



SBI Offshore Limited

(Incorporated in the Republic of Singapore on 1 October 1994)
(Company Registration Number: 199407121D)

INDEPENDENT AUDITOR'S COMMENTS ON FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

Pursuant to Rule 704(4) of the Singapore Exchange Securities Trading Limited (“**SGX-ST**”) Listing Manual Section B: Rules of Catalist, the board of directors (the “**Board**”) of SBI Offshore Limited (the “**Company**”, and together with its subsidiaries, the “**Group**”) wishes to announce that the independent auditor of the Company, BDO LLP, has, without qualifying its audit opinion, included in its report (“**Independent Auditor’s Report**”) for the audited financial statements of the Group and the Company for the financial year ended 31 December 2019 (“**FY2019**”) (“**Audited Financial Statements**”), emphasis of matters in respect of the following:

- (i) report received from KordaMentha Pte Ltd on the independent review (the “**Report**”) relating to the unauthorised write-off of approximately RMB17.3 million payables by the Company’s wholly owned subsidiary, Jiangyin SBI Offshore Equipment Co., Ltd. (“**JSBI**”), to the Company. The Company is undergoing follow up review by the Singapore Exchange Regulation Pte Ltd (“**SGX Regco**”) in relation to the findings highlighted in the Report. The follow up review by SGX Regco is ongoing and has not been concluded; and
- (ii) special audit commissioned by the Company, pursuant to the receipt of Notice of Compliance from SGX Regco dated 21 December 2018, to investigate several matters in relation to the disposal of the leasehold property and related land lease prepayment held by JSBI. The special audit is ongoing and has not been concluded.

A copy of the Independent Auditor’s Report and an extract of Note 29 and Note 30 to the Audited Financial Statements are attached to this announcement for information.

Shareholders of the Company (“**Shareholders**”) are advised to read the Audited Financial Statements in its Annual Report for FY2019, which will be announced on the SGXNet in due course.

By Order of the Board

Mirzan Bin Mahathir
Executive Non-Independent Chairman

10 April 2020

*This announcement has been prepared by SBI Offshore Limited (the “**Company**”) and its contents have been reviewed by the Company’s sponsor, ZICO Capital Pte. Ltd. (the “**Sponsor**”), in accordance with Rule 226(2)(b) of the Singapore Exchange Securities Trading Limited (“**SGX-ST**”) Listing Manual Section B: Rules of Catalist.*

This announcement has not been examined or approved by the SGX-ST and the SGX-ST assumes no responsibility for the contents of this announcement, including the correctness of any of the statements or opinions made or reports contained in this announcement.

The contact person for the Sponsor is Ms. Alice Ng, Director of Continuing Sponsorship, ZICO Capital Pte. Ltd. at 8 Robinson Road, #09-00 ASO Building, Singapore 048544, telephone (65) 6636 4201.

INDEPENDENT AUDITOR'S REPORT

To the Members of SBI Offshore Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of SBI Offshore Limited (the "Company") and its subsidiaries (the "Group"), which comprise:

- the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2019;
- the consolidated statement of comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows of the Group and the statement of changes in equity of the Company for the financial 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 and the statement of financial position and statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 (the "Act") and Singapore Financial Reporting Standards (International) ("SFRS(I)s") 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 2019, and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group and the changes in equity of the Company for the financial year ended on that date.

Basis for Opinion

We conducted our audit in accordance with Singapore Standards on Auditing ("SSA"). 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.

Key Audit Matter

In connection with the review of the NPT Transactions by PricewaterhouseCoopers Advisory Services Pte. Ltd. ("PwC") and the release of PwC's findings in the financial year ended 31 December 2016, Mr. Tan Woo Thian ("Mr. Tan") had commenced legal proceedings against PwC in the High Court of Singapore (the "Suit"). Under the terms of engagement between the Company and PwC, the Company would be liable for any costs incurred by PwC in the event that third parties commenced proceedings against PwC in relation to the services it rendered to the Company.

On 20 August 2019, the Company announced that it has received an Originating Summons filed by PwC in the High Court of the Republic of Singapore against the Company. In the Originating Summons, the Company has been ordered to reimburse PwC all legal costs and disbursements incurred by PwC in relation to the legal proceedings filed by Mr. Tan against PwC and the Originating Summons.

