JOYAS INTERNATIONAL HOLDINGS LIMITED

(Incorporated in Bermuda)
(Company Registration Number 38991)

RESPONSE TO SGX QUERIES ON THE ANNOUNCEMENT OF THE COMPANY DATED 28 JANUARY 2019 RELATING TO THE DISPOSAL OF SHARES IN PT GLOBAL LINKER INDONESIA

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 (the "**SGX-ST**") on 29 January 2019, 8 February 2019 and 25 February 2019, with reference to the Company's announcement dated 28 January 2019 (the "**Announcement**") relating to the disposal of 15% of interest in PT Global Linker Indonesia to Fill Stone International Mining Corporation ("**Fill Stone**"), an independent third party (the "**Disposal**").

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

Query No 1:

Joyas announced yesterday that the disposal of 15% shares in PT Global Linker Indonesia ("**PTGL**") to Fill Stone was on 10 October 2018.

Pursuant to Rule 704(17)(c), an issuer must immediately announce any sale of shares resulting in a company ceasing to be a subsidiary or an associated company of the issuer. The disposal of 15% shares in PTGL reduces Hong Kong Silver Basic Group Limited's (which is a 70%-owned subsidiary of Joyas) shareholding in PTGL to 49%, and accordingly, PTGL has ceased to be a subsidiary of the Group. Why was the disposal of shares only disclosed 3.5 months after the disposal on 10 October 2018?"

Company's response:-

*The delay in making the announcement regarding the sale of 15% shareholding by Hong Kong Silver Basic Group Limited ("**HK Silver**") in PTGL ("**Disposal**") was because the Company was not aware of the transaction until January 2019.*

*PTGL has not been contributing revenue since its incorporation in June 2016 up to now. Its daily operations including funding are managed by Mr. Wang De Zhou ("**Mr Wang**"), who is a director and the Chief Executive Officer of both PTGL and HK Silver.*

*The sale of the 15% interest in PTGL was carried out by Mr. Wang on his own initiative and he overlooked the need to seek prior approval of the Board of Directors ("**Board**") of HK Silver before executing the transaction. The Board of HK Silver had subsequently passed the necessary Board Resolution to ratify the Disposal. Prior to the Disposal, Mr. Wang and the Company's management were aware of the need for PTGL to secure funding to continue its operations but no specifics were discussed. As Wang had successfully invited a new shareholder to resolve the funding needs of PTGL, the Company's Board and HK Silver's Board had unanimously approved the Disposal.*

Mr. Wang instructed his staff at PTGL to send the pertinent transfer documents via email to HK Silver upon receipt of such documents from the Indonesia Authority in November 2018. However, due to file size and virus, HK Silver did not receive the file at that time. The same staff at PTGL had soon resigned and left PTGL for personal reason in December 2018 and hence there was no follow-up made from PTGL side.

The management of the Company was made aware of the Disposal in January 2019 as the Disposal was discovered when audit commenced in PTGL. As soon as the relevant transfer documents were received by HK Silver and the Company's management, steps were taken to release an announcement in relation to the Disposal. The auditors were also provided with copies of the relevant transfer documents in January 2019.

Under the Memorandum and Articles of HK Silver, directors have the authority to transact/operate the business of the company including sale of assets. Notwithstanding, the Group's policy and procedures require all acquisition or disposal of companies to have prior approval by the Board of Directors of the Company. Accordingly, Mr Wang and PTGL staff have been briefed on the Group policies and procedures and also been advised and reminded to strictly adhere to the Group's policy that all corporate and legal matters pertaining to PTGL should require prior approval by the Board of HK Silver and the Company.

Query No 2

FY2016

It was announced on 12 June 2017 in the business outlook section of the FY2016 AR that PT Global Linker was incorporated in June 2016, and is waiting for the specific license to sell nickel ore domestically. During 2016, the Indonesian authorities have announced new procedures and requirements that nickel ore may be exported overseas. The Group is in the process of understanding and arranging such procedures and requirements.

