

INDEPENDENT REVIEW

**JCG INVESTMENTS HOLDINGS LTD  
(f.k.a CHINA MEDICAL (INTERNATIONAL)  
GROUP LIMITED)**

March 2020

**EXECUTIVE SUMMARY**

*BDO LLP prepared this Executive Summary and the separate detailed report based on the Terms of Engagement agreed with JCG Investments Holdings Ltd. This report is only intended for persons and purposes pursuant to the Letter of Engagement with JCG Investments Holdings Ltd. As a term of our engagement, the Audit Committee of the Company or SGX may at their own discretion decide to publish certain portions or the whole of this Report. Notwithstanding the above, this Executive Summary and the separate detailed report should not be relied upon by parties not included in the Engagement Letter or used for purposes other than those indicated in our Letter of Engagement.*

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## A. ABBREVIATIONS USED IN THE REPORT

The following are the abbreviations or common phrases used in the report.

AC	Audit Committee
Announcements/Announced:	Announcements on the SGXNet
AT	Former CFO: Mr Albert Tan
BDO	BDO LLP
Board	Board of Directors of CMIG
Board Memo	Document submitted to the Board to approve investments and other matters
BT	Manager, Corporate Administration.]: Mr Brian Tsang
CMIG	China Medical (International) Group Ltd (CMIG)
CS	Corporate Secretary of the Company from Wong Tan & Molly Lim LLC
Dr Chung	JV Partner for China iMyth acquisition: Dr Chung Yih-Chen
Dr He	Former CEO CMIG: Dr He JuBin
JT	Chairman of Legal, Accounting and Compliance committee and Operations Committee: Mr Johnson Tan Giong Seng
JV	Joint venture
KC	Chairman: Mr Tai Kok Chuan
KT	Former CFO: Mr Tan Kai Teck
Ms Qiang	Substantial shareholder in FY 2015- FY 2016: Ms Qiang Lin Mei
Ms Wu	Qingdao Lanhai partner: Ms Wu Hong Bo (吴红波)
Online search	Search done at the website: <a href="http://www.gsxt.gov.cn/index.html">http://www.gsxt.gov.cn/index.html</a>
PRC	People's Republic of China
Previous Directors	Mr Hano Maeloa (HM), Mr Sunny Wong (SW), Mr Daniel Yeo (DY)
Qingdao Kangjie	Landlord for the Qingdao hospital land (青岛康杰药业有限公司)
Qingdao Lanhai	Qingdao Lanhai Medical Aesthetics Ltd (青岛澜海医疗美容有限公司)
Qingdao Shenyou	Qingdao Shenyou Medical Investment Holding Limited (青岛肾友医疗投资有限公司)
Shenzhen clinics	<ul style="list-style-type: none"> <li>• CMIG Ren Feng Medical (Futian) Limited</li> <li>• CMIG Ren Feng Medical (Nanshan) Limited</li> <li>• CMIG Ren Feng Med-Biotechnology Limited</li> <li>• CMIG GY Sales Limited</li> <li>• Paediatric clinics: Framework agreement with Professor Yan Hung Shun and Dr Shi Jin-quan</li> </ul>
The Company	CMIG

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# BACKGROUND

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*This section provides background of the review such as our Terms of reference, overview of fund transfers and the China investments as well as the Directors and management personnel during our review period. We have also provided information on the internal audits conducted during our review period.*

## B. INTRODUCTION AND TERMS OF REFERENCE

1. We were engaged to perform an independent review of China Medical (International) Group Ltd (“CMIG”) covering the following scope of review:
  - Review the investment management process such as the procedures on selecting, assessing, performing due diligence, managing and executing projects and investments. This should include but not limited to review of the underlying documents supporting the acquisition of China iMyth Company Pte Ltd. Assess, based on the China iMyth Acquisition whether the internal controls over investment management were adequate and sufficient to safeguard investments and thereafter how the project was managed and executed with a view to safeguarding of the Company’s interest and assets. Highlight potential improvements in the governance structure and internal controls as well as instances and persons responsible where internal controls were not complied with, if any;
  - Review and document the circumstances that led to the current status of the China iMyth Acquisition
  - Review and (i) document how (ii) the impairments related to the investment in the China iMyth Acquisition were arrived at and (iii) the supporting processes and procedures, including but not limited to, work done and assumptions adopted, leading to the impairments.
  - Document the parties (internal and external) who have reviewed and who were satisfied with the assumptions and bases, as well as the relevant approvals obtained for the impairments.
  - Review whether the respective key bases for the disclaimer of opinion pertaining to the loans and advances to business partners (2016: \$5.575m and 2017: \$6.078m) have been satisfactorily addressed post external audit completion, and to assess the impact on the Company’s financials, if any;
  - Review the internal controls and governance structure over the head office cash management process including but not limited to the loan and advances made to the business partners. Highlight potential improvements in the governance structure and internal controls as well as instances and persons responsible where internal controls were not complied with, if any;

