

TEE ***International*** ***Limited***

3 March 2020



Executive Summary

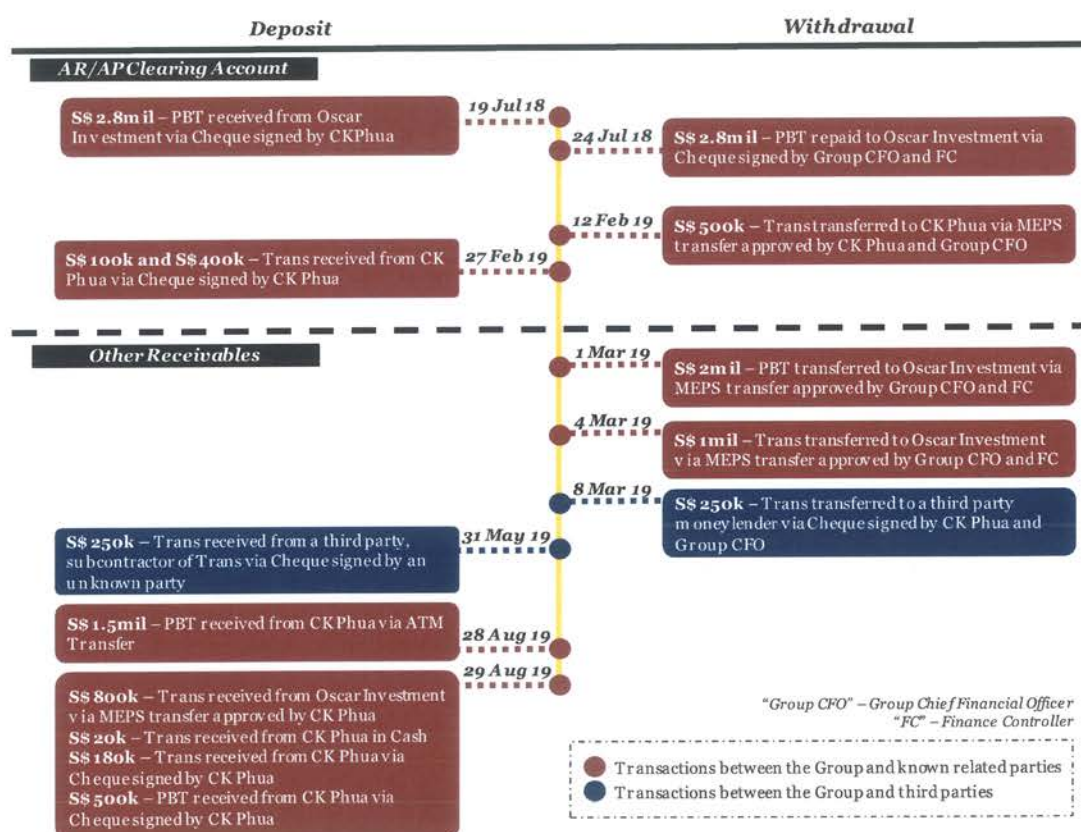
Background

1. TEE International Limited (“TIL” or the “Company”) is a company listed on the Mainboard of Singapore Exchange Securities Trading Limited (the “SGX”). TIL and its subsidiaries (collectively, the “Group”) operate across three business segments, namely engineering, infrastructure and real estate across Singapore and Southeast Asia.
2. The key engineering entities of the Group are Trans Equatorial Engineering Pte. Ltd. (“Trans”) and PBT Engineering Pte. Ltd. (“PBT”), both of which operate in Singapore. Trans provides addition, alteration and upgrading of existing buildings, mechanical and electrical engineering services, while PBT provides turnkey solutions for commercial, industrial and institutional buildings.
3. On 4 September 2019, the Group announced that the Board of Directors of TIL (the “Board”) had identified remittances of monies between then-Group Chief Executive and majority shareholder, Mr. Phua Chian Kin (“CK Phua”), PBT, Trans and Oscar Investment Private Limited (“Oscar Investment”) – a British Virgin Islands-incorporated investment holding company wholly and beneficially owned by CK Phua (the “Remittances”), which the Board and/or the Executive Committee were not previously made aware of.
4. As at 29 August 2019, CK Phua and Oscar Investment have repaid all outstanding amounts due to the Group.
5. The Company also announced that they had instructed external auditors Deloitte & Touche LLP (“Deloitte”) and internal auditors Protiviti Pte. Ltd. (“Protiviti”) to conduct further checks and reviews with the objective of verifying the nature of the remittances, to identify whether there are any other such unauthorised remittances and to strengthen the Group’s internal controls system.
6. On 7 September 2019, it was further announced that TIL had received a letter from Deloitte (the “Deloitte Letter”) that they are still unable to ascertain the nature of the Remittances after performing the expanded scope of work.
7. Given the above inconclusive outcome of Deloitte’s expanded work scope, on 13 September 2019, the Company announced that the Board has appointed

