

JOYAS INTERNATIONAL HOLDINGS LIMITED

(Incorporated in Bermuda)
(Company Registration Number 38991)

RESPONSE TO SGX QUERIES ON THE ANNOUNCEMENT OF THE COMPANY DATED 4 APRIL 2019 RELATING TO THE DISCLAIMER OF OPINION BY THE AUDITOR ON THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

The Board of Directors (the “**Board**”) of Joyas International Holdings Limited (the “**Company**”) wishes to respond to the following queries raised by the Singapore Exchange Securities Trading Limited (“**SGX-ST**”) on 5 April 2019, with reference to the Company’s announcement dated 4 April 2019 (the “**Announcement**”) relating to the disclaimer of opinion by the Group’s auditor on the financial statements for the financial year ended 31 December 2018.

Unless otherwise defined, all capitalized terms utilized herein shall have the meanings ascribed to them in the Announcement.

Query No 1:

On the deposit paid to supplier and trade payable owing to the supplier:

It was stated that the HKD24million (approx. US\$3million) paid to the supplier in the Philippines in FY2015 for the purpose of the purchase of nickel ore, is long overdue and in terms of recoverability of the said deposit, the Board reckons provision for impairment losses may be required but a reliable estimate cannot be made at the present moment due to a lack of updated information on the market value of the Mining Company (a nickel ore mining concession in Indonesia).

There are also trade payables of HK10.5million due to the same supplier. The supplier in the Philippines is owned by Mr Wang De Zhou (“**Mr Wang**”), the director and CEO of Hong Kong Silver Basic Group Limited (“**HK Silver**”) (pursuant to announcement of 29 Mar 2019).

The auditor is unable to obtain sufficient appropriate audit evidence on the recoverability of the deposit and trade payable due to the Philippines supplier and they were also unable to satisfactorily perform confirmation procedures.

It was also stated that the deposit is secured by a personal guarantee from Mr Wang, guarantee from the minority shareholders of HK Silver, and the charge of shares in the Mining Company.

Mr Wang has recently provided a repayment plan to the Company of which first installment of approximately US\$50k will commence in August 2019 and will be increased and repaid over a period of time depending on the level of future shipment (“**Repayment Plan**”).

- a. The deposit was paid in relation to an exclusive agency agreement signed between HK Silver and the Philippines supplier. Did the exclusive agency agreement provide for any termination clauses, repayment deadline, or interest to be leveraged on the deposit paid?

Company's response:-

To clarify, the deposit was paid for the purchase of nickel ore in relation to sale and purchase contract (the “**Sale and Purchase Contract**”) entered between HK Silver and the supplier on 20 Mar 2015 pursuant to/subsequent to an exclusive agency agreement dated 19 March 2015 (“**Agency Agreement**”).

Under the Sale and Purchase Contract, the supplier is required to supply the product and failure to do so will amount to a breach of the Sale and Purchase Contract, of which HK Silver is entitled to claim damages from the supplier. As the supplier has used the deposit for costs in relation to extraction of nickel ore, they are unable to repay the deposit until export shipment is made which the supplier has not been able to do so mainly due to export approval not obtained as a result of additional procedures imposed by the government. The deposit was given to the supplier before the additional procedures were imposed.

There are no termination clauses, repayment deadline or interest charged in respect of the Agency Agreement and the Sale and Purchase Contract. Under the Agency agreement, there is no financial commitment required on the part of HK Silver. The Sales and Purchase Contract contains the similar terms and conditions as the other contracts entered into between HK Silver's Group (including PT Global Linker Indonesia ("PTGL")) and other independent suppliers, the Company is of the view that there are adequate protections under the contract to protect HK Silver's rights.

The deposits paid by HK Silver to the supplier was funded by Asiapac Growth Holdings Ltd ("Asiapac"), a wholly-owned subsidiary of the Company which in turns hold 70% interest in HK Silver, pursuant to a facility agreement dated 18 March 2015 entered into between HK Silver and Asiapac (the "**Facility Agreement**"). Under the Facility Agreement, Asiapac agreed to extend funds of up to USD3.0 million to HK Silver ("Funds") The Funds are secured by personal guarantee from Mr Wang, guarantee from the minority shareholders of HK Silver ("Wang and the minority shareholders of HK Silver are collectively defined as "**Guarantors**"), and the charge of shares ("**Share Pledge**") in a mining company which owns a nickel ore mining concession in Indonesia, namely PT Shenniu Mining Indonesia ("**Mining Company**"). The Company wishes to clarify that the deposits paid are interest free and unsecured. However, the Company is of the view that, in substance, the deposits are secured as it was financed by the Funds under the Facility Agreement which are secured by the personal guarantees provided by the Guarantors and the Share Pledge.

