



MERCURIUS CAPITAL
INVESTMENT LIMITED

MERCURIUS CAPITAL INVESTMENT LIMITED

(Incorporated in the Republic of Singapore)

(Company Registration No.198200473E)

**INDEPENDENT AUDITOR'S COMMENTS ON FINANCIAL STATEMENTS FOR THE
FINANCIAL YEAR ENDED 31 DECEMBER 2017**

Pursuant to Rule 704(4) of the Listing Manual Section B: Rules of Catalist (“**Catalist Rules**”) of the Singapore Exchange Securities Trading Limited (“**SGX-ST**”), the board of directors (the “**Board**”) of Mercurius Capital Investment Limited (the “**Company**”, and together with its subsidiaries, the “**Group**”) wishes to announce that the Company’s independent auditor, Nexia TS Public Accounting Corporation, had, without qualifying its audit opinion, included in the Independent Auditor’s Report a material uncertainty related to going concern in the audited financial statements of the Group for the financial year ended 31 December 2017 (the “**Audited Financial Statements**”). A copy of the Independent Auditor’s Report and an extract of Notes 3 and 12(d) to the Audited Financial Statements are attached to this announcement for information.

The Board is of the opinion that sufficient information has been disclosed for trading of the Company’s securities to continue in an orderly manner and confirmed that all material disclosures have been provided for trading of the Company’s shares to continue.

Shareholders of the Company (“**Shareholders**”) are advised to read the Audited Financial Statements in its 2017 annual report, which will be despatched to Shareholders in due course.

The Board wishes to advise Shareholders and potential investors to exercise caution when dealing in the shares of the Company. In the event of any doubt, they should consult their stockbrokers, bank managers, solicitors, accountants or other professional advisers.

BY ORDER OF THE BOARD

CHANG WEI LU

Executive Chairman and Chief Executive Officer

4 April 2018

*This announcement has been prepared by the Company and its contents have been reviewed by the Company’s sponsor, ZICO Capital Pte. Ltd. (“**Sponsor**”), for compliance with the Singapore Exchange Securities Trading Limited (“**SGX-ST**”) Listing Manual Section B: Rules of Catalist. The Sponsor has not independently verified the contents of this announcement.*

This announcement has not been examined or approved by the SGX-ST and the SGX-ST 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.

The contact person for the Sponsor is Ms. Alice Ng, Director of Continuing Sponsorship, ZICO Capital Pte. Ltd. at 8 Robinson Road, #09-00 ASO Building, Singapore 048544, telephone (65) 6636 4201.

Extracted from the Independent Auditor's Report to the Audited Financial Statements of Mercurius Capital Investment Limited for the financial year ended 31 December 2017

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Mercurius Capital Investment Limited (the "Company") and its subsidiary corporations (the "Group"), which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 41 to 97.

In our opinion, the accompanying consolidated financial statements of the Group and the statement of financial position of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the "Act") and Financial Reporting Standards in Singapore ("FRSs") so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2017 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the financial year ended on that date.

Basis for Opinion

We conducted our audit in accordance with Singapore Standards on Auditing ("SSAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority ("ACRA") *Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities* ("ACRA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 3 to the financial statements, which indicate that the Group has incurred a total loss of \$1,629,000 and generated net operating cash outflows of \$513,000 for the financial year ended 31 December 2017. These events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Nevertheless, the directors of the Company believe that the use of the going concern assumption in the preparation of the consolidated financial statements for the financial year ended 31 December 2017 is appropriate after taking into consideration the following assumptions and measures:

(a) Sufficiency of working capital fund

As at 31 December 2017, the Group has cash and bank balances of \$499,000 which are considered to be sufficient to meet the Group's obligations for the next twelve months from the end of current financial year. The Group has incurred total expenses of \$579,000 for the financial year ended 31 December 2017, which mainly comprises a non-recurring amount of corporate and professional fees ("non-recurring expenses") in relation to the disposal of its wholly-owned subsidiary corporation, China Children Fashion Holdings Pte. Ltd. and its subsidiary corporations. Based on financial budgets approved by the directors of the Company, by taking into consideration the actual expenses incurred during the financial year ended 31 December 2017 and excluding the non-recurring expenses, the forecasted recurring expenses for the next twelve months are estimated to be lower than the Group's available funds as at 31 December 2017, if the Group remains at its current operating level in the next twelve months from the end of current financial year.

(b) New businesses of property development and property investment

The Group has ventured into new business of property development and property investment in Malaysia (the “Development activities”) during the financial year ended 31 December 2017 through its partially-owned subsidiary corporation, Mercurius HM Realty Sdn. Bhd., a collaboration with HM Realty Holdings Sdn. Bhd. and Goh Siik Mee@Goh Siok Bee. Management will not be utilising the existing working capital funds as at 31 December 2017 to finance the Development activities. In the event of any commencement of the Development activities in the next twelve months from the end of current financial year, these will be financed through the allotment of new shares to potential investors and/or bank borrowings.

In the event that the Group is unable to continue as a going concern, adjustments may have to be made to reflect the situation that assets may need to be realised other than in the amounts at which they are currently recorded in the statement of financial position. In addition, the Group may have to provide for further liabilities that might arise and to reclassify non-current assets as current assets. Our opinion is not modified in respect of this matter. In addition to the matters described in the *Material Uncertainty Related to Going Concern* section, we have determined the matters described below to be key audit matters to be communicated in our report.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current financial year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Accounting for convertible loans

Refer to Note 12(d) to the financial statements

Area of focus

On 17 March 2017, the Company entered into convertible loan agreements (the “Agreements”) with Hii Siew Chung and Cheah Bee Lin (referring to as the “non-related investors”) for an aggregate loan amounting to \$1,000,000 which are subject to annual interest rate of 8% per annum and are convertible up to 10,800,000 new ordinary shares in the capital of the Company at its sole and absolute discretion, subject to the terms and conditions of the convertible agreements (the “Agreements”).

