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

RELEASE OF REPORT BY SPECIAL AUDITOR PURSUANT TO THE NOTICE OF COMPLIANCE ISSUED BY SGX REGCO ON 21 DECEMBER 2018

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1. INTRODUCTION

The board of directors (the “**Board**” or “**Directors**”) of SBI Offshore Limited (the “**Company**”, and together with its subsidiaries, the “**Group**”) refers to (i) the Notice of Compliance (the “**Notice**”) issued by Singapore Exchange Regulation Pte Ltd (“**SGX Regco**”) on 21 December 2018; and the Company’s announcement dated 21 March 2019 (the “**Announcement**”) in relation to the appointment of RSM Corporate Advisory Pte Ltd (“**RSM**”) as the special auditor pursuant to the Notice 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 Audit**”).

Unless otherwise defined, all capitalised terms shall bear the same meaning as ascribed to them in the Notice and the Announcement.

The Board wishes to announce that, on 12 June 2020, it was informed that the Special Audit has been completed and the full report on RSM’s findings (the “**Special Audit Report**”) had been submitted to the SGX Regco and the Company’s sponsor. An executive summary of the Special Audit Report (the “**Executive Summary**”), setting out the background, summary of findings and recommendations is annexed to this announcement. Shareholders of the Company (“**Shareholders**”) should read the full text of the Executive Summary attached hereto for the detailed findings.

2. ACTIONS TO BE TAKEN BY THE BOARD

The Board is cognizant of the potential breaches of laws and/or the Singapore Exchange Securities Trading Limited Listing Manual Section B: Rules of Catalist ("**Catalist Rules**") highlighted by RSM and will assess the findings and determine the appropriate course of action in the best interests of the Group and the Shareholders.

The Company will make further announcement(s) to update Shareholders as and when appropriate in accordance to the Catalist Rules. Shareholders are advised to read this announcement (including the Executive Summary) and any further announcements by the Company carefully.

3. CAUTIONARY STATEMENT

Shareholders and potential investors should exercise caution when dealing in the Company's shares, and when in doubt as to the action they should take, Shareholders should consult their financial, tax, legal or other professional advisers.

By Order of the Board

Mirzan Bin Mahathir
Executive Non-Independent Chairman

12 June 2020

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*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.

1 EXECUTIVE SUMMARY

1.1 Introduction

1.1.1 SBI Offshore Limited ("**SBI**" or "**the Company**") was incorporated in Singapore in 1994 and listed on the Catalist Board of SGX-ST on 11 November 2009. The Company and its subsidiaries ("**Group**") provide integrated drilling equipment and engineering solutions for the oil and gas industry, and have also diversified into solar energy.

1.1.2 Between 2010 and 2018, SBI made certain announcements on SGXNET in respect of the acquisition and subsequent disposal of the land-use rights and a factory building in the People's Republic of China by its wholly-owned subsidiary, Jiangyin SBI Offshore Equipment Co., Ltd (江阴海丰海洋工程设备有限公司) ("**JSBI**"):

(i) On 30 September 2010, JSBI acquired certain assets which included the land-use rights and a factory building at No. 28 Beihuan Road, Yuecheng Town, Jiangyin, Jiangsu Province, PRC (江阴市月城镇北环路 28 号) (collectively, the **"JSBI Property"**) from Jiangyin Neptune Marine Appliance Co., Ltd (江阴耐波特船用设备有限公司) ("**NPT**") for a total consideration of RMB32,000,000.

(ii) On 27 December 2017, JSBI entered into the Jiangyin Real Estate Sale and Purchase Agreement (the **"Sale Agreement"**) with Jiangyin HF Investment Consultant Co., Ltd (江苏隆之峰机械有限公司) (**"JHIC"**) to sell the JSBI Property for RMB18,000,000 (the **"Disposal"**). Based on the valuation report prepared by Suzhou Welsen Assets Appraisal Co., Ltd (苏州华星资产评估有限公司) (**"Suzhou Welsen"**), the valuer commissioned by JSBI, the market value of the JSBI Property as at 31 August 2017 derived using the income approach was RMB17,783,000.

(iii) Completion of the sale of the JSBI Property took place on 6 March 2018. Net proceeds from the Disposal after paying relevant taxes and transaction fee associated with the sale of RMB16,029,000 was disbursed to JSBI on 15 March 2018.

1.1.3 Following the above announcements, Singapore Exchange Regulation Pte. Ltd. ("**SGX RegCo**") raised several queries in relation to the Disposal of the JSBI Property, and SBI published its responses to those queries in an announcement on 20 December 2018. On 21 December 2018, SGX RegCo issued a Notice of Compliance (the "**NOC**") to the Company requiring the Company to appoint a special auditor to conduct an investigation as part of its inquiry into the observations stated in Paragraph 6 of the NOC. As stated in Paragraph 8 of the NOC, the special auditor shall report their findings directly and strictly to SGX Regco and the Company's sponsor.

1.1.4 RSM Corporate Advisory Pte Ltd ("**RSMCA**") was subsequently appointed to act as the Special Auditor to carry out the following scope of work:

(i) Background and circumstances which led to the acquisition and the subsequent Disposal of the JSBI Property;

(ii) Whether the Disposal price of the JSBI Property was marked to comparable market transactions at the time of Disposal;

(iii) Facts and circumstances that could explain for the significant drop in value of the JSBI Property given the difference in valuation prices ascribed by Suzhou Welsen in its report of 2017 vis-à-vis the past valuation reports issued by Wuxi Dsinfo Real Estate Appraisal Consulting Co., Ltd. (无锡德恒方房地产土地评估咨询有限公司) ("**Wuxi Dsinfo**");

(iv) Background checks on the reputation and track records of Suzhou Welsen and Wuxi Dsinfo;

(v) Chronology of events, facts and circumstances surrounding:

a) the appointment of Suzhou Welsen;

b) the negotiations on the Disposal of the JSBI Property; and

c) the scope of due diligence performed on the purchaser and the Disposal of JSBI Property;

(vi) Review of the Company's internal processes relating to:

a) the appointment of professional advisors; and

b) the acquisitions and disposals,

and make recommendations on improvements to any control lapses identified; and

(vii) Whether there is any potential breach of listing rules, laws or regulations governing the Company and its personnel. This will include, but not limited to, the identification of all responsible parties and lapses on their part and determine if the Board of Directors ("**BOD**") (including the Audit Committee ("**AC**")) has discharged their fiduciary duties and acted in the interest of shareholders.

In carrying out the above, we have communicated directly with SGX Regco which included providing the draft report directly and strictly to SGX RegCo and the Company's Sponsor before delivering the signed report to the them, as required by SGX Regco,

1.1.5 Our findings in this report are based on various sources of information and documents including those provided by the Company and available publicly, enquiries and discussion sessions conducted with various individuals, the valuation conducted by Savills Real Estate Valuation (Guangzhou) Ltd - Shanghai Branch ("**Savills**") which was commissioned by us, as well as responses from the Maxwellisation process.

1.1.6 We have, where possible, taken steps to ensure that the information provided is complete. In cases where such steps have not been practicable, we have relied on the Company's representation (including that of its BOD members) that such information provided is accurate, full and complete. We do not warrant, whether expressly or impliedly, the accuracy, veracity and / or completeness of such facts and information provided to us and relied upon in this report.

1.1.7 No reliance should be placed by any third party on the report for any purpose whatsoever and we accept no responsibility for the consequences of disclosure of this report to any third party notwithstanding that we may have consented to such disclosure. This report may contain price-sensitive information relating to the Company whose shares are listed on the Singapore Exchange Securities Trading Limited ("**SGX-ST**") and we hereby expressly disclaim and take no responsibility, directly or indirectly, for any and all liabilities of any nature whatsoever in the event that this report is disclosed to any party / parties, whether directly, indirectly, intentionally or otherwise. We report the factual findings resulting from our work.

1.1.8 We would like to emphasise that the scope of work is different from that of an audit under the Companies Act (Cap. 50) or in accordance with generally accepted auditing practices and it does not constitute an audit. In this regard, we do not express an audit opinion in this report.

1.1.9 It should be noted that we are not qualified to provide legal advice. Our findings and comments should not at any time be construed as constituting legal advice on any matter. Where it is deemed appropriate or necessary, separate and independent legal advice should be sought on any of the matters, issues and / or findings contained, or referred to, in this report, which may have legal consequences.

1.1.10 For the avoidance of doubt, the statements, opinions and information contained in this report are current as at the date of the report, unless otherwise specified. We reserve the right (but are not under any obligation whatsoever) to review, alter, supplement and / or amend the report in the light of any additional information and / or matters made known to us as a result of new developments and / or disclosures subsequent to the date of this report.

1.2 Acquisition of the JSBI Property

1.2.1 SBI held 95% equity stake in JSBI since its incorporation in 2009. In 2010, SBI's equity interest increased to 98% and on 3 June 2013, JSBI became a wholly-owned subsidiary of SBI. Jiangyin Wanjia Yacht Co., Ltd (江阴万家游艇有限公司) ("**Wanjia**") was the other shareholder of JSBI.

