



Metech International Limited

(Incorporated in the Republic of Singapore)
(Company Registration Number 199206445M)

RESPONSE TO SGX QUERIES

The Board of Directors (the “**Board**”) of Metech International Limited (the “**Company**”, and together with its subsidiaries, the “**Group**”) refers to the queries from the Singapore Exchange Securities Trading Limited (“**SGX-ST**”) on 20 January 2023 in relation to the announcement dated 17 January 2023 (the “**Termination Announcement**”) in relation to the termination of the joint venture agreement dated 24 September 2021 (the “**JVA**”) and wishes to respond to the queries as set out below.

Unless otherwise defined, all capitalised terms have the same meanings as ascribed to them in the Termination Announcement.

- 1) It was disclosed that AGT issued a default notice to XDC as XDC has caused an event of default under clause 7.1 of the JVA, where it has materially and incurably breached the JVA. Please provide details on Clauses 7.1 and 7.2 of the JV Agreement and elaborate on the event of default as well as what was materially and incurably breached.

Company’s Response:

Clause 7.1 of the JVA provides:

“Event of Default

An “Event of Default” shall be deemed to have occurred with respect to any Shareholder upon:

- (a) such Shareholder committing any material breach of its obligation under this Agreement and, if remediable, shall fail to take all necessary action to remedy such breach within [10] Business Days upon the service of notice by the Shareholder complaining of such breach;*
- (b) the bankruptcy, insolvency or winding-up of such Shareholder, or the presentation of a bankruptcy, insolvency or winding up application or a court of competent jurisdiction makes an order, or a resolution is passed, for the bankruptcy, winding-up, dissolution, judicial management or administration of such Shareholder; or*
- (c) such Shareholder initiating or proposing or effecting any arrangement or composition with its creditors.”*

Clause 7.2 of the JVA provides:

“Default Notice

*If any Event of Default occurs, any Shareholder who is not in default (the “**Non-Defaulting Shareholder**”) shall be entitled to give a default notice (the “**Default Notice**”) in writing to the Shareholder in default (the “**Defaulting Shareholder**”).*

As set out in the Termination Announcement, the significant material breaches are

- (a) XDC refused to recognise AGT’s entitlement under the JVA to appoint a third director to AET’s board of directors (“**AET’s Board**”) and to operate and manage AET;
- (b) XDC and its appointed directors in AET, namely Mr Deng Yiming (“**Mr Deng**”) and Mr Yang Hanyu (“**Mr Yang**”), are responsible for and/or have failed to satisfactorily address numerous issues and irregularities relating to AET involving, among others, missing diamond seeds and loose diamonds, outstanding loan advances, irregularities with the importation of machines supplied to AET, and the sale of machines to AET at an inflated price; and
- (c) XDC and its appointed directors in AET refused to cooperate with AGT to ensure the funding for AET’s operations as well as ensuring timely payments for the purposes of AET’s operations.

As legal proceedings have not been filed, save as announced in the Termination Announcement that a default notice had been sent to XDC (the “**17 Jan Default Notice**”), the Company is unable to elaborate further on the breaches identified in the 17 Jan Default Notice at this juncture to avoid prejudicing AGT and/or AET’s legal positions in any legal proceedings that are later commenced. It suffices to say that the breaches complained of have seriously undermined the relationship of mutual cooperation, trust and confidence, and good faith between XDC and AGT and have rendered the continuation of the joint venture untenable.

- 2) Please explain the Board’s consideration in deciding to terminate the JVA with immediate effect.

Company’s Response:

The Company terminated the JVA with immediate effect as the breaches by XDC as stipulated in the Termination Announcement, among others, amounted to a repudiation of the JVA, in that they have seriously undermined the relationship of mutual cooperation, trust and confidence, and good faith between XDC and AGT and have rendered the continuation of the joint venture untenable. Further, in the Board’s consideration, the termination of the JVA was necessary to:

- (a) limit any further loss and damage to the business and operations of AET; and
- (b) protect AGT’s interest in AET, and, in turn, the interests of the Company and its shareholders in AET.

- 3) It was disclosed that Mr Deng Yiming and Mr Yang Hanyu failed to satisfactorily address numerous issues and irregularities relating to the JV, Asian Eco Technology Pte Ltd (“**AET**”), amongst others, missing diamond seeds and loose diamonds, outstanding loan advances, irregularities with the importation of machines supplied to AET, and the sale of machines to AET at an inflated price.

- (a) How were these issues and irregularities discovered?

Company’s Response

These issues and irregularities were discovered during regular internal reviews carried out by AGT's management which included the inspection of the AET factory and the due diligence exercise carried out pursuant to the sale and purchase and call option agreement announced on 2 June 2022 and 2 December 2022, which was not completed. Please also see the Company's response to Question 8 below.

