S I2I LIMITED
(Formerly known as Spice i2i Ltd.)
(Incorporated in the Republic of Singapore)
(Company Registration No. 199304568R)

UPDATE ON REVIEW

1. Introduction

1.1 The Board of Directors (the "**Board**") of S i2i Limited (the "**Company**") refers to the announcement made on 24 March 2014 (the "**24 March 2014 Announcement**") with regards to, *inter alia*, the qualified opinion and emphasis of matter by the Company's erstwhile auditor's Ernst &Young LLP ("Auditor") on the FY2013 Financial Statements.

1.2 All capitalised terms not defined in this announcement shall bear the meaning ascribed to them in the 24 March 2014 Announcement.

1.3 As stated in the 24 March 2014 Announcement, the Company had engaged two independent professional firms to perform certain procedures regarding:

(a) certain irregularities in the accounting records of the Cavu Group (details of which are set out in paragraph (C)(i)(a) of the 24 March 2014 Announcement); and

(b) certain quantities of mobile phones billed and allegedly not delivered in Indonesia (details of which are set out in paragraph (C)(ii)(b)(1) of the 24 March 2014 Announcement).

1.4 Ernst & Young Advisory Pte. Ltd. ("**EY Advisory**") and BDO LLP ("**BDO**"), the professional firms engaged to perform the review of the allegations stated above respectively, have since completed their review of information and documents provided by the Company and interviews with various staff members of the Company and Cavu Group. Each of EY Advisory and BDO have issued reports respectively dated 7th July 2014 (the "**EY Report**") and 27 August 2014 (the "**BDO Report**") on its findings of the above allegations.

1.5 Copies of the summaries of procedures performed by EY Advisory and agreed upon procedures performed by BDO, as prepared by the management of the Company and reviewed by EY Advisory and BDO respectively, are annexed to this announcement as Annexure 1 and Annexure 2 respectively.

1.6 As stated in the report by the current statutory auditor of the Company, Moore Stephens LLP, in relation to the audited financial statements of the Group for the financial year ended 31 December 2014 ("**FY2014 Financial Statements**"), the consolidated financial statements of the Group and the balance sheet of the Company are properly drawn up with the provisions of the Singapore Companies Act and Singapore Financial Reporting Standards so as to give a true and fair view of the state of the affairs of the Group and of the Company as at 31 December 2014. An electronic copy of the annual report of the Company for the financial year ended 31 December 2014 enclosing the FY2014 Financial Statements is available online at www.sgx.com.

2. Cavu Group

2.1 The Company would like to provide updates to various points made in paragraph (C)(i) of the 24 March 2014 Announcement. The Company wishes to inform the Shareholders that after the auditors of Cavu Group Ernst & Young LLP had performed additional audit procedures, Ernst & Young LLP has given an unqualified opinion on the accounts of the Cavu Group for the period ended 31 December 2013.

2.2 The key findings of the EY Report are summarised as follows:

(a) A staff member of the Cavu Group had admitted to creating evidence that companies within the Cavu Group had in its possession an amount of software and stock when in

fact such software and stock was not in its possession. In addition, the same staff member had admitted to creating documents on two lease/hire purchase agreements involving companies within the Cavu Group and a third party company.

(b) A staff member of the Cavu Group had failed to disclose his interest in companies which had dealings with the Cavu Group. There is evidence to suggest that one of these dealings may not have taken place on an at arm's length basis.

(c) There were also accounting matters identified relating to an inter-company transfer of asset and the cross allocation of a contingency/marketing reserve fund by a staff member of the Cavu Group.

(d) There were allegations relating to improper business practices involving employees/ex-employees of the Cavu Group.

2.3 The Company takes a serious view of these findings and has undertaken an internal review of the same. To that end, the Company has implemented appropriate disciplinary measures against the employees concerned, including the exit of certain employees.