1.2.2 SBI held 35% equity stake in NPT since 3 March 2009 until 4 January 2016 when its equity interest was disposed to Wanjia. The other shareholders of NPT prior to SBI's disposal of shares were Wanjia and DSB Engineering Co., Ltd.

1.2.3 In line with the Group's plans to expand its manufacturing capabilities in Jiangyin, PRC, JSBI entered into a Business and Assets Acquisition Agreement with NPT, Wanjia and Mr Hua Hanshou ("**Mr Hua HS**") dated 9 January 2010 ("**BAA**"). The salient terms of the BAA are as follows:

BAA between JSBI, NPT, Wanjia and Mr Hua HS (Wanjia and Mr Hua HS as guarantors of NPT's obligations under the BAA)			
Date	:	9 January 2010	
Consideration	:	Not stated (estimated to be RMB15.4 million as stated in announcement dated 14 January 2010)	
Assets acquired by JSBI	:	(i)	NPT's davit manufacturing business;
		(ii)	Land at 28 Beihuan Road (at cost);
		(iii)	Movable fixed assets (at net book value ("**NBV**")); and
		(iv)	Inventories (at lower of cost or current realisable value).
Other salient terms	:	(i)	Immovable fixed assets forming part of the factory paid by JSBI shall be transferred to NPT at cost[1];
		(ii)	JSBI shall rent the factory at 28 Beihuan Road from NPT for 3 years at 10% below market rate to be determined by an external valuer. JSBI shall prepay 3 years of rental charges upon signing the rental agreement; and
		(i)	Wanjia and Mr Hua HS shall provide joint and several guarantee to JSBI for NPT's obligations under the BAA.
Signatories	:	Mr Tan Woo Thian ("**Mr David Tan**") as legal representative of JSBI	

[1] This appears to be factory construction costs paid by JSBI.

BAA between JSBI, NPT, Wanjia and Mr Hua HS (Wanjia and Mr Hua HS as guarantors of NPT's obligations under the BAA)	
	Ms Hua Hai Jing as legal representative of NPT and Wanjia Mr Hua HS on behalf of himself

1.2.4 We were informed by the individuals we held discussions with that Mr David Tan was the main person who negotiated the transaction, with some involvement from Mr Hui Choon Ho ("**Mr Jonathan Hui**") as the latter was the Executive Chairman then. Mr Jonathan Hui also informed us that the reason the factory building was not included in the acquisition was because JSBI did not require the entire factory building space but only a portion of it at that point in time. Mr Jonathan Hui also confirmed to us that when the BAA was entered into, the factory building was in an uncompleted state and that the building structure was still under construction.

1.2.5 On the contrary, Mr David Tan informed us that Mr Jonathan Hui was the main person involved in the negotiation with NPT (with involvement by Mr Sovann as well) and that Mr David Tan himself was present as the Legal Representative of JSBI. Mr David Tan also confirmed that at the time when the BAA was entered into, the factory building was partially completed at 70% to 75%. He also provided us with an email sent to an external party which contains photographs of the factory building taken sometime in July 2009. In addition, Mr David Tan explained that the BAA "*was only an in-principle agreement with many of the fundamental terms not agreed between the parties. Negotiations on these fundamental terms continued between Jonathan representing SBI and Mr Hua representing NPT*".

1.2.6 The BAA was approved by the BOD and AC via two separate Resolutions in Writing, both dated 9 January 2010. An announcement on the BAA was made on SGXNET on 14 January 2010.

1.2.7 Approximately nine months later on 30 September 2010, an addendum was signed to supplement the BAA ("**Addendum**"). We note that the terms contained in the Addendum signified a significant departure from the original intention of the parties under the BAA. The key differences include the following:

(i) Under the Addendum, JSBI would no longer acquire NPT's davit manufacturing business and inventories;

(ii) Instead, JSBI would acquire the factory building. Consistent with the acquisition, JSBI's rental of the factory building was removed from the Addendum and parties agreed that NPT should vacate the factory building in stages by 31 January 2011; and

(iii) The consideration under the Addendum was stated as RMB32 million, compared to the estimated consideration of RMB15.4 million as stated in the announcement dated 14 January 2010 with respect to the BAA.

1.2.8 The salient terms of the Addendum are as follows:

Addendum between JSBI, NPT, Wanjia and Mr Hua HS (Wanjia and Mr Hua HS as guarantors of NPT's obligations under the Addendum)			
Date	:	30 September 2010	
Consideration	:	RMB32,000,000	
Assets acquired by JSBI	:	(i)	The land-use rights (the "**JSBI Land**") and a factory building at No. 28 Beihuan Road, Yuecheng Town, Jiangyin, Jiangsu Province, PRC (江阴市月城镇北环路 28 号) (the "**JSBI Building**") (collectively, the "**JSBI Property**")
		(ii)	Hydroelectric equipment
		(iii)	Other utility infrastructure
Other salient terms	:	(i)	Parties will abandon the acquisition of the davit manufacturing business contemplated under the BAA;
		(ii)	Taxes arising from the transfer of the land-use rights shall be borne by JSBI while the tax arising from transfer of the other assets shall be borne by NPT (Clause 3);
		(iii)	NPT shall get back the tax invoice for the project payment made by JSBI to Jiangsu Hongcheng Construction Co., Ltd (Xue Jianping) of

Addendum between JSBI, NPT, Wanjia and Mr Hua HS (Wanjia and Mr Hua HS as guarantors of NPT's obligations under the Addendum)		
		RMB4,806,000[2] and JSBI shall not be responsible for the relevant tax (Clause 3);
	(iv)	NPT confirms that JSBI has already paid a total amount of RMB10,789,428 as downpayment for the consideration (Clause 4);
	(v)	NPT shall handover the Land-Use Right Certificate immediately upon the signing of the Addendum and shall assist JSBI in completing the transfer of the same before 30 October 2010. JSBI shall be responsible for the taxes and government charges relating to the transfer (Clause 5);
	(vi)	NPT shall assist JSBI to obtain all certificates and permits necessary for the normal and legal operations in the factory building (Clause 6);
	(vii)	NPT shall vacate the factory building in stages and complete the same before 31 January 2011 (Clause 7);
	(viii)	All invoiced inventory acquired by JSBI for the davit manufacturing business up to 31 August 2010 shall be transferred at cost to NPT. JSBI shall make payment directly to the suppliers which shall be treated as an advance payment for the consideration (Clause 9.1);
	(ix)	All advances and prepayments of RMB1,054,629.44 made by JSBI on behalf of NPT up to 31 August 2010 for employees' salaries, prepayments to suppliers and utility charges shall be treated as an advance payment for the consideration (Clause 9.2);
	(x)	The consideration shall be paid in accordance with NPT's relocation schedule (Clause 9.3): - RMB1,500,000 before 15 October 2010

[2] We understand from Mr David Tan that JSBI had already paid the amount of RMB4,806,000 to the subcontractor but no proper invoice was given to JSBI. With this clause, the responsibility fell on NPT as main contractor to procure the tax invoice(s) from the subcontractor for JSBI, which would allow JSBI to properly account for the payment made.

<table>
<tr><th colspan="3">Addendum between JSBI, NPT, Wanjia and Mr Hua HS
(Wanjia and Mr Hua HS as guarantors of NPT's obligations under the Addendum)</th></tr>
<tr><td></td><td></td><td>- RMB1,500,000 before 31 October 2010 subject to the transfer of the Land-Use Right Certificate
- RMB2,000,000 before 30 November 2010
- RMB3,000,000 before 10 December 2010
- The balance amount before 31 December 2010
(xi) The construction cost for the factory building which has yet to be settled by JSBI before 1 September 2010 shall be borne by NPT and JSBI shall not be responsible for it (Clause 9.4); and
(xii) Wanjia and Mr Hua HS shall provide joint and several guarantee to JSBI for NPT's obligations under the Addendum (Clause 10).</td></tr>
<tr><td>Signatories</td><td>:</td><td>Mr David Tan as legal representative of JSBI
Ms Ollie Hua as legal representative of NPT and Wanjia
Mr Hua HS on behalf of himself</td></tr>
</table>

1.2.9 We were informed by Mr Jonathan Hui that at the time when the Addendum was signed, the construction of the factory building was still underway but the building structure has been completed by then. Mr David Tan estimated that the factory building was 85% completed at that time. As it is unclear from the Addendum whether JSBI was acquiring the factory building based on the existing condition then as an uncompleted building or as a completed building (which means that NPT would be required to complete the construction), we have sought clarifications from Mr Jonathan Hui and Mr David Tan. Whilst Mr Jonathan Hui was unable to advise, Mr David Tan confirmed to us via email that NPT was obliged to complete the construction of the factory building before handing over the same to JSBI. This is consistent with Mr Sovann's account of events as stated in his Maxwellisation response that "*the management had represented that at the time of acquisition, the factory building was not fully completed and the consideration was based on estimates of cost incurred or to be incurred by NPT to complete the factory building to the original design*".

