

## BRIEF SUMMARY OF ISSUES IDENTIFIED FROM THE SUSPICIOUS TRANSACTIONS

(to be read together with the Executive Summary of the Forensic Accountants' Report to the Audit Committee dated 23 April 2018)

Unless otherwise defined, capitalised terms used herein shall have the same meaning as ascribed to them in the Executive Summary.

Issues Identified	Parties involved
<b>1. Round-Tripping Transactions Involving T-Data And S-Com HK</b>	
<ul style="list-style-type: none"> <li>▪ Sales made by the Group to T-Data or S-Com HK were subsequently purchased by the Group. There were no proper and/or reasonable justifications for the involvement of T-Data and S-Com HK for some transactions. Round-tripping transactions caused overstatements of revenue, costs of sales and profits, among other financial impact.</li> <li>▪ Evidence suggests Henn was making executive decisions for T-Data. There were strong indications that the business of S-Com HK was operated by the Group's senior management.</li> <li>▪ Computer servers which were provided by Party A for free was sold to T-Data at US\$400,000 (Company claimed that it was for engineering services) which in turn was sold to Cloud Stringers, a subsidiary of the Company, at the same price. Claims under the PIC Scheme were made for the purchase of the computer servers.</li> </ul>	Henn, Singh, Poo and Foo
<b>2. Transactions With The Party B Entities</b>	
<ul style="list-style-type: none"> <li>▪ The Party B1 Questionable Transactions comprised two sales totalling US\$1,150,894.57 and two purchases totalling US\$1,150,925.00. Invoices were issued by the Group purportedly to Party B1 and vice versa to support the transactions. The Party B1 addresses on these invoices were in fact Trek HK's office address and amongst others, the stock movement records and settlement of the invoices by way of setoff, give rise to serious doubt on the authenticity of the transactions.</li> <li>▪ Total value of transactions with Party B2 (sales and purchases) was US\$9,119,059.89. Invoice purportedly issued by Party B2 was likely to be fabricated. Circumstantial evidence suggests that Party B2 does not exist. Approximately 73% of the sales to Party B2 could be traced to S-Com HK through direct and indirect payments made by and various setoffs against S-Com HK.</li> </ul>	Not able to conclusively identify persons involved. Poo, Hengky and Singh's names were stated on the documents. Henn is related to S-Com HK and Foo was in charge of operations
<b>3. Transaction With Colite</b>	
<ul style="list-style-type: none"> <li>▪ Crucial facts relating to the transaction could not be established as no one appears to have knowledge or was able to provide the details. These include the basis of the sale transaction of US\$3,200,000, the actual composition of the UM1G chips, how and when the UM1G chips were delivered to Colite as there is presently no evidence to prove that the UM1G chips were indeed shipped to Colite, the actual type of goods and quantity which were delivered to Colite if the goods were delivered at all, and whether the goods purportedly returned by Colite were the goods that were purportedly delivered to it in the first place. We also received various explanations which were conflicting, contradicting and different from the previous explanations given by the same person and/or by other parties</li> <li>▪ Bank advices for the sums of US\$250,000 and US\$2,400,000 received from Henn and S-Com HK respectively were digitally altered by Hengky at Singh's instructions. There were strong indications that the alterations were performed to deceive and mislead the auditors</li> <li>▪ There were other instances where documents were or intended to be fabricated or altered with the purpose of misleading the parties who may come into possession of the same</li> </ul>	Singh, Poo, Foo, Hengky, Emily and Dr Paul

Issues Identified	Parties involved
<b>4. Transactions Relating To eSD Inventories</b>	
<ul style="list-style-type: none"> <li>▪ The Company did not exercise sufficient diligence and care in bookkeeping, and instead resorted to taking an easy approach with respect to the recording of its inventory which does not reflect the actual situation. This caused the stock quantity and value not to be properly and accurately reflected in its books and would have no doubt made inventory management more difficult</li> </ul>	Foo and Hengky
<b>5. Transactions With Key Asic</b>	
<ul style="list-style-type: none"> <li>▪ Sums totalling S\$523,600 and US\$18,387.00 were paid to Henn and T-Data (through Loo) for four purported purchases from Key Asic. The former CEO of Key Asic, JP Peng, confirmed receipt of the sums. However, we obtained confirmation from Key Asic that it did not issue and did not have records of the four invoices</li> <li>▪ Henn produced new evidence from the current Financial Controller of Key Asic in his Maxwellisation response which is contradictory to the earlier confirmation given by a staff of Key Asic. Singh also produced new but questionable evidence and there were inconsistent and contradictory statements provided by Singh and JP Peng. In light of the above, we are unable to place complete reliance on the new evidence provided by both Henn and Singh</li> <li>▪ Claims under the PIC Scheme and allowable deductions for R&amp;D expenses had been made based on the four purported purchases</li> </ul>	Henn and Singh
<b>6. Transactions With The Party C Entities</b>	
<ul style="list-style-type: none"> <li>▪ Party C1 invoices and credit notes were digitally altered and fabricated. These alterations and fabrications, together with manipulation of accounting entries using genuine documents were carried out for the purpose of recording / increasing the Group's income, manipulating the classification of purchases and recording fictitious intangible assets. All the above were premised upon Henn's purported communications with Party C, without any documentary or supporting evidence</li> <li>▪ Based on documents sighted, it would appear that the Group was not entitled to charge any licensing fees to the Party C Entities</li> <li>▪ As a result of the above fabrication of documents and the manipulation of the accounting entries, both the Company and Trek Singapore could have overclaimed GST input tax either by receiving higher GST refunds or making less GST payments than they should</li> </ul>	Henn, Singh, Poo and Hengky
<b>7. FluCard Patents Registered Under T-Data</b>	
<ul style="list-style-type: none"> <li>▪ 19 patents relating to FluCard were registered under T-Data's ownership. Our view is that the 19 patents should be registered under the Company as the patent owner. There had been no contribution from T-Data as the patent owner, especially since FluCard is an important product of the Group</li> <li>▪ We found various publication materials including announcements made by the Company, statements on its website and invitation letter sent to the Japanese Embassy, in which the Company represented that it was the innovator, original inventor and patent owner of the FluCard, which were not accurate as T-Data was the registered patent owner</li> <li>▪ Out of the 19 patents, the Company has subsequently obtained the assignments of T-Data's rights, title and interest in 14 patents to Trek Singapore in February 2016 and November 2017. The remaining five patents were not assigned as the registrations were abandoned</li> </ul>	Henn and Singh

# **FORENSIC ACCOUNTANTS' REPORT TO THE AUDIT COMMITTEE OF TREK 2000 INTERNATIONAL LTD**

## **REPORT ON SUSPICIOUS TRANSACTIONS**

*(this is a redacted version for the purpose of public announcement)*

**23 APRIL 2018**

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**APPENDICES REFERRED TO IN THIS REPORT**

General

- 1 Signed minutes of the interview with Henn (changes made by Henn were marked).
- 2 Signed minutes of the interview with Singh (additional comments made by Singh were included).
- 3 Signed minutes of the interview with Poo (changes made by Poo were marked).
- 4 Signed minutes of the interview with Loo and Poo.
- 5 Signed minutes of the interview with Foo (changes made by Foo were marked).
- 6 Signed minutes of the interview with Wayne (Wayne signed on the copy of which changes were made but not marked. We have included an unsigned marked up version for reference).
- 7 Signed minutes of the interview with Dr Paul (changes made by Dr Paul were marked).
- 8 Signed minutes of the interview with Cynthia.
- 9 Signed minutes of the interview with Hengky (changes made by Hengky were marked).
- 10 Unsigned minutes of the interview with Emily.
- 11 Signed minutes of the interview with Chin (changes made by Chin were marked).
- 12 Signed minutes of the interview with Alex (changes made by Alex were marked) together with the subsequent email correspondence with Alex on further clarification sought.
- 13 Maxwellisation response received from Henn.
- 14 Maxwellisation response received from Singh.
- 15 Maxwellisation response received from Poo.
- 16 Maxwellisation response received from Foo.

### Transactions with the Party B Entities

- 17 Invoices issued by Trek Singapore and Party B1 relating to the Party B1 Questionable Transactions.
- 18 Job transfer form no. 1162 dated 3 October 2014 to convert 100,000 pieces of Toshiba TLC Wafer to 49,149 pieces of Toshiba NAND flash (eSD).
- 19 Invoice no. 4500376408 purportedly issued by Party B2 dated 20 April 2012 to Trek Singapore for the amount of US\$1,000,000 for '*Wireless Drive SIP ASIC*'.

### Transaction with Colite

- 20 Order Requisition form dated 26 June 2015 for Unimicron confirmed by Poo.
- 21 Colite's PO No. 1507001 to Trek Singapore dated 10 July 2015.
- 22 Job No. 1547 which was the transfer form used to convert 22,660 pieces of USB Component to 500,000 pieces of UM1G chips.
- 23 Invoices and DOs no. TDO201510164, TDO201511136 and TDO201512100 dated 23 October 2015, 20 November 2015 and 24 December 2015 respectively, issued by Trek Singapore to Unimicron.
- 24 Credit Note No. 2015120005 dated 29 December 2015 issued by Trek Singapore to Unimicron.
- 25 Invoice No. TDO201512185 and DO No. TDO201512185, both dated 31 December 2015 issued by Trek Singapore to Colite.
- 26 Shipping documents relating to the delivery of 500,000 pieces of UM1G chips to Colite:
  - Two packing lists issued by Trek Singapore dated 30 December 2015 to Trek HK;
  - Trek Singapore invoices no. TDO201512158 and TDO201512160;
  - Airway Bill No. 160 SIN 96510982 issued by Global Airfreight dated 31 December 2015; and
  - Cargo Clearance Permit No. ODL5L975989G with a validity period from 31 December 2015 to 14 January 2016.

- 27 Shipping documents extracted from Global Airfreight including the packing lists, invoices and airway bill above.
- 28 Email from Alex to Singh copied to Henn and Poo dated 25 February 2016 to reschedule the shipment.
- 29 Bank advices showing the remittance of US\$250,000 on 12 February 2016 and US\$2,400,000 on 22 February 2016 from Unimicron to Trek Singapore.
- 30 Bank advices showing the remittance of US\$250,000 from Henn on 12 February 2016 and US\$2,400,000 from S-Com HK on 22 February 2016.
- 31 Bank advice dated 4 May 2016 and an internally-generated document showing the receipt of US\$499,417.77 by Trek Singapore from Colite.
- 32 DO No. 1609001 dated 1 September 2016 issued by Colite to Trek Singapore for the return of 421,880 pieces of UM1G.
- 33 Photos taken by EY of the 1<sup>st</sup> Batch Stocks Returned by Colite which were sent to Trek HK's office.
- 34 Photos taken by us on the 2<sup>nd</sup> Batch Stocks Returned by Colite which were sent to Trek Singapore's office.
- 35 Email correspondence between Foo and Emily on 29 February 2016.
- 36 Microsoft Excel file 'PO123.xls' found on Poo's laptop which appears to be a PO dated 5 October 2015 prepared under Unimicron's name and logo for 500,000 pieces of UM1G chips for US\$3,200,000.
- 37 Email from Dr Paul to Poo dated 22 February 2016 relating to the draft Statement of Work for the transactions with Unimicron.

### Purchase and Sale of eSD Inventories

- 38 The following documents relating to the sale of eSD from Trek Singapore to Trek HK:
- Two versions of the Invoice No. TDO201507123 issued by Trek Singapore to Trek HK dated 22 July 2015;

- DO No. TDO201507123 dated 22 July 2015
- Packing list dated 22 July 2015
- FedEx airway bill no. /0036/0050/0011997734/8
- Trek Singapore stock movement report for the eSD stock

39 Documents relating to the transaction between Trek Singapore and Best Rely:

- POs issued by Best Rely dated 30 March 2016
- Trek Singapore Invoice No. TDO201603166 dated 30 March 2016 issued to Best Rely
- Trek Singapore DO No. TDO201603166 dated 30 March 2016 issued to Best Rely
- FedEx airway bill no. /0015/0050/0012266859/0
- Bank advices and internally-generated document showing the application of the funds received from Best Rely

40 Documents relating to the transaction between Trek HK and Flashstar:

- PO no. BPO20150701 dated 15 July 2015 issued by Flashstar
- Trek HK Invoice No. THK201507003 dated 23 July 2015 for 49,207 pieces of eSD (under stock code: THGVS5G6D2FBA19HEH) for the amount of US\$38,381.46
- Trek HK DO No. THK201507003 dated 23 July 2015 for 49,207 pieces of eSD (under stock code: THGVS5G6D2FBA19HEH)
- The bank advice issued by Trek HK's bank (OCBC) for the receipt of the sum of US\$38,381.46 together with internally-generated document showing the application of the funds received
- Email correspondence between a Trek HK employee and a Flashstar employee confirming that goods have been received and the payment has been made by Flashstar, and enclosing a bank slip from Flashstar

### Transactions with Key Asic

- 41 Invoice no. 11060007, 11060025, 11100057 and 11040007 purportedly issued by Key Asic.
- 42 Payment approval and TT form relating to the payment of S\$150,000 to Henn.
- 43 Payment details and OCBC cheque nos. 364406 and 364405 relating to the payment of S\$185,000 to Loo.
- 44 Documents relating to the payments and contra relating to Key Asic invoice no. 11100057 of S\$210,000.
- 45 Cash cheque no. OCBC 365304 relating to the cash payment made for a Key Asic invoice.
- 46 Documents signed by JP Peng to acknowledge the receipt of the payments, provided to us by the Company on 27 June 2017.
- 47 Email correspondence with JP Peng between 10 September 2017 and 17 January 2018.
- 48 Email correspondence with Key Asic between 13 April 2017 and 18 October 2017.

### Transactions with Party C1

- 49 The list of Party C1 invoices which had been digitally altered to inflate the invoiced amounts between 2011 and 2015.
- 50 The list of Party C1 invoices which had been digitally altered to reduce the invoiced amounts in 2011, 2015 and 2016.
- 51 The list of non-existent Party C1 invoices which had been fabricated in 2015 and 2016 together with copies of the invoices.
- 52 The list fabricated Party C1 together with copies of the credit notes dated 31 July 2015 and 31 August 2015.

- 53 The list of genuine Party C1 credit notes which were used to increase the licensing income of Trek Singapore between 2013 and 2016.
- 54 Purchase and Sales Agreement signed on 5 January 2006 between the Company and Party C2 and an unsigned draft copy of the Patent License Agreement dated 2 December 2005.
- 55 A detailed analysis and breakdown of the accounting entries and transactions with the Party C Entities.
- 56 Recommended adjustment entries from 2008 to 2016.

### FluCard Patents Registered under T-Data

- 57 Timesheets of various Group employees containing details of the manhours spent on the development of FluCard.
- 58 The following documents indicating that the Company is the inventor and patent owner of the FluCard:
- The Company's announcement made on 20 January 2010, 10 February 2014 and 28 October 2014
  - Letter dated 3 March 2010 addressed to the Japanese Embassy in Singapore
  - A printout of the About page on the Company's website
- 59 List of the 19 patents which had been assigned or registration abandoned.

## GLOSSARY TERMS AND ABBREVIATIONS

In this report, the following words or expressions shall have the following meanings except where the context otherwise requires:

<b>Term</b>	<b>Definition</b>
1 <sup>st</sup> Batch Stocks Returned	The first batch of stocks comprising 415,677 pieces of components purportedly returned by Colite to Trek HK's office sometime in September / October 2016
2 <sup>nd</sup> Batch Stocks Returned	The second batch of stocks comprising 421,880 pieces of UM1G purportedly returned by Colite to Trek Singapore's office on 14 November 2016
2009 Agency Agreement	The agency agreement between T-Data and Trek Singapore dated 1 January 2009
2015 Agency Agreement	The agency agreement between T-Data and Trek Singapore dated 1 March 2015
2015 Licensing Agreement	The licensing agreement between T-Data and the Company dated 1 March 2015 but taking effect from 4 September 2008
AC	Audit Committee
ACRA	Accounting and Corporate Regulatory Authority
Adeline	Mdm Ang Poh Tee, the spouse of Henn
Agreements	Collectively the 2009 Agency Agreement, the 2015 Agency Agreement and the 2015 Licensing Agreement
Alex	Alex Wu of Unimicron and Colite
Board	The Company's Board of Directors
Best Rely	Best Rely Technology Co., Ltd
CAD	Commercial Affairs Department of the Singapore Police Force

<b>Term</b>	<b>Definition</b>
CEO	Chief Executive Officer
CFO	Chief Financial Officer
Chin	Ms Lee Seu Chin, former Accounts Assistant Manager of the Group
Cloud Stringers	Cloud Stringers (S) Pte Ltd, a member of the Group
Code	Code of Corporate Governance issued by the Corporate Governance Committee dated 2 May 2012
Colite	Colite Technology Inc
Company	Trek 2000 International Ltd, the holding company of the Group
Cynthia	Ms Cynthia Koh, Sales Coordinator in the sales department
Dawning	Dawning Leading Technology Inc.
DO	Delivery order
Dr Paul	Dr. Shew Paul Waie, Head of R&D
eSD	Embedded secured digital
Edwin	Mr Tan Chun Chieh Edwin
Emily	Ms Emily Chin, Sales Coordinator of Trek HK based in Hong Kong
EY	Ernst & Young LLP, the auditors of the Company
Flashstar	Flashstar Technology Limited
GST	Goods and services tax

<b>Term</b>	<b>Definition</b>
Foo	Mr Foo Kok Wah, President of Operations, Sales and Customised Solutions Division, who was also an Executive Director of the Company from 22 November 2001 to 20 March 2009
FY	Financial year
Global Airfreight	Global Airfreight International Pte Ltd
Group	The Company and its subsidiaries
Hengky	Mr Hengky Gunawan, Manager in the purchasing department
Henn	Mr Tan Henry @ Henn Tan, the Chairman, CEO and Executive Director of the Company
HKD	Hong Kong Dollars
Interested Person	As defined in the Mainboard Rules
IOT	Internet of Things
IPT	Interested person transaction
IPT Inquiry	The independent inquiry into the IPTs entered into by the Group commissioned by the AC
IPT Inquiry Report	The report issued by RSM dated 17 July 2017 with respect to the findings of the IPT Inquiry
IRAS	Inland Revenue Authority of Singapore
IT	Information Technology
Jabil GZ	Jabil Circuit (Guangzhou) Ltd
Jabil Wuxi	Jabil Circuit (Wuxi) Co.,Ltd

<b>Term</b>	<b>Definition</b>
JP Peng	Mr Peng Jieh-Ping, the former Chief Executive Officer of Key Asic Berhad, the holding company of Key Asic
JV	Journal voucher
Key Asic	Key Asic Incorporation, a subsidiary of Key Asic Berhad incorporated in Taiwan
Key Asic Questionable Transactions	Three purchases made by S-Com Singapore and one purchase made by Trek Singapore from Key Asic in 2011 totaling S\$622,300 (or US\$500,374.50).
Party B1 Questionable Transactions	Two sales transactions from Trek Singapore to Party B1 totaling US\$1,150,894.57 and two purchases by Trek Singapore from Party B1 totaling US\$1,150,925.00
Loo	Ms Loo Soo Hooi, wife of Poo and former director and shareholder of T-Data
Mainboard Rules	The Mainboard Rules of the SGX-ST Listing Manual
Maxwellization Process	The Maxwellization of this Report, the process of which is described in Paragraph 1.2.5
NRE	Non-recurring engineering
NTA	Net tangible assets
Party B1	Party B1
Party B2	Party B2
Party B3	Party B3
Party B Entities	Comprising Party B1, Party B2 and Party B3
Party C1	Party C1
Party C2	Party C2

<b>Term</b>	<b>Definition</b>
Party C3	Party C3
Party C Entities	Comprising Party C1 and Party C2
PIC Scheme	The Productivity and Innovation Credit Scheme administered by IRAS
PO	Purchase order
Poo	Mr Poo Teng Pin, husband of Loo and former Group Director of R&D and Executive Director from 24 May 2006 to 12 July 2016
PT Racer	PT Racer Technology Batam
R&D	Research and development
RSM	RSM Corporate Advisory Pte Ltd
S-Com HK	S-Com Solutions (Hong Kong) Co. Limited
S-Com Singapore	S-Com System (S) Pte Ltd, a member of the Group
S\$	Singapore Dollars
SGX-ST	Singapore Exchange Securities Trading Limited
Shirley	Ms Tan Ai Ching
Singh	Mr Gurcharan Singh, the former CFO and Executive Director of the Company from 14 April 2000 to 2 June 2016
SLB	ShookLin & Bok LLP, the law firm which acted for the Company in the past
T-Data	T-Data Systems (S) Pte Ltd
Thumbdrive Malaysia	Thumbdrive Media Sdn Bhd, a member of the Group

<b>Term</b>	<b>Definition</b>
Trek HK	Trek Technology (HK) Co. Ltd, a member of the Group
Trek Malaysia	Trek Systems (M) Sdn Bhd, a member of the Group
Trek Singapore	Trek Technology (Singapore) Pte Ltd, a member of the Group
Trek Thailand	Trek Technology (Thailand) Company Ltd, a member of the Group
TSMP	TSMP Law Corporation
TT	Telegraphic transfer
UM1G	UM1G-HGAB, the chips which were ordered and purportedly sold to Colite
Unimemory	Unimemory Technology (S) Pte Ltd, a member of the Group
Unimicron	Unimicron Technology Corp.
US\$	United States Dollars
Wayne	Mr Tan Joon Yong, Wayne, the son of Henn

## EXECUTIVE SUMMARY

### A. INTRODUCTION

1. On 25 February 2016, the Board of Directors of Trek 2000 International Ltd (the "**Company**") announced that it had, through the Company's Audit Committee (the "**AC**"), discovered certain interested person transactions as defined under Chapter 9 of the Mainboard Rules of the Singapore Exchange Securities Trading Limited Listing Manual ("**Mainboard Rules**"), entered into by the Company with T-Data Systems (S) Pte. Ltd. ("**T-Data**") from 27 November 2007 to 26 March 2014 (the "**IPTs**").
2. Following this discovery, the AC appointed TSMP Law Corporation ("**TSMP**") on 4 April 2016 to conduct an independent inquiry, and to review and report to the AC on the same.
3. On 26 April 2016, the Company announced that it was informed by its auditors, Ernst & Young LLP ("**EY**") that a report had been submitted by EY to the Accounting and Corporate Regulatory Authority ("**ACRA**") on matters that had come to EY's attention in the course of their audit of the financial statements of the Company and its subsidiaries for the year ended 31 December 2015.
4. Subsequently on 25 May 2016, the Company announced that it received a notice from the Commercial Affairs Department of the Singapore Police Force ("**CAD**") that the CAD was conducting an investigation into certain transactions undertaken by the Company and requested for certain information and documents to be provided.
5. On 8 June 2016, the Company announced that TSMP had presented certain preliminary findings to the AC and highlighted that the full review on IPTs would require certain information on the past transactions of the Company and its subsidiaries (collectively, the "**Group**") which would require a forensic accounting firm to provide their findings and analysis from a forensic financial perspective. The AC accepted this recommendation and RSM Corporate Advisory Pte Ltd ("**RSM**"), was appointed on 8 June 2016 to conduct a review of the IPTs ("**IPT Inquiry**"). Given the

report by EY to ACRA and the ongoing investigations by the CAD, the AC also instructed RSM to expand the scope of work to include any suspicious transactions.

6. For the purpose of reporting, the AC instructed RSM to present its findings on the IPT Inquiry first, followed by a separate report on the suspicious transactions after the conclusion of the IPT Inquiry. The IPT Inquiry report was issued on 17 July 2017 (“**IPT Inquiry Report**”) and the Executive Summary on the IPT Inquiry Report was released by the Company via SGXNET on 18 July 2017.
  
7. This Report focuses on our findings with respect to the Group’s suspicious transactions as announced by the Company on 25 May 2016, 1 June 2016 and 8 September 2017. We were instructed by the AC to review the suspicious transactions which had been highlighted by EY in their letters to the Company dated 21 March 2016, 12 April 2016 and 1 June 2016, as well as other matters which were brought to the AC’s attention, as follows:
  - (i) Potential round-tripping transactions involving T-Data and S-Com Solutions (Hong Kong) Co. Limited (“**S-Com HK**”);
  - (ii) Transactions with Party B1 (“**Party B1**”), Party B2 (“**Party B2**”) and Party B3 (“**Party B3**”) (collectively referred to as the “**Party B Entities**”);
  - (iii) Transaction with Colite Technology Inc (“**Colite**”);
  - (iv) Certain transactions relating to the embedded secure digital (“**eSD**”) inventories;
  - (v) Transactions with Key Asic Incorporation (“**Key Asic**”),
  - (vi) Discrepancies on the documents relating to the transactions with Party C1 (“**Party C1**”);
  - (vii) Potential irregularities on the ownership and recording of the FluCard patents registered under T-Data;

- (viii) Potential misstatement of the Group’s intangible assets as a result of items (vi) and (vii) above; and
- (ix) Any other suspicious transactions arising from our review of items (i) to (viii) above.

8. In preparing this report, we conducted the following activities:

- (i) reviewed the documents of the Group seized by and currently in the possession of the CAD and made photocopies of documents which we deemed relevant, as permitted by the CAD, at their office;
- (ii) reviewed copies of the documents and information provided by the Company, documents provided by the Company to TSMP, secretarial records in the possession of Nice Business Consultants Pte Ltd and documents provided by EY;
- (iii) held face-to-face interviews on a one-on-one basis with the following individuals:

*Group employees:*

- a) Mr Tan Henry @ Henn Tan, the Chairman, CEO and Executive Director of the Company (“**Henn**”);
- b) Mr Foo Kok Wah, President of Operations, Sales and Customised Solutions Division, previously an Executive Director of the Company from 22 November 2001 to 20 March 2009 (“**Foo**”);
- c) Dr. Shew Paul Waie, Head of R&D (“**Dr Paul**”);
- d) Ms Cynthia Koh, Sales Coordinator in the sales department (“**Cynthia**”);
- e) Mr Hengky Gunawan, Manager in the purchasing department (“**Hengky**”);

- f) Ms Emily Chin, Sales Coordinator of Trek Technology (HK) Co. Ltd (“**Trek HK**”) based in Hong Kong (“**Emily**”)

*Former Group employees:*

- g) Mr Gurcharan Singh, former CFO and Executive Director of the Company from 14 April 2000 to 2 June 2016 (“**Singh**”);
- h) Mr Poo Teng Pin, former Group Director of R&D and Executive Director from 24 May 2006 to 12 July 2016 (“**Poo**”);
- i) Mr Wayne Tan Joon Yong, former Director of Cloud Stringers (S) Pte Ltd (“**Wayne**”);
- j) Ms Lee Seu Chin, former Accounts Assistant Manager (“**Chin**”)

*Third parties*

- k) Mdm Loo Soo Hooi, wife of Poo and former director and shareholder of T-Data (“**Loo**”). The interview with Loo was conducted in the presence of Poo;
  - l) Alex Wu of Unimicron Technology Corp. (“**Unimicron**”) and Colite (“**Alex**”) via video conference
- (iv) Corresponded with the following parties via email to obtain clarification on our queries:
- a) Mr Peng Jieh-Ping, the former Chief Executive Officer of Key Asic Berhad, the holding company of Key Asic (“**JP Peng**”);
  - b) Ms Lia Chiou, the accountant of Key Asic;
  - c) Alex of Unimicron and Colite

- (v) held informal discussions with the AC, the relevant Company's personnel as well as EY on their findings during the course of their audit work; and
  - (vi) undertook full processing of the raw data imaged from the electronic devices of eight individuals provided by EY, including, Henn, Singh, Poo and Foo, and reviewing the same.
9. We have conducted the Maxwellisation process by circulating the extracts of a draft version of this report to Henn, Singh, Poo and Foo. The purpose of the Maxwellisation process was to provide the individuals an opportunity to read the relevant sections of the report in which a view or opinion would be made of them, and to respond to any of the findings contained in this report. The responses received from the individuals mentioned above have been included in this report ("**Maxwellisation Process**").
10. The contents and findings set out herein are based on information made available to us up to 21 March 2018. We have, where possible, taken steps to ensure that the information provided is complete. In cases where such steps have not been practicable, we have relied on the Company's representation (including that of its board members) that such information provided is accurate, full and complete.
11. We would like to emphasise that the scope of work is different from that of an audit under the Companies Act (Cap. 50) or in accordance with generally accepted auditing practices and it does not constitute an audit. In this regard, we do not express an audit opinion in this report.
12. We are not qualified to provide legal advice. Our findings and comments should not at any time be construed as constituting legal advice on any matter. Where it is deemed appropriate or necessary, separate and independent legal advice should be sought on any of the matters, issues and / or findings contained, or referred to, in this report, which may have legal consequences.

**B. ROUND-TRIPPING TRANSACTIONS INVOLVING T-DATA AND S-COM HK**

Background Information

13. During the IPT Inquiry, T-Data and S-Com HK were identified as interested persons for the purpose of IPT under Chapter 9 of the Mainboard Rules (“**Interested Persons**”) for the following periods:
- (i) T-Data – from 27 November 2007 (incorporation date) up to at least 18 February 2016; and
  - (ii) S-Com HK – from 30 April 2008 up to at least 3 October 2016 (date of the last Annual Return filed by S-Com HK sighted by us).

The IPTs between the Group and T-Data and S-Com HK had been covered extensively in the IPT Inquiry Report.

14. During the IPT Inquiry, we observed that certain transactions between the Group and T-Data / S-Com HK could have been round-tripping transactions. In particular, a Group entity would sell certain products to T-Data or S-Com HK, and the same products in the same quantity would thereafter be purchased by the same or another Group entity from T-Data or S-Com HK.
15. We have been provided with the sales listings and purchases listings of selected Group entities which were considered as material operating entities. These listings contain details such as, among other things, the selling/purchasing entity, customer, supplier, date of transaction, document (invoice or delivery order) number, description of products, stock code and value of transaction. These listings were provided for the following entities and periods<sup>1</sup>:

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<sup>1</sup> Sales listings and purchases listings for Trek Thailand prior to 2014 were not available due to system migration in 2013. We were given hard copies of the purchases listing for 2012 which we are unable to verify the completeness of the said listing. Nevertheless, we have included it in the analysis in identifying potential round-tripping transactions.

