# INDEPENDENT AUDITOR'S REPORT

## To the Members of Epicentre Holdings Limited

## Report on the Audit of the Financial Statements

### Disclaimer of Opinion

We were engaged to audit the financial statements of Epicentre Holdings Limited (the "Company") and its subsidiaries (the "Group"), which comprise:

- the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 30 June 2017;
- the consolidated statement of comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows of the Group and the statement of changes in equity of the Company for the financial year then ended; and
- notes to the financial statements, including a summary of significant accounting policies.

We do not express an opinion on the accompanying consolidated financial statements of the Group and the statement of financial position of the Company. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

### Basis for Disclaimer of Opinion

Purported transactions relating to consultancy services

During the financial year, the Group purportedly entered into consultancy services agreements (the "CS Agreements") with two entities (the "Customers") in which certain directors of these Customers are the shareholders of the Company, to provide consultancy services related to the retail business.

In respect of the CS Agreements, the Group recorded (a) consultancy services income of $3,950,000 for the financial year ended 30 June 2017 as disclosed in Note 19 to the financial statements, and (b) receivables of $2,500,000 as "Other receivables – third parties" as at 30 June 2017 and disclosed in Note 8 to the financial statements. The Group received payments by way of quick cheque deposits and telegraphic transfer from another shareholder of the Company, amounting to $1,450,000 before the financial year end and $800,000 subsequent to the financial year, purportedly from the Customers.

## Report on the Audit of the Financial Statements (Continued)

## Basis for Disclaimer of Opinion (Continued)

<u>Purported transactions relating to consultancy services</u> (Continued)

We were not provided with sufficient appropriate audit evidence regarding the veracity of the purported transactions, particularly with respect to:

(a) The commercial reasons and economic substance of the consultancy services;
(b) The legality and legitimacy of the CS Agreements, including whether the CS Agreements were signed by authorised representatives of the Customers; and
(c) The source of funds purportedly received from the Customers.

Consequently, we were unable to determine whether any adjustments may be necessary to the consultancy services income, receivables and other elements in the financial statements.

<u>Purported advances to and refunds from a supplier</u>

During the financial year, the Group purportedly entered into agreements (the "Agreements") with a supplier located in Shenzhen, People's Republic of China (the "Supplier"), for the purchase of complementary accessories for mobile devices for an initial contract sum of $5,330,000 (the "Initial Contract Sum") which was purportedly reduced to $2,810,000. $4,442,000 was purportedly advanced by the Group to the Supplier to enjoy a discount of $888,000 on the Initial Contract Sum.

Based on the Agreements, the Group and the Supplier purportedly appointed a company owned by the Executive Chairman and Acting Chief Executive Officer of the Company (the "EC's Company") and a company owned by a shareholder of the Company to act as escrow agents (the "Escrow Agents").

The Group has purportedly paid advances of $4,442,000 to the Supplier through the Escrow Agents and the Supplier has purportedly refunded $2,100,000 to the Group through one of the Escrow Agents by way of quick cheque deposits.

As at 30 June 2017, the Group's "Advances made to a supplier" amounted to $2,342,000, as disclosed in Note 8 to the financial statements.

We were not provided with sufficient appropriate audit evidence regarding the veracity of the purported transactions, particularly with respect to:

(a) The commercial reasons and economic substance of the Agreements with the Supplier, including the appointment of the Escrow Agents;
(b) The purported payments of $4,442,000 to the Supplier through the Escrow Agents;
(c) The source of the refunds of $2,100,000 purportedly made by the Supplier through one of the Escrow Agents; and
(d) The recoverability of the amount of $2,342,000 purportedly with the Supplier.

Consequently, we were unable to determine whether any adjustments may be necessary to the advances made to the Supplier and other elements in the financial statements.

## Report on the Audit of the Financial Statements (Continued)

## Basis for Disclaimer of Opinion (Continued)

Purported transactions relating to a loan of $1,760,000

During the financial year, the Group entered into an agreement with a company owned by a shareholder of the Company (the "Lender") for a loan of $1,760,000 at an interest rate of 24% per annum. The loan was disbursed to the Group in September 2016 of which $1,200,000 was made by way of cash deposits.

In September 2016, the Group, the Lender and the Executive Chairman and Acting Chief Executive Officer of the Company (the "EC") entered into an agreement to novate the loan from the Lender to the EC (the "Novation Agreement").

In October 2016, the Group made a loan repayment of $400,000 to the Lender. Thereafter, the Group made repayments of an aggregate sum of $1,050,000 to the EC's Company.