- Identify and determine if there were any breaches of SGX Listing Rules based on observations highlighted above and to highlight observations relating to the following situations, if any:
    - Fund transfers were made to unidentified persons
    - Funds were expended without valid supporting documents
    - Fund transfers were not authorised or not used for authorised purposes
    - Potential conflicts of interests that were not disclosed for the China iMyth Acquisition
    - Any deliberate attempt to override internal control procedures and/ or to avoid disclosure to the Board and/ or shareholders' announcement for the China iMyth Acquisition
    - Discrepancies between documents reviewed and shareholders' announcements, annual reports and circulars for the China iMyth Acquisition
    - Board decisions on matters related to the acquisition and management of the China iMyth Acquisition that were not supported with documented discussions or analysis
    - Indicators of potential breaches of fiduciary duties by directors and/or potential breaches of any duties that the professionals (including the Company's Sponsor ("the Sponsor")) and/ or officers of the Company may owe to the Company with respect to the China iMyth Acquisition, and to recommend if further legal counsel and Company action is required on this matter.
2. This report sets out the observations from this review. The fieldwork for this review, which was carried out from 10 December 2018 to 19 February 2018 although our clarification meetings and maxwellisation process extended beyond that.

### C. BACKGROUND OF CMIG AND THEIR CHINA INVESTMENTS

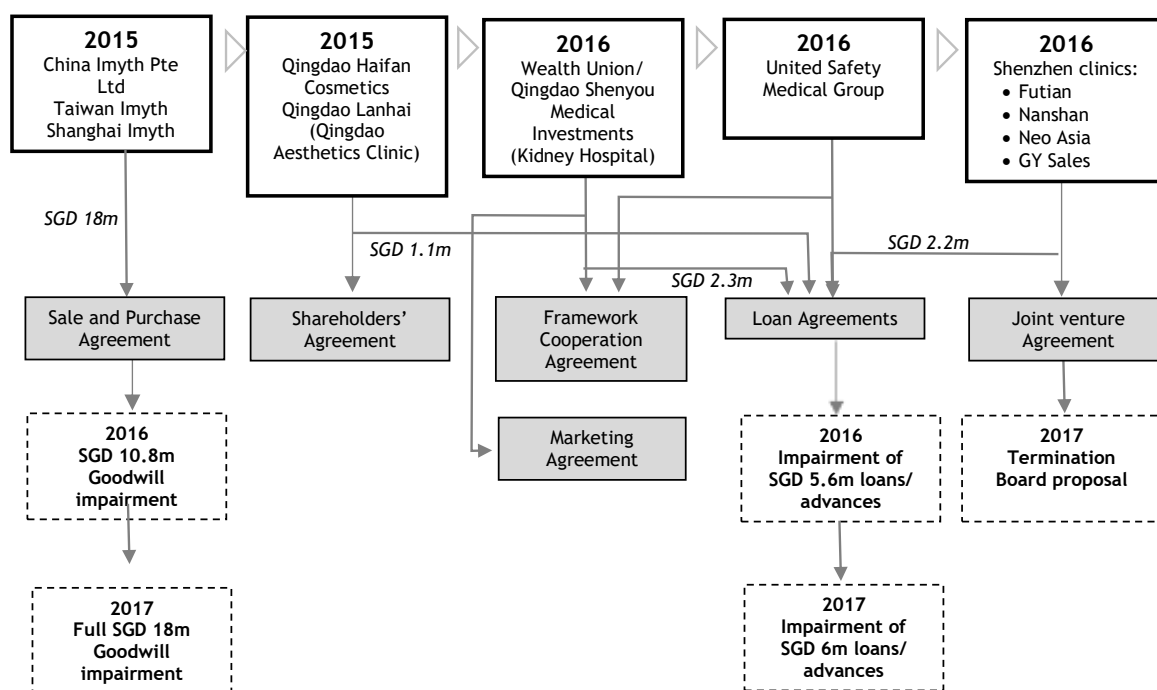
3. CMIG (formerly known as Albedo Ltd) started out in the steel trading business and was founded by Mr Tai Kok Chuan (“KC”). As announced to shareholders on 15 October 2015, CMIG felt that the steel business was not doing well and not intended to improve over the next few years. They wanted to turn the Company around by diversifying into the medical and aesthetics business in China.
4. In order to manage the new investments in China, the company engaged a new CEO (Dr He), two new Medical Vice Presidents, and also hired JT as the Chairman of two special committees (“Legal, Compliance and Accounting Committee” and “Operations Committee”).
5. The investments were started and stopped in a period of around two years. Based on our interviews, we understand that the key reason for the failures was mainly the lack of funds. The construction of the Qingdao hospital was halted prematurely due to shortage of funds and the Qingdao clinics and the Shenzhen clinics also had to be halted as the Company didn’t have the funds to continue with the operating costs of the businesses.
6. We were provided with minutes of meeting of Board and AC meetings. While we understand that some discussions over the investments might happen outside of formal Board meetings, we relied on the minutes and accompanying Board Memos to understand how the investments were being approved and monitored especially since the key person driving the investments has passed away.
7. Based on the minutes of the meetings, the various investments were subject to approval by the Board. The performance of the investments was also discussed at the meetings with requests from participants for detailed analysis where performance was poor.
8. At the time of our review, the CFOs managing the China Investments initially had already left. Hence, they would not know the location of the documents previously prepared by them. We were able to get most of the documents required for the review