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No.	Entities	Sales Listing	Purchases Listing
1	The Company	2008 - 2016	No Purchases
2	Trek Technology (Singapore) Pte Ltd (" <b>Trek Singapore</b> ")	2008 - 2016	2008 - 2016
3	S-Com System (S) Pte Ltd (" <b>S-Com Singapore</b> ")	2008 - 2016	2008 - 2016
4	Trek Systems (M) Sdn Bhd (" <b>Trek Malaysia</b> ")	2008 - 2016	2008 - 2016
5	Trek Technology (HK) Co. Ltd (" <b>Trek HK</b> ")	2008 - 2016	2008 - 2016
6	Cloud Stringers (S) Pte Ltd (" <b>Cloud Stringers</b> ")	2013 - 2016	2013 - 2016
7	Trek Technology (Shanghai) Co. Ltd (" <b>Trek Shanghai</b> ")	2009 - 2012	2009 - 2012
8	Trek Technology (Thailand) Company Ltd (" <b>Trek Thailand</b> ")	2014 - 2015	2014 - 2015
9	Trek Technology (India) Pvt Ltd	2008 - 2016	2009 - 2016
10	Thumbdrive Media Sdn Bhd (" <b>Thumbdrive Malaysia</b> ")	2013 - 2016	2013 - 2016
11	Unimemory Technology (S) Pte Ltd (" <b>Unimemory</b> ")	2014 - 2016	2014 - 2016
12	T3 Solutions (HK) Limited	2014 - 2016	2014 - 2016

16. We have reviewed and relied on the abovementioned listings for the purpose of identifying potential round-tripping transactions.
17. Based on the listings above, transactions which satisfied all of the criteria below were identified as suspected round-tripping transactions for further review:
- (i) A sale transaction to T-Data / S-Com HK which was followed by a subsequent purchase from T-Data / S-Com HK;
  - (ii) The pairing of the sale and purchase transactions was for stocks bearing the same stock codes and for the same quantity; and
  - (iii) The sale and the subsequent purchase transactions took place within a 12-month period.
18. The identified suspected round-tripping transactions were verified against supporting documents from the Group where these documents are available<sup>2</sup>. We did not have access to T-Data's and S-Com HK's records and documents other than the audited and unaudited financial statements for certain financial years, and those found amongst the Group's records.

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<sup>2</sup> Supporting documents from 2008 to 2010 were not available. Management informed us that those documents had been incinerated as these were old documents which were dated outside the statutory holding period.

19. Foo, on behalf of the Company, attended to our enquiries concerning the suspected round-tripping transactions and provided his response based on post-event review of documents and information gathered as he claimed to have no prior knowledge of the transactions. We also raised questions on those transactions in the interview sessions. Henn informed us that he had minimal knowledge and that we should ask Foo whom, according to Henn, had full control on the operations and would have the details on the transactions. Singh and Poo both claimed to have no knowledge of the suspected round-tripping transactions.

Suspected Round-Tripping Transactions Involving T-Data

20. It would be useful to first revisit T-Data’s relationship with the Group. We highlighted in our IPT Inquiry Report that in addition to T-Data’s business relationship with the Group through various transactions, T-Data was also deemed to be an Interested Person to the Group since its incorporation up to at least 18 February 2016<sup>3</sup>. The shareholdings in and directors of T-Data from 27 November 2007 up to 4 December 2017 are summarized below:

*Shareholdings:*

<b>27 Nov 07 to 18 Sep 12</b>	<b>18 Sep 12 to 26 Mar 14</b>	<b>26 Mar 14 to 24 Mar 15</b>	<b>24 Mar 15 to 18 Mar 16</b>	<b>18 Mar 16 to 8 Apr 16</b>	<b>8 Apr 16 to 4 Dec 17</b>
Loo: 100%	Loo: 20%	Loo: 20%	Loo: 0.2%	Edwin: 0.8%	Shirley: 100%
	Wayne: 80%	Edwin: 80%	Edwin: 0.8% Shirley: 99%	Shirley: 99.2%	

*Directorships:*

<b>27 Nov 07 to 23 Mar 15</b>	<b>24 Mar 15 to 8 Mar 16</b>	<b>9 Mar 16 to 4 Dec 17</b>
Loo	Loo Shirley	Shirley

<sup>3</sup> Notwithstanding Wayne’s transfer of his shareholding to Edwin on 26 March 2014, we have treated T-Data as an Interested Person up to at least 18 February 2016 as the practice of reporting the affairs (including the financial information and performance) of T-Data to Henn appeared to have continued up to at least 18 February 2016. Please refer to the IPT Inquiry Report for further details.

- 21. We understand that the Company has obtained a legal opinion on 2 November 2016 that T-Data had not been an Interested Person in relation to the Company subsequent to 26 March 2014 (after the transfer of Wayne’s shareholding to Edwin) and up to the date of the legal opinion on 2 November 2016, as it did not fall under the definition of an “interested person” under the Mainboard Rules. Notwithstanding the above, our position remains the same that T-Data is deemed to be an Interested Person of the Group up to at least 18 February 2016.
  
- 22. Although Wayne was never a director of T-Data, he informed us that he was under the employment of T-Data around the time when he became its shareholder until around the time when he was involved in Cloud Stringers, a company within the Group. We note from ACRA searches that he became a director and shareholder of Cloud Stringers on 13 March 2014 and 29 December 2014 respectively.
  
- 23. During our interview sessions, Henn, Poo and Loo confirmed that Loo was only a nominee in T-Data. Loo informed us that she merely lent her name and was never involved in any of T-Data’s affairs or the running of its business. On various occasions, she was asked by Poo or Adeline to sign certain T-Data documents, and she did so.
  
- 24. A review on the financial statements of T-Data revealed that it had very low staff costs, at least up to 2013. Assuming those financial statements are accurate and true, this indicated that T-Data did not have many employees. Below is a summary of the disclosure on the staff costs extracted from the financial statements filed by T-Data with ACRA from FY2008 to FY2015:

Extracted from the Financial Statements of T-Data S\$	For the year ended 31 December							
	2008	2009	2010	2011	2012	2013	2014	2015
	<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>	<i>Audited</i>	<i>Audited</i>	<i>Audited</i>	<i>Audited</i>
CPF contribution	931	2,955	} 36,337	} 55,600	} 62,472	8,551	13,485	28,810
Director's fees	-	-				5,000	-	-
Salaries and related costs	6,406	20,373				53,445	87,088	111,489
<b>Total</b>	<b>7,337</b>	<b>23,328</b>	<b>36,337</b>	<b>55,600</b>	<b>62,472</b>	<b>66,996</b>	<b>100,573</b>	<b>140,299</b>

- 25. All the individuals with whom we spoke, including Henn, Poo, Wayne (who was working for T-Data at some point) and other senior personnel such as Foo and Singh, informed us that they had no knowledge of T-Data’s management and its officers who

were running its business<sup>4,5,6</sup>. We have serious doubts and reservations about the veracity of those statements, given that, among other things, T-Data had transactions totalling US\$185.7 million<sup>7</sup> with the Group between 2008 and 2015 and the email correspondence concerning T-Data which we had highlighted above and below.

26. In addition, contrary to what we have been told, based on our review of various emails dated between 13 October 2008 and 5 January 2016 between Henn, Foo, Singh, Poo and Henn's wife, Mdm Ang Poh Tee ("**Adeline**"), extracted from the digital image of the data recovered from laptops used by various individuals<sup>8</sup>, we noted that the contents of the emails suggest that T-Data's business and affairs were being managed by Trek's senior management. This was however denied by Henn, Foo and Singh in their response to the Maxwellisation Process.
27. With T-Data's relationship vis-à-vis the Group in mind, we now return to the suspected round-tripping transactions. Our review shows that there were three types of suspected round-tripping transactions involving T-Data as follows:
- (i) Sale of inventory from Trek Singapore to T-Data and thereafter sale from T-Data to Cloud Stringers ("**Trek Singapore → T-Data → Cloud Stringers (inventory purchase)**");
  - (ii) Sale of fixed assets from Trek Singapore to T-Data and thereafter sale from T-Data to Cloud Stringers ("**Trek Singapore → T-Data → Cloud Stringers (fixed asset purchase)**"); and

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<sup>4</sup> During the Maxwellisation Process, Foo responded that his primary role was in sales and that he had provided the particulars of the individuals from T-Data with whom he dealt with when it involved sales between T-Data and the Company.

<sup>5</sup> In his Maxwellisation response, Singh reiterated that T-Data was a customer and distributor as far as he was aware and that he did not know that T-Data would be related to the Group.

<sup>6</sup> Henn responded during the Maxwellisation Process that he was aware that Wayne was managing T-Data when he joined T-Data in or around 2012. We note that no further details were provided with respect to the identities of the T-Data's management and officers.

<sup>7</sup> Please refer to our IPT Inquiry Report for further details.

<sup>8</sup> These emails were obtained from the digital imaging data provided by EY. The digital imaging was carried out by EY on several occasions over the course of early 2016 and as such, only contained data up to the date when the digital imaging was conducted.

- (iii) Sale from Trek Singapore to T-Data and thereafter sale from T-Data to Trek Thailand (“**Trek Singapore → T-Data → Trek Thailand**”).
28. In all, T-Data made profits totalling US\$6,400.51 from the Group as a result of the transactions above which took place between 2012 and 2014. We questioned the Company and various individuals on T-Data’s role and the reason(s) for T-Data to be involved in these transactions. While some justifications appear reasonable, there were others where T-Data’s role were not properly or reasonably justified. For the transactions where there were no proper or reasonable justification, our view is that these were probably round-tripping transactions.
29. Out of the total profits of US\$6,400.51 earned by T-Data, profits amounted to US\$4,699.20 arose from transactions where T-Data’s involvement was not properly or reasonably justified.
30. In addition, with respect to the Trek Singapore → T-Data → Cloud Stringers (fixed asset purchase) transaction which involved the sale of computer servers for US\$400,000 to T-Data on 28 May 2014, which were in turn sold to Cloud Stringers two days later on 30 May 2014<sup>9</sup>, we note that the computer servers were apparently provided by Party A for free in connection with its investment in Cloud Stringers. Henn and Foo explained that as the servers arrived as “blank” hardware, engineering work was required in order for the servers to be functional and the work was performed by Trek Singapore. This raises the question on the need for T-Data’s involvement. Subsequently, Cloud Stringers made a claim of S\$300,996 during the Year of Assessment 2015 under the Productivity and Innovation Credit Scheme (“**PIC Scheme**”) relating to the purchase of the servers.

### Suspected Round-Tripping Transactions Involving S-Com HK

31. S-Com HK is a company incorporated in Hong Kong on 3 October 2005. S-Com HK was deemed an Interested Person since 30 April 2008 up to at least 3 October 2017

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<sup>9</sup> The Company’s explanation was that the sale from Trek Singapore to T-Data was not the computer servers but engineering services provided on the “blank” servers whereas the sale from T-Data to Cloud Stringers was for the computer servers.

## TREK 2000 INTERNATIONAL LTD – REPORT ON SUSPICIOUS TRANSACTIONS

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(date of the latest Annual Return submitted by S-Com HK), by virtue of the following relationships:

- (i) From 30 April 2008 to 3 July 2015, Henn was the 100% shareholder of S-Com HK; and
- (ii) Pursuant to an allotment of shares to Wayne on 3 July 2015, Henn and Wayne currently hold 51% and 49% of shares in S-Com HK respectively.

32. Henn has been the sole director of S-Com HK since 30 April 2008.

33. During the Maxwellisation Process, Henn informed that when he acquired S-Com HK, the company was involved in capacitor customisation products for Sanyo. Subsequently, Sanyo was bought over by Party A and did not require S-Com HK's services. S-Com HK then functioned as an International Purchasing Office and also acted as a consolidation and collection point. For example, a customer could go to S-Com HK to order 20 different parts and S-Com HK could source these parts from different suppliers. From 2013, the business of S-Com HK gradually declined and Henn did not pay much attention to it thereafter.

34. We were provided with the audited financial statements of S-Com HK for certain financial years. Our review on the financial statements revealed that S-Com HK had virtually no employee. Below is a summary of the disclosure on the staff costs including director's fees, extracted from the financial statements of S-Com HK from FY2009 to FY2014:

<b>Extracted from the Financial Statements of S-Com HK</b>	<b>FY 2009</b> 1.4.09 to 31.03.10 <i>Audited</i>	<b>FY 2010</b> 1.4.10 to 31.03.11 <i>Audited</i>	<b>FY 2011</b> 1.4.11 to 31.03.12 <i>Audited</i>	<b>FY 2012</b> 1.4.12 to 31.03.13 <i>Audited</i>	<b>FY 2013</b> 1.4.13 to 31.03.14 <i>Audited</i>	<b>FY 2014</b> 1.4.14 to 31.03.15 <i>Audited</i>
<b>S\$ equivalent</b>						
Director's fees	5,557	5,154	4,847	4,806	17,440	19,934
Staff medical	-	-	-	-	-	3,828
Salaries and related costs	-	5,291	5,230	-	-	-
<b>Total</b>	<b>5,557</b>	<b>10,445</b>	<b>10,078</b>	<b>4,806</b>	<b>17,440</b>	<b>23,762</b>

35. As we have seen certain documents issued by S-Com HK which were signed by Emily (a staff based in Hong Kong), we asked Henn if Emily was employed by S-Com HK. Henn said no and asserted that S-Com HK has its own staff.
36. We found it difficult to accept Henn's statements. Those statements appear to contradict the financial statements of S-Com HK which showed no staff costs from 1 April 2009 to 31 March 2010 and 1 April 2012 to 31 March 2015. Even in the intermediate period from 1 April 2010 to 31 March 2012 when there were staff costs, the total staff costs were only about S\$10,000 for the two years<sup>10</sup>.
37. Further, based on the financial statements provided, for the six-year period from 1 April 2009 to 31 March 2015, S-Com HK generated revenue of approximately S\$31 million (HK\$187 million). A question then arises as to who had been running the business and operations of S-Com HK if it had no employees.
38. Even though Henn has been the sole director of S-Com HK, he claimed to have no knowledge of where S-Com HK operated from and the general and day-to-day operations of the company. Henn informed that he relied on Foo who had "*full control so he should know what is going on*"<sup>11</sup>.
39. Further information obtained from the various interviews and review of documents suggest that the business of S-Com HK was operated and managed by the Group's senior management and employees<sup>12</sup> :

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<sup>10</sup> During the Maxwellisation Process, Henn clarified that there were personnel engaged by S-Com HK on a freelance basis and the costs for these personnel were recorded as consultancy fees. Henn also obtained confirmation from S-Com HK's auditors that these consultancy fees (or staff costs) were recorded as Director's remuneration in the financial statements of S-Com HK. A copy of the email received from S-Com HK's auditors together with the relevant ledger entries for consultancy fees for the period from April 2008 to March 2012 were provided to us (please refer to **Appendix 13**). However, based on our review of the documents provided, we note that the figures stated on the ledger entries did not match those of the financial statements. For example, the directors' remuneration stated in the audited financial statements for the year ended 31 March 2011 was HK\$30,084.91 but the ledger showed a significantly different amount of HK\$385,709.

<sup>11</sup> During the Maxwellisation Process, Henn clarified that his comment on Foo's knowledge and control was insofar as transactions between the Company and S-Com HK were concerned.

<sup>12</sup> Certain arguments were put forth by Henn and Foo but after considering the arguments, our view remains the same that there were suggestions that the business of S-Com HK was operated and managed by the Group's senior management and employees.

40. There were five types of suspected round-tripping transactions involving S-Com HK as follows:
- (i) Sale from Trek Singapore to S-Com HK and thereafter sale from S-Com HK to Trek HK (“**Trek Singapore → S-Com HK → Trek HK**”);
  - (ii) Sale from Trek HK to S-Com HK and thereafter sale from S-Com HK to Trek Singapore (“**Trek HK → S-Com HK → Trek Singapore**”);
  - (iii) Sale from Trek Malaysia to S-Com HK and thereafter sale from S-Com HK to Trek HK (“**Trek Malaysia → S-Com HK → Trek HK**”);
  - (iv) Sale from Trek HK to S-Com HK and thereafter sale from S-Com HK to Trek HK (“**Trek HK → S-Com HK → Trek HK**”); and
  - (v) Sale from Trek HK to S-Com HK and thereafter sale from S-Com HK to S-Com Singapore (“**Trek HK → S-Com HK → S-Com Singapore**”).
41. In all, S-Com HK made profits totalling US\$266,214.38 from the Group as a result of the transactions above which took place between 2008 and 2014 (after netting off small losses made by S-Com HK). Similarly, we raised questions to the Company and various individuals on S-Com HK’s role and the reason(s) for S-Com HK to be involved in these transactions. While some justifications appear reasonable, there were others where S-Com HK’s role were not properly or reasonably justified. For the transactions where there were no proper or reasonable justification, our view is that these were probably round-tripping transactions.
42. S-Com HK made profits totalling US\$266,647.45 which arose from transactions where S-Com HK’s involvement was not properly or reasonably justified.

### Financial Impact of the Round-Tripping Transactions

43. We summarise below the overall profits earned / losses suffered by T-Data and S-Com HK as well as the profits earned from the transactions of which no proper or

## TREK 2000 INTERNATIONAL LTD – REPORT ON SUSPICIOUS TRANSACTIONS

reasonable justification was provided for T-Data / S-Com HK's role, i.e., the round-tripping transactions:

Round-Tripping Transactions	Profits / (Loss) Made by T-Data / S-Com HK		
	Transactions with Proper / Reasonable Justification	Transactions without Proper / Reasonable Justification	Total
	US\$	US\$	US\$
<u>T-Data</u>			
Trek Singapore → T-Data → Cloud Stringers (inventory purchase)		4,699.20	
Trek Singapore → T-Data → Cloud Stringers (fixed asset purchase)		-	
Trek Singapore → T-Data → Trek Thailand	1,701.31		
	1,701.31	4,699.20	6,400.51
<u>S-Com HK</u>			
Trek Singapore → S-Com HK → Trek HK		265,000.00	
Trek HK → S-Com HK → Trek Singapore		759.45	
Trek Malaysia → S-Com HK → Trek HK		888.00	
Trek HK → S-Com HK → Trek HK	(175.70)		
Trek HK → S-Com HK → S-Com Singapore	(257.37)		
	(433.07)	266,647.45	266,214.38
<b>Total</b>	<b>1,268.24</b>	<b>271,346.65</b>	<b>272,614.89</b>

44. In summary, T-Data and S-Com HK earned profits totalling US\$271,346.65 from the transactions with the Group which were deemed to be round-tripping transactions which took place from 2010 to 2014.
45. The financial impact on the Group is computed based on the difference between the current situation and the scenario if T-Data / S-Com HK had not been involved.
46. The financial impact of the T-Data round-tripping on the Group's financial statements for FY2013 and FY2014 is as follows:

Items	Overstated / (Understated) US\$
Revenue	441,350.80
Costs of Sales	46,050.00
Profits	395,300.80
Assets	441,350.80
Liabilities	46,050.00
Equity (retained earnings)	395,300.80

47. The financial impact of the S-Com HK round-tripping transactions on the Group’s financial statements between FY2010 and FY2014 is as follows:

<b>Items</b>	<b>Overstated / (Understated) US\$</b>
Revenue	362,280.35
Costs of Sales	628,927.80
Profits	(266,647.45)
Assets	362,280.35
Liabilities	628,927.80
Equity (retained earnings)	(266,647.45)

48. Overall, the round-tripping transactions involving both T-Data and S-Com HK have caused the financial impact on the Group’s financial statements between FY2010 and FY2014 as follows:

<b>Items</b>	<b>Overstated / (Understated) US\$</b>
Revenue	803,631.15
Costs of Sales	674,977.80
Profits	128,653.25
Assets	803,631.15
Liabilities	674,977.80
Equity (retained earnings)	128,653.25

**C. TRANSACTIONS WITH THE PARTY B ENTITIES**

Background Information

49. The Company’s auditors, EY, previously highlighted that they were provided with two invoices purportedly issued by Party B1. The invoices raised suspicion as the address reflected on the invoices was in fact Trek HK’s office address. Arising from the above, we were asked to review the transactions involving Party B1 and other entities related to it.

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50. Based on the information provided by the Company, the Group through Trek Singapore and Trek HK, transacted with three Party B Entities with the transactions totalling US\$14,840,358.47 as follows:

	Trek Singapore	Trek HK	Total
	US\$	US\$	US\$
<u>Party B1</u>			
Sales	2,591,298.78	-	2,591,298.78
Purchases	1,150,925.00	-	1,150,925.00
	<b>3,742,223.78</b>	<b>-</b>	<b>3,742,223.78</b>
<u>Party B2</u>			
Sales	-	7,794,692.62	7,794,692.62
Purchases	1,000,000.00	324,367.27	1,324,367.27
	<b>1,000,000.00</b>	<b>8,119,059.89</b>	<b>9,119,059.89</b>
<u>Party B3</u>			
Sales	-	1,979,074.80	1,979,074.80
	<b>-</b>	<b>1,979,074.80</b>	<b>1,979,074.80</b>
<b>Total</b>	<b>4,742,223.78</b>	<b>10,098,134.69</b>	<b>14,840,358.47</b>

### Transactions with Party B1

51. The transactions with Party B1 were sales and purchases between Trek Singapore and Party B1 from 2008 to 2013 as shown below. Trek Singapore's sales to Party B1 were mainly for the Thumbdrive products.

Transactions with Party B1	2008 US\$	2009 US\$	2010 US\$	2011 US\$	2012 US\$	2013 US\$	2014 US\$	Total US\$
Trek Singapore								
Sales	729,248.60	370,778.95	132,960.86	170,446.20	36,969.60	1,150,894.57		2,591,298.78
Purchases							1,150,925.00	1,150,925.00
<b>Total</b>	<b>729,248.60</b>	<b>370,778.95</b>	<b>132,960.86</b>	<b>170,446.20</b>	<b>36,969.60</b>	<b>1,150,894.57</b>	<b>1,150,925.00</b>	<b>3,742,223.78</b>

52. Based on the Annual Reports of Party B (a company listed on Hong Kong Stock Exchange) covering the period from 1 April 2007 to 31 March 2014, Party B1 was a wholly-owned subsidiary of Party B with a paid-up capital of US\$80 million and was

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incorporated in China. Its principal activities are stated as ‘*manufacturing and distribution of IT products*’.

53. We wish to highlight that two sales totalling US\$1,150,894.57 and two purchases totalling US\$1,150,925.00 were found to be questionable (“**Party B1 Questionable Transactions**”). The details of the four Party B1 Questionable Transactions are as follows:

Date	Customer / Supplier	Stockcode	Quantity	Stock Report Description	Amount (US\$)
<b>Sales from Trek Singapore to Party B1</b>					
15-Oct-13	Cash sales	ENCLOSURE COMPONENT	26,479	Components for 1.8" Enclosure	592,070.44
14-Nov-13	Cash sales	THGVS5G6D2FBA19HEH	49,149	Toshiba NAND flash (eSD)	558,824.13
				(A)	<b>1,150,894.57</b>
<b>Purchases by Trek Singapore from Party B1</b>					
30-May-14	Cash purchase	USB COMPONENT	25,000	Components for USB Drive / HDD	592,125.00
30-May-14	Cash purchase	ET5ER5C-HS(W5THT)	100,000	Toshiba TLC Wafer	558,800.00
				(B)	<b>1,150,925.00</b>
				Setoff between sales and purchases (A) - (B)	(30.43)
				Contra to bank charges	30.43
				<b>Balance</b>	<b>-</b>

54. In relation to the purported sales to Party B1, the Trek Singapore invoices to Party B1 reflected Hengky as the preparer, Poo as the ‘*Salesman*’ and they were signed by Henn. As to the purported sales to Trek Singapore, the POs issued by Trek Singapore were prepared by Hengky and signed by Henn and the invoices purportedly issued by Party B1 were sent to the attention of Poo.

55. Irregularities identified include the following:

- (i) Apart from the Party B1 Questionable Transactions, all the invoices issued by Trek Singapore to Party B1 were addressed to a location at ‘*No. 1 Hai Hong Road, Futian Free Trade Zone, Shenzhen, P.R.China*’. Although the official Party B website does not list the addresses of its various locations, this

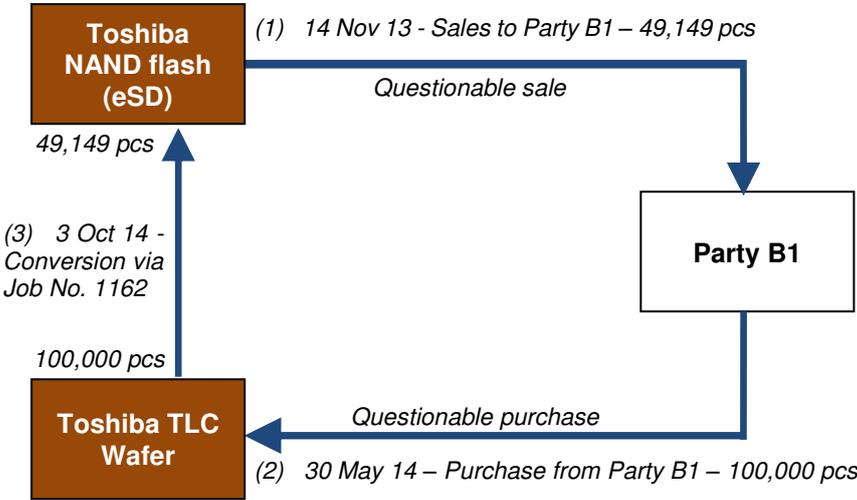
particular address matches that of Party B1 in at least two third-party websites<sup>13</sup>.

- (ii) For the four Party B1 Questionable Transactions, however, the invoices issued by Trek Singapore were addressed to a location in Hong Kong. Further, the letterhead of the invoices purportedly issued by Party B1 also reflected that same HK address. We found it particularly troubling as this HK address is the address of Trek HK's office.
- (iii) Further, the Company had an account code which was tagged to Party B1. Apart from the Party B1 Questionable Transactions, this account code and the full name of Party B1 were used to record all the transactions with Party B1. However, there was a noticeable departure from this practice for the Party B1 Questionable Transactions – the sales were tagged to the '*Cash Sales*' account code and the purchases were tagged to the '*Cash Purchase*' account code. There was no explanation why the transactions were booked or tagged as cash transactions.
- (iv) Looking at the history of sales made to Party B1, Trek Singapore only sold Thumbdrive products to Party B1. Poo confirmed that fact. However, two of the Party B1 Questionable Transactions involved purported sales of Enclosure Components and Toshiba NAND flash (eSD) to Party B1. There was no explanation why Party B1 purchased those items from the Group.
- (v) Further, it is worth highlighting that the sales to Party B1, which occurred almost on a monthly basis, appear to have ceased since July 2012. Yet, the purported sales to Party B1 suddenly took place in October/November 2013.
- (vi) The purported purchases from Party B1 are also questionable. The Group did not have a history of purchasing any stocks or goods from Party B1. Those questionable purchases were the only purchases made by the Group from Party B1.

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<sup>13</sup> [REDACTED]

- (vii) We also reviewed and queried on the products which were sold and purchased under the Party B1 Questionable Transactions. Every individual whom we interviewed claimed to have no knowledge of, and was unable to explain the nature and composition of the Enclosure Component stocks (sold by Trek Singapore) and USB Component stocks (sold by Party B1), or the difference between the two types of stocks. In our view, it defies logic and reason that no one knew what those stocks were, yet the sale and purchase transactions could take place.
  
- (viii) As for the Toshiba NAND flash (sold by Trek Singapore) and Toshiba TLC Wafer (sold by Party B1), these two stocks appear to be related to each other. We sighted an internally generated Job Transfer form no. 1162 which purportedly converted 100,000 pieces of the Toshiba TLC Wafer purchased from Party B1 to 49,149 pieces of the Toshiba NAND flash (eSD), the latter being the exact same stock and quantity which was purportedly sold to Party B1 seven months earlier. Please refer to the diagram below:



As such, even though the sale and purchase appear on paper to be for different stocks and quantities, these stocks could have been the same goods, giving rise to a potential round-tripping transaction. We asked various individuals if the conversion could be done *vice versa* but were told that, while the Toshiba TLC Wafer could be converted from wafer form to a chip form

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(which is the eSD), the reverse, although possible, was very unlikely and would be very costly.

In any case, we note that the conversion which was done through Job No. 1162 could have been a paper exercise to “convert” the stock code in the system with no real physical conversion taking place as there was no other evidence that such a physical conversion exercise actually took place<sup>14</sup>.

- (ix) As gleaned from the stock movement report, it would appear that 49,149 pieces of the Toshiba NAND flash (eSD) stocks went out on 14 November 2013 and the same quantity came back in again on 3 October 2014, although the stocks which came back were, on paper, the Toshiba TLC Wafer which were “converted” into the Toshiba NAND flash (eSD). Please refer to the diagram below:

**THGVS5G6D2FBA19HEH Toshiba NAND flash (eSD)**

Date	Transaction	Stocks Quantity (pcs)	
		Movement	Balance
30-Sep-13	Closing stocks		49,849
14-Nov-13	Sale to Party B1	(49,149)	700
13-Dec-13	Job transfer out to FC8G-GOLD	(642)	58
3-Oct-14	Job transfer in from ET5ER5C-HS(W5THT)	49,149	49,207

*Party B1 Questionable Transaction*

*Job transfer form no. 1162 converts 100,000 pieces of ET5ER5C-HS(W5THT) Toshiba TLC Wafer to 49,149 pieces of THGVS5G6D2FBA19HEH Toshiba NAND flash (eSD)*

**ET5ER5C-HS(W5THT) Toshiba TLC Wafer**

Date	Transaction	Stocks Quantity (pcs)	
		Movement	Balance
	Opening		-
30-May-14	Purchase from Party B1	100,000	100,000
3-Oct-14	Job transfer out to THGVS5G6D2FBA19HEH	(100,000)	-

*Party B1 Questionable Transaction*

- (x) In addition, we note from the stock movement report for the Toshiba TLC Wafer that this stock was traded by Trek Singapore between June 2011 and

<sup>14</sup> During the Maxwellisation Process, Henn asserted that the 49,149 pieces of the Toshiba NAND flash (eSD) in the inventory as at 14 November 2013 were different from those manufactured as at 3 October 2014 through the Job transfer form no. 1162. Henn further pointed out that the Job transfer form no. 1162 made reference to TDO201311245 which corresponds to the invoice issued by Trek Singapore to Party B1 for the sale which took place on 14 November 2013 and hence, the 49,149 pieces of stocks could have been manufactured for the purpose of replenishing the same number sold to Party B1. Contrary to Henn’s view, the reference on the Job transfer form no. 1162 to the invoice for the initial sale to Party B1 appears to suggest that the 100,000 pieces of Toshiba TLC Wafer which were subsequently converted to 49,149 pieces of the Toshiba NAND flash (eSD) were related to the initial sale to Party B1 for the same quantity of the same product.

