

QUERIES FROM THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE)

The Company has on 15 June 2022 received queries from the Securities Investors Association (Singapore) (“SIAS”) in relation to the annual report for the financial year ended 31 December 2021. The responses are provided below.

Q1. On 7 June 2022, the company announced that the independent auditor had in its Independent Auditor’s Report included a qualified opinion in relation to the group’s audited consolidated financial statements for the financial year ended 31 December 2021 (“FY2021”).

The Basis for Qualified Opinion from the auditor’s report are as follows:

- (a) Impairment of website development costs**
- (b) Allocation method of purchase discount and net realisable value of specific inventories**
- (c) Acquisition of HB 2021 ApS**
- (d) Company level - Loan to a subsidiary and amount due from subsidiaries**

The independent auditor has stated, inter alia, that:

- Based on the information available to them, they were unable to obtain sufficient appropriate audit evidence with respect to the assumptions used by management in its impairment assessment of website development costs...

- Based on the information available to them, they were unable to obtain sufficient appropriate audit evidence to assess the appropriateness of proportionately allocating the purchase discounts to derive the costs of purchase of watches and jewellery by HB2021 of \$1,329,100 and \$686,980 respectively... and whether the net carrying amount of inventories purchased from the aforementioned asset purchase agreement held by HB2021 and the group as at 31 December 2021 of \$1,838,710 is fairly stated...

- As disclosed in Note 15(ii) to the financial statements, the group completed the acquisition of 100% equity interest in HB2021 during the financial year at a total consideration of DKK5,200,000 (equivalent to \$1,070,709). Goodwill arising from the acquisition of HB2021 amounted to \$1,062,109... Subsequent to the acquisition, HB2021 sub-leased a portion of its leased property to a company that is owned by the executive director of the company at a monthly lease payment of DKK50,000 (equivalent to \$10,611) effective from 1 September 2022.... Based on the responses and explanations provided relating to the acquisition of HB2021, the auditors were unable to obtain sufficient appropriate audit evidence on the business rationale for the group’s acquisition of HB2021. Consequently, they were unable to determine whether any additional adjustments to and/or disclosures in the financial statements may be necessary with respect to this acquisition and investment...

- Based on the information available to them, they were unable to obtain sufficient appropriate audit evidence with respect to the assumptions used by management in its impairment assessment of loan to a subsidiary and amount due from subsidiaries...

Full details of the auditor’s basis for qualified opinion can be found on pages 54 to 56 of the annual report.

The auditor has notified the board and the audit committee in writing that it will not seek reappointment as the auditor of the company at the AGM.

(i) What were the efforts by the board, especially the members of the audit committee (AC), to facilitate the independent auditor, especially with regard to providing the auditor with the necessary appropriate audit evidence in the audit of the financial statements?

Company’s Response:

The Company confirms that full assistance by the Board, AC and management was provided to the independent auditor, together with all available appropriate audit evidence as requested by the independent auditor during the audit of the financial statements. Please refer to the response to SGX dated 14 June 2022.

QUERIES FROM THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE)

(ii) Has the AC reviewed the level of assistance provided by management to the independent auditor? If so, is the AC satisfied with the assistance provided by management?

Company's Response:

The AC has reviewed the level of assistance provided by management to the independent auditor and the AC is satisfied with the assistance provided by management.

(iii) How will the AC be addressing the issues identified by the independent auditor that had provided the basis for its qualified opinion?

Company's Response:

Please refer to the response to SGX dated 14 June 2022 for details relating to the AC's conclusions on the qualification raised involving significant judgement and estimates.

(iv) What is the timeline to resolve the matters that have been raised by the independent auditor?

Company's Response:

Management is currently seeking advice from other external auditors to address the concerns raised. There is no timeline but the Company will strive to ensure that all matters will be resolved in due course and will act in the best interests of the Company and the shareholders.

