



## SBI Offshore Limited

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

### UNAUTHORISED WRITE-OFF IN FY2015

#### - UPDATE ON THE INDEPENDENT REVIEW BY KORDAMENTHA PTE LTD

## 1. INTRODUCTION

- 1.1. The board of directors (the “**Board**” or “**Directors**”) of SBI Offshore Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) refers to
  - (a) the Company’s announcement dated 28 February 2018 in relation to the write-off of approximately RMB17.3 million payable by Jiangyin SBI Offshore Equipment Co. Ltd (“**JSBI**”) to the Company as set out in JSBI’s audited accounts for the financial year ended 31 December 2015, without the authorization of the then Board (“**Write-Off**”); and
  - (b) the Company’s announcement dated 25 May 2018 in relation to the Company’s appointment of an independent reviewer, KordaMentha Pte Ltd (“**KordaMentha**”), to undertake a review of the matter(s) that may have given rise to the Write-Off, and *inter alia*, any breaches in rules, laws and regulations as well as lapses in controls (the “**Independent Review**”)
- (collectively, the “**Announcements**”).
- 1.2. Further to the Announcements, the Board wishes to announce that the Company had, on 20 June 2019, received a report from KordaMentha on the Independent Review (the “**Report**”). The executive summary of the Report (“**Executive Summary**”), setting out the background and summary of findings of the Independent Review, is annexed to this announcement.
- 1.3. The scope of the Independent Review comprises the following:
  - (a) review of the nature and circumstances of the Write-Off including the Company’s proposed acquisition of Tianjin Hai Shenghao Offshore Equipment Co., Ltd (“**HSH**”) and its subsequent termination;
  - (b) review of the circumstances of the Company’s placement of 62 million new shares in the capital of the Company to four (4) investors (“**Placees**”) (“**2014 Share Placement**”) and the Company’s announcements via SGXNet in relation to the 2014 Share Placement;
  - (c) review of the utilisation of funds from the proceeds of the 2014 Share Placement; and
  - (d) identification of any lapses or weaknesses in internal controls, breaches in rules, laws and regulations, and making appropriate recommendations.
- 1.4. Shareholders should read the full text of the Executive Summary attached hereto for the detailed findings.

## 2. SUMMARY OF THE REPORT

- 2.1. *Rule 703(4) of the Singapore Exchange Securities Trading Limited (“SGX-ST”) Listing Manual Section B: Rules of Catalist (the “**Catalist Rules**”) requires the Company to observe the Corporate Disclosure Policy set out in Appendix 7A of the Catalist Rules, including making factual announcements.*

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. This may potentially be in breach of Rule 703(4) of the Catalist Rules. 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.

KordaMentha recommends that the Company seek independent legal advice on the legal status of the Promissory Note and whether it can be considered as a payment of the issued share capital of the Company as at 31 October 2014.

- 2.2. *Section 63A of the Companies Act, Chapter 50 of Singapore ("Companies Act") states that a public company shall within 14 days lodge with the Accounting and Corporate Regulatory Authority ("ACRA") a return of the allotments of its shares stating the amount (if any) paid or deemed to be paid on the allotment of each share and the amount (if any) unpaid on each share.*

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 ACRA that the shares allotted and issued pursuant to the 2014 Share Placement were fully paid up.

KordaMentha recommends that the Company seek independent legal advice on the legal status of the Promissory Note and whether it can be considered as a payment of the issued share capital of the Company as at 31 October 2014.

- 2.3. *Rule 704(30) of the Catalist Rules requires the Company to announce the use of the proceeds from the 2014 Share Placement as and when the funds are materially disbursed, and whether such utilisation is in accordance with the stated use and the percentage allocated in the announcement in relation to the 2014 Share Placement.*

The Company did not disclose the following in its announcements in relation to the use of proceeds from the 2014 Share Placement:

- (a) the advanced payment of RMB10 million (approximately S\$2,150,500) by the Company to HSH during the six month period ended 30 June 2015 in respect of its proposed acquisition of HSH; and
- (b) the payment of general and operating expenses of JSBI amounting to RMB1,556,391 (approximately S\$320,755) for the period from 5 January 2016 to 28 December 2017.

KordaMentha recommends that the Company reviews the payments for JSBI's general and operating expenses out of the proceeds of the 2014 Share Placement. Further, KordaMentha also recommends 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.

- 2.4. *Rule 719(1) of the Catalist Rules requires the Company to have a robust and effective system of internal controls to address financial, operational and compliance risks. Similarly, Section 199 (2A) of the Companies Act also stipulates that the Company and its subsidiary companies shall devise and maintain a system of internal accounting controls sufficient to provide a reasonable assurance that 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.*

While the Company may have internal controls in place, it appears that they could have been circumvented as no approval was sought from the then board of directors for the Write-Off, despite the amount of the Write-Off (i.e. RMB17,281,625) exceeding the threshold which requires prior board approval .

- 2.5. *Rule 810 of the Catalist Rules requires the Company to announce its intention to issue shares for cash promptly, including the terms of the issue. Rule 703(4) of the Catalist Rules also sets out the disclosure requirements to provide timely disclosure of material information in accordance to the Corporate Disclosure Policy set out in Appendix 7A of the Catalist Rules.*

The Company did not disclose the indemnity provided by Mr. David and Mr. John (both then directors of the Company) to Millennium on 27 October 2014 against potential financial loss that may arise in

relation to Millennium's subscription for the Millennium Placement Shares (the "Indemnity"). Such indemnity was not extended to the other investors of the 2014 Share Placement.

KordaMentha recommends that the Company promptly discloses the terms of the Indemnity, and also obtain legal advice on the Indemnity.

- 2.6. KordaMentha also recommends the following in respect of the policies of the Company:
  - (a) a regular data backup should be performed on the server of the Company; and
  - (b) the hard disks of employees should be kept for a period of at least five (5) years before the destruction of these disks.

### **3. RESPONSE BY THE COMPANY**

- 3.1 The proceeds of the 2014 Share Placement had been collected in full in both RMB and United States dollars ("US\$"), and the Company recognised a foreign exchange loss of approximately US\$114,739 as the functional currency of the Company is US\$. Post discovery of the Write-Off, the Company recorded a provision of US\$373,000 (RMB 2.5 million) for related tax liabilities in the People's Republic of China ("PRC") in relation to the Write-Off in the financial year ended 31 December 2017.

Save for the provision of related tax liabilities as well as any potential impact (if any) of KordaMentha's recommendations that the Company obtains legal and tax advice, the findings of the Independent Review are not expected to have any material financial impact on the financials of the Company and the Group for the financial year ending 31 December 2019.