PricewaterhouseCoopers Risk Services Pte. Ltd. (“PwC”) as the External Investigator to investigate the facts and circumstances surrounding the Remittances and assess the impact, if any, on the financial statements of the Group, as well as to determine whether there had been any other similar transactions for the period from 1 June 2017 to 31 August 2019 (the “Relevant Period”).

The Remittances

8. We set out below a pictorial depiction of the various Remittances:



Receipt of S\$2.8 million from Oscar Investment to PBT

- We understand that the receipt of S\$2.8 million from Oscar Investment to PBT on 19 July 2018 was used to place as a fixed deposit to secure a general facility line with CIMB Bank (“CIMB”), for the operations of the Group. During our interview with CK Phua, he stated that it was not unusual for staff of the Group to involve him in matters regarding the Group, be it financial or operational.
- This S\$2.8 million was subsequently transferred back to Oscar Investment via cheque, after the first drawdown was made by PBT on 23 July 2018 against the banking facility

line provided by CIMB. The cheque from PBT was cleared on 24 July 2018 but the approval of the payment voucher was noted to be signed and dated only on 13 August 2018, three weeks after the transfer of funds.

11. The Finance Controller acknowledged that this is a lapse in controls, and that the approval of payment voucher should have been done before the transfer of funds. He also recounted that he had assumed that necessary approvals had been obtained since the instructions came from the Group Chief Financial Officer (“Group CFO”) herself.

Payment of S\$500,000 from Trans to CK Phua

12. We noted that the transfer of S\$500,000 from Trans to CK Phua’s personal account was made on 12 February 2019 via MAS Electronic Payment System (“MEPS”), jointly approved by CK Phua and the Group CFO. This transaction bears the description of “*for misc payment*” on the payment voucher.
13. We understand from the Group CFO that she was approached by CK Phua who requested that she issue a cheque to him for the purposes of a “*corporate exercise*”. Subsequently, she verbally instructed the Group Treasury Manager to send instructions to the finance team to perform the funds transfer. The instructions via email were noted to be “*Trans (DBS) to Mr CK Phua (OCBC) \$500K – please charge to AR/AP clearing code, as Mr Phua will refund us the \$500K by this few days.*”
14. However, in a letter dated 4 October 2019 addressed to Protiviti¹ by CK Phua (“Letter to Protiviti”), it stated that S\$165,000 of these monies were used to repay his outstanding loan with a Singapore-incorporated licensed moneylender while the remaining S\$335,000 were purported to be used for his margin calls from stock brokers. We were also provided with CK Phua’s Statement of Accounts with this moneylender as at 24 April 2019, where we sighted the repayment of S\$165,000 on 26 February 2019 against his outstanding loan of S\$1.5 million. The ultimate recipient of the remaining S\$335,000 were however not identified as there were no supporting documents available for our review.
15. During our interview with CK Phua, he represented that he thought it was appropriate for him to request money from the Group to help him financially when he was in financial difficulties too and that he had the intention of repaying the loan within the

¹ Protiviti had emailed to CK Phua on 1 October 2019, requesting for the supporting documents for the fund transfers.

same month. From our review of financial records, we noted that CK Phua subsequently repaid S\$500,000 to Trans on 27 February 2019 via two cheques of S\$100,000 and S\$400,000. These transactions were captured in the AR/AP clearing account on 1 March 2019 during the month-end closing.

