Metal Component Engineering Limited

(Incorporated in the Republic of Singapore)
(Company Registration 198804700N)

RESPONSE TO SGX QUERIES

The board of directors (the "**Board**" or "**Directors**") of Metal Component Engineering Limited (the "**Company**" and together with its subsidiaries, the "**Group**") wishes to announce its response to queries raised by the Singapore Exchange Regulation ("**SGX**") on 8 June 2021, in relation to the Company's announcement dated 8 June 2021 on the Company's proposed acquisition of Gainhealth Pte. Ltd. and proposed diversification into the healthcare business and e-commerce business ("**Announcement**").

Unless otherwise defined or the context otherwise requires, all capitalized terms used herein shall bear the same meaning as ascribed to them in the Announcement.

SGX Query 1: The vendors of the Target are Ms. Jagannathan Padmaja Sakthi ("JPS"), Mr. Fu Yijie ("FYJ") and Mr. Yeo Kang Nian ("YKN") (collectively, the "Vendors"). Please provide more information on the Vendors.

Company's Response:

JPS is the founder, chief executive officer and the sole director of the Target. She manages the Target's e-commerce portals, partnerships with over-the-counter product companies, channel sales with e-commerce portals like Lazada, Shopee and Foodpanda, and digital marketing on social media and search engine.

FYJ and YKN are passive seed investors of the Target. Upon completion of the Proposed Acquisition, FYJ and YKN will exit the Target and will no longer be holding any shares in the Target.

SGX Query 2: How is the Purchase Consideration of S$4.25m and Performance Bonus of S$5.1m for 85.07% of the Target determined? Please provide factors considered by the Board. The Target's indicative valuation as conducted by Cushman & Wakefield for 100% of the Target is estimated to be only between S$3.9 million to S$5.2 million.

Company's Response:

The Company is proposing to acquire 85.07% of the Target, and (i) the Consideration of S$4.25 million is based on the approximate 85% of S$5.0 million ("**Agreed Initial Valuation**"); and (ii) the Performance Bonus of S$5.1 million is based on the approximate 85% of S$6.0 million ("**Agreed Additional Valuation**").

The Agreed Initial Valuation is within the indicative Valuation of between S$3.9 million to S$5.2 million. For the avoidance of doubt, the aggregate of the Agreed Additional Valuation and the Agreed Initial Valuation of S$11.0 million, will be supported by the Second Valuation (to be conducted on the Target within 12 months from the Completion Date as part of the Performance Conditions) with the higher Relevant Target (as defined herein) of S$11.6 million. Please refer to Paragraph 7.1 of the Announcement for details on the Performance Conditions and the Second Valuation.

(A) Consideration of S$4,250,000

As disclosed in Paragraph 6.3 of the Announcement, the Consideration was arrived at arm's length and on a willing buyer willing seller basis, taking into account, among others, the Valuation conducted by the Independent Valuer (details as set out in Paragraph 3.3 of the Announcement). The Agreed Initial Valuation is within the indicative Valuation of between S$3.9 million to S$5.2 million.

(B) <u>Performance Bonus of S$5,100,000</u>

The Performance Bonus, derived based on the approximate 85% of S$6.0 million (being the Agreed Additional Valuation) is to be supported by the Second Valuation (with benchmark valuation of S$11,600,000 ("**Relevant Target**")) within 12 months from the Completion Date. This is to encourage the Target to achieve targets, which is in line with the Group's plan to diversify through the Target into the Healthcare Business and E-commerce Business. As disclosed in Paragraph 7.1(a) of the Announcement, as part of the Performance Conditions, the Target has to achieve the Relevant Target within 12 months from the Completion Date.

SGX Query 3: It is stated in the announcement that the final valuation will be issued in due course. Would this impact the Purchase Consideration, Performance Bonus and Performance Target?

<u>Company's Response:</u>

The Independent Valuation Report is pending the finalisation of due diligence commissioned to be conducted on the Target. As of the date of the Announcement, the Company is not aware of any adverse findings on the Target and does not expect that there will be findings that will have a material impact on the Independent Valuation Report or the Consideration. On the foregoing basis, the final Valuation will not impact the Consideration, the Performance Bonus and the Performance Conditions. The Valuation, which is indicative to be in the range of S$3.9 million and S$5.2 million, is to form a basis for negotiation for the Agreed Initial Valuation of S$5.0 million for 100% equity interest of the Target, and the determination of the Consideration of S$4.25 million for the Sale Shares (being 85.07% of the Target).

