



MEDTECS INTERNATIONAL CORPORATION LIMITED

- SUBLEASE (WITH OPTION TO SELL) OF PROPERTY IN PHILIPPINES BY THE GROUP

1. INTRODUCTION

- 1.1 The Board of Directors of Medtecs International Corporation Limited (the **"Company"**, together with its subsidiaries, the **"Group"**) wishes to announce that its subsidiary, Context Corporation (the **"Sub-Lessor"**) entered into a sublease agreement dated 1 April 2019 (the **"Agreement"**) with Dunbrae Subic Inc. (the **"Sub-Lessee"**) pursuant to which:
- (a) the Sub-Lessor had agreed to sublease a portion of the property (the **"Subleased Property"**) situated at No. 7 Argonaut Highway Corner Efficiency Ave, Subic Bay Gateway Park, Phase 1, Subic Bay Freeport Zone 2222, Philippines (the **"Medtecs Compound"**) to the Sub-Lessee, upon the terms of the Agreement (the **"Sublease"**); and
 - (b) the Sub-Lessor has granted an option to purchase (the **"Option"**) to the Sub-Lessee to purchase the sub-leasehold rights to the Subleased Property and the Additional Compound (as defined below) from the Effective Date (as defined below) of the Agreement until and including 31 July 2023, after the board of directors and shareholders of the Sub-Lessor and the Company, have approved the grant of the Option, further details of which are set out below.
- 1.2 The effectiveness of the Agreement is subject to, *inter alia*, the approval in writing by the SBMA (as defined below). In this connection, the Agreement was received by SBMA (as defined below) on 5 March 2019, notarised on 1 April 2019 and sealed by them on 14 April 2019. The Company has been advised by its lawyers that, under the laws of Philippines, the effective date of the Agreement is 1 October 2018 (being the date the Sub-Lessor and the Sub-Lessee agreed to commence the terms and conditions in the Agreement) (the **"Effective Date"**), notwithstanding that approval from SBMA (as defined below) was obtained subsequently.

As at the date of this announcement, the Company holds 98.8% interests in the Sub-Lessor, and the Sub-Lessor has the sub-leasehold rights over the Medtecs Compound after having subleased the Medtecs Compound from SBDMC, Inc. (**"SBDMC"**), which had entered into main lease agreement with Subic Bay Metropolitan Authority (**"SBMA"**). The leasehold rights held by Sub-Lessor under its lease agreement with SBDMC in respect of the Medtecs Compound has a remaining term expiring on 31 December 2045. The total land area of the Medtecs Compound is 13,053.96 square meters (**"sq.m"**), where the buildings, other land improvements and open/idle spaces are situated.

2. INFORMATION ON THE SUBLEASED PROPERTY AND THE ADDITIONAL COMPOUND

The Subleased Property is located within the Medtecs Compound, with a total approximate land area of 8,060sq.m where the two (2)-storey main building is located. The Subleased Property was unoccupied prior to the Sublease to the Sub-Lessee.

The Additional Compound (as defined below) (being, the rest of the property in the Medtecs Compound other than the Subleased Property) is also located within the Medtecs Compound, with a total approximate land area of 5,000sq.m, where smaller buildings like the canteen, garbage, electric room, guardhouses and warehouse and other land improvements are located.

3. INFORMATION ON THE SUB-LESSEE

The Sub-Lessee is a corporation duly organized and established under the laws of the Philippines, which is primarily engaged in the business of design, manufacture and export of food processing and related equipment made from steel and other metals including accessories.

Dunbrae Pty. Ltd., which is a company incorporated in Australia, holds 99.17% interests of the Sub-Lessee, and is in the business of trading under the business name "Global Food Equipment", and engages in the marketing, sale, and servicing of food service and beverage equipment, and consumables in Australia.

Each of Dunbrae Pty. Ltd. and the Sub-Lessee is not related to any director and/or substantial shareholder of the Company.

4. PRINCIPAL TERMS OF THE AGREEMENT

4.1 Sublease

- (a) **Term:** The term of the Agreement is for a period of 10 years commencing on 1 October 2018 and continuing thereafter until 30 September 2028.
- (b) **Condition Precedent:** The effectiveness of the Agreement is conditional upon, *inter alia*, the Sublease being approved in writing by the SBMA. As mentioned above, the Effective Date of the Agreement is 1 October 2018.
- (c) **Rental and Security Deposit:** The Sub-Lessee will pay the Sub-Lessor a monthly rental of US\$26,248.00.

