

## **MERCURIUS CAPITAL INVESTMENT LIMITED**

(Incorporated in Singapore)

(Company Registration No. 198200473E)

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### **RESPONSE TO QUESTIONS RAISED BY THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE) (“SIAS”) IN RESPECT OF THE COMPANY’S ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2020**

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The Board of Directors (the “**Board**”) of Mercurius Capital Investment Limited (the “**Company**” and together with its subsidiaries, the “**Group**”) wishes to respond to the following questions raised by SIAS in respect of its annual report for the financial year ended 31 December 2020 (the “**Annual Report**”) as follows:

**Q1.** On 8 April 2021, the company announced that it has entered into a legally binding termsheet with certain vendors for the acquisition of groceries business in Malaysia.

The target group is principally engaged in the business of trading of foodstuff, groceries, sundry goods and daily necessities, and the operation of supermarkets and convenience stores in Malaysia.

As shown in the corporate profile on page 1 of the annual report, the group primary activities are property development and property investment. The proposed acquisition is in the business of trading of groceries.

- (i) Would the board, especially the independent directors, help shareholders understand if the proposed investment is outside of the group’s mandate?**

Reply:

The principal activities of the Group are property development, property investment and investment holding. Accordingly, the proposed acquisition is outside the scope of the Group’s current business activities and therefore, the Board intends to convene a general meeting to seek shareholders’ approval for the diversification of the Group’s business in the event the transaction is consummated. Please refer to paragraph 3.4(f) of the announcement 9 April 2020 which states shareholders’ approval as one of the key conditions precedent.

- (ii) Would it significantly change the risk profile of the group?**

Reply:

While this will change the risk profile of the Group, the Company also views it as an opportunity for risk diversification. The Company wishes to highlight that the extent of the significance will be more accurately assessed upon completion of the relevant due diligence and the finalisation of the definitive agreements which will set out the terms of the transaction. The Board and the management will carry out a risk-reward analysis and take steps to mitigate the risks.

- (iii) Would shareholders’ approval be required for this proposed diversification?**

Reply:

As mentioned in the reply to Q1(i), shareholders’ approval will be required for this proposed diversification. Please also refer to paragraph 3.4(f) of the announcement dated 9 April 2021 which states shareholders’ approval as one of the key conditions precedent.

In addition, it was disclosed that the aggregate consideration for the proposed acquisition is \$36 million, to be fully paid by the company by way of an allotment and issue of 200 million new ordinary shares at an agreed issue price of \$0.18 per consideration share in tranches.

**(iv) What is the level of legal and commercial due diligence carried out by management?**

Reply:

A Malaysia lawyer has been engaged to represent the Company to conduct legal due diligence on the target group. Due diligence shall be carried out on, among others, the ownership of the business assets and licences. In respect of the financial due diligence, the target group is required to provide the recent audited financial statements of each of the target group's companies and proforma consolidated financial statements of the target group.

**(v) In addition, what is the level of involvement by the board, especially the independent directors in the proposed acquisition, including the negotiation and the due diligence?**

Reply:

The Board currently consists of 3 independent directors and the executive chairman who is also the CEO of the Company. The independent directors provided guidance to the management in parameters to consider while seeking acquisition targets and new businesses. Accordingly, this has led to the management focusing on the proposed acquisition. The negotiation is carried out by the management of the Company while the independent directors reviewed the scope of the due diligence.

**Q2.** As noted by the executive chairman & CEO in his message to shareholders, the board acknowledges the continued absence of revenue for the group. The group's property development projects at Kempas, Johor Bahru, Malaysia and in Phuket, Thailand continue to face challenges.

**(i) Kempas: What is the total amount invested in the project?** It was further stated that with the over-supply of properties and adverse property market condition in Johor Bahru, coupled with the COVID-19 situation, the company did not pursue this business further when the option agreements expired on 27 February 2020. **Can management clarify if the project will be terminated and the group would not be committing any more resources to the joint venture?**

Reply:

The Kempas project was to be carried out by a wholly-owned subsidiary of the Company in Malaysia, Mercurius Capital Sdn. Bhd. ("**MCSB**") and a 60% owned subsidiary company of MCSB, Mercurius HM Realty Sdn. Bhd. ("**MHMR**").

The Group did not make significant investment in MCSB and MHMR. The paid-up capital of MCSB is 2 Malaysia Ringgit and that of MHMR is 100 Malaysia Ringgit. The Company had incurred total expenses of S\$24,000 relating to the set up of the business operations in MCSB and MHMR, mainly in respect of office expenses and statutory compliance matters.

