



## METECH INTERNATIONAL LIMITED

(Company Registration No. 199206445M)  
(Incorporated in the Republic of Singapore)

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### RESPONSE TO SGX QUERIES

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The Board of Directors (the “**Board**”) of Metech International Limited (the “**Company**”) refers to the queries from the Singapore Exchange Securities Trading Limited (“SGX-ST”) on 19 April 2022 regarding announcements on 24 September 2021, 4 February 2022, 12 April 2022 and 18 April 2022 and wishes to respond to the queries as set out below. Unless otherwise defined, capitalised terms have the same meaning ascribed to them in the announcement dated 18 April 2022.

**Question 1: In the 18 April announcement by the Company, we noted that “on 11 April 2022, the Company was informed by XDC of its intention to dispose of part of its shareholding in JV Company. A third-party had indicated its willingness to acquire 20% of JV Company from XDC for a consideration of S\$4,000,000. As the Company has a pre-emptive right to the Sale Shares, XDC offered the Company the first right of refusal. On 14 April 2022, the Board decided to forgo the right and sought to get more details of the buyer from XDC. Wu Yongqiang, advisor to the Board and one of the controlling shareholders.... Decided to make an offer to XDC at the same consideration of S\$4 million to acquire the Sale Shares.” [“Change in Shareholding in JV and IPT Announcement”].**

- a) **We note that the Company was issued with a query from SGX Surveillance on 12 April 2022 as there were unusual price movements in Metech’s shares. On the same day (12 April 2022), Metech responded that it was not aware of any information not previously announced which might explain the unusual trading activity and was also not aware of any other possible explanation for the unusual trading activity. The Company further confirms its compliance with the listing rules, in particular Catalyst Rule 703.**

**In view of the Company’s subsequent announcement on 18 April 2022 on the Change in Shareholding in JV and IPT Announcement, please explain why the Company had responded to the negative to SGX Surveillance’s query on 12 April 2022.**

- b) **How was the consideration of S\$4m arrived at?**

Company’s Response:

- (a) XDC had informed the Company in the late evening of 11 April 2022 of XDC’s intention to dispose of its 20% shareholding in the JV Company as AGT has a right of first refusal over the potential sale of any shares held by XDC. The Company understood from XDC that their discussions with various potential buyers were still being carried out as of 11 April 2022, with a third party indicating its willingness to acquire XDC’s 20% shareholding in the JV Company for S\$4 million. As far as the Company is aware, while XDC found the valuation of S\$4 million attractive, no definitive offer had been made for the Sale Shares then.

XDC needed an indication from the Company whether it would exercise AGT’s right of first refusal over the Sale Shares before making any commitment to a third party. In that context, the Company was informed.

After consideration, the Company's board and management concluded on 14 April 2022 not to exercise the right of first refusal and informed XDC accordingly on 15 April 2022.

As the Company is not involved in the negotiations with the potential buyer(s) and the proposed sale of the Sale Shares was a business decision of XDC unrelated to or controlled by the Company, the Company was not in the position to comment on the proposed sale and did not view the proposed sale as a possible explanation for the unusual trading activity on 12 April 2022. As at 12 April 2022, the Company did not know whether the sale of the Sale Shares would proceed.

On 16 April 2022, XDC formally informed the Company about Mr. Wu Yongqiang's offer to purchase the Sale Shares and the signed agreement was provided to the Company on 17 April 2022.

- (b) As the Company was not involved in the negotiations for the disposal of XDC's shares in the JV Company, the Company is not aware of the basis for the consideration of S\$4 million paid for the Sale Shares.

**Question 2: On the 24 September 2021 announcement on the JV establishment, we noted that "The Group's entry into the Joint Venture is in line with the Group's strategy to expand into the environmental and sustainability business." as "lab-grown diamonds are created without the need for mining". Overall, "XDC shall provide technical support to the JV Company" Following completion of the sale of shares in the JV, XDC's stake in the JV would reduce from 49% to 29%.**

