

MERCURIUS CAPITAL INVESTMENT LIMITED
(Incorporated in Singapore)
(Company Registration No. 198200473E)
(the “**Company**”)

RESPONSES TO SGX QUERIES

The Board of Directors (the “**Board**”) of Mercurius Capital Investment Limited (the “**Company**”, together with its subsidiaries the “**Group**”) refers to the following queries raised by the Singapore Exchange Securities Trading Limited and would like to provide further information in relation to the Company’s announcement dated 27 July 2023, entitled “Cessation of Business Operations in Subsidiaries of the Group” (the “**Announcement**”).

Unless otherwise defined, all terms and references used in this announcement shall bear the same meaning as ascribed to them in the Announcement.

It was stated that:

- A. Songmart Malaysia Sdn. Bhd. (“**Songmart Malaysia**”), Granville Grocery Sdn. Bhd. (“**Granville**”) and Tan Lee Heng Import & Export Sdn. Bhd. (“**Tan Lee Heng**”) (collectively, and together with Songmart Holdings Sdn. Bhd., the “**Songmart Group**”) had on 30 June 2023, ceased all of its business operations and as such, the Group has ceased its groceries business. The cessation of the business operations of Songmart Group is primarily attributed to its poor financial performance.
- B. The Group will continue to focus its efforts on, among others, the joint venture with Apex Development Public Company Limited (“**Apex**”), and the plans for the joint development of the Sheraton Phuket Grand Bay Resort (“**Sheraton**”) hotel property in Phuket, Thailand. The Group is seeking funding on favourable terms to resume the development and have finalized the revised plans for the development of the resort in March 2023, which are to be proposed to the Marriott group for discussions on the development, with a view to commence development in the second half of 2023.

SGX Query 1:

The Group completed the acquisition of Songmart only in October 2022 and ceased the operation in less than a year. In its circular seeking shareholders’ approval for its proposed diversification of the Group’s business, the Company had stated that:

- The Board believes that the Proposed Diversification will offer new business opportunities, provide the Group with new revenue streams, as well as earnings and growth opportunities, so as to enhance long term value for Shareholders.
- Songmart Groceries Business are profitable and the Proposed Acquisition would therefore provide the Group with the opportunity to acquire profitable entities with opportunities for growth.

However, within a short period of 5 months, The Company received numerous letters of demands on the Songmart Group, and attributed poor financial performance, high operational costs and competitive pricing as the key reasons for the cessation of the groceries business.

- a. In view of this development, please detail why and how the Audit Committee (“**AC**”) is satisfied with the adequacy and effectiveness of internal controls and risk management of the Group, including but not limited to:
- i. due diligence performed on the Songmart Group prior to the acquisition of Songmart;
 - ii. controls implemented to oversee the operations and financial performance of its core business, Songmart;
 - iii. circumstances that led to the receipt of letters of demand on the Songmart Group;
 - iv. circumstances that led to the cessation of its groceries business;
 - v. duties and roles of parties (Board and Key Management of the Group) responsible for the groceries business.
- b. Will the AC be appointing an independent reviewer to look into the above and where necessary, to propose enhancements to the Group’s internal controls? Please update shareholders on the expected timelines to appoint and complete the review. To this end, the Company should provide regular updates to shareholders on the appointment and progress of the review.

Company’s Response:

- (a) The AC was satisfied with the proposal tabled by the then chief financial officer of the Company and the business adviser of the Company on the assessment of the business prospects and the financial performance of Songmart Holdings Sdn. Bhd. (“**Songmart Holdings**”) prior to the acquisition having taken into the consideration the following:
- legal due diligence was carried out on Songmart Holdings, Songmart Malaysia, Tan Lee Heng and Granville;
 - the profits generated by Songmart Holdings as set out in its unaudited pro forma condensed combined financial statements for the financial year ended 31 December (“**FY**”) 2020 and the three-month period ended 31 March 2021 (“**1Q2021**”), including the net tangible assets and the profit before tax of approximately RM13.8 million and RM9.4 million respectively for FY2020 and RM16.1 million and RM2.4 million respectively for 1Q2021;
 - the historical financial results of Songmart Holdings;
 - the prevailing market valuation of the properties owned by Songmart Holdings; and
 - the prevailing economic conditions and the potential growth outlook of Songmart Holdings.

The AC had carefully examined the reports and findings from the aforementioned due diligence process and was satisfied with the thorough and comprehensive manner in which the lawyers carried out the legal due diligence.

Additionally, the Company found comfort that the management team of the Songmart Group would continue running the groceries business, and Songmart Group had appointed an individual to take on the role of internal auditor (“**Internal Auditor**”) of the Songmart Group.

