

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF MERCURIUS CAPITAL INVESTMENT LIMITED

Report on the Audit of the Financial Statements

Disclaimer of Opinion

We were engaged to audit the 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 2022, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 72 to 146.

We do not express an opinion on the accompanying consolidated financial statements of the Group or the statement of financial position of the Company. Because of the significance of the matters described in the *Bases 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.

Bases for Disclaimer of Opinion

1. Going concern

As disclosed in Note 4 to the financial statements, the Group incurred a net loss of \$3.5 million during the financial year ended 31 December 2022 and, as of that date, the Group and the Company were in net current liabilities position of \$16.3 million and \$5.5 million respectively.

Included in the Group's current liabilities as at 31 December 2022 are outstanding bank loans, which consist of bank overdrafts, trade credit facilities, and term loan facilities totaling \$7.8 million, which were collectively in breach of loan covenants as of the reporting date. As disclosed in Note 23 to the financial statements, the Group has on 15 February 2023 and 22 March 2023 respectively, received notices of demand from the bank due to late repayment of the bank loans. Accordingly, the bank had demanded for repayment of certain outstanding trade credit facilities, bank overdrafts and term loan, in an aggregate sum of \$0.9 million. These amounts remain unpaid as at the date of our report.

Notwithstanding that the abovementioned matters indicate the existence of material uncertainties which may cast significant doubt on the Group's and the Company's ability to continue as going concerns, the directors of the Company believe that the use of going concern assumption in the preparation of the financial statements for the financial year ended 31 December 2022 is still appropriate, after taking into consideration the following factors:

- A letter of undertaking was obtained from a director of the Company, in which he expressed his commitment not to demand payment for the outstanding payables of \$0.35 million for the next twelve months from the reporting date;

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Bases for Disclaimer of Opinion (Continued)**1. Going concern (Continued)**

- The Group has secured a one-year extension of the maturity date for all outstanding convertible loans (including interest), which amounted to \$4.37 million as at 31 December 2022 (Note 23(b)). The revised maturity dates for these outstanding convertible loans are 13 June 2024, 23 June 2024, and 3 July 2024;
- The Group is planning to divest all of its properties in order to generate cash flows, which will be used for repayment of its outstanding bank loans;
- Subject to approval by the Company's shareholders at the upcoming Annual General Meeting, the salaries and fees of the Board of Directors for the financial year ended 31 December 2022 amounted to \$192,652 will be settled through equity settlement, which will involve the issuance of new ordinary shares in the Company's share capital ("Shares"). In addition, the Company also intends to pay its Executive Chairman and Chief Executive Officer in Shares for the financial year ending 31 December 2023; and
- The Group and the Company are sourcing and evaluating various avenues to secure additional funds, including potential placements of shares and/or convertible loans, with the aim of settling/discharging their current liabilities in the next twelve months from the reporting date.

The ability of the Group and the Company to continue in operational existence in the foreseeable future and to meet their financial obligations as and when they fall due are dependent upon the positive outcome of the measures and assumptions disclosed above which cannot be determined at present. At the date of this report, we are unable to obtain sufficient audit evidence regarding the likely outcome of these measures and assumptions. Therefore, we are not able to form an opinion as to whether the going concern basis of accounting of the accompanying financial statements is appropriate.

2. Opening balance of investment in a joint venture, Grand Bay Hotel Co., Ltd ("Grandbay")

The Group accounts for its investment in a joint venture, Grandbay using the equity method as described in Note 17 to the financial statements. As at 31 December 2022, the Group's carrying amount of the joint venture amounted to \$5.12 million (2021: \$6.48 million) and the Company's investment in a joint venture, Grandbay accounted at cost (less impairment, if any) amounted to \$5.95 million (2021: \$9.26 million).

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Bases for Disclaimer of Opinion (Continued)

2. Opening balance of investment in a joint venture, Grand Bay Hotel Co., Ltd (“Grandbay”) (Continued)

In the prior financial year, we were unable to obtain sufficient appropriate audit evidence and all information and explanations, that we considered necessary to provide us with reasonable assurance about whether the unaudited financial statements of Grandbay, which has been equity accounted for in the consolidated financial statements for the prior financial year ended 31 December 2021, as a whole are free from material misstatements, whether due to fraud or error, in all material respects, in accordance with SFRS(I). Accordingly, we were unable to obtain sufficient appropriate audit evidence on the share of losses of Grand Bay recognised in the consolidated statement of comprehensive income for the financial year ended 31 December 2021 amounted to \$1.12 million and the carrying amount of the investment in Grand Bay amounted to \$6.48 million recognised in the consolidated statement of financial position as at 31 December 2021. We were also unable to perform other alternative procedures to satisfy ourselves with respect to the recoverable amount and resultant impairment, if any, on the carrying amount of the investment in joint venture as at 31 December 2021. As a result of the above, we were unable to determine the adjustments, if any and other information to be made and disclosed respectively in the prior year's financial statements.