The Sub-Lessee has agreed to, upon signing of the Agreement, remit to the Sub-Lessor US\$48,068.00 as advance rental payment (the "**Advance Rental**") and US\$96,136.00 as security deposit for the Subleased Property and the Additional Compound (as defined below) (the "**Security Deposit**"). The Advance Rental and the Security Deposit had been paid by the Sub-Lessee. The Security Deposit is refundable to the Sub-Lessee, free of any interest at the termination of the Agreement, subject to whatever unpaid bills and damages that may have been incurred but remained unpaid, provided that the Sub-Lessee will still be liable for any and all bills and damages that may exceed the Security Deposit.

The Sub-Lessee is entitled to a rent-free period from 1 October 2018 to 28 February 2019 (both dates inclusive) (the "**Rent-Free Period**"). The rental from 1 March 2019 (after the Rent-Free Period) to date has been paid. Beginning on the second year of the Agreement and every year thereafter, base rent will increase by 2% per annum.

- (d) **Appointment of Sub-Lessee as administrator of Additional Compound:** The Sub-Lessor has appointed the Sub-Lessee as administrator of a portion of the sub-leasable area of the Medtecs Compound, which is the rest of the property in the Medtecs

Compound not specifically covered by the Subleased Property (the “**Additional Compound**”) and the Sub-Lessee is to pay a monthly consideration of US\$21,820.00 each month during the term of the Agreement, which will be subject to a 2% annual escalation for the term of the Agreement.

- (e) **Renewal:** The Sublease may be renewed upon the mutual consent of the parties. The renewal of the Sublease is subject to, *inter alia*, negotiation and the terms and conditions of the Agreement.

4.2 Option to purchase

- 4.2.1 In addition to the Sublease, the Sub-Lessor has granted to the Sub-Lessee the Option to purchase the sub-leasehold rights to the Subleased Property and the Additional Compound from the Effective Date of the Agreement until and including 31 July 2023, after to the board of directors and shareholders of the Sub-Lessor and the Company, have all approved the grant of the Option, subject to the terms and conditions of the Agreement.

Such transfer of the property will be subject to, *inter alia*, the relevant laws, rules and regulations of the Philippines, approvals from SBDMC and/or SBMA and approvals of the board of directors and shareholders of the Sub-Lessor to such transfer.

Depending on when the Sub-Lessee exercises the Option, the purchase price payable (the “**Purchase Price**”) will vary between US\$5,500,000.00 and US\$5,700,000.00 (the “**Highest Purchase Price**”) as follows:

Date in which the Option is exercised	Purchase Price to be paid by the Sub-Lessee
On or before 31 July 2019	US\$5,500,000.00
On or before 31 July 2020	US\$5,550,000.00
On or before 31 July 2021	US\$5,600,000.00
On or before 31 July 2022	US\$5,650,000.00
On or before 31 July 2023	US\$5,700,000.00

In the event that the terms and conditions of the purchase of the Subleased Property and the Additional Compound pursuant to the exercise of the Option are agreed upon, the Sub-Lessor and Sub-Lessee will enter into a formal purchase agreement in relation to the disposal and payment terms.

- 4.2.2 The Purchase Price was arrived at after arms’ length negotiations between the parties, and on a willing buyer and willing seller basis after taking into account the desktop valuation of the land (leasehold rights), buildings, other land improvements and building machinery & equipment on the Medtecs Compound (the “**Relevant Property**”) commissioned by the Company and prepared by Santos Knight Frank, Inc., an independent professional valuer, dated 18 March 2019 (the “**Valuation Report**”). Based on the Valuation Report, the valuation is made on the basis of market value and the market value of the Relevant Property, as at 18 March 2019, is Php220,416,000 (equivalent to approximately US\$4.18 million, as at 18 March 2019).
- 4.2.3 As of 31 December 2018, the book value/net asset value of the Subleased Property and the Additional Compound as recorded in the books of the Sub-Lessor, consisting of the buildings and the land leasehold rights, was approximately US\$3.37 million.
- 4.2.4 The estimated gain on the Proposed Disposal (as defined below), assuming the Option is

exercised at any of the respective dates below:

Assumed Date in which the Option is exercised (the "Assumed Date") ⁽¹⁾	Purchase Price (in US\$) ⁽²⁾	Book Value/Net Asset Value (in US\$) as at the Assumed Date (assuming the Option is exercised on the same date) ⁽³⁾	Estimated Gain (in US\$) ⁽⁴⁾
31 July 2019 (for the option which ends on 31 July 2019)	5,500,000	3,301,156	2,198,844
31 July 2020 (for the option which ends on 31 July 2020)	5,550,000	3,177,955	2,372,045
31 July 2021 (for the option which ends on 31 July 2021)	5,600,000	3,054,754	2,545,246
31 July 2022 (for the option which ends on 31 July 2022)	5,650,000	2,931,553	2,718,447
31 July 2023 (for the option which ends on 31 July 2023)	5,700,000	2,808,352	2,891,648