As at 30 June 2017, the Group's outstanding loan balance of $310,000 owing to the EC was disclosed as "Borrowings" in Note 13 to the financial statements.

We were unable to obtain sufficient appropriate audit evidence regarding the veracity of the transactions, particularly with respect to:

(a) The source of funds purportedly received from the Lender;
(b) The legality and legitimacy of the Novation Agreement;
(c) The rationale of novating the loan from the Lender to the EC; and
(d) The rationale of loan repayment of $400,000 made to the Lender in October 2016 after the loan was novated.

Consequently, we were unable to determine whether any adjustments may be necessary to the Group's borrowings and other elements in the financial statements.

Internal Controls and Corporate Governance

As of the date of this report, the Board of Directors is still in the process of commissioning an independent review and is unable to provide us with further information on these matters.

In view of this and the matters described above, we were unable to evaluate whether the Group and the Company has operated within appropriate internal control and corporate governance frameworks which may have a pervasive effect on the financial statements. Accordingly, we were unable to determine whether there are other matters up to the date of this report that may require any adjustment of, or disclosures in the accompanying financial statements.

## Report on the Audit of the Financial Statements (Continued)

## 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 Companies Act, Chapter 50 (the "Act") and Financial Reporting Standards in Singapore, 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 responsibility is to conduct an audit of the financial statements in accordance with Singapore Standards on Auditing and to issue an auditor's report. However, because of the matters described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

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.

## Report on Other Legal and Regulatory Requirements

In our opinion, in view of the significance of the matters referred to in the Basis for Disclaimer of Opinion section of our report, we do not express an opinion on whether the accounting and other records required by the Act to be kept by the Company and by those subsidiary corporations incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditor's report is Yeo Siok Yong.

**BDO LLP**
Public Accountants and
Chartered Accountants

Singapore
9 October 2017

## 8. Trade and other receivables

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | $'000 | $'000 | $'000 | $'000 |
| Trade receivables – third parties | 1,008 | 1,304 | 29 | 25 |
| Allowance for impairment loss | (10) | (10) | - | - |
| | 998 | 1,294 | 29 | 25 |
| Due from subsidiaries – non-trade | - | - | 4,959 | 4,900 |
| Allowance for impairment loss | - | - | (1,802) | (1,802) |
| | - | - | 3,157 | 3,098 |
| Other receivables – third parties | 3,740 | 453 | - | - |
| Advances made to a supplier | 2,342 | - | - | - |
| Cash deposits held by suppliers | 1,372 | - | - | - |
| Rental and other deposits | 1,215 | 1,400 | 1 | 1 |
| Total trade and other receivables | 9,667 | 3,147 | 3,187 | 3,124 |
| Add: Cash and cash equivalents (Note 9) | 2,987 | 2,546 | 40 | 80 |
| Less: Goods and services tax receivable | - | - | (29) | (25) |
| Total loans and receivables | 12,654 | 5,693 | 3,198 | 3,179 |

Trade receivables are unsecured, interest-free and generally on 30 to 60 days (2016: 30 to 60 days) credit terms. They are recognised at their original invoice amounts which represent their fair values on initial recognition.

The non-trade amounts due from subsidiaries are unsecured, interest-free, repayable on demand and are expected to be settled in cash.

The non-trade amounts due from third parties mainly relate to the consultancy services income earned during the financial year.

Advances made to a supplier relates to the payments made in advance for the purchase of products.

Cash deposits held by suppliers relates to cash deposits paid to suppliers as guarantee to secure goods supplies with credit term.

**8. Trade and other receivables** (Continued)

Movements in allowance for impairment loss on third parties trade receivables were as follows:

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| | $'000 | $'000 |
| Balance at beginning of financial year | 10 | 9 |
| Allowance made during the financial year | - | 10 |
| Allowance written off during the financial year | - | (9) |
| Balance at end of financial year | 10 | 10 |

In the previous financial year, the Group recognised an allowance for impairment loss on and wrote off individual third parties trade receivables amounting to approximately $10,000 and $85,000 respectively subsequent to a debt recovery assessment performed by management.

Trade receivables that were individually determined to be impaired in previous financial year related to debtors that were in significant financial difficulties and had defaulted on payments. These receivables were not secured by any collateral or credit enhancements.