16. Similarly, the approval of the payment voucher was signed by the Finance Controller and dated on 18 March 2019, more than one month after the transfer of S\$500,000 to CK Phua on 12 February 2019.

Payment of S\$3 million from PBT and Trans to Oscar Investment

17. On 1 March 2019, PBT transferred S\$2 million via electronic transfer to Oscar Investment. This was shortly followed by another electronic transfer of S\$1 million by Trans to Oscar Investment on 4 March 2019. Both transfers were jointly approved by the Finance Controller and Group CFO. These transactions were initially recorded in the clearing account but was transferred to “Amounts due from Director” on 31 March 2019 as CK Phua did not return the money back by end of March 2019. We noted that the payment vouchers for both payments were approved on 1 March 2019 in accordance with the standard process.
18. The Group CFO represented that CK Phua had informed her that the monies were for the purposes of a “*corporate exercise*”. In the same fashion as the transfer of S\$500,000 on 12 February 2019, she verbally instructed the Group Treasury Manager to send out the instructions to the finance team to perform the two fund transfers.
19. In the AC Meeting on 26 July 2019, CK Phua notified the AC about the Remittances. He explained that the S\$3 million was to get the Group past the pre-qualification stage in order to be shortlisted for tender submission for a project in Cambodia. He further elaborated that if successful, this S\$3 million would form part of the cost in the preparation for the tender. We understand from the AC and the management that the Company subsequently sent a letter to the facilitator of the tender process to inform them of the Group’s decision to withdraw from the tender submission as the AC felt that CK Phua’s actions had exposed the Company to too much risk, given the project size as well as the fact that the Company was not familiar with the Cambodia market.
20. Contrary to what was discussed over the AC meeting, in the Letter to Protiviti, CK Phua represented that out of the S\$3 million received, S\$251,478.49 was used for repayment

of his personal loan of S\$1.5 million with the aforementioned moneylender on 8 March 2019, S\$1 million and S\$1.5 million were used for repayment of the loan from a Hong Kong-based private equity firm to Oscar Investment on 4 March 2019 and 6 March 2019 respectively. We note that the loan between the private equity firm and Oscar Investment was a back-to-back loan arrangement CK Phua had with TEE Land Limited, the Group's majority-owned SGX Mainboard listed subsidiary, for the funding of a project. The shares of TEE Resources Sdn. Bhd., one of the subsidiaries in TEE Land Limited was pledged to the private equity firm as collateral.

21. We analysed the bank statements of Oscar Investment and recalled the cheque images of the relevant transactions to corroborate CK Phua's representations in the Letter to Protiviti. From our review, the remaining amount of S\$248,521.51 (out of the S\$3 million that was not stated in the Letter to Protiviti), were cash withdrawals from Oscar Investment which were represented by CK Phua during our interview that they were mainly used to meet his personal obligations such as various margin top-up requests from stock brokers.
22. During our interview with CK Phua, he explained that it was his pride which resulted in the contradictory statements as he did not want the AC to know that he was in need of cash. He had lent and also periodically borrowed money from third parties to personally fund the Group when it was in financial need whereas this time, he was the one who needed the money.
23. Out of the S\$3 million owed, CK Phua transferred S\$1.5 million to PBT via ATM transfer on 28 August 2019. On 29 August 2019, S\$800,000 was transferred from Oscar Investment to Trans via MEPS while the remaining S\$200,000 and S\$500,000 was transferred via cash and cheque from his personal accounts to Trans and PBT respectively.

Payment of S\$250,000 from Trans to Oscar Investment

24. In the Company's SGX announcement dated 8 September 2019², the last tranche of S\$250,000 was announced to be paid by Trans to Oscar Investment on 8 March 2019 and subsequently repaid by Oscar Investment to Trans on 31 May 2019. During the Pre-

² Company's announcement in response to SGX's queries on the remittances of monies between the Company's subsidiaries and related parties.

board meeting on 30 July 2019, CK Phua also reported to the AC that the S\$250,000 was for business development purposes.

