EPICENTRE HOLDINGS LIMITED
(Incorporated in the Republic of Singapore)
(Company Registration No.: 200202930G)

UPDATE ON THE INDEPENDENT REVIEW BY DELOITTE & TOUCHE LLP

The Board of Directors (the "**Board**") of Epicentre Holdings Limited (the "**Company**" and together with its subsidiaries, the "**Group**") refers to the Company's announcement dated 9 October 2017 ("**Announcement**") and 11 October 2018.

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

Deloitte & Touche LLP has completed its independent review of the Issues and the Board wishes to update shareholders on the key findings. In this regard, the executive summary of the findings is annexed to this announcement.

The Board would further like to clarify that the findings from this independent review are **not** related to the Company's voluntary suspension of trading announced earlier on 30 May 2019.

The Company has since taken steps to improve its internal controls and will keep shareholders updated on this via a further announcement in due course.

Responsibility Statement

The Independent Directors of the Company collectively and individually accept full responsibility for the accuracy of the information given in this announcement and confirm after making all reasonable enquiries (save for any consultation with Executive Chairman and Acting Chief Executive Officer of the Company, who remains uncontactable), that to the best of their knowledge and belief, this announcement constitutes full and true disclosure of all material facts about the trading, the Company and its subsidiaries, and the Directors are not aware of any facts the omission of which would make any statement in this announcement misleading. Where information in the announcement has been extracted from published or otherwise publicly available sources or obtained from a named source, the sole responsibility of the Directors has been to ensure that such information has been accurately and correctly extracted from those sources and/or reproduced in this announcement in its proper form and context.

Trading Caution

Shareholders of the Company are advised to exercise caution when dealing in the shares of the Company ("**Shares**"), and to refrain from taking any action in respect of their Shares which may be prejudicial to their interests. In the event of any doubt, shareholders should consult their stockbrokers, bank managers, solicitors, accountants or other professional advisers.

By Order of the Board

LAI CHOONG HON
INDEPENDENT DIRECTOR

30 May 2019

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 SGX-ST and the SGX-ST assumes no responsibility for the contents of this document, including the correctness of any of the statements or opinions made or reports contained in this document.

The contact person for the Sponsor is Mr Bernard Lui, Telephone: +65 6389300, Email: Bernard.lui@morganlewis.com.

2. Executive Summary

2.1 On 9th October 2017, Epicentre Holdings Ltd ("**EHL**") announced that its auditors had issued an Audit Report containing disclaimers of opinion in respect of three matters in EHL's audited financial statements for the period ended 30th June 2017 in respect of

- "Purported transactions relating to consultancy services";
- "Purported advances to and refunds from a supplier";
- "Purported transactions relating to a loan of S$1,760,000"; and
- Internal controls and corporate governance.

The auditors also commented they "*were not provided with sufficient appropriate audit evidence regarding the veracity of the purported transactions*".

2.2 This summary following sets out the key findings from the review undertaken in respect of these issues.

The Consultancy Services Agreements

2.3 3 Consultancy Services Agreements were entered into by EHL and its subsidiaries with the 2 counterparties as follows:

- 1 contract with LaVita (Thailand) Co. Ltd ("**LaVita**") dated 31st December 2016 for a contract value of S$1,400,000 (which was subsequently increased to S$1,450,000 with LaVita's consent) (the "**LaVita CSA**"); and
- 2 contracts with KT Pacific Group Ltd ("**KT**") dated 1st February 2017, for an aggregate contract value of S$2,500,000 (the "**KT CSAs**")

2.4 LaVita is involved in the aesthetic business, and Management advised that it wanted to explore bringing in EHL's retail concept for both EpiCentre shops and Japan IPL to Thailand and potentially other countries. LaVita has also confirmed this verbally and that it is exploring Cambodia following introductions made by KL.

2.5 In 2016, EHL completed a share placement exercise and we understand that 2 Directors of LaVita, Krit Udomprasertkul and Piyamas Udomprasertkul, acquired shares in EHL in their personal capacity in the placement exercise and collectively hold a stake of 5.39% as at 2nd October 2017.

2.6 We have been advised by Management that KT is a conglomerate in Cambodia with interests in multiple industries such as retail and real estate development.

