SEVAK LIMITED
(Incorporated in the Republic of Singapore)
(Company Registration No. 199304568R)
(the "**Company**")

ANNOUNCEMENT IN RELATION TO SGX-ST QUERIES REGARDING THE COMPANY'S FOURTH QUARTER FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

The Board of Directors (the "**Board**') of Sevak Limited (the "**Company**") refers to the queries received from the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") on 3 March 2020 in relation to the Company's fourth quarter financial statements for the year ended 31 December 2019 and wishes to respond to the queries as follows:

1. **SGX-ST's Query 1:**

We refer to the Full Yearly Results announced on 27 February 2020. In Note 14, the Company disclosed that there was a recycling of translation loss of $0.06mil in 2019 and a recycling of translation gain of $3.7mil in 2018. Please clarify how the amounts were derived, providing specific figures and calculations.

Company's Response:

Translation gain/loss referred to in Note 14 relates to recycle of translation gain of S$3.7 million (FY 2018) and translation loss of S$0.06 million (FY 2018) consequent upon, respectively, the disposal of MediaRing.com, Inc. in the USA and certain entities in Malaysia of Cavu Group. The disposals were announced on 2 July 2018.

These amounts were recycled in line with SFRS(I) 1-21. The following are the calculations of translation gain/loss referred to above:

Mediaring.com, Inc	USD	SGD @ Historical rate	Historical rate	SGD if at month end rate (30Jun2018)	Translation reserve
Common Shares / (Share Capital)	(12,000,000)	(15,888,000)	1.3240	(16,368,000)	(480,000)
Retained Earnings / (Accumulated loss)					-
up to 31 Dec 2017	45,648,187	64,574,940	1.4146	62,264,121	(2,310,819)
Profit/ (loss) for the year	(33,639,723)	(44,943,773)	1.3360	(45,884,582)	(940,808)
Translation Reserve	-	(3,731,627)		-	
	8,464	**11,539**		**11,539**	**(3,731,627)**

Certain entities in Malaysia of Cavu Group	MYR	SGD @ Historical rate	Historical rate	SGD if at month end rate (31Aug2018)	Translation reserve
Common Shares / (Share Capital)	(7,238,868)	(2,801,789)	0.3870	(2,411,267)	390,522
Retained Earnings / (Accumulated loss)					
up to 31 Dec 2017	5,361,074	2,118,702	0.3952	1,785,691	(333,011)
Profit/ (loss) for the year	1,486,048	492,001	0.3311	495,003	3,002
Translation Reserve	-	60,512		-	
	(391,747)	**(130,574)**		**(130,574)**	**60,512**

2. **SGX-ST's Query 2:**

In Note 16, the Company disclosed a deferred tax liability ("DTL") of $0.4mil arising from reversal of impairment on intangible asset of $1.75mil.

a. Please disclose how the DTL was computed.

Company's Response:

The Company had recognized certain intangible assets valued at US$ 5.8 million which were acquired through the acquisition of Bharat IT Services Limited ("**Bharat IT**") in India in year 2009. Consequently, a sum of US$ 1.3 million was also recognized as Deferred Tax Liability (DTL) @22.66% of the gross amount of such intangible assets of US$ 5.8 million. These assets were either fully amortised and/or fully impaired in prior years.

During FY 2019 the Company had reversed the impairment in respect of one of the intangible asset, namely the Olivetti Exclusive Marketing Rights. Consequently, DTL of S$0.4 million has also been recognized at the same rate on the gross value of such asset of S$1.75 million.

b. Please provide us with the PBT for Bharat IT for both FY2018 and FY2019 and elaborate on the factors that affected its financial performance for both financial years.

Company's Response:

The PBT of Bharat IT during FY 2019 had been S$1.3 million against S$1.4 million during FY 2018. PBT of Bharat IT for FY 2019 did not include gain of S$1.75 million on account of reversal of impairment of an intangible asset which was taken up at Group level.

Bharat IT's business in both years remained consistent on products and services primarily leveraging the long term relationship and contract for Olivetti products with its vendor, wherein, products are supplied and serviced in large public sector banks and other financial institutions. Bharat IT has also seen consistent growth in its services business.

c. Please identify the intangible asset and disclose its gross carrying amounts including its cost and any accumulated amortisation/impairment as at 31 December 2018 and 31 December 2019. Please explain why the remaining estimated useful life has increased from 5 years to 10 years and whether there was any other factors that contributed to the reversal of impairment. Please also explain how the impairment figure of $1.75mil was derived.

For ease of understanding, we have divided the query in 3 parts.

C-1 Please identify the intangible asset and disclose its gross carrying amounts including its cost and any accumulated amortisation/impairment as at 31 December 2018 and 31 December 2019.

Company's Response:

As explained in (a) above, the Company had recognized certain intangible assets including the Olivetti Exclusive Marketing Rights which was originally valued at US$ 3.8 million with an estimated life of 15 years. These assets were either fully amortised and/or fully impaired in prior years.

