

FINANCE & AUDIT COMMITTEE MEETING

Meeting held virtually through Microsoft Teams
9:00-10:45 CEST Friday 28th July 2023

MINUTES

1. Welcome and Opening

1.1. Chair's opening remarks

Mr. Natran welcomed all to the meeting. Mr. Natran remarked that the work undertaken by the finance team to complete the various audit requirements has grown in recent years, with seven sets of financial statements being prepared, but noted that the Finance & Audit Committee will focus on the Group Consolidated Financial Statements for approval today.

1.2. Roll Call

Mr. Roland Natran	Chair (Executive Vice President – Finance)
Mr. Dhanraj Choudhary	Board of Directors Appointee
Mr. Robert Brophy	Independent Member

In attendance

Mr. Michael Brown	ITTF CFO
Mr. Michael Ackermann	Mazars (<i>Audit of Financial Statements section</i>)

Absent with apology

Ms. Ludewine Arpino	Independent Member
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2. Minutes of the previous Finance & Audit Committee meeting

2.1. Adoption of the Minutes of the previous meeting

There were no adjustments to be made to the previous meeting minutes, and therefore were approved as presented.

2.2. Business arising from the minutes

The business arising from the minutes were noted and had been actioned accordingly. The work undertaken in relation to Risk Management will be provided as part of today's meeting. It was noted that updated policies had been presented to the ITTF Executive Board for approval in March 2023.

3. Audit of Financial Statements

3.1. Management presentation of Financial Statements

Mr. Natran provided an overview of the different challenges faced throughout 2022, primarily in regards to the resumption of more activity as the COVID-19 pandemic subsided.

Mr. Brown presented an overview analysis of the 2022 Financial Statements, including detailed analysis of both the Balance Sheet and Profit & Loss with comparisons between the Current Year and Prior Year. It was noted that the comparisons were heavily impacted by the increased activity in 2022, when compared to 2021.

Mr. Brown provided an overview of the Balance Sheet, with the key accounting activity for the year being the investment made by World Sports into World Table Tennis. This included a conversion of outstanding loans from third parties into equity, as well as the establishment of an Intangible Asset for Rights to Training Services over the next 10 years. The technical analysis of the treatment of the intangible asset is still being completed by the auditors, and this item is still pending completion at the date of today's meeting.

The Committee noted that the Liquidity Ratio remains stable compared to the prior year, but noted that this should become greater than 1 to ensure the organization is able to pay its debts. The Debt to Equity ratio improved significantly with the introduction of new equity through the investment from World Sports.

Mr. Brown continued the presentation of the Profit & Loss Statement which saw a significant increase in commercial revenue, that was at a greater level than the increased expenses. The revenue growth of 172%, compared to Event & Operating Expenses increase of 112% demonstrated the continued growth of World Table Tennis.

It was noted that the release of funds from the IOC was reduced in 2022, compared to 2021, as there was no Olympic Games taking place in 2022. It was also noted that subsidies and grants in relation to the COVID-19 pandemic also correlated with the decrease in Other Income.

As more activities, and travel, were able to take place in 2022, the Committee noted the increase in Governance & Regulatory expenses, which included the first ITTF Summit, as well as increased governance costs in relation to the ITTF Executive Board and the establishment of the ITTF Integrity Unit.

An increase in General & Administrative Expenses of 31% was in line with the overall increased commercial revenue generated. Mr. Brophy questioned the increase in staff headcount when comparing the two years, to which Mr. Brown confirmed the increase in staff headcount was approximately 20%. Further clarification was provided that with the increased activities from 2021 to 2022, the other General & Administrative Expenses which increased were IT related costs due to the significant increase in number of events taking place.

Mr. Natran concluded that there is an improvement on the bottom-line position, with 2022 incurring a USD2.95m loss compared to the prior year's loss of USD3.93m loss. Mr. Brown confirmed that these losses are in line with the approved budgets of the ITTF AGM and are improvements when compared to the approved losses.