although we did not extend our review to China where the source documents for the China transactions were kept.

9. China iMyth Company Pte Ltd (“China iMyth”) was the first acquisition in line with the above proposed change in business. China iMyth Company Pte Ltd had contracts that gave them a proportion of earnings of appointed Taiwan doctors. The plan was purportedly to set up medical and aesthetics clinics in China which these doctors could help to lead and develop.
10. CMIG went on to acquire other entities and contracts in line with their strategy to expand into China. Other than the China iMyth acquisition, the following were the joint ventures and contracts in China which will be further discussed separately later in this report:
  - Qingdao Shenyou Medical Investment Holding Limited
  - Qingdao Lanhai Medical Aesthetics Ltd
  - CMIG Ren Feng Medical (Futian) Limited\*
  - CMIG Ren Feng Medical (Nanshan) Limited\*
  - CMIG Ren Feng Med-Biotechnology Limited\*
  - CMIG GY Sales Limited"(\*“Shenzhen Clinics” collectively)
11. The details of the China investments highlighted in this report were derived from our interviews, existing contracts, agreements and minutes of Board and Audit Committee (“AC”) meetings.
12. We were informed that individual project files were maintained for each separate investment but those were mainly managed and prepared by KC.
13. Our review was hence limited to what we were told about the purposes of the various contracts by the various respondents at the interviews and whether the subsequent events supported the information provided to us.

14. As KC, the person who had signed most of the agreements, was no longer available for clarifications, we were unfortunately not able to fully confirm the facts with regards to some situations which needed to be clarified by him.
15. We understand that subsequent to our fieldwork period, further discussions were held between CMIG (JCG Investments) and Dr Chung to operate a clinic in Taiwan. We have not further extended our review to cover this area as it was after our fieldwork period.
16. The following diagram provides an overview of the China projects for which we were provided documentation such as framework agreements, marketing agreements, JV agreements, loan agreements etc. The chart below also shows either the time the investments were proposed and agreed by the Board or the date of agreements with the counterparties. The impairment of the goodwill for China iMyth and the impairment of the loans/ advances indicated were the focus of this review.

**CHINA INVESTMENTS**





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# KEY OBSERVATIONS AND RECOMMENDATIONS

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*Key recommendations from this review including a consolidation of the issues and observations are provided in this section. The details of these observations are provided in a later section. The key recommendations were:*

- *Internal controls over the investment management process should be further strengthened and documented*
  - *Assumptions, projections and counterparties included in board papers submitted for board decisions should be checked for accuracy and duly validated*
  - *Results of financial due diligence reviews should be addressed before acceptance*
  - *Counterparties in investments should be subject to proper assessment*
- *Clearance of matters arising from Legal due diligence reviews for potential investments should be formally documented*
- *SGX announcements should be subject to more stringent checks prior to release*
- *Further review should be performed to determine and address any residual claims or liabilities remain from the various agreements signed with third parties and from the China investments*
- *Internal controls over cash management should be further strengthened and documented*
- *Nature of investment companies should be clearly indicated in investment evaluation papers submitted for board approval*
- *Accounting records for the China entities and currently stored in China should be retrieved and checked for completeness*

## D. KEY OBSERVATIONS AND RECOMMENDATIONS

17. The change in business from the Albedo steel business to the China Medical Aesthetics business at the proposal stage was approved by shareholders with a 99.95% vote at the EGM. A team of professionals including a China based medically trained CEO and a lawyer with experience in China to help them as the Chairman of Legal, Accounting and Compliance committee.
18. With the additional new businesses, funding requirements also increased with the construction costs for Qingdao Shenyou, manpower costs, running costs of the Shenzhen Clinic. The China iMyth business was also failing to achieve initial projections used in the valuation purportedly adding to the limited cash inflows.
19. We have highlighted various observations in the next section of this report that the assessment, management, reporting and termination of the various investments could have been strengthened to provide more information and more detailed supporting records over the decision-making processes. The following are the key issues and recommendations arising from this review.