In particular, the independent auditor stated that they were unable to obtain sufficient appropriate audit evidence on the business rationale for the group's acquisition of HB2021. As noted in their audit report, the group acquired HB2021 during the financial year at a total consideration of \$1.07 million when the fair value of net identifiable assets acquired was just \$8,600. Goodwill arising from the acquisition of HB2021 amounted to \$1,062,109 and the group recognised full impairment loss on the goodwill of \$1.06 million in the financial year.

(v) For the benefit of shareholders, what are the reasons for not halting the group's acquisitions until the board/AC completes a review of the HB2021 acquisition along with the company's acquisition framework/policy?

Company's Response:

The Company has on 9 June 2021 announced the rationale for the acquisition of HB2021. The Board believes that the acquisition is in the interest of the Company so that the Group can explore and/or expand its trading of luxury goods business in Denmark to enhance its future value. The Company also further elaborated on the consideration in response to SGX dated 15 June 2021 and 17 June 2021. The acquisition of HB2021 is aligned with the Group's plan to expand its trading of luxury goods business. Pursuant to the announcement dated 30 July 2021, the acquisition was completed after all the conditions precedent have been fulfilled. The Company has conducted due diligence before the completion of acquisitions to secure the interest of the Company.

(vi) In addition, given the significance of the matters raised by the independent auditor, are there any reasons why the board or the AC had not considered a voluntary suspension of the trading of the company's shares to maintain a fair, orderly and transparent market until the board/AC can fully resolve the issues that have been identified by the independent auditor?

QUERIES FROM THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE)

Company's Response:

As announced on 14 June 2022 titled "QUERIES FROM THE EXCHANGE IN RELATION TO BAKER TILLY TFW LLP ("BAKER TILLY") NOT SEEKING REAPPOINTMENT AND THE QUALIFIED OPINION BY BAKER TILLY FOR FY2021", the AC addressed the qualifications raised by the independent auditor and the AC concurred with the decisions made by management. The AC is of the view that voluntary suspension of the trading of the Company's shares is not required.

Q2. In addition, 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 28 February 2022. The announcement of material differences came more than 3 months after the company first announced the unaudited financial statements

Loss for the year almost doubled from \$(3.39) million to \$(6.32) million. Net assets and total equity decreased by more than 24% from \$12.0 million to \$9.13 million. Other operating expenses jumped from \$1,000 to \$2.89 million following the finalisation of audit.

The company also provided 37 explanatory notes in its announcement to explain the variances and reclassifications.

The chairman of the AC is Mr Stanley Leung Yu Tung and the members are Mr Leung Kwok Kuen Jacob and Ms Zhou Jia Lin.

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

Company's Response:

The Company's finance and accounting staff are experienced and have the competence to meet the Singapore Financial Reporting Standards (International) (SFRS(I)). According to the discrepancy announcement dated 7 June 2022, the significant difference in loss after tax of approximately S\$2.9 million was mainly due to Other operating expenses, mainly: i) impairment of approximately S\$1.3 million in intangible assets, ii) impairment of approximately S\$1 million in goodwill, iii) impairment of S\$181,000 in prepayment for website development cost, iv) write down of inventories of approximately S\$183,000 and v) impairment losses of plant and equipment of approximately S\$184,000 during the audit after the announcement of unaudited financial result. These variances mainly arose from issues relating to the qualifications stated in the auditor's report.

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

Company's Response:

The Board is of the view that all finance and accounting staff of the Group are capable of supporting the Group's operations and expansion as well as delivering the financial statement in accordance with the relevant Act and prevailing financial reporting standards. Furthermore, the AC is also involved in reviewing the financial statements, and giving assurance that the financial statements were prepared in accordance with the relevant Act & prevailing financial reporting standards.

QUERIES FROM THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE)

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

Company's Response:

The AC Chairman and AC members have ensured that management teams gave full support to the Auditors for finalising the audit of the financial statements. The AC also reviewed the financial statements and focused on changes in accounting policies and practices, major risk areas, significant adjustments resulting from the audit, compliance with Financial Reporting Standards as well as compliance with any stock exchange and statutory regulatory requirements

- (iv) What was the level of oversight provided by the sponsor?**

Company's Response:

The Sponsor was not involved in the preparation of the audit of the financial statement but has queried the company when Sponsor was made aware of the qualifications in the review of the annual report for FY2021. Sponsor also reviewed the responses to SGX queries announced on 14 June 2022 pertaining to the qualifications.