After the re-designation of Mr. Hester Chew (“**Mr. Chew**”) as Group Chief Executive Officer (“**CEO**”) of the Company, Mr. Chew initiated meetings with the Songmart management team as a corporate representative from the Company. There were some internal controls implemented to oversee the operations and financial performance of Songmart Group, including but not limited to:

1. a formal financial reporting system on Songmart Group to the Company i.e., a monthly management account of Songmart Group was to be sent to the Songmart management team and to Mr. Chew by every 15th of the following month for a review. This is to ensure the Company would receive timely and relevant financial information of Songmart Group for management discussions;
2. budgets and forecasting process to review the budgeted against the actual financial results for better identification of areas for improvements or potential risks and also budgets on capital expenditure to open new outlets to help the Company to assess the return on investments;
3. on-going discussions on the organisation chart and hierarchy system within Songmart Group to ensure well-defined reporting line;
4. regular head of departments meetings to facilitate effective communication, coordination, and decision-making within Songmart Group; and
5. regular board meetings with Songmart Group to discuss financial performance, strategic initiatives, and any potential challenges or opportunities.

Other than the internal controls implemented, the Board had designated duties and roles to oversee the groceries business as follows:

1. the Chairman and the Group CEO of the Company are responsible for providing oversight, governance, and strategic guidance;
2. key management of the groceries business, including one who is an Executive Director (“ED”) of the Company, who is also the CEO of Songmart Group, is accountable for executing the strategies, managing operations, and achieving the goals;
3. the ED works closely with the Songmart Group management team, overseeing operational activities and ensuring that they align with the broader business strategy. The ED also oversees budgeting, financial reporting, and risk management to maintain Songmart Group’s financial health and to timely report to the Board of the Company.

The AC expressed its satisfaction with the internal controls that were implemented to oversee Songmart Group's operations and financial performance and the duties and roles designated in the groceries business. These measures, ranging from timely financial reporting and budgetary oversight to enhanced communication structures and strategic board meetings, collectively underscore the Group's commitment to transparency, effective management, and informed decision-making.

There were some concerns raised by the external auditors to the AC in the financial year ended 31 December 2022 (“FY2022”). As highlighted in the Company’s annual report and the auditor’s report for FY2022, there were material non-compliance and internal control weaknesses identified by the external auditors which were reported to the AC and there were significant internal control weaknesses arising from the Songmart Group including, but not limited to:

- (a) improper record of inventories movements and valuation of the closing inventories and costs of sales as at 31 December 2022;
- (b) lack of proper internal controls in place in the operational functions to maintain effective and

efficient operational flows which resulted in cut-off errors, unrecorded transactions and human errors; and

- (c) inability to reconcile the intercompany balances as at 31 December 2022 and intercompany transactions during the period from 28 October 2022 to 31 December 2022.

To address the points brought up by the external auditor, the Company immediately implemented remedial actions. The management of the Company has also, for FY2022, provided its management representation which recognised that the Group's internal controls and risk management systems require strengthening. In FY2022, the Company had assessed the Internal Auditor appointed by Songmart Group and was not satisfied with the suitability of the Internal Auditor, as he had not provided any of the internal audit plans and framework for FY2022 and deliverables and findings for any issues within the Songmart Group's internal controls as discussed with the management of the Company. As a result of these concerns, the Company had determined that it was in the Company's and shareholders' best interests to terminate the Internal Auditor and had done so in February 2023. As such, for FY2022, the AC is of the view that there was no independent internal audit function. The AC had reviewed the key audit focus areas with the external auditor and note that some areas of internal control weaknesses were detected during the audit and due to the nature of inherent limitations in internal controls, the AC has provided a reasonable assurance regarding the achievement of the Group's intended internal control objectives based on the findings of the external auditor and management discussions held. As such, it should be noted that there were procedures proposed, but the Company is of the view that the management of Songmart Group had failed to execute such controls, despite the Company's attempts to implement them.

Apart from the above, the persistent poor financial performance of Songmart Group, exacerbated by declining revenues and rising expenses, and Songmart Holdings management team's inadequate decision-making skills have created severe cash flow issues and strained its ability to generate sufficient funds to meet its financial obligations. As a consequence, Songmart Group has been grappling with significant delays in payments to its creditors, which ultimately led to the receipt of letters of demand.

The AC had expressed their deep concern regarding the lack of effective internal controls and its ongoing poor financial performance of Songmart Group. The alarming combination of declining revenues and escalating expenses has precipitated a critical cash flow crisis, severely impeding the Group's capacity to meet its financial commitments. Of particular concern is the distressing situation wherein Songmart Group has experienced substantial delays in settling payments owed to its creditors, culminating in the receipt of letters of demand.

- (b) The Company has previously sought quotations from several independent reviewers. However, the Board is of the view that the costs of engaging the independent reviewer to carry out the investigation on the acquisition of Songmart Group is not deemed justifiable at this point in time as the Company is currently allocating its funds towards addressing more pressing issues.

SGX Query 2:

Please provide the Sponsor's assessment, with supporting justifications, on matters set out in Query 1, namely adequacy and effectiveness of the Group's internal controls and risk management and the need to perform an independent review.