2.4 The Company has clawed back the variable pay component from the errant employees and exited certain employees who had violated the Company's policy. Warning letters were given to other employees who needed to be disciplined. Counselling and training was imparted to all concerned staff members, with extra degree of scrutiny initiated. A report has been made to the ministry of finance by statutory auditors. The Company has not been informed by the ministry of finance regarding any follow up actions which the ministry of finance proposes to take or has taken in relation to the report.

2.5 In particular, to address the issues highlighted in:

- 2.2(a) above, the Company has implemented disciplinary measures against the employees concerned and reminded all staff that perpetrators of such improper activities will be disciplined by the Company;
- 2.2(b) above, the Company has made it now mandatory for all the employees to declare their interest in any transaction that they may be entering into with third parties; and
- 2.2(c) above, a new delegation of authority matrix has been approved which defines responsibility for all sales and purchase transactions. The Company notes that the accounting matters referred to in paragraph 2.2(c) above complied with the relevant accounting standards.

The alleged improper practices highlighted in 2.2(d) above relate to the period of 2009. Since then, there has been no occurrences of such alleged improper practices.

2.6 The Board had already made adjustments for the accounting irregularities in the FY2013standalone financial statements of the respective subsidiaries of Cavu Group as reflected in Note 39 of the FY2013 Financial Statements and as such, no further adjustments are required to be made.

3. PT Selular Group

3.1 The Company would like to provide updates to various points made in paragraphs (C)(ii)(b) of the 24 March 2014 Announcement.

3.2 The Company wishes to inform Shareholders that BDO has completed the agreed-upon special audit procedures. The exceptions noted in their review are being addressed by the Company's management as indicated in the table below. Apart from these exceptions, which relate to the strengthening of internal controls, BDO has concluded that they did not come across any potential basis to indicate that quantities of phones billed and booked as sold by PT Selular Group remained kept in the warehouse. In addition, BDO concluded that they did not come across any incorrect provisions and write-offs other than the exceptions arising from the agreed upon audit procedures highlighted in their review. BDO noted that the value of the

errors for the unserviceable, free of charge stock discrepancies of concern were considered to be small (amounting to approximately USD 582,000) as compared with the total transactional value.

3.3 The Company has taken into account all the findings of BDO and has undertaken the necessary corrective actions, which are currently ongoing, to address these findings. The progress of these corrective actions has been and will continue to be monitored by BDO.

3.4 The Company wishes to highlight that prior to the appointment of BDO to perform the review of the allegations referred to in paragraph 1.3(b) of this announcement, the Company had since July 2013 began implementing corrective steps to improve internal control.

3.5 A summary of some of the key findings in the BDO Report, as well as the specific measures which the Company has taken in connection with the BDO Report to strengthen the internal control procedures in the PT Selular Group are set out as follows.

Findings	**Follow up action**
Lack of supporting documents for sales returns and subsequent re-sale to other customers	<u>Tightening returns policy and minimising sales returns</u> The Company has sought to minimise incidents of sales returns by expressly providing in its sales contracts and invoices with customers that mobile phones once sold may not be returned. In instances where sales returns may be appropriate, the PT Selular Group will allow such sales return only (i) when it is in the process of final settlement with the customer; or (ii) with the approval of the Chief Financial Officer and Chief Executive Officer of the PT Selular Group in special cases. All mobile phones returned are counted and certified by the PT Selular Group's warehouse personnel before resale to the next customer.
Lack of formal documentation of the Distributor Price Protection process	<u>More rigorous approval process for Distribution Price Protection</u> The PT Selular Group has monitored more closely its Distribution Price Protection policies and procedures. The credit note for the price support rebate must be approved by an authorised person and must be supported by the relevant documentation such as (i) the price evaluation report; (ii) stock balance; and (iii) Accounts Receivable report.
Lack of signed delivery orders for retail sale transactions	<u>Discipline staff members who fail to obtain retail customer signatures on invoices</u> The PT Selular Group will continue to require each retail customer to sign the invoice, and has taken disciplinary action against staff members who fail to not inform customers of this requirement at the point of sale. The PT Selular Group has followed up on a regular basis to ensure compliance.
Lack of signed delivery orders for sale transactions to distributors	<u>Re-assignment of the preparation of sales orders from sales personnel to finance personnel</u> The PT Selular Group has required every delivery order issued to be signed and stamped by the recipient and the air waybill from the courier attached. The PT Selular Group has discontinued the practice of allowing its sales personnel to prepare sales orders for release and posting. These tasks have been undertaken by the finance personnel with more clearly delineated segregation of duties between the sales and finance teams.