1.2.10 When enquired on the reason for the significant deviation of terms of the acquisition under the Addendum compared to the BAA, Mr Jonathan Hui informed us that the original intention under the BAA was for JSBI to be involved in the davit manufacturing business and for this, JSBI would only require about 20% of the factory space. However, subsequent to the signing of the BAA, JSBI was in discussions with a major customer, Aker Solutions / Aker MH AS (for simplicity, this customer is referred to as "**Aker**") to manufacture drilling equipment packages for them. Aker had conducted an audit on JSBI's factory and subsequently approved JSBI as its qualified contractor in March 2010. With the approval, JSBI anticipated that it would require the entire factory building in order to fulfil the manufacturing needs of Aker's orders which led to the decision to acquire the JSBI Property. We note that at the time of signing of the Addendum, Aker had not awarded any contracts to JSBI.

1.2.11 Mr David Tan, on the other hand, explained that there were plans for SBI to acquire NPT as early as 2008 for the davits and lifeboats construction business. According to him, the BAA was "*only an in-principle agreement*" with many fundamental terms not agreed and continued to be negotiated between the parties after the BAA was signed. Eventually, due to disagreements, it was decided that JSBI would acquire the factory building but the davits and lifeboats business would remain with NPT.

1.2.12 Mr Jonathan Hui and Mr David Tan informed that the consideration of RMB32 million was negotiated by them. According to Mr David Tan, the consideration sum was "*based entirely on the amount Mr Hua had actually incurred for the construction…[and] what NPT paid to the government*" for the land. He further informed that the costs were verified by three employees of JSBI namely the purchasing/warehouse manager, finance manager and production and project manager, as well as himself, and that the invoices were also submitted to Mr Jonathan Hui and the finance manager of SBI. As Mr David Tan was on site at the factory, Mr Jonathan Hui said that he relied on Mr David Tan in verifying the costs of construction and equipment which formed part of the acquisition price agreed under the Addendum. Mr Jonathan Hui also informed us that part of the purchase consideration of RMB32 million was paid by JSBI to contractors and suppliers for the construction of the factory building and the rest was paid to NPT.

1.2.13 We note that there were no written resolutions by the BOD or AC to formalise the approval for the Addendum but a draft copy of the Addendum was provided by Mr Jonathan Hui to the BOD on 13 September 2010. An announcement on the Addendum was made by the Company via SGXNET on 12 October 2010.

1.2.14 We wish to highlight certain post-acquisition events which took place as follows:

(i) *Issuance of the Land-Use Rights Certificate and Certificate of Property Ownership*

While JSBI obtained the Land-Use Right Certificate on 23 October 2010 which was ahead of the deadline of 31 October 2010 stipulated under the Addendum, it only obtained the Certificate of Property Ownership for the JSBI Building on 10 February 2014. The long delay would mean that JSBI was exposed to the risks of not being the registered owner of the JSBI Property for more than three years even though it had paid a substantial portion of the consideration (64%) by end of 2010[3].

(ii) *Increase of RMB1,000,000 in purchase consideration*

Based on an email correspondence on 2 April 2012, we understand that Mr David Tan and Mr Hua HS had agreed to increase the consideration of RMB32 million to RMB33 million. The increase of RMB1 million was for the

[3] The major points given during the Maxwellisation exercise by the various individuals are as follows:

- Mr Jonathan Hui – " *As JSBI had already acquired the JSBI Land, any structure that is built on our land effectively belongs to JSBI and anybody who trespasses on our land can be prosecuted. There is little or no risk in JSBI advancing money to NPT to construct the JSBI Building on our land. As you are aware, the construction of a factory building takes time and the obtaining of the Certificate of Property Ownership after construction takes even longer in China. Hence, I totally disagree with your view that JSBI was exposed to significant risks relating to not being the registered owner of the JSBI Property for more than 3 years by advancing money to NPT for the construction of the JSBI Building*".
- Mr John Chan – "*There is limited risk unless the property is abandoned for an extended period and the authorities will take back the land use rights. With a building and activities on the land, there is no or limited risk*".
- Mr David Tan – "*The process of obtaining the Certificate of Property Ownership is tedious, complex and long-drawn. You have to deal with at least 7 separate departments and they are all operating independently in China… Since the property was well within the land which was being leased to JSBI, there was no risk*".

purchase of 6 units of lifting equipment (起重设备 6 台) and 21 units of electrical hoist (电动葫芦 21 只) as confirmed by Mr Jonathan Hui and Mr David Tan. We have not sighted any contracts / agreements, written approval or resolution by the BOD or AC, or announcement made for the additional purchase or consideration. When queried on this, Mr Jonathan Hui informed that there was no need for SBI's BOD to approve the capital expenditure of RMB1 million, as "*the directors of JSBI have the authority to approve that level of capital expenditures*"[4]. Similarly on the requirement to make an announcement, Mr Jonathan Hui's response was, "*This is a subsidiary, at the subsidiary level I don't have to, unless I increase the capital of the subsidiary. What the subsidiary does is so immaterial. I don't have to make any announcement".*

(iii) *Compulsory acquisition by the Jiangyin Yuecheng Town Xiatang Village Committee (江阴市月城镇下塘村村民委员会) ("**Jiangyin Town Authorities**")*

On 30 May 2012, the Jiangyin Town Authorities entered into two separate compensation agreements for the compulsory acquisition of a portion of the JSBI Land and JSBI Building for the purpose of a road widening project undertaken by the government ("**Compulsory Acquisition**"). Notwithstanding that the JSBI Building was acquired by JSBI from NPT under the Addendum on 30 September 2010, the compensation agreement for the JSBI Building was entered into between NPT and the Jiangyin Town Authorities. We assume this was due to the fact that the Certificate of Property Ownership on the building was only issued to JSBI in 2014. The salient terms of the compensation agreements are as follows:

[4] We understand there was a Capital Expenditure Policies and Procedures issued by the Company on 5 October 2012 which applies to all Group entities on procedures to obtain approval for capital expenditure. We were however, only provided with a copy of the Company's Capital Expenditure Policies and Procedures which were revised on 19 November 2014 (exhibited in **Appendix 68)**; we have not sighted the original version dated 5 October 2012. We note that the additional RMB1 million capital expenditure took place before the policy was issued on 5 October 2012. Based on the policy dated 19 November 2014, the purchase of the equipment would have been in compliance with the policy as the purchase would only require the approval of Executive Directors (being Mr Jonathan Hui and Mr David Tan at that time), CFO (position was vacant at that time) and GM (Mr David Tan who was the GM of JSBI at that time).

Compensation Agreements signed with Jiangyin Town Authorities			
Parties	:	JSBI	NPT
Date	:	30 May 2012	30 May 2012
Subject of acquisition	:	JSBI Land	JSBI Building / Equipment
Area	:	2,693.6 m^2	1,346.8 m^2
Compensation	:	Land compensation: RMB1,214,813.60 Reward for relocation: RMB971,850 Total: RMB2,186,663.60	Equipment compensation: RMB189,935 Unstated compensation: RMB1,482,314 Total: RMB1,672,249
		Grand total = RMB3,858,912.60	
Other terms	:	(iv) JSBI / NPT shall vacate the affected premises before 28 June 2012; (v) The demolition works will be carried out by the Jiangyin Town Authorities; (vi) Jiangyin Town Authorities shall pay 10% of the total compensation amount after the signing of the agreement, 60% after JSBI / NPT has vacated the affected premises and handover the keys, and the remaining 30% after demolition is completed and approved.	
Signatories	:	Mr David Tan[5]	Mr Hua HS

We note that the announcement made by the Company via SGXNET on 12 July 2012 was factually inconsistent and / or inaccurate with respect to the compensation sum. The announcement also did not disclose that the Compulsory Acquisition for the JSBI Building was signed by NPT or whether JBSI would be entitled to the compensation to be received by NPT.

[5] Mr David Tan's signature appears to be different from the other signature which we have sighted on most of the other documents. However, we note that the signature bore Mr David Tan's Chinese name.

With respect to the compensation of RMB2,186,663.60 which JSBI was supposed to receive from the Jiangyin Town Authorities, records show that JSBI had only received a total amount of RMB2,164,032 as the balance of RMB22,631.60 was deducted by the Jiangyin Town Authorities for costs it incurred. Based on our review of the accounting records of JSBI, we further note that the compensation sum of RMB1,482,314 for the unstated purpose received by NPT was eventually accorded to JSBI (via an offset of the amount owing by JSBI to NPT) while the equipment compensation of RMB189,935 was accorded to NPT. As such, the actual compensation sum received by JSBI as recorded in its books were RMB3,646,346 (RMB1,482,314 + RMB2,164,032).

We also enquired with the individuals who attended the discussion session with us on whether there was an agreed arrangement between JSBI and NPT with respect to the treatment of the compensation to be received by NPT for the Compulsory Acquisition of the JSBI Building, since JSBI had already acquired the JSBI Building from NPT back in 2010. None of these individuals had knowledge of the matter. [*Response to SGX: We are unable to confirm who should be the rightful party to the equipment compensation*]

(vii) *Settlement of the total purchase consideration*

The total purchase consideration of RMB33,000,000 (including the additional consideration of RMB1 million) was recorded in JSBI's books and settled as follows:

Recording and settlement of consideration	Amount (RMB)
Intangible Asset – Land	7,012,800.00
Fixed Assets – Building	23,889,400.00
Fixed Assets – Equipment	837,800.00
Fixed Assets – Building (additional purchase)	1,000,000.00
Sub-total	**32,740,000.00**
Rental expense	260,000.00
Total	**33,000,000.00**

Recording and settlement of consideration	**Amount (RMB)**
Settlement mode:	
Direct cash payment to NPT (2010 – 2013)	27,368,483.08
Payment made to NPT's suppliers (2010)	467,622.40
Offset against sales to NPT (2010)	3,681,580.52
Offset against the amount owing by NPT (2012)	1,482,314.00
Total	**33,000,000.00**

Although the purchase consideration was RMB33,000,000, we note that the actual total costs recorded in JSBI's fixed assets (land, building and equipment) was only RMB32,740,000 and not RMB33,000,000. The difference of RMB260,000 was recorded as rental expense payable by JSBI to NPT.