June 2012 where stocks purchased were sold largely on a matching basis. After June 2012, there were no other transactions relating to this stock until the purported purchase from Party B1 in May 2014.

- (xi) There was no actual payment to settle the Party B1 Questionable Transactions. The transactions were setoff against each other and the small difference of US\$30.43 was recorded as bank charges.
  - (xii) Other than the invoices, there were no other supporting documents in relation to the transactions, for example shipping documents (packing lists, airway bills, cargo clearance permits, etc).
56. The findings above raised serious doubts on the authenticity of the Party B1 Questionable Transactions.
57. We requested the Company to contact Party B1 to provide statements of account or listings of transactions to ascertain whether the latter has any records relating to the Party B1 Questionable Transactions. The Company informed us that it was unable to successfully establish contact with Party B1.
58. Further, we were informed of the following during the various interviews:
- (i) Hengky was the preparer of the invoices and POs issued by Trek Singapore to Party B1. However, he claimed that he had no knowledge of the details of the Party B1 Questionable Transactions. Whilst he prepared the documents based on instructions, he could not recall who gave the instructions and could only assume that it was Poo as his name appeared on the documents. As to why the transactions were recorded as '*Cash Sales*' and '*Cash Purchase*', he explained that he could not find the account code for Party B1. However, we found that explanation extremely difficult to accept as an account code had already been created for Party B1 and we could readily find the code in relation to previous transactions with Party B1 when we carried out our work.
  - (ii) Poo informed us that although his name was stated on the documents, he was not aware of the Party B1 Questionable Transactions and only knew about

them when EY highlighted the issue in 2016. He said that he dealt with Party B1 in the past but only for the sale of Thumbdrives and did not have any further dealings with Party B1 since the last sale in 2012. Poo added that he *'finds it strange'* that Party B1 would purchase the Enclosure Components from Trek Singapore as *'it would be unlikely that Party B1 would be interested in buying enclosure components which are a mixture of loose materials and components'* based on his past dealings with Party B1. As for the purchases made by Trek Singapore from Party B1, Poo said that he had never purchased anything from Party B1 for the Group before.

- (iii) When questioned on the documents he had signed relating to the Party B1 Questionable Transactions, Henn asserted that he could not recall them as he signed, and continues to sign, multiple documents on a daily basis. During the Maxwellisation Process, Henn informed that he was never involved in the transactions and had no personal knowledge of the same. Accordingly, he was not able to provide a first-hand explanation on the transactions.
- (iv) The accounting entries for the setoff of the Party B1 Questionable Transactions were approved by Singh. When queried, Singh informed us that he must have been advised by Hengky to effect the setoff and that it could have been an arrangement made by the operations team before the accounting entries took place. In contrast, Hengky said that he had no personal knowledge of the setoff.
- (v) We also enquired about the Enclosure Component and USB Component stocks which were part of the Party B1 Questionable Transactions. Poo recalled that these stocks *'have been there for a very very long time and nobody touches these stock codes. Last I heard, Mr Singh was going to write off some of these'*. No one else appear to know what those stocks were.

59. The findings and observations laid out above strongly suggest that the Party B1 Questionable Transactions which comprised sales from Trek Singapore to Party B1 totalling US\$1,150,894.57 and purchases by Trek Singapore from Party B1 totalling US\$1,150,925.00, were highly doubtful and are likely to be fictitious transactions. It is also highly likely that the 49,149 pieces of the Toshiba NAND flash (eSD) stocks which

purportedly sent out on 14 November 2013 and purportedly came back again on 3 October 2014, were in fact not physically moved or changed hands between 14 November 2013 and 3 October 2014<sup>15,16</sup>.

60. In relation to these questionable transactions, the Company had fabricated two invoices which were purportedly issued by Party B1 totalling US\$1,150,925.00, and two invoices issued by Trek Singapore for the purported sale to Party B1 totalling US\$1,150,894.57.
61. It may also be useful to note here that the questionable purchases of the USB Component and the Toshiba TLC Wafer were also related to other transactions under review covered in Sections D and E below. In particular, the USB Component stocks were later converted into other stocks which were purportedly sold to Colite, while the Toshiba TLC Wafer were converted into the Toshiba NAND flash (eSD) which were the subject of a doubtful sale.

### Transactions with Party B2

62. There were purported sales and purchases transactions with Party B2 undertaken by both Trek Singapore and Trek HK from 2011 to 2014, as follows:

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<sup>15</sup> During the Maxwellisation Process, Singh informed that he had no knowledge of this as it was handled by the Sales or Operations staff.

<sup>16</sup> Henn stated in his Maxwellisation response that he is prejudiced in that he is now unable to prepare a complete response to the allegations concerning these transactions since it is now impossible to seek clarification or verification from the relevant staff who had previously handled these transactions since they have left the Company and are uncontactable.

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Transactions with Party B2	2011 US\$	2012 US\$	2013 US\$	2014 US\$	Total US\$
Trek Singapore Purchase		1,000,000.00			1,000,000.00
Trek HK Sales	5,689,044.18	1,781,281.17	324,367.27		7,794,692.62
Purchases				324,367.27	324,367.27
	5,689,044.18	1,781,281.17	324,367.27	324,367.27	8,119,059.89
Total Sales	5,689,044.18	1,781,281.17	324,367.27		7,794,692.62
Purchases		1,000,000.00		324,367.27	1,324,367.27
<b>Grand Total</b>	<b>5,689,044.18</b>	<b>2,781,281.17</b>	<b>324,367.27</b>	<b>324,367.27</b>	<b>9,119,059.89</b>

63. A check on the Annual Reports of Party B covering the period from 1 April 2010 up to 31 March 2015 revealed that it did not have any subsidiaries by the name of 'Party B2'. We also conducted a general internet search and could not find any result for any entity by that name.

### ***Irregularities Identified – Trek Singapore and Party B2***

64. First, the existence of Party B2 cannot be confirmed. As mentioned above, Party B2 was not listed as one of the subsidiaries of Party B and internet searches on this entity did not yield any results. This suggests the non-existence of Party B2 as an entity.
65. As to the purported purchase by Trek Singapore from Party B2, this was a single purchase transaction on 20 April 2012 for 'Wireless Drive SIP ASIC' for US\$1,000,000 which was recorded as an R&D expense. Of all the purported purchases by Trek Singapore and Trek HK from Party B2, this was the only purchase where a Party B2 invoice was available for review.
66. We note the following:
- (i) The Party B2 invoice was issued under a letterhead stating an address in Shenzhen, China. We note that Party B stated on its website<sup>17</sup> that it has a

<sup>17</sup> 

Research Center in Shenzhen which is located at the Party B2 Building but the address stated on the website is different from the address stated on the purported invoice<sup>18</sup>. Foo informed us that the address on the invoice belongs to a third party assembly house contracted for one of the Group's projects, and not Party B. After further review, we note that the address on the invoice is very similar to the Company's previous office in Shenzhen, perhaps a few office units away (Room 28B versus 28E);

- (ii) The invoice appears to be signed by one '*Fuli Yan*' for and on behalf of Party B3 (and not Party B2). Upon closer inspection, the signature appears pixelated, an indication that it could have been superimposed from another source;
- (iii) No actual payment was made for this purchase. Instead, it was setoff against the sales from Trek HK to Party B2 in the books;
- (iv) Henn informed us that he did not know about this transaction and that it could be Dr Paul or Poo who handled this transaction<sup>19</sup>; and
- (v) Dr Paul and Poo were both in the R&D department, with Poo heading the department in the past and Dr Paul being presently employed in the R&D department. However, Dr Paul said that he was unaware of the transaction and added that this appeared to be unusual as the Company seldom used wireless drives back in 2012. It was only in the last three years or so that the Company was seeing more of the product. Similarly, Poo, who had past dealings with Party B, told us that he did not know about this transaction and did not have any dealings with any Party B entities with respect to R&D.

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<sup>18</sup> In his Maxwellisation response, Henn provided the printout from Party B's website which indicated that the Party B has a Research Center at a building named Party B R&D Building in Shenzhen, which address he claimed matches the address stated on the Party B R&D invoice. Upon closer review, we note that the address stated on the website is different from the one stated on the Party B R&D invoice. While the actual Party B R&D office is located at the Party B R&D Building, the address stated on the invoice is located at a building named Du Shi Yang Guang Ming Yuan (都市阳光名苑), which is located approximately 10km from the Party B R&D Building.

<sup>19</sup> However, in his Maxwellisation response, Henn stated that the Wireless Drive SIP ASIC could possibly have been for the integrated circuit design carried out for the Company for the FluCard or Ai-Ball products. He further stated that it is common for the Company to engage Party B or other companies to carry out such R&D work (i.e. SIP ASIC) for the ASIC designs for its products. There is nothing unusual in the description of the work as set out in the invoice and a typical ASIC design invoice would probably appear similar to this.

**Irregularities Identified – Trek HK and Party B2**

67. As to the transactions between Trek HK and Party B2, there were various sales transactions but only one purchase transaction. Our findings are as follows:

Transactions with Party B2	Sales US\$	Purchases US\$
<b>Trek HK</b>		
Sales to / purchase from Party B2	<b>7,794,692.62</b>	<b>324,367.27</b>
<u>Settlement:</u>		
Credit note	(448,944.00)	
Actual payment received	(1,057,251.61)	
Offset against sales / purchases	(324,367.27)	(324,367.27)
Offset against Trek Singapore's purchase	(1,000,000.00)	
Offset via journal vouchers	(4,964,129.74)	
	-	-

- (i) Out of the total sales of US\$7,794,692.62, actual payments received were only US\$1,057,251.61. Based on the bank advices sighted, none of the payments came from Party B2 but other parties instead. The bulk of the receipts, 97% or US\$1,022,632.03 were in fact received from S-Com HK and the remaining sum was received from other third parties;
- (ii) Sales from Trek HK to Party B2 totalling US\$324,267.27 were setoff against purchases from Party B2 for the same amount. Our review reveals that the setoff is related to one particular sale and one particular purchase transaction involving the same stock code, quantity and transaction value, which took place approximately 7 months apart. Our view is that this pair of transactions could well be a round-tripping transaction;
- (iii) A total of 15 invoices issued by Trek HK to Party B2 between 30 March and 18 April 2012 were setoff (some wholly while others partially) against Trek Singapore’s questionable purchase of US\$1,000,000 from Party B2 as highlighted in Paragraph 65 above;

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- (iv) A key area of suspicion is the offsets which were done through the internally generated journal vouchers (“**JVs**”) which account for US\$4,964,129.74 or 64% of the total purported sales to Party B2. Based on the information provided by the Company as verified against the general ledgers, the accounting entries to put the JVs into effect were convoluted and difficult to understand. After some analysis, we note that the net effect of the JV entries was that a large portion (US\$4,694,817.21 or 95%) of the entire amount of US\$4,964,129.74 could be traced to S-Com HK, either through:
- a direct setoff / contra with S-Com HK (US\$1,144,817.21); or
  - setoff / contra with other entities but the funds could be traced to S-Com HK (US\$3,550,000.00).
- (v) In all, out of Trek HK’s total sales of US\$7,794,692.62 purportedly made to Party B2, 73% or US\$5,717,449.24 could be traced to S-Com HK via direct payments made by S-Com HK to Trek HK, direct contra/setoff against S-Com HK or payments made by S-Com HK to other entities which were then used to setoff against the amount owing from Party B2, as shown below:

Trek HK sales to Party B2	Amount (US\$)	Credit Notes	Offsets	Traced to S-Com HK	Others
<b>Sales to Party B2</b>	<b>7,794,692.62</b>				
<u>Settlement:</u>					
Credit note	(448,944.00)	(448,944.00)			
Actual payment received	(1,057,251.61)			(1,022,632.03)	(34,619.58)
Offset against sales / purchases	(324,367.27)		(324,367.27)		
Offset against Trek Singapore's purchase	(1,000,000.00)		(1,000,000.00)		
Offset via journal vouchers	(4,964,129.74)			(4,694,817.21)	(269,312.53)
<b>Total</b>	<b>(7,794,692.62)</b>	<b>(448,944.00)</b>	<b>(1,324,367.27)</b>	<b>(5,717,449.24)</b>	<b>(303,932.11)</b>
		<b>6%</b>	<b>17%</b>	<b>73%</b>	<b>4%</b>

68. Additional information was provided by the following individuals:

- (i) Henn asserted that he was unable to clarify the transactions with Party B2 as he was not involved in the day-to-day operations<sup>20</sup>. He mentioned that Foo who handled the operations could be in a better position to clarify.
- (ii) Most of the invoices issued by Trek HK to Party B2 were signed by Emily. She informed us that she took instructions from various personnel in the Singapore office on the invoices to be generated, signed and sent out. The customer account code and address would have been created in the system and all she would do is to select the customer as instructed by Singapore office. She also informed us that she did not handle any receipts or payments.
- (iii) Foo explained the relationship between Trek HK, Party B2 and S-Com HK. Trek HK and S-Com HK were purportedly involved in a project with Party B2 for the supply of a type of Thumbdrive product called USB Disk in Package or in short, UDP. Trek HK had contracted a third party packaging house in Taiwan to assist in the packaging of wafers into UDP. For this, Trek HK sold wafers to the Taiwanese packaging house which the latter used and packaged into UDPs. After the packaging is done, the UDP would be sold back to Trek HK at the price which would have included the packaging fee<sup>21</sup>. Trek HK then sold the UDP to S-Com HK and the latter would use a third party assembly house to put the UDP and other parts together as Thumbdrives to be sold to Party B. Foo informed that the third party assembly house was located at the address which was reflected on Party B2's letterhead. In the end, Party B paid S-Com HK, and in turn, S-Com HK paid Trek HK. Foo added that the sales were genuine even though the documentation was lacking / incorrect. He concluded that the team in Trek HK could have made a mistake and the reference to Party B2 should have appeared as remarks and not used as the name of the customer.

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<sup>20</sup> Henn added in his Maxwellisation response that his involvement was limited to the strategic negotiations with Party B on behalf of the Company. After the business deals were struck, he would then instruct the management team to implement and carry out the relevant transactions. As to how the relevant transactions took place, he has no personal knowledge and was unable to provide details.

<sup>21</sup> During the Maxwellisation Process, Foo clarified that it was the Company that contracted Dawning to assist in the packaging of wafers into UDP. The UDP was eventually sold by the Company to Trek HK. Henn in his Maxwellisation response stated that it was Trek Singapore that transacted with Dawning and not Trek HK.

- (iv) Henn added in his Maxwellisation response that as far as he was aware, S-Com HK was appointed by Party B to act as consolidation and collection point whereby S-Com HK would purchase several components of products required by Party B from various sources and consolidate them before Party B takes delivery.
69. Notwithstanding Foo's explanation above, he also informed us that he was never personally involved in the transactions or the abovementioned project with Party B2 and he did not know who was handling the transactions. He said that he *'learnt about those transactions after studying the documents and checking the history'*. However, other than the documents obtained by us from CAD (which appear to be incomplete), no other / further supporting documents were provided by the Company to us to support Foo's explanation. We are concerned that Foo's explanation may be an afterthought as there were no other supporting documents (see further below) and none of this explanation came up during our enquiry with the Company which was conducted before our interview with Foo.
70. Furthermore, we were unable to corroborate Foo's explanation above as no other individuals whom we have interviewed mentioned or appear to have any knowledge of the UDP transactions with Party B2. As mentioned above, there were also no documents proving or supporting Foo's explanation above. This is important because if Foo's explanation were to be believed, there should have been multiple supporting documents – such as documents evincing any sale between Trek HK and the Taiwanese packaging house – but none is available.
71. Given the above and a large portion of the transactions with Party B2 were settled via setoffs and a large portion of the setoffs were traced to S-Com HK, and where actual payments were received, 97% of the payments were from S-Com HK, a company which belongs to Henn and his son, Wayne, the transactions with Party B2 are highly doubtful and suspicious.
72. Even if the transactions were genuine (which we are unable to confirm), our findings revealed that the invoice purportedly issued by Party B2 for Trek Singapore's purchase of the Wireless Drive SIP ASIC for US\$1,000,000 was likely to have been fabricated (refer to Paragraph 65 above). As this fictitious purchase was setoff against

15 sale invoices issued by Trek HK to Party B2 between 30 March and 18 April 2012, the authenticity of the 15 sale transactions and the entire series of transactions is called into serious doubt.

### Transactions with Party B3

73. The transactions with Party B3 were all related to sales made by Trek HK, which took place over the course of a 6-month period from February to July 2012 mainly for the Thumbdrive products totalling US\$1,979,074.80.
74. Based on the 2012/13 Annual Report of Party B, Party B3 is a wholly-owned subsidiary of Party B with a paid-up capital of HK\$2.00 incorporated in Hong Kong. Its principal activities are stated as '*procurement agency and distribution of IT products*'. The Party B3 address stated on the invoice issued by Trek HK appears to be consistent with the address disclosed on third party websites<sup>22</sup>.
75. We did not find any evidence which suggests impropriety with respect to the transactions with Party B3.

### Financial Impact of the Transactions with Party B1 and Party B2

76. On the basis that various transactions as highlighted above were fictitious, the financial impact of the Party B1 Questionable Transactions between FY2013 and FY2014 is as follows:

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<sup>22</sup> [REDACTED]

Items	Overstated / (Understated) US\$
Revenue	1,150,894.57
Costs of sales	1,150,148.54
Expenses (bank charges)	30.43
Profits	715.60
Assets (stocks)	776.46
Assets (receivables)	1,150,894.57
Liabilities (payables)	1,150,955.43
Equity (retained earnings)	715.60

77. If the transactions with Party B2 were fictitious, the financial impact of the transactions between FY2011 and FY2014 is as follows:

Items	Overstated / (Understated) US\$
Revenue	7,794,692.62
Costs of sales	7,436,253.40
Expenses (R&D)	1,000,000.00
Profits	(641,560.78)
Assets (stocks)	(7,111,886.13)
Assets (receivables)	7,794,692.62
Liabilities (payables)	1,324,367.27
Equity (retained earnings)	(641,560.78)

78. The above financial impact does not take into account the unravelling of the various setoffs / contra performed via JVs which would presumably have an impact on the transactions with the parties subject to the setoffs / contra including S-Com HK, Trek Singapore, S-Com Singapore, the Company and other third parties.

#### D. TRANSACTION WITH COLITE

##### Background Information

79. In its letter dated 21 March 2016 to the Company, EY highlighted the issues encountered during the course of the audit of the FY2015 financial statements, relating to one sale transaction.

- 80. In particular, EY noted that there was a sale from Trek Singapore to Unimicron in 2015 involving slow-moving stocks which were subjected to partial allowance for obsolescence but were sold at more than 83% gross margin. Partial payments were purportedly made by the customer but these were later found to be payments made by Henn and S-Com HK, an entity owned by Henn and his son, Wayne. After further requests from EY for documents to substantiate the transaction, the Company provided certain documents which indicated that the customer was not Unimicron but was in fact, Colite.
  
- 81. We lay down below the chronological events which took place based on our review of the documents as well as explanations given by various individuals for this transaction.

Origination of Transaction

- 82. Poo told us that the Company’s dealings with Unimicron originated from him back in 2014 through Alex, his contact at Unimicron, which culminated in the setting up of Unimemory, a joint venture between the Company and Unimicron.
  
- 83. Sometime in February 2015, Alex approached him regarding a requirement for a controller. Based on the description given by Alex, Poo thought that the Company would be able to support Alex on the project if the pricing was acceptable. Poo said that after the initial enquiries, he introduced Foo to Alex to discuss on the quantity and pricing since Poo’s primary role was R&D and Foo’s primary role was sales.
  
- 84. However, we note that Poo’s account contradicted with Foo’s statement. Foo claimed that his involvement took place much later when he was tasked to follow up with the customer to take delivery of the orders made.
  
- 85. On 26 June 2015, Poo signed and confirmed on an Order Requisition form for Unimicron in the capacity as the Sales Manager for the following:

Description	Quantity	Unit Price	Delivery Date
UM1G-HGAB	200,000	US\$ 6.40	Oct 2015
UM1G-HGAB	200,000	US\$ 6.40	Nov 2015
UM1G-HGAB	100,000	US\$ 6.40	Dec 2015

86. On 10 July 2015, Colite (and not Unimicron) issued a PO No. 1507001 to Trek Singapore with the following details:

Description	Quantity	Unit Price	Amount (US\$)	Delivery Date
UM1G-HGAB	200,000 pcs	US\$ 6.40	1,280,000.00	30 Octpber 2015
UM1G-HGAB	200,000 pcs	US\$ 6.40	1,280,000.00	30 November 2015
UM1G-HGAB	100,000 pcs	US\$ 6.40	640,000.00	31 December 2015
			<b><u>3,200,000.00</u></b>	

Remarks: Include PCB design, Schematic, firmware and production tools support, test, production samples and training

87. The order was for 500,000 pieces of UM1G-HGAB (“**UMIG**”) together with the provision of design, schematics, firmware and production tools support, testing, production samples and training. When asked to clarify what UM1G was, Poo informed us that UM1G is essentially the Company’s WiFi chip, an application-specific integrated circuit or ASIC which cannot be purchased off the shelf. When he initiated the sale with Alex, he understood the requirement to be this specific chip and not any other product. The UM1G is a chip bearing the TREK® logo.

88. Alex informed us during our interview that he viewed this as a turnkey project with total solutions where he needed the chips as well as some software and engineering services.

Job Transfer

89. On 6 October 2015, an internally-generated Job No. 1547, which was a form typically used by the Company to convert certain stock codes to another or when several parts under different stock codes needed to be combined into one stock code, was prepared by Hengky. Poo was stated as the Salesman and Singh approved the transfer form. The purpose of the Job transfer was to convert 22,660 pieces of a stock named USB Component to 500,000 pieces of UM1G chips. The cost attached to the USB Component of US\$536,702 was then transferred as the cost of the 500,000 pieces of UM1G chips.

90. Hengky informed us that he did not know what UM1G was or how the conversion was done. He said he was provided with the details of the stock codes and quantity, and was instructed by Poo to effect the conversion in the system.
91. Poo explained to us that when the sale was about to materialise, he realised that the ASIC chip which was to be sold had in fact been written-off and as such, there was no value or cost assigned to the stock. He claimed to have discussed the matter with Singh and suggested that since the USB Component stocks were going to be written-off, whether it was possible to *'assign the value of this component to be written-off to UM1G IC chip'* from a financial perspective. Singh apparently accepted the suggestion and Poo sought Hengky's assistance to convert the USB Components and its remaining cost value of US\$536,702 to UM1G. In other words, the conversion was nothing more than a "paper" conversion, or more accurately, a system conversion, to change the stock code for the purpose of attaching a cost value to the UM1G chips. There was no actual or physical conversion.
92. When asked, Singh said that he signed on the Job transfer form because someone requested him to, which he usually did, as with other documents whenever Henn was away. He considered the form as part of normal operational work and he signed it based on the trust that the person in charge would have done the required work. Singh further said he could not remember if he had a discussion with Poo as to assigning the cost of USB Components to UM1G chips, but he remarked that he did not usually discuss issues such as this.
93. Based on our review, the USB Component, the cost of which was supposedly transferred to the UM1G chips, originated from one of the questionable purchases made on 30 May 2014 under the Party B1 Questionable Transactions (refer to Paragraph 53 above). This particular stock was, on record, slow-moving and was the subject of discussions between EY and the management in late 2015 for impairment allowance. The Company had also instructed for the stocks to be partially written-off at approximately US\$5,000 a month from 31 March 2015 to 4 September 2015 (7 months).

The sale was made to Colite and not Unimicron

94. Alex informed us that Colite was the purchaser of the goods, and that Colite is independent of and not related to Unimicron. Unimicron and Colite also had dealings with each other with respect to Unimicron’s trading business. He also informed us that he is a major shareholder of Colite with 70% equity stake and also an employee of Unimicron.
95. On 23 October 2015, 20 November 2015 and 24 December 2015, Trek Singapore issued three invoices accompanied by its respective DO, as shown in the table below. All the invoices and DOs were signed by Henn and Singh. We further note that the customer had acknowledged receipt on the DOs. At this point the documents were issued to and the customer was still stated as Unimicron.

Date	Invoice No.	DO No.	Customer	Product	Quantity	Amount (US\$)
23-Oct-15	TDO201510164	TDO201510164	Unimicron	UM1G	200,000 pcs	1,280,000.00
20-Nov-15	TDO201511136	TDO201511136	Unimicron	UM1G	200,000 pcs	1,280,000.00
24-Dec-15	TDO201512100	TDO201512100	Unimicron	UM1G	100,000 pcs	640,000.00
						<b>3,200,000.00</b>

96. In its written explanation to EY sent via email by Singh, the Company stated that it was not aware that the PO (refer to Paragraph 86 above) was issued under Colite until sometime in February 2016 when the Company reviewed its receivables position with Unimicron and requested Alex to make payment. The Company decided to take corrective steps to make good the documentation by replacing the existing documents issued to Unimicron with new documents issued to Colite.
97. Given the above, a question then arises as to the DOs issued to Unimicron which were purportedly acknowledged by Unimicron. Alex confirmed that neither he nor anyone else from Colite signed on the DOs as he had not received the stocks then. Since the DOs were issued to Unimicron, it is possible that Unimicron employees could have signed them but he was unsure as to the identity of such an employee.
98. However, Foo informed us that he contacted Alex to acknowledge on the DOs to show Colite’s commitment towards the orders and Alex had agreed to do so. This explanation contradicts Alex’s statement that he did not sign on the DOs.

### Delivery of the UM1G chips

99. When EY requested for shipping documents to prove the delivery of the 500,000 pieces of UM1G chips, it was provided with certain shipping documents which included packing lists containing the description of the items, quantity and dimensions and quantity of the cartons, invoices referred to in the packing lists, airway bill issued by a third party logistics service provider and cargo clearance permit for the shipment.
100. Based on our review of the shipping documents, we noted that the 500,000 pieces of UM1G chips were only stated in the packing lists but not in other documents. There were also discrepancies relating to the weight of the shipment which cast doubt and raised a question on whether the UM1G chips were in fact part of the shipment which were sent to HK on 31 December 2015.
101. We enquired about these discrepancies and were informed by Foo that after he became aware of the discrepancies, he approached the third party logistics service provider to verify the documents in its records. Foo was provided with the entire set of shipping documents above, save for the Cargo Clearance Permit, by the third party logistics service provider.
102. We note that the packing lists in the third party logistics service provider's records did not contain the UM1G chips. It is clear that the UM1G chips were not part of the shipment provided to the third party logistics service provider on 31 December 2015.
103. Two issues then arise. First, was the packing list which included the UM1G fabricated, and if so, was it fabricated to deceive EY who were reviewing this matter? Second, since the shipment on 31 December 2015 did not include the UM1G chips, when did the shipment of those goods take place? The Company was unable to provide any explanation for these two questions, and both Poo and Foo denied involvement in arranging for the shipment. To date, the Company has not provided any supporting documents for the purported shipment of the UM1G chips to HK.
104. The replacement DO no. TDO201512185 dated 31 December 2015 (issued in February 2016) to replace the three DOs issued previously to Unimicron was acknowledged by Alex with a handwritten remark stating that the goods were

*'Collected in Hongkong Office on 4 Jan 2016'*. Alex confirmed that he had collected the goods from Trek HK's office and hence provided the acknowledgement.

105. However, Alex's evidence still does not answer the questions as to when and how the UM1G chips were shipped to HK and collected by him, when those chips did not even make it to the shipment on 31 December 2015 in the first place. Again, none of the individuals we interviewed was able to provide an explanation. It is also possible that Alex was not truthful about the receipt of goods but we are uncertain as to the motivation for Alex to wish to deceive or fabricate the events.
106. During the Maxwellisation Process, even though he claimed he was not involved in making arrangements for the shipping of the goods, Henn offered a possible explanation that the UM1G chips could have been shipped out by the Company from Hong Kong. Henn explained that the Company would typically store its dead stock in Trek HK's warehouse. Given that Colite had subsequently returned the goods (refer to Paragraphs 117 to 120 below) and also that residue UM1G chips stock was found in Trek HK's warehouse, it is possible that the goods sold to Colite had been shipped to Colite from the Company's dead stocks in Trek HK's warehouse. Henn's explanation appears to be speculative. Regardless of the inventory status (whether dead stocks or otherwise), there should be records of the inventory and its movements. No such records were provided to us from our interview with Henn in November 2017 when this possibility was first raised, up to the completion of the Maxwellisation Process.
107. In addition, we note that there was an email from Alex on 25 February 2016 addressed to Singh and copied to Henn and Poo in which Alex made reference to a meeting with Henn and Poo during which it was discussed that *'due to the current market slow down, we would need to reschedule the shipment to later Jun – July 2016. Do assure we will uphold our commitment on our PO issue'*. If Alex had truly taken delivery of the UM1G chips on 4 January 2016, there would be no need for the shipment, or indeed any shipment, to be rescheduled. Alex clarified during our interview that the reference to "shipment" was a typographical error; he meant to state 'payment' instead. When queried, Poo informed us that during the meeting, Alex mentioned delaying payment due to difficulties with his end-customer. We are unable to verify the veracity of Alex's and Poo's statements.

