The Directors                                              24th June 2014
Marcandi Limited (MadBid.com)

**Independent Assurance Report to the Directors of Marcandi Limited (MadBid.com) on the Design of the Control Environment regarding Auction Integrity**

We have been engaged to provide reasonable assurance regarding the effectiveness of the design of certain elements of the control environment in respect of Auction Integrity as at 30th April 2014. An assessment of the following control objectives (the "Control Objectives") are within the scope of this review:

1. MadBid.com has appropriately designed control procedures to ensure bids are only placed by bona fide users that are not related to MadBid.com or its employees.

2. MadBid.com has appropriately designed control procedures to ensure MadBid.com does not interfere in the bidding process, nor manipulate (no use of shill bidding, no use of bots or bidding by employees) the auction closing price.

3. MadBid.com has appropriately designed control procedures to ensure it delivers not only products won in auctions, but also products purchased through its Buy Now service, to its customers.

We reviewed the results of a sample of auctions to support the following statement:

4. During the 6 month period to 31st January 2014 MadBid.com winners of auctioned products had average percentage savings of 89%, which includes the final auction closing price and the cost of bids (credit packages) as compared to the recommended retail price at the time of the auction.

Additionally, we reviewed the documentation associated with car and motorbike auctions to support the following statement:

5. For the 18 car and motorbike auctions completed in the period from 1st January 2008 to 31st January 2014 we have been provided with evidence to confirm that MadBid.com delivered the auctioned product or an alternative of equal value in lieu of the car, or motorbike respectively.

**Respective responsibilities of BDO and the Directors**

For the purpose of our review the Directors were responsible for selecting the Control Objectives detailed above as well as the control procedures which would allow the Control Objectives to be achieved.

MadBid.com is responsible for operating the online auction environment. The Directors have confirmed to us that, as at 30th April 2014, the Control Objectives detailed above have been achieved.

Appendix B ("Description of the Auction Environment") summarises those aspects of the Auction environment supporting the Directors assertions that the Control Objectives have been achieved.

Our responsibility is to arrive at a conclusion, based on our procedures, on the design and operational implementation of control procedures in relation to the above stated Control Objectives and as to whether the Control Objectives have been achieved and whether the statement regarding percentage saving is supported by our testing.

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This report, including the conclusion, has been prepared for the Directors of MadBid.com. We do not accept or assume any responsibility for our work or this report to any other party other than the Directors and to MadBid.com.

## Inherent limitations

Due to the inherent limitations in control procedures, error or fraud may occur and may not be detected. Furthermore, the projection of any conclusions, based on our findings, to future periods is subject to the risk that the validity of such conclusions may be altered because of changes made to the system or control procedures, the failure to make required changes to the control environment, or control procedures not operating as expected.

## Assurance work performed

We conducted our work in accordance with International Standard on Assurance Engagements 3000 (ISAE3000) issued by the International Auditing and Assurance Standards Board (IAASB). Our work included obtaining an understanding of the Auction environment, including the evaluation and testing of the design of control procedures supporting the Control Objectives, in order to confirm the control procedures were in operation as at 30th April 2014.

MadBid.com calculated that for the 6 months to 31st January 2014 average savings achieved by auctions winners were 89%. The savings are based on comparing the cost to the winner (final auction price plus cost of credit packages – equivalent to bids) against the recommended retail price. The MadBid.com savings are calculated by reference to all of the auctions in the 6 month period. Our testing involved sample testing 60 randomly selected individual auctions and confirming the accuracy of the savings calculated by MadBid.com.

We reviewed the documentation associated with car and motorbike auctions in the period 1st January 2008 to 31st January 2014. We confirmed there was appropriate evidence that MadBid.com delivered the auctioned product or an alternative of equal value in lieu of the car, or motorbike respectively.

## Conclusion

This conclusion has been formed on the basis of the above information, and is subject to the inherent limitations outlined above. Based on our procedures described above, in our opinion the control procedures set out by the Directors in Appendix A provide reasonable assurance that the control procedures are in operation as at 30th April 2014 and were designed and implemented such that the Control Objectives have been achieved.

Additionally, based on our testing MadBid.com have accurately calculated the average savings to auction winners in the period to 31st January 2014. For the 18 car and motorbike auctions completed in the period from 1st January 2008 to 31st January 2014 we have been provided with evidence to confirm that MadBid.com delivered the auctioned product or an alternative of equal value in lieu of the car, or motorbike respectively.

Yours faithfully

BDO LLP

BDO LLP

**Report of Management on the Marcandi Limited (MadBid.com) Online Auction Environment**

MadBid.com Directors are responsible for operating their Online Auction environment. Management of MadBid.com confirms that as of 30th April 2014:

1. MadBid.com has appropriately designed control procedures to ensure bids are only placed by bona fide users that are not related to MadBid.com or its employees.