- (b) Please elaborate on each of the issues / irregularities, as well as the impact of such issues / irregularities on AET and the Company.

Company's Response

The breaches and issues discovered by AGT and the Company have had a direct impact on the business and operations of AET.

Specifically, in relation to:

- (i) XDC's refusal and failure to cooperate ("**Failure to Cooperate**") with AGT as intended under the JVA, coupled with its attempt to obstruct AGT from exercising its rights under the JVA to nominate a third director to the board of AET which resulted in a deadlocked situation at the board of AET, had rendered AET dysfunctional and prevented AET from investigating into the recently discovered potential wrongdoings, including potential wrongdoings relating to the missing diamond seeds and loose diamonds. Remedial steps therefore had to be taken by AGT, including steps to assume majority control of AET's board, as AGT is entitled to under the terms of the JVA, with the right to nominate and appoint up to 3 directors to AET's board. For completeness, and as noted in the Termination Announcement, Mr Yang, a director appointed by XDC resigned on his own accord on 13 January 2023 and Mr Deng was removed as a director of AET by a members' resolution in writing dated 17 January 2023, following the termination of the JVA;
- (ii) the issue of the missing diamond seeds and loose diamonds, AET's financial exposure has been quantified and determined to be at least S\$483,395.30 ("**Missing Diamonds**"), being the purchase price of these items. The Company through AGT fully intends to seek recovery of such loss from the wrong-doers;
- (iii) the issue of outstanding advances which were provided by AET to XDC for the purpose of procuring diamond seeds and consumables and equipment for use in the manufacturing of lab-grown diamonds ("**Outstanding Advances**"), the net amount that remains outstanding has been determined by AET to be a sum of S\$90,671 which remains owing and payable by XDC;
- (iv) the issue of irregularities with the importation of 5 machines supplied by XDC to AET at inflated prices, AET is still in the process of ascertaining its loss ("**Supply of machines at inflated prices**"). Once the loss has been quantified, AET and/or AGT will consult with its lawyers on the issue and will pursue all rightful claims it has against XDC and/or its directors; and
- (v) the irregularities discovered in respect of the description and value of at least 2 machines made in the importation documentation ("**Importation Irregularities**") when XDC supplied the at least 2 machines to AET under the Asset Acquisition Agreement ("**AAA**"), AET may potentially be exposed to regulatory liability and/or penalty imposed by the relevant Singapore authorities. AGT is working with the relevant authorities on resolving these matters and assisting with their investigations.

The Company will make further announcements in respect of these issues as and when there are material developments. For completeness, shareholders are urged to read the Company's response to Question 1 above in conjunction with its response under this Question 3(b).

- (c) Please detail the course(s) of action taken by the Company to protect the interests of itself and its shareholders for the irregularities as well as the progress of the actions taken.

Company's Response

- (i) In relation to the matter of the Failure to Cooperate, the Company has through AGT terminated the JVA for the reasons set out above in the Company's response to Question 1. In addition, as stated in the Termination Announcement and the Company's response to Question 3(b) under (i), AGT had taken steps to break the deadlock at AET's board by exercising its rights under the JVA to appoint 3 directors to AET's Board. For completeness, and as stated in the Company's response to Question 3(b) under (i), Mr Yang, a director appointed by XDC resigned on his own accord on 13 January 2023, and Mr Deng was removed as a director of AET by a members' resolution in writing dated 17 January 2023.
- (ii) In relation to the matter of the Missing Diamonds, AET has issued a formal demand to Mr Deng to account for the missing diamonds seeds and loose diamonds.
- (iii) In relation to the matter of the Outstanding Advances, AET has issued a formal demand to XDC for repayment of the outstanding advances.
- (iv) In relation to the matter of the Supply of machines at inflated prices, the Company has triggered the provisions of clause 5.1(a) of the AAA requiring AET to procure a valuation of the fair market value of the 5 machines in accordance with the provisions thereunder. Thereafter, if the fair market value of the 5 machines is determined to be lower than RMB 22 million, AET is entitled under clause 5.2(b) of the AAA to require the vendor (i.e., XDC) to pay to AET an amount equal to such deficiency. AET will commence legal proceedings to recover any such deficient amount from XDC if XDC does not repay any such amount in accordance with clause 5.2(b) of the AAA.
- (v) In relation to the matter of Importation Irregularities, AGT has reported these irregularities to the Singapore Customs and the Inland Revenue Authority of Singapore. AGT understands that investigations are underway and AGT is assisting the authorities with their investigations.
- (vi) The Company and AGT is taking advice from its lawyers as to any other potential claims it may have against XDC, and will pursue any such claims vigorously.