(viii) *Other fixed asset-related transactions with NPT*

Other than the additions to its fixed and movable assets under the Addendum recorded in JSBI's books, we note that there were several other transactions with NPT which relate to the JSBI Property and other fixed assets. Our review shows that JSBI paid an additional amount of RMB724,365.50 to NPT (via setoff of intercompany balances) which included the purchase of concrete material for RMB634,365,50 in December 2012 and purchase of testing rack for RMB90,000[6] in June 2014. These

[6] The major points given during the Maxwellisation exercise by the various individuals are as follows:

- Mr John Chan – "*there were some renovation and construction work that were undertaken … including work done to meet the requirements for obtaining the Certificate of Property Ownership. Some of the concrete purchased could have been used for these works… It is likely that the testing rack was needed to test the component that JSBI was fabricating for Aker before delivery*". Contrary to Mr John Chan's comments on the testing rack which was purchased in June 2014, we note that the Company was already in dispute with Aker as stated in its announcement dated 4 September 2012 and again announced on 2 November 2013 the non-renewal of the agency agreement with Aker when the same expired on 1 November 2013.
- Mr David Tan - "*In around 2012, JSBI was involved in the construction of an offshore oilrig for a company in Malaysia...This involved manufacturing and testing of heavy machinery to be used as part of the offshore oilrig...There was therefore a need to reinforce the test rack so that it can handle heavy machinery up to 100 tonnes in weight. In order to carry out this reinforcement work, high tensile strength was required. That in turn requires a large*

amounts are in addition to the consideration of RMB33,000,000. Of particular interest is the purchase of concrete which should have formed part of the construction costs and included in the purchase consideration (i.e, borne by NPT). On the other hand, the testing rack was purchased approximately five months before the shutdown of the JSBI's factory operations in November 2014. It is puzzling why JSBI would still require the testing rack when it was on the verge of shutting down.

(ix) *Additional costs and expenses incurred on the JSBI Property*

We further noted that there were other costs and expenses incurred on the JSBI Property including additions and renovations made to the factory building, and land transfer premium (levied by the local authority for the appreciation in land value) paid between July 2009 and December 2010 totalling RMB9,392,475.62 which were recorded as additions to JSBI's fixed assets on top of the RMB33,000,000 paid by JSBI under the Addendum to NPT. Out of this amount, JSBI had incurred RMB8,202,881.12 in construction and renovation costs. As mentioned in **Paragraph 3.2.12** below, NPT was supposed to complete the construction of the factory building before handing over the same to JSBI. Even if certain modifications and renovations were required to ensure that the factory was fitted, the additional construction and renovation costs incurred appears to be excessive as it represented about 28% of the cost of the building[7].

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amount/quantity of concrete…In 2014, the test rack became even more significant because there was a change in use of manufacturing equipment for a larger offshore oil rig for East Sunrise Group". Contrary to Mr David Tan's comments on the testing rack, we note that the Company announced its appointment as the lead contractor for a project by China Sunrise Group Co., Ltd on 29 December 2014, which took place after JSBI shut down its operations on 16 November 2014. As such, it is doubtful if the testing rack which was purchased in June 2014 was for the purposes as stated by Mr David Tan. We have clarified with Mr David Tan that "*East Sunrise Group*" stated in his Maxwellisation response refers to China Sunrise Group Co., Ltd stated in the Company's announcement.

[*Response to SGX: We are uncertain if the concrete purchased was indeed used for the oil rig project. Other than David, no one else we interviewed indicated that the concrete was for the oil rig project. However, we note from the Company's press release on 28 January 2012, announcement made on 17 August 2012 and information disclosed in the 2012 Annual Report, that the Company secured an Engineering, Procurement, Construction and Commissioning ("EPCC") offshore project worth US$30 million in Malaysia. Notwithstanding the project, we note that the revenue generated by JSBI in 2012 and 2013 was only RMB3.9 and RMB2.3 million respectively (see page 90).]*

[7] Out of the cost of the building recorded in its financial statements as at 31 December 2010 of RMB29,490,028.

Further, pursuant to Clause 9.4 of the Addendum, it was stated that "*the construction price for the factory building….not settled yet by [JSBI] before September 1, 2010 shall be borne by [NPT], and [JSBI] will not be responsible for that*". We note that out of the total sum of RMB9,392,475.62, the renovation-related expenses totalling RMB203,069.00 were only settled by JSBI after 1 September 2010 (and not NPT), contrary to the agreed terms under the Addendum

In addition, we note that RMB8.19 million was purportedly incurred for construction and renovation of the JSBI Property prior to the signing of the Addendum on 30 September 2010, when the JSBI Property had not been included as the asset to be acquired by JSBI. When queried on the reason for such significant costs incurred, Mr Jonathan Hui explained that these costs were incurred to ensure that the factory was suited for JSBI's purpose of fabricating offshore equipment to allow JSBI's productions to be carried out and to house its migrant workers[8]. We find it disturbing that JSBI would invest or incur such significant costs of RMB8.19 million on the construction and renovation on the factory building when JSBI had not even acquire the same.

Mr David Tan also explained that JSBI had to bear the construction costs as NPT was not prepared to pay for certain renovation and construction costs "*because these were all requirements from the [JSBI] personnel. Since [JSBI] had already moved in and was almost certain of acquiring NPT's business, we made these payments to the subcontractors for the renovation and construction costs…All the renovation and construction works were done solely for the benefit of JSBI".* In addition, out of the total sum of RMB8.19 million incurred for construction and renovation of the JSBI Property prior to the signing of the Addendum, Mr David Tan informed that

[8] During the Maxwellisation exercise, Mr Jonathan Hui explained that "*JSBI had to further invest into the JSBI Building to suit our needs to fabricate offshore equipment such as the installation of a 20-tonne overhead crane. NPT was building the factory for fabrication of davits only, which are much lighter that offshore equipment such as crane and BOP handling equipment. Aker MH, our most important customer, audited our factory in March 2010 and so we had to install additional equipment as well as provide dormitory for workers that we will be hiring to do the work in the factory. With fabrication work for Aker MH in mind, we proceeded to add new equipment and facilities to the factory so as not to delay any potential work from Aker MH*".

the costs of RMB4,806,000 were incurred by JSBI for *"the second phase of the factory*" whereby an extension of the workshop was constructed to meet Aker's requirements[9].

Notwithstanding the explanations given by Mr Jonathan Hui and Mr David Tan, we find it disturbing that JSBI would invest or incur such significant costs of RMB8.19 million on the construction and renovation on the factory building when the negotiations with NPT, whether to acquire NPT as a whole or certain assets / business of NPT, were still ongoing and the terms had not been agreed. If, at that time, the negotiations had failed and the acquisition of the factory building did not materialise as expected, JSBI would have to recover the costs it incurred or write-off the same.

In addition to the costs incurred of RMB9,392,475.62 above, there were further investments in other fixed and movable assets up to 2013 totalling RMB4,068,613.59.

All in all, we estimate that JSBI had incurred more than RMB43 million on the JSBI factory including equipment and other fixed assets over the years, as follows:

Description	Amount (RMB)
Consideration under the Addendum[10]	32,000,000.00
Additional consideration for equipment	1,000,000.00
Fixed asset-related transactions with NPT	724,365.50

[9] During the Maxwellisation exercise, Mr David Tan stated that "*The total cost invested cannot be looked at in isolation. It must be looked at in the context of then prevailing conditions and time. At that time, the oil prices were high. Right from the start, it was JSBI's plan to completely merge JSBI and NPT. The ultimate objective was for JSBI to completely take over the business of davit manufacturing. In that way, JSBI could have better control of the sale of the davit coupled with the lifeboat. This would give SBI Singapore an additional turnover of US$10 million per year. Subsequently there was also a plan to combine with East Sunrise Group and THOE [Tianjin Haishenghao Offshore Engineering Co., Ltd] to manufacture bigger scale drilling equipment system which could amount to US$100 million per rig set. If the oil prices did not drop and everyone had performed as expected of them, this would be a profitable business consortium*". We note that the deals with "*East Sunrise Group*" and "*THOE*" took place in December 2014, after JSBI shut down its factory operations.

[10] As highlighted in **Paragraph 1.2.14(vii)** above, RMB260,000 out of the total consideration of RMB32 million related to rental payable by JSBI to NPT which was expensed off and not capitalised.