Sponsor's Response:

The Sponsor notes the Company's responses to Query 1, as well as the key internal control weaknesses flagged by the external auditors in respect of FY2022. As such, the Sponsor concurs with the Company's AC that there is a lack of effective internal controls.

In respect of the need to perform an independent review, based on the representations and information provided by the Company in terms of the current business of the Songmart Group and the lack of effective internal controls, the Sponsor is of the view that an independent review is required in respect of the acquisition of the Songmart Group as well the circumstances which lead to the lapses in the implementation of the effective internal controls which were set in place and not followed through.

The Sponsor understands from the Company the practical limitations as of the date of this announcement, especially in light of:

- (a) the Company's negative cash and cash equivalents position as of 31 March 2023 of S\$927,000;
- (b) that the Songmart Group is the subject of various legal proceedings, including ongoing winding-up petitions;
- (c) that the court in Malaysia had granted a winding-up order in favour of Songmart Malaysia Sdn. Bhd. and Tan Lee Heng Import & Export Sdn. Bhd.'s creditors; and
- (d) there are two further court hearings to be convened in August 2023 in relation to further winding-up petitions against the Songmart Group.

The Company has represented to the Sponsor its requirement to deal with the above immediate and pressing matters as it seeks to preserve shareholder value and its inability to sufficiently engage with an independent review process due to the foregoing.

SGX Query 3:

We noted that the development of the Sheraton Phuket Grand Bay Resort has been put on hold since FY2020, and has not generated any revenue for the past 4 years. With the cessation of groceries business, please elaborate on why the Company should not be considered a cash company. Please provide the Board's and Sponsor's assessment and justifications.

Company's Response:

The Group notes the recent board renewal and change in major shareholder of Apex and believes that with the recent changes, the progress of developing the Sheraton will be pushed forward. Together with the new board and investors of Apex, the Group is seeking funding with favourable terms to resume the development of Sheraton and the Company is also currently in the midst of negotiating pertinent commercial terms and conditions for a proposed transaction with the potential investors to aid in the Company's turnaround. The Company will be having a discussion with Apex and other potential investors mid-August 2023 and will announce the necessary details as soon as there are material developments of such discussions. As such, the Board is of the view that the Company should not be considered a cash company.

Sponsor's Response:

The Sponsor understands from the Company that the Group's discussions with multiple parties in relation to the development of the Sheraton Phuket Grand Bay Resort are ongoing.

The Sponsor further understands that the property development industry is a business which does not typically generate revenue until completion and sale of the properties even more so if the development is in the hospitality space.

Given that the Sponsor understands that the Group is also in discussions with the Marriott group regarding the re-development, the Sponsor understands the Group is still engaged in business activity in relation to its property development segment. The Company has notified the Sponsor that it does not deem itself as a cash company at this time.

SGX Query 4:

We noted that the Group has been loss making since FY2016 and received numerous letters of demand in past months. Even if the Company intends to recommence the development of Sheraton Phuket Grand Bay Resort, significant time, funds and other resources will be required. What are the Company's plans and milestones on the Sheraton Phuket Grand Bay Resort, as well as the expected timeline to achieve such plans / milestones?

Company's Response:

The Group is actively pursuing funding opportunities with favourable terms to resume the development of Sheraton. However, the joint venture partner, Apex, is currently dealing with issues related to the villas as Sheraton is connected to the villas. The resolution of these villa-related issues is a pre-requisite before proceeding with the next steps of the development and the Group is hopeful that these villa-related issues will be resolved within the next three months. The Company will be meeting Apex in the coming weeks to obtain an update and work out a plan for the development of Sheraton once it has more clarity on the timing.

SGX Query 5:

Has the Group discussed with Marriott group on the revised development plan for the Sheraton Phuket Grand Bay Resort? If yes, what's the outcome? Does the Group need other permits / approvals / licenses to execute its plans?

Company's Response:

The Group has engaged in discussions with Marriott group regarding the revised development plan for the Sheraton and has submitted the relevant plans to the Marriott group. The Marriott group has expressed no objection to the plan. The Group understands that once Apex resolves the villa-related issues, it may proceed with the next steps of the development. It is important to note that all the necessary permits and approvals required to execute the development plan have already been obtained.

SGX Query 6:

Please disclose if there is any other material information shareholders should be aware of.

Company's Response:

To the best of the knowledge of the Board, all material information has been disclosed and the Company will continue to disseminate material information to shareholders in a timely manner.

BY ORDER OF THE BOARD

Chew Hai Chiene Hester Arthur
Group Chief Executive Officer and Executive Director
10 August 2023

*This announcement has been prepared by the Company and reviewed by the Company's sponsor, Novus Corporate Finance Pte. Ltd. (the "**Sponsor**"), in compliance with Rule 226(2)(b) of the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") Listing Manual Section B: Rules of Catalyst.*

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.

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