2. MadBid.com has appropriately designed control procedures to ensure MadBid.com does not interfere in the bidding process, nor manipulate (no use of shill bidding, no use of bots or bidding by employees) the auction closing price.

3. MadBid.com has appropriately designed control procedures to ensure it delivers not only products won in auctions, but also products purchased through its Buy Now service, to its customers.

We reviewed MadBid.com auctions to support the following statement:

4. During the 6 month period to 31st January 2014 MadBid.com winners of auctioned products had average percentage savings of 89%, which included the final auction closing price and the cost of bids (credit packages) as compared to the recommended retail price at the time of the auction.

We reviewed car and motorbike auctions to support the following statement:

5. For the 18 car and motorbike auctions completed in the period from 1st January 2008 to 31st January 2014, we purchased the car or motorbike as specified in the auction, and the car or motorbike, or an alternative of equal value in lieu of the car, or motorbike respectively, was delivered to the winner for the price of the winning bid in addition to the cost of bids placed.

MadBid.com has assessed its controls over the Online Auction environment. Based upon this assessment, MadBid.com confirms that, as of 30th April 2014, its controls related to the online auction environment were effective in providing reasonable assurance that the control objectives contained in Appendix A supporting management's assertions above were achieved.

Appendix B ("Description of the MadBid.com Online Auctions Environment") summarises those aspects of the MadBid.com online auction environment operating environment and management team supporting our assertions.

Directors
Marcandi Limited (MadBid.com)

**Report of Management on the Marcandi Limited (MadBid.com) Online Auction Environment Appendix A – Control Framework**

For each control objective, MadBid.com Directors identified specific control procedures that indicate how MadBid.com is able to meet the control objective. These control procedures are listed below:

Control objective 1

MadBid.com has appropriately designed control procedures to ensure bids are only placed by bona fide users that are not related to MadBid.com or its employees.

Control procedures

- Standard policies have been developed regarding employee conduct, awareness, and responsibilities associated with bidding.
- When joining MadBid.com, all members of staff are contractually required to confirm that they and immediate family or affiliation will not bid in any auction hosted by MadBid.com. If a MadBid.com employee violates this term he / she could face disciplinary action, up to but not limited to liability for payment of damages and / or loss of employment.
- Procedures have been developed and are operating to restrict non-registered users from bidding, in accordance with disclosed business practices.
- All users must register in order to use MadBid.com.
- All bidder accounts are associated with a unique email and/or mobile phone number, which is used to verify the account.
- MadBid.com investigates unusual bidding activities and takes appropriate action when necessary in instances where there is suspected foul play.
- MadBid.com investigates unusual purchase patterns and may require the users to provide identity documents.

Control objective 2

MadBid.com has appropriately designed control procedures to ensure MadBid.com does not interfere in the bidding process, nor manipulate (no use of shill bidding, no use of bots or bidding by employees) the auction closing price

Control procedures

- Policies have been developed that prohibit introducing program functionality that could impact the integrity of the bid and that each bid is processed in the order it was received at the MadBid.com server.
- Procedures exist to assign each bid received a unique and sequential identification number and time stamp.
- There is a documented policy applied which determines how the bidding interval is reduced throughout the auction.
- Procedures exist to process each bid in the order received.

Control objective 3

MadBid.com has appropriately designed control procedures to ensure it delivers not only products won in auctions, but also products purchased through its Buy Now service, to its customers.

Control procedures

- Policies have been developed and disclosed in MadBid.com's Terms of Use to registered users regarding shipment of paid items won via auction or purchased using Buy Now.
- All auctions where an item is won or purchased directly using Buy Now are reconciled to evidence of transfer of the item to the ordering user.
- Procedures exist to monitor both paid won auctions and paid Buy Now invoices to confirm shipment and delivery.
- Procedures exist to ship paid items won via auction or purchased through Buy Now in accordance with the MadBid.com's disclosed business practice.
- Procedures have been designed and implemented to investigate and resolve customer complaints/issues that arise related to the shipment of items won via auction. When there is a delay or the shipment has been lost MadBid.com aims to reach a satisfactory solution in collaboration with the customer.

**Background**

*Company Activities*

MadBid.com operates a service through its website (www.madbid.com) that supplies a wide range of consumer goods such as electronics, home appliances, computers, as well as other types of products, at discounted prices through an online auction process. MadBid.com also provides a pure e-commerce platform where users can directly buy items without participating in the auctions.

The Company's platform is loosely based on the traditional auction model yet it also combines gamified e-commerce elements and an online voucher credits redemption system.