The Company will make further announcements on any of these issues as and when there are material developments.

- (d) The board of AET comprises – 2 representatives from the Company [namely Mr Ling Ee Dee (Metech's CFO) and Ms Samantha Hua Lei (Metech's ED cum CEO)]; and 2 representatives from XDC (namely Mr Deng Yiming and Mr Yang Hanyu). Were Mr Ling Ee Dee and Ms Samantha Hua Lei aware of the above issues and irregularities? If not, why not?

Company's Response

Mr Ling Ee Dee and Ms Samantha Hua Lei became aware of the issues and irregularities during regular internal reviews and during the due diligence exercise stated in the Company's response to Question 3(a) above.

Following discovery, the Company and AGT sought legal advice and acted as explained above to safeguard the interests of the Company and its shareholders.

- (e) What due diligence did the Board of Metech conduct prior to setting up the JV with XDC; and prior to entering into the JVA?

Company's Response

The Board conducted a feasibility study of the lab-grown diamond industry by reference to industry reports such as those issued by securities companies, and performed legal and financial reviews on XDC.

For the purpose of clarifying and putting matters in their correct context, the irregularities and issues that have occurred involve potentially wrongful conduct and breaches that would not and could not have been discovered in a legal and financial due diligence of XDC in relation to the JVA. The irregularities and issues pertaining to the (i) Failure to Cooperate, (ii) Missing Diamonds, (iii) Outstanding Advances, (iv) Supply of machines at inflated prices and (v) Importation Irregularities arose after the entry into of the JVA and the AAA. The Company and AGT were not aware of any similar antecedent breaches by XDC, and did not have any reason at the time, prior to the entry into of the JVA and AAA, to doubt the bona fides of XDC and/or its nominee directors on AET's Board.

- (f) What due diligence did Metech and / or AGT conduct prior to entering into the agreement to purchase the 5 special machines from XDC for RMB 22 million?

Company's Response

At the material time, the Company and AGT were informed by XDC that there were no machines available in the market that were of comparable specifications to the 5 machines that were to be supplied by XDC as the 5 machines were purported designed and customised by XDC.

To protect the Company and AGT's interests, the Company through AGT requested and required that clauses 5.1 and 5.2 be included in the AAA, which allow AET to request a fair market valuation of the 5 machines, and for AET to recover from XDC any amount AET paid to XDC that is in excess of the fair market value for the 5 machines.

- (g) In April 2022, in response to SGX RegCo's queries, the Company announced that the 5 special machines were in the process of setting up and commissioning for production, and was in testing phase. The JV will commence production once testing is done. Please disclose if the 5 special machines have been delivered. If so, are the 5 machines operational?

Company's Response

All machines have been delivered and are currently in operation.

- (h) Are the 5 machines fully paid for? If so, how much was paid to XDC?

Company's Response

The 5 machines have been fully paid for. Under the AAA, AET was to pay XDC RMB 22 million or the equivalent in Singapore Dollars for the 5 machines. At the material time, the Singapore Dollar equivalent was S\$4,632,650. As a 51% shareholder of AET, AGT paid XDC S\$2,362,651.50 (being 51% of the purchase price of the 5 machines) on AET's behalf.

- 4) It was disclosed that should a notice of default and termination be served, "pursuant to the agreed mechanism and valuation specified in clause 7.3 of the JVA, AGT will be entitled to acquire all of the shares of AET held by XDC at the default price of 80% of the net tangible assets per share of AET.
- (a) Are the financial statements of AET audited? What is the NTA per share of AET?

Company's Response

The audit of AET's financial statements for the financial period from 27 September 2021 to 30 June 2022 has been completed. However, the auditors have yet to sign off on the financial statements because Mr Deng and Mr Yang have not responded to requests by AGT and AET's auditors to approve the financial statements, and in doing so, have prevented AET from filing its annual return. There are no disagreements regarding the proper and due maintenance of financial records required under the Companies Act or regarding the treatment of any item under the relevant accounting standards between AET and its statutory auditor. Following Mr Deng and Mr Yang's removal as directors of AET, AET is now working closely with the auditors to expedite the completion of the audit.

AET is still in the process of assessing the NTA per share of AET, and the Company will make an announcement to update its shareholders in due course.

- (b) Would the above agreed mechanism and valuation still be available to XDC, given that directors appointed by XDC to AET had purportedly caused the event of default by breaching the JVA? If so, please explain what AGT / Metech had considered when entering into the JVA with such clauses, and how such clauses are in the best interest of AGT / Metech and its shareholders.