The Company wishes to clarify that the Performance Bonus is subject to the Target's fulfilment of the Performance Conditions, which is to achieve the Relevant Target of S$11.6 million within 12 months of the Completion Date (as set out in Paragraphs 6.2 and 7.1 of the Announcement). The Second Valuation is to be supported by another valuation to be commissioned by the Company and not based on the Valuation conducted by Cushman & Wakefield VHS Pte Ltd as the Valuer.

SGX Query 4: The Purchase Consideration of S$4.25m will be satisfied partly in cash and partly in shares of the Company. The issue price of such consideration shares is determined to be S$0.037, a discount of 44.78% to the VWAP of S$0.067 for trades done on 7 June 2021. Please detail the Board's considerations on why such a steep discount is in the best interest of the Company and its shareholders?

<u>Company's Response:</u>

The issue price of the Consideration Shares, the Performance Shares, the Arranger Shares and the Additional Arranger Shares (collectively referred herein as the "**New Shares**") was determined based on the higher of (i) S$0.037 (being 10% discount of the Company's net book value per share of S$0.041 as at 31 December 2020); and (ii) the VWAP for the full trading day prior to the date of the SPA, being S$0.0364.

The Company had engaged in ongoing negotiations with the Vendors on the Proposed Acquisition for more than 3 months, prior to the execution of the SPA in the evening of 7 June 2021. Among other things, parties to the SPA discussed and negotiated the issue price of the New Shares, taking into consideration factors such as the Company's net book value per share of S$0.041 as at 31 December 2020, as well as historical traded prices of the Company's shares on the Catalist.

In the past 12 months prior to 7 June 2021, the Company's share price traded and closed below S$0.039 (past one month from 7 May 2021 to 4 June 2021: S$0.030 to S$0.037; past three months from 8 March 2021 to 4 June 2021: S$0.022 to S$0.038; past six months from 4 December 2020 to 4 June 2021: S$0.022 to S$0.038; and past 12 months from 5 June 2020 to 4 June 2021: S$0.021 to S$0.038). The Board noted the unusual trading activities of the Company's shares on 7 June 2021, and the Company made a holding announcement on the same date. It was not the intention of the Company for the New Shares to be issued at a discount of 44.78%. The steep discount was only a result of the unusual movement in the Company's share price on 7 June 2021 where the VWAP was S$0.067, as compared to the VWAP on 4 June 2021 which was S$0.0364.

In fact, the Issue Price of S$0.037 represented a 7.9% premium of the VWAP of S$0.0343 for the past one month prior to the date of SPA (from 7 May 2021 to 4 June 2021).

For the above reasons, the Board is of the view that the Consideration Shares issued at S$0.037 per Consideration Share is in the interests of the Company and its shareholders.

SGX Query 5: A Performance Bonus of S$5.1m will be paid if the Target fulfils certain Performance Conditions, namely the Target achieving a valuation of not less than S$11.6m within 12 months from completion of the acquisition ("Second Valuation"). How is the Performance Condition of Target achieving valuation of S$11.6m within 12 months determined?

Company's Response:

Based on preliminary discussion with JPS, the Company understands that the Target intends to expand its business into the Indonesia market within 12 months from the Completion Date. If such plans materialise, it is expected that the valuation of the Target may increase beyond the Agreed Initial Valuation and potentially achieve the Relevant Target of S$11.6 million. Accordingly, parties to the SPA agreed to factor in the Performance Bonus, to encourage the Target to carry out its plans to continue to grow its business, as such objective is in line with the Group's plans to diversify into the Healthcare Business and E-commerce Business.

SGX Query 6: It is stated that the payment of the Performance Bonus is subject to, amongst other, JPS procuring the fulfilment of the Performance Condition by the Target. Please confirm when the Performance Bonus will be paid by the Company to the Vendors – ie, only when Company is satisfied that Target has met the Performance Conditions?

Company's Response:

The Company confirms that the Performance Bonus shall be paid to the Vendors in accordance with the terms and conditions of the SPA, only when the Company is satisfied that JPS has fulfilled the Performance Conditions.

SGX Query 7: In the event that the upper limit of the Second Valuation is less than S$11,600,000, the Performance Bonus shall be adjusted accordingly based on the following, to be paid to the Vendors, on a pro-rata basis, in accordance with the allocation of Performance Bonus payable to JPS, FYJ and YKN:

[(95% of the upper limit of the Second Valuation) x (85%)] – S$4,250,000]

(i) In the event the Target does not achieve the Performance Target, Performance Bonus is still payable to the Vendors. Please explain the rationale and Board's considerations behind this.

(ii) In the event the above formula is a negative number, would the Company be able to "claw-back" the "shortfall" from the Vendors? If not, why not, and how is this in the best interest of the Company and its shareholders?