The tables below reflect the gross amount at the time of acquisition, amortization/impairment thereafter and remaining value as at 31 December 2018.

Intangible Assets acquired thru acquisition of Bharat IT Services Limited (Values in USD)	Gross Amount	Amortisation		Impairment in FY2012	Amortisation		Impairment in FY2014	Value as at 31Dec2014	Value as at 31Dec2018
		FY 2011	FY 2012		FY 2013	FY 2014			
- Customer contract	11,706	(11,706)		-			-	-	-
- Customer relationship	1,890,504	(315,084)	(295,391)	(1,280,028)			-	-	-
- Olivetti Exclusive Marketing Rights	3,841,455	(341,463)	(320,121)	(2,325,649)	(103,195)	(68,796)	(682,231)	-	-
- Leasehold Benefits	28,182	(28,182)		-			-	-	-
TOTAL	**5,771,848**	**(696,436)**	**(615,513)**	**(3,605,678)**	**(103,195)**	**(68,796)**	**(682,231)**	**-**	**-**

DTL (Values in USD)	Gross Amount	Amortisation		Impairment in FY2012	Amortisation		Impairment in FY2014	Value as at 31Dec2014	Value as at 31Dec2018
		FY 2011	FY 2012		FY 2013	FY 2014			
- Customer contract	2,653	(2,653)	-	-	-	-	-	-	-
- Customer relationship	428,388	(71,398)	(66,936)	(290,054)	-	-	-	-	-
- Olivetti Exclusive Marketing Rights	870,474	(77,375)	(72,539)	(526,992)	(23,384)	(15,589)	(154,594)	-	-
- Leasehold Benefits	6,386	(6,386)	-	-	-	-	-	-	-
TOTAL	**1,307,901**	**(157,812)**	**(139,475)**	**(817,047)**	**(23,384)**	**(15,589)**	**(154,594)**	**-**	**-**

Accordingly, the value of these assets as at 31st December 2018 had been nil. Consequent upon the reversal of impairment, the value of these assets as at 31 December 2019 had been S$1.74 million, after amortization of S$0.01 million for the month of December 2019.

The tables below reflect gross amount consequent to reversal of impairment in respect of Olivetti Exclusive Marketing Rights as at 31 December 2019.

Intangible Assets acquired thru acquisition of Bharat IT Services Limited (Values in USD)	Gross Amount	Amortisation as if no impairment carried out in past	Value as at 30Nov2019	Equivalent Value as at 30Nov2019 (SGD)	Amortisation during Dec 2019 (SGD)	Value as at 31Dec2019 (SGD)
		Dec 2009-Nov 2019				
- Olivetti Exclusive Marketing Rights	3,841,455	(2,560,970)	1,280,485	1,750,423	(14,587)	1,735,836

DTL (Values in USD)	Gross Amount	Amortisation as if no impairment carried out in past	Value as at 30Nov2019	Equivalent Value as at 30Nov2019 (SGD)	Amortisation during Dec 2019 (SGD)	Value as at 31Dec2019 (SGD)
		Dec 2009-Nov 2019				
- Olivetti Exclusive Marketing Rights	870,474	(580,316)	290,158	396,646	(3,305)	393,340

C-2 Please explain why the remaining estimated useful life has increased from 5 years to 10 years and whether there was any other factors that contributed to the reversal of impairment.

Company's Response:

As stated above, the estimated life of the Olivetti Exclusive Marketing Rights was initially estimated as 15 years at the time of acquisition of Bharat IT in 2009. Bharat IT has been associated with Olivetti for almost 3 decades to date. The Olivetti Banking and Postal Business has been the principal's mainstay in the global markets. Bharat IT pioneered this concept with the Indian banks 30 years ago to enable the banks to provide legible computer printed passbooks to their customers. The concept has become enduring and the banks continue to provide this facility to their customers. Olivetti has made considerable investments in R&D in the Banking and Postal Business with the express intention to build their global revenues around these products.

In light of the very long association (which is still ongoing) and the past performance of Olivetti, the Company anticipates a stable trading relationship with Olivetti and accordingly it has reassessed the estimated life to 20 years instead of 15 years, thereby increasing the remaining estimated life from 5 years to 10 years.

The Company submits that the increase in the remaining estimated useful life from 5 years to 10 years has not impacted the reversal of impairment. The contributing factor for the reversal of impairment is the continuing long term relationship for Olivetti products with its vendors which has created business for Bharat IT for many years. The Company is of the view that this relationship/contract will continue to create value for Bharat IT for at least another 10 years.

C-3 Please also explain how the impairment figure of $1.75mil was derived.