25. However, even though the payment voucher bears the description “*CASH – TRF FUND TRANS (DBS) TO OSCAR INVESTMENT PRIVATE LIMITED*”, we note that the payee on the cheque of S\$250,000 was the moneylender, instead of Oscar Investment from the recalled cheque image. This cheque was jointly signed by CK Phua and the Group CFO.
26. During our interview with CK Phua, he clarified that this amount of money was an urgent payment to the moneylender for his personal loan and he had instructed the Group CFO to issue a cheque to the moneylender on his behalf. The Group CFO represented that she was not aware of the need to make a distinction on the beneficiary of the funds transfer in the announcement or the payment voucher as it was a payment on behalf of CK Phua. She had assumed it would have meant the same.
27. Similarly, the repayment of this S\$250,000 to Trans via cheque, purportedly from Oscar Investment, as described in the payment voucher as “*REPAYMENT FROM OSCAR INVESTMENT*” was not paid by Oscar Investment but a company which we note from the recalled cheque image to be a subcontractor of Trans who has provided engineering services on several projects for Trans.

Other transactions with CK Phua and other known related parties

28. From our review, we noted two transactions between the Group and CK Phua, which mirrored the same pattern as the Remittances where CK Phua used his own money for the Group’s purported urgent financial needs.
29. On 31 August 2017, TEE Water Pte. Ltd. (“TEE Water”), formerly known as TEE Resources Pte. Ltd., received a fund transfer of S\$600,000 from CK Phua for the repayment of an existing loan arrangement between TEE Water and Global Environmental Technology Co., Ltd (“GETCO”), an associate of the Group. From our email review, we noted an email correspondence dated 30 August 2017 from the Group CFO to the head of Infrastructure segment of the Group, that the Group did “...not [have] enough funds from TEE Intl & Engrg side, [thus] all from Mr Phua to TEE Resources PL for this shareholder loan repayment.” The repayment of the loan to GETCO by TEE Water was made on 4 September 2017 and CK Phua was eventually

repaid by TEE Water in two tranches of S\$300,000 on 12 January 2018 and 10 February 2018.

30. On 11 September 2018, TIL received a cash advance of S\$60,000 from CK Phua. The Group CFO stated that due to the tight cashflow faced by TIL, she had reached out to CK Phua for a payment of S\$60,000 that was due to a management consultancy company³ for the services provided in the months of June 2018 and July 2018. From our review, we note that this company provides “market-making” services to TIL and that there were no supporting documents for proof of delivery of service. Based on the business profile of this management consultancy company, it is noted to be owned by an individual. Upon further request, the Group CFO managed to contact this said individual and obtained a 4-page report for the services provided in February 2019. We understand from CK Phua that he met the individual at a conference and had engaged him to maintain the volatility of the Company’s shares. We did not verify the legitimacy of the services provided nor the legality of the service provider for this nature of service. During our interviews with the AC, they stated that they were not aware of the appointment of this management consultancy company to provide market making services. The repayment to CK Phua by TIL for S\$60,000 was eventually paid in two tranches of S\$30,000 on 26 September 2018 and 25 October 2018.

Internal control and corporate governance observations

31. We note from our observations over the Remittances that there were lapses in controls over payments as the payment vouchers were prepared and approved after the payments were made. The approval process for the payment vouchers was procedural and is not effective as a control. Documentation of transactions in the books and records of the Company were also inaccurate and there were inadequate controls in the maintenance of supporting documents. It is inappropriate for authorised staff to sign the cheques for the Remittances without supporting documents, despite having established policies and procedures in place. This suggests a major breakdown of internal controls in respect of the payment process of the Group, caused by management override.
32. Bank mandates in place for the Group were noted to have no limit placed on the payment of amounts as long as it is jointly approved by either two signatories from

³ Singapore incorporated exempt private company in the business of management consultancy services.

Group A or one signatory from Group A with another signatory from Group B or C. Two of the transactions of the Remittances were noted to be approved by CK Phua himself. In this environment where CK Phua wields considerable influence over the staff in the Group, approvals without limit and supposed shared accountability deemed from joint signatories may not be as effective as there is no independence nor objectivity in the making of payments.