### Payments for the UM1G chips

108. In or around February 2016, as part of the audit process, the Company provided to EY two bank advices showing that Unimicron remitted two payments to Trek Singapore comprising US\$250,000 on 12 February 2016 and US\$2,400,000 on 22 February 2016.
109. Subsequently, during a meeting held between EY, the AC, Henn, Foo, Singh and Poo on 29 February 2016, the management informed EY that the payments above were in actual fact remitted by S-Com HK with respect to the US\$250,000 and by Henn personally with respect to the US\$2,400,000. The facts above were stated in EY's letter to the Company dated 21 March 2016.
110. In the same letter, EY stated that during the aforementioned meeting, Henn stated that he had remitted the sums totalling US\$2,650,000 mentioned above as '*a short-term loan extended to Alex Wu*'. However, during our interview with Henn, he denied that there was a loan. Instead, he said that Alex had called him to tell him that his cash flow was tight and that he would only settle the payment in the later part of the year. Arising from this, Henn told Singh he would provide an undertaking for the payment due from Unimicron by giving a "loan" to Trek Singapore and the "loan" must be returned to Henn once Unimicron makes payment for the purchase. In the event that Unimicron failed to make payment, Henn's "loan" would be '*impounded*'. Henn said he was confident that Unimicron would pay due to its size and reputation, not knowing that the sale was with Colite and not Unimicron at that point.
111. Singh admitted that he had instructed Hengky to assist him to digitally alter the bank advices such that the remittances from S-Com HK and Henn would appear as though they were received from Unimicron<sup>23</sup>. EY in its letter dated 21 March 2016 also claimed that Singh had on '*a number of occasions*' confirmed to them that the bank advices were evidence of payment from Unimicron to Trek Singapore<sup>24</sup>.

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<sup>23</sup> In his Maxwellisation response, Henn stated that it was him who raised to EY that he had remitted the sum of US\$2,400,000 to the Company instead of Unimicron. Henn was unaware of the digital alteration of the bank advices at the material time and was certainly not involved in the preparation of the altered bank advice.

<sup>24</sup> During the Maxwellisation Process, Singh informed that he could not recall informing EY that the bank advices were evidence of payment from Unimicron to Trek Singapore. He only recalled informing EY at the AC meeting on 29 February 2016 that the bank advices were created for his internal reference and were not meant to be shared.

112. During our interview with Singh, he informed that he did not know the details of the arrangement between Henn and Alex. He was given the bank advices by Henn and was told that it was an advance which Singh could use to setoff against the amount due from Colite in the event that Colite failed to pay. The bank advices were altered for his '*own internal referencing, because it was such a big amount*'. Singh also said that the amount received from Henn was never used to offset against the payment due from Colite but was instead recorded as an advance from or liability owing to Henn. In his Maxwellisation response, Singh said the fact that the payments were recorded in the books as advances is entirely consistent with his position that the bank advices were meant for his own internal reference only.
113. We found Singh's explanation highly unconvincing and cannot be accepted. First, there was never any need for any alteration of the bank advices, which act, in itself, is improper. If any "internal reference" was required, it seemed to us that all Singh needed to do was to make such "internal reference" by manuscript on the bank advices, instead of taking steps to digitally alter the same. Second, if the alterations were indeed done solely for his internal reference, then Singh would not have needed to deceive and mislead EY on '*a number of occasions*' into believing that the altered bank advices were evidence of payments from Unimicron. Third, creating "internal references" would only make sense if the payments were correspondingly recorded in the books as payments received from Unimicron. However, that was not the case here. In this case, the sums received were recorded as an advance from Henn, thereby making the alterations not just unnecessary and redundant, but also misleading or false.
114. In his Maxwellisation response, Singh mentioned that it did not occur to him to use other ways to create an internal reference as it was a busy period and he did not give much thought to it. He also did not think that it was inappropriate as he did not intend to share the document. He maintained that it was done in good faith and he never had any intention to deceive or mislead anyone and that he did not personally benefitted from it. We note, however, that the altered bank advices were given to EY as proof of payment from Unimicron.
115. On 4 May 2016, Colite apparently remitted a sum of US\$499,417.17 to the Company as partial payment for the total purchase cost of US\$3,200,000, as verified to the bank

advice and bank statement. However, we are uncertain as to the real source of funds as the remittance could have originated from another party.

116. Following the receipt of US\$499,417.17, the sums of US\$250,000 and US\$2,400,000 were returned by Trek Singapore to S-Com HK and Henn on 6 May 2016 and 20 May 2016 respectively. We found this surprising. It contradicts Henn's purported intention for these sums of US\$250,000 and US\$2,400,000 to be used as an undertaking for the payment due, particularly since the full amount due from Colite has not been paid. Henn informed during the Maxwellisation Process that the sums were returned to him on the advice of EY at the material time on the basis that it was improper for Henn to be 'loaning' monies or providing an undertaking in this matter.

### Return of some goods

117. Alex told us that sometime in May / June 2016, he decided to put a stop on the project as it had been delayed for some time due to certain product development issues on the Company's part.
118. According to Foo, as Colite did not pay the remaining balance, Henn directed that the Company should seek the return of the goods. Foo then proceeded to contact Colite for the return of the goods.
119. On 1 September 2016, Colite issued a DO No. 1609001 to Trek Singapore for the return of 421,880 pieces of UM1G chips valued at US\$2,700,032 (based on the same price of US\$6.40 per piece). The goods were shipped to Trek HK's office and Trek HK acknowledged receipt of the same.
120. On 24 October 2016, as part of the audit procedure, EY requested to sight the returned goods at Trek HK's office. A physical sighting and count was conducted by EY in the presence of a Trek HK employee on 31 October 2016. There were two issues raised:

- (i) The returned stocks sighted by EY were very different in appearance compared to the UM1G chips which should have a TREK® logo; and
- (ii) By way of the physical count, there were only 415,677 pieces of stock, as opposed to the 421,880 pieces stated in the Colite DO. The difference of 6,203 pieces were unaccounted for.

These stocks which were purportedly returned by Colite to Trek HK's office are referred to as "**1<sup>st</sup> Batch Stocks Returned**".

121. Foo informed us that, upon realising the shortfall of the 1<sup>st</sup> Batch Stocks Returned above, he contacted Colite to return the remaining 6,203 chips with the TREK® logo. On 14 November 2016, Trek Singapore received a total of 14,400 pieces of the UM1G chips purportedly from Colite ("**2<sup>nd</sup> Batch Stocks Returned**"), this time 8,197 pieces more than what it should receive. On 8 August 2017, we conducted a physical sighting of the UM1G chips which were returned and confirmed that the chips appear to be the same UM1G chips with the TREK® logo.
122. Prior to the return of stocks by Colite, the Company provided its explanations to EY's queries via a letter issued by ShookLin & Bok LLP ("**SLB**") on 25 April 2016 with respect to the components or parts involved for the UM1G chips ordered by Colite, as follows:
- (i) Whilst Colite ordered the UM1G chips, the Company apparently did not assemble the final product or supply the same to Colite. The UM1G chip may be found in two types of larger chip module produced by the Company namely the ASIC Chip Components and USB Components. There was one UM1G chip in each of the ASIC Chip Components and USB Components;
  - (ii) On or about 12 June 2012, the Company wrote-off about 500,000 units of the ASIC Chip Component from its inventory list. Notwithstanding the write-off, the physical stocks continued to be held by the Company; and

- (iii) When the order was received from Colite, the Company supplied 500,000 pieces of UM1G chips to Colite, of which 477,340 pieces were taken from the written-off ASIC Chip Components and 22,660 pieces were taken from the USB Components.
123. The ASIC Chip Components mentioned above is likely to be the chip with the TREK® logo as Poo mentioned that the UM1G chip is the TREK® logo chip which is an ASIC chip which had been written-off.
124. The USB Components, as mentioned earlier, originated from one of the questionable purchases made on 30 May 2014 under the Party B1 Questionable Transactions (refer to Paragraph 53 above). We also highlighted above that every individual whom we have interviewed, claimed to have no knowledge of and were unable to explain the nature and composition of the USB Components. These individuals included Henn, Poo, Foo and Singh. No one seemed to know what the USB Components stocks were. If that were true, we are perplexed with how anyone could then have instructed SLB on the contents of its letter issued on 25 April 2016 concerning the presence of a UM1G chip in each USB Component.
125. Further, when we sought clarification from the Company on what the UM1G chip was, Foo explained to us on several occasions that the UM1G chip consisted of 477,340 pieces of written-off inventory and 22,660 of what he termed as supporting components or companion chips. This appears to be consistent with the Company's explanation to EY above. However, during our subsequent interview with Foo, he claimed to have no knowledge of the composition of UM1G chip as he had not seen it and was not part of the initial discussion with Alex on his requirements.
126. The explanation provided by the Company via SLB's letter issued on 25 April 2016 also contradicted with Poo's statement. As mentioned above (and even though he claimed he had no knowledge of what the USB Components stocks were), Poo had directed for 22,660 pieces of USB Components to be converted to 500,000 pieces of UM1G chips solely for the purpose of attaching a cost value to UM1G chips. As far as he was aware, the chips that Alex required were the ASIC chip with the TREK® logo

and not any other chip. All other individuals whom we interviewed claimed to have no knowledge on Alex's requirements and what the UM1G chip was.

127. Before we examine the stocks which were purportedly returned by Colite, it is important to first establish the actual stocks which were purportedly delivered to Colite (putting aside the questions we raised on the issue of delivery above). Both Poo and Foo agreed that Poo was involved at the early stage of the negotiation and discussion with Alex while Foo was involved later on. However, the two individuals cannot agree on the timing of Foo's involvement, which is an important point to establish the identity of the person who was involved and had knowledge of the stocks which were purportedly delivered to Colite. During the Maxwellisation Process, Foo informed that his role in the transaction with Colite was limited to: (i) revising the contract documents to reflect the correct particulars of the buyer, Colite, instead of Unimicron, (ii) following up with Colite to take delivery of the products sold; and (iii) obtaining confirmation from Colite on their receipt of the products.
128. What is common ground – whether from the Company (through SLB's letter) or Poo's account – is that the ASIC chips which had been written-off were used in the transaction. This meant that someone must have given instructions to the warehouse personnel on the exact items to be shipped to Colite (if they were shipped at all), or at least knew what had been shipped. Surprisingly, both Poo and Foo claimed to have no hand in this. Both of them told us that they were not in charge of, and did not give the instructions on, the goods to be packed and shipped. Foo mentioned that he only informed the sales coordinators, the identities of whom he was unable to recall, that Colite was ready to take delivery. He did not give any instructions on the items to be shipped.
129. We also checked with Alex on the stocks that he purportedly received on 4 January 2016. He informed us that Colite's customer had collected the goods from Trek HK's office directly without going through Colite. As it was a turnkey solution, he did not know what were the components sent by Trek Singapore, the quantities involved or how many shipments were sent.
130. On the stocks which were returned by Colite in two separate batches, we showed to several individuals during the interview process, the photos taken by EY of the 1st

Batch Stocks Returned. Poo, Foo and Dr Paul mentioned that those items in the photos consisted of low-value components such as capacitors, resistors, regulators, semiconductors, etc. These components were a far cry from the WiFi controller required by Alex, and would be of much lower value than the ASIC chips.

131. Without any credible and concrete information as to the exact items which were shipped to Colite, it is difficult if not impossible, to match them against the stocks which were purportedly returned by Colite and confirm the value of those returned stocks. The only information which can be verified is that the Company has to date received 415,677 pieces of the components and 14,400 pieces of the ASIC chips.
132. We also find it perplexing that the Company took a lackadaisical, and seemingly indifferent, attitude towards the stocks which were returned. Given the high value of the stocks which Colite was supposed to return (US\$2,700,032), there was no procedure or policy in place to inspect or verify the stocks when they arrived in Hong Kong. It was only when EY requested for a physical sighting was a stock count done.
133. Alex was also unable to confirm the stocks which were returned as they were purportedly sent directly by Colite's customer to Trek HK's office. He was also unable to obtain the packing lists for the 1<sup>st</sup> Batch Stocks Returned and 2<sup>nd</sup> Batch Stocks Returned from Colite's customer.
134. In addition, when we enquired with Alex, he mentioned that what he required was not only the chips but also engineering and other services as it was meant to be a turnkey solution from the Company. As such, the value of the transactions included the services to be provided. He said that there was an agreement between all parties at the initial stage that all the engineering software and services would be lumped together and reflected in the cost of the 500,000 pieces of chips, because if they were to separate the costs between hardware and services, it would attract higher taxes. Therefore, the actual quantity of chips supplied to Colite / Colite's customer might not be 500,000 pieces as the quantity was stated '*for documentation purpose*' only. Alex added that the US\$3.2 million deal was based on the total solution package offered by Trek to support the project until completion of the development phase where mass production was possible. Supply of hardware materials would largely depend on how extensive the development issues would be, i.e, if there were many issues, then

consumption would be higher and Trek would need to supply more. That said, Alex informed that the hardware required was estimated at 500,000 pieces.

135. Alex's explanation in Paragraph 134 above was not corroborated with statement from other individuals or any records of the Company. Neither Poo nor Foo mentioned the above to us. This issue raised more questions and created even more doubt on the authenticity of the transaction with Colite.
136. Other than the issues highlighted above, there were three other instances of document fabrication. Based on emails and documents extracted from the digital images of the laptops of various employees, we found three separate indications of employees who fabricated or attempted to fabricate certain documents. However, these documents were not used or produced by the Company to any external parties. Nevertheless, they raise a real concern about the practice of document fabrication.

### ***Summary of Issues Identified***

137. We have highlighted at length our findings and the various issues identified with respect to the transaction with Colite above. We now summarise below the questionable aspects of the transaction as well as the contradictions noted from the conflicting statements and evidence:
- (i) On paper, the transaction with Colite appeared to be for 500,000 pieces of UM1G chips valued at US\$3,200,000. This contradicts with Alex's explanation that the 500,000 pieces of UM1G chips was an estimated number and '*for documentation purpose only*' and that the actual supply of materials had not been determined;
  - (ii) No one was able to confirm the actual composition or quantity of the items that were purportedly shipped to Colite, whether it was the higher-value ASIC chip with the TREK® logo or included other low-value components;

- (iii) In fact, there is presently no evidence to prove that the UM1G chips were even shipped to Colite since the shipping documents showed that the goods were not part of the 31 December 2015 shipment;
- (iv) When questioned on whether payments were made by Colite for the goods, Singh instructed the bank advices for the sums totalling US\$2,650,000 to be altered and deliberately provided the same to EY with the intention to deceive and mislead EY into believing that the sums were received from Unimicron. Only when it was clarified that the sale was made to Colite and not Unimicron were the true identities of the parties who remitted the sums (being S-Com HK and Henn) revealed;
- (v) The sum of S\$499,417.17 purportedly paid by Colite on 4 May 2016 could not tally to the value of goods purportedly purchased (delivered less return)<sup>25</sup>. It is not certain if the sum was indeed paid by Colite or originated from another party;
- (vi) No one was able to confirm the actual items which were purportedly delivered to Colite, the purported return from Colite and whether the items returned were those which were delivered to Colite in the first place;
- (vii) The Company's curiously indifferent attitude towards the purported return of the stocks and the heedless manner in which the return was managed by all the parties concerned suggest that the purported movements of goods might never have taken place;
- (viii) There were instances where documents were (or intended to be) fabricated / altered, with the purpose of misleading the recipient of the documents (although we note that these documents were not provided to third parties);  
and

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<sup>25</sup> The sale was purportedly for 500,000 pieces of UM1G for US\$3.2 million or average price of US\$6.40 per piece. A total of 430,077 pieces were returned (415,677 x US\$6.40 = approximate value of US\$2,752,492.80 assuming average price). After deducting the returned stocks, the remaining stocks which were "retained" by Colite was 69,923 pieces (69,923 x US\$6.40 = approximate value of US\$447,507.20 assuming average price).

- (ix) The explanations offered by various individuals conflicted or differed from one another. The various individuals also could not offer explanations for key questions or issues, for example, the actual goods which were purportedly delivered to Colite and the timing of the purported delivery.
138. The various issues above raised serious concerns and doubts, and called to question the authenticity of the transaction, and the accuracy and truthfulness of the statements given by various individuals. There are strong indications that the transaction with Colite could have been a fictitious transaction. The subsequent conduct of the Company further support this (refer to Paragraphs 139 to 145 below).

### Financial Impact of the Transaction with Colite

139. The US\$3,200,000 transaction with Colite was initially recorded in Trek Singapore's books. However, due to the issues raised by EY and the ongoing CAD investigations, the Company performed a reversal of the transaction pending the completion of the investigations. As such, the FY2015 audited financial statements did not reflect or include the effect of this transaction, i.e., the sale to Colite has not been recognised and the book value for the 500,000 pieces of UM1G of US\$536,702 was taken back into Trek Singapore's stocks.
140. On 31 January 2016, the Company again recognised the sale transaction for 500,000 pieces of UM1G chips at the book value of US\$536,702, but the sale value recorded was US\$509,650, in contrast to the earlier sale value of US\$3,200,000. According to Foo, as the sale transaction was reversed in 2015, the management decided to recognise the sale in 2016. Foo said that subsequently, as the matter was investigated by CAD, the management decided to perform yet another reversal. As at 31 December 2016, the sale to Colite was not recognised and the book value for the 500,000 pieces of UM1G chips of US\$536,702 remained in Trek Singapore's stocks.
141. Sometime in October / November 2016, the Company purportedly received 430,077 pieces of returned stocks from Colite comprising 415,677 pieces of components and 14,400 pieces of ASIC chips with the TREK® logo. The remaining 69,923 pieces of

stocks were “retained” by Colite. As the sale to Colite has not been recognised, the 500,000 pieces of UM1G chips were still included in Trek Singapore’s books on record.

142. Separately, there was another transaction with Colite in April 2016 for the sale of IOT modules for US\$298,900.80. We have verified this sale to the PO, invoice, DO, packing list and the airway bill. Colite has also settled the payment for this sale in the same month. However, the total payment received was US\$309,117.14, an excess of US\$10,216.34.
143. As mentioned above, on 4 May 2016, a partial payment of US\$499,417.17 was purportedly made by Colite to Trek Singapore. Together with the excess payment of US\$10,216.34 received from Colite for another transaction, the total sum of US\$509,633.51 has been recorded as an advance received from or liability owing to Colite, in view that the recognition of the sale to Colite has been reversed.
144. On 25 January 2018, we enquired with the Company on whether there were further accounting entries recorded for this transaction subsequent to May 2016. We were informed by the accounting staff that an entry was recorded to recognise the sale of the 500,000 pieces of UM1G chips for US\$509,634.00 on the instructions of Foo. During our meeting with Foo on 29 January 2018, he explained that since there was an advance received from Colite of US\$509,633.51 and the Company did not have any of the 500,000 pieces of UM1G chips which were sold to Colite, he gave instructions for the sale to Colite to be recognised and the invoice to be prepared on 29 December 2017. We highlighted that 430,077 pieces of the stocks have purportedly been returned to the Company, and as such, his statement that the Company did not have any of the 500,000 pieces of UM1G chips contradicted the representation given earlier that the stocks sighted by us and EY were returned by Colite. Furthermore, the original purported sale of the 500,000 pieces of UM1G chips was priced at US\$3,200,000 but the value appeared to have significantly reduced to US\$509,634.00 which was without proper basis and justification. This series of events added to the cloud of uncertainty over the authenticity of the entire transaction. After

our meeting, Foo gave instructions for the reversal of the accounting entries recording the recognition of the sale of the 500,000 pieces of UM1G chips for US\$509,634.00<sup>26</sup>.

145. In summary, Trek Singapore’s financial statements for FY2015, FY2016 and FY2017 reflected the following:

		Balance as at 31 December		
		2015	2016	2017
<u>Reflected in Trek Singapore's books</u>				
Sale to Colite	US\$	-	-	-
UM1G stocks (cost/book value)	US\$	536,702.00	536,702.00	536,702.00
UM1G stocks	pcs	500,000	500,000	500,000
Advance received from Colite (liability)	US\$	-	509,633.51	509,633.51
<u>Stocks purportedly delivered / returned</u>				
Stocks purportedly delivered to Colite	pcs	500,000		
Stock purportedly returned by Colite	pcs		430,077	430,077

- (i) The purported sale to Colite has not been recognised;
- (ii) The UM1G stocks value carried in Trek Singapore’s books was US\$536,702.00 for 500,000 pieces, for all three years, even though the stocks were purportedly delivered to Colite in 2015. The purported return of 430,077 pieces of stocks by Colite in 2016 was also not recorded; and
- (iii) The sum purportedly received from Colite of US\$509,633.51 was recorded as an advance payment or liability owing to Colite in FY2016 and FY2017.

<sup>26</sup> During the Maxwellisation Process, Foo acknowledged that he instructed that revenue of US\$509,634.00 be recognised on account of the fact that the Company has in fact received the payment from Colite for the transaction. Notwithstanding the return of the stocks by Colite to the Company, the Company has not refunded Colite the sum of US\$509,634.00 hence Foo had provided instructions for the revenue to be recognised. Foo further stated that in view of the fact that the Company had received partial payment from Colite, which notwithstanding the return of the stocks by Colite, he considered that the receipt of monies from Colite had to be booked as revenue.

## E. TRANSACTIONS RELATING TO ESD INVENTORIES

### Background Information

146. Following EY's review on the Party B1 Questionable Transactions during the audit process, EY raised further questions on the subsequent transactions involving the stocks which were purportedly purchased from Party B1 under the Party B1 Questionable Transactions.
147. In particular, EY found that the stock movement reports showed certain movements which were inconsistent with the documentation for the transactions which took place after the purported purchase from Party B1.
148. We further understand that due to the discrepancy, EY requested for a stock take to be conducted on the remaining stocks but was later informed by the management that the stocks had been consigned and sent to PT Racer Technology Batam, a former subsidiary of the Group ("**PT Racer**") in Batam, Indonesia. Subsequently, the stocks were found to have been sold but the stocks were delivered out of Singapore and not Batam.

### Transactions Relating to the eSD Inventories

149. The stock code for the eSD inventories is '*THGVS5G6D2FBA19HEH Toshiba NAND flash (eSD)*'.
150. We should highlight from the onset that this particular stock is the same stock which related to the questionable sale to and purchase from Party B1 explained in Section C above. To recap, on 14 November 2013, Trek Singapore purportedly sold 49,149 pieces of the eSD stocks to Party B1. On 30 May 2014, Trek Singapore purportedly purchased 100,000 pieces of another stock from Party B1 but this stock was later "converted" to 49,149 pieces of eSD via Job No. 1162 dated 3 October 2014. Please refer to the diagram under Paragraph 55(ix) above. We concluded in Section C that the Party B1 Questionable Transactions were likely to be fictitious transactions and it

is highly likely that the eSD stocks did not physically move or change hands between 14 November 2013 and 3 October 2014.

151. Subsequent to the above, on 22 July 2015, Trek Singapore made a purported sale to Trek HK. We found discrepancies with respect to the quantity of the eSD which was stated in various documents reviewed, as follows:

Documents	Quantity Stated (pcs)	
	3,246	49,207
Trek Singapore invoice (version 1) with total value of S\$36,905.25		√
Trek Singapore invoice (version 2) with total value of S\$36,907.02	√	
Accounting records	√	
Trek Singapore stock movement report	√	
DO		√
Packing list		√
Airway bill		√
Stocks received by Trek HK		√

152. The key focus is on the quantity of stocks sold by Trek Singapore to Trek HK, whether it was 3,246 or 49,207 pieces, there being a significant difference in numbers.
153. There were two different versions of an invoice from Trek Singapore to Trek HK. As Hengky was reflected as the preparer of both versions, we asked him about the matter. He informed us that he was unaware of, and did not prepare, the invoices even though his name was reflected as the preparer. His explanation was his user account was also used by other colleagues including Poo, Foo, Cynthia and several others.
154. We also enquired with other individuals on the documentation discrepancies but no one was able to recall or had any knowledge of the transaction above. Foo signed on one of the invoices but said that he did not remember whether he was involved in the transaction. That said, he offered a possible explanation for the discrepancies which he gathered from various sources including review of documents.
155. According to Foo, every piece of stock under the eSD stock code consisted of a controller and a memory component. There was a customer in Hong Kong who wanted to purchase 49,207 pieces of controller without the memory component. The

sale to this customer was done through Trek HK. At first, an invoice was prepared to reflect 49,207 pieces but this would mean that the system would record an outward movement of 49,207 pieces of eSD when in actual fact the Company would still have 49,207 pieces of the memory component (as only the controller was to be sold). To overcome the situation, the Company computed the cost of the 49,207 pieces of the controller, being the equivalent to 3,246 pieces of the complete eSD stock. The remaining value represented the cost of the memory component which had not been sold.

156. In order to verify Foo’s explanation above, we reviewed the subsequent transactions that took place after the sale from Trek Singapore to Trek HK, as follows:

<b>Date</b>	<b>eSD Stock Quantity</b>	<b>Trek Singapore</b>	<b>Trek HK</b>
3-Oct-14	Initial stock balance	49,207	0
22-Jul-15	Sale from Trek Singapore to Trek HK	(3,246)	49,207
	Stock balance	<b>45,961</b>	<b>49,207</b>
23-Jul-15	Sales to Flashstar		(49,207)
Aug-15 to Feb-16	Stocks written off	(3,080)	
30-Mar-16	Sale to Best Rely	(42,880)	
31-Mar-16	Stocks written off	(1)	
		<b>(45,961)</b>	<b>(49,207)</b>

157. There were two subsequent transactions which took place. Based on the documents reviewed including proofs of payments received from both customers (stated as Flashstar and Best Rely in the table above), it would appear that both the transactions were genuine.
158. This meant that Trek Singapore did in fact have sufficient stocks to make the sale to Best Rely for the memory component of the eSD which it would not otherwise have if the earlier sale to Trek HK was for 49,207 pieces. We also established that the sale from Trek HK to Flashstar was in fact only for the controller component of the eSD.
159. As the subsequent sales from Trek Singapore and Trek HK appear to be genuine, we are satisfied that the sale from Trek Singapore to Trek HK was also genuine.

160. Notwithstanding the above, the Company should have exercised more diligence and care in making sure that its books and records reflect a true and accurate position. For the sale of 49,207 pieces of controller to Trek HK, instead of taking a convenient approach by computing the quantity of the controller vis-à-vis its cost which does not reflect the actual situation, the Company should have separated the stocks into two distinct stock codes, each with its own cost for the memory and controller components before recording the sale to Trek HK. This would ensure that the stock quantity and value are properly and accurately reflected in its books and for better management of its inventory.

### Financial Impact of the Transactions Relating to eSD Inventories

161. The transactions relating to the eSD inventories did not cause any financial impact on the Group as all the transactions appear to be genuine.

## **F. TRANSACTIONS WITH KEY ASIC**

### Background Information

162. During a routine check by the Inland Revenue Authority of Singapore (“**IRAS**”) on the Company’s claim under the PIC Scheme, it was found that some of the payments for the purchases made by the Group from Key Asic were in fact made to Henn and not Key Asic. Arising from this discovery, the AC directed that we include the purchase transactions with Key Asic in our scope of review.
163. According to public information, Key Asic is a wholly owned subsidiary of Key Asic Berhad, a company listed on the Mainboard of Bursa Malaysia since 2008. In the 2017 Annual Report, it was disclosed that Key Asic was incorporated in Taiwan with principal activities in *‘providing designing services in relation to the electronic components of integrated circuit, semiconductor and related parts’*.
164. Based on the announcements made by Key Asic Berhad, JP Peng was the CEO of Key Asic Berhad from 25 August 2010 until his retirement on 20 November 2014.

## TREK 2000 INTERNATIONAL LTD – REPORT ON SUSPICIOUS TRANSACTIONS

### Transactions with Key Asic

165. Based on our review of the Company's records and the information provided by the Company, both Trek Singapore and S-Com Singapore had made a number of purchases from Key Asic in the past, as follows:

Purchases from Key Asic	2010 US\$	2011 US\$	2012 US\$	2013 US\$	2014 US\$	2015 US\$	2016 US\$	Total US\$
<b>Trek Singapore</b>								
Intangible assets		62,999.50					240,000.00	302,999.50
<b>S-Com Singapore</b>								
Stocks	42,295.50	213,169.50	138,583.75	561,621.25	40,000.00	65,000.00		1,060,670.00
Intangible assets		722,375.00	25,000.00					747,375.00
	42,295.50	935,544.50	163,583.75	561,621.25	40,000.00	65,000.00	-	1,808,045.00
<b>Total</b>								
Stocks	<b>42,295.50</b>	<b>213,169.50</b>	<b>138,583.75</b>	<b>561,621.25</b>	<b>40,000.00</b>	<b>65,000.00</b>	<b>-</b>	<b>1,060,670.00</b>
Intangible assets	<b>-</b>	<b>785,374.50</b>	<b>25,000.00</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>240,000.00</b>	<b>1,050,374.50</b>
	<b>42,295.50</b>	<b>998,544.00</b>	<b>163,583.75</b>	<b>561,621.25</b>	<b>40,000.00</b>	<b>65,000.00</b>	<b>240,000.00</b>	<b>2,111,044.50</b>

166. Out of the total purchases of US\$2,111,044.50, we have grave concerns with respect to four invoices totalling US\$500,374.50 as they were settled via cash payments to Henn and Loo as well as a setoff against the intercompany balances with Thumbdrive Malaysia ("**Key Asic Questionable Transactions**"), as follows:

Entity	Key Asic Invoice No.	Date	Amount on Invoice		Cash Payment	Cash Payment	Payment to Henn	Payment to Loo	Thumbdrive Malaysia Offset	Exchange Differences
			S\$	US\$ equiv. in books						
			S\$	US\$	S\$	US\$	S\$	S\$	US\$	US\$
S-Com Singapore	11060007	3-Jun-11	150,000.00	122,100.00			150,000.00			
S-Com Singapore	11060025	28-Jun-11	185,000.00	153,365.00				185,000.00		
S-Com Singapore	11100057	11-Oct-11	210,000.00	161,910.00	26,300.00	18,387.00	85,000.00		60,000.00	(3,104.60)
Trek Singapore	11040007*	27-May-11	77,300.00	62,999.50	77,300.00					
			<b>622,300.00</b>	<b>500,374.50</b>	<b>103,600.00</b>	<b>18,387.00</b>	<b>235,000.00</b>	<b>185,000.00</b>	<b>60,000.00</b>	<b>(3,104.60)</b>

\*Actual amount stated on the invoice was S\$100,300. However, only payment of S\$77,300 was made and the balance was not recorded.

