continue[s] to expand our client base and enhance our product offerings through acquisition of modern machines with special features* (page 5)". Can management elaborate further on how the company is adapting to the declining demand (especially from clients in the financial sector) while maintaining its profitability? How sustainable is the segment in the long term (3-5 years)?

Company's response to the above question:

The Company's Print segment is expanding its client base including securing more new clients from the commercial print products to mitigate the risk of further attrition for our client base from the financial sector. It has also expanded the product offerings beyond traditional print products to its existing client segments, including financial sector clients. Given that the Group is constantly striving to innovate and adopt technological advances in printing techniques, the Board is confident that the Print segment will continue to contribute positively to the Group's results in the long term.

SIAS Question 3(v):

The group has also invested into Sheng Siong (China) Supermarket Co., Ltd to operate a supermarket chain in Kunming, China. As disclosed in Note 5 (page 34 – Investments in an associated company), the group has a 10% interest in Sheng Siong (China) Supermarket Co., Ltd but recognises this investment as an associated company due to management's assessment that "it has significant influence of the investment through its representation on the board of directors".

Can management elaborate further on the "significant influence" the group has over Sheng Siong (China)? What is the group's representation on the board of directors of Sheng Siong (China)? Does the group have the right to appoint directors to the board? Do major decisions relating to financing and strategic issues require the unanimous support of the board?

Our response to Question 3(v):

The Group's Board Chairman, Mr Ma Wei Dong, is the vice-chairman of the Board of Directors of Sheng Siong (China) Supermarket Co., Ltd ("SSC"), a 25% representation on SSC's Board. Mr Ma also chairs the Board of Kunming Luchen Group Co., Ltd, which holds 30% interest in SSC.

SIAS Question 3(vi):

Other than the representation on the board of Sheng Siong (China), what is management's level of oversight on the operational, financial and strategic matters on a more day-to-day basis? Would management consider this investment into the China supermarket to be a passive one?

Our response to Question 3(vi):

Management receives monthly financial reports from SSC's management but do not participate in SSC's day-to-day operations. The Company's investment in SSC would be considered a passive one.

SIAS Question 3(vii):

What is the total investment that the group has earmarked for Sheng Siong (China)?

Our response to Question 3(vii):

The Group has earmarked USD 1 million (approximately SGD 1.38 million).

SIAS Question 4(i):

The group has carried out two share placements in October 2016 and January 2018, raising $3.95 million and $4.94 million respectively. The net proceeds from the January 2018 placement have not been utilised while a balance of $1.42 million remains from the October 2016 share placement.
Cash flows used in operating activities were $(627,000) in 2018 and $(1,602,000) in 2017.
The group has cash and cash equivalents of $7.20 million as at 31 July 2018, up from $3.67 million a year ago primarily due to the proceeds received from the share placement.

Has the board re-evaluated the optimal capital structure for the group, taking into account the performance and growth prospects of the various business segments, namely print, smart technologies and real estate development?

Our response to Question 4(i):

The Board has evaluated the capital needs of the Group and is of the opinion that its current internal resources are adequate for funding its operational needs for the near term. Most of the Group's machineries have been fully paid, except for new ones purchased in the last 2 financial years that have finance lease obligations of S$0.98 million outstanding as at 31 July 2018.

The Group may elect to take on more borrowings from financial institutions when its real estate development business gathers pace.

SIAS Question 4(ii):

Does the group have sufficient capital to fund the property development project in Timor-Leste?

Our response to Question 4(ii):

Given its existing cash resources and outstanding convertible securities, the Group does have sufficient capital to fund its property projects in Timor-Leste.

SIAS Question 4(iii):

Has management evaluated how it could improve the cash generative ability of the core Print segment so that it could generate higher level of cash flow to support the growth of the other business segments?

Our response to Question 4(iii):

The cash generating ability of the Group's core Print segment has been improving year-on-year for the last 3 financial years and management has been constantly striving to improve its performance by implementing technology upgrades and acquiring advanced machinery to improve productivity as well as print quality. The positive cash flow generated from the Print segment is used to support the Group's other business segments.

By Order of the Board

Lim Huan Chiang
Executive Director and Chief Executive Officer
30 November 2018