Annexure 2

MANAGEMENT SUMMARY OF THE ADDITIONAL AUDIT PROCEDURES CARRIED OUT BY BDO LLP

KEY OBSERVATIONS

The following were the key observations arising from the review carried out by BDO LLP:

1. **Sales returns and subsequent re-sale to other customers**

For the months from July 2012 to December 2012, sales returns and rebilled amounted to around 363,000 Nexian phones with total value of around IDR 95 billion (approximately USD 9.5 million). The returns were agreed with the customer when a second customer[1] agrees to buy these phone models (at same or lower prices). The total sales returns were approximately 10.8% of the total sales value for the same period of about IDR 881 billion (USD 88 million). The original terms of sales could not be verified as orders can be fulfilled via verbal instructions without formally documenting the terms of sales such as credit terms. Internally, once a second customer is found to purchase the items at a same or lower cost, Affinity Group will accept the goods back from the first customer (the "returned goods") and reduce the first customer's outstanding debts based on the value of the returned goods, computed at the original purchase price[2].

Delivery orders for six (amounting to IDR 5.5 billion) of 33 (approximately IDR 321,789 billion) instances of sales credit memos to indicate the return of goods from the first customer to Affinity Group were not sighted. There is a recommendation from BDO LLP that all goods received should be counted and certified by the warehouse personnel before resending them to the next customer and that management should formalise the sales process and at minimum, state the agreed terms of sales through their delivery

[1] The management of the Company notes, as far as it is aware, that the first customer and second customers are not related to each other.

[2] The management of the Company wishes to highlight that this practice was undertaken so as to facilitate movement of inventory and improve cash flow and sales by enhancing recoverability of outstanding debt from the customer. These measures would be beneficial to the Company.

orders or invoices so to better establish the correct point in the transaction that revenue should be recognised. The sales returns and reselling process should also be documented including requirements for checks to be conducted on whether the second customer is related to the first customer.

Some mitigating explanations were made by the Management Team that the sales were recognised correctly at the point of transaction and the returns arose from subsequent decisions taken by management and were not expected at the point of the original sale transactions.

The Management Team BDO LLP informed that they did not have any legal obligation to accept the returned sales but had done so in the ordinary course of business as a service to their customers. There was a SGX announcement dated 13 March 2013 made to explain a USD3.8 million provision for stock obsolescence which provided details on sales returns as described above and on the price support issue which is highlighted in the next point. The discussion of these two items in the announcement, although to explain the extent of provision for inventory obsolescence, indicates that management had been open about this practice of return sales by describing the details in the shareholders' announcement. The reasons for the sales returns were indicated in the following extract of the announcement were consistent with the reasons provided to BDO LLP during their review for the sales returns.

"As announced by Si2i Ltd in its results for the quarter ended December 2012 on 7 February 2013, the markets in which Si2i Ltd and its subsidiaries (Company) operates in are moving from feature phone driven markets to smart phone/Android market. As a result of this shift, local brands in Indonesia are pricing their feature phones aggressively for added competitiveness. This resulted in:

1. lower sales of the Company products;

2. accumulation of inventory with the Company; and

3. accumulation of the Company's product in the inventory of the Company's channel partners/ distributors

Due to the above, the Company had to sell its unsold products at lower gross margin or at below cost level. It should be noted that the inventory of handset models which are sold at lower or negative margin has to be adjusted to the lower of cost or net realizable value pursuant to the International Financial Reporting Standards (IFRS).

Some distributors seek to return certain products back to the Company. Once returned, the Company sells these returned products (Returned Products) to distributors in other locations."

Although there were currently some flowcharts established on the workflow for sales and handset returns, there were no policies established to specify how terms of sales should be fixed and when provisions should be made for sales to account for possibility of returns. A list of sales returns was compiled and approved by the Head of Sales and Indonesian CEO but some samples of sales credit memos generated to adjust the system balances were also not signed by the approving parties. There was a recommendation from BDO LLP that the actual sales credit memo be approved by the relevant parties and the approving limits for sales returns be documented.

BDO LLP had also checked if payments have been made from the second customer to whom the returned phones were resold. As customers usually pay on a lump sum basis to settle their outstanding invoices, BDO LLP were only able to check that all the invoices for the resold phones selected as samples have been included in the chronological sequence of invoices settled through the lump sum paid by customers. It might have been more conclusive if customers had made specific payments based on invoiced amounts but it was informed by the Management Team that this has been the customers' practice for the Indonesian entities. No exceptions were noted from this test to check payment by the second customers based on the lump sum payments by the customers. It has been recommended that management send out monthly statements of accounts to customers especially for the bigger customers to confirm that the outstanding balances are accurate. Policies and procedures for such outstanding debt reconciliation process should also be documented and should include the threshold beyond which such statements should be generated. The policies and procedures should also include how feedback on discrepancies should be addressed.