It was also disclosed that the Group expects to downsize and scale down its metal gift products and jewellery business.

Further to the acquisition of the subsidiary CCIG Financial Services Limited in September 2016, with a Money Lenders License to operate a lending business in Hong Kong, the Group has also commenced the lending business and expects the financing business to grow.

FY2017

It was then announced on 9 April 2018 in the FY2017 AR that PT Global Linker has since obtained a specific license to sell nickel ore domestically in Indonesia. During FY2017, PT Global Linker had received some orders for nickel ore for the domestic market and is in the process of arranging contractors to extract the nickel ore. The Group is still in the process of understanding the Indonesian government's new procedures.

The Group's financing business has been contributing to the Group's revenue and the Group expects such contribution to remain for the next 6-12 months.

Due to the sale of Joyas Group Limited and its subsidiaries in FY2017, there were no revenue arising from sale of metal gift and jewellery products.

With that, in view of the disposal of 15% shares in PT Global Linker,

1. Given that PT Global Linker has made progress in FY2017 in the nickel ore segment in obtaining the license to sell nickel ore domestically in Indonesia and has also received some orders for nickel ore, even though the Company has disclosed that the rationale for the Disposal is to introduce a shareholder which can provide working capital to PT Global Linker, why did the Company reduce its stake to result in PT Global Linker being only an associate of the Company (e.g. instead of being a 51% subsidiary)?

2. What is the 1006 computation of the Disposal?

3. What is the background of Fill Stone?

Company's response:

1. *It is currently expected that PTGL will receive orders for nickel ore in the coming months and to fulfil such orders, PTGL would require working capital to purchase nickel ore as well as financing the time gap in collection of payments from customers. As the working capital may be substantial, HK Silver will not be able to finance such amount. Therefore, Fill Stone was invited as a shareholder who could provide such working capital to PTGL. Fill Stone currently holds 51% of PTGL.*

2. *Rule 1006 relative figures in relation to the Disposal based on the Group's unaudited 6 months results ended 30 June 2018 ("**HY2018**") are as follows:*

Rule	***Description***	***HKD$'000***	***%***
1006(a)	*Net Asset Value ("**NAV**") of PT Global (based on 15%)*	*1,047*	***2.5***
	NAV of Group (include MI)	*39,553*	
1006(b)	*Loss before tax of PT Global (based on 15%)*	*(5)*	***0.19***
	Loss before tax of Group	*(2,351)*	
1006(c)	*Sales consideration*	*1,008*	***2.3***
	Market Capitalisation of the Company (10 October 2018)	*43,404*	
1006(d)	*No. of equity securities issued*	*NA*	-
1006(e)	*Mining reserve*	*NA*	-

3. *Fill Stone is an independent third party and not related to Joyas. Mr Wang De Zhou had confirmed to the Company that Fill Stone is not related to him or his associates. Fill Stone was incorporated in BVI and its sole director & shareholder is Dong Bo who has experience in resource trading.*

Query No.3

Please provide the Company's and Board's views of what would be Joyas' current core businesses and its viability moving forward, after disposal of 15% in PT Global Linker (nickel ore business)?

Company's response:

The management is of the view that the core business of the Group will remain as nickel ore trading and financing. The disposal of 15% in PTGL is not expected to have significant impact on the Group's current business as the Group will continue to hold 49% of PTGL through HK Silver. For the avoidance of doubt, the effective interest of the Group on PTGL has reduced from 45% to 34% after the Disposal. Accordingly, PTGL will still contribute to the Group's results after the Disposal. With the Disposal, the Company will have less financial pressure to support the funding needs of PTGL for its operations. PTGL will also obtain funding support from Fill Stone for its working capital.

Query No 4

It was mentioned that the sale of the 15% interest in PTGL was carried out by Mr Wang on his own initiative and he had overlooked the need to seek prior approval of the Board of HK Silver before executing the transaction ("**Lapse in Internal Control**").