2.7 We understand that Mr. Sy Meng Meng is a Director of KT, and is also the son of the controlling shareholder of KT. Mr. Sy Meng Meng is also a shareholder in EHL, holding a stake of 6.42% as at 2nd October 2017.

2.8 The Consultancy Services Agreements were simple contracts, and had the same scope of work – "*provide retail business consultancy services to assist the Company in implementing certain retail business strategies and to help the management achieve their objectives for the period from…".*

2.9 Both LaVita and KT provided letters of confirmation, dated 30th July 2017 and 22nd September 2017 respectively, to the EHL group entities whom the Consultancy Services Agreements were contracted with to confirm receipt of the services, and to advise the quantum, payment mode and date of the payments made to Epicentre Pte Ltd ("**EPL**") for fees pursuant to the Consultancy Services Agreements.

2.10 The respective letters of confirmation provided for LaVita and KT stated that LaVita and KT had facilitated payments to the bank account of EPL through related companies for the sum of S$1,450,000 and S$800,000 respectively.

2.11 Based on our review of the underlying documents and discussions with Management in respect of this issue, we set out below our key observations:

(a) Controls and Procedures

- Management advised that prior to the take-on of both LaVita and KT, no formal background or Know Your Customers ("**KYC**") checks were performed, as they were the personal contacts of EHL's Executive Chairman, Mr. Kenneth Lim ("**KL**").

- EHL has an existing credit policy that has been in place since September 2014, but which appears to have been prepared for its existing retail business. Whilst this activity was service based, EHL did extend credit to both KT and LaVita but did not follow the detailed credit check procedures.

- EHL was exposed to credit risk and as at 30th June 2018, S$1,700,000 of the total Consultancy Services Agreements value of S$3,950,000 remained unpaid and relates to invoices dated 15th May 2017. This sum is material to EHL.

(b) Limited Scope and Deliverables under the Consultancy Services Agreements

- The Consultancy Services Agreements entered into with both LaVita and KT were simple contracts. The scope of work was a single sentence as stated in Paragraph 2.4. There was no further information in the agreements on either the scope of work to be performed or the deliverables.

- Management advised that the work performed for both LaVita and KT involved work advising on retail concepts across different geographical markets, and also included fees

for introduction of investors and advice on modular construction techniques for the development of a new shopping mall.

(c) Letters of Confirmation from LaVita and KT

- The Letters of Confirmation which confirmed receipt of services and payment of fees were issued on 30th July 2017 (by LaVita, on the letterhead of LaVita) and 22nd September 2017 (by Mr. Sy Meng Meng on behalf of KT which recorded his position as a Director of KT), approximately 4 to 6 months after work on these Consultancy Services Agreements had been completed and invoices issued.

- We requested from Management various information regarding the Consultancy Services Agreements including details of the payments, and the abovementioned Letters of Confirmation from LaVita and KT were part of the documents provided to us. We are not aware of the background of the issuance of the abovementioned Letters of Confirmation from LaVita and KT, but Management has confirmed that these letters were previously provided to the auditors.

(d) Flow of Funds

- EHL has received payments in respect of the Consultancy Services Agreements of S$2,250,000 and the balance S$1,700,000 remains outstanding. However, these payments did not come directly from KT and LaVita, and instead were routed through various intermediaries. We requested for documentary and primary evidence to establish the full flow of funds and such information has not been fully provided as explained below.

- We were provided with confirmation letters issued by LaVita and Mr. Sy Meng Meng on behalf of KT. In the confirmation letter issued by LaVita (which was signed off by Karnsiri Thanaboonchuchai on behalf of LaVita), it was stated that payments were made in two tranches through its "*related companies*" comprising a S$800,000 cheque deposit and a telegraphic transfer of S$650,000 (which Management advised was from Prime Union Inc.). In the confirmation letter from Mr. Sy Meng Meng on behalf of KT, it was represented that the S$800,000 payment was made by a cheque issued by its "*related company*". Representatives of LaVita and KT verbally confirmed this position. We requested for copies of the cheques and documentary evidence of the ownership of Prime Union Inc. Copies of the cheques from the bank were not provided and no documentary evidence of the ownership of Prime Union Inc has been provided, though both KL and LaVita have verbally advised that Prime Union Inc. is owned by the shareholders of LaVita.

- In February 2018, we were provided with 2 further copies of letters of confirmation from United Continental Management Co. Ltd ("**UCM**") by Management (which Management had represented to us is a remittance company in Cambodia), and 2 bank statements.