167. Based on our review of the documents relating to the payments above, we found that

- (i) Henn was paid a total sum of S\$235,000.00;
- (ii) Loo was paid a total sum of S\$185,000.00. This sum, after deduction for bank charges of S\$20.00, was later remitted by Loo to T-Data's bank account;

- (iii) Cash totalling S\$103,600.00 and US\$18,387.00 was withdrawn from petty cash and through issuance of one cash cheque, were paid to JP Peng. This is based on the information given by Henn and Singh as some of the documentary evidence sighted were not conclusive; and
  - (iv) A sum of US\$60,000.00 was setoff against the debt purportedly owed by Key Asic to Thumbdrive Malaysia. In particular, we sighted an invoice which was issued without a letterhead and which appear to be issued by Thumbdrive Malaysia to Key Asic for '*Income Licensing*' amounting to US\$60,000 dated 19 February 2013. The invoice was signed by Henn. Based on our review of the general ledgers, this sum was setoff against the intercompany balances between S-Com Singapore and Thumbdrive Malaysia.
168. The Key Asic Questionable Transactions were recorded in the books with debit entries to (thereby increasing) Intangible Assets and credit entries to (thereby reducing) Cash at Bank or to (thereby increasing) Payables.
169. A key difference between the four Key Asic Questionable Transactions and other transactions with Key Asic is that the invoices for the Key Asic Questionable Transactions were issued in Singapore Dollars, in contrast to all the other invoices which were issued in United States Dollars and were paid via telegraphic transfers ("TT") to Key Asic's bank account as indicated in the general ledgers and TT forms sighted for some transactions.
170. During the interview of Loo and Poo on the payments of S\$185,000.00 which were made via cheques in Loo's name, Poo informed us that Henn had asked him for a favour to use Loo's bank account for a payment to be made to T-Data. Poo confirmed that there were two cheques which were issued to Loo and that he had asked Loo to deposit the cheques and thereafter remit the same sum via TT to T-Data. Poo said that he was not aware that the cheque payments were related to the transactions with Key Asic. Loo also provided us a copy of her bank statement showing that the cheques were deposited on 23 August 2011 and 26 August 2011, as well as a SWIFT confirmation obtained from the bank confirming the remittance of S\$184,980.00 (after deduction of S\$20 in bank charges) to T-Data on 1 September 2011.

171. Henn explained the reason for the cash payments to Key Asic. He said that JP Peng had contacted him to seek help for an advancement as Key Asic was having difficulties with its bank accounts. Whilst he would like to extend assistance, Henn said he was mindful that it would create problems for the Company to make an advance payment to a supplier without receiving any goods. He also realised that the Company did not have sufficient cash as needed by JP Peng. Therefore, Henn made those advances to JP Peng on behalf of the Company using his personal funds and sought reimbursement from the Company at a later date. The advances were given on condition that JP Peng must make himself available in Singapore, which he did, over four or five trips to Singapore. Henn also informed that every time he paid JP Peng, he would ask JP Peng to acknowledge receipt and the acknowledgments would be passed on to Singh for record-keeping and reimbursement.
172. The cash advances given to JP Peng were apparently drawn from cash that Henn held on hand and not withdrawn from the bank. As such, Henn was unable to provide any bank statements as documentary proof of the cash withdrawal(s) for the payments to JP Peng.
173. When asked for the reason that the payments needed to go through Loo / T-Data, Henn mentioned that he did not have so much cash with him and he could have requested T-Data to assist. However, he could not remember the details and asked that we checked the acknowledgement signed by JP Peng instead. Regardless, we note that his explanation still did not clarify the need for Loo's involvement as even if T-Data had come out with the cash first, the Company could have reimbursed T-Data directly.
174. We also requested for Henn's assistance to obtain bank statements from T-Data to show how the payment was made to JP Peng. Henn then informed us that Shirley, being the current director and shareholder of T-Data on record, was not agreeable to share the information with Henn which she deemed to be sensitive information unless RSM wrote to her directly for her consideration. Shirley also apparently told Henn that documents which were dated more than five years had been incinerated.
175. Singh informed us that he was aware of some arrangements between Henn and JP Peng wherein Henn made some advances on behalf of the Company to JP Peng, but

he did not have the details of the arrangement. He mentioned that there was a one-page ‘*agreement*’ done up for each payment in which it contained JP Peng’s acknowledgement of receipt, the invoice number and the amount. Every time Henn paid JP Peng, the latter would sign on the agreement which Henn would then pass on to Singh for reimbursement to Henn<sup>27</sup>. Singh told us that the agreements were kept in a plastic folder in the room which he used to occupy at the Company’s office premises. At our request, the Company tried searching for the said plastic folder together with Singh but it was not found<sup>28</sup>. Subsequently, with the permission of CAD, we accessed all the documents seized by CAD from the room occupied by Singh but no plastic folder was found. We found it troubling that such an important folder would conveniently be missing when production of the same was sought.

176. In addition, through the Maxwellisation Process, Singh provided eight (8) copies of the one-page ‘*agreements*’ for payments totalling S\$523,600 and US\$18,387.00 which he claimed were obtained from JP Peng. We note the following:

- (i) The so-called one-page agreement was in fact payment vouchers. Given Singh’s seniority and the CFO position he held, it is inconceivable that Singh would confuse a payment voucher with an agreement;
- (ii) The payment vouchers were acknowledged by an unidentified individual whom by Henn and Singh’s accounts, was JP Peng. We note however, the signature on the payment vouchers was significantly different from JP Peng’s signature on the Cash Receipts documents. The signature found on the Cash Receipt documents was confirmed to be JP Peng’s based on our enquiries with him (please refer to paragraph 178 below for further details on the Cash Receipts). If that was the case, the question arises as to whether the payment vouchers

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<sup>27</sup> In his Maxwellisation response, Singh mentioned that insofar as the arrangements between Henn and JP Peng are concerned, Henn would inform him that he would be making advance payment on behalf of the Company to JP Peng of Key Asic. Henn would also inform him of the amount of money to be advanced to JP Peng. Singh would then instruct his staff to prepare the one-page agreement for Henn which Henn would then return with the same agreement bearing JP Peng’s acknowledgement of the payment received. This then formed the basis for the Company’s reimbursement to Henn. Two copies of the agreement would be prepared for each payment where one copy would be kept by Singh and the other with JP Peng for each of the payments made.

<sup>28</sup> In his Maxwellisation response, Singh claimed that he was not present for the search and denied that the Company tried searching for the plastic folder together with him. This is in contradiction to the confirmation we received from Dr Edwin Long, the Deputy Chief Executive Officer of the Company that Singh was present during the search.

were genuine documents or was this another instance where documents were fabricated.

- (iii) During our interview with Singh, he did not bring up the existence of another copy of the one-page agreement which was purportedly given to JP Peng. Even when the search for the plastic folder was unsuccessful, there was no mention that another copy existed although he ought to have known that the document was an important evidence; and
  - (iv) Based on the above and given that Singh was involved in various fabrication and alteration of documents for other transactions, the authenticity of the one-page agreements which turned out to be payment vouchers, is highly doubtful.
177. With respect to Loo's involvement, Singh mentioned that he received an email from JP Peng wherein JP Peng requested Singh to reimburse Loo because he had received money from Loo. Singh recalled that he even made a call to JP Peng after the receipt of the email to confirm it. The email was apparently printed and placed together with the rest of the documents in the same plastic folder which could not be located. We searched through the digital image of Singh's email accounts but did not find any email from JP Peng as mentioned by Singh.
178. On 27 June 2017, the Company provided certain documents including undated Cash Receipts for the total sum of US\$380,479.60 which were acknowledged by JP Peng. These documents were prepared at Foo's instructions on 15 June 2017 in response to our request for the Company to obtain confirmation / acknowledgement from Key Asic on the suspicious payments above. Since Henn was meeting JP Peng in Shanghai on 16 June 2017, Foo thought it would be useful to obtain JP Peng's acknowledgement for the purpose of our review.
179. We also made enquiries with JP Peng via email. He confirmed the following in his emails dated 13 September 2017, 12 October 2017, 28 October 2017 and 4 November 2017:
- (i) He confirmed that the documents were given to him for signing in Shanghai by Henn in June 2017;

- (ii) He confirmed the receipt of the sums totalling US\$380,479.60 including the amount stated on the Cash Receipt which was unsigned and that he might have missed it<sup>29</sup>;
- (iii) He insisted that the total sum of US\$380,479.60 was paid to and received by Key Asic, and not to him personally, as Key Asic '*had a little issues then*';
- (iv) He signed on the undated Cash Receipts '*since the fund were received during my tenure as CEO of the company and the company did not send the confirmation due to the issues of the company, so I think I should sign the 'Cash Receipts' instead*'; and
- (v) He said that the payments were made via TT and not cash. This is contradictory to Henn and Singh's statement that some of the sums in cash were paid to JP Peng.

He did not respond to us after his last reply on 4 November 2017. Subsequent follow-ups from us were also met with silence from him.

180. What is even more troubling is that Key Asic confirmed to us that it has never issued, and does not have records of, the four invoices under the Key Asic Questionable Transactions<sup>30</sup>. Further, Key Asic also confirmed that it did not have any dealings with Thumbdrive Malaysia or received the invoice for licensing fee of US\$60,000 from Thumbdrive Malaysia. Because the invoices do not exist, it is highly likely that the purchases made under the Key Asic Questionable Transactions as well as the licensing income of US\$60,000 recorded in Thumbdrive Malaysia's books were also fictitious. That also meant that the invoices relating to the four Key Asic Questionable Transactions as well as the invoice issued by Thumbdrive Malaysia for the licensing fee charged to Key Asic could have been fabricated.

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<sup>29</sup> During the Maxwellisation Process, Henn stated that the acknowledgement forms constitute incontrovertible proof that monies were received by JP Peng on behalf of Key Asic at that point in time and that it is inconceivable that JP Peng would acknowledge receipt of monies if he had not in fact received such monies.

<sup>30</sup> At our request, the Company managed to contact certain employees of Key Asic for the purpose of obtaining information and confirmation on the transactions above. After several exchanges with the Company, the Key Asic employee informed that she would prefer to communicate directly with us on our enquiries.

181. During the Maxwellisation Process, Henn questioned the reliability of the information received from the Key Asic employee above as the identity of this employee appears unclear in contrast to the information / confirmation received from JP Peng, who was the former CEO of Key Asic. We wish to highlight that the Key Asic employee was in fact introduced to us by the Company. At our request to obtain clarification / confirmation from Key Asic on the transactions, the Company went on to contact Key Asic for this purpose and the communication with the employee was then handed over to us as the employee had requested to communicate with us directly.
182. In addition, Henn appears to have reached out to Key Asic's current Chairman and CEO, Mr Eg Kah Yee and Financial Controller, Mr Thong Kooi Pin to verify the authenticity of certain transactions. Based on the email correspondence provided to us in Henn's Maxwellisation response, Mr Thong Kooi Pin on 12 April 2018 confirmed that *'the transactions are correct'* in response to Henn's email on 10 April 2018. It was not clear what he had confirmed and what were sent to him for confirmation; there was no attachment to Henn's email of 10 April 2018 to Key Asic. We also find it peculiar that this email was produced at the eleventh hour notwithstanding that Henn knew Key Asic had informed us that it did not have records of the invoices for the Key Asic Questionable Transactions since 27 November 2017 when we interviewed him. Given the new evidence produced by Henn which is contradictory to the earlier confirmation given by Key Asic, the new but questionable evidence produced by Singh, and the inconsistent / contradictory statements provided by Singh and JP Peng, we are unable to place complete reliance on the new evidence provided by both Henn and Singh.
183. If it is proven that the invoices did not exist, it is highly likely that the purchases made under the Key Asic Questionable Transactions as well as the licensing income of US\$60,000 recorded in Thumbdrive Malaysia's books were also fictitious. That also meant that the invoices relating to the four Key Asic Questionable Transactions as well as the invoice issued by Thumbdrive Malaysia for the licensing fee charged to Key Asic must have been fabricated. If that were the case, then the sums of S\$523,600.00 and US\$18,387.00 paid by S-Com Singapore and Trek Singapore cannot be accounted for and may possibly have been misappropriated.

184. In addition, we understand from the Company that Trek Singapore had made claims under the PIC Scheme with respect to one of the four invoices under the Key Asic Questionable Transactions, namely invoice no. 11040007 dated 27 May 2011. The amount claimed was 60% of the amount paid under the invoice of US\$62,999.50, or US\$37,799.70. If the invoices are fictitious, it follows that a PIC claim in relation to a fictitious invoice is irregular or fraudulent. In addition, S-Com Singapore had also made certain deductions as allowable R&D expenses in its income tax returns. That also raises serious questions about the propriety or legitimacy of those deductions.

Financial Impact of the Transactions with Key Asic

185. If the Key Asic Questionable Transactions were proven to be fictitious, the financial impact of the Key Asic Questionable Transactions on the Group between FY2011 and FY2013 is as follows:

<b>Items</b>	<b>Overstated / (Understated) US\$</b>
Revenue	60,000.00
Expenses (exchange loss, realised)	3,104.60
Profit	56,895.40
Assets (intangible assets - R&D)	500,374.50
Assets (cash)	(443,479.10)
Equity (retained earnings)	56,895.40

**G. TRANSACTIONS WITH THE PARTY C ENTITIES**

Background Information

186. Party C1 was and still is a major supplier of the Group. During the course of the audit work undertaken by EY for the FY2015 financial statements, EY came across certain issues relating to the transactions with Party C1.

187. As stated in EY’s letter to the Company dated 1 June 2016, the issues stemmed from the audit confirmations sent to and responded by Party C1 with respect to the

balances between Trek Singapore and Party C1. The audit confirmations revealed huge discrepancies on the transactions and the records between the two entities.

188. EY subsequently performed verification of the items contained in the Statement of Account provided by Party C1 against Trek Singapore’s accounting records. EY found that the amounts for certain invoices stated in Trek Singapore’s accounting records were different from the amounts stated in Party C’s Statement of Account.
189. During the interview with Singh and Poo, EY was informed that some of the invoices issued by Party C1 had been digitally altered while there were others which had been fabricated for the purpose of making ‘*internal adjustments*’. These invoices were available in photocopied versions. Singh also represented to EY that notwithstanding the above, there were no overpayments to Party C1 as the payments made were processed based on the original invoices and Statements of Account provided by Party C1, and not the photocopied versions.
190. We have carried out a review of the transactions with Party C1 and Party C2 (“**Party C2**”) (collectively, “**the Party C Entities**”) from 2008 up to 2016. In carrying out the review, we have relied on the following:
- (i) The general ledgers of the Company, Trek Singapore, S-Com Singapore, and Trek Malaysia from 2008 to 2016;
  - (ii) Statements of Account issued by Party C1 for its transactions with Trek Singapore, S-Com Singapore, and Trek Malaysia<sup>31</sup>; and
  - (iii) Original copies of the invoices issued by Party C1 from November 2011 to December 2016 and photocopied versions obtained from the records seized by CAD which may not be complete.

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<sup>31</sup> We requested from the Company for Party C’s Statements of Account for (i) the period from 2008 to 2011 for Trek Singapore, and (ii) the period from 2008 to 2014 for S-Com Singapore, which we were unable to find from the Company’s records with CAD. However, the Company informed us on 23 March 2017 that Party C1 was unable to provide the same as Party C1 did not keep records for more than five years. The Company also confirmed that S-Com Singapore only started transacting with Party C1 in 2015. As such, the Statements of Account of Party C1, which are the only source for verification check, were only available from 2012 to 2016 (and some months in 2011).

### Types of Documents Alteration / Fabrication and Their Uses

191. There were four entities in the Group which had transactions with the Party C Entities, namely the Company, Trek Singapore, S-Com Singapore and Trek Malaysia.
192. Based on our review of the general ledgers and the available Party C's Statements of Account, transactions which were doubtful and questionable include those between:
- Trek Singapore and Party C1;
  - Trek Singapore and Party C2;
  - Trek Singapore and Party C3;
  - The Company and Party C2; and
  - Trek Malaysia and Party C1.
193. Based on our findings, there were five broad types of documents alteration / fabrication used by the Group to manipulate certain financials and accounting records as follows:
- (i) Alteration of Party C1 invoices to inflate the invoiced amount;
  - (ii) Alteration of Party C1 invoices to reduce the invoiced amount;
  - (iii) Fabrication of non-existent Party C1 invoices;
  - (iv) Fabrication of non-existent Party C1 credit notes; and
  - (v) Genuine Party C1 credit notes which were used to manipulate accounting records.

#### ***Alterations to Inflate Invoiced Amount***

194. The original Party C1 invoices were digitally altered such that they reflected a higher amount. At the same time, Trek Singapore would issue an invoice for licensing fees

- to Party C1 for the incremental amount. The higher cost following the alteration of the Party C invoice was effectively neutralised by the licensing income that Trek Singapore “billed” to Party C1.
195. Payments made to Party C1 were based on the net amount after the setoff of the inflated invoice (payable) and the licencing fees charged to Party C (receivable), which is effectively the original amount invoiced by Party C1.
196. As mentioned above, the purpose of inflating the Party C1 invoices was to reflect licensing fees which were purportedly chargeable to Party C1. During the interview, Henn informed that Party C1 was supposed to pay licensing fee to the Company under a cross licensing arrangement negotiated by him. During the earlier years and due to certain reasons, this was done by way of monthly purchase rebates given by Party C1 to the Company which were based on a certain agreed percentage. These rebates would be used by the Company to offset its purchases from Party C1.
197. Henn further elaborated that after a few years, Party C1 informed him that they had to put a stop to the rebates due to a change in its internal policy. Instead of issuing monthly rebates, Party C1 would factor the rebates into the prices it quoted to the Company for the Company’s purchases. The Company was told to make its own necessary internal arrangements to reflect the licensing income.
198. Singh’s explanation was consistent with Henn’s. Singh added that the licensing fee was applicable to the purchase of NAND flash memory products only. Singh informed us that at first, Party C1 would issue the rebates in the form of credit notes. Later, when Party C1 was unable to continue with the issuance of credit notes, a former employee in the purchasing department (employees in the purchasing department is also called a purchaser) by the name of Roger who was involved in the discussion with Party C1, started the 2% system whereby *‘original invoice would be photocopied and amended to reflect a 2% increase in the purchase price’*. The 2% increase was to enable the licensing income from Party C1 to be captured in the Company’s books. Singh was not personally involved in the discussion with Party C1 and only knew about the arrangement from Roger and Henn. After Roger left, Hengky who took over the role of a purchaser, continued with the practice.

199. Poo also mentioned that the purchaser at that time was Roger Chan but apparently it was Henn who informed Roger Chan that he had an agreement with Party C1 whereby the latter would give the Company a strategic price instead of paying licensing fees to the Company. Poo was certain that the practice of altering the Party C1 invoices started more than ten years ago.
200. According to the statements given by various individuals, the practice of altering the invoices, recording the amounts in the system to eventually making payment to Party C1 involved several teams / departments. In his Maxwellisation response, Henn informed that at the material time, he was not aware, neither had he participated in nor approved of the digital alterations or fabrications of invoices and credit notes, and there was no reason for him to suspect so.
201. Poo said that the process begins with the allocation of quantity and price quote by Party C1. Once the goods were delivered, Party C1 would issue an invoice which would be received by the purchaser. As delivery of stocks by Party C1 would usually take place during month-end, Poo would compute the 2% licensing fee in the following month by referring to the email from Party C1 on the allocation of quantity and price quote. He would provide the figures to Cynthia who would then assist him to raise an invoice on licensing fees to be charged to Party C1.
202. According to Singh, once the purchaser (previously Roger and later, Hengky) received an invoice from Party C1, the purchaser will compute the 2% increase on grossed up basis, digitally alter the invoices and record the inflated amount in the system. On his part, Singh would ask his staff to perform the necessary reconciliation of the inflated invoice and licensing fees charged to Party C1 at the end of the month to ensure that the payment to Party C1 was correct, i.e, the 2% increase in the invoice should be setoff against the 2% licensing fees so that the payment will always be based on the amount stated on the original invoice.
203. According to Singh, since this practice has been established for a long time, the entire process was capable of running on its own and each individual involved knew their respective roles and what to do. Hence, no specific instructions were required to be given. This somewhat contradicted Hengky's position that he received instructions

from Poo or Singh who would provide him with the details of the invoice and amounts to alter.

204. In contrast to the explanation that the Party C1 invoices were inflated based on a fixed percentage of 2%, our review showed that the percentage ranged between 1.75% and 5.00%. There was also an instance where the percentage was a staggering 44.55%. In total, we found 141 Party C1 invoices to Trek Singapore which had been inflated between 2011 and 2015 and the total amount which had been inflated was US\$5,471,164.80 (before GST) as follows:

In US\$ Year	No. of Invoice	After GST			Before GST		
		Inflated Invoice	Actual Invoice	Inflated Amount	Inflated Invoice	Actual Invoice	Inflated Amount
2011	19	11,995,057.27	11,742,501.09	252,556.18	11,210,333.90	10,974,300.08	236,033.81
2012	12	8,453,031.46	8,286,627.79	166,403.67	7,900,029.40	7,744,511.95	155,517.45
2013	13	10,120,778.45	9,921,544.62	199,233.83	9,458,671.45	9,272,471.61	186,199.84
2014	44	68,871,726.54	67,477,517.93	1,394,208.61	64,366,099.57	63,063,100.87	1,302,998.70
2015	53	103,057,308.67	99,215,564.62	3,841,744.05	96,315,241.75	92,724,826.75	3,590,415.00
Total	141	202,497,902.39	196,643,756.05	5,854,146.34	189,250,376.07	183,779,211.26	5,471,164.80

205. We should highlight that the 141 altered invoices were identified based on our verification against the Statements of Account of Party C1 which were only available for certain months in 2011 and the full period from 2012 to 2016. As mentioned in Paragraph 190 above, the statements for the earlier periods were not available for review. Without those statements, it would not be possible to determine if other invoices had been altered. Nevertheless, in view of the evidence from various individuals that the practice of inflating/altering Party C1 invoices was long-standing and systemic, we cannot discount the possibility that there would be more Party C1 invoices which had been inflated/alterred.

***Alterations to Reduce Invoiced Amount***

206. The Company also digitally altered certain invoices to reduce the amount stated on the original Party C1 invoices. The purpose of this practice was to transfer some of the cost of purchase to other expense items such as R&D Consumables and Advertising/Brochures in the books. The Company would then fabricate (non-existent)

Party C1 invoices to create R&D Consumables and Advertising/Brochures expenses for the amount which had been reduced above.

207. The alteration to reduce the Party C1 invoices was always done in tandem with the fabrication of the Party C1 invoices as the reduced and fabricated invoices would be used together to manipulate the accounts (which will be elaborated below).
208. Based on our review, we found 19 Party C1 invoices which had been altered to reduce the invoiced amounts in 2011, 2015 and 2016. The total reduction was US\$2,936,560.62 (before GST). Please refer to the table below:

In US\$ Year	No. of Invoice	After GST			Before GST		
		Reduced Invoice	Actual Invoice	Reduction Amount	Reduced Invoice	Actual Invoice	Reduction Amount
2011	2	56,394.22	122,589.35	(66,195.13)	52,704.88	114,569.49	(61,864.61)
2015	9	24,812,266.08	27,559,507.70	(2,747,241.62)	23,189,033.72	25,756,549.25	(2,567,515.53)
2016	8	14,597,844.91	14,926,528.02	(328,683.11)	13,642,845.71	13,950,026.19	(307,180.48)
Total	19	39,466,505.21	42,608,625.07	(3,142,119.86)	36,884,584.31	39,821,144.93	(2,936,560.62)

209. Similarly, we should highlight that the 19 altered invoices were identified based on our verification against the Statements of Account of Party C1, without which, it would not be possible for us to determine if the invoices had been altered. As mentioned in Paragraph 190 above, the statements for the earlier periods prior to 2012 were not available for review. We cannot discount the fact that there may be more Party C1 invoices altered before 2012.

***Fabrication of Party C1 Invoices***

210. As mentioned above, the Company had fabricated a number of (non-existent) Party C1 invoices which were used in tandem with the Party C1 invoices which have been altered to reflect reduced amounts.
211. These invoices were not listed in the Statements of Account of Party C1. Further, Singh and Hengky have confirmed that the invoices were fabricated and not genuine. The invoices were fabricated for the following expenses:

<b>Purpose (as stated on the fabricated invoices)</b>	<b>Recording in books</b>
Engineering fabrication process works incurred to bring product to production stage	Expense item - R&D Consumables
NRE Cost	Expense item - R&D Consumables
Marketing activities for FLASH AIR	Expense item - Advertising / Brochure

212. According to Henn, Party C1 had performed certain fabrication or engineering work on the products before they were sold to the Company. However, instead of billing the Company separately for the products and the additional work performed, Party C1 would consolidate the total cost and bill them as one cost item to the Company. Henn’s view was that these costs should be identified and classified separately. As such, he instructed Singh to do so. Both Henn and Singh informed us that Party C1 would usually provide the Company with the fabrication cost and Singh would obtain the same from Henn. Singh would then instruct Hengky to create the non-existent Party C1 invoices.
213. Henn informed us that there were also collaborative works which were done with Party C1 for which Party C1 would charge to the Company by adjusting upwards the selling price of the goods ordered by Trek Singapore. The Company would also, at times, ride on Party C1’s marketing efforts and exhibitions, which Party C1 would charge back by factoring the expenses incurred in the price of the goods sold to Trek Singapore.
214. Based on Henn’s explanation above, the original invoices from Party C1 have reflected higher prices / amounts. As Henn wanted these costs to be identified and separated, Singh came up with the method of doing so by excluding the portion of the non-product related costs from the Party C1 original invoices via digital alteration (which had the effect of reducing the amount on the invoice), and thereafter creating non-existent Party C1 invoices for these non-product related costs. The amount reduced on the original invoice is effectively transferred to the fabricated invoices. The non-product related costs were then recorded as a separate expense item which appear below the gross profit line.

215. To add to the complication, the Company would also include the 2% licensing fee in arriving at the final amount to be altered on the invoice. The outcome is an invoice which has been altered to take into consideration the 2% licensing fee (upward adjustments) and transfer of non-product related costs (downward adjustments) to a separate fabricated invoice.

216. Based on our review, we found a total of 18 Party C1 invoices which were fabricated in 2015 and 2016 totalling US\$3,262,026.20 (before GST). Please refer to the table below:

<b>In US\$</b>	<b>No. of Invoice</b>	<b>After GST</b>	<b>Before GST</b>
<b><i>R&amp;D Consumables</i></b>			
2015	9	1,977,404.09	1,848,041.21
2016	2	603,463.94	563,984.99
	11	2,580,868.03	2,412,026.20
<b><i>Advertising / Brochure</i></b>			
2015	4	321,000.00	300,000.00
2016	1	53,500.00	50,000.00
	5	374,500.00	350,000.00
<b><i>Intangible asset - R&amp;D</i></b>			
2015	2	535,000.00	500,000.00
	2	535,000.00	500,000.00
<b>Grand total</b>	<b>18</b>	<b>3,490,368.03</b>	<b>3,262,026.20</b>

217. As mentioned earlier, the Statements of Account of Party C1, which are the only source for verification check, were only available from 2012 to 2016 (and some months in 2011). Furthermore, the Company informed that it had incinerated all the records prior to 2011. As such, it is possible that there may be more fabricated Party C1 invoices apart from the 18 identified above.

218. Putting aside the obvious fact that there can be no justification for fabricating sham documents, we should further highlight here that some of the explanations given by Henn and Singh on the purpose of the fabricated invoices appear contradictory. While Henn mentioned that Party C1 had incurred certain expenses which it had charged to the Company through the higher pricing for the goods that the Company purchased

from Party C1, Singh’s version was that the Company had incurred marketing expenses on behalf of Party C1 instead. In addition, Singh also informed that the Company had ‘collaborated with Party C1 on certain projects which enabled the Company to save on R&D expenses’ and the Party C1 invoices were fabricated to reflect those cost savings<sup>32,33</sup>. We could not accept either person’s explanation, various parts of which were illogical.

**Fabrication of Party C1 Credit Notes**

- 219. We found instances where the fabricated Party C1 invoices were not used together with the altered reduced Party C1 invoices, but were instead used together with fabricated Party C credit notes.
- 220. Based on the documents reviewed, we found two fabricated credit notes with the same number totalling US\$1,274,000 (before GST) issued in 2015 as follows:

Date	Credit Note No.	Reference No. (in accounting records)	Description	Amount	7% GST	Total Amount
				US\$	US\$	US\$
31-Jul-15	CPC0006154	SCRN 201507002	Being lump sum credit support	856,000.00	59,920.00	915,920.00
31-Aug-15	CPC0006154	SCRN 201508003	Being lump sum credit support	418,000.00	29,260.00	447,260.00
				<b>1,274,000.00</b>	<b>89,180.00</b>	<b>1,363,180.00</b>

- 221. There may be more fabricated credit notes which could have been issued prior to 2012 but we were not able to identify for the reasons stated in Paragraph 217 above.
- 222. Singh admitted to EY that the credit notes above were ‘internal documents’ generated by Trek Singapore. During the interview, Singh informed us that the purpose of these fabricated credit notes was the same as the altered reduced Party C1 invoices, i.e. to

<sup>32</sup> During the Maxwellisation Process, Singh denied that Henn and his explanations were contradictory. He stated that Henn informed him that Party C1 would factor in the expenses for carrying out fabrication work, marketing and R&D work into the price of its goods. In Henn’s views, Singh explained that this represented notional cost savings and he wanted these expenses to be reflected in the accounts which formed the basis for the arrangement in respect of the invoices.

<sup>33</sup> In his Maxwellisation response, Henn informed that he was given to understand that the digital alterations and fabrications of the invoices and credit notes were meant solely to reflect the licensing income earned pursuant to the cross-licensing arrangement and to itemise the invoices, and was done in accordance with the true state of affairs. Henn is also given to understand that there was no intentional inflation of figures, and overall, the bottom-line, i.e. the net profits of the Company would not be affected.

transfer some of the cost of purchase which is not related to the cost of the product, to other expense items. These expense items appear below the gross profit line.

