Jason Holdings Limited

Report on factual assessment

Strictly private & confidential

24 May 2016

Table of contents

1. **Executive summary** 4
2. **Background and methodology** 16
3. **Detailed findings - Deposits and prepayments** 20
4. **Detailed Findings - Materials Off-site** 59
5. **Detailed Findings - Accounts Receivables Financing** 62
6. **Detailed Findings - Transactions in Myanmar** 70
7. **Detailed Findings - Inventories** 83
8. **Other observations and findings** 90

Executive Summary

1. Executive summary

This Executive Summary should be read in context of the entire report, its exhibits and appendices. It does not stand alone, but rather provides a summary of the findings in the remainder of this report.

1.1 Background and our appointment

1.1.1 Jason Holdings Limited ("JHL") is a company listed on the Catalist board of the Singapore Exchange. Its principal activity is that of an investment holding company. Its two subsidiaries, Jason Parquet Specialist (Singapore) Pte Ltd ("JPS") and White Cubic Pte Ltd, are in the construction business of renovation and supply timber, marble and granite flooring products. JHL, JPS and White Cubic Pte Ltd are collectively known as the "Group".

1.1.2 On 14 January 2016, JHL made an announcement on "*Material Findings in IA Report; Potential Misstatement in HY2015 Results; and Suspension of Trading*". Arising from the findings by JHL's internal auditors, a Special Committee was established to review the findings of the internal audit report ("IA Report") and to conduct a review of the Group's cash-flow in the next 12 months.

1.1.3 Ernst & Young Advisory Pte. Ltd. ("EY") was appointed on 19 February 2016 to perform a factual assessment of the account balances in the Income Statement and Balance Sheet of JPS for the financial year ended 31 December 2015 ("FY 2015").

1.2 Overview of the engagement and work performed

1.2.1 The scope of EY's fieldwork covers the period from 1 January 2015 to 31 December 2015.

1.2.2 Broadly, the scope of our work included the following:

a. Assessment and analysis of the management accounts to identify potential areas of concern;
b. Perform further work on the areas identified; and
c. Gain an understanding of the findings in the IA report to identify areas which were not covered in the report.

1.2.3 In the course of our work, we provided status updates to various parties including the Special Committee, the Audit Committee, Chairman of the Board of Directors ("BOD"), certain members of the BOD[1] and the Sponsor of JHL, Canaccord Genunity Singapore Pte. Ltd. We have also shared our preliminary findings with JHL's external auditors, BDO LLP on 1 April 2016 at the request of the members of the Audit Committee, Chairman of the BOD and Sponsor.

[1] Members present were Lim Chwee Kim, Wui Heck Koon, Tan Lai Heng, Karam Singh Parmar and Jason Sim Chon Ang.

1.2.4 Our report was prepared based on information provided to us by JHL and JPS. We have in the course of our work conducted several discussions and interviews with persons who were made available to us. The current and former JPS[2] employees who we interviewed were given an opportunity to review extracts of our draft report that cite our interviews with them. This process is known as the Maxwellization process.

1.3 General limiting conditions and constraints

1.3.1 This report has been prepared based on the data and documentation received from JHL, JPS, former JPS Accountants and Accounts Executive, and third parties as it relates to this work.

1.3.2 The scope of work set out in this report was tailored to meet the specific requirements of the engagement and does not amount to an audit conducted in accordance with generally accepted auditing standards, the objective of which is to express an opinion regarding the financial statements taken as a whole.

1.3.3 The scope of work set out in this report does not amount to an internal audit and shall not be relied upon as the primary basis for assessing the adequacy of the system of internal controls.

1.3.4 Unless expressly stated, the information contained in this report has not been subject to detailed verification procedures. No representation is made by EY as to the accuracy or completeness of such information and nothing contained in this report is or shall be construed as a representation of the future.

1.3.5 All assumptions made for the purpose of this engagement are based on information and representations provided by the Group and persons in connection with the assessment. We do not give any representation, warranty, indemnity or undertaking expressly or impliedly as to the accuracy or completeness of such information provided to and used by us in our assignment.

1.3.6 We wish to highlight that the individuals we interviewed were not under oath. Hence, judgment would need to be exercised as to the credibility of their views and recollections.