Users participate in auctions on MadBid.com by using credits. Credits can be awarded free of charge or can be bought in packages. Credit package prices vary based on the number of credits purchased. MadBid.com earns revenue through the sale of credit packages, from payments for product purchases, from auction wins, and from selling products directly from the site.

*Sourcing and supply of goods*

MadBid.com sources and distributes products using two types of partners – Bulk Suppliers and Dropshippers. Products are shipped directly from MadBid.com's warehouse or from its EU suppliers to UK customers or other EU customers. Some products have also been sourced internationally outside of the EU.

*Customer information*

MadBid.com is a Business-to-Consumer company. MadBid.com currently serves customers in ten markets, all of which are in Europe and North America. MadBid.com requires all its users to be over the age of 16 or 18 depending on the national best practices or laws, have ownership / access to a mobile phone or email as well as have a valid mailing address in the selected country of registration.

*Bidding process*

Users register on MadBid.com by filling out an online registration form. Users must agree to MadBid.com Terms and Conditions, Privacy Policy as well as certify their age is 16 years or older (or aged over 18 years depending on the national best practices or laws) before being allowed to register. Depending on the market, registering users may also need to provide a mobile number (validated with a confirmation code sent via free SMS) before submitting the online form in order for MadBid.com to ascertain the customer's location for the selected country of registration.

Only registered users are allowed to purchase credits and / or use the site, however new users are not required to purchase a credit package. At any point after registration, users have the choice to purchase a credit package. When a user buys a credit package they receive a number of credits that can be used to place bids and win auctions. In addition to the number of credits the full value of unsuccessful bids are aggregated as discount towards buying a product on the site.

*Auction format*

Unlike standard highest price auctions, for example eBay, which run for a predetermined length of time, MadBid.com auctions' can end at any time.  Each auction has a countdown timer between 120 and 5 seconds which is reduced as the auction progresses over time. Every time a user bids, the auction price increases by one penny/cent and the timer restarts.

If no other user places a bid and the timer reaches zero, the auction closes and the last bidder is the winner. Users have the option of either placing single bids manually or using the auto-bid function to automatically place a set number of bids on his / her behalf. In order to place a bid, users must have a sufficient number of credits. If a user has sufficient credits to participate, he / she may simply click on the 'Bid' button to place one bid resulting in up to eight credits being deducted depending on the value of the auction.

Once a user places a bid, the credits are deducted from his / her account and the user's total remaining credit balance will be adjusted (however, as detailed in the subsequent section below, the monetary value of each credit remains available to the customer to offset against the purchased price of goods or services via the website).

Typically, once credits are spent, users will not be able to reclaim the credits. They can, however, use the full monetary value of the spent credits to purchase anything from the MadBid.com shop. Credits which are issued free of charge have no monetary value, i.e. the value of used free credits cannot be used to offset the purchase price of goods or services.

Users have two options with how they use credits:

i)   Use credits to enter into a binding agreement for purchasing any product of their choice

- Auction winners win an option to purchase a product at the auction closing price. Additionally the winner is required to pay shipping and handling for the purchased item.

- Unsuccessful bidders can use the Buy Now feature to buy products. Users can purchase the item at any time during the bidding process by using the value of credits spent as an offset against the actual offered Buy Now price. The Buy Now feature and offset is available to users for a limited time. If the individual does not use the Buy Now function within the limited time period, the credits are considered consumed and the opportunity for the user to employ the value of the credits is lost. In addition to using the discount while the auction is running, if the user bids on the auction and does not buy it while it is running at auction closure the discount gets put into a pool. This pool of discount called "earned discount" can be used towards making a purchase on any product currently on auction or in the MadBid.com shop.

ii)  Let the credits expire

- Purchased credits remain active for a minimum of 180 days and earned discount remain active for 30 days from the date of deposit.  For latest time limits please refer to MadBid.com's Terms and Conditions.

*Product purchases*

Customers may purchase products through three options; the first two options entail bidding and the third option does not require bidding. All users who place a bid on MadBid.com have the right to purchase a won auction or buy it out right.

**Option 1** – Bid and Win: The total cost incurred by the winning bidder is the sum of the value of credits spent bidding and the auction closing price plus shipping and handling.

**Option 2** – Bid, and Buy with Buy Now or Earned Discount: The total cost incurred by such a bidder is the Buy Now price less the sum of the value of credits spent bidding on the auction; the latter component being the Buy Now offset. The full value of the credits spent in unsuccessful bids can also be used as a price offset for any product in the Earned Discount shop.

**Option 3** – Buy Direct with Buy Now: The total cost incurred by the user is the Buy Now price plus shipping and handling costs.