Construction, renovation and land transfer premium expenses between 2009 and 2010	9,392,475.62
Purchase of movable assets, land taxes / assessment fees and structural reinforcement expenses between 2009 and 2013	4,068,613.59
Sub-total	**47,185,454.71**
Less: Compensation received from the Jiangyin Town Authorities	(3,646,346.00)
Total	**43,539,108.71**

We understand from Mr Jonathan Hui and Mr John Chan that after passing Aker's audit in March 2010, JSBI was given only a small fabrication job from Aker. The contract was subsequently terminated following a dispute with Aker which ended the relationship and business with Aker. The Company's announcement made via SGXNET on 4 September 2012 stated that the Company was in a dispute with one of its principals relating to commission income of approximately US$12 million. The identity of the principal was not revealed but it is likely that the principal referred to was Aker as Aker was the only principal that was mentioned to us. Thereafter, JSBI had limited or no business activities. Based on our review of JSBI's audited financial statements, we note that JSBI had suffered losses every year since its incorporation. Based on the audited financial statements of JSBI, the accumulated losses for the period up to 31 December 2017 was more than RMB47 million. Despite the heavy investments sunk into the factory, it appeared that the facilities were under-utilised and JSBI was unable to generate sufficient business to sustain its operations. In this regard, we have not sighted any evidence of a proper due diligence being carried out by the previous management and/or BOD, namely Mr Jonathan Hui and Mr David Tan as Executive Directors, and Mr John Chan, Mr Sovann and Mr Wong KH as Independent Directors prior to the decision to embark on the acquisition / business.

1.3 Disposal of the JSBI Property

1.3.1 Due to lack of business activities, JSBI shut down its factory operations on 16 November 2014 and closed down completely sometime in early 2015 after approval was obtained from the then Executive Chairman, Mr Chan Lai Thong ("**Mr John Chan**") on 27 March 2015.

1.3.2 Based on our review of the various email correspondence, it would appear that the management had been sourcing for interested parties to purchase the JSBI Property since 2015.

1.3.3 Between September 2016 and August 2017, the management and BOD were actively seeking interested parties to purchase the JSBI Property. A local agent was appointed in October 2016 to maintain and market the property.

1.3.4 Although the management had expected and set a much higher reserve price, based on various enquiries and feedback / advice from the agentsthe indicative price for the JSBI Property was less than RMB20 million.

1.3.5 The Company received an offer of RMB17 million to acquire the equity interest in JSBI on 12 June 2017 and the management had given instructions to negotiate the offer to RMB25 million. Subsequently, the Company was informed by the agent that the interested buyer was holding back on negotiations purportedly due to bad fengshui of the factory. Although there were other enquiries, none of these enquiries translated to written or firm offers.

1.3.6 Subsequently, a Letter of Intent ("**LOI**") was obtained from an interested party who offered RMB18 million for the JSBI Property. The interested party was introduced by Inkwell Investments Limited, a company owned by Mr David Tan. Mr David Tan informed that he was approached by Mr Ling YK and Mr Mirzan to assist in the sale of the JSBI Property as attempts to do so by the previous management team had yielded no results. At that time, Mr David Tan was no longer holding any positions within the Group and he had agreed on the proviso that he would be paid for his efforts.

1.3.7 The identity of the interested party was later confirmed to be JHIC. Information on JHIC extracted from the National Enterprise Credit Information Publicity System on 5 December 2017, 31 January 2018 and 3 May 2019 are as follows:

Information on JHIC	**Search conducted by the Company on 5 December 2017 and 31 January 2018**	**Search conducted by RSM on 3 May 2019**
Incorporation date	30 November 2017	
Registered capital	RMB 10 million	
Address	28 Beihuan Road, Yuecheng Town, Jiangyin	
Business activities	Manufacturing and processing of printing and dyeing machinery and equipment, environmental protection machinery and equipment, printing machinery and equipment, packaging machinery and equipment, agricultural machinery and equipment and accessories	
Shareholders	Miao Xiaofeng (缪晓峰) Jiang Yilong (姜裔隆)	Zhu Fengjuan (朱凤娟) Jiang Hua (姜花)
Legal representative	Miao Xiaofeng (缪晓峰)	Zhu Fengjuan (朱凤娟)
Key personnel: Executive director General manager Supervisor	 Miao Xiaofeng (缪晓峰) Miao Xiaofeng (缪晓峰) Jiang Yilong (姜裔隆)	 Zhu Fengjuan (朱凤娟) Zhu Fengjuan (朱凤娟) Jiang Hua (姜花) (the change was effective from 4 January 2019)

1.3.8 Mr David Tan informed us that he had no relationship with the purchaser and that he did not know the purchaser well but they had met in a few events which they attended together.

1.3.9 Subsequent to the BOD's approval on 22 November 2017, the Sale Agreement was entered into on 27 December 2017. The salient terms of the agreement are as follows:

Sale Agreement between JSBI and JHIC		
Date	:	27 December 2017
Consideration	:	RMB18,000,000 in one lump sum payment
Asset acquired	:	JSBI Property
Other salient terms	:	(i) JSBI shall handover the JSBI Property immediately after the payment of the purchase price but before the transfer registration; (ii) Both parties shall execute and register the agreement with the Property Supervision Department of the Jiangyin Real Estate Management Bureau and pay the relevant taxes; (iii) A separate Fund Escrow Agreement was entered into between JSBI and SBI to appoint Jiangsu Binjiang Law Firm as Escrow Agent to hold and administer the payment, transfer and refund of the purchase consideration.

1.3.10 The Company made an announcement on the Disposal via SGXNET on 28 December 2017, followed by another announcement on 1 April 2018 that the sale has been completed on 6 March 2018. Based on our review of the Company's records, the net proceeds after deducting all expenses and sales commission were RMB14,964,422.99.

1.3.11 Pursuant to Rule 753 of the Catalist Rules, an issuer must consult its sponsor about all material matters relating to compliance with the Catalist Rules, while Rule 104(2) states that the sponsor is responsible for advising the issuer on the interpretation and compliance with the issuer's obligations under the Catalist Rules. We note that the Company consulted Asian Corporate Advisors Pte. Ltd. ("**ACA**"), the then Company's Sponsor, as early as 29 August 2017 on whether the Disposal would fall under Rule 1010 of the Catalist Rules which only required an immediate announcement to be made, or Rule 1014 which required shareholders' approval to be obtained.

1.3.12 During the BOD meeting held on 14 November 2017 which was attended by three representatives of ACA, it was discussed and agreed that shareholders' approval was not required. However, in early December 2017, ACA informed the Company that it needed to consult SGX Regco and requested the Company to prepare a consultation paper to be submitted to SGX Regco..

1.3.13 At the advice of ACA, the Company released an announcement on the Disposal on 28 December 2017 with the comments that "*As the relative figures computed pursuant to Rule 1006(b) is a negative figure, whether the classification of the Disposal as "Disclosable Transaction" is still subject to the Singapore Exchange Securities Trading Limited's ("SGX-ST") determination pursuant to Rule 1007. The SGX-ST will be consulted*". We note that at this point, it was still unclear whether shareholders' approval would be required for the Disposal.

1.3.14 Subsequently, a formal consultation with SGX Regco on the above was submitted via email on 5 January 2018. On 25 January 2018, ACA informed the Company via email that SGX Regco had "*verbally mentioned that the loss for the disposal of PRC Property amounted to US$1.96 million which exceeded the Group loss in HY2017 and more than 10% of the Group loss in FY2016. Hence, there is a possibility that the disposal of PRC Property may be subjected to Shareholders approval*". There were also further queries posed by SGX Regco to the Company.

1.3.15 Although there was a verbal indication from SGX Regco on 25 January 2018 that the Disposal might require shareholders' approval and despite the ongoing consultation with SGX Regco subsequent to the verbal indication, the sale of the JSBI Property to JHIC was completed on 6 March 2018. SGX Regco subsequently provided its written response on 22 March 2018 that shareholders' approval was required for the Disposal. The above eventually culminated to the issuance of NOC by SGX Regco on 21 December 2018 and RSMCA's appointment to carry out the scope of work as described under **Paragraph 1.1.4** above.

1.4 Valuations Conducted on the JSBI Property

1.4.1 We note that at least two quotations were obtained by JSBI for comparison and assessment before the appointments of Wuxi Dsinfo and Suzhou Welsen were effected to carry out the valuations on the JSBI Property, which was in line with the internal control policy of the Company.

1.4.2 Based on our review of the documents disclosed to us, we note that there were a number of valuations conducted on the JSBI Property between 2010 and 2018. These valuations include those commissioned by JSBI / SBI as well as those commissioned by third parties which JSBI / SBI were made aware of. In addition, as part of our scope of work, we have also engaged Savills to commission a valuation of the JSBI Property as at 31 December 2017. The valuations reviewed include the following:

(i) Wuxi Dsinfo;

(ii) Suzhou Welsen;

(iii) Savills; and

(iv) Others

a) Jiangyin Xianghe Realestate Appraisal and Land Consultancy Co., Ltd (江阴翔和房地产与评估咨询有限公司) (“**Jiangyin Xianghe**”);

b) Jiangsu Guoheng Tudi Fangdichan Zichan Pinggu Zixun Youxian Gongsi (江苏国衡土地房地产资产评估咨询有限公司) (“**Jiangsu Guoheng**”); and

c) Jiangyin Chengfeng Fangchan Pinggu Gongsi (江阴城丰房产评估公司) (“**Jiangyin Chengfeng**”) and Jiangyin Zhongtian Hengzichan Pinggu Gongsi (江阴中天衡资产评估公司) (“**Jiangyin Zhongtian**”);

d) Jiangsu Jinning Daheng Tudi Fangdichan Gujie Zixun Youxian Gongsi (江苏金宁达恒土地房地产估价咨询有限公司) (“**Jiangsu Jinning**”).

