



## Regulatory Announcement

12 June 2020

### SGX RegCo to review SBI Offshore's special audit report for possible listing rule breaches

Singapore Exchange Regulation (SGX RegCo) refers to the notice of compliance issued to SBI Offshore Limited on 21 December 2019 and the company's announcement dated 12 June 2020 on the special audit report prepared by the independent reviewer, RSM Corporate Advisory Pte Ltd (RSM). As SGX RegCo had directed the special audit, RSM reported directly to us.

SGX RegCo issued a notice of compliance to the company due to concerns surrounding the disposal of its factory located in the People's Republic of China in 2018. In particular, we noted that the disposal price of RMB 18 million was much lower than its book value of RMB 38 – 40 million. Based on the various facts and circumstances considered by RSM including the consultation with Savills Real Estate Valuation (Guangzhou) Ltd, RSM's report concluded that the company had undertaken an adequate and reasonable process to market and sell the factory, and the sale price of RMB 18 million represented the best offer they received during the period.

While RSM's report did not point to concerns on the disposal of the factory, the report however noted the following concerns with regards to the company's acquisition of the same factory when it was acquired in 2010:

- (a) Acquisition agreement did not contain sufficient details of the assets to be acquired;
- (b) No valuation was conducted prior to the execution of the acquisition agreement to assess and support the purchase consideration of RMB 32 million;
- (c) Prior to entering into the acquisition agreement for the purchase of the factory, the company had incurred RMB 8.19 million for the construction and renovation of the factory notwithstanding intention to acquire a completed factory; and
- (d) Apart from the purchase consideration of RMB 32 million, the company incurred huge capital expenditure of about RMB 15 million up till 2013 for the factory. The factory was eventually underutilized and accumulated losses of more than RMB 47 million for the period up to 31 December 2017.

Arising from the above concerns surrounding the acquisition of the factory and related disclosure matters, RSM highlighted potential listing rule breaches and potential contravention of directors' fiduciary duties under Section 157 of the Companies Act. SGX RegCo will look into any potential listing rule breaches and refer the potential contravention of the Companies Act to the relevant authorities.

The findings of this special audit are a reminder to SGX-listed issuers and their boards to ensure that adequate and reasonable due diligence is carried out before entering into a significant transaction or investment.

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