

SMI VANTAGE LIMITED

(Registration No. 200505764Z)

(Incorporated in Singapore)

RESPONSES TO QUESTIONS FROM SINGAPORE EXCHANGE SECURITIES TRADING LIMITED RELATED TO QUESTIONS FROM SINGAPORE EXCHANGE SECURITIES TRADING LIMITED RELATED TO THE COMPANY'S ANNOUNCEMENT RELEASED ON 27 JUNE 2023 ON THE "PROPOSED ACQUISITION OF SHARES AND PROPOSED CAPITALISATION OF DIRECTOR'S FEE OWED" (THE "ANNOUNCEMENT")

SMI Vantage Limited (the "Company" or "SMI" and together with its subsidiaries, the "Group") refers to the questions raised by Singapore Exchange Securities Trading Limited ("SGX") in relation to the Company's Announcement and appends the requisite replies as follows:

All capitalised terms used herein shall have the same meanings ascribed to them in the Announcement.

1. Please disclose the due diligence performed by the Company in respect of the Proposed Acquisition and whether there is any change in risk profile of the Company arising from the Proposed Acquisition.

The Company engaged the following professional advisers in respect of the Proposed Acquisition:

- (a) Anchorage Assurance to conduct financial due diligence on Provino Logistics Pte. Ltd. ("**Target**"). The financial due diligence included analysis of:
 - (i) the Quality of Earnings: including gaining an understanding of the Target's revenue streams and the revenue recognition policy, as well as the Target's revenue and cost recognition policies, contracts adopted by the Target, and verification of the operating and free cashflow of the Target, and
 - (ii) the Quality of Net Operating Assets: including plant and equipment, trade receivables and inventories, related party transactions and tax.
- (b) Bayfront Law LLC to conduct legal due diligence on the Target. The legal due diligence consists of a red-flag due diligence report issued in relation to the Target.
- (c) Valuation Advisory Pte. Ltd. ("**Valuer**") to conduct an independent valuation of the Proposed Acquisition and issue a valuation report ("**Valuation Report**").

The Board is of the opinion that the Proposed Acquisition would not result in a change in the Company's risk profile as the Company already has an existing joint-venture in SMI-Senko Logistics Pte Ltd with Senko Co., Ltd. (Japan) and operates a logistics business in Myanmar. The Proposed Acquisition is not a major transaction under Chapter 10 of the Listing Manual – the relative figures computed on the applicable bases set out in Rule 1006 of the Listing Manual exceeds 5% but is well below 20%.

The Target is profitable. The Target's gross profit margin is expected to remain approximately in the 60% range across 2024 to 2027. The expected gross profit margin is based the average of gross profit margin in FY2022 and FY2023. The Proposed Acquisition will not have a significant impact on the Company's gearing.

In addition, the existing management of the Target will remain in place to steer the Target and its business operations and would be incentivised, through the structure of the Proposed Acquisition and their interests in the Company from the Consideration Shares, to continue contributing to the success of the Target as a subsidiary of the Company upon Completion.

2. Please disclose the findings of the valuation report provided by Valuation Advisory Pte. Ltd., regarding the independent valuation on 100% of the equity share capital of the Target (“Valuation Report”), including the valuation amount, valuation date, methodology and valuation standards adopted. Please disclose the reason for any significant variance between the valuation amount and consideration amount of \$1.734m.

The Company had engaged the Valuer in March 2023 to perform an independent valuation on the acquisition of the Target, and the Valuation Report, dated 20 June 2023, was issued to the Company on the same date.

The Valuation Date was prepared as at 31 January 2023 for the purposes of determining the fair value of the Target. Three valuation methodology were considered by the Valuer: Net Asset Value Approach, Market-Based Approach, and Income-Based Approach.

The Valuer also considered a discount to the equity valuation as the Target is a privately held company and the Target’s shares are not readily marketable. The discount that was applied was 11% to the estimated equity values in view of the above and based on the Finnerty (2012) method.

The Valuer had considered a Net Asset Value Approach, where the fair market value of the share capital is based on the sum of net assets value (adjusted to current market values). This approach is applicable for businesses where the value lies in the underlying assets (e.g. property) and not the ongoing operations of the business.

After evaluating the three approaches in performing the equity valuation of the Target, the Valuer considered the Income-Based Approach as most appropriate, as the target generates its value from its on-going operations. Under this approach, the fair market value of a company is arrived at from the value of the future free cash flows expected to be generated from the business of the company during its life, and discounted with a risk-adjusted discount rate commensurate with the risk of the business (i.e. a discounted cash flow model). The Income-Based Approach derived an initial equity value of S\$2.9 million, adjusted to S\$2.6 million after factoring in a discount of 11% as described above, with a 51% shareholding valued at S\$1.3 million.

The Valuer also applied the Market-Based Approach as a sanity check to the primary valuation methodology used, and this derived an initial equity value of S\$3.37 million, and an adjusted equity value of S\$3 million after factoring the same discount of 11% as described above, with a 51% shareholding valued at S\$1.5 million.