As stated in the Annual Report, the joint venture to develop a plot of land measuring approximately 3.09 hectares at Kempas, Johor Bahru, Malaysia ("**Kempas Land**") was stalled due to impending approval from Majlis Bandaraya Johor Bahru for the conversion of the Kempas Land from residential use to commercial use. With the over-supply of properties and adverse property market condition in Johor Bahru, coupled with the COVID-19 situation, the Company did not pursue this business further when the option agreements expired on 27 February 2020. As such, the Group will not be committing any more resources to this joint venture.

- (ii) **Sheraton Resort in Phuket, Thailand:** The group has a 50%-owned joint venture, Grand Bay Hotel Co., Ltd (“**Grand Bay**”) with Apex Development Public Company Limited (“**APEX**”) to jointly develop a hotel property under the name of Sheraton Phuket Grand Bay Resort. According to management, the investment in the joint venture is equity accounted and has a carrying value of \$8.22 million. The partners have stopped looking for financing to fund the construction of the hotel (page 15). **Can the board confirm that the group proceeded with the investment in the joint venture company when the financing was not certain? If so, was a risk assessment carried out prior to the investment? What is the financial status of APEX? Can management elaborate further on the plans for the joint venture?**

Reply:

Page 15 of the Annual Report states that “As a result of the tightening of loan application requirements by the banking and financial institutions, negotiations with potential financial institutions to secure a construction loan for the development of Sheraton Resort are still on hold.” We wish to clarify that the joint venture company has not stopped looking for financing and the joint venture company will continue to do so where the opportunities arise.

The Group will not further invest in the joint venture other than the amount already invested so as to contain the risk exposure.

APEX, which business is primarily in hotel development and management, is severely affected by the Covid-19 pandemic and is evaluating options to monetise APEX’s investments in various hotels. As stated on page 15 of the Annual Report, both the Company and the joint venture partner, APEX, have been following up with other potential financial institutions and investors, and are also exploring other viable options in respect of financing. With the rolling out of the vaccination program worldwide and in Thailand, we are optimistic that business interests in the development of Phuket as a whole will return in the second half of 2021, and we shall continue to keep shareholders updated on any further developments.

- (iii) **Disclaimer of opinion:** The independent auditor had expressed a disclaimer of opinion on the investment in a joint venture in its independent auditor’s report for FY2020. For the purpose of consolidation, management has used the unaudited management accounts of Grand Bay for the financial year ended 31 December 2020 to equity account for Grand Bay in the consolidated financial statements of the group. The independent auditor was unable to obtain sufficient appropriate audit evidence to ascertain that the unaudited management accounts present a true and fair view with no material misstatement and as such the independent auditors were unable to ascertain the share of losses of Grand Bay and the carrying amount of the investment in the joint venture due to the absence of satisfactory audit evidence and explanation from management.

**Can the audit committee help shareholders understand what assistance they have rendered to the auditors to help them obtain the sufficient appropriate audit evidence with respect to the group’s investment in Grand Bay?**

**What was the level of cooperation from management?**

In page 45, the AC has stated that it agreed with the accounting treatment by management to recognise Grand Bay using the equity method. **Can the AC help shareholder reconcile why it had accepted management’s accounting treatment when the independent auditor has deemed the current audit arrangement inadequate?**

Reply:

The chairman of the Audit Committee, Mr Hester Chew, who is largely based in Thailand, had assisted the management of the Company and the Company’s auditor in seeking the management accounts of Grand Bay. Mr Hester Chew has also been assisting the board to communicate with the management of APEX.

The management of APEX has been cooperative and open in its communication. The management and the Board and APEX have been conducting meetings through teleconferences since the close of cross border travelling between Thailand and Singapore, when required.

The Company has applied the equity method to account for the joint venture in accordance with SFRS. Please refer to Note 2, in particular, Note 2.2(c) to the Company's audited financial statements as set out in the Annual Report. The disclaimer of opinion by the Company's auditor is not due to the equity method of accounting, but due to the limited scope of work and in their view, lack of necessary audit evidence.

The independent auditor of the joint venture company, Grand Bay, is a reputable international audit firm. However, as Grand Bay is a private company, Grand Bay has a longer time frame to prepare its audited financial statements as compared to the Company. As such, only the management accounts could be relied upon as at such time when the Company's audited financial statements were due for regulatory reporting. Moving forward, the management will work with the management of APEX on a framework of accounting information sharing that is suited for this timing difference.

**Q3.** On 8 April 2021, the company announced that there are material variances between the unaudited results (first announced by the company on 1 March 2021) and the audited financial statements for FY2020 after the finalisation of audit.

The announcement of material variances came nearly 6 weeks after the company first announced its unaudited results.

Following the finalisation of audit, net loss for the financial year increased to \$(1.99) million from \$(1.20) million, an increase of 65%. Total comprehensive loss increased by 108% while total equity decreased by 20% to \$4.2 million.