3.2. Selection and appointment of auditors

Mr. Brown confirmed that Mazars was appointed as the 2022 audit firm during the 2021 ITTF AGM, and confirmed the appointment of PwC as the auditors from 2023 for the ITTF Group. At this moment, Mr. Natran and Mr. Brown thanked Mr. Ackermann for his years of service for the ITTF as the auditor.

3.3. Scope and planning of the audit

Mazars presented their report, which provided details in relation to the purpose of their work, the scoping strategy and organisation of their work, their progress on the audit, noting the one outstanding matter on confirming the technical treatment of the Intangible Asset.

In conclusion, Mazars confirmed that there is no unrecorded adjustment nor reclassification in the consolidated financial statements as of December 31, 2022 and therefore will issue a clean audit opinion.

However, it should be noted that contrary to the provisions of Art. 958 para. 3 CO of the Swiss Civil Obligations (CO), the annual report was not prepared and submitted to the General Meeting within six months of the end of the financial year, however contrary to the provisions of Art. 699 para. 2 CO, the ordinary General Meeting was not held within six months of the end of the financial year.

Mazars presented an overview on the quality of the accounting closing process, of the eight different focus areas, it was noted that six meet expectations, with areas for improvement on two items – Timeliness in completion of the audit and delays in resolving outstanding matters. It was noted that there has been significant improvement compared to the prior year, and that the accounting team has significantly improved the quality of the accounting work over the years in which Mazars have been ITTF auditors.

Two significant events were noted as part of the audit work undertaken. The introduction of WTT Singapore Smash Pte. Ltd. has a new subsidiary within the ITTF Group, wholly owned by World Table Tennis Pte. Ltd. Although the subsidiary was not activated until the Singapore Smash 2023 event.

The other significant event was the direct investment from World Sports in capital of World Table Tennis. The direct investment results in ITTF retaining an 85% ownership of World Table Tennis, which resulted in additional audit work as part of the group level consolidation. The financial statements prepared detail this transaction and provide for a specific line within the Profit & Loss statement in relation to the non-controlling interest. It was noted that the investment took place on 26th October 2022, therefore resulted in audit work being undertaken before this date, and post this date, to ensure accurate financial reporting.

Mazars reported that there were no audit adjustments that remained unrecorded, all adjustments or reclassifications that had been identified had been corrected by Management. Pending the confirmation from Mazars Singapore on the technical treatment of the Intangible Asset.

3.4. Independence and objectivity of external auditors

Mr. Ackermann provided background information in relation to the independence of himself, and Mazars, to be able to undertake the audit of the ITTF with an objective view.

3.5. Effectiveness of the audit

Mazars reported on several areas for continued improvement, primarily in relation to internal controls. Mazars continues to recommend the establishment of a Remuneration Committee. Mr. Brown commented that one was established in early 2020, however due to COVID-19 was not fully implemented and will be recommended to the ITTF Executive Board at their next meeting. Mazars also recommended that such a committee could have a broader remit in terms of approval of travel expenses for elected officials, as they noticed a change in process for some elected officials throughout the year. This was due to the re-introduction of credit cards, which were previously cancelled by the ITTF Executive Board. Mazars noted that there was no ITTF Executive Board approval for the creation of such credit cards, and recommends when decisions are made, if they are reversed the same decision-making body should approve the change.

As part of internal control testing, Mazars noted some examples where payments were processed without adequate agreements in place, and recommends tighter controls be implemented to ensure the organization meets the highest standards as they transition towards IFRS reporting.

In addition, during controls testing, it was noted there are various gaps in the internal controls for Human Resources, through a lack of formal policies being place, such as, Payroll, Recruitment, Onboarding, etc. Although there are processes in place, these are not documented through policies, therefore the testing undertaken was limited, and the testing was not made against policies.

3.6. Adherence to Swiss Civil Code

It was confirmed that the audit opinion provided by Mazars for the ITTF Financial Statements adheres to the Swiss Civil Code.