It appears that there is a lack of controls in place to identify unauthorised changes in corporate information/ownership of the subsidiaries of the Company and the discovery of the Disposal was due to the commencing of audit for PTGL. Beyond the requirement to seek prior approval of the Board for an acquisition/disposal of companies, what are the other current controls in place to prevent a unilateral transfer/disposal of share ownership in the Company's subsidiaries? Whom in the Company has custody of the share certificates of the subsidiaries in the Group and how many signatories are required on acquisitions/disposal of assets?

<u>Company’s response:</u>

<u>Current controls</u>

*Other than seeking prior approval of the Board, the current controls to prevent a unilateral transfer/disposal of share ownership in Company’s subsidiaries is central custody of corporate documents with company secretarial firm. The corporate documents of the Group subsidiaries (other than PTGL) such as share certificates and minutes are kept with company secretarial firm, Grandtop International Capital Limited (“**Grandtop**”) which is based in Hong Kong. Grandtop is a third party who has been given instructions that changes in shareholding and share certificates of the Group’s subsidiaries would require board resolution. The Board will be informed by Grandtop before any changes in shareholdings of the subsidiaries can take effect should the instruction be given by persons other than the Board members. Going forward, there will be periodical examination of the share certificates and corporate documents which are kept with Grandtop.*

However, the central custody system has not been applied to PTGL as the corporate documents such as certificate of incorporation are kept in PTGL’s office in Indonesia mainly to facilitate operations such as filing with government agencies (if or as and when needed).

*The key management of the Group and directors at the subsidiary level had been made aware of the Group’s authorisation limit as well as the policy and procedures for acquisition/ disposal transactions**.** The Board will continue to communicate through meetings and sending reminders to all key management and staff in relation to the importance of adhering to the Company's policy and procedures. The Company will continue to engage David Ho & Co, the Company's outsourced internal auditors to carry out internal controls review work on the adequacy of control procedures to safeguard the Company's assets including share certificates of subsidiaries and associated companies and compliance thereof.*

<u>Custody of share certificates</u>

For companies other than PTGL, the share certificates of the subsidiaries are kept with the external company secretarial firm, Grandtop.

*No share certificates of PTGL were issued in favour of Hong Kong Silver Basic Group Limited (“**HK Silver**”), a 70%-owned subsidiary of the Company. The board of directors of the Company (the “**Board**”) was only made aware of the absence of share certificates in PTGL in February 2019.*

The Board was informed that PTGL’s Indonesian legal counsel had verbally advised HK Silver’s management that share certificates were not necessary. In a written advice dated 13 March 2019, PTGL’s legal counsel stated that share certificates are only issued if shareholders request for share certificates to be issued. Otherwise, it is sufficient to record the information relating to shareholders, including the number of shares held by the relevant shareholder, the date the relevant shareholder obtained the shares and the status of the shares held by the relevant shareholder in a register of shareholders.

Once the Board was made aware of the absence of share certificates of PTGL in February 2019, the Board immediately appointed a reputable Indonesian law firm, Dau & Tuah to advise that the Disposal had been properly conducted in accordance with the laws of Indonesia. In particular, the Board had requested for legal advice on the legal position of the transfer of shares of PTGL in the absence of share certificates.

*Dau & Tuah, in their legal opinion dated 27 March 2019, advised that Article 51 of Law No. 40 of Year 2007 concerning Limited Liability Companies (“**Indonesian Company Law**”) requires shareholders to be given proof of ownership of shares they own. This is typically in the form of share certificates and other forms of proof of ownership which may be provided for in the Articles of Association of the company. Dau & Tuah also advised that the absence of share certificates of PTGL does not, on its own, void the Disposal.*

Dau & Tuah further advised that the following steps must be taken to rectify the non-compliance during the share transfer as follows:

(a) *Making the (i) first newspaper announcement and (ii) employee announcement as required under the Indonesian Company Law.*