In fact, the company had to report material variances between the unaudited and the audited full year financial statements for the financial years ended 31 December 2020, 31 December 2019, 31 December 2017 and 31 December 2016.

Date & Time	Issuer Name	Security Name	Title	Category
08 Apr 2021 10:00 PM	MERCURIUS CAP INVESTMENT LTD	MERCURIUS CAP INVESTMENT LTD	Financial Statements and Related Announcement::Auditor's Comments of Accounts	Financial Statements
08 Apr 2021 09:52 PM	MERCURIUS CAP INVESTMENT LTD	MERCURIUS CAP INVESTMENT LTD	Financial Statements and Related Announcement::Discrepancies between unaudited and audited accounts	Financial Statements
06 Apr 2020 07:51 PM	MERCURIUS CAP INVESTMENT LTD	MERCURIUS CAP INVESTMENT LTD	Financial Statements and Related Announcement::Auditor's Comments of Accounts	Financial Statements
06 Apr 2020 07:50 PM	MERCURIUS CAP INVESTMENT LTD	MERCURIUS CAP INVESTMENT LTD	Financial Statements and Related Announcement::Discrepancies between unaudited and audited accounts	Financial Statements
03 Apr 2019 06:11 PM	MERCURIUS CAP INVESTMENT LTD	MERCURIUS CAP INVESTMENT LTD	Financial Statements and Related Announcement::Auditor's Comments of Accounts	Financial Statements
04 Apr 2018 12:10 PM	MERCURIUS CAP INVESTMENT LTD	MERCURIUS CAP INVESTMENT LTD	Financial Statements and Related Announcement::Discrepancies between unaudited and audited accounts	Financial Statements
04 Apr 2018 12:08 PM	MERCURIUS CAP INVESTMENT LTD	MERCURIUS CAP INVESTMENT LTD	Financial Statements and Related Announcement::Auditor's Comments of Accounts	Financial Statements
12 Apr 2017 08:16 PM	MERCURIUS CAP INVESTMENT LTD	MERCURIUS CAP INVESTMENT LTD	Financial Statements and Related Announcement::Discrepancies between unaudited and audited accounts	Financial Statements

(Source: www.sgx.com)

- (i) How can shareholders get assurance from management that the financial statements are prepared in accordance with the relevant Act and financial reporting standards?**

Reply:

The Company has prepared and produced the financial statements in accordance with the relevant Act and the financial reporting standards and the auditor did not disclaim this in the past audits.

- (ii) Has the audit committee (AC) evaluated if the internal financial reporting/finance team is sufficiently resourced with experienced and qualified staff to ensure the integrity of the financial statements?**

Reply:

The Audit Committee has evaluated the experience, qualification of the accounting and financial function team in accordance with the current operations of the Group. This setting of the team is not cast in stone but changes according to the current and new businesses and the evaluation is an on-going process.

- (iii) Is the company (and its officers) familiar with the Singapore Financial Reporting Standards (International)?**

Reply:

Yes.

- (iv) **Would the members of the AC help shareholders understand their personal recent and relevant accounting or related financial management expertise or experience that would make them appropriately qualified to discharge their responsibilities?**

Reply:

Yes. Please refer to the profile of the members of the Audit Committee in the Annual Report as mentioned on pages 7 to 8.

- (v) **Specifically, what was the level of involvement by the AC chairman and each of the AC members in the preparation of the financial statements?**

Reply:

The Audit Committee members are frequently briefed and/or updated by the management on the development of the business operations and the progress of seeking new business acquisitions. This provides the AC with the relevant background knowledge on the impact to the financial statements. The chairman of the Audit Committee has held discussions with the independent auditor on the audit findings.

- (vi) **Can the AC update shareholders on the improvements made/to be made to the group's financial reporting systems and processes?**

Reply:

The Audit Committee will adopt the approach as explained in the reply to Q3(ii).

- (vii) **What guidance has the sponsor given to the company to improve on its financial reporting?**

Reply:

The Sponsor provides guidance and/or reminders on the appropriate SGX Catalist rules in relation to the financial and reporting matters on an ongoing basis. The Sponsor also provides feedback to the Company's management and Board on market and regulatory expectations in order to enhance the Company's decision making and to ensure that the Company meets its continuing obligations. The Sponsor also works with other professionals, such as the Group's external auditors, to offer recommendations to strengthen the Group's internal controls and procedures on a timely basis.

## **BY ORDER OF THE BOARD**

**Chang Wei Lu**  
**Executive Chairman and Chief Executive Officer**  
**23 April 2021**

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*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 Catalist.*

*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.*

*The contact person for the Sponsor is Mr. Pong Chen Yih, Chief Operating Officer, 9 Raffles Place, #17-05 Republic Plaza Tower 1, Singapore 048619, telephone (65) 6950 2188.*