- In the 2 letters of confirmation issued by UCM, UCM represented that it had received funds of S$1,450,000 and S$800,000 from LaVita and KT respectively. In respect of the S$1,450,000 received from LaVita, UCM represented that S$800,000 was transferred to Broadwell Limited (which in turn issued a cheque for the same amount which was deposited into EPL's bank account), and that it arranged for Prime Union Inc. (which was stated to be an associated company in this letter of confirmation) to transfer the balance S$650,000 via telegraphic transfer to EPL. In respect of the S$800,000 received from KT, UCM represented that the sum was transferred to Broadwell Pte Ltd, which in turn issued a cheque and which was deposited into EPL's bank account.

- Together with the UCM letters of confirmation, a copy of a bank statement for Broadwell Limited and Broadwell Pte Ltd for the month of June 2017 and August 2017 respectively was provided. These bank statements indicated the 2 abovementioned payments of S$800,000 each, and the dates of these outflows corresponded with the dates of receipts of such monies by EPL. We have also been provided with copies of the cheques issued by both Broadwell Limited and Broadwell Pte Ltd to EPL. We understand that Broadwell Limited and Broadwell Pte Ltd are beneficially owned by KL.

- In response to queries on the choice of payment modes by KT and LaVita, Management represented that following the termination of certain banking facilities, it had been generally more difficult for the Company (EHL) to establish new banking relationships. Management stated that they considered it was a more prudent option to receive the funds through KL's private vehicle (i.e. the Broadwell entities) as a conduit, before onward transmission to EHL. Management advised that as it had no knowledge of the quantum, timing and mode of payments from LaVita and KT, in order to ensure collectability and to avoid disputes and issues, Management decided to use the Broadwell entities to facilitate the collections, before transferring the collected monies to EHL.

- We also note there may be inconsistencies in the various letters of confirmation issued by LaVita, KT and UCM. In the letter of confirmation issued by LaVita, it was stated that the payments were made by its "*related companies*". It is not clear what LaVita meant by "*related companies*", as Broadwell Limited (which issued the cheque to EPL) is beneficially owned by KL, and we have not been provided with information that Prime Union Inc. or UCM are related to LaVita.

- Similarly, in the letter of confirmation issued by Mr. Sy Meng Meng on behalf of KT, it was also stated that the payment was made by a cheque issued by KT's "*related company*". In this instance, Broadwell Pte Ltd, which issued the cheque to EPL, is

beneficially owned by KL, and we have not been provided with information that UCM is a related company of KT.

- In summary, the flow of funds is unusual and has not been fully evidenced. We have seen primary documents that support transfers from Prime Union and the Broadwell entities to the EHL group. The payment trail behind these transactions to LaVita and KT has not been evidenced by primary source documents, and instead various written and verbal representations have been provided.

(e) Board Consultation

- The Consultancy Services Agreements were executed on 31st December 2016 and 1st February 2017.

- Management had accounted for the fees of S$3,950,000 as income under the Consultancy Services Agreements in the financial year ended 30th June 2017. We have not seen records of any consultation by Management with the Board of Directors prior to the execution of the Consultancy Services Agreements, nor any Board resolutions.

- KLF stated that KL had briefed the Board and external auditors on the Consultancy Services Agreements during the Audit and Risk Committee ("ARC") meeting held in February 2017. The ARC minutes of that meeting record that "Mr Yeo noted the consultancy fees earned by the company for services provided to third parties from the results announcement and enquired if there was any form of document signed with the third parties. Mr Yeo further enquired if there will be any further consultancy fee to be earned by the company." The ARC minutes also recorded that "it be noted that Management will provide relevant documents in relation to the consultancy services provided and fees earned by the company." Mr Yeo was representing the auditors.

- The ARC informed us that KL had briefly explained the increase in consultancy income in the draft announcement for the six months ended 31 December 2016 but there were no details of the total value of contracts and management was asked to revert with relevant documents.

- The ARC stated that the Board of Directors was only informed of the Consultancy Services Agreements during the Audit & Risk Committee meeting on 29th August 2017.

- Management advised that Board of Directors' approval is required for transactions that exceed S$500,000 involving foreign counterparties and services agreements outside the normal course of business. Approval from the Board of Directors was not obtained and hence management breached its internal policy.

