

**RESPONSE TO QUERIES FROM THE SECURITIES INVESTORS ASSOCIATION (SINGAPORE) (“SIAS”) ON ANNUAL REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2021 (“FY2021”)**

The Board of Directors of Forise International Limited (the “**Company**”), and together with its subsidiaries, the (“**Group**”) would like to respond to the queries raised by the Securities Investors Association (Singapore) (“**SIAS**”) on 17 April 2022 in relation to the Annual Report for the financial year ended 31 December 2021 as follows:

**SIAS’s Queries**

**Query 1**

The group’s core business comprises providing strategic planning, corporate advisory and management consultancy services.

As shown in Note 4 (page 73 – Revenue), the group derives most of its revenue from Singapore from management consultancy services and from PRC for corporate advisory services.

**4 REVENUE**

Disaggregation of revenue from contracts with customers

The Group derives revenue from the transfer of services at a point in time and over time in the following major service lines and geographical regions. Revenue is attributed to countries by location of customers.

	Group	
	31 Dec 2021 SGD’000	31 Dec 2020 SGD’000
		(Restated)
<b><u>At a point in time</u></b>		
Corporate advisory services		
– PRC	396	216
– Singapore	80	–
	<b>476</b>	216
<b><u>Over time</u></b>		
Management consultancy services		
– Singapore	1,145	1,877
– Denmark	31	31
– United Arab Emirates	34	36
	<b>1,210</b>	1,944
Total	<b>1,686</b>	2,160

(Source: company annual report)

(i) Can management provide shareholders with greater clarity on the business model of the group? How does the group secure new projects/contracts?

(ii) In addition, please help shareholders understand the profiles of the client(s) and the types of consultancy projects and services delivered by the operating entities in the different regions. The company has provided such details in its response to SGX queries dated 8 March 2022.

(iii) The details of key management can be found on page 10 of the annual report. Can management provide shareholders with more details of the client-facing corporate advisory professionals in Tianjin Forise?

### **Query 1 (cont'd)**

(iv) Is the group required to obtain a capital markets services (CMS) licence to offer consulting services for capital market and fund raising in Singapore?

(v) Please provide shareholders with the websites/URLs for the subsidiaries and/or operations in the group, including:

- a. Prisma Technologies Pte. Ltd.
- b. Tianjin Forise Corporation Management Consultancy Limited
- c. Le Rong Corporation Management (Shenzhen) Co., Ltd

(vi) The group generated revenue of \$1.69 million as a listed company on SGX. It has equity attributable to owners of the company amounting to \$2.93 million. What are the growth prospects for the group and how will the group be funding its growth? What are management's priorities in FY2022?

### **Company's Response**

(i) The core business of the Group comprises providing strategic planning, corporate advisory and management consultancy services. The management team of the Group actively looks for potential customers by tapping on its network of business contacts to refer new projects/contracts to the Group.

(ii) The customers of the Group are mainly SMEs and boutique asset management companies in China, and IT and manufacturing companies in Singapore. The Group provides consulting services for strategic planning, business analysis, market research and commercial due diligence, private equity fund set up and business plan advisory services, and referral of potential business partners for customers in China. For customers in Singapore, we mainly provide management consultancy services for strategic planning, corporate advisory, project management (including project review, monitoring and provision of feedback), referral of potential business partners, market research and business analysis.

(iii) Since FY2020, the client-facing corporate advisory team has been led by Peng Weile, Executive Director of the Company. The rest of the team includes Xing Yue Sheng, who is the Investment Director of Tianjin Forise, Wu Li Wei, who is a finance personnel in Tianjin Forise and another team member who is in charge of the business development of Tianjin Forise. The details of Peng Weile, Xing Yue Sheng and Wu Li Wei, who are key management personnel, can be found on Pages 8 and 10 of the Annual Report respectively.

(iv) The consulting services provided were to a manufacturing company to expand its businesses by (i) introducing potential Chinese and Hong Kong business partners to collaborate in business ventures and (ii) introducing strategic investors to form a joint venture entity in China with the Chinese or Hong Kong business partners to develop and explore business opportunities in China. The Company's role was mainly to act as an introducer and refer business partners and investors (without giving any advice on fund raising and corporate finance), as well as conduct strategic planning, business analysis and market research, in a manner and scope not different from other roles it had conducted for which no licence was required. In this regard, the Company wishes to correct an earlier inaccurate disclosure made on 8 March 2022 on the job description for this customer, by clarifying that the description for the work performed for this customer has been more accurately disclosed in the Company's announcement on 21 March 2022 and in the foregoing response.

