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

RESPONSE TO SIAS QUERIES

The Board of Directors (the "**Board**" or “**Directors**”) of Metech International Limited (the "**Company**" and together with its subsidiaries, the "**Group**") refers to the queries raised by Securities Investors Association (Singapore) (“**SIAS**”) on 24 October 2018 in relation to the Proposed Disposal of the Group’s EWM business as set out in the Circular dated 8 October 2018 and the annual report for the financial year ended 30 June 2018. The Company wishes to provide its responses to the queries below:

Q1. While the Valuation Report states that the Targets have net liabilities of S$0.73m as at 30 September 2018, the Company’s FY2018 Annual Report state that the EWM business had assets of S$13.9m and liabilities of S$7.2m (net asset: S$6.7m) in FY2017. It also stated that the EWM business had a net profit of S$3.5m in FY2017. Why is the EWM business now valued at $nil?

<u>Company’s Response:</u>

The audited net assets of the EWM segment was S$6.7m as at 30 June 2017. As at 30 June 2018, the audited EWM segment had assets and liabilities of S$10.891m and S$9.726m respectively (translating into net assets of S$1.165m). The part of the valuation report showing the indicative amount for 30 September 2018 included estimated losses for the quarter from July 2018 to September 2018, thereby resulting in estimated net liabilities of S$0.73m which according to the Valuers would cast a significant doubt on the ability of the EWM business to continue as a going concern and hence it was valued at $nil by the Valuers.

Though the EWM business reflected a profit in FY2017, this was largely attributable to the one-time sale of raw materials due to environmental requirement and non-recurring other income such as payment of insurance claims and the reversal of impairment. The performance of this business segment has been on a downward trend for some time. From FY2013 to FY2018, the segment had lost S$11.11m with an average annual loss of S$2.22m. Average annual loss was much higher in the five years before 2013.

Q2. The Circular only disclosed the Summary Valuation Letter. Why did the Company not disclose the full valuation report, including the financial statements of the Targets?

Company's Response:

The Summary Valuation Report itself contains sufficient and relevant information needed for the shareholders to make an informed decision before voting on the said resolution relating to the Proposal Disposal, particularly as it was done by a reputable independent valuer.

The Board remains happy and committed to provide such additional information that shareholders still may need and to answer any of their questions and/or clarifications at the EGM.

Q3. The Circular stated that the Board of the Company reviewed the EWM business and decided on the Proposed Disposal. Did the Board take steps to explore options to turn-around the EWM business? Did the Board conduct a sale process?

Company's Response:

The Company suffered losses in seven out of the last ten financial years in FY2009, FY2010, FY2011, FY2012, FY2015, FY2016 and FY2018. The accumulated losses over this ten-year-period amounted to S$90.5m. Since FY2012, five major capital-raising-exercises had been undertaken - two Rights-cum-Warrants Exercises in FY2012 and FY2016 and three Private Placement Exercises in FY2013, FY2014 and FY2015 – which together brought in proceeds of $20.8m. Despite these capital injections, net assets at end of FY2018 stood at $3.9m. These figures show that the EWM business is more than a challenging one, particularly in the United States.

The EWM business had been a difficult business, as demonstrated by the results over the last ten financial years. Three of the biggest challenges faced by the EWM industry, and not just by our Company, were the drop in precious metal prices (for example gold price fell almost 45% from the peak in 2011 to its trough in 2015) and the increasingly tough environmental rules and stiff competition in the United States. To illustrate - the Company had to spend a considerable sum to resolve the infringements of hazardous waste control rules that had been uncovered in the Company's facilities in the United States in recent years. The demanding and punishing business environment for the EWM business is manifest from the bankruptcy of ECS Refining this year, who is one of the major electronic recycling companies in the United States. Although the Company had taken steps to manage cost, such as reducing its workforce and administrative cost substantially in the United States, this ultimately could not turn the EWM business around.