1.4.3 The valuations conducted over the past years based on the respective valuation dates are summarised on the next page.

Valuation[11]	Jiangyin Xianghe	Jiangsu Guoheng	Wuxi Dsinfo	Jiangyin Chengfeng & Jiangyin Zhongtian	Suzhou Welsen	Savills	Jiangsu Jinning
2010	9-Oct : **7.013** (land only)	26-Dec: **8.504** (land only)					
2011			31-Dec : **39.586**				
2012			31-Dec : **38.541**	May : **24.133**[12]			
2013			31-Dec : **41.075**				
2014		27-Feb : **26.719**[13]	10-Dec : **40.448**				
2015			10-Dec : **39.539**				
2016			30-Oct : **38.614**				
2017					31-Aug : **17.783** (1st draft : 39.336)	31-Dec : **23.900**	
2018							29-Jan : **24.351**
Appointed by	NPT	JSBI	JSBI	Jiangyin Town Authorities	JSBI	RSM	Tax Authorities
Purpose	Acquisition under Addendum	2010: Internal use 2014:Loan application	Financial reporting	Compulsory Acquisition	Sale of JSBI Property	SBI's Special Audit	Commissioned by tax authorities
Method (land)	Adjusted China Benchmark Land Price Approach and Adjusted Cost Approach	2010: Market Comparison Approach and Adjusted Cost Approach 2014: Not stated	Adjusted China Benchmark Land Price / Market Comparison	Implied value based on compensation sum	Income	Direct Comparison checked against Depreciated Replacement Cost	Not stated
Method (building)	Not applicable		Adjusted Replacement Cost				
Qualification: - **Land** - **Real Estate** - **Asset**	Grade 2 n/a n/a	Grade A Grade 1 Nationwide	Grade 3 Grade 3 n/a	n/a n/a n/a	No No Yes	Grade A Grade 1 No	n/a Grade 1 No

[11] Values presented in RMB million.

[12] This was estimated on the assumption that the compensation sum for the unstated purpose was for the JSBI Building.

[13] Adjusted based on actual size of the JSBI Property. Actual valuation was RMB28.147 million.

1.5 Conclusion and Recommendations

Highlight of Matters Relating to the Acquisition of the JSBI Property

1.5.1 We noted the following with respect to the BAA and Addendum:

(i) The BAA itself did not contain the exact consideration to be paid to NPT for the acquisition. The Company's announcement on 14 January 2010 only provided an estimate that the consideration was approximately RMB15.4 million. Without an agreed price, it would be difficult to properly assess the merits and terms of the acquisition and may give rise to disputes later on;

(ii) Although the consideration of RMB32 million was stated in the Addendum, no breakdown of the consideration was provided for each type of asset acquired;

(iii) No valuation was conducted prior to the entering of the BAA and/or Addendum to assess whether the consideration to be paid was fair and reasonable and to support that the transaction was carried out on an arm's-length basis[14];

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[14] The major points given during the Maxwellisation exercise by the various individuals are as follows:

- Mr Jonathan Hui – "*…the valuation basis for the JSBI Land is mentioned in the BAA …It was done on a "willing buyer, willing seller" basis…The valuation basis for the JSBI Property is mentioned in the Addendum. It was done on a "willing buyer, willing seller" basis…When the BAA was signed on 09/01/2010, the JSBI Building was under construction already. Hence, we felt that it will be impractical to hire a third party valuer to value a building that is under construction. So we agreed with NPT that we will reimburse NPT for the costs of construction and equipment supplied instead, based upon presentation of taxed invoices issued by the contractors and equipment suppliers*".
- Mr Sovann – "*Buying land at cost in China did not seem unreasonable because land in China historically had increased in value rapidly. There was also a reasonable basis for the determination of the purchase price of the other assets: movable assets at NBV and inventory at lower of cost/realizable value seemed reasonable…Management had represented that at the time of acquisition, the factory building was not fully completed and the consideration was based on estimates of cost incurred or to be incurred by NPT to complete the factory building to the original design…payments would only be made after verification of supporting invoices by the Company's Finance Department… because the factory building was still under construction, it would not be practical to obtain an independent valuation*".
- Mr Wong KH – "*Although the exact consideration was not specified, a formula for determining the consideration was agreed. This is not unusual. Considering the real estate market in China then, acquiring the land based on the seller's cost would not seem to be a bad deal. Similarly*

(iv) Both the BAA and Addendum did not state specifically or itemised clearly what were the assets to be acquired by JSBI. Given that NPT was operating from the factory premises, it is important to spell out precisely the assets acquired so that they are properly accounted for and not give rise to disputes later on; and

(v) The draft BAA was circulated to the BOD for consideration on 11 January 2010, two days after the date of the BAA. It is unclear whether the BAA was back-dated or the Resolutions in Writing by the BOD and AC were only signed after the BAA was entered into, but in any case, we note that the proper process was not followed[15]. As for the Addendum, we note that no formal approval from the BOD or AC was documented and the only indication of approval was when the draft announcement relating to the Addendum was circulated to the BOD together with a copy of the Addendum. It is unclear if the BOD or AC had sufficient time to deliberate, question or clarify on the draft BAA and / or the Addendum[16].

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acquiring fixed assets at NBV and inventories based on the lower of cost or current realisable value would also not seem unfair. In any event, the deal was done on a willing buyer…I believe that was represented to the Board as the basis of the agreed value and would be verified by management against invoices etc. That did not seem unfair or unreasonable and again was on a willing buyer willing seller basis"

[15] The major points given during the Maxwellisation exercise by the various individuals are as follows:

- Mr Sovann – *"Since IPO, the Board was aware of management's strategy to diversify from a commission based business model into manufacturing/fabrication of offshore O&G equipment …management's plan to enter into an agreement with NPT prior to the 11 January 2010 … Although the draft BAA circulated by the management on 11 January 2010 was dated 9 Jan 2010, I recall the attached draft BAA was not signed…*".
- Mr John Chan – "*I recall that there were extended discussions on the BAA and particularly, the valuation*".

[16] The major points given during the Maxwellisation exercise by the various individuals are as follows:

- Mr Sovann – "*It is not true to say that the Board did not have sufficient time to deliberate on the Addendum. When management forwarded the draft Addendum to the Board, the email had explained management's rationale for entering into the transaction. The Board had various discussions through meetings and phone calls. The Board noted that at the time, there was a boom in the oil & gas market. The management had updated the Board regularly on business plans including discussions with Aker on possible collaboration*".
- Mr Wong KH – "*A Draft of the Addendum was first circulated to the Board and the Sponsor on 13 September 2010 with an explanation of management's rationale for wanting to enter into the Addendum. Various comments were raised*".

1.5.2 We highlighted the significant costs and expenses incurred for the JSBI Property:

(i) Prior to the signing of the Addendum, the acquisition did not include the JSBI Building. However, JSBI incurred substantial capital expenditure on the construction and renovation of the JSBI factory during this period totalling RMB8.19 million notwithstanding that the factory building was not part of the acquisition;

(ii) The decision to acquire the factory building was eventually formalised via the Addendum dated 30 September 2010. Although NPT was supposed to complete the construction of the factory building before handing over the same to JSBI, we were informed that certain modifications and renovations were required to ensure that the factory was fitted to meet JSBI's purpose. While it may be reasonable to carry out certain renovation works, the additional costs of construction and renovation incurred by JSBI of RMB8,202,881.12 which represented about 28% of the cost of the building, appear to be excessive;

(iii) In total, JSBI invested approximately RMB47 million or more in the JSBI Property including equipment and other fixed assets over the years including the RMB32 million paid to NPT under the Addendum. After deducting the compensation received from the Compulsory Acquisition, the net investment in the factory was at least RMB43 million;

(iv) Due to minimal business activities, JSBI shut down its factory operations in late 2014 and closed down completely in early 2015. The audited financial statements of JSBI for FY2017 revealed that JSBI had accumulated total losses of more than RMB47 million for the period up to 31 December 2017; and

(v) We have not sighted any written policy relating to the approval for major acquisition of assets or documentary evidence indicating that a proper due diligence and / or analysis were undertaken prior to signing of the BAA and Addendum. This calls to question on whether the previous management and / or BOD, namely Mr Jonathan Hui and Mr David Tan as Executive Directors, and Mr John Chan, Mr Sovann and Mr Wong KH as Independent Directors, had undertaken a proper due diligence, business analysis, internal control and risks assessments, appropriate cost or budget planning and / or prepared detailed business plans from the onset to assess the viability of JSBI's business, approve the budgeted investment into the JSBI factory, and consider the suitability of the factory given the significant costs involved to purportedly retrofit the factory[17].