223. Specifically, the fabricated credit notes were used to reduce the purchases from Party C1. At the same time, Party C1 invoices were fabricated for the following expenses for the same total amount as the credit notes:

<b>Purpose (as stated on the fabricated invoices)</b>	<b>Recording in books</b>
Engineering fabrication process works incurred to bring product to production stage	Expense item - R&D Consumables
NRE Cost	Expense item - R&D Consumables
Marketing activities for FLASH AIR	Expense item - Advertising / Brochure
Medical Technology: Predictive Analysis Project	Intangible asset - R&D

***Manipulation of Accounting Records Using Genuine Credit Notes***

*(a) Genuine credit notes used to increase licencing income*

224. We found that certain Party C1 credit notes issued between 2013 and 2016 were recorded as licencing income. Typically, a credit note has the effect of decreasing purchases and should rightfully be recorded in the books as a reduction of purchases. However, in this instance, the credit notes were recorded as licencing income for Trek Singapore.

225. Whilst the credit notes were not available for review, we have verified the credit note reference numbers and amounts that appeared in the general ledgers against the Statement of Account provided by Party C1 and established that the credit notes were genuine.

226. Based on our review of the accounting entries in the general ledgers, there were 31 genuine credit notes issued by Party C1 which were used to increase the licencing income of Trek Singapore between 2013 and 2016 as follows:

In US\$ Year	No. of Invoice	Genuine Party C1 Credit Notes	
		After GST	Before GST
2013	4	979,325.93	915,257.88
2014	12	617,235.74	576,855.83
2015	12	273,402.30	255,516.17
2016	2	59,015.85	55,155.00
Total	<b>30</b>	<b>1,928,979.82</b>	<b>1,802,784.88</b>

227. We note that the GST portion of the credit notes were correctly recorded as a reduction of GST input tax and only the amounts without GST were recorded as licencing income. Hence, no impact on GST was created as a result of the manipulation.
228. As mentioned previously, Singh informed us that in the past, Party C1 used to issue the rebates for the licensing fees in the form of credit notes. Subsequently, Party C1 ceased the issuance of credit notes and the Company started the practice of altering the Party C1 invoices in order to continue capturing the licensing income from Party C1. Singh confirmed that the accounting entries relating to the Party C1 credit notes above were with respect to Party C1’s previous practice of issuing credit notes for the rebates for licensing fees.
229. The veracity of Singh’s explanation is doubtful. As we have highlighted above, the alteration of Party C1’s invoices started as early as 2011. This is based on our verification of the Statements of Account of Party C1 which were only available from 2011 onwards. Therefore, it is possible that the practice of altering the invoices could have started even earlier than that. Poo mentioned that this practice started more than ten years ago<sup>34</sup>.
230. This is where Singh’s explanation in Paragraph 228 above contradicts with the explanation of the origin of the alteration<sup>28</sup>. If the reason for altering the invoices was because Party C1 could no longer issue rebates via credit notes for the licensing fees as explained by Henn, Singh and Poo, then the credit notes, which were issued from

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<sup>34</sup> In his Maxwellisation response, Singh denied that there was contradiction between his explanation and the matters stated.

2013 to 2016, were unlikely to be for licensing fees. However, if the credit notes above were issued for the licensing fees, then there was no reason for the Company to alter the Party C1 invoices in order to capture the licencing fees.

*(b) Genuine credit notes used to reduce receivables*

231. In addition to the above, two genuine Party C1 credit notes were used to reduce both payables and receivables. As mentioned earlier, a credit note from a supplier is typically used to reduce both payables and purchases.

232. The details of the two genuine credit notes are as follows:

Date	Credit Note No.	GL Voucher No. (in accounting records)	Amount	7% GST	Total Amount
			US\$	US\$	US\$
22-Nov-13	CPC0004254	201311300024	150,322.69	10,522.59	160,845.28
14-Jan-14	CPC0004343	201401310005	105,360.55	-	105,360.55
			<b>255,683.24</b>	<b>10,522.59</b>	<b>266,205.83</b>

233. The accounting entries which were put through to record the credit note of US\$150,322.09 (before GST) are as follows:

*DR Trade payable – Party C1*  
*CR Trade receivable – Party C2*

The credit note was used to partially offset against Trek Singapore’s trade receivables from Party C2 which arose from the licensing fees purportedly charged by Trek Singapore. The credit entry was recorded in the receivable account, thereby reducing the licensing fee receivable from Party C2<sup>35</sup>. This arrangement did not make accounting sense and is highly suspicious.

<sup>35</sup> Typically when a credit note is received from a supplier, the accounting entries to be recorded would be a debit to (thereby reducing) the payable account and a credit to (thereby reducing) the purchases / expenses account. However, in this case, the credit entry was recorded in the receivable account instead of the purchases / expenses account.

234. The accounting entries which were put through to record the other credit note of US\$105,360.55 are as follows:

*DR Trade payable – Party C1*  
*CR Other debtors – others*

The credit note was used to partially offset against Trek Singapore’s other receivables which was transferred from the Company. The other receivables arose from the licensing fees purportedly charged by the Company to Party C2. Similar to the above, the credit entry was recorded in the other receivable account thereby reducing the receivables from Party C2<sup>36</sup>. Again, this arrangement did not make accounting sense and is highly suspicious.

235. Based on our findings, these credit notes appear to have been used to eliminate the receivables arising from licensing fees charged to Party C2, which was highly questionable. We will elaborate further on this below.

Fabrication of Licensing Income

236. As a general observation, we note that during the earlier years from 2008 to 2012, the licencing fees were mainly charged by the Company to Party C2 and these would be setoff against the purchases of Trek Malaysia. From 2012 onwards (with the exception of one transaction in 2010), the licensing fees were mainly charged by Trek Singapore to Party C1 and Party C2.

237. Overall, the receivables arising from the licensing fees were setoff against the payables arising from the purchases made by Trek Singapore and Trek Malaysia from Party C1 and Party C3, as well as setoff against other unrelated creditors.

238. Based on the statements given by Henn, Singh and Poo, the issues relating to the documentation of the transactions with the Party C Entities originated from the “refusal” of the Party C Entities to recognise the licensing fees that they ought to be paying to

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<sup>36</sup> See Note 35 above.

the Company. This “refusal” was based solely on the communication between Henn and Party C, of which the information was then passed down by Henn to Singh and Poo. The alterations of documents and manipulation of accounting entries were premised upon and were the direct result of this communication between Henn and Party C. There was nothing official or in writing to support the claim that the Party C Entities did not wish to recognise the licensing fees or the Company’s assumption that Party Chad factored in the effect of the licensing fees in the pricing given by Party C.

239. Further, we have sighted a Purchase and Sales Agreement signed on 5 January 2006 between the Company and Party C2 which was supposed to be in force for a period of 10 years unless terminated by either party. The Purchase and Sales Agreement made reference to a Patent License Agreement entered into between the parties which was also signed on the same day. We have not seen the signed copy of the said Patent License Agreement but have sighted a draft copy dated 2 December 2005. Based on the agreements above, it would appear that the Group was not entitled to charge any licensing fees to the Party C Entities.
240. In the absence of any evidence that the Party C Entities did in fact agree to pay the licensing fees, it is reasonable to believe, and we have taken the view, that all the licensing income purportedly earned from the Party C Entities was questionable. This is further supported by the fact that most of the licensing fees purportedly charged to the Party C Entities were settled via contra and setoffs against the altered and fabricated Party C1 documents.
241. As documents available for review were not complete, we have relied on the general ledgers of the 12 entities of the Group listed in the table under Paragraph 15 above to carry out our review and analysis. Our review confirmed that only the Company, Trek Singapore and Thumbdrive Malaysia had recorded licensing income from the Party C Entities from 2008 to 2016 which amounted to US\$9,503,655.85.
242. An in-depth review of the general ledgers and accounting entries of these three entities were undertaken to understand and establish how these licensing fees purportedly charged to the Party C Entities were settled. Since it was represented that part of the reason for the alteration of the Party C1 documents was to capture licensing income, a review on the ways the licensing fees were settled would provide

further indications, in addition to our observations on the Purchase and Sales Agreement and the draft Patent License Agreement above, on whether the licensing fees were genuine.

243. Based on our review, out of the total licencing income recorded of US\$9,503,655.85, there were payments purportedly made by the Party C Entities totalling US\$1,342,625.23 which appear to be directly attributed to the licencing fees. However, upon further verification against the bank statements and other records of the Company which were available, we noted that the actual payments received from the Party C Entities were only US\$475,000.00. As mentioned earlier, documents sighted indicated that the Group was not entitled to charge any licensing fees to the Party C Entities and there was no concrete evidence to suggest otherwise. Hence, the payments received from Party C2 and Party C1 could be for other purposes and not for licensing income.

244. Apart from the payments received above, the remaining balance of the licensing income totalling US\$8,160,395.95 was settled by other means, including:

- (i) Setoff against payables due to the Party C Entities;
- (ii) The licensing income was recorded using genuine credit notes issued by Party C1;
- (iii) The genuine credit notes issued by Party C1 were used to setoff the receivables arising from the licensing income;
- (iv) Setoff against payables due to other creditors; and
- (v) Amount was provided as doubtful debts.

245. Based on our review above, we believe that the licensing income totalling US\$9,503,655.85 recorded by the Company, Trek Singapore and Thumbdrive Malaysia between 2008 and 2016 were highly questionable and at best, without proper basis or justification.

246. We should also highlight that invoices for the licensing fees charged to the Party C Entities were prepared by the respective entities but were never sent to the Party C Entities as confirmed by Henn and Singh. This is another instance where documents were created or fabricated to facilitate the manipulation of accounting entries which would give a misleading view on the financial statements of the Group.

Classification of Purchases Using Fabricated Invoices

247. This relates to the fabrication of Party C1 Invoices as explained in Paragraphs 210 to 218 above. In essence, Henn explained that certain purchase costs for the products from Party C1 included other costs for add-on works such as engineering / fabrication works or marketing costs which were not related to the cost of the product itself, and he had instructed for these costs and the recording of these costs to be separated.

248. In order to do that, Singh gave instructions for the genuine Party C invoices to be digitally altered to exclude the purported “non-product related costs” and for (non-existent) Party C1 invoices to be fabricated to reflect the purported “non-product related costs” which had been taken out from the genuine invoices. We reproduce below the table showing those fabricated invoices issued in 2015 and 2016 which were recorded as separate expense items namely under the R&D Consumables and Advertising / Brochure account codes:

In US\$	No. of Invoice	After GST	Before GST
<b>R&amp;D Consumables</b>			
2015	9	1,977,404.09	1,848,041.21
2016	2	603,463.94	563,984.99
	11	2,580,868.03	2,412,026.20
<b>Advertising / Brochure</b>			
2015	4	321,000.00	300,000.00
2016	1	53,500.00	50,000.00
	5	374,500.00	350,000.00
<b>Grand total</b>	<b>16</b>	<b>2,955,368.03</b>	<b>2,762,026.20</b>

249. As for the basis or justification for these costs to be separated from the total purchase costs, Henn and Singh informed us that Party C1 would usually provide the Company

with the fabrication cost and Singh would obtain the figure from Henn and then instruct Hengky to create the non-existent Party C1 invoices. Again, similar to the licensing income issue, the fabrication of the invoices was premised solely upon Henn's purported communications with Party C1. We have not sighted or been provided with any documentary evidence to support this communication.

250. The effect of the above was the reclassification of purchase cost of US\$2,762,026.20, which is a component of the costs of sales (above the gross profit line), to an expense item which appear below the gross profit line. Whilst there was no impact on the net profit, it would have resulted in the gross margins appearing better than they actually were.
251. Our view is that, as there was no documentary evidence to support the claim that the purchase costs included other costs (and their quantum), the Company should not have undertaken the re-allocation of expenses. Even if there were documentary evidence to support the re-allocation of expenses, the Company should not have resorted to fabricating documents.
252. Since the issue arose during the FY2015 audit, the Company had put in certain reversal entries to reclassify the cost of US\$350,000.00 from Advertising / Brochure to Purchases, while the cost of US\$2,412,026.20 was reclassified from R&D Consumables to Masking Charges / Rework Charges. Although the Masking Charges / Rework Charges expense is a line item under the Costs of Sales and therefore the reclassification would result in the correct gross profit being reflected, our view is that it should have been reclassified to Purchases (also a line item under Costs of Sales) on the basis that it was a purchase cost and there was no evidence proving otherwise.

### Fabrication of Intangible Assets Using Fabricated Invoices

253. In addition to using the fabricated invoices to transfer the purchase costs to other expense items as described in Paragraphs 247 to 252 above, the fabricated invoices were also used to transfer some of the purchase costs to intangible assets in 2015, as follows:

In US\$	No. of Invoice	After GST	Before GST
<i>Intangible asset - R&amp;D</i> 2015	2	535,000.00	500,000.00
	<b>2</b>	<b>535,000.00</b>	<b>500,000.00</b>

- 254. The circumstances in which the transfer of US\$500,000 from the purchase cost to intangible assets was undertaken were the same as mentioned in Paragraph 249 above, that it premised solely on Henn’s representation of his communications with Party C1.
- 255. The transfer above would have effectively reduced the Company’s purchases by US\$500,000 and increased its intangible assets by the same amount, thereby overstating its net profit and asset position by US\$500,000 in 2015.
- 256. However, as the issue came to light during the FY2015 audit, the Company had performed reversal entries to reclassify the US\$500,000 cost from intangible assets to purchases to rectify the issue.

Issue Relating to GST

- 257. The alteration of the Party C1 invoices described under Paragraphs 194 to 209 above would cause the overstatement of the GST input tax and GST output tax by the same amount. Hence, it has no impact on the net GST position as the overstatement of GST input tax would be netted off completely against the overstatement of the GST output tax.
- 258. After further review of the general ledgers, we found that the above holds true only for the licensing fees charged to Party C1 as it was a local company. However, in the case of Party C2, as it was a foreign company, the licensing fees recorded had no GST output tax component attached to the same. In that case, the relevant entities would have overstated the GST input tax (due to inflated purchase invoices) without a corresponding GST output tax to net off the position which would result in the overclaim of GST. Three entities had billed Party C2 for licensing fees: the Company, Trek Singapore and Thumbdrive Malaysia.

- 259. However, the GST overclaiming situation is only applicable to the Company and Trek Singapore. In the case of Thumbdrive Malaysia, although it is a GST-registered company<sup>37</sup>, the licensing fees billed to Party C2 of US\$100,000 was partially setoff against the amount owing to a third party creditor which also did not have a GST component. As such, there was no GST input tax and output tax claimed.
  
- 260. As stated above, we believe that the licensing income was highly questionable. The licensing fees which were charged to Party C2 would give rise to GST overclaiming as the increase in input tax from the inflated purchases were not net off against the output tax, as the billing to Party C2 was at zero-rated GST.
  
- 261. For the questionable licensing income which was settled by contras / setoffs, some of these contras and setoffs do not give rise to the overclaim issue and as such have been excluded from the calculation of the impact on GST.
  
- 262. Based on the above, we computed that the Company had overclaimed GST by US\$110,547.71 from 2008 to 2012 and Trek Singapore had overclaimed GST by US\$6,323.13 in 2013, as follows:

In US\$	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	Total
<u>Overclaim of GST</u>							
- the Company	51,677.26	30,083.59	6,291.60	1,541.44	20,953.82		<b>110,547.71</b>
- Trek Singapore						6,323.13	<b>6,323.13</b>
	<b>51,677.26</b>	<b>30,083.59</b>	<b>6,291.60</b>	<b>1,541.44</b>	<b>20,953.82</b>	<b>6,323.13</b>	<b>116,870.83</b>

- 263. In total, the Group had overclaimed GST totalling US\$116,870.83, due to the inflated Party C1 purchase invoices which were not setoff against the corresponding GST output tax as the licensing income were billed to Party C2, a foreign company<sup>38</sup>.

<sup>37</sup> According to a search conducted on the Register of GST-registered Businesses maintained by IRAS, Thumbdrive Malaysia was GST-registered from 5 July 2010 up to 1 January 2014. The licensing fees it charged to Party C2 was on 19 June 2013.

<sup>38</sup> During the Maxwellisation Process, Henn informed that he was given to understand that sometime in or around 2015 / 2016, the Company’s auditor, EY, brought in tax experts to evaluate the potential impact on the tax returns filed by the Company with regard to the transactions with the Party C Entities. EY did not raise any issue on this

264. We also raised the question on whether Trek Singapore also claimed for additional deductions for the fabricated R&D Consumables expenses of US\$2,412,026.20 (before GST) and the purported R&D expenses recorded in the Intangible Asset – R&D of US\$500,000.00 (before GST), in its income tax returns. The Company informed us on 27 February 2018 that these transactions had been reversed before the submission of tax returns and as such, no additional deductions were claimed.

### Financial Impact of the Transactions with Party C Entities

265. The issues relating to the transactions with Party C Entities ultimately led to the recognition of licensing income and intangible assets which appear to be highly questionable or at best, without proper basis and justification, as well as the improper recording of the costs and expenses.

266. As mentioned before, we have undertaken a detailed review of the general ledgers of the entities and were able to determine the accounting entries which were entered to give rise to the licensing income, intangible assets, purchases, expenses and other account codes which were affected by the transactions with the Party C Entities.

267. Based on the various conclusions stated above, the financial impact of the transactions with the Party C Entities between 2008 and 2016 on an overall basis after taking into consideration the adjustments already made by the Company in 2016 for the financial statements for FY2013, FY2014 and FY2015, is as follows:

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matter. In light of this, we requested for a copy of the tax evaluation mentioned by Henn. However, the documents provided were in fact Trek Singapore's income tax computation for the Years of Assessment 2013, 2014, 2015 and 2017, which do not relate to the GST issue above.

Items	Overstated / (Understated) US\$
Licensing income	2,989,183.84
Other income	17,836.73
Purchases	(835,792.18)
Masking / Rework Charges	2,412,026.19
Provision for doubtful debts	25,000.00
Exchange differences	1,294.32
Net Profit	1,404,492.24
Payable - White & Case LLP	(61,867.01)
Payable - Other Creditors	(1,342,625.23)
Equity (retained earnings)	1,404,492.24

268. We wish to highlight that a small portion of the licensing income were setoff against the amounts due to two creditors of the Group. We have not reviewed in detail the transactions between the Group and the said creditors and we are not aware of any reasons why the seemingly unrelated debts could be setoff against each other.

## H. FLUCARD PATENTS REGISTERED UNDER T-DATA

### Background Information

269. In our IPT Inquiry Report, we highlighted that the Company had entered into an Agency agreement with T-Data dated 1 January 2009 which were subsequently superseded by the Licensing agreement between the Company and T-Data dated 1 March 2015 (but taking effect from 4 September 2008) and Agency agreement between Trek Singapore and T-Data dated 1 March 2015 (collectively the "**Agreements**").
270. To recap, the explanation provided by Henn during the IPT Inquiry with respect to the use and ownership of the patents registered under T-Data based on the terms and intention under the Agreements are as follows:
- (i) T-Data was the owner and/or authorised licensor of all patents, know-how and technology relating to the FluCard and the FluCard Pro;

- (ii) Wayne was the person who conceptualized the FluCard and therefore, the FluCard should not be registered as a patent in the Company's name. When Henn was asked why he did not request for the patents to be registered under one of the Company's subsidiaries, Henn explained that this was due to a cross-licensing arrangement the Company had with certain business partners. We have sighted an announcement made by the Company dated 5 January 2006 that refers to its cross-licensing arrangement with Party C, whereby the Company and Party C would "*cross license each other's patents for controller technology*" as part of "*strengthening their business relationship*". Registering it under one of the Company's subsidiaries would give such business partners the rights to use under such cross-licensing arrangements. Based on our searches, we note that Wayne is listed as inventor for a majority of the patents owned by T-Data (relating to FluCard and FluCard Pro) under the 2015 Licensing Agreement;
  - (iii) in consideration for T-Data granting the Company a non-exclusive license to use the relevant patents, know-how and technology to manufacture, use and sell the FluCard and FluCard Pro in all countries in the world, the Company agreed to pay all the registration and renewal fees for T-Data's patents relating to the FluCard and the FluCard Pro; and
  - (iv) T-Data was authorised to sell the Group's products and solutions to customers, including the FluCard and FluCard Pro. However, the Group reserved the right to sell the products and solutions directly or indirectly under its own brand and to work with other parties.
271. Arising from the Agreements above, based on our review during the IPT Inquiry for the period up to 2015, the Company had made payments for the patent prosecution, registration and renewal fees in relation to the 19 patents registered under T-Data totalling US\$1,605,790.12 from 2009 up to 2015.
272. We examine below the issues relating to the ownership of the 19 patents relating to FluCard.

### Creation and Ownership of the Patents

273. The FluCard product was officially launched by the Company in January 2010.
274. Wayne informed us that the FluCard was an idea he conceptualised when he was still studying, as a result of an incident where a camera was misplaced and all the photos taken were lost. The loss of data could have been avoided if he was able to transfer the data to any device at that time. He shared this idea with his father, Henn and the latter suggested that the idea be filed under Wayne's name.
275. While the idea could have originated from Wayne, we note from various sources that the engineering and development work were carried out entirely by the R&D team in the Company:
- (i) Wayne admitted that he only had a broad idea of the FluCard and that it was supposed to be an SD card embedded with a WiFi chip to allow the wireless transfer of files. He was not aware and has no knowledge on the mechanics, engineering details or how the process would work to achieve the capability. He also did not have full knowledge of what went on during the development stage and had only participated or contributed some ideas whenever he was asked. The engineering team took care of the development of the idea, and the application and filing of the patents were carried out by the Company;
  - (ii) Both Poo and Dr Paul told us that the engineering team in the Company developed the FluCard '*from scratch*' and '*from ground*'. Poo also said that it was through a team brainstorming session which included Henn's participation that Trek first came up with the product. However, he did not rule out that Henn could have gotten his idea from Wayne. As far as Poo was aware of, neither T-Data employees nor Wayne were involved in the development stage or in the R&D of the FluCard product. However, after the product was completed, Wayne did participate in discussions as he was involved in the sales of the product through Cloud Stringers;

- (iii) We have seen certain timesheets of various Group employees, which may not be complete, showing a total of 5,509 manhours spent on FluCard between October 2008 to December 2011;
- (iv) The financial statements of T-Data did not record any R&D expenses incurred or capitalised as assets up until 2014. As mentioned earlier, the FluCard was launched in January 2010 and the development of the product would have taken place a few years earlier. In addition, as highlighted in Paragraph 24 above, the financial statements of T-Data also revealed that it had very low staff costs at least until 2013. Therefore, it is reasonable to conclude that T-Data was never involved in the development the FluCard;
- (v) In the Company's announcement made on 20 January 2010 to publicise the launching of FluCard, the Company referred to it as its invention. In a letter dated 3 March 2010 addressed to the Japanese Embassy in Singapore for the launch event invitation, the Company wrote that the FluCard was '*created by our research and development team*'. In other announcements dated 10 February 2014 and 28 October 2014, the Company stated that it was the '*inventor and patent owner*' of FluCard. Even on its website, the Company prided itself as the '*innovator, original inventor and patent owner of the...FluCard*'<sup>39</sup>.

276. Given our findings above, our view is that the 19 patents should be registered under the Company as the patent owner. There had been no contribution from T-Data for it to be entitled to be the patent owner, especially since FluCard is an important product of the Group.

277. As to why the 19 patents were registered under T-Data, Henn informed that he had advised Wayne to do so as Wayne would not benefit from it if the patents were registered under the Company, given that it was his idea. Henn also did not wish to hijack Wayne's idea as it would be unethical. As such, Henn suggested to Wayne to

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<sup>39</sup> During the Maxwellisation Process, Singh responded that the Company had been paying registration and renewal fees in respect of the FluCard patent and that the Company had also invested a significant amount of time and money in R&D for the FluCard patent. On this basis, the Company deemed itself as the inventor and patent owner of FluCard. Singh's comment appear to be consistent with our position that the 19 patents should have been registered under the Company as the patent owner, and not T-Data.

consider registering them under T-Data and to consult Loo on whether it could be done.

278. When asked if he knew the reasons for the patents to be registered under T-Data, Wayne initially said that he did not know during the interview. However, he later amended the minutes of the interview and stated instead that he had sought consent from Loo to register it under T-Data. Both Loo and Poo denied that Wayne had ever spoken to them to seek consent for the registration.
279. If Henn's intention was to protect Wayne's interest in the patents, we fail to see how that could be achieved by registering the patents under T-Data instead of the Company. T-Data was not owned by Wayne or Henn when the registrations were made. T-Data only came to be owned by Wayne (80%) for only a short period of time from 18 September 2012 to 26 March 2014, way after the initial registration of the patents. From 26 March 2014 up to present, T-Data was and is owned by other individuals related to Henn and Wayne but not themselves. Unless Henn has control over T-Data and the shares in T-Data were and are held by those individuals on trust on behalf of Henn and Wayne, which Henn has denied, Wayne's interest in the patents registered under T-Data would never be protected any more than it would have been if they were registered under the Company.
280. Henn also provided another explanation during the IPT Inquiry, in response to the question on why the patents were not registered under one of the Company's subsidiaries. He explained then that it was due to the cross-licensing arrangement the Company had with Party C, the effect of which would give the latter the rights to use the FluCard patents. This explanation appears to contradict the Company's announcement made on 20 January 2010 on the launch of FluCard. In the said announcement, as highlighted earlier, the Company had called FluCard its invention. In addition, the Company announced that Party C had given its commitment and support on the product through several initiatives from Party C as well as a joint product launch in Japan scheduled for February 2010. Given the close working relationship portrayed and the highly publicised news that the Company is the inventor and patent owner of FluCard, it is difficult to fathom that the Company would be able

to escape the effect of the cross-licencing arrangement with Party C by registering the 19 patents under T-Data<sup>40</sup>.

281. Based on the above, we believe that the 19 patents registered under T-Data should rightfully belong to the Group.

Assignment of the Patents

282. Out of the 19 patents registered under T-Data, the Company subsequently obtained the assignment of T-Data’s rights, title and interest in 14 patents to Trek Singapore via three Patent Assignment Agreements in 2016 and 2017, as follows:

<b>Date of Agreement</b>	<b>Assignor</b>	<b>Assignee</b>	<b>Consideration</b>	<b>No. of Patents Assigned</b>
15-Feb-16	T-Data	Trek Singapore	S\$1.00	1
15-Feb-16	T-Data	Trek Singapore	S\$1.00	1
27-Nov-17	T-Data	Trek Singapore	US\$1.00	12

283. The remaining five patents were not assigned as the registrations were abandoned either due to objections raised by various patent offices or decision by the Company not to proceed with the filing of the registration.

284. Based on our review of the schedules contained in the Patent Assignment Agreements which provided the listings of the patent registration numbers in various countries under the assignment, verified against the patent registration / renewal invoices we have sighted, we note that a number of patent registrations had not been

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<sup>40</sup> During the Maxwellisation Process, Henn’s position is that the publications by the Company relating to the FluCard are irrelevant to the legal issue on whether the Company would be able to escape the effect of the cross-licencing arrangement with Party C. This cross-licencing arrangement with Party C will therefore constitute a justifiable reason for the patents to be registered under T-Data if registration of the patents under T-Data would not contravene Trek’s cross licensing agreement with Party C. Henn’s view is that the comments made above are inappropriate, speculative and unfair. We do not agree with his view.

In addition, Henn emphasised he had consistently maintained that Wayne came up with the idea of FluCard because that is the truth and it is peculiar that RSM casts doubt on this matter despite a complete lack of evidence showing the contrary. We wish to refute Henn’s claim and state that nowhere in the report did we cast doubt on Wayne’s claim that the idea originated from him. The matter on hand was whether the 19 patents should be registered under the Company or T-Data as the patent owner. We did not question the fact that Wayne was named the inventor of the patents.

included in the schedules and hence did not form part of the assignment. We enquired with the Company and we understand that the omissions were inadvertent and that it has instructed its patent attorney to prepare an addendum to the agreements to include the omitted patent registrations.

### Financial Impact of the Ownership and Assignment of the Patents

285. Prior to the IPT Inquiry, the Company had recorded the costs incurred for the 19 patents registered under T-Data as its intangible assets notwithstanding that it was not the patent owner. The total amount recognised as the Company's intangible assets was US\$1,605,790.12, being the patent costs paid between 2009 and 2015.
286. After further review by management, the Company made adjustments to its books in FY2015 to expense off the entire patent costs by reversing the intangible assets of US\$1,605,790.12 to licensing expenses. The adjustments were done on the basis that the patents were not owned by the Company and that the Group only has non-exclusive use of the patents.
287. Since then, we understand from the Company that all payments made in relation to the patents had been expensed off and not recorded as intangible assets.
288. This practice of treating the patent costs as expenses continued even after the assignment of the patents to Trek Singapore in 2016 and 2017, which is acceptable if the Company and its management have made the necessary assessments and decided that it was not appropriate to record the patent costs as intangible assets under the Singapore Financial Reporting Standards. If this was the case, then there is no financial impact relating to the patents.
289. In addition, we also raised the question on whether the Company had made any claims for the deductions and enhanced deductions under the PIC Scheme with respect to the patent costs incurred by it totalling US\$1,605,790.12 up to 2015 when the patents were owned by T-Data. The Company confirmed on 8 March 2018 that claims under Section 14A of the Income Tax Act were made (100% deduction) for the patent costs incurred from 2009 to 2014 while the patent costs incurred in 2015 were

claimed under the normal business expense (100% deduction). As the Company did not own the patents from 2009 to 2015, at best, the Company would only be able to claim the patent costs as normal business expense. In any case, as both scenarios resulted in 100% tax deduction, it would appear that there was no impact on the tax assessed. Notwithstanding, we would suggest that the Company seek proper tax advice and review this together with its tax agents.

### I. POTENTIAL BREACHES AND OUR RECOMMENDATIONS

290. The potential breaches by the Company and/or its directors, officers and employees arising from the issues summarised above include the following:

- (i) **Common law fiduciary duties of a director** including but not limited to:
  - a. Act in good faith
  - b. Act in the best interests of the company
  - c. Act with reasonable care, skill and diligence
  - d. Avoid conflicts of interest
  - e. Exercise powers with proper purpose
  
- (ii) **Section 157 of the Companies Act** requires a director to act honestly and use reasonable diligence in the discharge of his duties, and shall not make improper use of his position as an officer or agent of the company or any information acquired by virtue of his position as an officer or agent of the company to gain, directly or indirectly, an advantage for himself or for any other person or to cause detriment to the company.
  
- (iii) **Section 199 of the Companies Act** requires every company to maintain proper accounting records and devise and maintain a system of internal accounting controls to safeguard against losses from unauthorised use / disposition and to ensure that transactions are properly authorised and recorded to permit the preparation of true and fair financial statements and to maintain accountability of assets.