- (v) 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?**

Company's Response:

Annually, the Company reviews the adequacy of resources for the purpose of its financial reporting. If necessary the Company will seek additional external advice for its financial reporting. The AC is of the view that the current internal finance team is sufficiently experienced and qualified to ensure the standards and integrity of the financial reporting statements.

- (vi) In light of the material variances between the unaudited financial statements and the audited financial statements for the financial year ended 31 December 2021 and the qualified opinion by the independent auditor, what changes have been made/will be made to the group's financial reporting systems and processes?**

Company's Response:

The Company has been regularly providing relevant training to finance and accounting staff and encouraging them to attend courses to stay updated and enhance the financial reporting system and processes.

- (vii) In light of the qualified opinion by the independent auditor, how can the AC help assure shareholders that it has discharged its duties objectively (Principle 10 of the Code of corporate governance 2018)? If so, how so?**

Company's Response:

The AC has met with management to discuss the problems and concerns immediately after having known of the qualifications raised by the independent auditor. The AC also recommended that management give full assistance

INCREDIBLE HOLDINGS LTD.
(Incorporated in the Republic of Singapore)
(Company Registration Number: 199906220H)

QUERIES FROM THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE)

to the independent auditor to address their concerns. The AC also reviewed with the external auditors the scope, audit plan, their evaluation of the system of internal accounting controls, their audit report, the independence and objectivity, their management letter and the management's response. Please refer to page 36 of the Annual Report 2021 for more clarity on the roles, functions, and responsibilities of the AC in terms of corporate governance that the AC has carried out.

(viii) Would the board be considering reconstituting or strengthening the AC?

Company's Response:

The Board is of the view that the capability of the AC is sufficient and that the AC is able to discharge their duties effectively. The AC also attends seminars and/or courses regularly to update their knowledge on financial reporting standards and regulatory requirements

Separately, the company announced on 11 June 2022 that it will withdraw the EGM notice and the circular (and defer the EGM) following a consultation with the Sponsor and communications between the Sponsor and the SGX-ST in order to include details required by SGX-ST in the EGM.

In relation to the AGM, the company did not publish its Notice of Annual General Meeting dated 7 June 2022 until 10 June 2022 as a standalone announcement on SGXNet.

It is also observed that the company had also titled its announcement as "AUDITOR NOT SEEK FOR RE-APPOINTMENT" and had stated "The Notice of AGM has been attached Annual Report 2021 and lodged on SGXNet on 7 June 2022" (see below).

07 Jun 2022 11:22 PM	INCREDIBLE HOLDINGS LTD.	INCREDIBLE HOLDINGS LTD.	General Announcement: AUDITOR NOT SEEK FOR RE-APPOINTMENT	General Announcement
Submitted By (Co./ Ind. Name) Christian Kwok-Leun Yau Heilesen				
Designation Executive Director				
Financial Year End 31/12/2021				
Event Narrative				
Narrative Type	Narrative Text			
Additional Text	The Notice of AGM has been attached Annual Report 2021 and lodged on SGXNet on 7 June 2022			

(ix) Can the board, especially the independent directors, help shareholders understand their level of involvement in the preparation and approval of the company's communication with shareholders?

Company's Response:

QUERIES FROM THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE)

Management is responsible for the preparation of the Company's communication for the Board's review, comment and approval.

- (x) **Are there any challenges faced by the directors, such as familiarity with the SGX listing rules and compliance, meeting corporate governance standards and applying best practices applicable to Singapore listed companies?**

Company's Response:

There are no challenges faced by the directors for the above. All directors are familiar with the SGX listing rules and compliance requirements to meet corporate governance standards and apply best practices applicable to Singapore listed companies. It is mandatory for all directors to undergo SGX training to serve a listed company.