- a) ***In the Company's circular to shareholders dated 24 Dec 2021, in relation to proposed diversification into the new business of lab-grown diamonds, the Company has disclosed that it is highly reliant on contributions and technical expertise of XDC. What is the impact on the JV Company's operations moving forward?***
- b) ***Does the Group have the experience, expertise and track record in this new business of lab-grown diamonds?***
- c) ***In the Company's circular to shareholders dated 24 December 2021 and in the Company's responses to SGX queries as announced on 28 December 2021, it is stated that the Group has entered into agreement with XDC to acquire specialised machines required by the JV for its business and is customized by XDC and sold to the Group for RMB 22 million. IN addition, XDC will also provide its relevant trade secrets for the operation of the machines to produce the lab-grown diamonds.***
- ***Has the JV commenced production of lab-grown diamonds?***
  - ***Has the purchase of the specialised machines and trade secret been completed? If so, who owns the machines and trade secret?***
  - ***Why is the Group paying for the machines and trade secret?***
  - ***What is the contribution of JV to the Group's financials?***
  - ***Who are the representatives from the Group, in JV's management and board?***
  - ***Who introduced XDC to the Group?***

Company's Response:

- (a) The Company does not expect any impact on the JV Company's operations as XDC remains as a joint venture partner after the disposal. There is no change in XDC's undertakings to use its best commercial endeavours to provide technical support to the JV Company, which is not dependent on the percentage of XDC's shareholdings in the JV Company.

In addition, as disclosed in Section 2.4.2 of Circular published on SGXNET on 24 December 2021, while the Group itself does not have such experience prior to the commencement of the new business, since the commencement of the Joint Venture, the JV Company would be led by an experienced management team, comprising six (6) industry experts, including a professor, two (2) doctors, an academic leader and two (2) researchers (the "Expertise Team"), which has been researching on and manufacturing lab-grown diamonds for more than five (5) years with XDC. The Expertise Team will be working alongside many other corporate executives as well as technical experts, all will continue to be employed by the JV Company notwithstanding the change in XDC's shareholding in the JV Company. The JV Company is also in the process of employing more staff with experience in the manufacture of lab-grown diamonds.

- (b) Please refer to the response to query 2(a) above.
- (c) The machines are in the process of setting up and commissioning with production in testing stage concurrently. The JV Company is committed to commence mass production soonest possible upon completion of the commissioning of the machines and testing.

To clarify, the JV Company, as a subsidiary of the Company, paid for and owns the specialised machines. The acquisition of the specialised machines of RMB 22 million was supported by the Group and XDC in proportion to their equity in JV Company. The trade secret, which refers to the technology used to manufacture lab-grown diamonds, was attached to acquisition, and the specialised machines sold to JV Company. This trade secret was separately granted under a patent licensing agreement entered into between the JV Company and a wholly-owned subsidiary of XDC, which was announced on 27 January 2022. No license fee is payable under the patent licensing agreement. The specialised machines were purchased by the JV Company from XDC.

As the Company holds 51% stake in the JV Company and has the right to appoint a majority number of representatives to the JV Company's board, it is expected to consolidate 51% of JV Company's profit/loss into its group consolidated financials. As announced on 4 February 2022, the lab-grown diamond segment contributed S\$1.06 million revenue and S\$18,000 profit to the Group's consolidated financials for the first six months ended 31 December 2021 since the JV Company was incorporated on 27 September 2021.

As disclosed in Section 2.4.1 of the Circular, Ms. Samantha Hua Lei and Mr. Ling Ee Dee who are currently the CEO and Group Financial Controller represent the Company on the JV Company's management and board.

As disclosed in announcement dated 28 December 2021, XDC was introduced to the Company by one of the substantial shareholders. To clarify, this substantial shareholder is Mr. Wu Yongqiang.

**Question 3: Based on the various announcements released by the Group in 2021 till now, as well as the details disclosed in the circular to shareholders dated 24 Dec 2021, the JV has entered into at least 14 MOUs and collaboration agreements with entities in various jurisdictions to supply and / or collaborate on the new business of man-made diamonds.**

- a) **Please provide a status update on each and every one of these MOUs and collaboration agreements.**
- b) **Has any of the MOUs / collaboration agreement commenced and if so, what is the revenue contribution to the Group?**

Company's Response:

- (a) The MOUs and collaboration agreements remain valid as of today. With current status of machines and production which were explained in response to query 2(c) above, there has been no further development in the MOUs. These MOUs were signed with minimum validity period of

one year and renewable by mutual agreement between Parties. The Company expects definitive agreements in respect of the MOUs and collaboration agreements to be entered into by the JV Company after commencement of mass production.

- (b) The MOUs and collaboration agreements have not made any revenue contribution.