The matters mentioned above have been included in our modified opinion in the independent auditor's report on the consolidated financial statements of the Group for the financial year ended 31 December 2021 dated 11 April 2022.

In view of the aforementioned disclaimer opinion on the financial statements for the prior financial year, and we were unable to carry out any alternative audit procedures to obtain sufficient and appropriate audit evidence to determine whether adjustments, if any, are required to be made to the opening balances, and whether there will be possible effects on the comparability of current year's figures with corresponding figures.

3. Limitation of scope on significant subsidiary corporations, Songmart Holdings Sdn. Bhd. and its subsidiary corporations

As disclosed in Note 32 to the financial statements, the Group has on 28 October 2022 (acquisition date), completed the acquisition of Songmart Holdings Sdn. Bhd. and its subsidiary corporations (“Songmart Group”) through issuance and allotment of 200 million shares with the total consideration of \$36 million through three tranches with profit targets. Songmart Group, a Malaysia based grocery business that operates supermarket operations in Johor Bahru and involve in wholesale business in Malaysia and mainly Singapore.

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Bases for Disclaimer of Opinion (Continued)

3. Limitation of scope on significant subsidiary corporations, Songmart Holdings Sdn. Bhd. and its subsidiary corporations (Continued)

The acquisition of Songmart Group is accounted for using the acquisition method in accordance with SFRS(I) 3 *Business Combinations* which requires the recognition of the identifiable assets and liabilities at fair value as at the date of the acquisition with the excess of the purchase consideration over the fair value of the identifiable assets and liabilities as goodwill.

As a result, a provisional goodwill amounted to \$10.57 million was recognised in the consolidated statement of financial position of the Group as at 31 December 2022. In addition, the financial statements of Songmart Group for the financial period from 28 October 2022 to 31 December 2022 were included in the consolidated financial statements of the Group for the financial year ended 31 December 2022.

Due to incomplete accounting records, insufficient information and explanations provided by the management of Songmart Group throughout the audit process, the component auditors have encountered various challenges and difficulties in completing the audit of the consolidated statement of financial position of Songmart Group as at the acquisition date, as well as the consolidated financial statements of Songmart Group as at 31 December 2022 and for the financial period from 28 October 2022 to 31 December 2022. Despite raising this issue to the group management level and their efforts to assist, they were unable to provide viable solution to address the concerns of the component auditors.

In view of the matters described in the preceding paragraphs, we were unable to perform the necessary audit procedures to satisfy ourselves as to the appropriateness, completeness and accuracy of the consolidated financial statements of the Group as at and for the financial year ended 31 December 2022 and neither were we able to perform sufficient alternative audit procedures. Consequently, we were unable to determine the adjustments to the amount and disclosure, if any, which could have significant impact on the consolidated financial statements of the Group as at and for the financial year ended 31 December 2022.

4. Impairment assessment of investment in subsidiary corporations, Songmart Group

As disclosed in Note 16 to the financial statements, the Company has investment in subsidiary corporations in Songmart Group amounted to \$12 million as at 31 December 2022. In the absence of available information, we were unable to obtain sufficient appropriate audit evidence with respect to the recoverable amount and resultant impairment, if any, on the carrying amount of the investment in subsidiary corporations, Songmart Group as at 31 December 2022. We were also unable to perform appropriate alternative audit procedures to determine the effect of adjustments, if any, on the statement of financial position of the Company as at 31 December 2022.

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Bases for Disclaimer of Opinion (Continued)

5. Recognition of financial guarantee as guarantor

The Company acts as one of the guarantors to bank in respect of bank borrowings granted to its subsidiary corporations, Songmart Group, and as at 31 December 2022, these bank borrowings were collectively in breach of loan covenants, which could result in expected credit losses. However, the Company did not assess the expected credit losses and did not recognise for any financial guarantee liability in accordance with SFRS(I) 9 *Financial Instruments* as at the reporting date.

Accordingly, we were unable to obtain sufficient appropriate audit evidence to determine the effect of adjustments, if any, on the financial statements of the Company for the financial year ended 31 December 2022 and neither were we able to perform sufficient alternative audit procedures.

Because of the significance of the uncertainties and potential adjustments arising from the matters described above, we are unable to express an opinion on the accompanying financial statements.

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 Singapore Companies Act 1967 (the "Act") and Singapore Financial Reporting Standards (International) ("SFRS(I)s"), 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 Group's financial statements in accordance with Singapore Standards on Auditing and to issue an auditor's report. However, because of the matters described in the Bases 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.

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Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

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 Bases 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 corporation incorporated in Singapore of which we are the auditors 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 Lim Hui Ki.

CLA Global TS Public Accounting Corporation
(Formerly known as Nexia TS Public Accounting Corporation)
Public Accountants and Chartered Accountants

Singapore

13 April 2023