Management has performed internal assessment for the recognition of the convertible loans and concluded that the entire proceeds of convertible loans of \$1,000,000 shall be accounted for as equity of the Company at the inception date. The assessment was made after taking into consideration the followings:

- The purpose of raising funds from convertible loans was mainly for working capital of the Company, business growth and investment opportunities. At the inception date, the Group and the Company were in net loss position and net liabilities position as well as having minimal free cash on hands, therefore were unable to support the Group’s growth with such existing free cash. Accordingly, the redemption of convertible loans and payment of interest by cash are remote.
- The conversion of convertible loans is at the Company’s sole and absolute discretion of which management has represented and assessed that based on the Group’s and Company’s financial performance and position at the inception date, management has intention to settle the redemption of convertible loans and payment of interest through ordinary shares of the Company at inception date.

We have identified this area as key audit matters due to the judgement applied in basis of recognition of the convertible loans.

How our audit addressed the area of focus

In obtaining sufficient audit evidence, the following procedures were carried out:

- Critically assessed the terms and conditions of the convertible loans stipulated in the Agreements.
- Challenged and evaluated the appropriateness of management's judgements and basis of recognition of the convertible loans.
- Inspected board minutes and other appropriate documentation of authorisation to assess whether the transaction was appropriately authorised.
- Reviewed management's disclosures in the consolidated financial statements.

Other information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Directors for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and FRSs, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The directors' responsibilities include overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material

misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current financial year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company and by those subsidiary corporation incorporated in Singapore of which we are the auditor have been properly kept in accordance with the provisions of the Act.

The engagement director on the audit resulting in this independent auditor's report is Ms. Meriana Ang Mei Ling.

Nexia TS Public Accounting Corporation
Public Accountants and Chartered Accountants
2 April 2018

Extracted from Notes 3 and 12(d) to the Audited Financial Statements of Mercurius Capital Investment Limited for the financial year ended 31 December 2017

3. Going concern

During the financial year ended 31 December 2017, the Group incurred a total loss of \$1,629,000 (2016: \$22,572,000) and generated net operating cash outflows of \$513,000 (2016: cash inflows of \$2,294,000). These events or conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern.

The ability of the Group to continue as a going concern is dependent on followings:

(a) Sufficiency of working capital fund

As at 31 December 2017, the Group has cash and bank balances of \$499,000 (2016: \$165,000) which are considered to be sufficient to meet the Group's obligations for the next twelve months from the end of current financial year. The Group has incurred total expenses of \$579,000 (2016: \$597,000) for the financial year ended 31 December 2017, which mainly comprises a non-recurring amount of corporate and professional fees ("non-recurring expenses") in relation to the disposal of its wholly-owned subsidiary corporation, China Children Fashion Holdings Pte. Ltd. and its subsidiary corporations. Based on financial budgets approved by the directors of the Company, by taking into consideration the actual expenses incurred during the financial year ended 31 December 2017 and excluding the non-recurring expenses, the forecasted recurring expenses for the next twelve months are estimated to be lower than the Group's available fund as at 31 December 2017, if the Group remains at its current operating level in the next twelve months from the end of current financial year.

(b) New businesses of property development and property investment

The Group has ventured into new business of property development and property investment in Malaysia (the "Development activities") during the financial year ended 31 December 2017 through its partially-owned subsidiary corporation, Mercurius HM Realty Sdn. Bhd., a collaboration with HM Realty Holdings Sdn. Bhd. and Goh Siik Mee@Goh Siok Bee. Management will not be utilising the existing working capital funds as at 31 December 2017 to finance the Development activities. In the event of any commencement of the Development activities in the next twelve months from the end of current financial year, these will be financed through the allotment of new shares to potential investors and/or bank borrowings.

After considering the measures taken described above, the directors believe that the Group has adequate resources to continue the operations as a going concern. For these reasons, the Group continues to adopt the going concern assumption in the preparation of the financial statements.

The financial statements did not include any adjustments that may result in the event that the Group is unable to continue as a going concern. In the event that the Group is unable to continue as a going concern, adjustments may have to be made to reflect the situation that assets may need to be realised other than in the amounts at which they are currently recorded in the statement of financial position. In addition, the Group may have to provide for further liabilities that might arise and to reclassify non-current assets as current assets.

12. Other reserves

(d) Equity component of convertible loans

	Group	
	2017	2016
	\$'000	\$'000
Beginning of financial year	-	-
Convertible loan – equity component*	1,063	-
End of financial year	<u>1,063</u>	<u>-</u>

* Inclusive of interest expenses accrued for current financial year, amounting to \$63,000.

On 17 March 2017, the Company entered into convertible loan agreements (the “Agreements”) with two non-related investors for an aggregate loan amount of \$1,000,000 which are subject to annual interest of 8% and convertible up to 10,800,000 new ordinary shares in the capital of the Company, subject to the terms and conditions of the Agreement.

The entire proceeds and interest charged on convertible loans for current financial year are recognised as equity instruments in other reserves as the redemption of the convertible loans and settlement of interest through issuance of ordinary shares of the Company are at the Company’s sole and absolute discretion of which the management has intention to settle the convertible loans through the Company’s ordinary shares, since inception date.

On 29 March 2018, the Company entered into a supplemental agreement with the investors to extend the maturity date of convertible loans to 17 March 2019. There are no changes to the term and conditions of the initial convertible loans agreement.