- (iv) **Section 201 of the Companies Act** requires every company to prepare financial statements to give a true and fair view of the financial position and performance of the company.
- (v) **Section 401 of the Companies Act** states that any person who makes or authorises the making of any false or misleading return, report, certificate, balance sheet, financial statements or other document required under the Act, knowing it to be false or misleading or wilfully omits or authorises the omission of any matter or thing without which the document is materially misleading shall be guilty of an offence. This includes the person who lodges / files or authorises the lodgement / filing with ACRA knowing that the document is false or misleading.
- (vi) **Section 402 of the Companies Act** states that an officer of a corporation who, with intent to deceive, makes or furnishes, or knowingly and wilfully authorises or permits the making or furnishing of, any false or misleading statement or report to a director, auditor, member, etc., relating to the affairs of the corporation, shall be guilty of an offence.
- (vii) **Section 405 of the Penal Code** states that whoever, being entrusted with property, or with any dominion over property, dishonestly misappropriates or converts to his own use that property, or dishonestly uses or disposes of that property in violation of any law prescribing the mode in which such trust is to be discharged, or wilfully suffers any other person to do so, commits “criminal breach of trust”
- (viii) **Section 415 of the Penal Code** states that it is an offence to fraudulently or dishonestly deceive any person to deliver any property to any person, or intentionally induces the person to do or omit to do anything which he would not do or omit to do if he were not deceived, and which act or omission causes or is likely to cause damage or harm to any person.
- (ix) **Section 463 of the Penal Code** states that whoever makes any false document or electronic record or part of a document or an electronic record with intent to cause damage or injury to the public or to any person, or to

support any claim or title, or to cause any person to part with property, or to enter into any express or implied contract, or with intent to commit fraud or that fraud may be committed, commits forgery. A person is said to make a false document or false electronic record if he commits the any of the act under **Section 464** of the Penal Code.

- (x) **Section 468 of the Penal Code** states that whoever commits forgery, intending that the document or electronic record forged shall be used for the purpose of cheating, shall be punished.
- (xi) **Section 471 of the Penal Code** states that whoever fraudulently or dishonestly uses as genuine any document or electronic record which he knows or has reason to believe to be a forged document or forged electronic record, shall be punished in the same manner as if he had forged such document or electronic record.
- (xii) **Section 477A of the Penal Code** which states that the wilful conduct of any clerk, officer or servant to destroy, alter, conceal, mutilate or falsify any book, electronic record, paper, writing, valuable security or account which belongs to or is in the possession of his employer, or to make or abet the making of any false entry in, or omits or alters or abets the omission or alteration of any material particular from or in any such book, electronic record, paper, writing, valuable security or account, with intention to defraud shall be punishable.
- (xiii) **Section 199 of the SFA** prohibits any person from making statements or disseminate information that are materially false or misleading, and is likely to induce the subscription, purchase or sale of securities or have the effect of raising, lowering, maintaining or stabilising the market price of securities.
- (xiv) **Section 200 of the SFA** prohibits any person from by making or publishing any statement, promise or forecast that he knows or ought reasonably to have known to be misleading, false or deceptive, by any dishonest concealment of material facts, by the reckless making or publishing of any statement, promise or forecast that is misleading, false or deceptive, or by recording or storing in, or by means of, any mechanical, electronic or other device information that he

knows to be false or misleading in a material particular, to induce another person to deal in securities.

- (xv) **Rule 703 (4) of the Mainboard Rules** requires the observation of the Corporate Disclosure Policy set out in Appendix 7.1 of the Mainboard Rules which stipulates that the contents of announcements must be factual, clear and succinct (policy item 25).
- (xvi) **Rule 705 (5) of the Mainboard Rules** requires directors to provide a confirmation that the interim financial statements as announced are not false or misleading.
- (xvii) **Rule 719 (1) of the Mainboard Rules** states that an issuer should have a robust and effective system of internal controls, addressing financial, operational and compliance risks.
- (xviii) **Rule 745 of the Mainboard Rules** states that an issuer must ensure that its directors accept responsibility, collectively and individually for the issuer's compliance with the Mainboard Rules.
- (xix) **Code of Corporate Governance** issued by the Corporate Governance Committee dated 2 May 2012 (the “**Code**”) provides the guidelines on the maintenance of a sound system of risk management and internal controls to safeguard shareholders' interests and company's assets. Although the Company did provide a disclosure on its compliance with the requirements of the Code in its Annual Report as required under **Rule 710 of the Mainboard Rules**, we note that the inadequacies of the internal controls were not identified nor disclosed in the Annual Report.
- (xx) **Section 95 of the Income Tax Act** provides that every person who makes or without reasonable excuse or through negligence makes incorrect return or gives any incorrect information in relation to any matter affecting the liability to tax shall be guilty of an offence.

- (xxi) **Section 59 of the Goods and Services Tax Act** states that a person who makes an incorrect return by omitting or understating any output tax or by overstating any input tax of which he is required to make a return, or gives any incorrect information in relation to any matter affecting his own liability to tax, shall be guilty of an offence.

291. Based on the various issues and irregularities discovered during our review and the potential (and non-exhaustive) breaches arising from them, we recommend the Company to take the following remedial actions to rectify the situation and minimise the recurrence of these issues:

- (i) Review, improve and put in place a complete system of internal controls on compliance, financial systems and reporting, and operational processes for an effective risk management on all aspects of the Group's business and affairs;
- (ii) Cease all practices of making digital alterations on and fabrications of documents even if they were for internal reference purpose, and investigate the practice of fabricating sham documents to, among other things, find out the extent of such a practice;
- (iii) Emphasize to all employees the importance of internal controls, keeping proper records, ensuring all accounting entries and true and accurate as well as best practices through trainings, implementation of policies and communications with employees;
- (iv) Explore the employment of suitably qualified personnel with experience on compliance and accounting matters to strengthen the internal controls, book-keeping and financial reporting practices;
- (v) Review if the business relationship with T-Data is vital for the Group's operations and make a decision on whether the continuation of such relationship is appropriate;
- (vi) Notwithstanding that the Group no longer transacts with S-Com HK since December 2015, the Board ought to ensure that none of the management

personnel or employees of the Group is performing any work for and managing the affairs and operations of S-Com HK;

- (vii) Perform a thorough review of its inventories and inventory system, strengthen its management of inventory and deal appropriately with the inventories which cannot be identified such as the USB Components and Enclosure Components as well as others, if any, which no one we interviewed was able to provide details on;
  - (viii) Make the appropriate adjustments and/or put in new accounting entries to correct the misstatements in the accounting records as well as discuss with the current auditors on the restatements and/or reclassifications, as appropriate, to be carried out for the financial statements of the Company;
  - (ix) Make voluntary disclosures to IRAS under the IRAS Voluntary Disclosure Programme on fraudulent and errors made in the claims under the PIC Scheme, GST returns and income tax returns. IRAS may impose reduced penalties if certain criteria are satisfied; and
  - (x) Prohibit the sharing and misuse of employee user account and hold employees who do so accountable for all acts done under his/her user account to prevent any abuse and for easy identification of the personnel responsible for certain acts.
292. As indicated in Paragraph 12 above, we are not qualified to provide legal advice. The Board and/or the Company should seek legal advice on the appropriate actions to be taken with respect to the issues above and the potential breaches arising from those issues.

## 1 INTRODUCTION

### 1.1 Background Information

- 1.1.1 Trek 2000 International Ltd was incorporated in Singapore on 23 September 1999 and listed on the Singapore Exchange (“**SGX**”) under SGX Sesdaq on 24 May 2000. It was subsequently transferred to SGX Mainboard on 15 July 2002. Together with its subsidiaries, the Group offers design solutions ranging from interactive consumer solutions, wireless, anti-piracy, compression and encryption to enterprise solutions catering to the digital industry.
- 1.1.2 On 25 February 2016, the Company’s Board of Directors announced on SGXNET that it had, through the AC, discovered that the Company had entered into certain IPTs, as defined under Chapter 9 of the Mainboard Rules, with T-Data from 27 November 2007 to 26 March 2014 and that the AC had appointed Allen & Gledhill LLP to conduct an independent inquiry and review into the matter. The Board later announced on 7 April 2016 that after further discussions with potential professional advisers and taking into account the costs involved in the review, the AC decided to appoint TSMP Law Corporation to review the IPTs and report to the AC on the same.
- 1.1.3 On 26 April 2016, the Company announced that it was informed by its auditors, EY, that a report had been submitted by EY to ACRA on matters that had come to EY’s attention in the course of their audit of the financial statements of the Group for the year ended 31 December 2015.
- 1.1.4 Subsequently on 25 May 2016, the Company announced that it received a notice from the CAD informing the Company that it was conducting an investigation into certain transactions undertaken by the Company and requested for certain information and documents to be provided.
- 1.1.5 On 8 June 2016, the Company announced that TSMP had presented certain preliminary findings to the AC and highlighted that the full review on IPTs would require certain information on the past transactions of the Group which would require a forensic accounting firm to provide their findings and analysis from a forensic

financial perspective. The AC accepted this recommendation and RSM was appointed on 8 June 2016 to conduct an IPT Inquiry. Given the report by EY to ACRA and the ongoing investigations by the CAD, the AC also instructed RSM to expand the scope of work to include any suspicious transactions.

- 1.1.6 On 18 July 2017, the Company released the Executive Summary of the IPT Inquiry Report dated 17 July 2017 issued by RSM.

### **1.2 Scope of Work and Approach**

- 1.2.1 Broadly, our scope of work includes a review on the following:

- (i) The IPTs entered into by the Group for the period from 2008 to present date (the actual period reviewed was up to 2015); and
- (ii) Suspicious transactions entered into by the Group for the period from 2008 to present date, including but not limited to, the transactions related to the matters reported by EY to ACRA as well as transactions which are the subject of the investigations carried out by the CAD.

- 1.2.2 For the purpose of reporting, the AC instructed RSM to present its findings on the IPT Inquiry first, followed by a separate report on the suspicious transactions after the conclusion of the IPT Inquiry. The IPT Inquiry Report dated 17 July 2017 was issued on the same day and the Executive Summary on the IPT Inquiry Report was released by the Company via SGXNET on 18 July 2017.

- 1.2.3 This Report focuses on our findings with respect to the Group's suspicious transactions as announced by the Company on 25 May 2016, 1 June 2016 and 8 September 2017. We were instructed by the AC to review the suspicious transactions which had been highlighted by EY in their letters to the Company dated 21 March 2016, 12 April 2016 and 1 June 2016, as well as other matters which were brought to the AC's attention. The areas to be reviewed as stated in our supplemental engagement letter dated 22 February 2017 are as follows:

- (i) Potential round-tripping transactions involving T-Data and S-Com HK;
- (ii) Transactions with Party B1, Party B2 and Party B3;
- (iii) Transactions with Colite;
- (iv) Certain transactions relating to the eSD inventories, the existence of which EY was unable to trace;
- (v) Transactions with Key Asic;
- (vi) Discrepancies on the documents relating to the transactions with Party C1;
- (vii) Potential irregularities on the ownership and recording of the Flucard patents registered under T-Data;
- (viii) Potential misstatement of the Group's intangible assets as a result of items (vi) and (vii) above; and
- (ix) Any other suspicious transactions arising from our review of items (i) to (viii) above.

### 1.2.4 In preparing this report, we conducted the following activities:

- (i) reviewed the documents of the Group seized by and currently in the possession of the CAD and made photocopies of documents which we deemed relevant, as permitted by the CAD, during our visits to the CAD's office as follows:
  - a) 2 August to 2 September 2016
  - b) 27 March to 6 April 2017
  - c) 6 December 2017
- (ii) reviewed copies of the documents and information provided by the Company, documents provided by the Company to TSMP, secretarial records in the

possession of Nice Business Consultants Pte Ltd and documents provided by EY;

- (iii) held face-to-face interviews on a one-on-one basis with the following individuals:

*Group employees:*

- a) Henn, the Chairman, CEO and Executive Director of the Company;
- b) Foo, President of Operations, Sales and Customised Solutions Division, previously an Executive Director of the Company from 22 November 2001 to 20 March 2009;
- c) Dr. Paul, Head of R&D;
- d) Cynthia, Sales Coordinator in the sales department;
- e) Hengky, Manager in the purchasing department;
- f) Emily, Sales Coordinator of Trek HK based in Hong Kong.

*Former Group employees:*

- g) Singh, former CFO and Executive Director of the Company from 14 April 2000 to 2 June 2016;
- h) Poo, former Group Director of R&D and Executive Director from 24 May 2006 to 12 July 2016;
- i) Wayne, former Director of Cloud Stringers (S) Pte Ltd;
- j) Chin, former Accounts Assistant Manager.

### *Third parties*

- k) Loo, wife of Poo and former director and shareholder of T-Data. The interview with Loo was conducted in the presence of Poo;
- l) Alex of Unimicron and Colite via video conference.

The interviews above were audio-recorded with the knowledge of each individual above. The minutes of the interviews, which were prepared by us based on the audio recordings were sent to the respective individuals for review and sign-off. Where there are contents to which they do not agree, we asked that they include their comments or mark the changes on the minutes prepared. The signed minutes are exhibited in **Appendices 1 to 12**. Save for Emily, the other individuals have confirmed and signed on their respective minutes of discussions. We have followed up with Emily on a few occasions for the minutes to be signed but no response has been received to date.

- (iv) Corresponded with the following parties via email to obtain clarification on our queries:
  - a) JP Peng, the former Chief Executive Officer of Key Asic Berhad, the holding company of Key Asic;
  - b) Ms Lia Chiou, the accountant of Key Asic;
  - c) Alex of Unimicron and Colite.
- (v) held informal discussions with the AC, the relevant Company's personnel as well as EY on their findings during the course of their audit work; and
- (vi) undertook full processing of the raw data imaged from the electronic devices of the following individuals provided by EY and reviewing the same:
  - a) Henn
  - b) Singh

- c) Poo
- d) Foo
- e) Chan Koon Keet
- f) Kuan Mun Kwong
- g) Lee Sue Peng
- h) Vincent Leong

1.2.5 On 23 March 2018 we commenced the Maxwellisation Process by circulating the extracts of a draft version of this report to the following parties:

- (i) Henn
- (ii) Singh
- (iii) Poo
- (iv) Foo

The purpose of the Maxwellisation Process was to provide the individuals an opportunity to read the relevant sections of the report in which a view or opinion would be made of them, and to respond to any of the findings contained in this report. As at 13 April 2018 (after a period of three weeks), being the deadline to revert to us, we received the responses from all the individuals above. These responses have been included in this report and are exhibited in **Appendix 13 to 16 above**.

### 1.3 Limiting Conditions and Constraints

1.3.1 The contents and findings set out in this report are based on information made available to us up to 21 March 2018. We have, where possible, taken steps to ensure that the information provided is complete. In cases where such steps have not been practicable, we have relied on the Company's representation (including that of its Board members) that such information provided is accurate, full and complete. We do not warrant, whether expressly or impliedly, the accuracy, veracity and / or completeness of such facts and information provided to us and relied upon in this report.

- 1.3.2 In the course of review, we have also conducted searches on companies incorporated in Singapore using public databases that were available. We have not independently verified the completeness or accuracy of the information obtained as a result of these searches and are therefore unable to confirm the accuracy, completeness and reliability of the same.
- 1.3.3 We have used reasonable skills and care in rendering the services stated in our engagement letters dated 8 June 2016 and 22 February 2017. In connection with our agreement to undertake the engagement, the Company shall at all times indemnify us and keep us indemnified against any claims and payments for which we may be liable in connection with or arising from this engagement.
- 1.3.4 The report and any information contained herein are confidential and provided strictly and solely for the purposes as stated in our engagement letter dated 7 July 2016. No reliance should be placed by any third party on the report for any purpose whatsoever and we accept no responsibility for the consequences of disclosure of this report to any third party notwithstanding that we may have consented to such disclosure. This report may contain price-sensitive information relating to the Company whose shares are listed on the SGX-ST and we hereby expressly disclaim and take no responsibility, directly or indirectly, for any and all liabilities of any nature whatsoever in the event that this report is disclosed to any party / parties, whether directly, indirectly, intentionally or otherwise. We report the factual findings resulting from our work.
- 1.3.5 We would like to emphasise that the scope of work is different from that of an audit under the Companies Act (Cap. 50) or in accordance with generally accepted auditing practices and it does not constitute an audit. In this regard, we do not express an audit opinion in this report.
- 1.3.6 We are not qualified to provide legal advice. Our findings and comments should not at any time be construed as constituting legal advice on any matter. Where it is deemed appropriate or necessary, separate and independent legal advice should be sought on any of the matters, issues and / or findings contained, or referred to, in this report, which may have legal consequences.

1.3.7 For the avoidance of doubt, the statements, opinions and information contained in this report are current as at the date of the report, unless otherwise specified. We reserve the right (but are not under any obligation whatsoever) to review, alter, supplement and / or amend the report in the light of any additional information and / or matters made known to us as a result of new developments and / or disclosures, made known to us subsequent to the date of this report.

1.3.8 No part of our remuneration is dependent on the outcome of this report.

#### **1.4 Restrictions**

1.4.1 This report is prepared solely for the Company in accordance with the instructions received and terms stated above and should be treated in strict confidence. This report is not for general circulation or publication. It is not to be quoted or referred to, either in whole or in part, disclosed or distributed to any other party or anyone who is not a member of the Board, save as required by law, regulation or any governmental or competent regulatory authority without our prior written consent. We consent, however, to a copy of the report being furnished by the Board to SGX.

## **2 ROUND-TRIPPING TRANSACTIONS INVOLVING T-DATA AND S-COM HK**

### **2.1 Background Information**

2.1.1 During the IPT Inquiry, T-Data and S-Com HK were identified as Interested Persons for the purpose of IPT under Chapter 9 of the Mainboard Rules for the following periods:

- (i) T-Data – from 27 November 2007 (incorporation date) up to at least 18 February 2016; and
- (ii) S-Com HK – from 30 April 2008 up to at least 3 October 2016 (date of the last Annual Return filed by S-Com HK sighted by us).

The IPTs between the Group and T-Data and S-Com HK had been covered extensively in the IPT Inquiry Report.

2.1.2 During the IPT Inquiry, we observed that certain transactions between the Group and T-Data / S-Com HK could have been round-tripping transactions. In particular, a Group entity would sell certain products to T-Data or S-Com HK and the same products in the same quantity would thereafter be purchased by the same or another Group entity from T-Data or S-Com HK.

2.1.3 We have been provided with the sales listings and purchases listings of selected Group entities which were considered as material operating entities. These listings contain details such as, among other things, the selling/purchasing entity, customer, supplier, date of transaction, document (invoice or delivery order) number, description of products, stock code and value of transaction. These listings were provided for the following entities and periods<sup>41</sup>:

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<sup>41</sup> Sales listings and purchases listings for Trek Thailand prior to 2014 are not available due to system migration in 2013. We were given hard copies of the purchases listing for 2012 which we are unable to verify the completeness of the said listing. Nevertheless, we have included it in the analysis in identifying the potential round-tripping transactions.

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No.	Entities	Sales Listing	Purchases Listing
1	The Company	2008 - 2016	No Purchases
2	Trek Technology (Singapore) Pte Ltd (" <b>Trek Singapore</b> ")	2008 - 2016	2008 - 2016
3	S-Com System (S) Pte Ltd (" <b>S-Com Singapore</b> ")	2008 - 2016	2008 - 2016
4	Trek Systems (M) Sdn Bhd (" <b>Trek Malaysia</b> ")	2008 - 2016	2008 - 2016
5	Trek Technology (HK) Co. Ltd (" <b>Trek HK</b> ")	2008 - 2016	2008 - 2016
6	Cloud Stringers (S) Pte Ltd (" <b>Cloud Stringers</b> ")	2013 - 2016	2013 - 2016
7	Trek Technology (Shanghai) Co. Ltd (" <b>Trek Shanghai</b> ")	2009 - 2012	2009 - 2012
8	Trek Technology (Thailand) Company Ltd (" <b>Trek Thailand</b> ")	2014 - 2015	2014 - 2015
9	Trek Technology (India) Pvt Ltd	2008 - 2016	2009 - 2016
10	Thumbdrive Media Sdn Bhd (" <b>Thumbdrive Malaysia</b> ")	2013 - 2016	2013 - 2016
11	Unimemory Technology (S) Pte Ltd (" <b>Unimemory</b> ")	2014 - 2016	2014 - 2016
12	T3 Solutions (HK) Limited	2014 - 2016	2014 - 2016

2.1.4 We have reviewed and relied on the abovementioned listings for the purpose of identifying potential round-tripping transactions.

2.1.5 Based on the listings above, transactions which satisfied all of the criteria below were identified as suspected round-tripping transactions for further review:

- (i) A sale transaction to T-Data / S-Com HK which was followed by a subsequent purchase from T-Data / S-Com HK;
- (ii) The pairing of the sale and purchase transactions was for stocks bearing the same stock codes and for the same quantity; and
- (iii) The sale and the subsequent purchase transactions took place within a 12-month period.

2.1.6 The identified suspected round-tripping transactions were verified against supporting documents from the Group where these documents are available<sup>42</sup>. We did not have access to T-Data's and S-Com HK's records and documents other than the audited and unaudited financial statements for certain financial years, and those found amongst the Group's records.

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<sup>42</sup> Supporting documents from 2008 to 2010 were not available. Management informed that these documents had been incinerated as these were old documents which were dated outside the statutory holding period.

2.1.7 Foo, on behalf of the Company, attended to our enquiries concerning the suspected round-tripping transactions and provided his response based on post-event review of documents and information gathered as he claimed to have no prior knowledge of the transactions. We also raised questions on those transactions in the interview sessions. Henn informed us that he had minimal knowledge and that we should ask Foo whom, according to Henn, had full control on the operations and would have the details on the transactions. Singh and Poo both claimed to have no knowledge of the suspected round-tripping transactions.

## 2.2 Suspected Round-Tripping Transactions Involving T-Data

2.2.1 It would be useful to first revisit T-Data's relationship with the Group. We highlighted in our IPT Inquiry Report that in addition to T-data's business relationship with the Group through various transactions, T-Data was also deemed to be an Interested Person to the Group since its incorporation up to at least 18 February 2016 by virtue of the following factors:

- (i) Loo's 100% shareholding in T-Data from its incorporation to 18 September 2012. Loo is the spouse of Poo, who in turn was a director of the Company until 12 July 2016.
- (ii) Wayne's 80% shareholding in T-Data from 18 September 2012 to 26 March 2014. Wayne is the son of Henn, who in turn was at all material times and still is the Chairman, CEO and Executive Director of the Company.
- (iii) On 26 March 2014, Wayne transferred his 80% shareholdings to his cousin (Henn's nephew), Edwin. On 24 March 2015, another cousin of Wayne's, Shirley, subscribed for new shares in T-Data, resulting in Loo's shareholdings being diluted to 0.2%. On 18 March 2016, Shirley subsequently also bought all of Loo's shares in T-Data.
- (iv) The shareholdings in and directors of T-Data from 27 November 2007 up to 4 December 2017 are summarized below:

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*Shareholdings:*

<b>27 Nov 07 to 18 Sep 12</b>	<b>18 Sep 12 to 26 Mar 14</b>	<b>26 Mar 14 to 24 Mar 15</b>	<b>24 Mar 15 to 18 Mar 16</b>	<b>18 Mar 16 to 8 Apr 16</b>	<b>8 Apr 16 to 4 Dec 17</b>
Loo: 100%	Loo: 20% Wayne: 80%	Loo: 20% Edwin: 80%	Loo: 0.2% Edwin: 0.8% Shirley: 99%	Edwin: 0.8% Shirley: 99.2%	Shirley: 100%

*Directorships:*

<b>27 Nov 07 to 23 Mar 15</b>	<b>24 Mar 15 to 8 Mar 16</b>	<b>9 Mar 16 to 4 Dec 17</b>
Loo	Loo Shirley	Shirley

- (v) Notwithstanding Wayne’s transfer of his shareholdings to Edwin on 26 March 2014, we have treated T-Data as an Interested Person up to at least 18 February 2016 as the practice of reporting the affairs (including the financial information and performance) of T-Data to Henn appeared to have continued until at least 18 February 2016 on the basis that:
  - Based on the email correspondence we have sighted, Henn’s wife, Adeline appeared to be handling some, if not all, aspects of T-Data’s business and affairs;
  - In 2013, there were emails between Henn and Adeline, relating to T-Data’s affairs such as his instructions on salary / bonus payments and documents to be prepared by T-Data; and
  - After 26 March 2014 and until the last email sighted between Henn and Adeline on 18 February 2016, Adeline continued to report to Henn on matters involving T-Data including its financial performance, salary records, appointment of auditors and secretarial documents to be signed. Henn also continued to give instructions on matters relating to T-Data such as a payment to be made by T-Data, change of address, communication to be made under T-Data’s email address and the reporting of T-Data’s performance.

- 2.2.2 We understand that the Company obtained a legal opinion on 2 November 2016 that T-Data had not been an Interested Person in relation to the Company subsequent to 26 March 2014 (after the transfer of Wayne’s shareholding to Edwin) and up to the date of the legal opinion on 2 November 2016, as it did not fall under the definition of an “interested person” under the Mainboard Rules. Notwithstanding the above, our position remains the same that T-Data is deemed to be an Interested Person of the Group up to at least 18 February 2016.
  
- 2.2.3 Although Wayne was never a director of T-Data, he informed us that he was under the employment of T-Data around the time when he became its shareholder until around the time when he was involved in Cloud Stringers, a company within the Group. We note from ACRA searches that he became a director and shareholder of Cloud Stringers on 13 March 2014 and 29 December 2014 respectively.
  
- 2.2.4 During our interview sessions, Henn, Poo and Loo confirmed that Loo was only a nominee in T-Data. Loo informed us that she merely lent her name and was never involved in any of T-Data’s affairs or the running of its business. On various occasions, she was asked by Poo or Adeline to sign certain T-Data documents, and she did so.
  
- 2.2.5 A review on the financial statements of T-Data revealed that it had very low staff costs, at least up to 2013. Assuming those financial statements are accurate and true, this indicated that T-Data did not have many employees. Below is a summary of the disclosure on the staff costs extracted from the financial statements filed by T-Data with ACRA from FY2008 to FY2015:

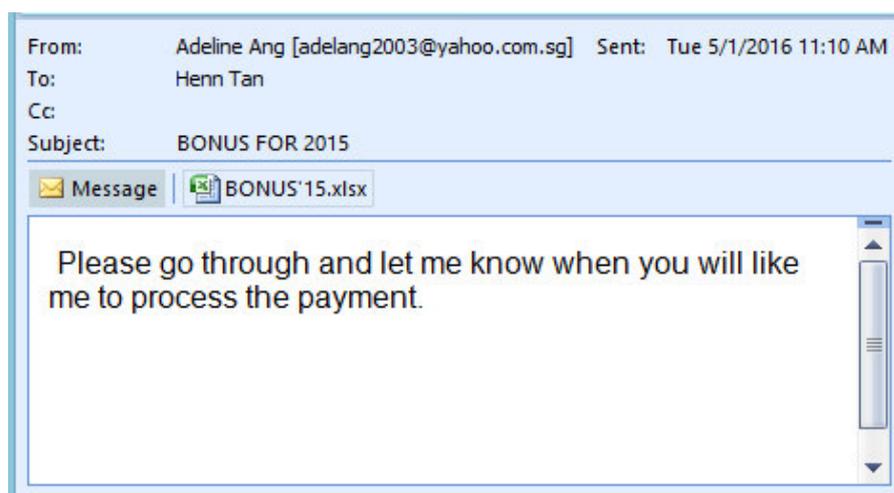
Extracted from the Financial Statements of T-Data S\$	For the year ended 31 December							
	2008	2009	2010	2011	2012	2013	2014	2015
	<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>	<i>Audited</i>	<i>Audited</i>	<i>Audited</i>	<i>Audited</i>
CPF contribution	931	2,955	} 36,337	} 55,600	} 62,472	8,551	13,485	28,810
Director's fees	-	-				5,000	-	-
Salaries and related costs	6,406	20,373				53,445	87,088	111,489
<b>Total</b>	<b>7,337</b>	<b>23,328</b>	<b>36,337</b>	<b>55,600</b>	<b>62,472</b>	<b>66,996</b>	<b>100,573</b>	<b>140,299</b>

- 2.2.6 All the individuals with whom we spoke, including Henn, Poo, Wayne (who was working for T-Data at some point) and other senior personnel such as Foo and Singh,

informed us that they had no knowledge of T-Data's management and its officers who were running its business<sup>43,44, 45</sup>. We have serious doubts and reservations about the veracity of those statements, given that, among other things, T-Data had transactions totalling US\$185.7 million<sup>46</sup> with the Group between 2008 and 2015 and the email correspondence concerning T-Data which we highlighted above and below.

2.2.7 In addition, contrary to what we have been told, based on our review of various emails extracted from the digital image of the data recovered from laptops used by various individuals<sup>47</sup>, we noted the following which suggest that T-Data's business and affairs were being managed by Trek's senior management:

- (i) On 5 January 2016, Adeline sent an email to Henn to seek his approval for bonus payments. Adeline made reference to an Excel worksheet attached in her email containing the details of the bonus to be paid for 2015:



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<sup>43</sup> During the Maxwellisation Process, Foo responded that his primary role was in sales and that he had provided the particulars of the individuals from T-Data with whom he dealt with when it involved sales between T-Data and the Company.

<sup>44</sup> In his Maxwellisation response, Singh reiterated that T-Data was a customer and distributor as far as he was aware and that he did not know that T-Data would be related to the Group.

<sup>45</sup> Henn responded during the Maxwellisation Process that he was aware that Wayne was managing T-Data when he joined T-Data in or around 2012. We note that no further details were provided with respect to the identities of the T-Data's management and officers.

<sup>46</sup> Please refer to our IPT Inquiry Report.

<sup>47</sup> These emails were obtained from the digital imaging data provided by EY. The digital imaging was carried out by EY on several occasions over the course of early 2016 and as such, only contained data up to the date when the digital imaging was conducted.