### **INTERNAL CONTROLS OVER THE INVESTMENT MANAGEMENT PROCESS SHOULD BE FURTHER STRENGTHENED AND DOCUMENTED**

20. While most of the ventures were proposed and approved by the Board at the respective points in time, we were not able to obtain any formal investment policies and procedures. However, we have highlighted instances where the information in Board Memos did not match the other information and documents obtained in the next section.
21. The following areas should be further strengthened to help ensure accuracy of investment evaluation papers and that records supporting investment decisions are properly maintained

**Investment assumptions, projections and counterparties should be checked for accuracy and duly validated**

22. Board memos were prepared by management to obtain Board approval for the China investments or the fund transfers for the Qingdao Shenyong transaction, the Qingdao Lanhai project and the Shenzhen clinics project. A Board Memo dated 10 March 2017 was also prepared to seek approval to write off some of the funds transfers as well as the investment in the Shenzhen clinics.
23. We were informed that Board Memos for the Qingdao Shenyong, Qingdao Lanhai and Shenzhen clinics were prepared by various parties including the respective CFOs at that point in time but were finally approved and presented by KC.

**Board Memo dated 5 January 2016: Qingdao Shenyong**

24. The Board Memo dated 5 January 2016 was sent by Edmund Lim, the Acting CFO at that point and KC had indicated in a subsequent email that the Board Memo was done in consultation with him.
25. Qingdao Shenyong was indicated in the Board Memo dated 5 January 2016 to be wholly owned by Ms Qiang Lin Mei, a substantial shareholder of CMIG at that time.
26. In addition to an online search of the company, the shareholders of Qingdao Shenyong comprised a company and an individual shareholder. One of the shareholders was also a shareholder of Qingdao Kangjie, the lessor of the hospital property. Ms Qiang was not listed in the search results to be a shareholder of Qingdao Shenyong.
27. The Corporate shareholder of Qingdao Shenyong was 西安普柏生物科技有限公司 which in turn had only two shareholders as at January 2019 and none of which was Ms Qiang.
28. We were not able to obtain any further documentation to link Ms Qiang to Qingdao Shenyong although we were informed by JT that the shareholders were probably nominees of Ms Qiang. Such shareholders' information should have been further

verified and presented to the Board if the information in the original Board Memo was not correct.

29. In an email dated 10 January 2016, KC also mentioned to the previous Directors that Qingdao Shenyou was owned by relatives of Ms Qiang, which was different from what was indicated in the 5 January Board Memo. We were also unable to obtain any records to indicate the relationship between the shareholders of Qingdao Shenyou and Ms Qiang.
30. Dr He informed us that Qingdao Shenyou was supposed to be a “Shell” company for CMIG, which he said, was also the reason he was appointed as the legal representative at Qingdao Shenyou. We were not able to verify this as such arrangements had not been documented in the Board Memo.
31. Some records and information were missing or inconsistent (such as Board Memos) which might have been easily clarified if KC was available to explain or to retrieve such records or information. We were informed that KC was a careful person who usually keeps very detailed records but his demise and the various changes in Senior management probably caused the discontinuity of some records and information. For example, we were not able to find records to explain his amendments to the China iMyth Financial Due Diligence report and KC might have been able to explain how the counterparties of the Qingdao Shenyou transaction were assessed and the details of the arrangements.

#### Board Memo dated 5 January 2016: Qingdao Lanhai

32. The same Board Memo dated 5 January 2016 also included a request to transfer funds for the Qingdao Lanhai project. At this point, the shareholders’ agreement dated 31 October 2015 with Qingdao Lanhai should already have been stamped by both parties. The Board Memo stated that “Our J/V Company (青岛医美澜海医疗管理及咨询有限公司) had leased a German conservation villa to be used as our Aesthetic Medical Clinic and this is currently under renovation and scheduled to be ready for operations in Mar/Apr 2016.”

33. The above description of the investment was confusing as 青岛医美澜海医疗管理及咨询有限公司 had not even been registered yet (and not registered eventually based on our online search) and would not have been able to lease any property.
34. KT commented that KC was not very proficient in Chinese and the above discrepancy in the company names was probably due to confusion over the several companies with similar names owned by Ms Wu.

**Clearance of matters arising from Legal due diligence reviews for potential investments should be formally documented**

35. We were not able to sight formal clearance and acceptance of the Legal Due Diligence reports although we sighted discussions during the board meetings over findings in some of the reports.
36. As the legal due diligence reports were part of the conditions precedent to the acquisition, review and clearance of the reports should have been recorded including information on who had cleared the reports.