- 3.2 The Company noted the recommendation by KordaMentha for the balance of the funds from the 2014 Share Placement to be transferred to a dedicated bank account for clear accounting of the use of proceeds. The Company would like to highlight that it has become a cash company on 1 March 2019 and in compliance with Rule 1017(1)(a) of the Catalist Rules, the Company will place 90% of its total cash as of 28 February 2019 in an escrow account. Such monies to be placed in the escrow account cannot be drawn down until the completion of the acquisition of a business which is able to satisfy the SGX-ST's requirements for a new listing, except for payment of expenses incurred in a reverse takeover approved by Shareholders and pro-rata distributions to Shareholders. In March 2019, the Company placed approximately US\$11,053,000 of its total cash held as of 28 February 2019 in an escrow account opened with CIMB Bank Berhad Singapore Branch. To comply with Rule 1017(1)(a) of the Catalist Rules, the Company is required to place additional cash of not less than US\$3,138,000 with an escrow agent in the PRC ("PRC Monies"). The PRC Monies are maintained in China by JSBI. The Company will endeavor to complete the opening of the escrow account for the PRC Monies by July 2019. Please refer to the Company's announcements dated 1 March 2019 and 6 June 2019 for further information on the aforementioned.
- 3.3 The Company will seek legal advice on the potential breaches and appropriate course of actions to take.
- 3.4 The Company will engage an independent PRC tax adviser to review the impact of the Write-Off, tax reporting requirements and other associated tax impact in the PRC.
- 3.5 The Company will assess whether JSBI's payment of general and operating expenses amounting to RMB1,556,391 (approximately S\$320,755) were made out of the proceeds of the 2014 Share Placement and, if that were the case, review the said general and operating expenses.
- 3.6 The Company will update its policies to include:
  - (a) a regular data backup on the server of the Company; and
  - (b) the hard disks of employees to be kept for a period of at least five (5) years before the destruction of these disks.

#### **4. CAUTIONARY STATEMENT**

- 4.1. Since 21 March 2019, trading of the Company's Shares has been suspended as the Company requires more time to complete the opening of the escrow account(s) in order to comply with Rule 1017(1) of the Catalist Rules. The Company will apply to the SGX-ST for the continued trading of its Shares once the escrow requirements under Rule 1017(1) of the Catalist Rules are complied with. Shareholders and potential investors are advised to exercise caution when trading in the Shares (upon the lifting of the Suspension). The Company will make the necessary announcements when there are further developments. Shareholders are advised to read this announcement and any further announcements by the Company carefully. In the event of any doubt as to the action they should take, Shareholders should consult their stock brokers, bank managers, solicitors or other professional advisors.

**By Order of the Board**

**Mirzan Bin Mahathir  
Executive Non-Independent Chairman**

**20 June 2019**

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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.*

## A. Executive summary

### A1. Background

1. On 28 February 2018, SBI Offshore Limited ('the Company' or 'SBI') announced via Singapore Exchange Securities Trading Limited ('SGX-ST') that its Board of Directors was alerted by its auditor, BDO LLP ('the Company's Auditor'), of a difference between the audited 2015 accounts of the Company and those of the Company's wholly-owned subsidiary, Jiangyin SBI Offshore Equipment Co. Ltd ('JSBI'), incorporated in the People's Republic of China ('PRC'). While the Company recorded a receivable of RMB 17,281,625 from JSBI ('JSBI Payable'), the JSBI Payable had already been adjusted from JSBI's audited balance sheet, resulting in nil amount owing to the Company ('Write-Off').
2. Accordingly, the Company appointed KordaMentha Pte Ltd ('KordaMentha' or 'us') on 25 May 2018 to perform an independent review of the following:
  - a. Nature and circumstances of the Write-Off including the proposed acquisition of Tianjin Hai ShengHao Offshore Equipment Co., Ltd ('HSH') and its subsequent termination
  - b. The circumstances of the placement of 62 million shares to four (4) investors ('2014 Share Placement') and the Company's announcements via SGX-ST on the 2014 Share Placement
  - c. The utilisation of funds from the proceeds of the 2014 Share Placement, and
  - d. To identify any lapses or weaknesses in internal control, breaches in rules, laws and regulations, and make appropriate recommendations.
3. Matters summarised in this Executive Summary are expanded in our full detailed report along with relevant documentation. These relevant documents as referred to throughout the detailed findings and are to be read in conjunction with our report where marked.

### A2. Summary of detailed findings

- #### A2.1 The nature and circumstances of the Write-Off including the proposed acquisition of HSH
4. On 23 September 2014, the Company announced the placement of 62 million shares to four (4) investors at SGD 0.2605 per share, aggregating SGD 16,151,000 ('the 2014 Share Placement Proceeds').
  5. One of the investors was Millennium Marine Pte Ltd ('Millennium'), an entity incorporated in Singapore, which subscribed to 27 million of shares of the Company, and its subscriber consideration amounted to SGD 7,033,500 ('Millennium's Subscriber Consideration').
  6. Millennium fulfilled its Subscriber Consideration through three (3) other entities<sup>1</sup> located in PRC and Hong Kong, in the manner set out in Table 1.

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<sup>1</sup> We understand from Mr. David Tan Woo Thian that these three entities are probably related to a Mr. Cheng Lixin, who was the principal investor behind Millennium's subscription of the Company's shares. We discuss the relationship between Mr. Cheng Lixin and Millennium further in paragraph 52 below.

**Table 1: Payment of Millennium's Subscriber Consideration**

Date of receipt by the Company/JSBI**	Amount	Payor	Recipient
10 November 2014	USD 1,000,000	Sunrise Offshore Holding Co Ltd <sup>2</sup> (‘Sunrise Offshore’)	The Company
31 December 2014	RMB 5,000,000	天津海盛昊海洋工程有限公司 HSH <sup>3</sup>	
31 December 2014	RMB 5,000,000	天津海盛昊海洋工程有限公司 HSH	These three (3) payments* were received by JSBI on behalf of the Company.
31 December 2014	RMB 17,281,625	广州神州海运有限公司 Guangzhou Shenzhou Haiyun <sup>4</sup>	

\* These three (3) payments received on or about 31 December 2014 were traced to duplicates of the bank transfer advices and the bank statements of JSBI

\*\* Millennium's shares were issued and allotted on 31 October 2014

7. After the Company's receipt of the two (2) payments aggregating RMB 10 million from HSH as part of Millennium's Subscriber Consideration, the Company made a payment of RMB 10 million, as an advance payment for part of the purchase consideration for 60% of the shareholding of HSH ('Advanced Payment'). The payments to HSH were made in four (4) tranches of RMB 2.5 million each, during the period between 6 January 2015 and 9 January 2015.
8. This Advanced Payment was purportedly refundable should the proposed acquisition process be terminated/ceased. Subsequent to the Advanced Payment, the amount owing from JSBI to the Company in relation to Millennium's Subscriber Consideration was reduced from RMB 27,281,625 to RMB 17,281,625, i.e. the JSBI Payable.
9. A summary of how the JSBI Payable arose is set out in Table 2 below.

**Table 2: The JSBI Payable**

Date	Amount (RMB)	Description
On or about 31 December 2014	27,281,625	Amount received by JSBI on behalf of the Company as part of Millennium's Subscriber Consideration
During the period between 6 and 9 January 2015	(10,000,000)	Advanced Payment by JSBI on behalf of the Company to HSH for the acquisition of 60% of HSH's shareholding
<b>Net amount due from JSBI to the Company as at 9 January 2015 i.e. JSBI Payable</b>	<b>17,281,625</b>	

<sup>2</sup> We were unable to determine the shareholders of Sunrise Offshore through a search on publicly available records.