(b) *Assuming there are no objections after 30 (thirty) calendar days from the date of the announcements, the current shareholders can pass a fresh resolution in the form of a notarial deed.*

(c) *The sellers and the buyer should execute share transfer agreements in notarial deed format as required under Indonesian law. In addition, the sellers and the buyers of the shares should also execute statement letters to waive their right to challenge the acquisition exercise. The said letters should also be legalised by the Indonesian Notary.*

(d) *Making the second newspaper announcement within 30 (thirty) calendar days of signing of the (i) fresh resolution, (ii) share transfer agreements as required under the Indonesian Company Law.*

The Board will direct the management to work closely with Dau & Tuah and the directors of PTGL to remedy and rectify the administrative defects arising from the absence of share certificates.

The Company has appointed Grandtop to assist in the corporate secretarial matters of PTGL and the management will ensure that the share certificates which will be issued as part of the rectification process will be placed in the custody of Grandtop.

The Board released an announcement on the Disposal held by HK Silver to Fill Stone on 28 January 2019 immediately after becoming aware of the transaction. While the Board's decision to proceed with the Disposal has remained unchanged, a formal ratification was pending while the Board sought legal advice on the process of the Disposal. In the light of the above legal advice from Dau & Tuah clarifying the legal aspects of the Disposal, the Board has passed the necessary resolution to ratify the Disposal.

Signatories

Based on the Authority matrix, the signatories required for the documents pertaining to acquisition/ disposal of assets can only been provided by the director(s) of the Company or subsidiary or person(s) authorised by the Board in the resolution approving the acquisition / disposal transaction.

All acquisition / disposal of shares in subsidiary company regardless of amount involved require authorization by the majority of the board of the directors of the immediate holding company and the holding company i.e. the Company.

Query No. 5

Notwithstanding that the Board of HK Silver have ratified the Disposal, what is the AC's view of the current internal controls environment of the Company?

AC response:

Due to the administrative oversight on the part of an Executive Officer/ director of the subsidiary company pertaining to the sale of PTGL, the AC is of the view that the existing policy and procedures and internal controls surrounding the disposal of the 15% stake in PTGL needs to be reviewed to ascertain their continued adequacy and effectiveness and to determine whether there are difficulties in complying with them.

Query No. 6

It was mentioned in FY2017 AR that PTGL has received some orders for nickel ore for the domestic market and is in the process of arranging contractors to extract the nickel ore. However in the responses to our queries, it was mentioned that PTGL will receive orders for nickel ore in the coming months. Please explain the discrepancy and /or clarify in the current response to our queries.

Company's response:

Orders were received during FY2017, but due to lack of working capital and other commercial reasons, such orders were not fulfilled by PTGL. Some of such orders are still being re-negotiated and PTGL will expect to receive some of the renewed or new orders in the coming months.

Query No.7

It was mentioned in the response that Fill Stone currently holds 51% in PTGL while the remainder 49% is held by Hong Kong Silver Basic Group Limited. We noted from the Company's announcement of 10 Jun 2016 on the incorporation of PTGL that it started with 67% of legal shareholding interest in PTGL being held by Ms Titis Budiarti, who is an unrelated Indonesian party. Is it a requirement pursuant to Indonesian rules and regulation / law that PTGL be partially owned by Indonesian local/company? If so, will the current ownership structure of PTGL pose an issue with regards the conducting of nickel ore trading in Indonesia in the future.

Company's response:

The Company sought advice from its Indonesian legal counsel, Dau & Tuah, who advised that:

(a) the current investment negative list is regulated by Presidential Regulation No. 44 of 2016 which sets out the business activities that are either closed or open with conditions to foreign investment; and

*(b) based on the current investment negative list, an Indonesian company which carries out trading activities under the current Klasifikasi Baku Lapangan Usaha Indonesia ("**KBLI**") code entitled "big scale trading" can be 100% owned by foreign shareholders and an Indonesian company which carries out retail and/or distribution activities may not be 100% owned by foreign shareholders.*

Dau & Tuah noted that clause 3 of the articles of association of PTGL states that it may carry out "big scale trading" as well as mining activities. As long as PTGL does not carry out mining activities but only carries out "big scale trading" (non-retail and not distribution activities, i.e. B2B sales such as selling to business users) in Indonesia, PTGL can be 100% owned by foreign shareholders.