1.3.7 Any report issued by EY should not be used for any other purpose other than that stated in our letter of engagement with JHL without our prior written consent. In the event that we provide written approval to JHL to use any of our reports for purposes other than that stated in our letter of engagement, we will need to approve the form and context of such a report to be released. In addition, we shall require an appropriate indemnity from the JHL absolving EY from any liability or consequence arising from the release of such report for purposes other than that specified above.

1.3.8 Neither the whole nor part of our report, nor any reference thereto, may be circulated nor published in any way whatsoever, nor used for any other purpose than that specified in the report without our prior written consent pertaining to the form and context in which it appears. This report should not be used by and/or disclosed to third parties. No reliance should be placed by third parties on the report for any purposes whatsoever and EY shall not be responsible to third parties who have acted on the information contained therein.

[2] The Maxwellization process was conducted with Jason Sim Chon Ang (CEO), New Sze Wei (Project Director), Sophia Yap Jiea Yueng (former Accountant), Sophia Lam Sok Fun (former Accounts Executive), Rainie Teoh Lee Fong (former Accountant) and Chit Ko Ko Htut (Logistics Manager).

1.3.9 We reserve the right (but we are not under any obligation) to review, alter and amend our report in the light of any matters not previously brought to our attention or as a result of new developments, which may or may not materially affect our opinion both prior to and subsequent to the date of this report.

1.3.10 No reliance should be placed on preliminary draft materials and/or draft reports issued by us for discussion purposes and EY shall not be responsible to any parties who have placed reliance on such preliminary draft materials and/or draft reports.

1.4 Specific limiting conditions and constraints

1.4.1 Our work is limited to the operations of JPS.

1.4.2 In the announcement dated 14 January 2016 released by JHL, we noted that JHL had commissioned its external auditors to perform certain agreed upon procedures on the Group's revenue and cost of goods sold for the period of 1 January 2015 to 30 June 2015. Premised on this, we did not perform any work on the Group's revenue and cost of goods sold.

1.4.3 We did not perform any computer forensic procedures. Should we have done so, information relevant to our work may have come to light and may have had an impact on this report.

1.4.4 We did not speak to certain former employees and third parties who are relevant to our work. Should we have done so, information relevant to our work may have come to light and may have had an impact on this report.

1.4.5 Certain documents requested by us could no longer be located by JPS. These documents may have had an impact on this report.

1.4.6 Information pertaining to background checks on companies and individuals were performed using publicly available databases. We did not verify the accuracy of the data contained within these databases.

1.4.7 We relied on the **unaudited** (*bold for emphasis*) JPS's management accounts for FY2015 that was provided to us on 16 and 17 February 2015, in performing our work.

1.4.8 Our report does not include findings which have already been identified in the IA report.

1.4.9 An independent professional valuer was not engaged for physical sighting of the inventory stock count.

1.5 Summary of our key findings and observations

1.5.1 Key findings and observations identified are summarised in this section. Details of the key findings and observations are provided in Sections 3 to 8 of the report.

1.5.2 Our key findings and observations relate to five areas, namely

a. Deposits and prepayments;
b. Materials off-site;
c. Accounts receivable financing;
d. Transactions with a customer in Myanmar; and
e. Inventory management

a. Deposits and prepayments

1.5.3 As at 31 December 2015, the unaudited amount of deposits and prepayments is $ 3,981,434.97. We analysed and assessed samples of transactions pertaining to vendors whose balances accounted for approximately 95% of the total amount of deposits and prepayments. We set out our key observations in the subsequent paragraphs.

Use of Trust Receipt for payment of deposits and advances

1.5.4 Trust Receipt ("TR"), a type of bank financing, is used to pay suppliers advances/deposits for goods. Jason Sim Chon Ang ("Sim"), CEO of JPS, told us that this arrangement is disallowed by the banks as goods have not been delivered by the suppliers. In instances where TRs were used to pay for deposits/advances to suppliers, we noted from supporting documents that Sim and Sophia Yap Jiea Yueng ("Yap"), former JPS Accountant, had signed on the suppliers' delivery orders acknowledging the receipt of goods, although the said goods had not been received. These supplier invoices and delivery orders were then submitted to banks for financing. We were told by Sim that he would ensure that the suppliers have certain level of inventory on hand before instructing the suppliers to prepare the required invoices and delivery orders in case of any checks by the banks.