Under the terms of the Facility Agreement, Asiapac is also entitled to 20% per annum (net of any applicable withholding tax) of the amount of the Funds (in the form of interest or dividends) in accordance to the schedule stipulated under the Facility Agreement ("**Minimum Cost of Funding**"). All obligations under the Facility Agreement including the Minimum Cost of Funding are secured by the guarantees provided by the Guarantors and the Share Pledge. However, due to the circumstances surrounding the nickel ore business, Asiapac had only received the Minimum Cost of Funding from HK Silver for a short period of time. For the avoidance of doubt, this amount had no financial impact on the Group's loss for the year then as it was eliminated upon consolidation. Details in relation to the funding provided by Asiapac and the Minimum Cost of Funding had been disclosed under Paragraph 2.3.2 (Point 2 and 3) of the Company's circular dated 2 December 2014 (the "**Diversification Circular**"), which was approved by shareholders in the Special General Meeting held on 8 January 2015.

- b. Who owns the Mining Company? Did the Board assess the financial standing of Mr Wang, each of the minority shareholders. and the Mining Company, to assess their ability to make good the deposit?

Company's response:-

The majority shareholder of the Mining Company is Mr. Wang De Zhou. The minority shareholders of HK Silver are family members of Mr Wang. To assess the financial standing of Mr. Wang and his ability to make good the deposit then, the management of the Company performed the following assessments, inter-alia:

- a) understood the nickel ore operations of Mr Wang and the concessions he controlled; and
- b) value of the concession used as security of the Facility Agreement by checking against the Geological Technical Report and market information.

Based on the above, the management of the Company was of the view then that Mr Wang had the financial standing to make good the deposit. No assessment has been performed on the financial standing of the minority shareholders.

The Board is aware that the operations of Mr Wang's nickel ore mining companies are affected by the export controls in Indonesia and the imposition of additional export procedures in the Philippines in the past few years, but he still owns directly or indirectly several nickel ore mining concessions in Indonesia and the Philippines including those owned by the Mining Company of which Mr Wang is still a majority shareholder. The Board had also considered the value of the mining concession, of which the last preliminary assessment performed by the management of HK Silver in March 2019 was approximately US\$10 million.

- c. Such deposit was made by the Company during FY2015. What did the Board and Management do during FY2018 in bid of recovering such deposit? Does the Board and Management consider such deposit to be material to the Group's financials?

Company's response:-

In a bid to recover such deposit, the Management of the Company has been in constant discussion with the management of HK Silver to discuss the regulatory and operational updates, progress of shipment, financing and possible sale of the concessions owned by Mr Wang.

The Board and the Management considers such deposit to be material to the Group's financials.

The Board has been updated by Management on the above steps taken by Management to recover the deposit. The Board has taken a cautionary stance in handling the recovery of the deposit as it reckons what is at stake is not just the recoverability of the deposit but also the future of the Group's nickel ore trading business as Mr Wang is the shareholder of several nickel ore mines in Indonesia and the Philippines from which HK Silver and PTGL rely on for their supply of nickel ore at prices which guarantee a minimum profit margin to the Group (See point 4 under paragraph 2.3.2 of the Company's Diversification Circular). Mr Wang is also the key management personnel on whom the Group is reliant for the success of the nickel ore trading business.

- d. What is the deadline for the Company to consider calling upon the securities and guarantees? What are the Board's view and basis on whether the Repayment Plan and the decision on calling upon of the securities and guarantees provided, are in the best interest of the Company, especially taking into account that the auditors were unable to satisfactorily obtain comfort as to the deposits paid and trade payables owing to Mr Wang?

Company's response:-

Currently, the Company has set a deadline of 30 September 2019 to receive information on the realizable value of the collaterals for the Funds and to evaluate the recoverability options.

The Company can either consider the Repayment Plan or call upon the securities and guarantees provided. The Management is of the view that accepting the Repayment Plan will be a better alternative currently as compared to calling the securities and guarantees which will require significant legal cost and uncertainty in the enforcement and recoverability mainly due to court procedures, auction process and realisation of value.