- The services were provided to KT in the first half of 2017 and invoiced in May 2017. Management had previously represented that the balance outstanding receivable from

KT of S$1,700,000 would be paid by end February 2018. This amount remained unpaid as at 30th June 2018 and is recorded as a Receivable amount, and this represents a material exposure to EHL. This unpaid debtor represents a credit risk and financial risk to EHL, as this receivable represented approximately 19% of EHL's NAV of S$8.99 million as at 30th June 2017 and approximately 25% of EHL's NAV of S$6.84 million as at 31st December 2017.

- These transactions and the outstanding receivable are material to EHL given its reported pre-tax profits of S$0.76 million and Net Assets Value ("**NAV**") of S$8.99 million for the financial year ended 30th June 2017. Without the contribution from the Consultancy Services Agreements, EHL would have recorded a loss.

- We were informed that on 8 October 2018 the company entered into an agreement to sell the outstanding receivable of S$1.7million for consideration of S$1.65million, which we were informed was received on 9 October 2018.

- No announcements were made at the dates of signing the Consultancy Services Agreements. EHL announced its unaudited results for the year ended 30th June 2017 on 29th August 2017, which included the benefits of these Consultancy Services Agreements as S$3,950,000 of income was recorded as Other Operating Income and contributed to the Net Profit of S$297,000. In the same announcement it was also disclosed that Management was "*in discussion with the auditor on the recognition of consultancy income of $3.9 million and the recoverability of advances to suppliers of $2.3 million".* We have been advised by the Board of Directors that although management had indicated to the Audit and Risk Committee that they would provide the auditor with the necessary supporting documents, but due to the fact that at the time of the announcement, no satisfactory supporting documents were provided, the Audit and Risk Committee had added this sentence to flag out the uncertainly of the announced results. There were no further specifics disclosed in the announcement in respect of the Consultancy Services Agreements.

- Management should have discussed with the Board of Directors and Catalist Sponsor whether disclosure of these material contracts was appropriate at the contract dates.

2.12 There have clearly been governance and internal control issues in respect of these Consultancy Services Agreements:

- EHL's core business was in operating retail outlets of IT products. Providing consultancy advisory to clients was not part of the ordinary business of EHL;

- We have seen no records of consultation by Management with the Board of Directors prior to the execution of the Consultancy Services Agreements, and there were no Board resolutions passed and this constituted non-compliance with its internal policies. The materiality of these agreements and the breach of internal controls suggests that, in this regard, the Company did not have a robust and effective system of internal controls and

therefore may not have met the requirements of Listing Rule 719, which requires the company to have a robust and effective system of internal controls, addressing financial, operational and compliance risks. The Audit and Risk Committee is of the view that adequate controls have been implemented but the controls were disregarded and overridden by management.

- Given the materiality of the Consultancy Services Agreements, EHL should have announced these agreements upon execution in line with the Catalist disclosure rules. The failure to announce could potentially amount to a breach of Listing Rule 703, concerning the failure to timely announce the acquisition of a significant contract;

- The flow of funds is unusual and has not been fully evidenced in terms of primary documents. During the course of our review, we had requested for the relevant primary and source documents, but we were not provided with all that were requested despite repeated requests being made to Management; and

- Management should review and enhance its policies on credit and material transactions, and ensure adherence to these policies.

The Advances to the PRC Supplier

2.13 Management advised that historically, accessories were supplied through two procurement agents in Singapore, who would source products ordered by EHL through PRC contract manufacturers. Management decided to explore improving margins on these accessories sales by placing these orders directly with contract manufacturers in China i.e. by-passing the procurement agents.

2.14 On 22nd November 2016, EPL entered into a supply agreement with Shenzhen Blueway Technologies Co. Ltd ("**Shenzhen Blueway**") (the "**Supply Agreement**"). The original contract value was for S$5,330,000, and a discount of S$888,000 was to be granted if an advance payment of S$4,442,000 (the "**Advance**") was paid by EPL.

2.15 We have been advised by Management that there was no formal background checks on Shenzhen Blueway. During our review, Khoo Lay Fen ("**KLF**"), the Finance Controller of EHL, represented to us that Management took comfort with Shenzhen Blueway as this was an existing contact of KL, and KL had provided the Performance Guarantee. Management also stated that its representatives did visit the factory of Shenzhen Blueway to "*verify the existence of the factory, to understand their products and facilities and subsequently to examine the quality of the products*".

