

Dear Cho Chee Seng,

**AdvanceTC Limited (the “Company” or “A88”)**

**Periodic Disclosure Query**

National Stock Exchange of Australia (“NSX” or “the Exchange”) refers to the Company’s Half-Yearly Financial Report<sup>1</sup> lodged on 11 September 2020 and notes the following:

- A. Independent Auditor’s review report, page 16:

**REPORT ON THE HALF-YEAR FINANCIAL REPORT**

We have reviewed the half-year financial report of AdvanceTC Limited and Controlled Entities, (the Group), which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, a summary of significant accounting policies and other explanatory information, and the Directors’ Declaration of the Group.

We do not express a conclusion on the accompanying financial report of the Group. Because of the significance of the matters described in the Basis of Disclaimer of Conclusion section of our report, we have not been able to perform the review procedures necessary to provide a conclusion on the review of the financial report.

***Basis for Disclaimer of Conclusion***

The financial statements include the following material items for which we have been unable to obtain sufficient appropriate review evidence. These items are:

- a) Note 1 of the half-year financial report discloses conditions that indicate the existence of the material uncertainties, relating to the matters surrounding the continuing use of the going concern assumption in preparation of these financial statements. We have been unable to obtain sufficient appropriate review evidence to support Management’s assessment of the Group’s ability to continue as a going concern, and the effect of COVID-19 on the Group’s operations and cash flows.
- b) As stated in Note 5 in the financial statements, as of 30 June 2020, the Group has recognised MYR1,878,643 as an asset relating to Inventory and production deposits for the X7 product, of which MYR 1,009,243 had not been received from the supplier, the deposit having originally been paid in August 2019. The balance of MYR 869,400 of production has been received but is not complete and requires additional work which a separate external supplier has been contracted to carry out prior to the items being saleable. The Group is currently attempting to market the product. However, due to COVID-19 this is proving to be exceptionally difficult. The timing and value for which these amounts may be realisable is therefore subject to a significant uncertainty and no impairment estimate has been made against this asset. Consequently, we were unable to determine whether any adjustments to these amounts are necessary.
- c) As stated on the face of the Statement of Financial Position, the Group has MYR 998,559 of receivables from related parties. We were unable to obtain sufficient appropriate evidence

14 December 2020

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<sup>1</sup> <https://www.nsx.com.au/ftp/news/021738627.PDF>

about the carrying amount of these receivables and whether they are affected by COVID-19. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

We consider the impact of the above matters to be material and pervasive to the financial statements of the Group.

We conducted our review in accordance with ASRE 2410 *Review of Financial Report Performance by the Independent Auditor of the Entity*. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's *APES110 Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our review of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code. We confirm that the independence declaration required by the *Corporation Act 2001* which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's review report.

## B. Review of operations section of the Directors' Report:

### Review of operations

The consolidated loss after income tax for the six month period ended 30 June 2020 was MYR 2,370,820 (Six months to June 2019: MYR 674,806). Losses before interest, tax, depreciation, amortisation and impairments were MYR 2,366,591 (2019: MYR 1,603,155).

#### Going concern

As at 30 June 2020 the group had cash and cash equivalents of MYR 208,398, net current assets of MYR 2,737,314, total liabilities of MYR 4,167,491, of which MYR 348,286 were repayable within one year, and is in a net liability position of MYR 1,064,038.

For the six months ended 30 June 2020, the Group being in the development phase, had no revenue from customers, incurred losses after income tax of MYR 2,370,820 and net cash outflows from operating activities of MYR 519,590.

The ability of the Group to continue as a going concern is dependent upon being able to manage its liquidity requirements by taking some or all the following actions:

- Successful commercialisation of its range of Magic Smartphone, and proprietary community software application to achieve recurring revenue;
- Raising additional capital or securing other forms of financing, as and when necessary to meet the levels of expenditure require for the consolidated entity to continue to develop the next generation of integrated mobile communication devices and to meet the consolidated entity's working capital requirements; and
- Reducing its expenditures.

These conditions give rise to a material uncertainty which may cast significant doubt over the consolidated entity's ability to continue as a going concern.

Despite the negative effects that COVID-19 has had on the markets in which the Group operates, during the half year the group raised MYR 750,000 of new capital and has further capital receipts planned on an ongoing basis to fund its requirements. Additionally, the Group

has obtained moratoriums for loan repayments from certain related parties and other creditors totalling MYR 3,789,562 who have given written agreement to defer settlement until 2022 and the Directors consider that they have the ongoing support of suppliers in relation to this. On this basis the Directors have prepared the financial report on the Going concern basis.

While the financial condition of the Group gives rise to a material uncertainty in relation to the Group's ability to realise its assets and settle its liabilities at the amounts stated in the financial information, the Directors consider the Group will be able to meet its obligations as and when they fall due. Accordingly, these financial statements have been prepared on a going concern basis. No adjustments have been made to the financial information relating to the recoverability or classification of the recorded asset amounts and classification of liabilities that may be necessary should the Group not continue as a going concern.

- C. Other expenses reported at MYR (659,569) for the period ended 30 June 2020 and at MYR (392,100) for the period ended 30 June 2019.
- D. Total comprehensive loss reported at MYR (2,370,820) for the period ending 30 June 2020 and at MYR (674,806) for the period ending 30 June 2019.

- E. Trade and other receivables reported at MYR998,559 for the period ending 30 June 2020 and at MYR4,336 for the period ending 30 June 2019.

In relation to the above information please respond to the following questions:

1. Given the auditor has indicated that a material uncertainty exists as to whether the Company can continue as a going concern and the Company did not have any revenues for the six months to 30 June 2020 and suffered a loss of MYR 2,370,820, please explain the basis for and the factors considered by the directors to satisfy themselves that the going concern assumption of preparation is appropriate.
2. The Company has not received a significant amount of inventory from its supplier and the auditor has expressed that there is significant uncertainty regarding the timing and value for which these may be realised. Why does the Company believe that the inventory will be received? Please provide supporting documentation for your conclusion (these documents will not be disclosed to the market).
3. Has the Company performed any impairment review on the inventory? If yes, please provide the conclusion of the impairment review and the basis for that conclusion. If not, please explain why the Company believes that this best reflects the position of the Company in relation to the inventory and whether the inventory will be impaired at a future time.
4. In relation to the Disclaimer of Conclusion regarding receivables, please explain why the auditor has been unable to obtain sufficient evidence to verify the carrying amount of the related party receivables or whether it has been affected by COVID-19. In your response, please include details of the information which was requested by the auditor but the Company was unable to provide and why the Company failed to provide the requested information.
5. What actions has the company taken and/or what actions will it take to collect or recover the amount receivable from related parties?
6. Please explain why there is a significant change in the reported figures for the trade and other receivables account. Please explain why such information was not disclosed to the market earlier per NSX Listing Rule 6.4.
7. Please provide a breakdown of the other expenses account for the periods ended 30 June 2020 and 30 June 2019.
8. What steps have been taken, or will be taken, by the Company to obtain an unqualified opinion or conclusion regarding its future financial statements?

This request is made under, and in accordance with, Listing Rule 2.7. It goes to whether the Company is in compliance with Listing Rules Section IIA 6.4 and 6.5A.

Your response should be sent to me directly via email no later than **4 pm on 16 December 2020**. Your response will be released to the market along with a copy of this letter. If you wish to discuss the content of your response, please do not hesitate to contact me as soon as possible.

Yours sincerely

**Ron Kaushik**  
**Senior Manager – Market Surveillance and Compliance**