The Board is of the view that the viability of the Repayment Plan would depend on the cash flow to be generated from the nickel ore mines owned by Mr. Wang through domestic or/and export sales in the future, both of which are still uncertain at the present moment and it would take some time to have a clearer visibility to the situation. However, if there is still no progress in the nickel ore trading business of the Group by 30 September 2019, the Board and the Management will assess whether to call on the Share Pledge and guarantees.

Query No 2

The auditors had in their opinion highlighted that they are unable to obtain sufficient audit appropriate evidence as to whether the investment in associate of HK\$2.9 million is misstated and whether amount due from associate of HK\$10.6 million is recoverable.

It was mentioned in the Company's announcement that the auditors were unable to verify the correspondences address of certain Third Parties in order to deliver the third party confirmation letter for the balances recorded under PTGL.

The Board and Management of the Company is of the view that no provision is required for the amount due from PTGL due to the assurance from the management of HK Silver and PTGL that the new majority shareholder of PTGL, Fill Stone International Mining Corporation, which is an independent third party has been providing financial support to PTGL.

It was also mentioned that PTGL is expected to start domestic shipment of nickel ores in the next few months and PTGL should be able to generate positive cashflows of not less than US\$ 200,000 a month once shipments reach the expected level of US\$ 2 million – US\$ 5million a month.

- a. When does the Company and/or PTGL expect shipments to reach the expected level of US\$2 million – US\$ 5 million a month, such that recoverability of the amounts due from PTGL will be more assured?

Company's response:-

PTGL expects such shipments to reach US\$ 2 million to US\$ 5 million a month by the second half of 2020.

- b. Does the Board and Management consider such receivables to be material to the Group's financials?

Company's response:-

Yes. The Board and the Management consider such receivables to be material to the Group's financials but they are essentially advances made to PTGL to enable PTGL to make advance payment to the nickel ore supplier in Indonesia to extract nickel ore and build necessary transportation infrastructure for future delivery of the nickel ore to PTGL. It was a commercial decision made by management of HK Silver (comprises Mr Wang and Mr Frankie Ma) on such advance payment to the supplier after PTGL secured a license to sell domestically in Indonesia in FY2016. The new majority shareholder of PTGL, Fill Stone, has been injecting funds to PTGL to fund the supplier of PTGL since it became the majority shareholder of PTGL. For the avoidance of doubt, the supplier is independent and not related to the Directors and key management of the Company, HK Silver and PTGL.

- c. Notwithstanding that the new majority shareholder has been providing financial support to PTGL, are there any indication on when will the Company be able to receive such outstanding amount?

Company's response:-

According to the management of HK Silver and PTGL, the latter should be able to generate positive cash flow once shipment starts. The ability and the timing of PTGL to repay the amounts owing to its shareholders (including the Group) would however depend on a few factors including its working capital and capital expenditure requirements as well as any repayment schedule to be agreed amongst PTGL's shareholders who have both made advances to PTGL.

- d. Given that PTGL is now an associate, will there be interest levied upon the outstanding amount?

Company's response:-

No such interest has been levied and will be levied at the moment by both the Group and the new majority shareholder on the advances made to PTGL which remains outstanding. The focus of the both the Group and the new shareholder at this stage is to enable PTGL to make shipments once sale orders are received. The Group and the new shareholders will agree on the terms of the repayment of the advances including the principal and interest after PTGL commences shipment.

By Order of the Board

Cheung King Kwok
Independent Non-Executive Chairman

24 April 2019

This announcement has been prepared by the Company and its contents have been reviewed by the Company's PrimePartners Corporate Finance Pte. Ltd. (the "Sponsor") for compliance with the Singapore Exchange Securities Trading Limited (the "SGX-ST") Listing Manual Section B: Rules of Catalist. The Sponsor has not verified the contents of this announcement.

This announcement has not been examined or approved by SGX-ST. The Sponsor and the SGX-ST assume no responsibility for the contents of this announcement, including the accuracy, completeness or correctness of any of the information, statements or opinions made or reports contained in this announcement.

The contact person for the Sponsor is Ms Tan Pei Woon, Associate Director, Continuing Sponsorship, (Mailing Address: 16 Collyer Quay, #10-00 Income at Raffles, Singapore 049318 and Email: sponsorship@ppcf.com.sg).