(v) There are no separate websites for the subsidiaries and/or operations in the Group.

(vi) The Group continues to strive in our current business, and will endeavor to do our best to explore new business opportunities, in order to expand and enhance the performance and shareholders' value of the Group. In practice, Management has implemented cost-saving plans since FY2021, and intends to keep such measures in place until such time as it is satisfied that the Group's business is stable and on track and the Group's performance warrants such measures to be eased.

We had just incorporated a joint venture company – Raffles Neobank Solutions Pte. Ltd. – with an unrelated third party, Raffles Emi Pte. Ltd., for the provision of advisory and management services, market research, marketing and promotion services in merchant "neobanking" solutions and membership loyalty programs. We will try to look for more suitable business partners to work together, to expand our revenue stream.

## Query 2

The group accounts for its investment in Le Rong as an associated company as the company holds more than 20% of the issued share of Le Rong and the group is able to exercise significant influence over the investment due to the group's voting power. However, Le Rong is currently dormant and has not been generating revenue. Le Rong is in a net liabilities position of \$(4.15) million.

The company has responded to SGX RegCo on the status of Le Rong on previous occasion, including:

<https://links.sgx.com/FileOpen/Forise%20-%20Response%20to%20SGX%20queries.ashx?App=Announcement&FileID=647095>

<https://links.sgx.com/FileOpen/Forise%20-%20Response%20to%20SGX%20queries.ashx?App=Announcement&FileID=647688>

[https://links.sgx.com/FileOpen/Forise%20-%20Response%20to%20SGX%20queries\\_16%20Feb%202021.ashx?App=Announcement&FileID=648406](https://links.sgx.com/FileOpen/Forise%20-%20Response%20to%20SGX%20queries_16%20Feb%202021.ashx?App=Announcement&FileID=648406)

(i) Can the board help shareholders recall the events that led to the termination of Le Rong's commercial factoring license?

(ii) What is the profile of the end customer of Le Rong that defaulted on its debt? What is the current status of the customer?

The group had made a loan of RMB19.8 million to Le Rong for the financial factoring business which was eventually unrecoverable and impaired. Ms. Li Ying, the 60% shareholder of Le Rong, had not contributed her portion of share capital and made a sudden sale of her interest to a "Mr Zou Zhi Bing".

(iii) Is management in contact with Ms. Li Ying? Did management carry out any investigation to find out the relationship between Ms. Li Ying and Mr. Zou Zhi Bing?

(iv) Is it premature of management to "believe" that the default by the end customer and the impairment of RMB19.8 million by the company due to Le Rong's troubles had "no direct connection to mismanagement" by Ms. Li? Would the independent directors reconsider carrying out an independent review to ascertain the events leading up to the default by the end customer of Le Rong and the conduct of the then-major shareholder, Ms Li Ying?

(v) On what basis did the Tianjin WFOE decide that court proceedings would not be viable?

(vi) What improvements have been made in the Tianjin WFOE with regard to its due diligence framework and background checks?

## Company's Response

(i) The principal activity of Le Rong is in the business operation of commercial factoring. Le Rong was incorporated in Shenzhen, People's Republic of China ("PRC") on 17 October 2016 and it had obtained the necessary permits in PRC to carry out the factoring business. As announced on 8 February 2021, at the time of incorporation of Le Rong, there was no mandatory requirement for registered capital to be fully paid up for setting up a commercial factoring company as Shenzhen authorities were encouraging private capital to embark into the commercial factory industry.

In order to operate as a commercial factoring business in China, the Company's name must include the wordings "commercial factoring". In addition, the business license of the commercial factoring company must include the scope of operation in developing commercial factoring business. The business license of Le Rong had all of the above, and the renewal of business license is done annually.

From FY2018, the Chinese Central Government decided to classify commercial factoring entities as financial related entities and transfer the supervisory and governing powers from the Ministry of Commerce (商务部) to the China Banking and Insurance Regulatory Commission – Total Territorial Supervision (金融办). In the case of Le Rong, it was then governed by the Shenzhen Municipal Financial Service Office (深圳市人民政府金融工作办公室), to hold a minimum of RMB50 million in share capital.

Thereafter, each local territorial Financial Service Office began to review the commercial factoring entities within their territories, and gradually tightened the requirements for setting up new commercial factoring entities as well as other requirements including the required share capital of commercial factoring entities. Please note that different Local Municipal Financial Service Offices impose different requirements regarding the share capital.