Failure to match time periods for issuing invoices and subsequent credit notes for stock write-offs	Revision of accounting treatment of promotional stocks provided free of charge ("**FOC**") The PT Selular Group has discontinued the practice of writing-off FOC stocks. Instead, the FOC stocks have been debited directly as promotional expenses and credited cost of goods sold.
Lack of adequate documentation to record the serial numbers of stock	Implementation of records system for IMEI number of incoming and outgoing phone stocks The PT Selular Group has put in place measures to ensure that IMEI numbers for the mobile phones have been recorded in the system for incoming and outgoing mobile phones.
Lack of stocktake documents	More frequent warehouse stock-taking The PT Selular Group has put in place monthly stock taking of mobile phones stored in the Pluit warehouse, and a periodic random stock take of the mobile phones kept in its retail shops. The PT Selular Group has since 2013 required that all stock-taking documents are kept and maintained by the credit-controller, and if there has been any negative difference, the same has been charged to the party responsible.
Inventory write-off process not implemented	Regular scrapping of unserviceable phones The PT Selular Group has obtained the necessary approvals from the tax authorities, and has implemented the scrapping of unserviceable mobile phones on an annual basis. The PT Selular Group has scraped unserviceable mobile phones on an annual basis after obtaining the necessary approval from the tax authorities.

3.6 The Company has discussed with BDO as to whether a follow up additional audit process would change the conclusion or impact the conclusion of the current BDO Report in any way. Accordingly, BDO has provided confirmation to the Audit Committee that they do not foresee that the outcome of the additional review procedures (if undertaken) will have any implications on the conclusion in the BDO Report (as highlighted in paragraph 3.2 of this announcement).

3.7 The Audit Committee along with the management of the Company has reviewed the findings and the final BDO Report by BDO taking serious note of the short comings. The Audit Committee has accepted the findings, conclusion, final BDO Report and the corrective actions taken.

4. Other remedial actions taken by the Company

4.1 In addition, the Company has undertaken further steps (including incorporating the recommendations of EY Advisory and BDO where appropriate) to address the findings by EY Advisory and BDO, including the following:

(a) The creation of a new position of Head-Process Control to ensure that the above measures are appropriately designed and remain fully operational after their respective implementation. The Head Process Control will work closely with management and will report to the Chief Financial Officer of the Company in respect of the operation and effectiveness of the above measures from time to time on a regular basis.

(b) The Company will assume direct control and oversight over the operation and management of the Pluit warehouse in Jakarta (which stores the mobile phones) by discontinuing the practice of out-sourcing the operation and management to a third party vendor. The Company has drawn up a series of hand-over procedures to facilitate a proper and efficient transition.

(c) The commencement of surprise audits to assess the adequacy and effectiveness of internal controls over the retail and airtime businesses of the PT Selular Group in Indonesia.

(d) The commencement of quarterly confirmations to check that transactions of sales to key customers are properly documented with the appropriate supporting documents.

(e) Delegation of authority matrix has been reworked for better internal control.

4.2 The Board would like to assure Shareholders that it takes the findings of the EY Report and BDO Report seriously, and has taken, and continues to take, steps to address such findings, and that it is committed to maintain the appropriate standards of internal control.

BY ORDER OF THE BOARD

Hanif M Dahya

Chairman, Audit Committee
S I2I LIMITED
21 August 2015