Refund of money from suppliers

Refund of money from GLR

1.5.5 $ 318,579.66 paid by a bank via TR to a supplier ("**GLR**") was partially returned to JPS through a third party. The third party is a sole proprietorship ("**AS**"), owned by New Sze Wei ("New"), Project Director of JPS and Brother-in-law of Sim. Sim claimed that $ 250,000 of the payment made by the bank to GLR was for future purchases of raw materials while the remaining $ 47,738 was to repay earlier invoices. However, subsequent to paying the advances to GLR, he decided that JPS no longer required the materials and requested GLR to return the $ 250,000 to JPS. Sim said, in order to avoid detection by the bank, he instructed GLR to pay AS instead of JPS, and also instructed New to deposit the sum of $ 250,000 into JPS' bank account using two separate cheques.

1.5.6 In Sim's Maxwellisation reply on 22 April 2016, he said that GLR "*mistakenly issued the payment to AS, a sole proprietorship owned by Sim's brother-in-law, and upon realizing this, Sim immediately asked AS to pay the money to JPS, which AS did. JPS therefore, got its money of $250,000*". New concurred with this statement in his third maxwellisation response dated on the same day.

1.5.7 However, in our clarification meeting with New on 27 April 2016, New informed us that GLR had amounts owing to JPS and had issued the cheques to AS so that AS can return the money to JPS. He said that the name "Jason Parquet (Singapore) Pte Ltd" was too long and vendors would have made mistakes with the name when they issued cheques to JPS. New also said that AS had no business transactions with GLR in the past.

Refund of money from TTPL

1.5.8 A payment of $ 500,000 was made by a bank via TR to a supplier ("**TTPL")** in March 2015 for materials intended for a project in Malaysia[3]. However, based on the Final Statement of Account[4] issued by the interior designer of this project, it appears that the project ended in February 2015, prior to the payment to TTPL in March 2015. Sim told us that he was under the impression that the project was in progress despite receiving a Final Statement of Account. Although the Statement of Final Account made reference to the original contract sum and the omission of works, Sim said that the final claim in the Statement of Final Account only refers to the mock-up prepared by TTPL. He requested TTPL to return the advance to JPS in June 2015 when he realised that the project had actually ended. TTPL returned the sum of $ 500,000 to JPS in two tranches: (i) $ 280,000 on 25 June 2015; and (ii) $ 220,000 on 29 June 2015.

1.5.9 We noted payment vouchers for a total sum of $ 400,000 for payment to Sim with the description "return of director loan" which was signed by TTPL on 24 June 2015 and 26 June 2015 respectively. These payment vouchers were issued prior to TTPL's return of money on 25 June and 29 June 2015. We were informed by Sofia Lam ("Lam"), a former Accounts Executive, that Sim had a personal loan with the director of TTPL and Sim had previously used $ 400,000 intended for repayment to the director of TTPL to loan to JPS for cashflow purposes. From supporting documents provided to us, we noted that when JPS made repayments to Sim, the cheques were collected by the director of TTPL.

Refund of money from SLT

1.5.10 Three payments amounting to $ 1,467,348.42 was made by a bank via TR to a supplier ("**SLT**") in 2012 and 2014 for the purpose of advances/deposits of goods. Subsequent to the payment of the deposits, JPS made purchases from SLT and these purchases were partially offset against the advances/deposits paid. We noted in October and November 2015 that SLT had returned part of the advances/deposits amounting to $ 528,000 to JPS in five separate transactions.

1.5.11 In our interview with SLT, SLT told us that they had returned the money to JPS as the latter was facing cash-flow issues. In our conversations with Sim, he had disagreed with SLT and said that SLT returned the deposit to JPS as SLT would rather invoice and receive payment from JPS for each sale made to JPS. We noted from supporting documents that the money received from SLT was then used by JPS to pay Sim as a return of director's loan that Sim made to JPS, and as payment to a third party based in Myanmar.