**Results of financial due diligence reviews should be addressed before acceptance**

37. A Finance manager was sent to review the China iMyth management accounts at the Taiwan office for purposes of the China iMyth acquisition. The same set of management accounts was supposed to have been submitted for an independent valuation. However, some observations in the draft versions of the financial due diligence reports relating to potential errors in the patient numbers, discrepancies between the tax revenue, local trial balance and the management accounts seemed to have been deleted by KC and left out of the final report.
38. We were not able to sight any documented explanations of why these observations had been deleted especially since we could not obtain explanations from KC.

39. Counterparties in investments should be subject to proper assessment

Shenzhen clinics

40. We were provided with legal due diligence reports for the China iMyth acquisition and a report arising from an independent background check on Dr David Yan and Dr Lisa Qin for the Shenzhen clinics project. However, we were not able to obtain any documented review of Harvard Chung, the person who was supposed to operate the Gen Young JV as part of the Shenzhen clinics.
41. While we note that the scale of the Gen Young JV was much smaller than the Shenzhen Clinics, as the Company was entering into a JV agreement with him, some formal due diligence review or at least some background information on him should have been needed and recorded.

Qingdao Shenyong

42. We were not able to obtain records of legal review to check that Qingdao Kangjie, the landlord of the Qingdao Shenyong Hospital had legal title to the land being used for the proposed Qingdao Hospital. Conducting such reviews before transferring funds or going to any arrangements with the counterparties would have provided better assurance over the fund transfers and the business arrangements.
43. While Qingdao Shenyong was represented in a Board memo to be wholly owned by a substantial shareholder, Ms Qiang, she was not indicated as a shareholder of Qingdao Shenyong based on an internet search of the company registration details.
44. Based on the search results, 徐武宏 (Xu Wuhong) was listed as a shareholder in both Qingdao Shenyong and Qingdao Kangjie.
45. The other shareholder of Qingdao Shenyong was listed as a company, 西安普柏生物科技有限公司. Ms Qiang was also not indicated as a shareholder of this company based on a similar internet search. We were later informed by JT that the shareholders of Qingdao

Shenyou should be Ms Qiang's nominees. However, we were not able to obtain any documents from the Company to link Ms Qiang to the shareholders.

46. For the Qingdao Shenyou hospital, the fact that there was a common shareholder, 徐武宏 in both the lessor (Kangjie) and lessee (Qingdao Shenyou) should have been further explained to provide greater transparency over the lease arrangements.
47. We were later provided with a letter by 徐武宏 stating that his shareholding will be transferred to 西安普柏生物科技有限公司 (Xi'an Pubo) but we were not able to ascertain if the transfer had been effected as 徐武宏 was still a shareholder in Qingdao Shenyou based on the internet search.
48. There were also numerous counterparties involved in the China investment fund transfer arrangements such as those for the Qingdao Shenyou and Qingdao Lanhai projects. For the Qingdao Shenyou project, funds were transferred to counterparties such as Sha Li and QianQian Dong. We were not able to obtain records that the identity of these counterparties had been assessed formally before transferring the funds to them.

#### Qingdao Lanhai

49. Ms Wu, the main counterparty for the Qingdao Lanhai project, was represented to own many successful properties and businesses. We were however, not able to obtain records of any formal evaluation to ascertain her assets and financial worth before extending RMB5.1m to cooperate with her.
50. AT provided a list of values of properties purportedly owned by Ms Wu and which we were told was provided by her but we were not able to obtain any documents to verify that she was the owner of the properties.
51. We were also provided with an email dated 1 March 2017 that SW had queried management on due diligence reviews conducted for the Qingdao Lanhai at the point when the shareholder agreement was supposed to be converted to a 18% stake in

Qingdao Lanhai. AT had responded to this email that management had done the due diligence review for the Qingdao Lanhai consultancy contract but we were not able to obtain records of such reviews. AT clarified that he was under the impression that due diligence had been performed as he had only recently joined the Company at that point in time.

52. KT said that although no formal due diligence review was conducted, KC had assessed Ms Wu's creditworthiness informally such as through attending corporate functions hosted by her and visiting her offices in China.