Starting from 2018, industry rectification, industry investigation, policy formulation and policy promulgation by Chinese Central Government had also given many commercial factoring entities a window period for exiting the industry.

In view of this, the Company decided to suspend the commercial factoring business and forgo the commercial factoring license, as we were unable to meet the minimum requirement of RMB50 million paid-up capital required by Shenzhen Municipal Financial Service Office (深圳市人民政府金融工作办公室). Consequently, there was a change in name of Le Rong Factoring Company to Le Rong Corporation Management (Shenzhen) Co., Ltd (“**Le Rong**”). In conjunction with the change of name of Le Rong, the business activities of Le Rong has also been changed from commercial factoring to that of management consultancy and corporate advisory services.

(ii) As announced on 10 March 2020, due to commercial sensitivity, the Group is of the view that full detailed disclosure of the identity of customer of Le Rong would be prejudicial to the Group’s interest. Instead, a general description of the customer of Le Rong is as follows. The customer of Le Rong is a privately-owned manufacturing company in China which manufactures and supplies glass windows for building construction to small and medium sized property developers. In FY2019, the end customer of Le Rong faced financial difficulties due to the deleveraging policy introduced by the Chinese government which limited credit access for businesses, and the cooling measures implemented on the real estate industry by the Chinese government which affected its revenue and AR recoverability. We have confirmed with the financial personnel of Le Rong who was in charge of the recoverability issue that the end customer is still in operation, however, the end customer is still facing severe cash flow problems and is involved in some litigation cases.

(iii) As disclosed in the announcement on 10 March 2020 and 16 February 2021, it is the commercial intention that Ms Li will be responsible for providing the factoring license platform, sourcing and recommending customers to Le Rong, and executing the commercial factoring business while Tianjin WFOE provides funds for the business operations and development. Tianjin WFOE charges Le Rong interest on a shareholder’s loan and corporate advisory fee, which is beneficial to Tianjin WFOE. Furthermore, as announced on 8 February 2021, Ms. Li did not draw any salary from Le Rong, as it had been mutual agreement between Tianjin WFOE and Ms. Li that Ms. Li would be entitled to profit distribution via dividends declared from the retained earnings of Le Rong instead. This arrangement was to motivate and encourage Ms. Li to maximise her enthusiasm in achieving profitability in Le Rong and at the same time, minimise the operating cost of Le Rong. However, due to the outbreak of COVID-19 pandemic in early FY2020, which had severely impacted the global economy, Ms. Li came under financial pressure due to not drawing any income from Le Rong for many years. She had then requested Tianjin WFOE to continue provide funding to Le Rong to develop new factoring business, however, this was rejected by Tianjin WFOE due to the reasons as mentioned in (i) and (ii) above. Thereafter, Ms. Li suggested to sell her 60% shareholdings in Le Rong to Tianjin WFOE, which was also rejected as Tianjin WFOE wished to recover the loan amounts as much as possible. Management of the Company believes that the limited resources of the Company should be deployed in businesses with development prospects, and also after considering the factors as mentioned in (i) and (ii) above.

After that, Ms. Li had transferred her shares to Mr. Zou in late January 2021 and informed Tianjin WFOE thereafter. There had been no discussion among Ms. Li and Tianjin WFOE after Tianjin WFOE rejected her proposal. Moreover, the investment agreement between Tianjin WFOE and Ms. Li did not stipulate any right of first refusal for the equity transfer of both parties. Following the change of the major shareholder, there was then a discussion between Mr. Zou and Tianjin WFOE, whereupon it was agreed that Mr. Zou would assist in chasing for the payment from the end customer, and share a small portion of the recoverable amounts from the end customer with Tianjin WFOE, which would be helpful towards recovering the balances due from the end customer and minimising the operating expenses of Le Rong.

Management is not in contact with Ms. Li after she had disposed her shares. As announced on 8 February 2021, the Company understands from Ms. Li that Mr. Zou was introduced to her by her friend. No other further information was disclosed by Ms. Li, including any information about the introducer of Mr. Zou or the amount of sales proceeds for the transfer of shares.

(iv) As announced on 16 February 2021, Tianjin WFOE and Le Rong have indeed continuously chased for the repayments via emails, calls and letters of reminder, as well as engaged Chinese law firms to advise on the recovery. In FY2019, the end customer of Le Rong defaulted on payment and repayment of debts, as these were due to the financial and operational conditions of the end customer of Le Rong was severely impacted by stringent controls over real estate industry by Chinese authorities; and financial system deleveraging policy imposed by Chinese authorities. Notably, the developments above took several years and faced several major turbulences, such as Sino-US trade dispute, implementation of financial deleveraging and real estate industry regulation by Chinese Central Government and the COVID-19 pandemic.