Query No.8

In response to query no. 3, the management responded that the core business of the Group will remain as nickel ore trading and financing. Please elaborate on the entities via which the nickel ore trading will be conducted by the Group, apart from via PTGL which is now only an associate of the Group, i.e. the Group do not have control over PTGL anymore, so will this still suffice to conduct the core business of the Group?

Company's response:

HK Silver, a 70% owned subsidiary of the Company has been focusing on nickel ore trading for the export market while PTGL focuses on domestic market in Indonesia. HK Silver will continue to operate the nickel ore trading for the export market. At the moment, there are still export restrictions from Indonesia and exemptions are only given for certain companies with smelting plants. HK Silver is still working with certain suppliers in Indonesia (particularly those with smelting plants).As the Company continues to work on this business, the Company considers it as a core business of the Group, other than its financing business.

Query No. 9

At the point of disclosure of the disposal of 15% interest in PTGL, the Company and the Sponsor had become aware of the Lapse in Internal Control resulting in Mr Wang carrying out the Disposal without prior approval from the Board. What is the Company's view of the materiality of this piece of information? Should such a Lapse in Internal Control be promptly disclosed in the announcement of 28 January 2019?

Company's response:

The Company was aware that the delay was due to a lapse in internal control at the time of announcement but the focus at that time was to make the announcement immediately since it was already a 3 months delay. In retrospect, the announcement could have mentioned that the Company would be looking into the reason for the delay and make further announcement in due course.

Query No. 10

Is the internal auditor of the Company in-house or outsourced? What are the plans of the Company moving forward?

Company's response:

The Company's internal audit function has been outsourced to David Ho & Co which is based in Hong Kong.

*David Ho & Co is an audit firm which provides audit, company secretarial, tax and internal control review and audit services. The principal partner is Mr Ho Tai Wai David ("**Mr Ho**"). The partner, Mr. HO is a Fellow Certified Public Accountant (Practising) in Hong Kong, Associate member of both the Taxation Institute of Hong Kong, Institute of Chartered Secretaries and Administrators both in United Kingdom and Hong Kong, Chartered Institute of Bankers both in United Kingdom and Hong Kong. He holds a Professional Diploma in Business Studies (Banking), a Diploma in Management Studies and a Postgraduate Diploma in Accountancy awarded by the Polytechnic University of Hong Kong. He also holds a Master of Business Administration qualification awarded by the University of Hong Kong and the Advanced Diploma in Specialist Taxation awarded by the Hong Kong Institute of Certified Public Accountants.*

Mr. Ho worked in the banking industry and was awarded the Associate Member of the Chartered Institute of Bankers in 1984 and worked in a few international banks before changing his career to auditing and accountancy in 1989. Subsequently, he was qualified as a certified public accountant in 1994 and then started his own private practice since 1994 before engaged in full-time practice in 1998. Mr. Ho has the experience in handling audit assignments of both small to medium-sized with some international clients, including European hypermarkets, major toy companies and finance companies. Mr. Ho assisted his clients in IPO exercise in both Hong Kong and Singapore and has also been engaged by clients to assist in mergers and acquisition activities.

To adequately address the internal control weaknesses and assess compliance with the Group's policies and procedures, the Company will appoint an independent reviewer to review the internal controls, policy and procedures of the Group surrounding the disposal of the 15% stake in PTGL and assess the compliance thereof. The Board will keep shareholders updated via SGXNET once the independent reviewer is appointed.

By Order of the Board

Cheung King Kwok
Independent Non-Executive Chairman

29 March 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.

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