## **SGX ANNOUNCEMENTS SHOULD BE SUBJECT TO MORE STRINGENT CHECKS PRIOR TO RELEASE**

### Qingdao Haifan and Qingdao Lanhai

53. The 15 October 2015 Circular for the iMyth acquisition indicated, as part of the appendix, that iMyth Shanghai has entered into a shareholders' agreement with QingDao HaiFan Cosmetics Co., Ltd (青岛海帆化妆品有限公司) ("QingDao Haifan") for the purpose of establishing a joint venture company.
54. The above agreement with Qingdao Haifan was terminated on 31 October 2015 based on a termination letter provided to us. A new agreement with Qingdao Lanhai was signed on the same date with the same terms but replacing all references to Qingdao Haifan to Qingdao Lanhai.
55. Another announcement was made on 8 January 2016 to provide an update on the Medical Aesthetics and healthcare businesses and the shareholders' agreement with Qingdao Haifan was mentioned again although the termination letter for the Qingdao Haifan agreement was dated 31 October 2015.
56. The January 2016 announcement on Qingdao Haifan should have referred to Qingdao Lanhai agreement and to provide an update on the termination of the Qingdao Haifan agreement.



SGX Announcement dated 15 October 2015 on Notice of EGM

57. The circular for shareholders to approve change in business included a requirement for management, prior or major investments, prepare feasibility studies containing financial forecasts, risk analysis, market study, background of JV partners which was not fully done for some of the projects such as background of the counterparties of the Qingdao Shenyong Hospital or the Qingdao Lanhai Investment.

SGX announcement dated 18 August 2016

58. The announcement for the Shenzhen clinics did not include the Framework agreement with Professor Yan Hung-shun and Dr Shi Jin-quan of USMG (United Safety Medical Group).

SGX Announcement dated 10 November 2017

59. The 2017 third quarter results indicated that the company was in discussion with various stakeholders on various financing options for the Qingdao Shenyong project but at that time the lease might have already been terminated.

**FURTHER REVIEW SHOULD BE PERFORMED TO DETERMINE AND ADDRESS ANY RESIDUAL CLAIMS OR LIABILITIES FROM THE VARIOUS AGREEMENTS SIGNED WITH THIRD PARTIES AND FROM THE CHINA INVESTMENTS**

Qingdao Shenyong

60. Based on February 2017 AC meeting minutes, the AC was informed that the Company had decided to delay the renovation works until further notice. In response to AC's query on the Company's plan on Qingdao hospital, JT said that the Company was looking for a potential buyer of the Qingdao hospital. KC informed the AC that the Company is exploring on all possible options including getting an extension.
61. At this stage, the Company had already received a legal demand letter from the hospital contractor (which was subsequently refuted by CMIG) and also a demand letter from the landlord to Qingdao Shenyong for lease payment.

62. Dr He provided us with a letter purportedly from Qingdao Shenyou dated 16 July 2017 indicating that Qingdao Shenyou had agreed to terminate the lease agreement. However, the stoppage of the construction work for the Qingdao Shenyou hospital was only included in the November 2017 announcement.
63. The third quarter results announcement to shareholders in November 2017 still indicated the Company was in discussion with various stakeholders as to the financing options available to the Group to complete the renovation of the said hospital, similar to what was disclosed in May 2017 on the first quarter financial performance of the Company. However, at this point, the lease held by Qingdao Shenyou with the landlord might already have been terminated but we were not provided with any supporting documents to confirm this. We were also informed by Dr He that CMIG was hoping to introduce new investors to take over the project so that the company can recover the construction costs which have been paid. He also said that despite having the lease terminated, CMIG had obtained the support from the landlord who was facing difficulties leasing the property to non-hospital tenants or to an institution as a hospital, since the construction of the hospital was partially completed when CMIG had terminated the lease. We were not able to sight discussion of these reasons in the Board or AC meeting minutes provided.
64. Other than the termination of the lease with Qingdao Kangjie, during our fieldwork, JT and Dr He said that the original building being renovated for the hospital was currently running as a hospital. Presumably, another company had taken over the work in progress and completed the renovations. However, we were not able obtain any records that this new development had been discussed with the Board or at which point it had occurred.
65. We further obtained confirmation from Dr He during our fieldwork that Qingdao Shenyou had not received any financial compensation for the hospital construction in progress before it was purportedly taken over by the new owners.

### Paediatric Clinic and Wealth Union

66. For other investments such as the Shenzhen Paediatric clinic and the marketing agreement with Wealth Union, we were not able to determine the status of their operations as there were no records available.
67. As indicated in the recommendations section below, CMIG should consider engaging legal professionals to review their business contracts with the China counterparties to determine if legal obligations have been duly fulfilled and to seek enforcement of any potential rights or recovery of assets that the Company might be entitled to.

