S i2i Limited
(Formerly known as Spice i2i Limited)
(Co. Reg. No: 199304568R)

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FURTHER INFORMATION ON THE FINANCIALS FOR THE HALF YEAR ENDED 31 DECEMBER 2012

A. Further information on why Si2i Ltd and its subsidiaries ("Company") made an allowance for stock obsolescence of US$3.68 million for the half year ended 31 December 2012

Out of the US$3.68 million allowances on stock obsolescence, approximately US$3.04million is attributable to the Affinity Group in Indonesia.

As announced by Si2i Ltd in its results for the quarter ended December 2012 on 7 February 2013, the markets in which Si2i Ltd and its subsidiaries (**Company**) operates in are moving from feature phone driven markets to smart phone/Android market. As a result of this shift, local brands in Indonesia are pricing their feature phones aggressively for added competitiveness. This resulted in:-

1. lower sales of the Company products,
2. accumulation of inventory with the Company; and
3. accumulation of the Company's product in the inventory of the Company's channel partners/ distributors.

Due to the above, the Company had to sell its unsold products at lower gross margin or at below cost level. It should be noted that the inventory of handset models which are sold at lower or negative margin has to be adjusted to the lower of cost or net realizable value pursuant to the International Financial Reporting Standards (**IFRS**).

Some distributors seek to return certain products back to the Company. Once returned, the Company sells these returned products (**Returned Products**) to distributors in other locations.

Once the Company receives the Returned Products, the Company passes the full credit of the Returned Products to the said distributor. When this happens, the inventory of the Company goes up, and the revenue of the Company is reduced accordingly in the accounting books of the Company. The inventory value of the Returned Products will be adjusted / written down to the lower of cost or net realizable value pursuant to the IFRS. The consequent losses from the adjustment / write down of the Returned Product will then be booked into the Company accounts. This is a common industry practice in the mobile and technology business.

The difference so arisen is shown as allowance on stock obsolescence. Accordingly, in accordance with applicable accounting principles consistently applied, it is shown in the Profit & Loss Account. The inventory value in the Balance Sheet is adjusted by the corresponding amount as well.

Once the Company succeeds in selling the Returned Products in other locations, the revenue derived from such sales will be recorded as revenue.

The Returned Products is, amongst others, indirectly one of the causes for the reduction in gross profit margin for the quarter ended December 2012.

Further, the Company also has a practice known as the Distributor Price Protection practice (**DPP**). The DPP is a common industry practice in the mobile and technology business. The Company applies a DPP by passing credit to a distributor, equivalent to the difference between the last billed price of a product (as charged by the Company), and the latest reduced price announced by the Company. The

DPP only kicks in when there is residual stock with a distributor/channel. The DPP is intended to facilitate sales of products accumulating in a distributor's inventory. The amounts of these credit notes are shown in the Profit & Loss Account, and the Accounts Receivables are adjusted by the corresponding amount.

The DPP is usually triggered after a 6-8 week periodic review by the Company in the following scenarios:-

1. The product is not successful in the market, and is accumulating in a distributor's inventory, thus hurting the distributor's cash-flow. This reduces the distributor's confidence in the Company products, and also affects the Company's accounts receivables and cash flow.

2. To facilitate the quick clearance of the residual lots of a particular product before the Company launches a new or better featured product in the same space/market, as the launch of the new product may render all the old stock obsolete.

In addition, the DPP may also be triggered on an ad hoc basis if a competitor launches a similar or new product in the same space/market at a lower price.

B. <u>Further information on the reasons for the reduction in stock holding in relation to the Company's announced results that the decrease in the stock balance by approximately 38.3% to US$20.4 million as at 31 December 2012 was mainly due to reduction of US$12.4 million in stock holding by the Affinity Group</u>

The decrease in stock holding is mainly due to:-

1. The Affinity Group being in discussions with the distributor of Blackberry products on a new strategy which focuses on selling Blackberry products through the Company's own retail chains, and also distribution to premium retail outlets instead of mass distribution. In line with that, a sell-through deal was entered into with a customer, which was facilitated by the distributor, to sell through a large quantity of Blackberry products to generate cash and reduce inventory. It resulted in inventory reduction of USD8.3 million, which were sold off at costs and booked as revenue of the Company pursuant to the IFRS.

2. The lower demand for the Company's own brand handsets also adversely affected the sales of handsets through the Company's retail stores. This coupled with a change in strategy for Blackberry products had necessitated reducing the Company's inventory levels at the Company's retail stores. This resulted in an inventory reduction of USD4.0 million, which were sold off at a price above cost in the ordinary course of the Company's retail business and booked as revenue of the Company.

By Order of the Board

Maneesh Tripathi
Chief Executive Officer
13 March 2013