2. **Distributor Price Protection**

Affinity Group also provided "Distributor Price Protection" ("DPP") to customers with outstanding debts and who were still holding on to large quantities of phones by reducing their outstanding debts with the difference between the last price announced

by the company and original prices paid for stocks that were still unsold and held by the distributors (refers to customers who bought phones in bulk for purpose of reselling the phones). The rebates were computed by the Account Manager and the amount was then applied to the outstanding debts of the customers. The total of such support amounted to approximately USD 3.7 million from January 2012 to December 2012 out of a total sales amount for all phones of around USD 197 million (1.88% of total sales) for the same period.

The original terms for price support rebates were not able to be verified as orders can be fulfilled via verbal instructions without formally documenting the terms of sales. This would have better determined if revenue should have been recognised in full at point of the sale. It is recommended that the policies and procedures for monitoring Distribution Price Protection be formally documented including who can approve the rebates, how the stock balances should be checked and how the rebates provided should be reconciled against the amounts receivable on a periodic basis.

Similar to sales returns, the management had provided details of the Distributor Price Protection process in the same 13 March 2013 SGX announcement. There weren't any significant differences between the contents in the announcement and the reasons provided to BDO LLP were noted during their review for the Distribution Price Protection. The following paragraph is extracted from the announcement:

"Further, the Company also has a practice known as the Distributor Price Protection practice (DPP). The DPP is a common industry practice in the mobile and technology business. The Company applies a DPP by passing credit to a distributor, equivalent to the difference between the last billed price of a product (as charged by the Company), and the latest reduced price announced by the Company. The DPP only kicks in when there is residual stock with a distributor/channel. The DPP is intended to facilitate sales of products accumulating in a distributor's inventory. The amounts of these credit notes are shown in the Profit & Loss Account, and the Accounts Receivables are adjusted by the corresponding amount."

The details provided in the announcement were consistent with the review of BDO LLP and responses by management with regards to the Distributor Price Protection scheme.

3. Signed delivery orders for retail sale transactions

33 samples of sale invoices for retail transactions amounting to IDR 429 million (USD 42,900) were requested by BDO LLP of which 23 out of the 33 requested documents

were emailed to BDO LLP for review. Only seven out of the 23 invoices provided were signed by the customers. It was informed that some customers do not sign on the invoices. This test was designed to verify that the phones had been physically delivered to customers but BDO LLP was only able to sight 21% of the invoices signed by the final retail customers. It was, however, noted that although having signed invoices would have better supported physical delivery of the phones, not having the signed invoices could also be due to customers not wanting to sign on the invoices. It was recommended to management that they should try to obtain customers' verification of sales and to retain all original documents for future reference.

4. Signed delivery orders for sale transactions to distributors

For wholesale transactions ("MJKI" and "SMI"), six (15%) out of 40 samples, were not supported with signed acknowledgement from customers on invoices or delivery orders. The quantity of stocks in the six sales transactions was 12,510 (3%) phones out of a total of 413,428 phones for all the sample sales transactions selected (this was around 0.6% out of the approximate total of 2.3 million phones sold during the year).

The total sales amount for the six transactions was about IDR 2.55 billion (USD255,000). In this case, Management Team informed that it is sometimes not easy to get customers to sign on documents, but management will be taking additional efforts to make sure that future delivery notes or at least invoices are signed by customers upon delivery of the goods to them.

Hence, it was not verified that the sales transactions were supported with actual movement of goods for some of these sales transactions selected as samples. The subsequent settlement of debts by the corresponding customers can indicate that they have indeed, received the goods but as customers paid lump sum for various invoices without specifying invoices they were paying for, it was difficult to verify which invoices the customer had intended to settle.

It is recommended to management that especially for wholesale transactions, revenue should only be recognised when the phones have been delivered and accepted by their customers. Hence, they should make all efforts to ensure that evidence on the successful transfer of the phones to customers are properly retained such as signed delivery orders or some other form of documented acknowledgement by the customers. The current workflow document indicating that the delivery of goods only needs to be supported with invoices should also be improved.