33. A review of the Group's interested persons transactions ("IPTs") policy and procedures revealed that there is no formalised process to identify interested persons ("IP"), and no IP Register was maintained or periodically reviewed. Based on our review of the AC Meeting Minutes dated 26 July 2019 and the quarterly reporting to the AC on IPTs in FY2019, we noted that the Remittances to Oscar Investment and CK Phua were not reported to the AC for review and approval as IPTs, even though these Remittances fall within the definition of an IPT. Although the Group CFO represented that the non-disclosure of the Remittances was an oversight on her part, it illustrates a lack of commitment within the Group to monitor IPTs and thus heightens the risk of incomplete and/or inaccurate disclosures or even non-disclosure of relevant transactions. Potential breaches include: (a) Rule 905 or 906 of the SGX Rules (as the case may be) which requires an announcement and/or shareholder approval for prescribed IPTs; and (b) the Company's obligations to devise and maintain a system of internal accounting controls under Section 199(2A) of the Companies Act (Cap. 50) of Singapore ("Companies Act").
34. We also note that prior to October 2018, the internal audit plan was prepared by the former Business Control & Risk Unit Manager and a Finance Business Manager, who functionally reported to the Head of Infrastructure and the CFO respectively instead of directly reporting to the AC Chairperson. Given that the Finance Business Manager performs the role of internal audit and risk management in the Company in addition to her responsibilities within the finance function, the internal audit function is not independent and it also appears that the function may not be adequately resourced.

Conclusion

Remittances

35. Based on our observations, interviews and interaction with the staff, CK Phua is recognised by the staff as the 'de facto' owner of the Group despite the Group's listing

on the SGX since 2008. There appears to be no clear distinction between the finances of CK Phua and the Company as we note from the Remittances and on at least two other occasions, CK Phua also provided temporary loans to the Group in the past years to help tide over the occasional financial strain faced by the Group.

36. As the founder and former Group Chief Executive, CK Phua had requested these monies to be paid to him/Oscar Investment using the justification of business development expenses despite having no supporting documents. These were also subsequently disclosed to the AC as project-related expenses. However, the monies were eventually disclosed and verified to be primarily used for CK Phua's personal affairs. This could potentially be a breach of fiduciary duties owed by CK Phua to the Company in his capacity as the Group Chief Executive of the Company given that Section 157 of the Companies Act requires him to act honestly and use reasonable diligence in the discharge of the duties of his office.
37. Likewise, as the amount has been advanced to CK Phua/Oscar Investment, this may be construed as a loan to a director. This may contravene section 162 of the Companies Act if no prior approval for such loan had been obtained from the shareholders. Section 162(1) of the Companies Act prohibits a company from making a loan or entering into a credit transaction or related arrangement with any of its directors, unless certain exceptions in section 162(3) apply.
38. Further, section 163(1) (read with Section 163(2)) prohibits a company from making a loan or entering into a credit transaction for the benefit of persons connected with directors of the company. As the sole shareholder of Oscar Investment, CK Phua would likely be deemed to be interested in Oscar Investment. If so, the transactions relating to Oscar Investment, PBT and Trans may have contravened the provisions of section 163.
39. As loans between a listed company and its director are also considered to be IPTs, if the loans satisfied the prescribed thresholds, the Company may have failed to comply with Rule 905 and/or 906 of the SGX Rules for failing to announce and/or obtain shareholder approval of the same.
40. Separately, we cited an inaccurate announcement dated 8 September 2019 relating to one of the Remittances which may have breached Rule 703(4)(a) (read together with paragraph 25(a) of Appendix 7.1) of the SGX Rules.