2.16 Under the Supply Agreement, the Advance was to be paid into 2 escrow agents as follows – S$2,100,000 into Eastco Corporation ("**Eastco**"), an Anguilla incorporated company which is beneficially owned by Leow Kok Meng ("**Leow**") (who is a shareholder of EHL), and S$2,342,000 into Broadwell Limited ("**Broadwell**"), a British Virgin Islands incorporated company

beneficially owned by KL. The Advance was fully paid by EPL in between November 2016 and January 2017.

2.17 We were provided with a copy of a Performance Guarantee that was issued by Eastco, Broadwell, Leow and KL for the benefit of EPL on 22nd November 2016. The Performance Guarantee was intended to provide a guarantee to EPL for Shenzhen Blueway's ability to perform under the Supply Agreement by Broadwell, Eastco, Leow and KL, and the details of the Advance to be paid by EPL.

2.18 Funds aggregating S$4,442,000 were disbursed by EPL to Eastco (S$2,100,000) and Broadwell (S$2,342,000) between 29th November 2016 and 4th January 2017. We were advised by Management that Eastco and Broadwell thereafter disbursed the funds received to Shenzhen Blueway. The Supply Agreement was subsequently varied in January 2017 due to the loss of Apple Reseller Status for the Malaysia retail outlets, as well as due to quality issues of samples being provided. The Supply Agreement was reduced to S$2,342,000, and a refund of S$2,100,000 was received between January and March 2017.

2.19 We have been advised by Management that the balance amount of S$2,342,000 of the Advance was disbursed by Broadwell to Shenzhen Blueway.

2.20 We have been advised by Management that, in December 2017, they have requested for a refund of the sum of S$2,342,000 from Shenzhen Blueway.

2.21 Based on our review of the underlying documents and discussions with Management in respect of this issue, we set out below our key findings:

(a) Due Diligence on Shenzhen Blueway

- Management represented that that their representatives had visited the factory of Shenzhen Blueway as part of their internal due diligence process but no formal background checks were performed.
- However, we note that there were no alternative quotes obtained for comparison from other suppliers. This would have been more prudent for comparison.

(b) Terms of the Supply Agreement

- The Supply Agreement does not contain details of product offerings, or a listing of the products and prices, and there are no details of the validity period or maturity.
- The terms of the Supply Agreement including the escrow arrangement were not in accordance with EHL's typical purchasing terms for all group entities.

(c) The Performance Guarantee & Escrow Arrangement

- The provision of the Performance Guarantee and the payment of the Advance to the same parties as escrow agents was not in accordance with normal trade terms entered

into by EHL and was unusual. Management stated the view that the arrangements were intended to be safeguards in dealing with a new supplier.

- The Performance Guarantee does not provide any commercial benefits for Leow or KL, yet under the Performance Guarantee they exposed themselves to the risk of non-performance by Shenzhen Blueway.

(d) Flow of Funds

- We have sighted evidence of the payment of S$4,442,000 by EHL and the receipt of the S$2,100,000 that was subsequently refunded to EHL. We have not seen evidence of the onward remittance to Shenzhen Blueway, but Shenzhen Blueway did provide a written representation that it had received two tranches of payment, comprising SS2,342,000 from Broadwell and S$2,100,000 from Eastco.

- We have not been provided, however, with documents evidencing the source of the refunds aggregating S$2,100,000 which were represented to us to be from Eastco.

(e) Board Consultation & Disclosure

- As at 31st December 2016, S$3,842,000 of the Advance had been disbursed, which represented 70.0% of EHL's NAV as at 31st December 2016. In January 2017 further Advance was made which resulted in a total Advance of S$4,442,000 being disbursed by EHL in January 2017. S$2,100,000 of the Advance was subsequently refunded to EHL, with the balance of S$2,342,000 remaining outstanding. Management had grouped the S$3,842,000 of the Advance together with other amounts under the classification of "Other Receivable" in the unaudited financial statements as at 31st December 2016, and did not specifically highlight this balance and the Supply Agreement to the Audit & Risk Committee. The Board of Directors have advised that they were only made aware of the transaction during the meeting with the auditors on 29th August 2017.