<sup>3</sup> Based on a search on publicly available records (<http://www.gsxt.gov.cn>), the shareholders of HSH are Han Tie Fu, Han Wei Guo and a corporation directly translated as Chuang Shi Ji (Tianjin) Neng Yuan Ke Ji Fa Zhan. The shareholders of Chuang Shi Ji (Tianjin) Neng Yuan Ke Ji Fa Zhan are Wang Jian Ming and Yang Jun.

<sup>4</sup> Being direct translation from the Chinese name of the entity remitting the funds to JSBI on behalf of Millennium. Based on a search on publicly available records (<http://www.gsxt.gov.cn>), the shareholders of this entity are Cheng Lixin and Gong Nan.

#### A2.1.1 The Write-Off and its financial impact

10. Based on our review of the financial records of the Company and JSBI set out in Table 3, JSBI did not pass any accounting entries to write off the JSBI Payable. The Write-Off was made to the Independent Auditor's Report<sup>5</sup> of JSBI for FY2015, FY2016 and FY2017. No adjustment was made to the Company's financials. At all material times, JSBI also confirmed to the Company that the JSBI Payable remains due to the Company.

Table 3: The JSBI Payable<sup>6</sup> as recorded on the respective financial records of the Company/JSBI

Entity	Type of document	Line item on balance sheet	FY2014	FY2015	FY2016	FY2017
JSBI	Independent Auditor's Report of JSBI <sup>7</sup>	Other amounts payable	Yes	No	No	No
JSBI	Intercompany audit confirmation from JSBI to the Company	Amount due from JSBI to the Company	n.a.	Yes*	Yes	Yes
JSBI	Accounting ledger	Other payables – SBI Offshore	Yes	Yes	Yes	Yes
The Company	Annual Report	Trade and other receivables	Yes	Yes	Yes	Yes
The Company	Consolidation worksheet of the Company and its subsidiaries (collectively 'the Group')	Amount owing by subsidiary	Yes	Yes	Yes	Yes
The Company	Intercompany audit confirmation from the Company to JSBI	Amount due from JSBI to the Company	Yes	Yes**	Yes	Yes
The Company	General ledger	Amount due from JSBI	Yes	Yes	Yes	Yes

n.a. – Not available for our review

\* We have not been provided with the signed intercompany audit confirmation from JSBI to the Company for FY2015. However, based on our electronic review, we found an unsigned intercompany audit confirmation for FY2015 where the JSBI Payable was recorded.

\*\* We were provided with a copy of the intercompany audit confirmation on 11 December 2018.

11. On 7 January 2016, the then finance manager of JSBI, Mr. Gary Wei ('Mr. Gary') notified the then General Manager of JSBI, Mr. Tan Chee Keong ('Mr. Chee Keong'), and the then Chief Financial Officer ('CFO') of the Company, Ms. Amy Soh Wai Ling ('Ms. Amy Soh'), that the State Administration of Taxation ('PRC Tax Authority') required JSBI to provide supporting documents on the JSBI Payable and that the JSBI Payable has to be settled within two years. Otherwise, the JSBI Payable will be treated as JSBI's revenue ('Tax Issue'). We have not been provided with or discovered any correspondence between Mr. Gary and the PRC Tax Authority, or any official letters from the PRC Tax Authority to JSBI in relation to the Tax Issue.
12. According to Ms. Amy Soh, in order to resolve the Tax Issue, Ms. Amy Tu of Jiangsu Welsen Certified Public Accountants Co., Ltd ('Welsen') recommended JSBI to write off the payable and treat it as non-operating revenue, to be offset against JSBI's accumulated operating losses, resulting in a nil taxable position for JSBI. We sighted an email from Ms. Amy Tu advising on the possible outcomes in relation to the Tax Issue, and this was one of the possibilities.

<sup>5</sup> Financial statements and accompanying notes audited by JSBI's Auditor (i.e. Jiangsu Welsen Certified Public Accountants Co., Ltd. ('Welsen') and prepared under accounting principles and practices generally accepted in the PRC

<sup>6</sup> This JSBI Payable was recorded as a receivable by the Company

<sup>7</sup> According to the Independent Auditor's Report, it was prepared under accounting principles and practices generally accepted in the PRC

13. After consulting with JSBI's and the Company's Auditor, Ms. Amy Soh instructed JSBI's Auditor on 13 May 2016 to:
- a. proceed with the adjustment of the JSBI Payable on the FY2015 financial statements of JSBI and to provide a copy of the revised signed audited financial statements for FY2015.
  - b. offset the income recognised from the adjustment with the accumulated operating losses, resulting in a nil taxable position;  
collectively 'the Adjustments'.
14. Ms. Amy Soh was unavailable to attend the first interview<sup>8</sup>. Instead, she provided us a letter dated 12 September 2018 ('Ms. Amy Soh's Letter'), amongst other things stated in her letter:
- a. *"there was no unauthorised write-off of RMB17.28M because SBI's<sup>9</sup> Board of Directors, SBI's Singapore External Auditors<sup>10</sup>, SBI's China External Auditors and Tax Consultants<sup>11</sup> and SBI's Sponsor, Prime Partners Corporate Finance Pte Ltd, were fully informed and in agreement about the matter."*
  - b. *"The issue on the need to repatriate the funds from SBI's China subsidiary, Jiangyin SBI Offshore Equipment Co. Ltd, back to Singapore had been discussed on several occasions with SBI's directors, the auditors and Sponsor as well as in meetings of the board of directors; and meetings of Audit and Risk Management Committee. As advised and approved by the auditors, the issue was eventually resolved by recognising RMB17.28M as non-operating revenue and offset with JSBI's accumulated operating losses estimated RMB 17.9 million so that the taxable amount would be nil."*
- Ms. Amy Soh clarified in her comments to us that the primary reason for the Adjustments is to resolve the Tax Issue; the repatriation of monies back to Singapore and reduction of tax exposure are secondary reasons.
15. We also understand from Mr. John Chan Lai Thong's ('Mr. John') written response to us on 25 October 2018 ('Mr. John's Written Response') that the Write-Off was *"in accordance with the advice and approval were given by the Singapore auditors in conjunction with the China auditors, tax consultants, China Tax Authorities and lawyers, and the relevant documents were prepared and vetted by Amy Soh for signing after the Sponsor and directors are in concurrence."*
16. We have interviewed among others, the Company's Auditor, PrimePartners Corporate Finance Pte Ltd ('PPCF'), Mr. Basil Chan ('Mr. Basil') who was a Director and the Audit and Risk Management Committee ('ARMC') chairman during the relevant period of the Write-Off and Mr. Mirzan Bin Mahathir ('Mr. Mirzan') who has been a member of the Board of Directors since 29 October 2014. We understand from:
- a. PPCF that they only came to know about the Write-Off from the Company's announcement in 2018.
  - b. Mr. Basil that he recalled having discussions about attempting to remit monies back from China but does not recall discussions or approval to write off the JSBI Payable.
  - c. Mr. Mirzan that the Write-Off was only made aware to him in 2018.

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<sup>8</sup> Ms. Amy Soh subsequently met us on 1 February 2019 and provided further comments.

