

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF M1 LIMITED

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

### Opinion

We have audited the financial statements of M1 Limited (the Company) and its subsidiaries (collectively, the Group), which comprise the statements of financial position of the Group and the Company as at 31 December 2016, the statements of changes in equity of the Group and the Company and the consolidated income statement, consolidated statement of comprehensive income and consolidated cash flow statement of the Group for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements of the Group, the statement of financial position and the statement of changes of equity of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the Act) and Financial Reporting Standards in Singapore (FRSs) so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2016 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group and changes in equity of the Company for the year ended on that date.

### Basis for opinion

We conducted our audit in accordance with Singapore Standards on Auditing (SSAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.



# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF M1 LIMITED

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONT'D)

### Key Audit Matters (cont'd)

Key Audit Matters	How the scope of our audit addressed the Key Audit Matter
<p>Revenue recognition due to complex billing systems:</p> <p><i>Refer to Note 2.22 – Revenue recognition and Note 4 Operating Revenue.</i></p> <p>The Group recognised total operating revenue of S\$1,060.9 million during the financial year. New products, tariffs and a variety of customer contracts added to the complexity and judgement involved in the accounting for revenue.</p> <p>Revenue was measured taking into account the use of bundles and discounts. The inherent industry risk arises from the complexity of the telecommunications billing systems. This may have an impact on the amount of revenue recorded during the financial year. Large volumes of data with a combination of different products sold and price changes during the year were processed through a number of different systems. As such, we considered revenue recognition to be a key audit matter.</p>	<p>We performed the following audit procedures amongst others:</p> <ul style="list-style-type: none"> <li>• Obtained an understanding of the Information Technology (IT) and manual controls surrounding revenue systems and processes such as capturing and recording revenue transactions, authorisation of rate changes and the input of such information into the billing systems;</li> <li>• Tested a sample of customer bills and checked these to cash received from customers;</li> <li>• Tested end-to-end reconciliation from billing systems to accounting system including verifying material revenue adjustments passed into the accounting system; and</li> <li>• Tested the allocation of revenue to separately identifiable components of multiple element arrangements, particularly in relation to transactions that include the delivery of handset combined with a service element in the contracts, as well as the timing of the revenue recognised;</li> <li>• Evaluated appropriateness of revenue recognition policies.</li> </ul>
<p>Allowance for doubtful debts:</p> <p><i>Refer to Note 2.14 – Impairment of financial assets, Note 3 – Significant accounting judgements and estimates and Note 20 Trade receivables.</i></p> <p>Trade receivables from subscribers and accrued revenue are significant to the Group as they represent 13.7% of the Group's assets. Trade receivables from subscribers amounted to S\$55.3 million as at 31 December 2016.</p> <p>The collectability of trade receivables from subscribers is a key element of the Group's working capital management of which appropriate credit action is taken on a timely basis to mitigate the risk of exposure to bad debts. This is managed on an ongoing basis by the management.</p> <p>Allowance for doubtful debts is set aside on amounts owing by customers based on predetermined criteria. Management exercise judgement in performing a detailed assessment and measures the impairment loss on a portfolio basis each quarter based on the recovery percentages of each non-collection stage for both inactive and active accounts tracked by the debt management system performed by the credit control team. The allowance rate for each stage of non-collection is based on past collection trends and will be adjusted when the trend changes. Accordingly, we determined this area to be a key audit matter.</p>	<p>We performed the following audit procedures among others:</p> <ul style="list-style-type: none"> <li>• Enquired management on the appropriateness of the model and parameters used such as historical loss rates;</li> <li>• Obtained an understanding and tested Information Technology (IT) and manual controls surrounding the debt management system process and credit control process; and</li> <li>• Assessed the overall reasonableness of the allowance for doubtful debts by comparing the actual loss trends across periods against the allowance rate applied.</li> </ul>

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONT'D)

### Other information

Management is responsible for other information. The other information comprises information included in the annual report but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### 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 Act and FRSs, 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 objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF M1 LIMITED

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONT'D)

### Auditor's responsibilities for the audit of the financial statements (cont'd)

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONT'D)

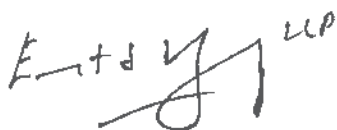
### Auditor's responsibilities for the audit of the financial statements (cont'd)

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In our opinion, the accounting and other records required by the Act to be kept by the Company and by those subsidiary corporations incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

The engagement partner on the audit resulting in this independent auditor's report is Ms Lim Siew Koon.



**Ernst & Young LLP**  
Public Accountants and  
Chartered Accountants

Singapore  
27 February 2017