3.7. Approval of Financial Statements

Mr. Brophy questioned the auditors whether they had tested for Going Concern, due to several years of loss-making activities. Mr. Ackermann confirmed that the audit approach took Going Concern into consideration, and with external investment made in 2022, the Going Concern was acceptable for the auditors. Mr. Brown also gave an overview of the current investment conversations for further investment, which would then alleviate the Going Concern for 2023 as well.

Pending no changes to the treatment of the Intangible Asset, the approval of the 2022 Audited Financial Statements was given by unanimous decision of the members of the Finance & Audit Committee. For completeness, the finalised Finance Statements will be shared electronically for final approval.

4. Financial Management

4.1. Annual Budget

Mr. Brown presented the annual budget, as approved by the ITTF AGM.

4.2. Quadrennial Budget

The quadrennial budget for ITTF was presented, showing both 2023 and 2024, and noted that 2025 onwards would be prepared following further investment into WTT, which would stabilise the overall financial position of the ITTF Group.

No adjustments have been made for the 2024 budget, and it was noted efforts are being made to reduce the loss making of ITTF in 2023.

For WTT, the business plan through to 2032 was presented, demonstrating the probability of the business following its initial years of losses. It was noted that this is the Business Plan being used as part of ongoing investment conversations.

4.3. Monitoring of budgets

Mr. Brown presented an overview of the monitoring of 2023's budget, and how the finance team are tracking the actuals compared to the approved budgets. This was presented for ITTF and WTT separately.

It was noted for ITTF that measures are being taken to ensure that the ITTF finances can meet the approved budget levels, as increased spending in certain areas is exceeding budgeted amounts as at 30 June 2023.

For WTT, it was noted that the forecast is currently greater than the budget, however it was noted that the budgeted events due to take place in the fourth quarter are now not likely, and therefore adjustments to the finances will be critical for WTT to also meet the approved budgets.

Mr. Choudhary questioned what areas would be focused on to reduce expenses, to which Mr. Brown replied that ITTF and WTT are being treated separately, but both are taking a similar approach in focusing towards non-critical areas for reduced expenses.

4.4. Lending, borrowing and investing

Mr. Brown informed that the COVID-19 loan guaranteed by the Swiss Government has now been fully repaid, following the introduction of interest on the loan from 1 April 2023. Mr Brown reported that the foreign exchange gain on the loan was roughly USD25,000.

Mr. Brown provided an update on the current cash flow needs of the ITTF Group, as was presented to the ITTF Executive Board in May 2023. The preferred option is external cash investment into WTT, however initial steps are being taken re-establish a line of credit with UBS Switzerland, with the property in Renens, Switzerland as the guarantee. Should further cash flow support be necessary, other options considered are bank loans, or the sale of the property.

5. Risk Management

5.1. Internal Control System

Mr. Brown noted the remarks made earlier by the auditors, and suggested the Audit & Finance Committee support the various improvements recommended by the auditors towards further improving the internal controls system.

In addition, as part of the documents pack shared with the Committee prior to the meeting was an update on the Risk Management project, providing an overview of initial meetings take place with operational staff responsible for oversight of the 11 key risks that have are focus areas of risk for the ITTF Group.

5.2. Compliance

Mr. Brown explained the importance to ensure compliance is met according to the ITTF Statutes, but also each of the different legal jurisdictions in which the ITTF is now operating. Mr. Brown informed that work is being undertaken to centralise Company Secretary support under one law firm for the various entities, to improve the compliance requirements of the various legal jurisdictions.

5.3. Insurance

Mr. Brown commented that the ITTF, and in particular World Table Tennis, have a more robust insurance approach in place, in particular for event cancellation insurance. In addition, Mr. Brown commented on the existing insurance policies in place in relation to day-to-day operations.

6. Any other business

It was noted that there was no other business.

7. Next meeting

Due to the ongoing uncertainty in relation to the financial challenges being faced currently, it was proposed a second Audit & Finance Committee meeting take place in October/November 2023, once the adjustments are in place – whether this is investment or other measures to stabilise cash flow.