Creation of vendor invoice by JPS

1.5.12 We noted an instance where it appears that a vendor ("**PL**") invoice was created by JPS. We further noted that this invoice was subsequently submitted to the bank for payment to PL and the money paid to PL was in turn used to pay a JPS supplier which is based in Philippines. We understand from a representative of PL that he was told that JPS did not have sufficient United States Dollars at that time and requested PL for help to pay the supplier in Philippines. In our interview with Yap, she admitted that she had "likely" created a PL invoice of US$ 142,887.10 using a Microsoft Excel template. In Yap's Maxwellisation reply, she said that the "*invoice template was emailed by PL*". She also added that the PL representative "*was unable to hand an invoice to her for this transaction*".

[3] Contract value of the Malaysia project is MYR 2,649,788.

[4] The final certified amount is MYR 13,000. Final Statement of Account made reference to the original contract value and the amount of works omitted of MYR 2,636,788.

1.5.13 A representative of PL confirmed that the abovementioned invoice was not issued by PL.

Inventory received not recorded

1.5.14 Based on samples of deposits/ advances analysed and documents provided by SLT and PL, approximately $1.6 million[5] of inventory relating to deposits/advances paid to SLT and PL had been received by JPS' personnel in 2010 and 2011; however, the accounting data made available to us does not show that. Sim said that he is not aware that the purchases were not recorded; but the omission of recording the purchases, if any, may have been an oversight by his employees.

Advances paid to vendor for purchases of machineries, factory rental and payment of operating expenses

1.5.15 US$ 769,066 was paid to a company in Philippines ("**STC**") as advances in 2014 and 2015. We noted that except for the first payment of US$ 114,750 which was supported by a proforma invoice of the same amount for the purchase of Philippine albazia falcate lumber, the remaining transfers were only supported by TT application forms.

1.5.16 In the course of our work, we understand from Sim that the money was to be used to purchase raw materials, machineries, factory rental and payment of operating expenses such as STC's worker salaries. In our interview with the representative of STC, we were also informed that he (the representative of STC) would have to seek Sim's approval before incurring expenses and/or making payments.

1.5.17 During our fieldwork, Sim explained that this is a business venture whereby the main objective was to purchase and process raw materials in Philippines for subsequent use in JPS' projects and/or trading sales. We understand from Sim that JPS had received two shipments of processed wood from STC in 2015[6]. Sim confirmed that this business venture was not disclosed to the BOD as he was not certain about the success of this venture.

1.5.18 In Sim's Maxwellisation reply, he said "*this was not a business venture but a direct purchase from STC as they were suppliers. STC had concessions for timber directly from the mountains and this would have meant very cheap supply for JPS. The payments (or part payments) that were paid was to secure this cheap source of timber and was done in the ordinary course of business so there was no need to inform the BOD. STC was a supplier.*"

1.5.19 According to STC's representative, apart from using the money for operating expenses, the money received from JPS was also used to pay deposits to certain tribes in Philippines as well as for making certain "inappropriate" payments in order to secure the rights to the timber. We have requested for supporting source documents pertaining to the use of the funds given by JPS but these were not provided as at date of this report.

[5] Inventory relating to deposits/ advances paid and received by JPS but inventory received was not recorded in the JPS's books for SLT is $ 608,373.34 and for PLPL is $ 1,028,927.43. These amounts are inclusive of GST.

[6] We have sighted the supporting documents pertaining to these shipments.

Advances paid to supplier which has been "struck off" prior to the IPO of JHL

1.5.20 An amount of $ 130,000 was paid to a supplier, SM, in 2005 as an advance. We are unable to assess the nature of the advance as the supporting documents had already been destroyed. We noted from ACRA records that this company had already been struck off in July 2011 (prior to the listing of JHL in September 2012). We understand from Sim that he had lost the contact details of the owner of the supplier and hence he was unable to contact him for a refund of monies. In Sim's Maxwellisation reply, he said that the owner of SM may have passed away.

1.5.21 We noted that the sole shareholder of SM is currently the shareholder of an active private limited company located in Singapore[7].

b. Materials off-site

1.5.22 "Materials off-site" relate to materials to be used for projects that have not been delivered to the project sites. Based on our transactions testing, we noted that JPS would claim materials off-site as part of their progress claims to the main contractor. According to JPS' Senior Quantity Surveyor, she would compute the value of materials off-site based on a percentage of the total materials required for the project as instructed by the respective Contracts Manager. She does not verify or check the actual physical quantity of the materials off-site.