Internal Controls and Corporate Governance

41. Fundamentally, it is important to maintain and record accurate financial data/other information to ensure that the events have been recorded appropriately, and related disclosures have been appropriately measured and described. Payment should not be made other than for the purpose that is described in the supporting documents. In view of the breakdown of internal controls of the Company's payment processes, more scrutiny should be placed to ensure that controls are not compromised.
42. Further, the lack of proper documentation may be in contravention of Section 199 of the Companies Act which requires the Company to maintain a system of internal accounting controls and Rule 1207(10) read with Practice Note 12.2 of the SGX Rules which requires the Company's board to evaluate the adequacy and effectiveness of the Company's internal controls and risk management systems.
43. Given the culture of deference by the staff to CK Phua, the Company must ensure that the individual signatories are able to exercise independent judgment in their capacity as authorised signatories. Bank mandates should be periodically reviewed to ensure that the joint signatories do not have reporting responsibilities to each other and/or are not related to each other. In addition, the Board should consider setting an upper limit to the amount which Group A signatories can approve. For transactions above the limit, the Board should consider mandating their involvement in them.
44. The Board should ensure proper and effective oversight over the identification of IPTs, in particular, the tracking and reconciliation of the various general ledger accounts to determine the net amounts owing to/from IP from/to the Group at any one point in time. There should also be proper procedures in place to ensure that all transactions with IP are properly approved, disclosed and documented.
45. The lack of independence and adequate resources in the internal audit function may also result in the Company having contravened Rule 719 of the SGX Rules which requires the Company to have adequate and effective systems of internal controls and risk management systems and to establish an effective internal audit function that is adequately resourced and independent of the activities it audits (see also Guideline 13.1 of the Code of Corporate Governance (2 May 2012)). Additionally, there is potential non-compliance with Principle 9 of the Code of Corporate Governance (6 August 2018)

which requires the management of the Company to maintain a sound system of risk management and internal controls.

Limitations

46. We have completed our work to the extent reasonably practicable based only on the information made available up to 22 November 2019. Our scope was limited by the following circumstances:

- a) As Powersource Philippines Distributed Power Holdings Inc. (shareholding of 21.05%) and GETCO (shareholding of 49%)⁴ are consolidated as associates and the Group does not exercise control over its operations, we did not perform work over their financial records;
- b) Management represented that as there was no transfer of bank authorisation prior to the departure of the authorised personnel, existing management is unable to retrieve the records for the Maybank account of TEE Chem Pte. Ltd.⁵ in Cambodia and the DBS account of TIL in China. As a result, we were not provided with the bank statements for our review;
- c) Management also represented that they are unable to locate a management fee agreement between Oscar Design & Decoration Co., Ltd⁶ and GETCO where payment was received from GETCO for management and strategy services⁷ provided by Oscar Design & Decoration Co., Ltd. As a result, we were unable to verify the accuracy of the amounts due between the abovementioned two parties with respect to management fees; and
- d) Management accounts of three overseas entities namely, TEE Chem Pte. Ltd., TEE Philippines, Inc. and CMTE Technology Sdn. Bhd. are only prepared on an annual basis. Thus, no quarterly management accounts were available for review for the period 1 June 2019 to 31 August 2019.

47. Accordingly, changes in circumstances after this date could affect the findings outlined in this Report and we reserve the right to amend our findings, conclusions or

⁴ GETCO is one of Thailand's largest waste water treatment companies. It currently operates two wastewater treatment plants in Thailand.

⁵ Shareholding of 70%.

⁶ Shareholding of 73.99%.

⁷ We understand from management that the agreement covers accounting, HR management, marketing, business development and technical (engineering).

recommendations, if necessary, based on factual information that comes to our attention after this date.

Disclaimer

48. Whilst our engagement may involve the analysis of financial information and accounting records, it does not constitute an audit or an audit related service in accordance with generally accepted auditing standards or attestation standards, and accordingly no such assurance will be provided in our report.
49. While all reasonable care has been exercised in the preparation of this report, we have in many instances assumed the accuracy of information given to us without having had the opportunity to perform any detailed verification. We have also assumed that all the documents provided to us as originals are authentic, that copies provided to us conform to the originals that and the signature and seals, if any, on the documents are genuine. We do not assume any responsibility and make no representations with respect to the accuracy or completeness of any information provided to us by TIL.
50. This Report is intended for, and only for, the benefit of the AC and SGX RegCo, and for no other purpose. Our work was not planned or conducted in contemplation of reliance by any third party. Therefore, items of possible interest to a third party may not be specifically addressed and existing matters may be assessed differently by a third party.