<sup>9</sup> Being SBI Offshore Limited, i.e. the Company

<sup>10</sup> Being BDO LLP, i.e. the Company's Auditor

<sup>11</sup> SBI's China External Auditors and Tax Consultants referred to as Welsen

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17. According to Mr. John in his letter to us dated 3 February 2019, Mr. Mirzan and PPCF would have known about the Write-Off as this matter had been “*discussed several times during ARMC and BOD meetings, as well as outside the meetings either in person or over the telephone.*” He referred us to paragraph 4.2.29 of the minutes of the ARMC meeting held on 12 August 2016 (attended by, amongst others, Mr. Basil, Mr. Mirzan and Mr. Lance Tan, a representative from PPCF) which states “*Mr John Chan informed the ARMC that Renminbi (“RMB”) 6 million is still retained in the account in China and the Company is still trying to remit back to Singapore. Ms Amy Soh added that she managed to repatriate back RMB 9 million from China recently. Firstly, the Company has to declare tax on the money to be remitted. Due to the accumulated loss in JSBI, the Company is able to offset. Thereafter, Ms Amy Soh has managed to resolve it and informed the foreign investment authority who in turn informed the Company that it can repatriate money and pay withholding tax in a loan form...*” Although it is not evident from the meeting minutes, according to Mr. John, the monies discussed relate to the remitting of the JSBI Payable. However, we noted that the accounting entries for the repatriation of the monies were to repay a USD-denominated loan to JSBI. The JSBI Payable remained at RMB 17,281,625.
  18. We did not find any minutes of meetings nor any formal/written approval from the then Board of Directors and the then ARMC/audit committee during the period 31 December 2014 to 31 December 2017 discussing and/or approving the Write-Off. We were unable to review the audio recordings of the Board and audit committee meetings as Tricor WP Corporate Services Pte Ltd informed us that recordings were deleted once the meeting minutes were confirmed by the Chairman.
  19. We understand that the Company’s Auditor was aware of the Write-Off for the purposes of the PRC financial statements and tax filing in or about May 2016.
  20. JSBI’s Auditor had informed the Company’s Auditor that an adjustment of the JSBI Payable to non-operating revenue was made to the ‘final signed report’ that was sent to the Company’s Auditor about 9 May 2016. Although the Company’s Auditor was aware of the Write-Off in or about May 2016, the directors’ statement and audited financial statements of the Group for FY2015 were already adopted by the shareholders at the Company’s Annual General Meeting for FY2015 (held on 26 April 2016).
  21. On 13 May 2016, the Company’s Auditor responded via email that “*in the Group financial statement, we will still consider the CNY 17,281,625 as other payables to SBI, instead of non-operating revenue according to the nature of the receipt.*” The Company’s Auditors also stated that “*we will still consider the amount as other payable to SBI in our Group F[inancial] S[tatements] and you may adjust the China F[inancial] S[tatements] according to China GAAP<sup>12</sup>, hence, for the next year’s audit, we will still adjust the amount to other payables to SBI as well.*”
  22. Based on our interview with the Company’s Auditor on 11 September 2018, we understand that they did not rely on the Independent Auditor’s Report of JSBI for their audit as these were not prepared in accordance to International Financial Reporting Standards (‘IFRS’) and were for the purpose of tax filing in the PRC. Instead, they had relied on the reporting template received from JSBI’s Auditor for FY2015 and FY2016 which reflected the JSBI Payable. The Company’s Auditor did not raise any concern during the FY2016 audit as the IFRS reporting template agreed to SBI’s and JSBI’s accounting records and these intercompany balances could be eliminated on consolidation.

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<sup>12</sup> Generally Accepted Accounting Policies

23. We were told that due to the internal policies of the Company's Auditor, audit working papers would not be released to us. Therefore, we are unable to obtain a copy of the documents that were provided for our review for the time during the interview, including an email from JSBI's Auditor to the Company's Auditor dated 25 January 2018. In this email, we saw that JSBI's Auditor explained that the Write-Off was not reflected on the FY2015 IFRS reporting template sent to the Company's Auditor on or about 21 January 2016. JSBI's Auditors further stated that the Write-Off was reflected on the Independent Auditor's Report of JSBI in May 2016 but JSBI's Auditor did not update the reporting template sent to the Company's Auditor previously. As such, while the Company's Auditor knew in or about May 2016 that JSBI had written off the JSBI Payable for the purpose of the PRC financial statements, we understand from the Company's Auditor that they informed the Company that they were not in the position to advise on the Write-Off or accounting treatment for PRC statutory filing matters as they were not the statutory auditors of JSBI. The Company's Auditor noted in the FY2017 audit that the JSBI Payable was not included in the IFRS reporting template (unlike in the FY2016 audit). This meant that the intercompany balances could not be eliminated on consolidation and presented an accounting issue. The Company's Auditor then brought this matter to the Company's attention in January 2018. The JSBI's Auditor later revised the reporting templates to the Company's Auditor on 29 March 2018 to reflect the JSBI Payable because the Write-Off was determined to be unauthorised by the Board and management.
24. As part of our review, we were provided with an undated agreement between the Company and JSBI, agreeing to waive the JSBI Payable ('Write-Off Agreement'). This Write-Off Agreement was signed by Mr. John on behalf of the Company and Mr. David Tan Woo Thian ('Mr. David') on behalf of JSBI in his capacity as the legal representative of JSBI. Based on our review of the email correspondence obtained from the Company, the Write-Off Agreement appears to be finalised and executed between 7 June 2016 and 12 June 2016. Ms. Amy Soh had sent this executed Write-Off Agreement to Ms. Amy Tu. We understand from Ms. Amy Soh's Letter that the PRC Tax Agent "*had resolved the tax matters with the PRC Tax Authority and confirmed in writing that no VAT will be imposed on JSBI or SBI*".
25. We understand from Mr. David that he had signed the Write-Off Agreement in his capacity as the legal representative of JSBI and did not question the need for this agreement at the relevant time because he did not think the agreement would affect him. We also understand from Mr. John that although he was one of the signatories to the Write-Off Agreement, he is unaware of the purpose of the Write-Off Agreement as he does not read Chinese. He further stated that the Write-Off Agreement could be part of the documents prepared by the tax consultants in consultation with the Company's Auditors and JSBI's Auditors. Mr. John also stated that approval was obtained from the lawyers, the sponsor of the Company at the relevant time and the Company's Board of Directors.
26. Based on our review, we observed that on 2 June 2016, Ms. Amy Soh corresponded with Welsen on the wordings of the draft Write-Off Agreement. We understand from Ms. Amy Soh in the meeting on 1 February 2019 that the Write-Off Agreement was drafted by Ms. Amy Tu of Welsen. On 7 June 2016, Ms. Amy Soh sent the draft Write-Off Agreement to one (1) former staff of the Company's Auditor for review (although we have not sighted any response from the Company's Auditor). Based on our interview with Mr. Adrian Lee, the partner of the Company's Auditor, we understand that he was not aware of the Write-Off Agreement.
27. According to Ms. Amy Soh, the Write-Off Agreement "*is essentially meant for China compliance purposes and to satisfy the PRC Tax authorities internally.*" Accordingly, the Write-Off was only reflected in the Independent Auditor's Report of JSBI prepared under China GAAP, and not reflected in the Company's financials nor JSBI's accounts.