The Purchase Consideration for the Proposed Acquisition was determined by agreement between the Company and the Vendors at arms’ length, on a “willing-buyer, willing-seller” basis, taking into consideration factors such as the earnings and assets of the Target, potential benefits that may accrue to the Group, and the indicative valuation figures provided by the Valuer as detailed above.

The premium above valuation of S\$408,000 under the Income-Based Approach was negotiated with the Vendors and determined by the Board to be reasonable, taking into account:

- (a) the projections in the Valuation Report that (i.) storage revenue is expected to increase in line with the forecasted increase in alcoholic drinks spending in Singapore with the Target renewing its agreements with existing customers, (ii.) service income expected to remain at \$1.91 for every \$1 of storage income that is generated in line with 2023, and (iii.) the Target’s gross profit margin is expected to remain approximately in the 60% range across 2024 to 2027, which is in line with the average historical gross margins of 2022 and 2023;
- (b) the Vendors giving up majority interest in the Target to the Company and receiving 70% of the Purchase Consideration by way of Consideration Shares from the Company, which is currently on the Watch-list;

- (c) the Target has invested in developing a specialist storage space (temperature-controlled) which is already increasing revenues by 20% as is expected to boost revenues further by another 20% as the availability of such space, important for the storage of wine and sake, is quite constrained in Singapore, and the Target is already attracting a lot of interest from international and local distributors and producers;
- (d) the combination of the good reputation of the Target together with the network of its Managing Director and the Company's CEO is expected to lead to opportunities to acquire new locations as well as the opportunity to manage specialist storage locations for both business-to-business users as well as business-to-consumer users;
- (e) opportunities have also been identified to expand the Target outside of Singapore into neighbouring markets, and
- (f) the Issue Price of S\$0.048 for the Consideration Shares issued to the Vendors, which constitute 70% of the Purchase Consideration, being at a 9.09% premium to the volume weighted average price of S\$0.044 for Shares traded on the Mainboard of the SGX-ST on 27 June 2023.

The Company had negotiated for the Purchase Consideration to be paid 30% in cash and 70% via the issuance of new shares in the Company at arm's length on a "willing buyer-willing seller" basis, and this was accepted by the Vendors. The amounts of S\$0.52 million in cash and S\$1.2 million in shares were determined through these percentages. The payment of the S\$1.2 million of the Purchase Consideration through the allotment and issuance of Consideration Shares rather than in cash would allow the Company to conserve cash for its working capital purposes.

3. Please explain why the consideration amount of S\$1.734m is significantly higher than the book value of the Target of S\$477,761 as at 31 May 2023. Please also explain how the consideration amount in shares of \$1.2m and cash of \$0.52m are being determined respectively.

As disclosed in our response to Query 2 above, the Valuer had considered a Net Asset Value Approach, where the fair market value of the share capital is based on the sum of net assets value (adjusted to current market values). This approach is applicable for businesses where the value lies in the underlying assets (e.g. property) and not the ongoing operations of the business.

The Valuer considered the Income-Based Approach as more appropriate, as the target generates its value from its on-going operations. Under this approach, the fair market value of a company is arrived at from the value of the future free cash flows expected to be generated from the business of the company during its life, and discounted with a risk-adjusted discount rate commensurate with the risk of the business (i.e. a discounted cash flow model).

The Target is asset light, as it leases and does not own its own warehouse space, and therefore the regular operations do not require significant capex. The Target also does not own stock in trade as those are for distribution.

The Company had negotiated for the Purchase Consideration to be paid 30% in cash and 70% via the issuance of new shares in the Company at arm's length on a "willing buyer-willing seller" basis, and this was accepted by the Vendors. The amounts of S\$0.52 million in cash and S\$1.2 million in shares were determined through these percentages. The payment of the S\$1.2 million of the Purchase Consideration through the allotment and issuance of Consideration Shares rather than in cash would allow the Company to conserve cash for its working capital purposes.

4. Please explain how the Board/manager determine the introducer fee of \$120k.

The Company had, in past fund-raising transactions, paid a commission of 9% and 15% of the subscription monies / consideration to the same Introducer, Blackrun Corporate Pte. Ltd. The Introducer Fee for the Proposed Acquisition represents 6.9% of the Purchase Consideration and is paid entirely by the allotment and issuance of the Introducer Shares.

As stated in the Announcement, the Introducer Fee was arrived at after negotiations between the Introducer, the Company and the Vendors at arm's length and took into account, *inter alia*, the services provided by the Introducer, including amongst others, introducing the Vendors and Target to the Company, assisting in organising and facilitating the negotiations between the Company and the Vendors in connection with the Proposed Acquisition.

During its negotiations, the Board had considered (a) the amounts previously paid to the Introducer for its services in past transactions, with the present amount representing a discount compared to the previous 9% and 15% commission that the Company has paid in the past, (b) that the payment of the Introducer Fee through the allotment and issuance of Introducer Shares rather than in cash would allow the Company to conserve cash for its working capital purposes, and (c) the Introducer Shares are also allotted and issued at the Issue Price, being at a 9.09% premium to the volume weighted average price of S\$0.044 for Shares traded on the Mainboard of the SGX-ST on 27 June 2023.

By Order of the Board

Mark Francis Bedingham
Executive Director, President and CEO
6 July 2023