POLARIS LTD.
(Incorporated in the Republic of Singapore)
(Company Registration No: 198404341D)

RESPONSES TO QUESTIONS FROM THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE) ON THE ANNUAL REPORT FOR FY2021

The Board of Directors (the "**Board**" or "**Directors**") of Polaris Ltd. (the "**Company**" and together with its subsidiaries, the "**Group**") refers to the questions raised by the Securities Investors Association (Singapore) ("**SIAS**") in respect of the Company's Annual Report for the financial year ended 31 December 2021 ("**FY2021**") which was published on SGXNET on 7 June 2022 ("**AR2021**"). For avoidance of doubt, the Company has not responded to the commentaries made by SIAS since they merely set out the context of the questions raised. Unless otherwise defined, all capitalised terms used in this announcement shall bear the same meanings as defined in AR2021.

The Company wishes to provide the following responses to SIAS' questions:

Q1. For the financial year ended 31 December 2021 ("FY2021"), revenue increased by 63% to $53.44 million due to increased turnover from pre-owned luxury goods sales in the USA.

As shown in the corporate profile (page 6), the group is organised into business units based on its products and services, namely:

- **pre-owned luxury goods segment**
- **customer services segment**
- **consumer electronics segment**
- **distribution segment**

For FY2021, the group's local businesses experienced contraction year on year. While the pre-owned luxury goods and customer services segments achieved better profitability (page 117 – Note 30 Segment information), losses were higher in the consumer electronics and distribution segments.

Net loss from continuing operations for FY2021 was $(0.43) million as compared to a net loss of $(0.33) million in FY2020.

At the end of March 2022, the group ceased operating the Parkway Parade Apple Premium Reseller store (consumer electronics segment) while the distribution segment is currently dormant following the disposal of Polaristitans Philippines Inc.

While the group's pre-owned luxury goods business is growing, the group's stake has been diluted following a capital injection (see question 2). In the customer services business segment, the group experienced continued demand growth and added refurbishing to its portfolio of services provided.

(i) Would the board/management provide shareholders with a holistic overview of the strategic growth plans? Please also provide greater clarity on the group's capital allocation strategy.

<u>The Company's Response:</u>

The Group will continue on its communicated path to develop and pursue businesses that are part of the green and circular economy. Today, our pre-owned luxury goods re-commerce business (the "**Pre-owned Business**") and our customer services repair and refurbishment business make up the core of these efforts.

The Pre-owned Business requires significantly more working capital to fuel its growth and the Group has allocated capital accordingly in the past years, which includes exiting non-profitable and/or non-strategic businesses. Furthermore, new investors were pursued in the US to secure the continued growth of MLA, to expand its existing scale and capacity in the US, and enable the Company to fund the growth of the Pre-owned Business in other parts of the world. The capital allocation strategy and direction are following these strategic growth plans.

As shown in the Statements of financial position (page 62), out of the $402.7 million in share capital the company's accumulated losses amounted to $(397.2) million. Equity attributable to owners of the company now stands at just $5.6 million.

(ii) What are the key value drivers for the group to create long-term value for shareholders with the closure of Apple Premium Store and disposal of Polaristitans Philippines Inc.?

The Company's Response:

The key driver is pursuing businesses that are sustainability related while part of the green and circular economy, and which have the potential for higher profit margins.

(iii) What is the impact of the closure of the Apple Premium Reseller store in Parkway Parade on the group's revenue and profitability?

The Company's Response:

The overall impact on the Group's profitability from the closure of the Apple Premium Reseller store is positive as the store was loss-making due to high rental cost. Revenue will be affected, but the consumer electronics segment is expected to hold up and the growing Pre-owned Business will support overall Group revenue growth.

(iv) The refurbishing business has been identified as a pillar in the company's sustainability drive. How will the group be growing the refurbishing business (customer services segment)?

The Company's Response:

The customer services business segment experienced continued demand growth and added refurbishing, another pillar in the Company's sustainability drive, to its portfolio of services provided. The demands of our service partners drive the growth of the refurbishing business. We have invested in manpower, upskilling and additional equipment to meet demand and will continue to do so.