**Question 4: In the Change in Shareholding in JV and IPT Announcement of 18 April 2022, it is stated that shareholders approval is not required for an investment in a JV with an interested person if the risks and rewards are in proportion to the equity of each JV partner. It is also stated that the AC is of the view that the risks and rewards are in proportion and terms of the JV are not prejudicial to the interest of the issuer and its minority shareholder.**

- a) **We note that the Group's equity participation in JV company is \$255,000 for 51% stake in the JV and the Group also provided a S\$3.1m loan to the JV.**
- **Please provide details on the equity contribution of each of the JV partners and whether the JV partners extended loans to the JV in the same proportion.**
  - **Please provide details how the risks and rewards are in proportion to the equity of each JV partner.**
- b) **Please provide more details on the AC's considerations in arriving at the view that the risks and rewards are in proportion for each of the JV partners.**

Company's Response:

- (a) The initial equity contribution of AGT and XDC to the JV Company was S\$255,000 and S\$245,000 respectively in proportion to their shareholding interests of 51% and 49%.

Pursuant to the joint venture agreement entered into between the Company and XDC, the Shareholders' loans to be advanced by the Shareholders to the JV Company need not be proportionate to the Shareholders' respective Shareholding Percentages.

The loan of S\$3.1 million was extended by the Company to the JV Company pursuant to a loan and guarantee agreement entered into between the Company, the JV Company and XDC on 22 October 2021 (the "**Loan Agreement**"). Pursuant to the Loan Agreement, the Company agreed to extend up to S\$4 million to the JV Company and XDC agreed to guarantee a proportion of 49% of all unpaid sums by the JV Company under or in connection with the Loan Agreement. This extension of loan is for working capital and business development purpose which is in accordance with use of proceeds as disclosed under Section 4.2 of Proposed Placement announcement dated 30 September 2021.

The loan was extended by the Company prior to the participation of Mr. Wu Yongqiang in the JV and was not an interested person transaction at the time the Company entered into the Loan Agreement and disbursed the loan to the JV Company. XDC remains committed to its guarantee of 49% of all unpaid sums under or in connection with the Loan Agreement at the date of this announcement.

As interest of 6% per annum on the loan is payable by the JV Company to the Company and the loan is guaranteed by XDC in the proportion of its shareholding in the JV Company. The audit committee is of the view that the risks and rewards are in proportion to the equity of the Group and XDC (prior to the disposal of the Sale Shares), (i) as any additional risk that the Company has taken on by disbursing the loan to the JV Company is compensated by the guarantee of XDC and payment of interest on the loan; and (ii) Mr. Wu Yongqiang has executed the Deed of Ratification and Accession and is entitled to the same rights and subject to the same obligations as other joint venture partners.

- (b) Please refer to the response to query 4(a).

**Question 5: We noted from the latest disclosed financial results of the Company ended 31 December 2021 that Metech has fully impaired its investment in subsidiaries by S\$22.6 million on its statement of financial position, which includes AGT as disclosed in note 13 of its latest set of published financial results.**

- a) We note that AGT is the Company's wholly owned subsidiary, which entered into the JV agreement with XDC. As such, AGT is the subsidiary involved in operating and managing the JV / the New Business of lab-grown diamonds. Please disclose the Board's consideration in impairing its investment in subsidiaries, including AGT.**
- b) What are the Group's plans with regards to the new business of lab-grown diamonds?**
- c) How much has the Group invested in the new business of lab-grown diamonds?**

Company's Response:

- (a) The impairment of S\$21.9 million was first recorded in financial year ended 2016 with balance of S\$0.7 million recorded in financial year ended 2018. These impairments are related to the Group's accumulated losses in its past businesses, in particular the e-waste management business. The disposal of e-waste management business was approved by shareholders at EGM on 31 October 2018 and completed in April 2019. There is no impairment in its investment in AGT. As the equity investment in AGT is less than S\$1,000, the investment amount in subsidiaries was presented as asterisk under Note 13 of Condensed interim financial statements published on 4 February 2022.
- (b) Future plans of the lab-grown diamonds business were shared under Section 2.6 of the Circular published on SGXNET on 24 December 2021.
- (c) As of the date of this announcement, the Group's aggregate investment in the new business of lab-grown diamonds comprises its equity investment of S\$255,000 and the acquisition by the JV Company of the specialised machines of RMB 22 million was supported by the Group in proportion to its equity in JV Company.

By Order of the Board of Directors of  
**Metech International Limited**

Samantha Hua Lei  
Executive Director and CEO

21 April 2022

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*This announcement has been prepared by the Company and its contents have been reviewed by the Company's Sponsor, RHT Capital Pte. Ltd. (the "**Sponsor**") for compliance with the relevant rules of the Listing Manual Section B: Rules of Catalist of the Singapore Exchange Securities Trading Limited (the "**SGX-ST**").*

*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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