- The amount of S$2,342,000 has been classified as an "Other Receivable" in the balance sheet of EHL as at 30th June 2017, which represents 26.1% of EHL's NAV as at 30th June 2017.

- It has been more than 12 months since the Advance was fully disbursed in January 2017, and to-date no products have been received. As a result EHL has lost the use of these funds for the period since disbursement. Management represented that the amount of S$2,342,000 has been repaid. We were provided with a copy of a cheque dated 28 September 2018 from Broadwell Pte Ltd to EPL but no further documents were provided that evidence the source of these funds.

- Management suggested that the concept of purchasing directly from a China supplier may have been disclosed to the Board of Directors, but detailed terms were not. The company has a policy that requires the approval from the Board of Directors for all transactions exceeding S$1 million. In this instance, we understand that Management

had considered the Supply Agreement to be part of the ordinary course of business, and hence did not seek approval from the Board of Directors. However this constitutes a breach of internal policy. We were advised that Management had grouped the S$3,842,000 of the Advance together with other amounts under the classification of "Other Receivable" in the unaudited financial statements as at 31st December 2016, and did not specifically highlight this balance and the Supply Agreement to the Audit & Risk Committee. We understand that the Board of Directors were not aware of the terms of the Advance and the escrow arrangement. We have been advised by the Board of Directors that they were only made aware of the terms of the Supply Agreement during the Audit and Risk Committee meeting with the auditors on 29th August 2017.

- Broadwell is beneficially owned by KL and the Board of Directors should consult with the Catalist Sponsor on whether there are any disclosure implications.

2.22 There have clearly been governance issues and internal control issues in respect of the Supply Agreement and the Performance Guarantee:

- EHL's core business was in operating retail outlets of IT products. Whilst the Supply Agreement was intended to support this business, the conduct of this Supply Agreement was irregular and unusual given that funds were transmitted by EHL via its Chairman (KL) and a shareholder in 2016 and 2017.

- Management should have disclosed to the Board of Directors the terms of the Supply Agreement and the involvement of KL at the time when the Supply Agreement and Performance Guarantee were established and funds were remitted. There should also have been a discussion with the Catalist Sponsor on whether this constituted an Interested Person Transaction, and if the appropriate disclosure should have been made. The failure to obtain the approval of the Board of Directors for the transaction was a breach of internal policy and controls and suggests that, in this regard, the Company did not have a robust and effective system of internal controls and therefore may not have met the requirements of Listing Rule 719, which requires the company to have a robust and effective system of internal control, addressing financial, operational and compliance risks. The Audit and Risk Committee is of the view that adequate controls have been implemented but the controls were disregarded and overridden by management.

- Management should set up internal procedures and guidelines on provision of advances to suppliers.

The S$1.76 million Loan from a Company Owned by a Shareholder of the Company

2.23 Management advised that EHL does not enjoy any credit terms from APPLE. All products are committed and procured on a payment in advance basis. We were advised by Management

that EHL faced liquidity pressure during the period leading up to the iPhone 7 launch around September – October 2016 when significant funds were required to meet purchase obligations with Apple.

2.24 Management advised that in order to meet these payment obligations to APPLE, EHL took on bridging loans from various parties to cover funding gaps during that period, one of which was for a sum of S$1,760,000 from Encore Investment Group Ltd ("**Encore**") on 7th September 2016 (the "**Encore Loan**") with a contracted interest rate of 24% p.a..

2.25 We have been advised by Management that Encore is beneficially owned by Wong Kum Yong ("**Wong**"). It is unclear to us if Encore is wholly owned by Wong. Wong holds a stake of 8.03% in EHL as at 2nd October 2017.

2.26 We were provided with copies of bank statements, where the word "Encore" had been handwritten on certain deposits received. Save for copies of bank statements, we do not have further information on the source of funds received from Encore / the lender.

2.27 On 27th October 2016, EPL entered into a novation agreement with Encore and KL to novate the Encore Loan to KL (an amount of S$1,360,000 at the date of the execution of the novation agreement). On the same day, EPL entered into an amended and restated loan agreement (the "**Amended Loan Agreement**") with KL. The only amendment between the Amended Loan Agreement with the Encore Loan agreement is that the loan was now interest free., as KL planned to remove the interest burden of these high yield loans from EPL (and EHL). In this regard, whilst the novation of the loan to KL was an Interested Person Transaction, the value at risk (representing the interest due to KL arising from the loan novated to KL) was zero and there was thus no requirement for an announcement to be made.