Notes:

- (1) For the purpose of computing the estimated gain, we have assumed that each Option is exercised exactly on the expiry date of the relevant options, meaning on 31 July of each year.
- (2) Purchase Price is the respective amount of consideration, which the Sub-Lessee has agreed to pay to the Sub-Lessor upon the exercise of the Option during the respective periods at which the Option is exercised, as elaborated in paragraph 4.2.1 above.
- (3) The book value/net asset value refers to the carrying amount of the property in the books of the Sub-Lessor as at the Assumed Date. It is computed by deducting the accumulated depreciation/amortization/expired portion of the buildings and the land leasehold rights as at the Assumed Date from the cost of the buildings and the land leasehold rights as at the Assumed Date.
- (4) The estimated gain to be recognized is gross of any expenses directly or indirectly related to the Proposed Disposal (as defined below), including, *inter alia*, corresponding taxes.

5. RATIONALE AND USE OF PROCEEDS

In the event the Option is exercised by the Sub-Lessee to purchase the sub-leasehold rights to the Subleased Property and the Additional Compound (the "**Proposed Disposal**"), the Company believes that the Proposed Disposal (if materialised) is expected to help in the overall financial needs of the Group in particular, the proceeds may be deployed for use in the Group's operations in the Philippines.

The Company intends to utilise the proceeds from the Proposed Disposal to repay its bank borrowings and as general working capital for the requirements of the Group's businesses and operations.

6. ILLUSTRATIVE FINANCIAL EFFECTS

6.1 Bases and Assumptions

The *pro forma* financial effects of the Proposed Disposal are prepared based on the audited consolidated financial statements of the Group for FY2018 and are **purely for illustrative**

purposes only and do not reflect the future actual financial position of the Group following the exercise of the Option by the Sub-Lessee and the completion of the Proposed Disposal. The *pro forma* financial effects have been prepared based on, *inter alia*, the following assumptions:

- (a) the Option is exercised on or before 31 July 2023 and the Highest Purchase Price of US\$5,700,000.00 is paid by the Sub-Lessee (the **"Maximum Purchase Price Scenario"**);
- (b) the Proposed Disposal had been effected on 31 December 2018, being the end of the most recently completed financial year of the Group which has been publicly announced, for illustrating the financial effects on the consolidated net tangible assets ("**NTA**") of the Group;
- (c) the Proposed Disposal had been effected on 1 January 2018, being the beginning of the most recently completed financial year which has been publicly announced, for illustrating the financial effects on the consolidated earnings of the Group; and
- (d) the Proposed Disposal had been effected on 31 December 2019, being the first year in which the Option may be exercised, for illustrating the financial effects on the consolidated liability and equity of the Group.

6.2 NTA per share

For illustration purposes only and assuming (a) the Maximum Purchase Price Scenario; and (b) the Proposed Disposal had been effected on 31 December 2018, the *pro forma* financial effects on the consolidated NTA per share of the Group as at 31 December 2018 would be as follows:

	Before the Proposed Disposal	After the Proposed Disposal
NTA (US\$'000)	62,639	65,531
Number of issued shares in the capital of the Company (excluding treasury shares) ('000)	549,411	549,411
NTA per share (US Dollars)	0.11	0.12

6.3 Earnings per share

For illustrative purposes only and assuming (a) the Maximum Purchase Price Scenario; and (b) the Proposed Disposal had been effected on 1 January 2018, the *pro forma* financial effects on the consolidated earnings per Group for FY2018 would be as follows:

	Before the Proposed Disposal	After the Proposed Disposal
Profit attributable to shareholders (US\$'000)	914	3,806
Weighted average number of issued Shares ('000)	549,411	549,411
EPS (US Dollars)	0.0017	0.0069

6.4 Net gearing

For illustrative purposes only and assuming (a) the Maximum Purchase Price Scenario; and (b) the Proposed disposal has been effected on 31 December 2019 (being the first year in which the Option may be exercised), the *pro forma* financial effects on the net gearing of the Group would be as follows:

	Before the Proposed Disposal	After the Proposed Disposal
Total Liabilities less cash and cash equivalents	45,021	39,321
Shareholders' Equity	63,348	66,240
Net gearing ⁽¹⁾ (times)	0.7107	0.5936

Note:

- (1) For the purposes of the above calculation, "net gearing" is calculated by dividing the Group's total liabilities (less cash and cash equivalents) by shareholders' equity.