- Q3. Despite revenue increasing from \$3.3 million in FY2020 to \$23.3 million in FY2021, loss after tax increased from \$(4.1) million in FY2020 to \$(6.3) million in FY2021. As shown in the financial highlights, the group has been loss-making in the past 5 years, with accumulated losses totaling \$(17.3) million.**

Despite the losses, the executive director (also controlling shareholder) received \$1.0 million in bonus for the financial year (shown below). The total remuneration for Mr Christian Kwok-Leun Yau Helesen increased from \$618,105 in FY2020 to \$1,556,962 even as the company's accumulated losses increased from \$(39.1) million to \$(54.8) million as at 31 December 2021.

The remuneration committee (RC) consists of Mr Leung Kwok Kuen Jacob (chairman), Ms Eunice Veon Koh Pei Lee and Ms Zhou Jia Lin.

- (i) **How did the RC review the remuneration of the executive director? With losses increasing to \$(6.3) million, the remuneration of the executive director and also controlling shareholder increased by nearly \$1 million to \$1.56 million.**

Company's Response:

The RC is of the view that the significant difference in loss after tax of approximately S\$3.0 million was mainly due to Other operating expenses, mainly: i) impairment of approximately S\$1.3 million in intangible assets, ii) impairment of approximately S\$1 million in goodwill, iii) impairment of approximately S\$181,000, iv) write down of inventories of approximately S\$183,000 and v) impairment losses of plant and equipment of approximately S\$184,000 in prepayment for website development cost during the audit after the announcement of unaudited financial result. These variances were mainly arising from issues relating to the qualifications stated in the auditor's report.

Currently, the remuneration of Executive Director comprises a basic salary and bonuses based on the performance of the Group and the Executive Director's performance and contribution to the Group. The RC is of the view that remuneration for all staff should be competitive with market rates to retain key talents in the Company, and that the Executive Director's contribution to the Group would bring value to the shareholders of the Company in the long run.

The RC is of the view that the S\$1,000,000 bonus payable to the Executive Director for the financial year ended 31 December 2021 is fair, given his efforts and contribution to the commercial aspects of the Group for the expansion as well as diversification of the Group business.

QUERIES FROM THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE)

- (ii) **How did the RC benchmark the group's remuneration practices, taking into account prevailing market conditions as well as the financial and commercial health of the group?**

Company's Response:

Currently, the remuneration of the Executive Director comprises a basic salary and bonuses based on the performance of the Group covering the financial and commercial aspects and the Executive Director's performance and contribution to the Group. No benchmark is used. The RC believes that the Executive Director's remuneration package is fair, given his efforts and contribution to the commercial aspects of the Group.

Currently, the remuneration of Executive Director comprises a basic salary and bonuses based on the performance of the Group and the Executive Director's performance and contribution to the Group. The RC is of the view that remuneration for all staff should be competitive with market rates to retain key talents in the Company, and that the Executive Director's contribution to the Group would bring value to the shareholders of the Company in the long run.

- (iii) **Can the RC elaborate further on how the current remuneration practices are aligned to shareholders' interests? Specifically, can the RC help shareholders understand if the level and structure of remuneration are appropriate and proportionate to the sustained performance and value creation (Principle 7 of the Code of Corporate Governance 2018)?**

Company's Response:

The RC is of the view that the S\$1,000,000 bonus payable to the Executive Director for the financial year ended 31 December 2021 is fair, given his efforts and contribution to the commercial aspects of the Group for the expansion as well as diversification of the Group business.

The acquisitions are aligned with the Group's plan to expand its trading of luxury goods business into the retail and ecommerce sector and to more geographical areas to enhance the financial performance of the Group. The acquisitions would strengthen the profitability of the Group and bring value to the shareholders of the Company going forward.

By Order of Incredible Holdings Ltd.

Christian Kwok-Leun Yau Heilesen
Executive Director
23 June 2022