As early as May 2015, the Board was already mulling over the long-term viability of the EWM business. This issue was the subject of discussions in subsequent meetings in Nov 2015 and May 2016 during the review of the financial statements. At around this time, Management started sending out tentative feelers to potential buyers for the EWM business, particularly in the United States. On 7 March 2017 the Company made an announcement that it received a serious enquiry from an interested party to acquire its EWM business. Unfortunately, the serious interest did not progress into any firm offer, like a number of other approaches from a variety of parties. Finally, on 26 July 2018, Mr Simon Eng (through Belle Forte Limited of which he is a 50% shareholder) and Mr Andrew Eng, the Executive Directors of the Company (the "**Buyers**"), themselves made an offer to the Company to acquire the EWM business in the hope that this could help the Company.

The Board formed a team to represent the Board in the negotiation on the sale of the EWM business to the Buyers. The team appointed BDO Advisory Pte Ltd to do an independent valuation of the Company's EWM business and the law firm, Donaldson and Burkinshaw LLP to advise on sale including the drafting of the Sale and Purchase Agreement. The Company was also in regular consultation with the Sponsor during this process.

Following the disposal, it is anticipated that the Company's financial position would improve. Besides, the Company would be free of any contingent liabilities arising from the EWM business. With the EWM business no longer burdening the Company, the Company would have no need to raise funds urgently to meet short-term commitment related to the EWM business.

Q4. As the EWM business is a core business of the Company, what will be the remaining asset/business of the Company, if the EWM business is disposed?

Company's Response:

The Company's core business was in EWM until FY2015 when a new segment, the Supply Chain Management ("**SCM**") business, was added to its portfolio. Following this, EWM's share of the revenue dropped from 100% to 26.1% in FY2017 and 29.1% in FY2018. After the proposed disposal the Company will initially focus its efforts on and to grow the SCM business. The Company will also explore other opportunities for its longer term growth.

Q5. The Company reported a loss of S$7.7m in FY2018. In view of the cash position of S$3m and the loss-making position of the Company, what is the Company doing to ensure it has adequate cash to operate?

Company's Response:

The proposed disposal of the EWM business is intended to ensure that the Company can continue as a going concern. Without the significantly higher cost of operations in EWM, the Company will have adequate cash to continue its other businesses and operations. The Company had been successful in raising capital and obtaining additional funds for working capital in the past and will evaluate various sources of finance where necessary.

Q6. The Company has reported net losses after tax for 3 of the past 5 years. Net assets have also been decreasing. How does the Company intend to improve its operating results?

(S$m)	FY2018	FY2017	FY2016	FY2015	FY2014
Total revenue	97.1	120.5	40.6	44.0	39.8
Gross profit	(1.5)	5.6	(1.9)	(2.3)	6.7
Profit before tax	(7.7)	0.9	(7.1)	(11.1)	0.1
Profit after tax	(7.7)	0.9	(7.1)	(11.1)	0.1
Total assets	16.5	25.0	16.5	20.5	27.7

Total liabilities	**12.6**	**14.4**	**6.7**	**7.5**	**5.0**
Net assets	**3.9**	**10.7**	**9.8**	**13.0**	**22.7**

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

Please see the reply to Question 5.

Q7. The Company's management team comprises mainly family members. Mr Simon Eng and Mr Andrew Eng's remuneration from FY2014 to FY2018 are summarised in the table below. In view of the Company's losses for the past few years, why were Mr Simon Eng and Mr Andrew Eng, they ask, paid such substantial remuneration when the company is losing money?

	FY2018	**FY2017**	**FY2016**	**FY2015**	**FY2014**
Simon Eng	**150k - 200k**	**<150k**	**<150k**	**<250k**	**N.A.**
Andrew Eng	**250k - 500k**	**250k - 500k**	**250k - 500k**	**>250k**	**>250k**
Total	**400k - 700k**	**400k - 500k**	**400k - 500k**	**400k - 500k**	**>250k**

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

As mentioned in our Annual Report, the remuneration policy of the Company is to offer compensation packages that are at least pegged to market rates and reward good performances. The adopted principle is that the remuneration packages have to be attractive in order to attract, retain and motivate directors, executives and managers. As such, the Board considers the remuneration of Andrew Eng and Simon Eng to be fair.

If the disposal is successful, the Company intends to reorganise its management with the view of reducing the administrative expenses of the Group.

By Order of the Board
METECH INTERNATIONAL LIMITED

Andrew Eng
Chief Executive Officer
28 October 2018

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 Singapore Exchange Securities Trading Limited (the "SGX-ST"). The Sponsor has not independently verified the contents of this announcement.

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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