28. According to the internal policies of the Company, major agreements (defined as 10% of the net assets of the Group) to be entered into which are outside of the ordinary course of business and any major (defined as net assets or sales valued above USD 10 million) agreements in the ordinary course of business are subject to approval by the Board of Directors. The Write-Off amount exceeded 10% of the net assets of the Group at the relevant time. According to the internal policy of the Company, the Write-Off ought to have been approved by the then Board of Directors. However, there were no records of minutes or Board resolutions passed to approve the Write-Off. The Write-Off was approved by Mr. David and Mr. John who were the signatories to the Write-Off Agreement. When applying the internal policies of the Company, the Write-Off appears to be unauthorised. Ms. Amy Soh stated that the Adjustments and the Write-Off were not deemed as outside the ordinary course of business and did not impact the Group's financial position; hence approval was not sought from the Board of Directors.
29. Based on the circumstances as explained in paragraphs 11 to 26 above, and our review of the electronic correspondence, the Company's Auditor, JSBI's Auditor and the following directors, officers and employees of the Company and/or JSBI must have been aware of the Write-Off at the relevant time:

**Table 4: Persons who should have knowledge of the Write-Off**

Name and designation	Involvement
Ms. Amy Soh, the then CFO of the Company	Key personnel consulting with Welsen on the Tax Issue and execution of the Write-Off Agreement. Ms. Amy Soh also consulted the Company's Auditor on the draft Write-Off Agreement (although we have not sighted any response from the Company's Auditors) and the accounting treatment of the Write-Off at the Company level
Mr. David, the then legal representative of JSBI and the then director of the Company	Informed of the Tax Issue when it arose. Signed the Write-Off Agreement on behalf of JSBI
Mr. John, the then director of the Company	Informed of the Tax Issue when it arose. Signed the Write-Off Agreement on behalf of the Company
Mr. You Chun, the then accounts executive of the Company	Assisted Ms. Amy Soh in resolving the Tax Issue and affixing JSBI's company stamp to the Write-Off Agreement
Mr. Tommy Tan, the then Senior Accountant of the Company	Involved in discussions on the Tax Issue among Ms. Amy Soh, Mr. You Chun, Mr. Gary and Mr. Chee Keong
Mr. Wai Hui Meing, the then Accountant of the Company	Copied in email correspondence among Ms. Amy Soh and Welsen when the Write-Off Agreement was executed

30. As at the date of this report, JSBI's Auditor had provided the Company's Auditor with a special purpose financial information of JSBI for the financial period ended 31 December 2017, prepared in accordance with the accounting policies of the Company and IFRS. In this set of special purpose financial information, JSBI has reinstated the JSBI Payables for FY2016 and FY2017. In addition, we understand from the Company's FY2017 Annual Report that the Board of Directors had determined that the Write-Off was not authorised and will seek to reverse the Write-Off in the financial statements of JSBI.

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31. As explained in paragraph 10 above, there are no adjustments made by the Company and JSBI to write off this receivable/payable. Accordingly, there is no financial impact on the Company and the consolidated accounts of the Group. The Board of Directors highlighted in the Company announcement dated 28 February 2018 that there is no material misstatement in the accounts of the Company and the consolidated accounts of the Group. However, we understand from the Company that the Group may suffer from the uncertainty of taxes, fines, penalties, additional costs/fees and exchange control issues.
32. We understand that post discovery of the Write-Off, JSBI has recorded a provision of USD 373,000 (i.e. RMB 2,511,005) for tax related liabilities in the PRC in relation to the Write-Off. This provision was based on the formula RMB 17,281,625 / 1.17 x 0.17, having the JSBI Payable being treated as inclusive of Value Added Tax ('VAT') and then adjusted for the VAT rate of 17%.
33. We are not in a position to opine on this provision as this provision relates to the tax laws in the PRC. We recommend that the Company engage an independent PRC tax adviser to review the impact of the Write-Off, tax reporting requirements and other associated tax impact in the PRC, including fines, penalties, and exchange control issues.

#### A2.1.2 The proposed acquisition of HSH

34. The Company had on 8 October 2014 signed a non-disclosure agreement with HSH for the purpose of a merger and acquisition exercise. The Company had also signed a Memorandum of Intent of Shares Purchase ('MOI') with the majority shareholder of HSH, Mr. Han Wei Guo, dated 18 December 2014, to purchase 60% of the share capital of HSH at RMB 100 million. Mr. David had signed the MOI on behalf of the Company. The then Board of Directors comprising Mr. John, Mr. Mirzan, Mr. Jeff Jen Shek Voon ('Mr. Jeff'), Mr. Ahmad Subri Bin Abdullah ('Mr. Subri') and Mr. Mahtani Bhagwandas ('Mr. Mahtani'), approved the MOI on 22 December 2014 and authorised Mr. David to *"carry out all actions, implement all steps and sign all documents, for and on behalf of the Company, as may be necessary in relation to the MOI"*.
35. The milestones for the payment, subject to final due diligence, were as follows:
- 26 million of ordinary shares in the capital of the Company and based on the traded market price at closing on 17 December 2014<sup>13</sup>
  - the Company guarantee the transfer of all the property rights of JSBI to Mr. Han Wei Guo. The asset appraisal value of JSBI was RMB 40 million at the material time
  - any balance payment in cash (in SGD or its equivalent in an internationally acceptable currency).
36. The purchase of the share capital of HSH was also conditional on:
- satisfactory due diligence in regard to both legal and financial to be conducted by independent consultants appointed by the Company
  - the Company securing drilling equipment system ('DES') order of the CS70 Project<sup>14</sup> from East Sunrise<sup>15</sup>
  - approval by the Board of Directors of the Company
  - approval by any relevant regulatory bodies required in China and Singapore, if any
  - the sale and purchase should be completed on or before 31 January 2015.

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<sup>13</sup> We understand from Mr. David that these 26 million shares of the Company were intended to be new shares of the Company.

<sup>14</sup> The supply of drilling equipment packages for China Sunrise's new building of CS70 semi-submersible drilling rig.

<sup>15</sup> By this time, East Sunrise was already wound up by the court based on the Order of the Court granting the liquidation of East Sunrise.