Company's Response

Clauses 7.2 and 7.3(a) entitle a non-defaulting shareholder to compulsorily acquire from the defaulting shareholder its shares in AET at a discounted price, i.e., at 80% of the NTA per share.

The Company and AGT consider that XDC is not entitled to utilise clauses 7.2 and 7.3 of the JVA to acquire AGT's shares in AET since XDC is the defaulting shareholder. As such, only AGT has the right to compulsorily acquire XDC's shares at a discounted price under the terms of the JVA.

Compulsory acquisition of a defaulting shareholder's shares by a non-defaulting shareholder is a usual protective provision, among other protective provisions, commonly found in a joint venture agreement. The JVA also contains another protective provision under clause 7.4 which obliges the defaulting shareholder to indemnify and hold harmless the non-defaulting shareholder from all claims and actions, losses and costs and expense which are incurred

by the non-defaulting shareholder arising from any breach of the JVA by the defaulting shareholder.

- 5) What are the Company's / AGT's plans or recourse in view of the above developments?

Company's Response:

Please see the Company's Response to Question 3(c) above. The Company through AGT will enforce all rights it has in the JVA and the AAA vigorously and pursue all rights and claims it has against the wrong-doers.

Additionally, the Company has recently appointed Dr Zhang Keke as an independent director. Dr Zhang has many years of experience in the lab-grown diamond industry and will be lending his expertise to provide guidance to the Group in managing AET's business. The Company and AGT are also procuring AET to hire more experienced personnel to conduct AET's operations so as to minimise interruptions to the business operations.

- 6) Please disclose the amounts that the Metech Group has contributed to the JV to date. (ie. Capital contribution, Loans... etc)

Company's Response:

The Group has contributed S\$4,927,867.50 to AET, which comprises S\$2,362,651.50, being its share of the acquisition of the 5 machines (as stated in the Company's response to Question 3(h) above) and S\$2,565,216.00, being loan drawdown by AET under the Loan and Guarantee Agreement (as stated in the announcements dated 18 April 2022, 21 April 2022 and 26 January 2023).

- 7) In various announcements and responses to SGX RegCo's queries in 2021 and 2022, the Company has disclosed that it lacks experience in the new business of lab-grown diamonds and had relied on XDC to provide technical support and knowledge. It was also disclosed that Mr Deng Yiming is the key person for the new business and the Company had also intended to appoint him as an Executive Director of Metech.

- (a) With the termination of the JV (AET) with XDC, and AGT's entitlement to acquire all the shares of AET held by XDC, AET may become an indirect wholly owned subsidiary of Metech. Given that Mr Deng Yiming has been removed as a director of the JV (AET), and XDC has been served a notice of default and termination in relation to the JV, does the Company have the technical knowledge and experience to manage and run the operations of AET?

Company's Response:

To clarify, although the notice to terminate the JVA has been served on XDC, the joint venture company, AET, continues to be operational and is a live company. The Company's management, along with the existing employees of AET, have built up sufficient knowledge and experience to manage and run AET. Further, as mentioned earlier, the Company's newly appointed independent director, Dr Zhang Keke, has many years of experience in the lab-grown diamond industry. AET is also in the process of hiring more experienced personnel to conduct AET's operations.

- 8) In June 2022, the Company announced the proposed acquisition of up to 51% in XDC from Mr Deng Yiming, Ms Xu Kang and Mr Yang Hanyu for S\$13 million, subject to amongst others, independent valuation being conducted. In December 2022, the acquisition did not proceed as certain conditions were not fulfilled.
- (a) Has Metech conducted the independent valuation of XDC? If so, who is the independent valuer appointed, and what was the independent valuation of XDC?

Company's Response:

The Company appointed Colliers International Consultancy & Valuation Singapore Pte. Ltd. ("**Colliers**") to conduct an independent valuation of XDC. However, as XDC did not furnish Colliers and the Company with various information and documents requested as part of the valuation and due diligence exercise, and further, as XDC made significant changes in the assumptions underlying XDC's revenue projections that XDC did not and could not explain/provide, Colliers was unable to perform the valuation. As a consequence, the Company did not proceed with the proposed acquisition.

- 9) What other businesses does the Group have, other than the lab-grown diamond business?

Company's Response:

Currently, the Group has no other businesses besides the lab-grown diamond business.

By Order of the Board of Directors of
Metech International Limited

Samantha Hua Lei
Executive Director and CEO

29 January 2023

This announcement has been prepared by the Company and reviewed by the Company's sponsor, Novus Corporate Finance Pte. Ltd. (the "Sponsor"), in compliance with Rule 226(2)(b) of the Singapore Exchange Securities Trading Limited (the "SGX-ST") Listing Manual Section B: Rules of Catalyst.

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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