1.5.23 We also understand from her that Quantity Surveyors do not usually visit the project sites to certify the work done. They relied on the Project Managers to inform them of the progress of the work.

1.5.24 New explained that materials off-site were included in the progress claims for the purpose of bargaining for more funds from the main contractor. This practice has been in place prior to 2015.

1.5.25 Sim also explained that although the main contractors do not certify materials off-site, the inclusion of material off-site in JPS' claims provides the main contractor with an overview of the working capital required to fund the materials.

1.5.26 For the selected projects assessed, we noted that the Letters of Award did not state that JPS is entitled to claim for materials which have not been delivered to the site. In addition, we also noted from sampled transactions that the main contractor had certified work done and materials on-site; but not materials off-site.

1.5.27 We also noted that for some progress claims containing materials off-site, JPS did not have on hand the quantity of materials claimed from the main contractor. New admitted that JPS may not have sufficient quantities of inventory on hand when a material off-site claim is raised. He added that the claims are computed based on "*a percentage of the project*" to inflate the claims for negotiating for more payments from the main contractor.

1.5.28 From the samples of progress claims assessed, we noted that claims of materials off-site which were not certified by the main contractors and/or where JPS had insufficient stock on hand, was recognised as revenue.

[7] Information obtained via a third party vendor search performed on 19 May 2016.
[8] There were no transactions between JPS and this company in FY2015,

c. Accounts receivables financing ("ARF")

1.5.29 We understand from Rainie Teoh Lee Fong ("Teoh"), the former Accountant, that progress claims are typically submitted for financing to obtain funds from the banks when a TR is due for repayment. The banks would provide different level of financing depending on whether the progress claims are internally certified (i.e. certified by JPS Quantity Surveyors) or certified by the customers/main contractors. Based on the sampled transactions, we noted that the progress claims which are sent for financing are internally certified by JPS' Quantity Surveyors.

1.5.30 We noted that JPS has recorded $ 17.4 million[9] ARF loans in FY 2015.

1.5.31 We noted instances where amendments were made to the original dates and repayment periods of the certified progress claims which were used for financing. We understand from Teoh that the amendments were done by printing a revised date and pasting the new information over a photocopy of the original project progress claim. This amended copy, which deviates from the copy sent to main contractors, will then be sent to the banks.

1.5.32 In our discussion with Teoh, she explained that she had amended the project progress claims to defer the repayment date. Banks would typically give 90 days' credit period; or for one bank, only progress claims dated within 21 days could be allowed for financing. As such, to maximise the repayment period, she would manually amend the date such that the project progress claim is dated close to the date of the financing application. In Teoh's Maxwellisation reply, she said that she had been instructed by Yap to amend the dates.

1.5.33 We also noted two instances where project progress claims with identical work descriptions and value were sent for financing to two different banks in two different months. The only differences in the project progress claims were the dates and claim number and we noted that both claims had been sent to the main contractor in consecutive months. Sim and Yap said that they were not aware that the claims were identical and that this must be an oversight.

1.5.34 We also noted instances where project progress claims with no additional work done was submitted for financing. Sim said that although additional work was not done, the bank did not prohibit such claims to be submitted for financing. He said that the banks had only requested for certified progress claims and did not state whether additional work done is required before any claims can be submitted for financing. For the samples of progress claims tested, we noted that there were instances where the claim amount due from the main contractor were lower than the cumulative amount owed to the bank.

d. Transactions with a customer in Myanmar

1.5.35 JPS engaged in trading sales with two Myanmar companies, OBG and MNN (to be collectively known as "Myanmar Customers"). We learnt from New that OBG and MNN are related companies. For the financial year ended 31 December 2015, the unaudited revenue generated from sales to OBG and MNN is $ 3,317,088.88[10] and the unaudited amounts due from them is $ 1,325,320.96.

[9] Amount is based on the entries recorded in the AR Financing account no. 3120, 3170, 3175 and 3180 of JPS's unaudited general ledger for FY 2015.