1.5.3 Lastly, we have also highlighted in **Paragraph 1.2.14(iii)** above that the Company's announcement relating to the Compulsory Acquisition on 12 July 2012 was inconsistent and inaccurate.

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[17] The major points given during the Maxwellisation exercise by the various individuals are as follows:

- Mr Jonathan Hui – "*SBI decided to invest in the JSBI Property because it was pursuing fabrication work for offshore equipment from its principals especially Aker MH. If SBI were to remain an agent only, it risks losing its agency in due course as Aker MH will perceive little value add by an agent. With fabrication work in China, not only will Aker MH be able to lower its costs but also improve its delivery lead time to its customers in Asia. Hence, it was a strategic decision to invest in the JSBI Property. Yes, investment decisions are made based on anticipation of orders. There is no "godfather" to give us a significant order and then allows us 4 years to construct a new factory building and providing skills training to our employees so that we can then fulfil its order… When I left SBI in 2012, the Group had been profitable every year...JSBI had incurred start-up losses of RMB7.4 million as at Dec 31, 2011 which are more that covered by profits from other units in SBI Group*".
- Mr David Tan – "*Aker started off by giving SBI a small fabrication order (a trial order). Subsequently, SBI and Aker had a fallout over a commission issue (USD $9.9 million) for tying up the deal with Jurong Shipyard. Around end of 2014, Aker settled at USD $4.9 million. If we did not fall out with Aker, Aker will subcontract 6 projects at approximately USD $20 million each to JSBI for a duration of 4 years. Work are Derricks (USD $2 million), other structural equipment like handling equipment to handle operations of 100 tonnes wench (USD $10 million per set) and other small equipment like winches and choke and kill manifolds*".
- Mr Sovann – "*The company had represented Aker for many years since before the IPO and had earned millions of dollar of commission from Aker by helping it to secure contracts to supply drilling equipment to various shipyards. The relationship with Aker subsequently broke down for a different reason…The company then tried to establish tie up with other major drilling equipment suppliers to bring fabrication work to JSBI but unfortunately was not successful. Therefore, the shutdown of the JSBI factory was not a case of lack of strategy planning at the time of acquisition but was a choice the company had to make to secure millions of US$ of immediate commission from Aker*".
- Mr John Chan – "*In the 2009/2010, the O&M boom was at its peak…and the proposal for the Company to move into fabrication and contract manufacturing was sound especially with the expected support from its principle, Aker. In 2009/2010, the BOD could not have possibly foresee the operational challenges, deterioration of relationship with Aker or the collapse of the oil price. With hindsight perhaps things could have been done differently that could have resulted in a different outcome but realistically, the BOD could not have possibly relied on hindsight then. The convergence of intent and desired outcome is invariably a function of execution and circumstances*".

Highlight of Matters Relating to the Disposal of the JSBI Property

1.5.4 It appears that the Company did expend efforts to source for buyers for the JSBI Property based on the following:

(i) It took the management at least 20 months (from 2015 to August 2017) or more to market the JSBI Property and to seek for buyers;

(ii) A local agent was appointed to assist in the process. Although only one agent was appointed, Mr Jack Liew tried but was unable to source for any other agents;

(iii) The management had actively responded to various enquiries but due to management's initial expectation of a higher value of the property, none of the enquiries translated to formal offers;

(iv) There was in fact only one other formal offer besides the offer from JHIC (the party whom the property was eventually sold to); and

(v) According to Savills, most enterprises would acquire land-use rights from the government and construct their own factory or plants which they could customise to their own manufacturing needs, rather than purchase ready-made factories from the market. This appears to be consistent with the lack of genuine interest in the JSBI Property at a price acceptable to the management.

1.5.5 On the Company's breach of compliance to Rule 1014 of the Catalist Rules relating to the Disposal on the need to obtain shareholders' approval for the Disposal, we note that the matter was discussed during the BOD meeting held on 14 November 2017 in the presence of three representatives of ACA and it was concluded that shareholders' approval was not required. However, on 5 December 2017, ACA requested the Company to prepare a draft consultation paper for submission to SGX Regco as soon as possible prior to the signing of the Sale Agreement. After providing the draft consultation paper to ACA on 12 December 2017, the Company should have also followed up more closely with ACA instead of following up only on 26 December 2017.

1.5.6 Further, given that SGX Regco had verbally informed ACA on 25 January 2018 that "*there is a possibility that the disposal of PRC Property may be subjected to Shareholders approval*" and ACA had communicated the same to the Company, the Company could have taken a prudent step to defer the completion of the sale pending the official response from SGX Regco on whether shareholders' approval was required. However, we note the Company's position was that it relied on its advisors, including ACA, on matters relating to the Disposal and it was not advised by ACA to defer the sale completion[18].

1.5.7 During the Maxwellisation exercise, Mr Mahtani, Mr Ling YK, Mr James Kho and Mr Lawrence Kwan, the Company's independent directors in office at various points of time during the Disposal period, highlighted to us that:

(i) They were not aware and have not been informed that shareholders' approval might have been required for the Disposal. As far as they are concerned, they were informed during BOD meeting held on 14 November 2017 which were attended by representatives of ACA that shareholders' approval was not required;

(ii) After the BOD meeting on 14 November 2017, they were not informed of ACA's communication with the Company on 5 December 2017 that there was a need to consult SGX Regco and for the Company to prepare a consultation paper;

(iii) They were only made aware that SGX Regco would be consulted on whether the Disposal was considered a Discloseable Transaction under Rule 1010 of the Catalist Rules in light of the announcement made on 28 December 2017;

(iv) They were not made aware that the consultation with SGX Regco was required for the purpose of confirming if shareholders' approval was required. If they were aware that the consultation relates to the requirement to obtain shareholders' approval, they would have taken steps to prevent or object to the completion of the Disposal; and

[18] Based on the letter dated 24 October 2018 issued by the Company's legal counsel, Rajah &Tann Singapore LLP to SGX Regco on the Company's behalf.

(v) As independent directors, they have placed reliance and acted based on the information given by the management and advice given by ACA in ensuring that the Disposal was carried out in a proper manner.

Highlight of Matters Relating to the Valuation of the JSBI Property

1.5.8 Our review did not result in adverse findings with respect to the procedures on the appointments of Wuxi Dsinfo and Suzhou Welsen. In both cases, competitive quotes were obtained and considered before the appointments were made.

1.5.9 We note that Wuxi Dsinfo was licensed and qualified to provide land and real estate appraisal. It was also accepted by the Company's auditors. On the other hand, Suzhou Welsen did not have the licence or qualifications to provide land and real estate appraisals. It was however, licenced to provide asset appraisals for financial reporting purposes. In terms of reputation and size of the outfit, it would appear that Suzhou Welsen was a much more established accounting and consulting firm compared to Wuxi Dsinfo based on publicly available information.

1.5.10 The key difference between the valuations provided by Wuxi Dsinfo and Suzhou Welsen (please refer to **Paragraph 1.4.3** above) lies in the valuation method or approach selected by the respective valuers to appraise the JSBI Building. An important observation is that, when Suzhou Welsen used a similar valuation method as Wuxi Dsinfo in its first draft report, the resulting valuation of RMB39.336 million was very close and within the range of the valuation provided by Wuxi Dsinfo over the years. This is because the cost method is essentially based on the cost of construction of a comparable factory adjusted for the actual age and conditions of the JSBI Building and other factors which could affect the value of the building.

1.5.11 While the cost approach appears to be a commonly-used method to value a property, in the present case, as the Company had spent considerable time to market the JSBI Property and taking into consideration the feedback received from the agent, it was understandably sceptical of the first draft valuation provided by Suzhou Welsen which was computed using the same cost approach as Wuxi Dsinfo. In reality, the management had attempted to set a higher price for the property but there was no written or firm offer received based on the higher price.

This prompted the Company to question Suzhou Welsen's first draft valuation which led to the application of an alternative valuation method using the income approach for the valuation.

1.5.12 The next issue to consider is whether the Suzhou Welsen's income approach was an appropriate method of valuation. According to Suzhou Welsen, cases of comparable transactions were few due to the heavy tax burden on the sale of properties in PRC. Conversely, there were many cases of factory rentals in Jiangyin which they were able to use as comparison and basis for the income approach.

1.5.13 Although Suzhou Welsen's explanation that there were few cases of comparable transactions was consistent with Savill's explanation, Savills held a different view with respect to the factory rental market. According to Savills, "*the rental market of industrial properties around Yuecheng Town is very inactive, and there are few rental cases".*

1.5.14 For the reasons above, Savills has instead chosen the Direct Comparison Approach by selecting three most appropriate comparable court auction cases (instead of open market transactions) as basis for its valuation. This method was cross-checked using the Depreciated Replacement Cost Approach based on new replacement cost of buildings and structures.

1.5.15 Hence, it would appear that there are debatable points with both the valuations conducted by Wuxi Dsinfo and Suzhou Welsen. On one hand, Wuxi Dsinfo's valuation did not seem to reflect the actual market for industrial properties in Jiangyin based on the enquiries received by the Company. On the other hand, Suzhou Welsen's reason for using the income approach for its valuation is inconsistent with Savills' indication that the factory rental market in Yuecheng Town was inactive during that period.