(iii) ***Will the purchase consideration be adjusted in the event the Target incurs losses for the next 12 months after the completion of the Proposed Acquisition.***

(iv) ***What is the basis for adopting the above formula and the Performance Bonus structure? Is this a widely-used benchmark in the healthcare industry?***

Company's Response:

(i) The Performance Bonus shall be paid to the Vendors subject to the satisfaction of the Performance Conditions, which involves the Target achieving the Second Valuation of at least S$11,600,000; and in the event that the Second Valuation is less than S$11,600,000, the Performance Bonus shall be adjusted based on a formula ("**Formula**") as provided in Paragraph 7.1(a)(ii) of the Announcement. Based on the Formula, the value of Performance Bonus will be nil if the Second Valuation is S$5,263,158 or lower. For the avoidance of doubt, if the Second Valuation remains the same as the Agreed Initial Valuation of S$5,000,000, there will be no Performance Bonus to be paid by the Company to the Vendors.

As indicated in the Company's response to SGX Query 5 above, the Target has indicated plans to expand its business, and if such plans materialise, it is expected that the valuation of the Target may increase beyond the Agreed Initial Valuation and potentially achieve the Relevant Target of S$11,600,000. The rationale for adopting the Formula is so that the Performance Bonus is being paid in accordance with the performance of the Target within 12 months from the Completion Date on the premise that there is an increase in the valuation of the Target from the Agreed Initial Valuation.

(ii) There is no "claw-back" of the "shortfall" from the Vendors. The terms and conditions of the SPA have been negotiated and agreed upon among the Company and the Vendors, and the Board is of the view that the Proposed Acquisition is in the best interest of the Company and its shareholders, having considered among others that the Consideration is derived based on, *inter alia*, the Valuation conducted on the Target as at 31 March 2021, while the Performance Bonus is subject to the Target achieving a higher valuation within 12 months from the Completion Date.

(iii) No, the Consideration will not be adjusted in the event that the Target incurs losses for the next 12 months from the Completion Date. There is no profit forecast or profit guarantee for the purpose of the Proposed Acquisition.

(iv) The Company is not aware of any widely-used benchmark in the healthcare industry. The Formula is based on commercial decision and negotiation with the Vendors, as well as the Target achieving a higher valuation subsequent to Completion Date.

SGX Query 8: It is stated that no persons is proposed to be appointed as a director of the Company and no service contracts is proposed to be entered into. Does the Company have expertise in managing the Healthcare and E-Commerce businesses which are very different from its existing business of providing mechanical manufacturing solutions?

Company's Response:

The Company intends to diversify into the Healthcare Business and E-commerce Business through the Proposed Acquisition. The Company will be seeking the approval of Shareholders for the Proposed Diversification.

Following the completion of the Proposed Acquisition, the day-to-day operations of the Target will continue to be managed by its current management. As disclosed in Paragraph 3.1 of the Announcement, the Target has a management team equipped with the relevant expertise to manage the Healthcare Business and E-Commerce Business comprising a regional manager experienced in wholesale pharma distribution, a digital marketing director with prior healthcare industry experience, and 3 doctors licenced in Singapore with prior online healthcare services experience. Further, one of the Conditions Precedent is that JPS shall procure that the medical director licencing the medical clinic of the Target as at the date of the SPA will remain under the employment of the Target for a period of three (3) years from the Completion Date (as set out in Paragraph 9.1(c) of the Announcement).

As disclosed in Paragraphs 14.4 and 14.5 of the Announcement:

(i) The Group may collaborate with external consultants and/or advisers for the Healthcare Business. These collaborations may be done on a profit-sharing basis or on such other terms acceptable to the Group.

(ii) The Group may also explore joint ventures, partnerships and/or strategic alliances with third parties (including interested persons) who have the relevant expertise and resources to carry out the Healthcare Business and the E-commerce Business as and when opportunities arise. Such alliances may be carried out on a case-by-case basis and in selecting its strategic partners, the Company will take into account: (a) the specific expertise and competencies necessary for the projects or deals in question and the experience; (b) track record; and (c) financial standing of the party and/or parties concerned.

As the Company's plan is not definitive at the moment, the Company will update Shareholders as and when there are material developments.

As the Proposed Diversification is in the preliminary stage, the Company does not intend to appoint any new director(s) to its current Board. The Company may appoint a director on the Board with medical expertise as the new business grows.

By Order of the Board

Lee Wei Hsiung
Company Secretary
9 June 2021

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*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 ("**Catalist Rules**").*

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.

The contact person for the Sponsor is Ms Alice Ng, Director of Continuing Sponsorship, ZICO Capital Pte. Ltd., at 8 Robinson Road #09-00 ASO Building, Singapore 048544, telephone (65) 6636 4201.