As at 31 December 2019, the Company had recognised liabilities of US\$701,000 in relation to costs incurred by PwC in defending itself in the Suit.

As at the date of these financial statements, the closing submission for the trial between Mr. Tan and PwC has been postponed beyond 4 May 2020 with dates to be determined. According to the Company's legal advisor's correspondence with Rajah & Tann Singapore LLP ("R&T"), it is premature to ascertain if there are further claims for the period subsequent to 31 December 2019 until the Suit is concluded.

We have determined this to be a key audit matter as the claims are of financial significance to the Group during the financial year.

Related Disclosures

Refer to Note 18 and Note 28 to the financial statements.

Audit Response

Our procedures included, amongst others, the following:

- Examined supporting documents, including the terms of engagement between the Company and PwC, provided by management and held discussions with the Board, management and legal advisor to understand the facts and circumstances surrounding the Suit and the PwC claims;
- Assessed the appropriateness of the liabilities recognised in relation to the Suit;
- Obtained external legal confirmations directly from the Company's legal advisors; and
- Assessed the adequacy of the related disclosure notes to the financial statements in relation to the Suit and the PwC claims.

Emphasis of Matters

We draw your attention to Note 29 and Note 30 to the financial statements to the following matters, respectively:-

- (i) The Board of Directors announced that the Company had, on 20 June 2019, received a report from KordaMentha Pte Ltd on the independent review relating to the unauthorised write-off of RMB17.3 million payables by Jiangyin SBI Offshore Equipment Co., Ltd. to the Company in 2015 and summary of findings of the independent review. The Company is undergoing follow up review by the Singapore Exchange Regulation Pte Ltd (“SGX RegCo”) in relation to the findings highlighted in the independent review report.
- (ii) The Company received a Notice of Compliance dated 21 December 2018 (the “Notice”) from the SGX RegCo and a special auditor was appointed on 21 March 2019 to investigate several matters in relation to the disposal of the leasehold property and related land lease prepayment held by a China subsidiary.

As of the date of these financial statements, the follow up review by SGX RegCo and the special audit are ongoing and have not been concluded.

Our opinion is not modified in respect of these matters.

Other Information

Management is responsible for the other information. The other information comprises the 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 SFRS(I)s, 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.

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.

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 the subsidiary corporation 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 Adrian Lee Yu-Min.

BDO LLP
Public Accountants and
Chartered Accountants

Singapore
9 April 2020

Extracted from Note 29 to the Audited Financial Statements of SBI Offshore Limited for the financial year ended 31 December 2019.

29. Update on receivable of RMB17.3 million from a China subsidiary, Jiangyin SBI Offshore Equipment Co., Ltd. (“JSBI”) and recoverability of the said amount

As announced by the Company on 28 February 2018, the Board was made aware by its auditors of a difference between the audited 2015 accounts of the Company and those of the Company’s wholly-owned subsidiary, JSBI, incorporated in the PRC.

Based on the Board’s review, the difference arose because there was an amount of RMB17.3 million (equivalent to US\$2.65 million) payable by JSBI to the Company (“JSBI Payables”) that was written off in the audited 2015 PRC financial statements of JSBI for statutory and tax filing purposes without the authorisation of the Board (the “Write-off”). Whilst the Write-off was made in the audited PRC financial statements, the Write-off was not made or adjusted for in the JSBI’s accounting records to date. Hence, the intercompany balances could be and were eliminated on consolidation for the Group’s financial statements in 2015 and 2016.

The Board has determined that there is no basis for the unauthorised Write-off as there were no records of minutes or Board resolutions passed to approve the Write-off and the Board will seek to reverse the written off amount.

After consultation with the PRC tax advisors, should the written off amount be reversed in JSBI’s audited financial statements, the PRC tax authorities might deem the RMB17.3 million as income of JSBI and impose a value added tax (“VAT”) of 17% (approximately RMB2.5 million on the VAT exclusive amount of RMB14.8 million) as the RMB17.3 million arose from the receipts of monies by JSBI on behalf of the Company.