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37. Although the Advanced Payment was not part of the payment milestones, based on an email from Mr. David to the then Board of Directors<sup>16</sup> dated 3 January 2015, the Advanced Payment to HSH was non-negotiable and that he was “prepared to give my personal undertaking/guarantee to secure this advance payment if the Board gives me the approval to proceed”. Based on our interview with Mr. David, we understand that he provided the letter of guarantee in favour of the Company because it was an important deal for the Company and he was responsible for bringing in business. Further, Mr. David thought it was a good deal, and he had the financial means to afford the guarantee.
  38. In the same email, Mr. David stated that the Advanced Payment was refundable subject to the due diligence to be conducted. On the basis of this explanation and the personal undertaking/guarantee, the then independent directors of the Company including Mr. Mahtani, Mr. Jeff and Mr. Subri approved the payment via email on the same day. Mr. Mirzan gave his approval via email on 4 January 2015. On 4 January 2015, Mr. John in his email to Mr. David stated that “the paper is well written and it is good that the other directors have approved. I am supportive as always”. We did not find any Board resolution approving the payment. It appears that based on the above email approvals from the Board, between 6 to 9 January 2015, JSBI disbursed the payment of RMB 10 million to HSH in four (4) tranches of RMB 2,500,000 each.
  39. Based on our interview with Mr. David, we understand that the proposed acquisition of HSH was at the request of Mr. Cheng Lixin (a person Mr. David believes to be related to HSH) in September 2014. According to Mr. David, the proposed acquisition of HSH would “allow the Company to tap onto the network and connections in the PRC”. Further, the Company would be able to utilise the workshop and vessels of HSH for the CS70 Project should the Company secure the drilling package for the CS70 Project from China Sunrise (Group) Co. Ltd ('China Sunrise'). A preliminary due diligence on HSH was conducted beginning September 2014 by Mr. David and three (3) other employees including Mr. Chee Keong.
  40. On or about 31 December 2014, both Mr. Han Wei Guo and Mr. David (in his capacity as the CEO of the Company), signed a letter post-dated 2 January 2015. It was stated in the said letter that the Company would proceed to conduct activities in relation to the acquisition of HSH and full due diligence would be conducted by the Company's staff and independent financial advisers in January 2015. In addition, the said letter also stated that the Company would advance RMB 10 million as an advance payment for the acquisition of HSH. Mr. David only informed the then Board of Directors of HSH's request for the Advanced Payment on 3 January 2015. However, Mr. David had already issued the letter to HSH agreeing to pay the Advanced Payment to HSH on 31 December 2014 and post-dated 2 January 2015.
  41. Despite agreeing with HSH to conduct a full due diligence in January 2015, we understand that the due diligence and the acquisition of HSH did not happen. Accordingly, in April 2015, Mr. John wrote to HSH to seek a refund of the Advanced Payment. In May 2015, the Company via a PRC legal adviser, sent a letter of demand to HSH to request for the refund of the Advanced Payment.
  42. On 11 August 2015, the then Board of Directors discussed the recoverability of the Advanced Payment from HSH. The Company subsequently exercised its right under the letter of guarantee executed by Mr. David in favour of the Company and sought payment of RMB 10 million (i.e. SGD 2,124,631 equivalent based on the Company's January 2015 exchange rate applied by the Company) from Mr. David. The Company received the full payment in tranches from Mr. David with the last payment being made on or about 11 January 2017.

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<sup>16</sup> Being Mr. John, Mr. Mirzan, Mr. Mahtani, Mr. Jeff and Mr. Subri, excluding Mr. David.

43. The Company did not suffer any significant financial loss in relation to the Advanced Payment to HSH in view of the recovery from the satisfaction of the guarantee by Mr. David. However, we understand from the Company that they incurred legal fees on this matter.

**A2.2 The 2014 Share Placement and its related announcements via SGX-ST**

44. The investors paid their respective subscriber consideration to the Company by 10 October 2014, except for Millennium. According to the subscription agreement between Millennium and the Company dated 23 September 2014, Millennium had 15 business days from the date of the subscription agreement to make full payment of Millennium's Subscriber Consideration to the Company. Accordingly, Millennium should have paid the Millennium's Subscriber Consideration on or before 14 October 2014.
45. In addition, one of the conditions to the completion of the sale of shares of the Company to Millennium was the full payment of Millennium's Subscriber Consideration to be received before the completion date, i.e. the date falling within seven (7) business days after the Company receives a listing and quotation notice from SGX-ST for the listing and quotation of the placement shares. The Company appears to have received the listing and quotation notice from SGX-ST, dated 7 October 2014, only on 15 October 2014.
46. On 15 October 2014, PPCF sought an extension of time from SGX-ST on behalf of the Company, to complete the 2014 Share Placement by 27 October 2014. The Company had required additional days to receive payment from one of the overseas placees.
47. On 27 October 2014, Ms. Amy Soh requested PPCF to seek a further extension of time from SGX-ST for the Company to complete the allotment of shares to Millennium as Millennium required more time to complete the transfer of funds to satisfy Millennium's Subscriber Consideration. On the same day, SGX-ST approved the extension of time to 31 October 2014. Accordingly, the Company announced via the SGX-ST on 27 October 2014 ('Partial Completion Announcement') that due to the travelling commitments of the relevant personnel of Millennium, the Company agreed to grant Millennium an extension of time to make the necessary payment of Millennium's Subscriber Consideration by not later than 5pm on 31 October 2014.
48. Based on our review, on 17 September 2014, Mr. John drafted a letter for Mr. David to be sent to Mr. Cheng Lixin. This draft letter sets out that if the Company was "*awarded the 2+2 units of the DES for your CS70 semi-submersible drilling rigs, I am confident that your return on investment would be rewarding. My personal estimate is that the return of your investment in my company will be at least 30% in the first 12 months period. To demonstrate my sincerity, confidence and friendship, I am prepared to guarantee this and reimburse you for any amount short of this return on investment.*" We were informed by Mr. John in the meeting on 1 February 2019 that Mr. David requested him to draft the letter on Mr. David's behalf. We have not verified this with Mr. David.
49. Based on our interview with Mr. David, we understand that during the time the Company was discussing the CS70 Project with China Sunrise, Mr. Cheng Lixin had expressed his interest in investing in the Company and Mr. Cheng Lixin needed assurance in relation to his investment in the 2014 Share Placement.