### Board Memo dated 10 March 2017: Writing off Qingdao Shenyou and Shenzhen clinic advance

68. The following assets and advances were proposed to be written off in the Board memo dated 10 March 2017:
- RMB1.3m paid to Neo Asia
  - Medical equipment of RMB2.42m
  - Advances balance of RMB3.8m
69. The main reason provided for the write off was that the above funds were supposed to be converted into equity in the newly setup WFOE in the long run but as the WFOE application took a long time, the advances had been spent and CMIG was unlikely to convert them into equity in the short run.
70. BT had provided the following list of WFOE applications for the China investments:

S/N	WFOE	DATE OF APPROVAL
1	奕美（上海）医疗科技有限公司	24 Aug 2015
2	瑞诺医院管理（北京）有限公司	29 Sep 2016
3	熙盟仁峰(深圳) 医疗科技有限公司	NA

71. BT said that WFOE application documents were prepared for the Shenzhen Clinics (S/N 3 above) but they were never submitted to authorities, so we were not sure if the statement in the Board Memo was referring to management taking a long time to

submit the WFOE application or that the authorities took a long time to approve the WFOE application.

72. Although AT said that he was told by BT that the WFOE application had been submitted and he had also provided us with the application for item 3 above, we were, however, not able to get any official document to indicate that the WFOE application was being processed. As setting up the WFOE was part of the terms of the JV agreements, the application status should have been monitored closely.
73. Moreover, the assessment of whether the assets should be written off should include other details such as whether there were outstanding liabilities to the other joint venture partners, the value of the remaining assets and the disposal value of applicable assets instead of only indicating that the reason was that the WFOE application was taking too long and that the advances had been spent.
74. The general consensus based on our interviews was that the main reason for writing off the loans/ advances was the shortage of funds to keep the projects running and the lack of revenue from the investments. The Company would not have been able to continue funding the Shenzhen Clinics based on their performance and the costs required by the JV agreements.
75. With respect to the Shenzhen Clinics, both JT and KT commented that the time that the clinics were in operations was too short for it to generate meaningful revenue and they ran out of funds to pay for the other costs associated with JV.
76. AT said that notwithstanding what was officially indicated in the Board Memo, the Directors should have been aware of the reasons to write off the loans/ advances such as the shortage of funds.
77. AT had summarized the reasons in the Board Memo that the WFOE could not be set up but might not have included all details in the Board Memo as he said that the key reason that he had prepared the memo was to respond to a request by the external auditors then on the status of the China investments and the advances to the China parties.

78. Regardless of whether the Directors already knew the reasons for writing off the advances made to the Shenzhen clinics (and the Paediatric clinic), the Board Memo should have included all reasons and analyses for writing off the loan/ advances.

Agreements provided to us that were not dated

79. Based on the agreements provided, the following two were not dated:

- Paediatric clinic framework agreement signed with Professor Yan Hung Shun and Dr Shi Jin-quan
- Qingdao Lanhai agreement signed between Luo Hao and Ms Wu for CMIG to take an 18% stake in Qingdao Lanhai through Luo Hao as a nominee

80. We were not able to ascertain the validity or enforceability of such contracts.

**INTERNAL CONTROLS OVER CASH MANAGEMENT SHOULD BE FURTHER STRENGTHENED AND DOCUMENTED**

81. We were informed that there was no documented policies and procedures for cash management such as who should act as bank signatories, signing arrangements and who should be reviewing and approving withdrawals loans and payments. However, the bank signatories usually included KC and HM. Cheques were usually also supported with payment vouchers with description of the nature of the payment.

82. Also, the AC had requested in February 2017 that all transactions above \$50,000 should be approved by the AC before the funds can be released after discussion with the external auditors on possible impairment of the loans made to third parties.

Use of loan agreements for funds transfers

83. The transfer of funds to the counterparties in China at the setup phase were made pursuant to loan agreements. This applied to the three China projects, Qingdao Lanhai, Qingdao Shenyou and Shenzhen clinics, and the funds were transferred to individuals.

84. KT emphasized that the loan agreements were supposed to protect the company and provided flexibility over the ability to recall the loan amounts.
85. However, allowing individual intermediaries to receive such large amount of funds can increase risk of recipients absconding especially in foreign jurisdictions. Such transfers should have been subject more stringent review over the counterparties and any potential legal implications.
86. At the February 2017 AC meeting, the Company was supposed to stop all such transfers of cash and all payments exceeding \$50,000 were required to be approved by AC.
87. We were also not able to obtain supporting documents such as loan agreements, payment vouchers or bank documentation for five advances totaling around SGD 1.31m.