1.5.16 In addition, Suzhou Welsen's valuations were prepared for the purpose of financial reporting (to determine the fair value of the property) and not for the purpose of sale (which requires market value to be determined)[19]. As such, the valuation may not reflect the real forces of demand and supply of industrial properties in the market.

1.5.17 The purpose of a valuation is an important factor to be considered by any valuer according to the International Valuation Standards 2017 issued by the International Valuation Standards Council:

> "*Bases of value (sometimes called standards of value) describe the fundamental premises on which the reported values will be based. It is critical that the basis (or bases) of value be appropriate to the terms and purpose of the valuation assignment, as a basis of value may influence or dictate a valuer's selection of methods, inputs and assumptions, and the ultimate opinion of value*".

1.5.18 Financial reporting standards usually require any assets or liabilities to be reported at their *fair values* which are premised upon the property's highest and best use, while a valuation on market value (for the purpose of sale) is premised upon willing buyer and willing seller basis. Hence, a valuation report prepared for the purpose of financial reporting may not reflect the market value of the subject property.

1.5.19 Putting aside the issues relating to the valuation methods and purposes as highlighted above, it is worthwhile to also consider the other valuations (or indications) obtained in the past to broaden our analysis on Wuxi Dsinfo and Suzhou Welsen's valuation.

1.5.20 Based on the valuation from other valuers presented in the table under **Paragraph 1.4.3** above, we note that apart from Wuxi Dsinfo and Suzhou Welsen, the other valuations obtained over the years were within a very small range of RMB24.133 million to RMB26.719 million. The opinion from the majority of valuers seems to indicate that the value of the JSBI Property was in the range of RMB24 to 26 million. The average valuation from these valuers was RMB24.776 million.

[19] We note that the valuations provided by Wuxi Dsinfo were used by the management for financial reporting purpose. However, Wuxi Dsinfo had stated in their engagement letters that the objective of the valuations was to ascertain the market value of the property.

1.5.21 If we were to assume that the market value was RMB24.776 million, the disposal price of the JSBI Property of RMB18 million would represent a 27% discount to the market value. We enquired and Savills informed that it estimated the forced sale value of the JSBI Property to be RMB19.12 million based on 20% discount to the market value it appraised.

1.5.22 Mr Aswath Damodaran[20], a notable valuation authority, stated the following in *Investment Valuation: Tools And Techniques For Determining The Value Of Any Asset*, 3rd Edition (2012):

> "*The models that we use in valuation may be quantitative, but the inputs leave plenty of room for subjective judgements. Thus, the final value that we obtain from these models is colored by the bias that we bring into the process.*"
>
> *"Even at the end of the most careful and detailed valuation, there will be uncertainty about the final numbers, colored as they are by assumptions…It is unrealistic to expect or demand absolute certainty in valuation…"*
>
> *"Valuation is not an objective exercise, and any preconceptions and biases that an analyst bring to the process will find their way into the value. And even the very best valuation will yield an estimate of the value, with a substantial likelihood of you being wrong in your assessment."*

1.5.23 While a valuation is determined objectively based on various factors, it is also driven by assumptions and require subjective judgments by professionals and experts. The resulting outcome of a valuation remains a theoretical <u>estimate</u> and may not be representative of the actual market forces at play.

1.5.24 Given the limitations of valuations, it is therefore important to also consider whether the process of marketing and sourcing for buyers had been undertaken reasonably. The fact remains that the Company had attempted to market and sell the JSBI Property for 20 months or more and although there were enquiries, the indicative offers fell far below the market values by Wuxi Dsinfo and Savills, and only one

[20] Mr Aswath Damodaran is a Professor of Finance at the Stern School of Business at New York University. He is best known as author of several widely used academic and practitioner texts on valuation, corporate finance and investment management and he is widely quoted on the subject of valuation.

other formal offer was received (which did not eventually materialise) prior to the offer from JHIC. This was very telling in terms of the depth and extent of the market's interest in the JSBI Property.

1.5.25 On a balance of probabilities and considering the facts of the matter, our view is that the management had undertaken an adequate and reasonable process to market and sell the JSBI Property and the sale price represents the best offer they received during the period, notwithstanding that the Disposal price was below the valuations conducted by Wuxi Dsinfo and Savills.

Potential Breaches

1.5.26 The potential breaches by the Company and / or its directors, officers and employees (past and present) arising from the issues summarised above include the following:

Potential Breaches	Causes
Rule 703 (4) of the Catalist Rules *requires the observation of the Corporate Disclosure Policy set out in Appendix 7A of the Catalist Rules which stipulates that the contents of announcements must be factual, clear and succinct (policy item 27)*	▪ The announcement made by the Company via SGXNET on 12 July 2012 relating to the Compulsory Acquisition was inconsistent and inaccurate.
Code of Corporate Governance *issued by the Corporate Governance Committee dated 14 July 2005 (revised on 2 May 2012) provides the guidelines on the maintenance of a sound system of internal controls to safeguard shareholders' investments and company's assets. Although the Company did provide a disclosure on its compliance with the requirements of the Code in its Annual Report as required under* ***Rule 710 of the Catalist Rules,*** *we note that the inadequacies of the internal controls were neither identified nor disclosed in the Annual Reports.*	▪ The BAA and Addendum dated 9 January 2010 and 30 September 2010 respectively did not contain sufficient details of the assets acquired. In the case of the BAA, the actual consideration was not stated, while the Addendum did not provide a breakdown of the consideration of RMB32 million. ▪ No valuation was conducted prior to the entering of the BAA to assess and support the purchase consideration of RMB32 million. ▪ In addition to the purchase consideration of RMB33 million paid to NPT, an additional sum of RMB0.7 million was paid to NPT for the purchase of concrete in December 2012

Potential Breaches	Causes
Common law fiduciary duties of a director *including but not limited to:* ▪ *Act in good faith* ▪ *Act in the best interests of the company* ▪ *Act with reasonable care, skill and diligence* ▪ *Avoid conflicts of interest* ▪ *Exercise powers with proper purpose* ***Section 157 of the Companies Act*** *requires a director to act honestly and use reasonable diligence in the discharge of his duties.*	and testing rack in June 2014. The purchase of concrete should have formed part of the costs of construction and included in the purchase consideration. ▪ JSBI has incurred total construction and renovation costs of RMB8.20 million which were in addition to the purchase consideration of RMB33 million paid to NPT. Explanation was given that the costs were incurred to retrofit the factory building to JSBI's requirements. Given that the construction and renovation costs were approximately 28% of the cost of the building, the costs incurred appear to be excessive. ▪ In addition, we note that out of the total construction and renovation costs of RMB8.20 million, the sum of RMB8.19 million was incurred between July 2009 and 30 September 2010 prior to the signing of the Addendum. Notwithstanding that the JSBI Building was not included in the acquisition prior to the signing of the Addendum, JSBI had incurred substantial capital expenditure on the construction and renovation of the JSBI factory, all of which was in addition to the purchase consideration of RMB33 million. ▪ Since its incorporation, we were informed that JSBI had little business activities. Large capital expenditure of at least RMB43 million were incurred for the factory. JSBI had suffered losses every year that it was in operations which accumulated to more than RMB47 million as at 31 December 2017. ▪ It is unclear if the previous management and / or BOD had undertaken a proper due diligence, business analysis, internal control and risks assessments, appropriate cost or budget planning and / or prepared detailed business plans to assess the viability of JSBI's business from the

Potential Breaches	Causes
	onset. We have not sighted any written policy relating to the approval for major acquisition of assets or documentary evidence indicating that a proper due diligence and / or analysis were undertaken prior to signing of the BAA and Addendum. Please refer to ***Footnote no. 17*** for some of the responses provided by the previous BOD in this regard. ▪
Rule 1014 of the Catalist Rules *which requires a disposal classified as Major Transaction to be made conditional upon approval by shareholders in a general meeting*	▪ The Sale Agreement dated 27 December 2017 did not state shareholders' approval as a condition of the sale; ▪ No shareholders' approval was obtained for the Disposal of the JSBI Property; and ▪ The Company proceeded to complete the sale notwithstanding that the consultation with SGX Regco was ongoing and pending their response. ▪

Our Recommendations

1.5.27 Based on the issues discovered during our review and the potential breaches arising from them, we recommend the Company to take the following remedial actions to rectify the situation and minimise the recurrence of these issues:

(i) Review, improve and put in place a complete system of internal controls on compliance, financial systems and reporting, and operational processes for an effective risk management on all aspects of the Group's business and affairs;

(ii) Ensure that adequate and reasonable due diligence are carried out before entering into any major transactions and / or investments. The due diligence may include viability studies, business case analysis and assessments, cost projections / budgeting, preparation of business plans, etc;

(iii) Ensure that sufficient information is provided to the BOD and adequate time is allocated for the BOD to deliberate on issues relating to major transactions and / or investments to be undertaken by the Company; and

(iv) Improve on the understanding of and compliance with the Catalist Rules and when in doubt, to seek timely and early advice of the Company's Sponsor and / or SGX Regco to avoid non-compliance issues.