5. Issuing invoices and subsequent credit notes for stock write-offs

Free of charge ("FOC") stocks such as phones issued for promotions were written off by generating a sales invoice for the value of the phone and then subsequently writing the same phone off through a credit note. Hence, if theses invoices are not written off in the same period, such as for the four out of ten exceptions noted, revenue might be incorrectly recognised. However, the total FOC phones indicated in the sales listing was around 1,718 phones with a total value of around IDR 1.6 billion (USD 160,000) which would not be very significant in the context of the approximate total sales of USD 197 million per year for Affinity Group. It was informed by the Management Team that they will be not be writing off FOC stocks through this process in the future and necessary corrective steps have been already implemented. As the sale of the phones were also subject to sales tax of 10%, this practice might also have certain tax implications since Affinity Group has written off the sales tax, which was already reported based on the first invoice, through the subsequent credit notes. It is recommended that this process of writing off FOC stocks be stopped and to restructure the process with due consideration to tax implications. Once determined, the policies and procedures for such FOC stocks should be documented.

6. Documentation on serial numbers of stock

All selected samples of the handsets were not able to be traced through their serial numbers or IMEI numbers as they were not always recorded in the database especially when the sales are in large numbers as it takes a long time to record all IMEI numbers. As this test is to provide additional support that the recorded sale transactions of Affinity Group were supported with physical movements of stocks (by tracing serial numbers movements) not having such records does not however, indicate otherwise. It was also noted that whilst the serial numbers of the phones were not tracked, the model and quantity of phones received or sold were still being recorded in the inventory records. Based on the sample stock count of 30 items by checking against the phone model number and quantity on hand, no exceptions were noted and also no significant variances were noted in the stock counts performed by the external auditors for FY 2011/ 12 and FY 2012/ 2013.

7. Stock take documents

Records for stock takes performed by management were not available for review as it was informed that they were not retained after the stock take has been done as there was no requirement for them to do so previously. The stock takes were done more as a management exercise to monitor stock balances against the stock records. The scanned stock take reports done by the external auditors in 2012 and 2013 were provided, where there were no significant exceptions noted. A stock take of 30 sample stock items was performed by BDO LLP at the Pluit warehouse where no exceptions were noted. The stock count of the physical phones at the warehouse was matched to system records of the quantity of the stock item on hand. This could indicate that the system stock records were consistent with the physical stockholdings at the time of the stocktake. It is recommended that existing stocktake policies and procedures be enhanced to include retention of the documents relating to the stocktake done by management and to document the appropriate follow up and dispensation process for any discrepancies noted.

8. Inventory write-off process

The Management Team informed BDO LLP that that phones waiting to be scrapped were kept in the warehouse and not disposed because of tax implications. The unserviceable phones which have been not been disposed amounted to 13,939 units of Nexian phones with approximate total value of IDR 4,224,339,069 (USD 422,434). The ages of the stock ranged from January 2008 to September 2009.

CONCLUSION

The scope of AUP was based on the objectives as indicated below:

AUP 1:

To review all management reports and documents covering Opening Inventory, Purchase, Sales, Returns, Collection and Closing Inventory month by month during the

period Jan-12 to Dec-12, to find out whether there is any base for the claim that 600,000 phones over 9 months would have been billed and booked as sold but de facto kept in the warehouse.

Conclusion:

BDO LLP did not come across any potential basis to indicate that 600,000 phones billed and booked as sold by Affinity Group remained kept in the warehouse within their scope of review other than the exceptions; which relate to weaknesses in internal controls listed below, arising from the agreed upon audit procedures highlighted in the report. The company is in the process of strengthening and correcting these process weaknesses pointed out.

AUP 2:

To review provisions and write-offs relating to item 1 and to confirm they have been correctly done.

Conclusion:

BDO LLP did not come across any incorrect provisions and write-offs covered in their scope of review other than the exceptions arising from the agreed upon audit procedures highlighted in the report. They noted however that the value of the errors for the unserviceable, free of charge and stock discrepancies listed below were considered to be small as compared with the total transactional value.

AUP 3:

To validate the backup documentation and process flow behind the reports created in item 1.

Conclusion:

Process flow for sale transactions has been documented. It is recommended that Policies and procedures be improved via documented systems for:

- Sales returns and subsequent resale tracking system
- Distributor Price Protection
- Approval for “free of charge phones” or commercial samples
- Monitoring and treatment of slow moving or obsolete stock
- Reconciliation of accounts receivable, dealer wise details
- Approval for bad debt process

The Company has already started taking steps to enhance the policies and procedures documentation and to address the internal control weaknesses highlighted in the report.

Note: The above is an extract of the report from the Agreed-Upon Audit procedures performed by BDO. This engagement was conducted based on specific terms of business which BDO had agreed with S I2I Ltd (“SI2I”). Full report is available for review to any shareholder, within 60 days of announcement, at Si2i Ltd registered office after following due process as per the Terms of Reference stipulated by auditors.