Q2. As disclosed in the letter to shareholders, the group expanded its pre-owned business to the United States of America in the first half of 2021. Its performance and potential have exceeded the group's expectations and the business grew at a rate beyond the group's capacity to sustain its trajectory of growth and expansion.

As a result, the group pursued a capital injection and dilution in the US business in the second half of 2021.

As disclosed in Note 31 (page 119 – Events occurring after the reporting period), Marque Luxury America LLC ("MLA") entered into a subscription agreement with Englory Media Holdings Pte. Ltd. in relation to the potential injection, pursuant to which MLA shall sell and issue to the investor, and the investor shall purchase from MLA, 608,000 Class A Units representing 60.8% of the total issued and outstanding units of MLA for an aggregate purchase price of US$10 million on the terms and subject to the conditions of the agreement.

The company has stated that "the group's effective interest in MLA will be reduced from 51% to 19.99% by 22 February <u>2023</u>" [emphasis added].

(i) What is the progress of the capital injection? Specifically, has MLA received the US$10 million cash injection from the investor? When will MLA be deconsolidated?

The Company's Response:

Yes, MLA has received the US$10,000,000 capital injection from the investor in February 2022 (as disclosed in the letter to shareholders in AR2021), which was the first of two key terms in the heads of agreement announced on 26 October 2021. Deconsolidation will happen by February 2023, subject to the second key term being fulfilled, which is a credit facility of US$10,000,000 to be procured by the investor to fund the operations of MLA.

(ii) Can management help shareholders better understand the ground sentiments and consumer confidence in the US, given the high inflation numbers in the US?

The Company's Response:

We can comment on consumer sentiment in the pre-owned luxury goods re-commerce sector, which to date is holding up. This is likely related to the fact that luxury brands have been raising the prices of their goods, thereby causing the value of pre-owned luxury goods to rise in tandem as well.

(iii) What is the current geographical reach of MLA? What are the expansion plans?

The Company's Response:

MLA operates 10 re-commerce hubs across the United States of America, including its headquarters in Irvine, California, plus Atlanta, Charlotte, Miami, San Antonio, Dallas, Las Vegas, Los Angeles, New York and Houston. The Group's plans with regard to MLA are to expand deeper into the US market, as well as into Canada and Mexico.

(iv) What is the level of oversight and influence by management after the capital injection?

The Company's Response:

The Company will hold one out of three Director seats after the dilution is completed.

Q3. On 7 June 2022, the company announced that there are material variances between the unaudited financial statements and the audited financial statements for the financial year ended 31 December 2021 following the finalisation of audit.

The announcement on the unaudited financial results for the financial year ended 31 December 2021 was first released via SGXNet on 1 March 2022. The announcement of material differences came more than 3 months after the company first announced the unaudited financial statements.

Following the finalisation of audit, the profit of $569,000 (unaudited) turned into a loss of $(383,000) (audited). Total equity decreased from $16.8 million (unaudited) to $15.7 million (audited).

Some of the reasons for the changes include:

- **incorrect recognition of deliveries in FY2021 (MLA)**
- **reclassification of income amounting to S$159,000 from operation expenses to other income**
- **increases in expenses recorded which were originally recognised as other receivables or prepayment expenses (mainly by MLA)**
- **additional depreciation from right of use asset amounting to S$204,000 due to the recognition of SFRS(I) 16 leases (MLA)**
- **recognition of right of use assets amounting to S$1,262,203, a reclassification of a sum of S$2,457,000 from negative account payable to prepayment, and a reclassification of a sum of S$460,000 from account receivables to other liabilities (MLA)**
- **reclassification of deposits of S$99,000 from cash and bank balances to other receivables**
- **reclassification of S$169,000 from trade receivables to customer deposit received in Polaris Network**
- **under-recognition of acquisition cost ($730,000) of subsidiaries and business in the**

unaudited results

The members of the audit and risk management committee (ARMC) are Ms Wong Leng Yee Serena (chairman), Mr Masahiko Yabuki and Ms Diana Airin. All three directors are first-time directors of a listed company on the SGX when they were first appointed to the board.

This is the second consecutive year that the company has had to announce material variances between the audited and audited financial statements following the finalisation of audit.

(i) What are the challenges faced by the company's finance and accounting staff in meeting the Singapore Financial Reporting Standards (International) (SFRS(I))?