2.28 We have been advised by Management that the loan was reduced to S$310,000 at 31st December 2016 but that KL had subsequently provided further loans to EHL, and the aggregate net outstanding currently due to KL is approximately S$1.28 million.

2.29 We highlight that notwithstanding the novation of the loan by Encore to KL, in EPL's books it continued for a period thereafter to be classified as a loan by Encore post novation.

2.30 Based on our review of the underlying documents and discussions with Management in respect of this issue, we set out below our key findings:

- We understand that concurrent with the Encore Loan, there were other high coupon bridging loans that were arranged in September 2016;
- We understand that Management advised that they had exhausted all loan options and had to rely on these high coupon bridging loans;
- Management has advised that prior to the execution of the Encore Loan and at the time of the subsequent novation to KL and the Amended Loan Agreement, there had been no formal consultation with the Board of Directors. Approval by the Board of Directors is

required for loan amounts / transactions in excess of S$1 million, and approval had not been sought by Management for the Encore Loan. This amounts to a breach of internal policy and Management has advised that prior to the execution of the Encore Loan and at the time of the subsequent novation to KL and the Amended Loan Agreement, there had been no formal consultation with the Board of Directors. Approval by the Board of Directors is required for loan amounts / transactions in excess of S$1 million, and approval had not been sought by Management for the Encore Loan. This amounts to a breach of internal policy and suggests that, in this regard, the Company did not have a robust and effective system of internal controls and therefore may not have met the requirements of Listing Rule 719, which requires the company to have a robust and effective system of internal controls addressing financial, operational and compliance risks. The Audit and Risk Committee is of the view that adequate controls have been implemented but the controls were disregarded and overridden by management.

- Management should have disclosed the Encore Loan and the novation to the Board of Directors and the novation should have been discussed with the Catalist Sponsor on whether this constituted an Interested Person Transaction;

- Given that the novated loan to KL was at zero interest i.e. no value at risk, and there would have been no regulatory obligations for such disclosure by EHL. Notwithstanding this, it would have been good practice to disclose such a loan upon novation;

- We have not seen disclosure of the loan from KL nor subsequently the payments of the loan from KL in either the results announcements for the period ending 31st December 2016 or 30th June 2017 (i.e. the results announcements on 10th February 2017 and 29th August 2017 respectively, before the announcement of the audit disclaimer on 9th October 2017); and

- Management should review and re-establish, if relevant, internal procedures and guidelines on drawdown of future loans and financing.

Summary of Transactions Reviewed and Financial Impact of These Transactions

2.31 We set out in the table below a summary of the transactions reviewed, as well as the financial impact to EHL, arising from these transactions.

Date	Event	Category	Cashflow Impact			BS Impact	P&L Impact
			Cash In (S$)	Cash Out (S$)	Net (S$)		
Sep 2016	*S$1,760,000 loan received from Encore*	Loan of S$1.76M	1,760,000	-	1,760,000	Cash increases by S$1,760,000. Borrowings increases by S$1,760,000	-
7th Oct 2016	*S$400,000 payment made to Encore*	Loan of S$1.76M	-	(400,000)	1,360,000	Cash decreases by S$400,000. Borrowings decreases by S$400,000	-
27th Oct 2016	*Loan novated to KL*	Loan of S$1.76M	-	-	-	Identity of creditor changes	-
Oct-Dec 2016	*S$1,050,000 payment made to Broadwell*	Loan of S$1.76M	-	(1,050,000)	310,000	Cash decreases by S$1,050,000. Borrowings decrease by S$1,050,000	-

Date	Event	Category	Cashflow Impact			BS Impact	P&L Impact
			Cash In (S$)	Cash Out (S$)	Net (S$)		
22nd Nov 2016	*EPL enters into Supply Agreement with Shenzhen Blueway*	Supply Agreement	-	-	-	-	-
Nov / Dec 16	*Advance of S$3,842,000 paid by EHL*	Supply Agreement	-	(3,842,000)	(3,532,000)	Cash reduces by S$3,842,000, Other Receivables increases by S$3,842,000	-
31 Dec 2016	*EHL enters into CSA entered with LaVita*	Consultancy Services Agreements	-	-	-	Receivables increases by S$1,400,000	Other income and profit of S$1,400,000 recognised
Accumulative Net Impact as at 31 December 2016					(3,532,000)	Cash reduced by S$3,532,000, Borrowings increased by S$310,000, Receivables increases by S$5,242,000	Other income S$1,400,000 recognised