Company's Response:

Intangible assets recognized at the time of acquisition of Bharat IT Services Limited in 2009, also included one asset named as Olivetti Exclusive Marketing Rights originally valued at US$ 3.8 million with an estimated life of 15 years. This asset was fully amortised/ impaired in prior years. Apart from amortization of US$0.8 million, the asset was subjected to impairment value of US$ 3.0 million.

In line with SFRS(I) 1-36, consequent to the review of the performance of Bharat IT and value in use of Bharat IT and the intangible asset, impairment of the intangible asset has been reversed to the extent of S$1.75 million during Q4 2019/FY 2019. S$1.75 million represents the remaining value of such intangible asset as of 30th November 2019 had there not been any past impairment and the amortization carried out in its normal course.

Management has also relied upon a valuation report by external professional valuers who valued Olivetti Exclusive Marketing Rights for INR157.7 million (S$3.0 million) as at 30 November 2019.

3. **SGX-ST's Query 3:**

In Note 28, the Company disclosed an increase in prepayment to $4,059k from $3,081k was mainly due to prepayments made to Cavu group. Please provide the breakdown and explain the reasons for the increase.

Company's Response:

The prepayment amount as of 31st December 2019 mainly comprised of S$1.9 million (31Dec'18: S$1.1 million) and S$1.9 million (31Dec'18: S$1.8 million), respectively, in the case of Cavu group and Affinity group. In both cases, the prepayments are primarily made for procurement of materials and services.

The increase of S$0.8 million in respect of the Cavu group was primarily on account of payment for materials and services meant for a government customer with an order of S$2.3 million, wherein the billing is to be raised in accordance with milestones defined in the order. Consequently the commensurate amount is credited from the prepayment account progressively in conjunction with the billing to the customer. Balance amount in prepayment account on 31st December 2019 in respect of this customer had been S$0.6 million. Similarly, to service the order from another government customer, there has been increase of S$0.2 million in prepayments during FY 2019.

4. **SGX-ST's Query 4:**

In the consolidated statement of cash flows, it is noted that the "Net cash (used in) generated from operating activities" is at a material deficit of $5.7mil in FY2019 compared to a surplus of $6.4mil in FY2018. Please provide an explanation for the significant variance. Please include the reason why year-end inventory has increased substantially despite significant write-offs noted consecutively in both FY2018 and FY2019.

Company's Response:

Net cash of S$5.7 million used in operating activities during FY 2019 mainly comprised of increase in inventories, with a larger portion used by the Affinity group in the distribution of operator products and services. The Group has been successful not only in securing expansion of its existing business territories but also getting newer business territories during Q3/Q4 2019. Affinity group achieved 21.9% growth in its revenue during Q4 2019 against Q4 2018. The write-offs/provisions for stock obsolescence were also primarily related to the Affinity group.

The Group's revenue has increased by15% during Q4 2019 against Q4 2018. Its average cash to cash cycle has been 19 days during FY2019 against 16 days during FY2018 (FY 2017 – 19 days). In case of Cavu and Bharat IT, both engaged in ICT distribution and managed services, the inventories have increased by S$2.3 million and S$.5 million respectively. Revenue of Cavu group has increased by 25.2% during FY 2019.

5. **SGX-ST's Query 5:**

In Paragraph 9, the Company disclosed that there was no forecast or prospect statement disclosed to shareholders previously. Forecasts and prospect statements include both financial projections as well as qualitative comments on future plans. This includes commentary or discussions under Paragraph 10 in the Company's 3rd quarter results announcement. Where deviation is noted, please explain the reasons for the deviations. Where there is no deviation, provide an explicit statement in the announcement.

Company's Response:

On paragraph 9: The Company has a policy of not making any forecast or prospective statements as before. Accordingly, no forecast was made by the company in Q3 2019.

On paragraph 10): The Company announced in paragraph 10 of the Q4 2019 results about its observations of industry trends in the relevant markets. In Q4 2019, the Company has articulated that apart from observations shared in the same in paragraph 10, the Group has not observed any other noticeable trends in the industry it is in. The Company is of the view that there are no deviations from its observations of industry trends as discussed under paragraph 10 of the Company's Q3 results announcement.

6. **SGX-ST's Query 6:**

In Paragraph 12, the Company disclosed that no dividend has been recommended for the current financial period as the Group intends to conserve cash for future investments. Please elaborate further and justify the Group's intention of conserving cash for future investments.

Company's Response:

The Group has not raised any money from shareholders after 2011, however it has paid back cash in the form of capital reduction and share buyback. The group continues to be conservative in respect of borrowings. The company is conserving cash for supporting increase in revenues both from existing business and new business streams.

Shareholders of the Company are advised to refrain from taking any action in respect of their shares in the Company which may be prejudicial to their interests, and to exercise caution when dealing in the shares of the Company.

BY ORDER OF THE BOARD

Maneesh Tripathi
Executive Chairman and Group Chief Executive Officer
Sevak Limited

5 March 2020