Movement in allowance for impairment loss on non-trade amounts due from subsidiaries was as follows:

| | Company | |
|---|---|---|
| | 2017 | 2016 |
| | $'000 | $'000 |
| Balance at beginning of financial year | 1,802 | 1,792 |
| Allowance made during the financial year | - | 10 |
| Balance at end of financial year | 1,802 | 1,802 |

In the previous financial year, an allowance for impairment loss on non-trade amounts due from subsidiaries amounting to approximately $10,000 arose mainly from subsidiaries which had suffered significant losses from their operations where it was not probable that the balances due from these subsidiaries will be recoverable.

Trade and other receivables are denominated in the following currencies:

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | $'000 | $'000 | $'000 | $'000 |
| Singapore dollar | 9,240 | 2,667 | 3,070 | 3,026 |
| Ringgit Malaysia | 427 | 480 | 117 | 98 |
| | 9,667 | 3,147 | 3,187 | 3,124 |

## 13. Borrowings

| | Note | Group 2017 $'000 | Group 2016 $'000 | Company 2017 $'000 | Company 2016 $'000 |
|---|---|---|---|---|---|
| **Non-current** | | | | | |
| *Unsecured* | | | | | |
| Loan I | (a) | 200 | - | 200 | - |
| Loan II | (b) | 200 | - | 200 | - |
| | | 400 | - | 400 | - |
| **Current** | | | | | |
| *Secured* | | | | | |
| Loan III | (c) | 2,000 | - | - | - |
| *Unsecured* | | | | | |
| Loan IV | (d) | 5,000 | - | - | - |
| Loan V | (e) | 918 | - | - | - |
| Loan VI | (f) | 29 | - | - | - |
| Loan VII | (g) | - | 816 | - | 816 |
| Loan VIII | (h) | 310 | - | - | - |
| Invoice financings | (i) | - | 2,000 | - | - |
| Crowdfunding financings | (j) | - | 1,822 | - | - |
| | | 8,257 | 4,638 | - | 816 |
| Total borrowings | | 8,657 | 4,638 | 400 | 816 |

(a) Loan I from a third party is non-interest bearing, unsecured and repayable by 21 July 2019.

(b) Loan II from a shareholder is non-interest bearing, unsecured and repayable by 21 July 2019.

(c) Loan III from a third party bears monthly interest at 8% per annum, secured by floating charge over the assets of a subsidiary and repayable by 16 April 2018.

(d) Loan IV from a third party bears monthly interest at 42% per annum, supported by personal guarantees of a Director of the Company and corporate guarantee provided by the Company. The loan is repayable in October 2017.

(e) Loan V from third parties bears monthly interest at 36% per annum, supported by personal guarantee provided by a Director of the Company. The loan is repayable from July 2017 to December 2017.

(f) Loan VI from a financial institution bears monthly interest at 9.5% per annum, jointly supported by personal guarantee provided by certain Directors of a subsidiary.

(g) Loan VII relates to revolving credit facilities from a financial institution, which are unsecured and bear interest from 2.89% to 4.00% per annum. It was fully settled during the financial year ended 30 June 2017.

(h) Loan VIII from a Director of the Company is non-interest bearing, unsecured and repayable on demand.

## 13. Borrowings (Continued)

(i) Invoice financings bore interests from 2.64% to 9.25% per annum and were supported by the corporate guarantee provided by the Company. It was fully settled during the financial year ended 30 June 2017.

(j) Crowdfunding financings relate to fundraising campaigns launched by Epicentre Pte. Ltd., a wholly-owned subsidiary of the Company through peer-to-peer lending platform which is operated by MoolahSense Private Limited. Crowdfunding financings bore interests at 13.50% per annum and were supported by the corporate guarantee provided by the Company. It was fully settled during the financial year ended 30 June 2017.

The borrowings are denominated in Singapore dollar.

As at 30 June 2016, one of the Company's subsidiary (the "subsidiary") was not in compliance with financial covenants set out in the banking facilities letter in respect of invoice financings with a carrying value of $2,000,000 where the subsidiary shall maintain a net worth (defined as paid-up capital, revenue reserves/retained earnings and capital reserves) of not less than $5,000,000. During the current financial year, the subsidiary repaid the invoice financings and the invoice financing facilities was subsequently terminated by the bank.

## 19. Other income

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| | $'000 | $'000 |
| Consultancy services income | 3,950 | - |
| Commission income | 97 | 80 |
| Government grants | 81 | 287 |
| Rebates | 98 | 1,294 |
| Membership fee income | 294 | 233 |
| Sponsorship income | 403 | 720 |
| Expired unredeemed voucher | 93 | - |
| Others | 58 | 15 |
| | 5,074 | 2,629 |

Consultancy services income relates to retail business consultancy services provided to the entities in which certain directors of these entities are the shareholders of the Company.