[10] Amount is net of credit adjustments made during the period.

1.5.36 We learnt from New who is responsible for the business with OBG and MNN that materials (namely plywood) and flatpack containers are shipped directly from China to Myanmar (i.e. drop shipment). We further understand from New that OBG will pay JPS only when OBG sells and receives payments from its customers. New told us that this arrangement was made verbally and not formalised in a document.

1.5.37 In analysing the amount due from the Myanmar Customers, we noted that approximately 61% of the receivables are more than 180 days outstanding. New explained that due to the Myanmar floods in 2015 and also the improper storage of the materials at the port awaiting clearance, the materials were damaged and it was difficult for Myanmar Customers to sell them to the end customers. As the Myanmar Customers were unable to sell the goods, they did not pay JPS.

1.5.38 New told us that in order to store the damaged stocks, he had instructed OBG to rent a warehouse on behalf of JPS in 2014. The rental cost of the warehouse is US$ 240,000 for a period of two years. Although JPS will be paying for the rental, the rental agreement was not signed by JPS. There is also no written arrangement between JPS and OBG for the rental of the warehouse. Sim explained in a meeting on 11 April 2016 that it is a business decision to rent a warehouse to store the stocks although the inventory does not belong to JPS.

1.5.39 Apart from trading sales, OBG was also involved in a project awarded to JPS. JPS was awarded a contract by a company ("Main Contractor") to provide installation works at an existing hotel in Myanmar. The installation works include supply and installation of pavilions, timber balustrades, timber ceiling and timber decking works. We understand from New that OBG had introduced a sub-contractor ("VC") to JPS for the performance of the works.

a. The contract value awarded by Main Contractor for the supply and installation of pavilions and timber balustrades was US$ 250,000[11] (approximately S$ 353,200). We understand that although VC was responsible for performing the works, payments for the works were made to OBG through off-set of amounts due from OBG; as well as cash payments. New said that OBG had paid VC on behalf of JPS; and as such, JPS had to repay OBG. We noted that JPS paid OBG based on OBG's payment vouchers which state the amount paid to the VC; and the payment vouchers were acknowledged by a representative from VC. JPS did not receive the invoices issued by the VC, if any exists.

b. $ 432,000 was paid to OBG for the supply and installation of pavilions and timber balustrades. The amount paid is more than the contract value awarded to JPS by the Main Contractor. New explained that the original contract value is US$ 250,000 but as there was a re-work of the pavilion; an additional $ 210,000 was paid to VC (through OBG) for the re-works. The value of the re-work was based on a quotation issued by a company which we understand from New is related to VC. However, we are unable to find details of this company from online databases. New was also unable to provide us with documentation from the architects and/or main contractor to support the instructions of the rework. As such, we are unable to verify if a rework had indeed been performed.

[11] After deduction of withholding tax, the contract value will be US$ 241,250.

During the Maxwellisation process, New stated that "*All instructions were communicated verbally between OBG PM for the job… and the Main Contractor. There were (sic) no documentation due to the urgency of the job to complete in time for opening ceremony for the new… hotel extension*." New also commented in his subsequent reply on 21 April 2016 that "*it was a miscommunication/ misunderstanding with the main contractor with respect to the misalignment.*"

c. New explained that the additional payment of $ 210,000 was paid in cash via a sundry shop in Peninsula Plaza which also operates as an unlicensed money changer/remittance company[12]. We understand from him that remittances to (or from) Myanmar are usually made (or received) through the unlicensed money changer or telegraphic transfers. New clarified in his Maxwellisation reply that he does not know if the sundry shop is a licensed money changer/remittance company. We checked the website of the Monetary Authority of Singapore and noted that the sundry shop is not listed as a registered money changer or remittance company.

d. With regards to the timber ceiling works, JPS and OBG had a profit sharing arrangement where JPS and OBG are both entitled to 50% profits each. New had initially explained that OBG was responsible for introducing a sub-contractor to JPS. However, when we asked the reason for OBG to have a share of the profits, he said that OBG was also involved in overseeing the project. When asked the reason for not requesting OBG to bear part of the losses due to the re-work (since it was overseeing the project), New claimed that JPS depended on OBG for future businesses and hence did not ask the customer to share the losses.