The Company's Response:

The Company experienced staff turn-over, including in the finance department. In addition to the ongoing tight labour market during the pandemic, it has also been a challenge to recruit skilful and capable personnel who have strong technical knowledge in SFRS(I).

(ii) How can the board assure shareholders that the financial statements are prepared in accordance with the relevant Act and prevailing financial reporting standards?

The Company's Response:

Notwithstanding the above challenges, the Company will strive to recruit more senior and experienced finance and accounting personnel to strengthen the accounting function, so that the financial statements will be prepared in a timely manner and in accordance with the relevant Act and prevailing reporting standards. In addition, management will endeavour to take a pro-active approach by engaging our auditors regularly to obtain periodic updates and seek guidance on any accounting matters and methodologies that require clarification.

(iii) For shareholders' benefit, what was the level of involvement by the ARMC members, especially the ARMC chairman, in the audit of the financial statement?

The Company's Response:

The ARMC has been actively involved during the audit process of the financial statements. The ARMC reviewed the draft financial statements and raised questions and clarifications to management and the auditors. Numerous calls were organised by management and the auditors to clarify and address the ARMC's audit queries.

The ARMC members, especially the ARMC chairman, have reviewed the financial statements and related notes and announcements relating thereto, focusing in particular on changes in accounting policies and practices, major risk areas, significant adjustments resulting from the audit, compliance with accounting standards and compliance with the Catalist Rules and any other relevant statutory or regulatory requirements, and the external auditors' reports prior to recommending to the Board for approval.

(iv) How can shareholders be assured that the internal financial reporting/finance team is sufficiently resourced with experienced and qualified staff to ensure the integrity of the financial statements?

The Company's Response:

The management teams in both Singapore and the US have committed to sufficiently resource the finance departments. The audit process will be started at a much earlier date for the financial year ending 31 December 2022 ("**FY2022**"). This will ensure that updated financials will be available in time for the preparation of the unaudited full year results, to minimize any discrepancies between the unaudited and audited results.

(v) With the dilution and potentially a loss of control of MLA, what assurance does management have that the material internal controls of MLA (including financial,

operational, compliance and information technology controls) are effective and that MLA's system of internal accounting controls are adequate?

The Company's Response:

The Company will hold one out of three Director seats after the dilution is completed. Together with the new investor, all parties will work together to support MLA to improve and ensure the internal controls and systems are effective.

(vi) How can the ARMC help assure shareholders that it has discharged its duties objectively (Principle 10 of the Code of corporate governance 2018)? If so, how so?

The Company's Response:

As disclosed in the corporate governance report of AR2021, in the review of the financial statements for FY2021, the ARMC had discussed with management and the external auditors on the significant issues and assumptions that impact the financial statements. The ARMC concluded that the Group's accounting treatment and estimates in each of the significant matters were appropriate. All the key audit matters ("**KAMs**") that were raised by the external auditors for FY2021 have been addressed by the ARMC. The KAMs in the auditors' report for FY2021 can be found on pages 58 and 59 of AR2021.

The ARMC members have also (i) reviewed the assurance from the CEO and the interim head of finance on the financial records and the Group's risk management and internal control systems for FY2021, (ii) reviewed and approved the internal audit plan to ensure the adequacy of the scope of audit, the IA's reports, and proposed follow-up actions implemented by management, and (iii) noted that the necessary co-operation required from management has been provided to enable the IA to perform its function effectively.

(vii) Would the board be considering reconstituting or strengthening the ARMC?

The Company's Response:

The Board considers that the members of the ARMC are appropriately qualified, and have sufficient knowledge and experience in accounting, risk management and financial matters to discharge their responsibilities in the ARMC. Accordingly, the Board does not have any plans to reconstitute or strengthen the ARMC at this juncture.

BY ORDER OF THE BOARD
POLARIS LTD.

Soennerstedt Carl Johan Pontus
Executive Director and Chief Executive Officer
26 June 2022

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*This announcement has been reviewed by the Company's sponsor, Stamford Corporate Services Pte. Ltd. (the "**Sponsor**"). It has not been examined or approved by the Singapore Exchange Securities Trading Limited (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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