Accordingly, a provision of RMB2.5 million (equivalent to US\$373,000) for potential tax-related liabilities has been recorded in the Group’s financial statements for the year ended 31 December 2017. The Board has assessed and determined that no further provision is required for the financial years ended 31 December 2019 and 2018 based on their consultation with the PRC tax advisors.

As announced by the Company on 25 May 2018, the Board appointed KordaMentha Pte Ltd (“KordaMentha”) as the independent reviewer (“Independent Reviewer”) to undertake a review of the matter(s) that may have given rise to the unauthorised Write-off in 2015, *inter-alia*, breaches in rules, laws and regulations as well as lapses in control (the “Independent Review”).

On 20 June 2019, the Company announced that it had received a report from KordaMentha on the Independent Review (the “Report”) which highlighted, among others, the following:

a) Potential breaches of Catalist Rules in relation to the following matters:

- (i) The Company received a promissory note (“Promissory Note”) from one of the Placees, Millennium Marine Pte Ltd (“Millennium”) on 31 October 2014, as an alternative to receiving cash for Millennium’s subscription in respect of the 2014 Share Placement (the “Millennium Placement Shares”). Notwithstanding the above, the Company proceeded to announce the completion of the 2014 Share Placement, without disclosing that payment from Millennium has not been received and that the Company had only received the Promissory Note as a substitute of the consideration for the Millennium Placement Shares. Furthermore, in the event the Promissory Note cannot be considered as a payment for Millennium’s subscription of the Millennium Placement Shares, the public may have been misled that the Company had received the consideration in full from Millennium for the Millennium Placement Shares.
- (ii) In the event the Promissory Note is not considered a full satisfaction of the Millennium Placement Shares, the Company may have falsely lodged in its return of allotment of shares with the Accounting and Corporate Regulatory Authority (“ACRA”) that the shares allotted and issued pursuant to the 2014 Share Placement were fully paid up.

29. Update on receivable of RMB17.3 million from a China subsidiary, Jiangyin SBI Offshore Equipment Co., Ltd. ("JSBI") and recoverability of the said amount (Continued)

- (iii) Non-disclosure in the Company's announcements in relation to the use of proceeds from the 2014 Share Placement for the advance payment for a proposed acquisition of a China company in 2015 and payment of general and operating expenses of JSBI. KordaMentha also recommended that the balance of the funds from the 2014 Share Placement be transferred to a dedicated bank account for clear accounting of the use of proceeds.
 - (iv) Non-disclosure of the indemnity provided by two of the then Directors to Millennium in the 2014 Share Placement against potential financial loss that may arise in relation to Millennium's subscription for the Millennium Placement Shares. Such indemnity was not extended to the other investors of the 2014 Share Placement.
- b) Circumvention of internal controls as no approval was sought from the then Board of Directors for the Write-off; and
- c) Update the policies of the Company to include:
- (i) a regular data backup to be performed on the server of the Company; and
 - (ii) the hard disks of employees to be kept for a period of at least five years before the destruction of these disks.

The Company's responses and follow up actions to the Report are as follow:

- a) The Company has appointed R&T as the independent legal advisor to advise the Company on the matters arising from the Report. Following R&T's review of the Report, the Company has not suffered any financial impact in relation to the unauthorised Write-off and no adjustment was made to the Company's financials and the JSBI Payables remains due to the Company.
- b) The cash proceeds of the Millennium Placement Shares had been collected in full as of 31 December 2014.
- c) The Company has reviewed its past payments made out of the net proceeds from the 2014 Share Placement and announced a summary of revised use of net proceeds on 25 November 2019.
- d) The Company became a cash company on 28 February 2019 and has placed 90% of its total cash existing at 28 February 2019 in escrow accounts as disclosed in Note 15 to the financial statements.
- e) The Company requires more time in the review of the impact of the Write-off, tax reporting requirements and other associated tax impact in the PRC.
- f) The Company has updated its policies to include:
 - (i) a regular data backup on the server of the Company; and
 - (ii) the hard disks of computers used by employees to be kept for a period of at least five years before the destruction of these disks.