Management has reviewed the relevant documents and due diligence paperwork conducted by the team in charge, and has not found anything to suggest any mismanagement on the part of Ms. Li, or that Ms. Li mislead the Company into conducting the business with the end customer. Management has also consulted the China lawyer on this matter. Based on the above, Management is of the view that the default by end customer was due to the macro-environmental factors and no direct connection to mismanagement by Ms. Li.

(v) As announced on 16 February 2021, the Company had consulted a Chinese law firm, which advised Tianjin WFOE that the prospect of recovery against the end customer was low, taking into account that Le Rong was not the only creditor of the end customer and that the end customer was facing several other claims. Tianjin WFOE had also obtained quotes from law firm on the cost of recovery. Taking into account the low prospect of recovery and the relatively high cost of any litigation in the event that the claim is protracted, Tianjin WFOE decided that it would not at present be justified to commence court proceedings. Tianjin WFOE will nonetheless continue to monitor to status of the end customer and obtain the advice of law firm on the availability of other avenues of recovery available, if and when appropriate. Concurrently, Le Rong will seek to rationalize its operations by minimizing operating expenses, and focus on recovery of accounts receivables.

As announced on 21 March 2022, the Chinese law firm has been instructed to refer any asset management companies that may wish to acquire the accounts receivable from Le Rong at a certain discount.

(vi) As announced on 16 February 2021, Tianjin WFOE had performed due diligence and background checks on the end customer prior to lending. Moreover, the Chinese economy, particularly real estate industry was smooth and prosperous before the Chinese Central Government tightened its regulations. Further, the central bank's deleveraging policy and Sino-US trade disputes were entirely unexpected and unpredictable. From this experience, Tianjin WFOE will be more alert and mindful in future on any due diligence framework and background checks, also will focus on the target company, its industry, macro-policy and geopolitics matters.

### **Query 3**

As noted in the corporate governance report, the company has outsourced its internal audit function to Wensen Consulting Asia (S) Pte. Ltd., an established auditing firm specialising in the provision of risk advisory, internal audit outsourcing and other consulting and advisory services

The audit committee (AC) is satisfied that the internal audit function is independent, effective and adequately resourced to perform its function effectively.

- (i) What was the scope of the internal audit in FY2021? How was the scope determined?
- (ii) Can the AC confirm that the major operating entities overseas were included in the internal audit?
- (iii) Given that national borders were mostly closed in the last two years, how was the IA carried out? Did the constraints limit the scope and the effectiveness of the IA?
- (iv) What were the key findings by the IA?

### **Company's Response**

- (i) The scope of internal audit in FY2021 was compliance review on Singapore Code of Corporate Governance at the holding company level, which includes corporate code of conduct, board and board committee's composition and responsibilities, delegation of authority, roles and responsibilities, organisation and reporting structure, investment policy and decision making process, management's philosophy and operating style, fulfilment of obligations required by Singapore's listing rules, compliance with contractual and legal requirement, directors, management and staff competency, risk assessment, internal audit function, information and communication and fraud management, and billing and collection management at Prisma Technologies Pte Ltd ("**Prisma Tech**") which includes sales invoice handling, recording and revenue recognition and also collection monitoring and accounts receivables handlings.

These have been discussed between the Internal Auditor ("**IA**") and Management, and the IA has assessed, reviewed the FY2020 internal auditor report and concluded the job scope as mentioned above. IA had recommended the job scope as mentioned above to the Audit Committee in November 2021, which was then approved by the Audit Committee during the meeting.

- (ii) The IA understands that Tianjin WFOE is the only major overseas operating entity of the Group. However, the contribution to the Group's performance and results was not as material as another Singapore subsidiary – Prisma Tech. In addition, there was internal audit conducted in past years at Tianjin WFOE. After considering the above, the IA concluded that no internal audit work needed to be conducted at Tianjin WFOE in FY2021.
- (iii) The IA carried out their work through conference calls with the director of Prisma Tech to go through the operation process. Most of the documents are kept in Singapore, hence there were no constraints in the scope and the effectiveness of the IA.
- (iv) The key finding was there is no appointment letter issued to the Group's Directors. However, this has been subsequently implemented, and the IA had reviewed the appointment letters issued and signed off by the Non-Executive and Independent Directors.

### **BY ORDER OF THE BOARD**

Peng Weile  
Executive Director  
22 April 2022