1.5.40 A check of publicly available databases in Singapore revealed that New and the owner[13] of OBG are partners in a Singapore-based Limited Liability Partnership. New explained that the owner of OBG and he saw business opportunities in the flat pack container business in Singapore and hence decided to set up a limited liability partnership for the business venture. However, the business venture was unsuccessful. We also noted that the director of TTPL is a partner of the partnership. In the Maxwellisation process, New stated that "*The LLP was aborted and we did not import any flat pack container even for trial purposes in Singapore. The LLP was set up after informing Jason (Sim). It was deemed to be a pilot project to take advantage of BCA's drive to establish PPVC (prefabricated prefinished volumetric construction) technique in Singapore*.

e. Inventory management

1.5.41 As of 31 December 2015, the unaudited inventory value is $ 7,180,161; of which, approximately 85% of the total value relates to materials and the remaining 15% accessories.

1.5.42 Sim admitted that a full stock count of all the inventory items has not been conducted for a number of years. In his Maxwellisation reply, Sim said he had a "reasonable system in place" and this is in reference to the accounting system, Taskhub. As such, after the IA report was issued in January 2016, Sim had instructed a full stock count to be conducted. As at the end of our fieldwork, we understand from the Logistic Assistant Manager that the count has not been completed.

[12] We were provided by New an email from the owner of OBG acknowledging that the latter had received the money.

[13] Although we are informed by New and Sim that the individual is the owner of OBG, publicly available records did not show that he is a director/shareholder of the company.

1.5.43 JPS' inventory is kept at three separate locations; two of which are rented spaces from a supplier and a company which Sim was a former director and shareholder. We noted that the rental agreements for the rented spaces have ended in 2015. However, during our fieldwork, we noted that JPS's stocks were still maintained at these rented spaces.

1.5.44 We noted differences between the system records and the physical quantity of stocks during our physical sighting of selected inventory items. We were informed by the Finance and Logistics Assistant Manager that the system records are not accurate as the movements (i.e. deliveries, receipts etc.) of the inventory items were not updated. According to them, as the inventory module (in the accounting system[14]) for the prior months has not been closed, they were unable to post the transactions into the system. Also, we noted that some of these differences arose as the Logistics Assistant Manager did not record the inventory movements into the system. There were also differences between the quantity of the physical stocks and system records which could not be explained by the Logistics Assistant Manager.

1.5.45 In FY 2015, there was an inventory write off of $ 2,443,687. We noted that the main reason for the write off was the inability to find the physical inventory items. The value of inventory items which cannot be found is valued at $ 1,443,337 (approximately 59% of the total value of inventory written off). The Logistic Assistant Manager claimed that he had proposed these inventory items to be written off based on his recollection that these inventory items were no longer in the warehouse. Other reasons for the inventory write off include a) adjustment entries related to project costings which is only supported by a journal voucher without any supporting computation and/or supporting documents; b) inventory items which are more than six years older and no sales demand; and c) inventory items used in BCA classes which were not recorded in the system. In the Logistic Assistant Manager's Maxwellisation reply, he added that he had written off stocks based on "*no physical stocks", "repeated (sic) recorded in different inventory codes", "expired inventory", "rejected goods", "rotten and wood borers affected"* and *"extremely slow moving stocks that has no approach market due to no demand for customer (sic)*".

1.5.46 We understand that the Logistics Assistant Manager is the overall person in charge of the warehouse and his roles includes the following:

a) Issuance of inventory;
b) Post manual inventory adjustments in Taskhub;
c) Determined the quantities of stocks to be written off for FY2015; and
d) In-charge of the ongoing stock count being carried out in 2016.

Other observation

1.5.47 In the course of our work, we noted that in January and February 2015, JPS paid for the hire purchase instalments of a motor vehicle which belonged to Sim's wife. From the supporting documents, we noted that the vehicle was stolen in October 2014. Subsequent to that, the hire purchase was fully redeemed in March 2015 with a corresponding insurance payment from the insurance company. The remaining amount of $ 7,217.74 after the redemption of the hire purchase was not returned to JPS.

[14] Referring to Taskhub