29. Update on receivable of RMB17.3 million from a China subsidiary, Jiangyin SBI Offshore Equipment Co., Ltd. (“JSBI”) and recoverability of the said amount (Continued)

Based on management and the Board’s assessment, save for the provisions for potential tax exposure and possibility of further provisions for potential tax penalties and legal implications (as detailed below under “Contingent liabilities”) which may be required to be recorded by JSBI or the Company:

- The Write-off had not resulted in any material direct financial loss to the Group and the Company;
- The Group’s financial statements for the current and prior financial years are not materially misstated as the intercompany balances were eliminated on consolidation; and
- The amount receivable from JSBI of RMB17.3 million recognised in the Company’s financial statements are recoverable and supported by the recoverable amounts of JSBI’s net assets comprising mainly cash held by JSBI in restricted deposits as disclosed in Note 15 to the financial statements.

Contingent liabilities

As at the date of these financial statements, in respect of potential penalties and legal implications, no provision has been made as the follow up review by Singapore Exchange Regulation Pte Ltd (“SGX RegCo”) on the Company regarding the findings highlighted in the Report is ongoing and has not been concluded. It is premature to ascertain if there are any potential penalties and legal implications prior to the conclusion of the follow up review.

Extracted from Note 30 to the Audited Financial Statements of SBI Offshore Limited for the financial year ended 31 December 2019.

30. Notice of Compliance issued by Singapore Exchange Regulation Pte Ltd (“SGX RegCo”) in relation to the disposal of leasehold property and related land lease prepayment (“Property”) held by JSBI

On 20 December 2018, the Company announced the queries raised by the SGX RegCo and the corresponding responses by the Company in relation to the disposal of the Property held by JSBI.

On 21 December 2018, the Company had received a Notice of Compliance from the SGX RegCo which requires the Company to appoint a special auditor with relevant expertise in property valuation in the PRC to investigate into the disposal of the Property.

On 21 March 2019, the Company announced that, in consultation with the Company’s sponsor and the SGX RegCo, the Board has appointed RSM Corporate Advisory Pte Ltd as the special auditor (the “Special Auditor”) to investigate into, among others, the following:

- a) background and circumstances which led to the acquisition and the subsequent disposal of the Property;
- b) whether the disposal price of the Property was marked to comparable market transactions at the time of disposal;
- c) facts and circumstances that could explain for the significant drop in value of the Property given the difference in valuation prices ascribed by Suzhou Welsen Assets Appraisal Co., Ltd (“Suzhou Welsen”) in its report of 2017 vis-à-vis the past valuation reports issued by Wuxi Dsinfo Real Estate & Land Appraisal Consulting Co., Ltd (“Wuxi Dsinfo”);
- d) background checks on the reputation and track records of Suzhou Welsen and Wuxi Dsinfo;
- e) chronology of events, facts and circumstances surrounding:
 - (i) the appointment of Suzhou Welsen;
 - (ii) the negotiation of the disposal of the Property; and
 - (iii) the scope of due diligence performed on the purchaser and the disposal of the Property;
- f) review of the Company’s internal processes relating to:
 - (i) the appointment of professional advisors; and
 - (ii) the acquisitions and disposals, and make recommendations on improvements to any control lapses identified; and
- g) whether there is any potential breach of listing rules, laws or regulations governing the Company and its personnel.

The Special Auditor will report their findings directly and strictly to SGX RegCo and the Company’s sponsor.

Based on management and the Board’s assessment, save for the provisions for potential legal implications (as detailed below under “Contingent Liabilities”) which may be required to be recorded, the disposal of the Property has been appropriately accounted for as the disposal was made to a third party on a commercial basis and the consideration of RMB18 million was arrived on a willing buyer willing seller basis.

30. **Notice of Compliance issued by Singapore Exchange Regulation Pte Ltd (“SGX RegCo”) in relation to the disposal of leasehold property and related land lease prepayment (“Property”) held by JSBI (Continued)**

Contingent liabilities

As at the date of these financial statements, in respect of potential legal implications, no provision has been made as the special audit is ongoing and has not been concluded and it is premature to ascertain if there are any potential legal implications prior to the conclusion of the special audit.