50. As a consideration for Millennium to invest in the Company, an agreement dated 27 October 2014 was subsequently entered into among Mr. David, Mr. John and Millennium. Under this agreement, Mr. David and Mr. John, in their personal capacity, agreed to irrevocably and unconditionally indemnify Millennium up to SGD 7,033,500 (i.e. the Millennium Subscriber Consideration) should the volume weighted average price (per share) of the Company's shares traded on the SGX-ST for the month of September 2015 fall below SGD 0.2605 per share ('the Indemnity Agreement'). Mr. David's personal property was also put up as a security for this Indemnity Agreement. This Indemnity Agreement was also subject to the completion of the 2014 Share Placement, including but not limited to Millennium paying Millennium's Subscriber Consideration. Based on our interview with Mr. David, the deed of indemnity was provided to Millennium as an assurance to Mr. Cheng Lixin in relation to the share placement. We understand from Mr. John in the meeting on 1 February 2019 that Mr. David had requested for Mr. John to be included in the Indemnity Agreement and Mr. John had agreed after consulting with the Company's lawyer on the legality of the agreement. We have not verified this with Mr. David, nor been provided with evidence of the consultation with the Company's lawyer, and the conclusion thereof.
51. Based on Mr. John's Written Response, and to the best of his recollection, the then Board of Directors of the Company was informed of the Indemnity Agreement. We did not find any disclosures in the minutes of meeting of the Board of Directors in relation to this Indemnity Agreement. Mr. Subri stated that he could not recall if he or the Board were briefed on this Indemnity Agreement. PPCF also confirmed that they were not aware of this Indemnity Agreement. We also understand from Mr. David, Mr. John and Mr. Mirzan that the other three (3) investors of the 2014 Share Placement were not provided with any indemnity agreement of similar nature.
52. Between 28 October 2014 and 31 October 2014, Ms. Amy Soh and Mr. David followed up with Millennium and the representatives of China Sunrise on Millennium's Subscriber Consideration. Based on our understanding from Mr. David and Mr. John, Mr. Cheng Lixin was the principal investor behind Millennium's subscription during the 2014 Share Placement. Based on our search on the public domain, Mr. Cheng Lixin was then the shareholder of China Sunrise. Further, the existing director and shareholder of Millennium, i.e. Mr. Cheng Lihai, share the same residential address as Mr. Cheng Lixin. According to a Ms. Kate Lin of China Sunrise in an email to Ms Jade Chen, formerly from the Human Resource and Admin department of the Company, dated 29 January 2015, Mr. Cheng Lihai was then the vice general manager of China Sunrise. The relationship between Mr. Cheng Lixin and Mr. Cheng Lihai cannot be established at this stage.
53. On 31 October 2014, a Mr. Douglas Koh ('Mr. Douglas'), a legal adviser of law firm Virtus Law LLP sent a draft promissory note to Mr. David via email. Ms. Amy Soh and Mr. John were also carbon-copied (cc) in this email. On the same day, Ms. Amy Soh informed Mr. Douglas to hand the promissory note to the director of Millennium, Mr. Guo Hairong, for his signature. We understand from Mr. David that while Mr. Douglas delivered the draft promissory note to Mr. Guo Hairong's hotel, Mr. David passed the draft promissory note to Mr. Guo Hairong.
54. Despite having only the promissory note dated 31 October 2014 wherein Millennium agreed to pay Millennium's Subscription Consideration on or before 3 November 2014 ('Promissory Note'), the Company announced on 31 October 2014 the completion of the 2014 Share Placement pursuant to which 'the Company allotted and issued remaining 27,000,000 Placement Shares to Millennium' ('Completion Announcement').
55. Although the Company had stated in the Partial Completion Announcement that Millennium was granted an extension of time to make the necessary payment of Millennium's Subscriber Consideration, the Company did not clarify in its Completion Announcement that the payment has not been received, and the Company had only received a Promissory Note as a substitute for payment of Millennium's Subscriber Consideration on 31 October 2014.

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56. We note from the electronic correspondence obtained from the Company that on 31 October 2014, the then finance manager of the Company, Ms Grace Khaw ('Ms. Grace'), sent the draft Completion Announcement to the then Board of Directors comprising Mr. Jeff, Mr. Mahtani, Mr. Subri, and Mr. Mirzan for approval. Ms. Amy Soh, Mr. David and Mr. John were also carbon-copied (cc) in this email.
57. According to the Company's practice, all announcements and press releases must be reviewed by the continuing sponsor and approved by the majority of the Board of Directors before release to the public. We understand from PPCF that they were not aware of the Promissory Note. We were unable to find any documentation in relation to the approval by the Board of Directors approving the Completion Announcement.
58. We understand from Mr. John that the then audit committee was consulted on the Promissory Note prior to the Completion Announcement and approval had been given by the audit committee.
59. On 3 November 2014, Mr. John wrote to the then audit committee setting out the circumstances surrounding the Promissory Note, i.e. "*as spoken last Friday, David is of opinion that Millennium Marine ("MM") is serious and has real intentions to subscribe to the placement of 27M shares. Mr Guo, the Director of MM was in Singapore on Friday to finalise outstanding paperwork and attached is the Promissory Note to support their intentions. I am supportive and concur with David. As spoken, we are all in agreement to proceed with the announcement on completion of the placement and allotment of shares to MM.*"
60. On the same day, Mr. Jeff, the then lead independent director and also the chairman of the audit committee replied that "*the allotment is made on the basis that the shares have been fully paid for and it does imply that it should be fully paid for in cash<sup>17</sup>, if not as of last Friday, then as soon as possible during this week in the light of the promissory note. Conceivably, [SBI] may allot the shares on the basis of the promissory note under the accrual system.*" Mr. Subri, Mr. Mahtani, Mr. David and Ms. Amy Soh were carbon-copied (cc) in this email. We note that Mr. Mirzan, who was also a member of the then Board of Directors, was not a recipient of this email chain. We did not sight any response from the email recipients expressing their views on Mr. Jeff's comments on allotting shares on the basis of the promissory note under the accrual system.
61. Although the Millennium's Subscriber Consideration stated in the subscription agreement and the Promissory Note was SGD 7,033,500, the payments were subsequently received in both RMB and USD. Based on a written response from Mr. David dated 25 September 2018 ('Mr. David's Written Response'), we understand that Millennium had made the payment in USD and RMB as Millennium had these two currencies at the relevant time. Based on our review of a draft note that was prepared by Ms. Amy Soh and/or Ms. Grace for the purpose of submission to the PRC Tax Authority, a "Chinese investor" suggested to make the payment in RMB. Based on our review, the amount received amounted to SGD 7,102,316 if they were converted to Singapore Dollars at foreign exchange rates as at the time of the receipt and is SGD 68,816 in excess of Millennium's Subscriber Consideration<sup>18</sup>.
62. In view that Millennium's Subscriber Consideration was paid up by 31 December 2014 and the foreign exchange difference set out in the preceding paragraph is not material, unless provided with evidence showing otherwise, we are of view that no adjustment is required to the share capital of the Company in relation to the 2014 Share Placement.

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<sup>17</sup> The Return of Allotment of Shares dated 31 October 2014 lodged with ACRA for the allotment of the 27,000,000 Placement Shares stated that the shares were payable "In cash", as opposed to "For consideration otherwise than in cash".

<sup>18</sup> We understand from the Company that as their reporting currency is USD, it suffered a forex loss of USD 114,739 as at 31 December 2014.

### A2.3 The utilisation of 2014 Share Placement Proceeds

63. As part of our work scope, we have reviewed the flow of funds from the 2014 Share Placement. Based on our review, while the Company had a separate bank account for the receipt of placement proceeds, part of the proceeds from the 2014 Share Placement were transferred to existing bank accounts for subsequent utilisation. Accordingly, there were challenges in tracing and distinguishing the payments made from the proceeds from the 2014 Share Placement Proceeds as the funds were mixed with other existing cash and receipts of the Company.
64. Therefore, we have relied on a summary of utilisation of proceeds schedule maintained by the Company. The payments were for general payments and new projects of the Group.
65. Out of the SGD 5,714,000 that was utilised as at 30 June 2018, approximately SGD 3,874,000 of payments had supporting documents such as calculations and payment vouchers available for our review. We understand from the Company that the remaining SGD 1,840,000 are allocated expenses which we have not been provided sufficient details of. Therefore, we cannot determine if the SGD 1,840,000 were in line with the stated used of the proceeds.
66. For the SGD 3,874,000, payments individually of more than SGD 10,000 amount to approximately SGD 2,512,000 in aggregate, representing 64.8% of the amount available for our review work (i.e. SGD 3,874,000) and 44.0% of the total amount used from the 2014 Share Placement (i.e. SGD 5,714,000). We have selected payments individually of more than SGD 10,000 paid by the Company and traced these payments to the general ledgers, the payment vouchers and the bank statements. This amounted to SGD 2,400,000, representing 95.5% of the amounts individually more than SGD 10,000, and 42.0% of the total amount used from the 2014 Share Placement.
67. As part of the 2014 Share Placement proceeds were received by JSBI on 31 December 2014, we reviewed the JSBI bank statements from December 2014 to December 2017<sup>19</sup>. Prior to the receipt of the Share Placement proceeds of RMB 27,281,625, the bank balance of JSBI's account was approximately RMB 8,000. Based on our review of the JSBI bank statements:
- a. the Advanced Payment for the acquisition of HSH amounting to RMB 10 million (i.e. approximately SGD 2,150,500<sup>20</sup>) was not disclosed as the amount utilised in the first half of 2015 although it was clear that the payment was made from the RMB 27,281,625 received by JSBI on behalf of the Company; and
  - b. the general payments made by JSBI during the period January 2015 to December 2015 were recorded as amounts paid from the 2014 Share Placement Proceeds, i.e. part of the SGD 5,714,000 utilised as at 30 June 2018. However, the Company ceased to record the payments made by JSBI commencing 5 January 2016 as amounts from the 2014 Share Placement Proceeds. Accordingly, it appears that the amounts utilised from the 2014 Share Placement Proceeds could be understated by RMB 1,556,391 (i.e. approximately SGD 320,755<sup>21</sup>), which represents the net outflow of funds from JSBI between 5 January 2016 to 28 December 2017.