7. RELATIVE FIGURES COMPUTED PURSUANT TO RULE 1006 OF THE CATALIST RULES

The relative figures for the Proposed Disposal computed ⁽¹⁾ on the bases set out in Rule 1006 of Section B: Rules of Catalist of the Listing Manual of the Singapore Exchange Securities Trading Limited ("**Catalist Rules**") and assuming the Maximum Purchase Price Scenario are set out below:

Rule	Bases	Relative Figures
1006(a)	The net asset value of the assets to be disposed of, compared with the Group's net asset value. This basis is not applicable to an acquisition of assets.	5.38% ⁽²⁾
1006(b)	The net profits attributable to the assets disposed of, compared with the Group's net profits	32.51% ⁽³⁾
1006(c)	The aggregate value of the consideration given or received compared with the Company's market capitalisation based on the total number of issued shares excluding treasury shares.	49.40% ⁽⁴⁾
1006(d)	The number of equity securities issued by the Company as consideration for an acquisition, compared with the number of equity securities previously in issue.	Not applicable
1006(e)	The aggregate volume or amount of proved and probable reserves to be disposed of compared with the aggregate of the Group's proved and probable reserves. This basis is applicable to a disposal of mineral, oil or gas assets by a mineral, oil and gas company, but not to an acquisition of such assets.	Not applicable

Notes:

- (1) The figures computed are based on the audited consolidated financial statements of the Group for the financial year ended 31 December 2018.
- (2) "**Net asset**" means the total assets less total liabilities. The net asset value of the Subleased Property and the Additional Compound as recorded in the books of the Sub-Lessor, consisting of the buildings

and the land leasehold rights, amounted to approximately US\$3.37 million as at 31 December 2018 and the Group's audited net asset value is approximately US\$62.64 million as at 31 December 2018.

- (3) **"Net profits"** means profit or loss before income tax, minority interests and extraordinary items. The net profits directly attributable to the Subleased Property as at 31 December 2018 of US\$0.39 million attributable to the Sublease (comprising, the rental and the consideration in relation to the Sub-Lessee's appointment as administrator to the Additional Compound) and the Group's audited net profits of approximately US\$1.19 million for the same period.
- (4) Based on (A) the Maximum Purchase Price of US\$5,700,000 payable by the Sub-Lessee upon the exercise of the Option in the Maximum Purchase Price Scenario; and (B) the market capitalisation of the Company of approximately US\$11.54 million (determined by multiplying the existing number of shares in issue (i.e. 549,411,240 shares) by \$0.021 (being the weighted average price of the Company's shares transacted on 29 March 2019, which is the market day immediately preceding the date of the Agreement where the Company's shares were traded)).

As the relative figures computed under Rules 1006(b) and 1006(c) exceed 5% but does not exceed 50%, the Proposed Disposal constitutes a discloseable transaction as defined in Chapter 10 of the Catalist Rules.

8. INTERESTS OF DIRECTORS AND CONTROLLING SHAREHOLDERS

Save for their interests arising by way of their shareholdings in the Company and/or directorships in the Group, as the case may be, none of the Directors or controlling shareholders has any interest, direct or indirect, in the abovementioned transaction.

9. SERVICE CONTRACTS

No person is proposed to be appointed as a director of the Company in connection with the abovementioned transaction. Accordingly, no service contract is proposed to be entered into between the Company and any such person.

10. INSPECTION OF DOCUMENTS

Copies of the Agreement and the Valuation Report will be made available for inspection during normal business hours at the Company's Singapore office at 4F, 21 Merchant Road, Singapore 058267, for a period of three (3) months commencing from the date of this announcement.

Submitted by Clement Yang Ker-Cheng, Executive Chairman on 13 May 2019 to the Singapore Exchange Securities Trading Limited.

This announcement has been prepared by the Company and its contents have been reviewed by the Company's sponsor, R & T Corporate Services Pte. Ltd. ("Sponsor"), for compliance with the relevant rules of the Singapore Exchange Securities Trading Limited ("Exchange"). The Sponsor has not independently verified the contents of this announcement including the accuracy or completeness of any of the figures used, statements, opinions or other information made or disclosed.

This announcement has not been examined or approved by the Exchange. The Exchange 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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