S/N	DESCRIPTION	LOAN AGREEMENT	SGD
1	CMIG Medical Clinic HK	No agreement	387,223
2	Advance to Lisa Qin Hong	No agreement	147,182
3	Consol adjmt relating to Qingdao Shenyou	No agreement	67,550
4	Amt due fr Dr Chung	No agreement	160,988
5	Advances to Shenzhen Business partners-Lisa	No agreement	548,200

88. The classification of some advances also did not seem to reflect the substance of the fund transfers as they were applied for ongoing expenses. For example, the loan transfer of USD 500k for the Qingdao Shenyou rental should have been expensed off when such rental payments were fully utilized as it would be doubtful that it was an advance or a loan after that. We understand that such expenses were intended to be converted into equity in the eventual joint venture company to be set up to manage the hospital but this company was never set up.
89. Similarly, we were not able to locate the loan agreement for the fund transfer of \$548,000 in FY2017, which was meant to be the final payment to Lisa to terminate the Shenzhen Clinic arrangements.

## NATURE OF INVESTMENT COMPANIES SHOULD BE CLEARLY INDICATED IN INVESTMENT EVALUATION PAPERS SUBMITTED FOR BOARD APPROVAL

### Qingdao Shenyou

90. Although the initial Framework agreement required a management agreement to be signed between CMIG and Qingdao Shenyou within 60 days, this agreement was never signed. Such an agreement would have provided clarity over the relationship between Qingdao Shenyou and CMIG and the intended split of revenue and profits between the two parties.
91. Dr He, who was the CEO of CMIG, was also the Legal Representative of Qingdao Shenyou at the same time. We were not able to obtain any official documentation of this appointment to the Board but his appointment was noted in an AC meeting in March 2017. Although KC had indicated in one of his earlier emails on 10 January 2016 to the Board that the CEO (Dr He) is the responsible person for Qingdao Shenyou, it was not very clear whether he had been referring to Dr He as the legal representative of Qingdao Shenyou and he was supposed to be the CMIG personnel who was responsible for overseeing the Qingdao Shenyou project.
92. Based on an email from Dr He, Qingdao Shenyou was supposed to be a “shell” company for CMIG. He was appointed as legal representative of Qingdao Shenyou to help direct Qingdao Shenyou on behalf of CMIG. As such, he mentioned that the lease payments should then be borne by CMIG since Qingdao Shenyou was purportedly only supposed to be a special vehicle for CMIG. As we were not able to obtain any records on the discussion for Qingdao Shenyou to be setup as a “shell” company. Further deliberations on this should have been undertaken and recorded if it was indeed the case. Dr He had also confirmed the he did not receive any salary or compensation from Qingdao Shenyou.
93. The above appointment as Qingdao Shenyou legal representative was in line with his impression that Qingdao Shenyou was just a “shell” company for CMIG but his appointment should still have been disclosed more timely and clearly to the Board.

94. We were not able to sight any records that such risk analysis, detailed background of JV partners and subsequent funding required other than information presented in a Board Memo. KT told us that during that point in time, a Taiwanese company had done an independent validation of the budget for the getting the hospital premises ready but he did not have records of this since he had already left the company some time back. The initial budget was SGD 9m for the construction and we understand that it was supposed to be funded by internally generated funds, bank borrowings and/or equity fund raising. The cash and cash equivalents account of the Group was only SGD 3.5m based on the FY 2015 Annual Report.
95. The original terms of the agreement were also silent on who should bear the lease expenses for the Qingdao hospital. The Framework agreement indicated that CMIG should provide financing reasonably required by Qingdao Shenyou for design, fitting out and equipping the hospital. However, CMIG had also paid the full year rental of around SGD 650k from December 2015 to November 2016 although rental expenses did not seem to be in the list of qualifying expenses in the framework agreement.
96. The payment of rental may however, be in line with Dr He's comments that Qingdao Shenyou was supposed to be a "shell" company for CMIG but we were not able to sight any recorded discussion whether CMIG should have paid the rental. We understand from KT that based on his discussions with KC, he also understood that CMIG was supposed to pay for rental.

**ACCOUNTING RECORDS FOR THE CHINA ENTITIES AND CURRENTLY STORED IN CHINA SHOULD BE RETRIEVED AND CHECKED FOR COMPLETENESS**

Accounting records

97. We have not obtained the documents supporting accounting transactions such as supplier invoices for the Taiwan and China transactions. We understand that the accounting personnel hired at that time had left and the most of the hard copy accounting records were still kept in China.



98. KT confirmed that during the time he was the CFO, he had asked the finance personnel in Taiwan and Qingdao to review and confirm the accounting records were kept properly. However, as he had left the company some time back, he did not know how or where the records were kept subsequently.
99. AT mentioned that he had requested to visit the China Shenzhen offices to discuss the amount owing to Shenzhen partners and to determine the state of the accounting affairs there but KC had not deemed it necessary for him to go.
100. Hence, although we were given financial statements for FY 2015 to FY 2017 for the China investments, we had not traced any accounting transactions to their source documents.
101. As most of the operations in China had been halted and CMIG does not have any staff employed there, the accounting records still retained in China should be further checked for completeness.