<sup>19</sup> We were unable to obtain the JSBI Bank statements for 2018.

<sup>20</sup> Converted using the average exchange rates on the payment dates obtained from MAS website.

<sup>21</sup> Converted using the average exchange rates from 5 January 2016 to 28 December 2017 obtained from MAS website.

When asked to explain why the Advanced Payment and the general payments made by JSBI during the period January 2016 to December 2017 were not disclosed as funds utilised from the 2014 Share Placement Proceeds, the Company explained that the then management team of the Company is no longer with the Company, but the Company surmises that the then management team could have considered the payments to be made out of the existing funds that the Group had apart from the 2014 Share Placement Proceeds. The Company provided a summary of these existing funds apart from share placement proceeds at various points in time, showing that the amounts exceeded the Advanced Payment and the general payments made by JSBI during the period January 2016 to December 2017. In our view, as the payments were made out of the bank account in JSBI which held primarily the 2014 Share Placement Proceeds, the Company should have disclosed the usage of the proceeds accordingly at the relevant times even if it had sufficient funds apart from the share proceeds in other bank accounts.

#### **A2.4 Potential breaches and our recommendations**

68. Rule 703(4) of the Catalyst Rulebook requires the Company to observe the Corporate Disclosure Policy, including making factual announcements. Despite receiving a Promissory Note on 31 October 2014 as an alternative to receiving the Millennium's Subscriber Consideration in cash, the Company proceeded to make the Completion Announcement and did not disclose the existence of the Promissory Note. This may potentially be in breach of Rule 703(4). Also, in the event the Promissory Note cannot be considered as a payment for Millennium's Subscriber Consideration, the public may have been misled that the Millennium Subscription Consideration was fully received by the Company. There is also concern if any other legislation, including but not limited to the Securities and Futures Act ('SFA') have been breached.
69. We recommend that the Company seek independent legal advice on the legal status of the Promissory Note and whether it can be considered as a payment of the share capital as at 31 October 2014.
70. Section 63A of the Companies Act states that a public company shall within 14 days lodge with the Accounting and Corporate Regulatory Authority ('ACRA') a return of the allotments of its shares stating the amount (if any) paid or deemed to be paid on the allotment of each share and the amount (if any) unpaid on each share.
71. In our view, whether the Promissory Note constitutes a deemed payment of the allotment of shares has to be determined legally. In the event the Promissory Note is not considered a full satisfaction of the shares, the Company may have falsely lodged in its return of allotment of shares with the ACRA that the shares were fully paid up.
72. Rule 704(30) of the Catalyst Rulebook requires the Company to announce the use of the proceeds from the 2014 Share Placement as and when the funds are materially disbursed, whether such utilisation is in accordance with the stated use and the percentage allocated in the announcement in relation to the 2014 Share Placement. However, the Company did not disclose the following in its announcements in relation to the use of proceeds:
  - a. the advanced payment of RMB 10 million (approximately SGD 2,150,500) by the Company to HSH for the proposed acquisition of HSH for the six (6) months period ended 30 June 2015;
  - b. net RMB 1,556,391 (approximately SGD 320,755) for the period 5 January 2016 to 28 December 2017 for the payment of the general and operating expenses of JSBI.
- Accordingly, we recommend that the Company review the payments for JSBI's general and operating expenses from the proceeds of the 2014 Share Placement.
73. Further, we also recommend that the remainder funds from the 2014 Share Placement proceeds be transferred to a dedicated bank account for clear accounting of the use of proceeds.

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74. Rule 719(1) of the Catalyst Rulebook requires the Company to have a robust and effective system of internal controls to address financial, operational and compliance risks. Similarly, Section 199 (2A) of the Companies Act also stipulates that the Company and its subsidiary companies shall devise and maintain a system of internal accounting controls sufficient to provide a reasonable assurance that the 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. While the Company may have internal controls in place, it appears that they could have been circumvented as Ms. Amy Soh stated that the Write-Off Agreement was deemed not to be outside the ordinary course of business; therefore, Ms. Amy Soh, Mr. David and Mr. John did not seek approval for the Write-Off Agreement between the Company and JSBI from the then Board of Directors of the Company despite the Write-Off amount (i.e. RMB 17,281,625) exceeding the threshold requiring Board approval, being approximately 10.5% of the net assets of the Group and approximately 33.2% of the trade and other receivables of the Company as at 31 May 2016.
75. Rule 810 of the Catalyst Rulebook requires the Company to announce its intention to issue shares for cash promptly, including the terms of the issue. Rule 703(4) of the Catalyst Rulebook also sets out the disclosure requirements to provide timely disclosure of material information in accordance to SGX's Corporate Disclosure Policy. On 27 October 2014, Mr. David and Mr. John, both directors of the Company then, indemnified Millennium of potential financial loss that may arise about September 2015 in relation to Millennium's Subscriber Consideration. For transparency, the Company should promptly disclose this term which has been extended to Millennium only and not provided to the other investors under the 2014 Share Placement. We recommend that the Company obtain legal advice on this agreement.
76. We also recommend the following in respect of the policies of the Company:
- a. a regular data backup should be performed on the server of the Company;
  - b. the hard disks of employees should be kept for a period of at least five (5) years before the destruction of these disks.
77. Our work has not been exhaustive as it is not practical to interview all the entities/individuals set out in our report who may possess relevant knowledge of the transactions and matters. Other entities/individuals who may possess the relevant knowledge but have not been interviewed include but are not limited to:
- a. Mr. Douglas, the legal adviser who drafted the Promissory Note and the draft assignment agreement
  - b. the former partner-in-charge from the Company's Auditor
  - c. JSBI's Auditor
  - d. the former Board of Directors of the Company at the relevant time
  - e. Mr. Chee Keong, the former General Manager of the Company and JSBI
  - f. Mr. Gary, the former Finance Manager of JSBI.