Date	Event	Category	Cashflow Impact			BS Impact	P&L Impact
			Cash In (S$)	Cash Out (S$)	Net (S$)		
3 Jan 2017	*EHL issues invoice of S$1,450,000 to LaVita*	Consultancy Services Agreements	-	-	-	-	Further other income of S$50,000 recognised
4th January 2017	*Advance of S$600,000 paid by EHL*	Supply Agreement	-	(600,000)	(4,132,000)	Cash reduces by S$600,000, Other Receivables increases by S$600,000	-
10th February 2017	*EHL announces the unaudited half year results as at 31 December 2016.* • *The Advance of S$3,842,000 disbursed as at 31st December 2016 was booked as Balance Sheet item under "Other Receivable".* • *As at 31st December 2016 borrowings increased to S$9.6M from S$4.6M as at 30th June 2016* • *There were no disclosures on the breakdown of these loans, or if any of these related to loans from shareholders*						
Jan – Mar 17	*Refund of S$2,100,000 of Advance paid received by EPL*	Supply Agreement	2,100,000	-	(2,032,000)	Cash increases by S$2,100,000, Other Receivables decreases by S$2,100,000	-

Date	Event	Category	Cashflow Impact			BS Impact	P&L Impact
			Cash In (S$)	Cash Out (S$)	Net (S$)		
1st Feb 2017	*ESPL and ELPL enters into CSAs with KT Pacific*	Consultancy Services Agreements	-	-	-	-	-
15th May 2017	*ESPL issues invoice of S$1,100,000 to KT Pacific* *ELPL issues invoice of S$1,400,000 to KT Pacific*	Consultancy Services Agreements	-	-	-	AR increases by S$2,500,000	Other Income of S$2,500,000
29th, 30th June 2017	*EPL receives S$1,450,000 (from LaVita)*	Consultancy Services Agreements	1,450,000	-	(582,000)	Cash increases by S$1,450,000, AR decreases to S$2,500,000	-
Accumulative Net Impact as at 30 June 2017					(582,000)	Cash decreased by S$582,000, receivables increased by S$4,842,000	Other income increased by S$3,950,000
3rd Aug 2017	*EPL receives S$800,000 (from KT Pacific)*	Consultancy Services Agreements	800,000	-	218,000	Cash increases by S$800,000, AR	-

Date	Event	Category	Cashflow Impact			BS Impact	P&L Impact
			Cash In (S$)	Cash Out (S$)	Net (S$)		
						decreases to S$1,700,000	
29th Aug 2017	***EHL announces unaudited full year results as at 30 June 2017 [which is the first period in which the CSA transactions are accounted for]*** • ***S$3,950,000 of income from CSAs was recognized as a Profit and Loss Account item under "Other Income", of which S$2,250,000 have been received in cash.*** • ***The balance uncollected S$1,700,000 of CSA income was booked as Balance Sheet item under "Other Receivables".*** • ***The balance Advance of S$2,342,000 was booked as Balance Sheet item under "Other Receivable".*** • ***S$310,000 of balance loan due to KL (post novation from Encore) would have been recorded under "Borrowings"*** ***We note that in the said announcement it was disclosed that there were "<u>no Interested Person Transactions during the financial year which exceeds $100,000</u>".***						
28th Sep 2018	***EPL receives S$2,342,000 (from Broadwell Pte Ltd)***	**Supply Agreement**	**2,342,000**	**-**	**2,560,000**	***Cash increases by S$2,342,000, Other Receivables decreases by S$2,342,000***	**-**

Date	Event	Category	Cashflow Impact			BS Impact	P&L Impact
			Cash In (S$)	Cash Out (S$)	Net (S$)		
9th Oct 2018	*EPL receives S$1,650,000*	*Consultancy Services Agreements*	1,650,000	-	1,650,000	*Cash increases by S$1,650,000, AR decreases by S$1,700,000*	Loss on AR recovery of S$50,000
Accumulative Net Impact at 9 Oct 2018					4,210,000	*Cash increased by S$4,210,00, Borrowings maintained at S$310,000*	Net income of S$3,900,000