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There were six tabs in the Excel worksheet attached in the email, with each tab providing the details of the bonus to be paid to employees of 5 Trek entities and T-Data (one tab for each entity). The T-Data tab contains the following information:

T-DATA SYSTEMS (S) PTE LTD						
BONUS FOR YEAR 2015						
	NAME OF EMPLOYEE	DATE OF COMMENCEMENT	POSITION	NO OF MONTH	SALARY (ordinary wages)	BONUS
<b>MARKETING AND DEVELOPMENT</b>						
1	WAYNE TAN JOON YONG		SNR SALES MANAGER	1.00	4,000.00	4,000.00
2	WINN TAN JOON WEI	1-Aug-14	SNR SALES MANAGER	0.00	3,000.00	0.00
3	EDWIN TAN CHUN CHIEH	1-Jan-15	SALES EXECUTIVE	0.00	2,000.00	0.00
4	TAN LI PING LYDIA	1-Feb-15	ACCOUNTS EXECUTIVE	0.00	2,000.00	0.00
<b>TOTAL MARKETING</b>				<b>1.00</b>	<b>11,000.00</b>	<b>4,000.00</b>

Based on this email and the contents of the Excel worksheet, it would appear that:

- Individuals related to Henn were employed under T-Data in 2014 and 2015. Wayne, Winn Tan Joon Wei and Tan Li Ping Lydia are Henn's and Adeline's children while Edwin is Henn's nephew;
- Adeline, wife of Henn, was handling the bonus payments for T-Data (as well as other Group employees); and
- Henn's approval was sought for the bonus payments to be made under T-Data.

- (ii) On 23 October 2013, Henn sent an email to Adeline, wherein Henn directed Adeline to continue paying Wayne a basic sum of S\$1,500 per month under T-Data:

**T-data**  
Henn Tan  
To: 'Adeline Ang'  
Sent: 23/10/2013 10:18 AM

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Please ensure that you continue to pay Wayne tan a basic of \$1,500/month under T-data.

- (iii) On 24 December 2013, Henn sent an email to Adeline with, copying Poo, wherein Henn directed Adeline to pay a bonus to Poo under T-Data:

**T-data**  
Henn Tan  
To: 'Adeline Ang'  
CC: 'TENGPIN'  
Sent: 24/12/2013 1:36 PM

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Please issue a \$5K bonus to TP.

- (iv) From 13 to 22 October 2008, there was a chain of email correspondence between Henn, Foo and Singh wherein Henn appeared to be making executive decisions for T-Data with respect to the setting up of a retail outlet / showroom under T-Data in a shop unit in Sim Lim Tower owned by S-Com Singapore and to be rented by T-Data. Henn and Foo also considered hiring Simon Tan, a brother of Henn, who appears to be an employee of the Group then, to run T-Data’s business from that retail outlet / showroom. Further, Henn requested for a business plan to be drawn up for the proposed retail business and Foo was tasked to prepare the same. These emails contradict the statements given by Henn, Foo and Singh during the interviews that they had no knowledge of T-Data’s management and its officers who were running

its business. Below are screenshots of selected emails from the entire chain of emails for reference:

**From:** Gurcharan Singh [<mailto:gurcharan@trek2000.com.sg>]  
**Sent:** 13 October 2008 15:13  
**To:** 'Foo Kok Wah'; [henntan@trek2000.com.sg](mailto:henntan@trek2000.com.sg)  
**Subject:** Sim Lim Tower Office

Please note that the Sim Lim Office premises will be taken over on 1<sup>st</sup> Nov from the tenant (Simon).

Meanwhiel , I am arranging with him to cut-over the electricity. Date will be advised later.

Have also contacted a interior decorator - Roger Chia (9661 8810) will provide quote & design for our show room within the next few days

Foo,  
Please advice plans for the showroom?

Regards  
GURCHARAN SINGH

**From:** Henn Tan [<mailto:henntan@trek2000.com.sg>]  
**Sent:** Monday, October 13, 2008 3:31 PM  
**To:** [gurcharan@trek2000.com.sg](mailto:gurcharan@trek2000.com.sg); 'Foo Kok Wah'  
**Subject:** RE: Sim Lim Tower Office

I would suggest that we use the name T-data as the front line. It will carries all products ( Toshiba & inhouse ) plus any outside brand as long as it make business sense. This company must be made to look nothing more like any independent retail outlets in Sin Lim.

It main functions will be to solicit walk-in customers, collect market intelligence and also to act as our servicing centre.

Charan, is Simon contemplating taking up the role with support from Wee ( storeman )?

**From:** Gurcharan Singh [<mailto:gurcharan@trek2000.com.sg>]  
**Sent:** 13 October 2008 16:11  
**To:** 'Henn Tan'; 'Foo Kok Wah'  
**Subject:** RE: Sim Lim Tower Office  
**Importance:** High

Hi Henn,  
Spoken to our Simon. He is willing is run to showroom and explained the keys areas of focus

- products sales
- Market intelligence
- Service centre
- Solicit walk-in-customers.

Will work the details with him soon.

Regards  
GURCHARAN SINGH

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**From:** Henn Tan [<mailto:henntan@trek2000.com.sg>]  
**Sent:** Monday, October 13, 2008 5:11 PM  
**To:** [gurcharan@trek2000.com.sg](mailto:gurcharan@trek2000.com.sg); 'Foo Kok Wah'  
**Subject:** RE: Sim Lim Tower Office

Great and Wee will be attached to him. He will come under the purview of Foo and they must have a program to expand their portfolio. Remember, explicitly he must disassociate T-Data from Trek for future entrapment exercise.

Alternatively, we might consider having Toshiba Brand, Trek Brand or any others to replace the traditional sign board. I am open to any idea.

**From:** KW Foo [<mailto:kwfoo@trek2000.com.sg>]  
**Sent:** 13 October 2008 18:13  
**To:** 'Henn Tan'; [gurcharan@trek2000.com.sg](mailto:gurcharan@trek2000.com.sg)  
**Subject:** RE: Sim Lim Tower Office

Noted.

The unit could be rented to T-Data (internal arrangement). We could offer free rental say for the 1<sup>st</sup> 6 months.

Simon would be an employee of T-Data and manage the total business from there. Certain job scope would be assigned to T-Data for a certain fee paid by Trek.

1. Sales of products – T-Data will be the front end sales window. All products will be consigned, and could based on commission for products sold thru' T-Data
2. Market intelligence – Depending on MMS requirement, a fix fee could be given to T-Data for weekly market report.
3. Service Centre – T-Data would generate commission from HQ for handling RMA job.
4. Other business opportunity – Simon would propose to HQ to transact any other business alliance with HQ, like handling some local accounts. He could even venture to other form of business, approved by the management of T-Data.

Please comment on this arrangement.

Regards,  
KW Foo

**From:** Henn Tan [<mailto:henntan@trek2000.com.sg>]  
**Sent:** Monday, October 13, 2008 6:47 PM  
**To:** [kwfoo@trek2000.com.sg](mailto:kwfoo@trek2000.com.sg); [gurcharan@trek2000.com.sg](mailto:gurcharan@trek2000.com.sg)  
**Subject:** RE: Sim Lim Tower Office

Generally agreeable but need details proposal. Formulate a plan with Simon and let's hear your proposal when I am back.

**From:** Henn Tan [<mailto:henntan@trek2000.com.sg>]  
**Sent:** Monday, October 13, 2008 7:22 PM  
**To:** [kwfoo@trek2000.com.sg](mailto:kwfoo@trek2000.com.sg); [gurcharan@trek2000.com.sg](mailto:gurcharan@trek2000.com.sg)  
**Subject:** RE: Sim Lim Tower Office

Do consider using our retail shop as the HUB (replenishment center) for Sim Lim Centre and Funan Centre. This will minimize the risk of them (retailers) having to carry inventory but lower margin.

This is the standard model that is being widely operated in China. Please see to it implementation.

Proceed to create an E-mail address for Simon using T-Data.

**From:** KW Foo [<mailto:kwfoo@trek2000.com.sg>]

**Sent:** 13 October 2008 19:30

**To:** 'Henn Tan'; [gurcharan@trek2000.com.sg](mailto:gurcharan@trek2000.com.sg)

**Subject:** RE: Sim Lim Tower Office

We only have a few master dealers and they are within replenishment period required. Unless special request by customers based, these customers could be handled by T-Data.

I do not know anything on T-Data, does T-Data has a web domain? Otherwise, cannot create an email under T-Data domain.

Regards,  
KW Foo

**From:** Henn Tan [<mailto:henntan@trek2000.com.sg>]

**Sent:** Monday, October 13, 2008 7:34 PM

**To:** [kwfoo@trek2000.com.sg](mailto:kwfoo@trek2000.com.sg); [gurcharan@trek2000.com.sg](mailto:gurcharan@trek2000.com.sg)

**Subject:** RE: Sim Lim Tower Office

No. T-Data is nothing more than a paper company. Should problem persist, than we will use S-Com.

**From:** KW Foo [<mailto:kwfoo@trek2000.com.sg>]

**Sent:** 14 October 2008 17:42

**To:** 'Henn Tan'; [gurcharan@trek2000.com.sg](mailto:gurcharan@trek2000.com.sg)

**Subject:** RE: Sim Lim Tower Office

Hi Henn,

Gurcharan and myself had met up with Simon to discuss the matter proper. In general, we highlighted the idea and the main roles of Sim Lim unit.

He is forth coming to the ideas, but still very reserve of the success of the business. Knowing that Sim Lim could not depend on walk-in sales, he wants to run sales outside as well. He is also worried about shouldering such heavy duty on the success of T-Data.

He will submit to us some ideas and also his ability to manage this unit. With that, we could meet again to finalize the details. Maybe will work it out on Friday.

Regards,  
KW Foo

**From:** Henn Tan [<mailto:henntan@trek2000.com.sg>]

**Sent:** Tuesday, October 14, 2008 9:28 PM

**To:** [kwfoo@trek2000.com.sg](mailto:kwfoo@trek2000.com.sg); [gurcharan@trek2000.com.sg](mailto:gurcharan@trek2000.com.sg)

**Subject:** RE: Sim Lim Tower Office

I am open to his proposal as long as they are pro-active and pro-business. In between managing the outlets, he is free to attend to outside sales and need not have to worry about T-Data survival as long as he works diligently.

**From:** KW Foo [<mailto:kwfoo@trek2000.com.sg>]  
**Sent:** Wednesday, October 15, 2008 8:40 AM  
**To:** 'Henn Tan'; 'gurcharan@trek2000.com.sg'  
**Subject:** RE: Sim Lim Tower Office

Hi Henn,

I have stressed to him that this business unit itself must be self finance eventually, support could be coming from Trek. We will discuss the various topics after he responds:

1. Stuffing and it salary – I mentioned to him that he could gather his own team, but he has to be aware of the expenditure. Example, he could have 2 men team with \$5K salary or even has sacrifices of having same equivalent on a 6 men team. He has idea to get Chuck to team up with him.
2. Monthly expenditure
3. Sales / Profit budget
4. Set up – Renovation/Telephone/email etc
5. Basic function of T-Data and its strategies

Gurcharan or myself will keep you informed.

Regards,  
KW Foo

**From:** KW Foo [<mailto:kwfoo@trek2000.com.sg>]  
**Sent:** Tuesday, October 21, 2008 6:03 PM  
**To:** 'Henn Tan'; 'gurcharan@trek2000.com.sg'  
**Subject:** RE: Sim Lim Tower Office

Hi Henn,

We are working on it now.

1. Business proposal
  - a. Type of business to be carried out in Sim Lim
  - b. The 4Ps
  - c. Projection of sales and GP for the next 12 months
  - d. Estimated expenditure for the next 12 months
  - e. Structure
  - f. Office layout

Regards,  
KW Foo

**From:** KW Foo [<mailto:kwfoo@trek2000.com.sg>]  
**Sent:** Wednesday, 22 October 2008 10:13 AM  
**To:** 'Henn Tan'; gurcharan@trek2000.com.sg  
**Subject:** RE: Sim Lim Tower Office

Hi Henn,

Please see the preliminary business plan and budget reports. These would be discussed with the team also.

We will amend accordingly with everybody comments.

Regards,  
KW Foo

2.2.8 Henn's response during the Maxwellisation Process to Paragraph 2.2.7 above is as follows:

- (i) Items (i) to (iii) relates to T-Data, which Wayne was managing at that point in time. Wayne was shareholder of T-Data from 18 September 2012 to 26 March 2014 and this was his first foray into business. Naturally, Wayne would occasionally consult Henn, his father, for advice regarding the business, which Henn did give. Further, as Adeline was helping with the book-keeping for T-Data at the material time on a pro-bono basis, being concerned about Wayne's business, she also sought advice from Henn in relation to T-Data. This was the context upon which the emails referred to in items (i) to (iii) were sent by Henn;
- (ii) Henn's views were sought in relation to the bonus payments and it was not that T-Data required his approval;
- (iii) As regards to Wayne's basic pay of S\$1,500 per month from T-Data, Henn's response was sent pursuant to discussion with Adeline as to whether it was advisable for Wayne to have his salary increased to S\$5,000 per month. Henn disagreed with this and had emphasized that his view was that Wayne should continue drawing S\$1,500 per month since T-Data had yet to generate much profits at that point in time;
- (iv) Wayne wanted to offer Poo a token of appreciation for assisting on the engineering aspects of T-Data. However, as Poo was the Company's staff, Wayne sought Henn's approval first before giving a bonus to Poo; and
- (v) The chain of emails between Henn, Foo and Singh do not show that Henn was making executive decisions for T-Data. In fact, from the said emails, it is clear that Henn, Singh and Foo were referring to a business proposal for a possible collaboration between T-Data and the Company and that such a business plan would be formulated with Simon, who was willing to head T-Data. It was also specifically mentioned by Foo in his email dated 13 October 2008, 18:53pm that details will be discussed with Simon and "*once agreeable, these will be stipulated in an agreement between T-Data and Trek*". If Henn

was making the decisions for T-Data, there will not be a need to consider whether Simon would be agreeable and for an agreement to only be drawn up thereafter. As such, this chain of email correspondence certainly does not suggest that T-Data's business and affairs were being managed by the Company's senior management.

2.2.9 In his Maxwellisation response, Foo denied that he was involved in the management of T-Data's business and affairs. With respect to the chain of email correspondence involving him above, Foo stated that:

- (i) He had been tasked to formulate a business plan in respect of a potential collaboration between the Company and T-Data as the Company was considering expanding its business by entering into the retail sector in collaboration with a third party arising from the availability of the Company's Sim Lim Tower premises;
- (ii) At that material time, Foo had no knowledge whatsoever of T-Data and had prepared the business plan from the Company's perspective and, in doing so, had regarded T-Data as a third-party collaborator / a "partnering company";
- (iii) RSM's assertion, that Simon Tan was an employee of the Group at that material time, is incorrect. Instead, Simon Tan had well before the material time (of the preparation of the business plan) left the employment of the Group. Foo held the view that Simon Tan was considered for involvement in the collaboration with T-Data to protect the interests of the Company in view of his experience and familiarity with the industry and the Company's products; and
- (iv) In Foo's mind, involving T-Data (as a partnering company) or any other third-party entity in a collaborative venture with the Company was a normal course of business activity.

2.2.10 There was no documentary evidence provided by Henn and Foo to support their assertions above. In addition, Henn and Foo's comments do not appear convincing and at times inconsistent with the contents of the email correspondence.

**TREK 2000 INTERNATIONAL LTD – REPORT ON SUSPICIOUS TRANSACTIONS**

2.2.11 On 6 February 2018, the Company confirmed that the Group is still transacting with T-Data as approved by the AC in the AC Meeting held on 11 November 2016. Presumably this is based on the legal opinion obtained as mentioned in Paragraph 2.2.2 above.

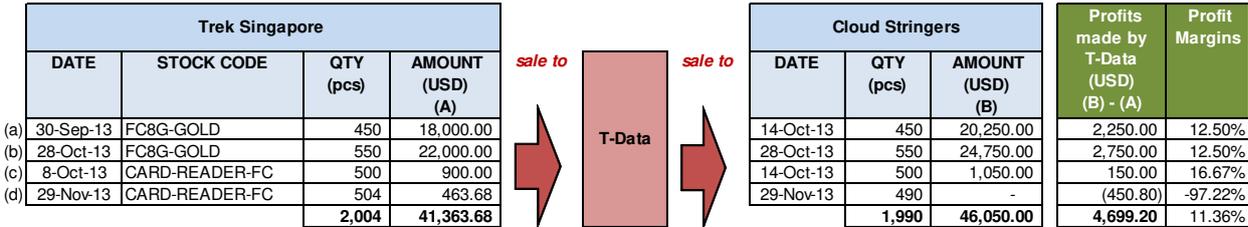
2.2.12 With T-Data’s relationship vis-à-vis the Group in mind, we now return to the suspected round-tripping transactions. Our review shows that there were three types of suspected round-tripping transactions involving T-Data as follows:

- (i) Sale of inventory from Trek Singapore to T-Data and thereafter sale from T-Data to Cloud Stringers (Trek Singapore → T-Data → Cloud Stringers (inventory purchase));
- (ii) Sale of fixed assets from Trek Singapore to T-Data and thereafter sale from T-Data to Cloud Stringers (Trek Singapore → T-Data → Cloud Stringers (fixed asset purchase)); and
- (iii) Sale from Trek Singapore to T-Data and thereafter sale from T-Data to Trek Thailand (Trek Singapore → T-Data → Trek Thailand).

2.2.13 The details of each type of transactions above are further elaborated below.

Trek Singapore → T-Data → Cloud Stringers (inventory purchase)

2.2.14 The diagram below summarises the suspected round-tripping transactions involving sales from Trek Singapore to T-Data and the subsequent sales from the latter to Cloud Stringers:



2.2.15 The Company held equity interest of 66.1% in Cloud Stringers through Trek Singapore in 2013 (as well as 2014) when the transactions above took place.

2.2.16 Our observations based on the available supporting documents are as follows:

- (i) For the transaction labelled (a) above, out of the 450 pieces of FC8G-GOLD, 300 pieces were eventually sold by Cloud Stringers to Party A's office in Thailand. We note from the packing list of these 300 pieces that the products were shipped by Trek Singapore and not T-Data. The remaining 150 pieces were distributed by Trek Singapore to various employees of the Group for other purposes. It would appear that the products did not physically reach T-Data and T-Data was a party to the chain of transaction only on paper;
- (ii) For the transactions labelled (b), (c) and (d), only invoices issued by Trek Singapore to T-Data were available for review. As such, we are unable to comment on T-Data's involvement / role in these transactions;
- (iii) For the transaction labelled (d), the sale from Trek Singapore to T-Data was 504 pieces whereas the sale from T-Data to Cloud Stringers was for a slightly lesser quantity of 490 pieces. Notwithstanding the slightly different quantity, we note that the two transactions took place on the same day;
- (iv) Based on the dates of the transactions, we note that the sale to and the subsequent purchase from T-Data took place within a very short period of time; on the same day for two transactions and within days for the remaining two transactions. This raises a question on the reason or justification for T-Data's involvement in the chain of transactions;
- (v) The transactions above resulted in T-Data earning profits of US\$4,699.20 from the Group.

2.2.17 We queried the Company on the way the transactions were structured and the reasons for T-Data's involvement. Below are the Company's responses given by Foo and our comments on those responses:

- (i) The Company informed that Cloud Stringers had a sudden demand for these FluCard products and required urgent stock from T-Data;
- (ii) However, and as highlighted above, the sale from T-Data to Cloud Stringers took place either on the same day or a few days after Trek Singapore had sold the stocks to T-Data. If indeed Cloud Stringers had a sudden demand, it could have purchased the stocks directly from Trek Singapore, and at a lower price;
- (iii) In response, the Company asserted that FluCard was invented by T-Data and special software from T-Data was required to make the product functional. As such, Cloud Stringer's purchases under transactions (a) and (b) were based on customised projects with T-Data while transactions (c) and (d) were bundled together with (a) and (b), which T-Data had the stocks for Cloud Stringer's urgent demand;
- (iv) In our view, the Company's explanations are unsatisfactory. Even though T-Data was the registered owner of the FluCard patents, the development of the product was done by the research and development ("**R&D**") team of the Group without the involvement of T-Data save for Wayne who apparently came up with the conceptual idea (this will be further covered under Section 8 below). As such, it is questionable or doubtful why "special software" from T-Data was purportedly required to make the product functional. We also reiterate our comments that any urgent demand from Cloud Stringers could have been fulfilled by Trek Singapore directly.

2.2.18 In the circumstances, the four sets of transactions between 30 September and 29 November 2013 involving Trek Singapore, T-Data and Cloud Stringers appear questionable and raise questions concerning their propriety.

2.2.19 Henn informed during the Maxwellisation Process that the product in question was FluCard Gold which was different from the standard FluCard products as T-Data had specifically customised it. Henn claimed that the FluCard Gold was preset to operate seamlessly for wireless upload to a server whereas the standard FluCard product do not have such features. He added that T-Data owned the rights to the FluCard Gold

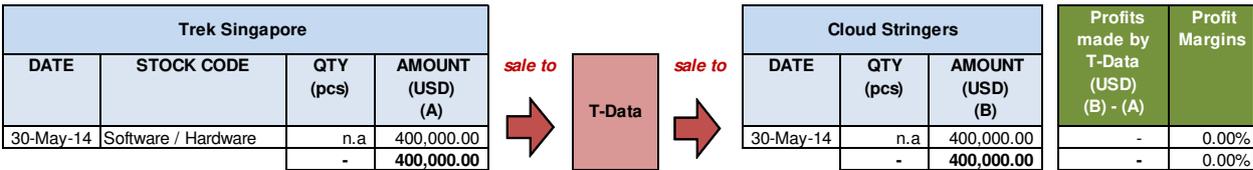
and had outsourced to the Company to customise the FluCard Gold according to T-Data’s specifications. Accordingly, there was nothing untoward in engaging Trek Singapore to develop FluCard Gold for T-Data to then sell it to Cloud Stringers which had the demand for it.

2.2.20 Firstly, even though T-Data was the owner of the FluCard patents, the development was undertaken by the Group’s R&D team. Wayne himself admitted that he only contributed ideas but was not involved in the development of the FluCard. This is further supported by T-Data’s very low staff costs. Given these reasons, the customisation could not have been done by T-Data and as Henn rightly pointed out, it had to be outsourced to the Company. We further note that the agreement entered into with T-Data for the FluCard patents allows the Company to use the patents (please refer to Section 8 for further details). Based on the above reasons, we do not see why Trek Singapore could not customised the product for Cloud Stringers but instead required the involvement of T-Data.

2.2.21 In his Maxwellisation response, Foo reiterated that it was common knowledge between the Company, T-Data and Cloud Stringers that T-Data was the legal owner of the intellectual property rights in respect of the FluCard Gold and as such, there is no basis to suggest that Cloud Stringers could have purchased the stocks from the Company instead of T-Data. We do not agree with Foo’s comments for the reasons already stated above.

Trek Singapore → T-Data → Cloud Stringers (fixed asset purchase)

2.2.22 The diagram below summarises the suspected round-tripping transactions involving the sale from Trek Singapore to T-Data and the subsequent sale from the latter to Cloud Stringers relating to a fixed asset:



2.2.23 This transaction relates to two units of computer servers. On 28 May 2014, T-Data issued a purchase order (“**PO**”) to Trek Singapore for “NRE Cost” with remarks stating the specification of the servers as follows. The PO was signed by Wayne.

Remarks:  
*Server with Intel Xenon 12 Core with 192 MB  
 DDR3 RAM x 2 units  
 System Storage 600GB SAS HDD x 1 unit  
 Windows Server with VM ware x 4 License  
 Server software for Cloud x 1 unit*

2.2.24 NRE refers to non-recurring engineering (“**NRE**”) which is a term typically used by the Group for engineering work or services such as engineering design, engineering development / conceptualisation, firmware / software development, etc.

2.2.25 On 30 May 2014, Trek Singapore issued an invoice of US\$428,000 (US\$400,000 plus Goods and Services Tax (“**GST**”)) for the above. The invoice was signed by Henn.

2.2.26 On the same day, T-Data issued an invoice and delivery order (“**DO**”) addressed to Cloud Stringers for the same amount of US\$428,000 (US\$400,000 plus GST) for the following:

<u>Description</u>	<u>Qty</u>
1. <i>Server with Intel Xenon 12 Core with 192MB DDR3 RAM</i>	<i>2</i>
2. <i>System Storage 600 GB SAS HDD</i>	<i>1</i>
3. <i>Windows Server with VM ware</i>	<i>4</i>

2.2.27 The purchase of these servers was recorded as an addition to fixed assets in Cloud Stringers’ books. We understand that Cloud Stringers is still presently using the servers for its business operations.

- 2.2.28 According to Poo, he was informed by Henn that the servers originated from Party A arising from and related to Party A's investment in Cloud Stringers and that the servers were provided free of charge. However, Poo was not aware of the full details of the arrangement with Party A.
- 2.2.29 When questioned, Henn claimed to have no knowledge of this arrangement and instead suggested that it could be Wayne who negotiated with Party A to provide the servers out of goodwill.
- 2.2.30 Wayne, on the other hand, stated that he could not ascertain the origination of the servers and had little recollection of this transaction even though he signed on the T-Data PO to Trek Singapore.
- 2.2.31 The Company's explanation (through Foo) was that Trek Singapore had performed NRE work on the servers (which arrived as "blank" hardware and from Party A for free) to T-Data and thereafter, T-Data sold the servers to Cloud Stringers. If that were the case, T-Data could have incurred NRE cost on the servers before selling the servers to Cloud Stringers based on the NRE cost incurred without any mark-up.
- 2.2.32 We found the Company's explanation difficult to accept. Based on that explanation, T-Data's involvement was completely unnecessary or irrelevant. If the servers were indeed a contribution from Party A with respect to its investment in Cloud Stringers, why were the servers with T-Data before being sold to Cloud Stringers? Further, if Cloud Stringers required the NRE services, Trek Singapore could simply have provided those services directly to Cloud Stringers. No explanation was given as to why that T-Data had to be involved in the transaction.
- 2.2.33 Yet, there appears to be at least one possible reason - by involving T-Data as the "middle party" and taking the position that T-Data was not a Group-related party, Trek Singapore could then record the revenue of US\$400,000 for the sale to T-Data as a "third party" as opposed to a direct related party sale to Cloud Stringers which would then have been eliminated on consolidation of the Group's financial statements.

- 2.2.34 Henn's Maxwellisation response to the above was that Wayne conceived a cloud concept sometime in 2012 while he was a shareholder of T-Data and had convinced Party A to invest in his concept. The servers were given by Party A to Wayne as a premium to their investment at par value. Party A would not have been able to provide the servers directly to Cloud Stringers at that time as Cloud Stringers was not in existence then. Wayne required NRE work to be carried out on the servers so that the servers would be able to support cloud functions and had engaged a freelance engineer and commissioned Trek Singapore for the NRE work as the engineers of Trek Singapore had the relevant expertise. Subsequently, around March 2014, when Wayne left T-Data and moved on to Cloud Stringers, he needed the servers to execute his concept and thus Cloud Stringers had to purchase the server from T-Data and by this time, the Trek Singapore had provided US\$400,000 worth of NRE work on the servers.
- 2.2.35 Henn's explanation above appear to suggest Wayne's heavy involvement in the matter relating to the servers but Wayne on the other hand, seem to have very little recollection of the events which took place based on our interview with him. In fact, Wayne mentioned that there was some engineering support rendered by T-Data (and not Trek Singapore) to Cloud Stringers. Further, since the servers were given to Wayne for his cloud concept (which led to the establishment of Cloud Stringers), we fail to understand why Cloud Stringers could not pay for the NRE work performed by Trek Singapore directly and instead had to purchase the servers from T-Data. By the time Trek Singapore billed T-Data for the NRE work, Cloud Stringers had been incorporated and hence it was possible for Trek Singapore to bill Cloud Stringers for it. There was no reason for Cloud Stringers to purchase the servers from T-Data as the servers did not belong to T-Data, were not recorded in T-Data's books<sup>48</sup> and not meant for T-Data's business.
- 2.2.36 In addition, given that the purported NRE services were provided by Trek Singapore within two days (PO was issued by T-Data to Trek Singapore for the NRE services on 28 May 2014 and the subsequent sale by T-Data to Cloud Stringers was on 30 May 2014) and the high value of the services provided (US\$400,000), we raised the

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<sup>48</sup> T-Data's non-current assets as shown in its financial statements for FY2012 and FY2013 stated only office equipment valued at S\$1,875 and S\$2,134 respectively.

question on whether any NRE services were actually provided by Trek Singapore in such a short period of time. During the Maxwellisation Process, Henn informed that the invoice was issued post-event by Trek Singapore to T-Data and that the actual NRE services were provided much earlier. We note that no evidence was provided to support this claim but Henn stated that he was prepared to arrange for Cloud Stringers to demonstrate to us the functions and capabilities of the server as well as the NRE work carried out.

- 2.2.37 We further note that Cloud Stringers made a claim of S\$300,996 for the Year of Assessment 2015 under the PIC Scheme for the purchase of the servers. As is obvious, if those servers had been provided for free by Party A and the NRE services were provided by Trek Singapore (if it was provided at all), it is of some concern that a claim under the PIC Scheme would be made.

Trek Singapore → T-Data → Trek Thailand

- 2.2.38 The diagram below summarises the suspected round-tripping transactions involving sales from Trek Singapore to T-Data and the subsequent sales from the latter to Trek Thailand:

# TREK 2000 INTERNATIONAL LTD – REPORT ON SUSPICIOUS TRANSACTIONS

Trek Singapore				Trek Thailand			Profits made by T-Data (USD) (B) - (A)	Profit Margins
S/N	STOCK CODE	QTY (pcs)	AMOUNT (USD) (A)	S/N	QTY (pcs)	AMOUNT (USD) (B)		
1	AIBALL BOX	200	110.00	1	200	120.00	10.00	9.09%
2	AI-BALL CRADLE	2	15.80	2	2	16.00	0.20	1.27%
3	ENSHU-BU-08G	600	1,929.00	3	600	1,935.00	6.00	0.31%
4	ENSHU-BU-16G	250	1,387.50	4	250	1,390.00	2.50	0.18%
5	ENSHU-RD-04G	256	739.84	5	256	742.40	2.56	0.35%
6	ENSHU-RE-08G	920	2,971.80	6	920	2,981.00	9.20	0.31%
7	ENSHU-RE-16G	200	1,118.00	7	200	1,120.00	2.00	0.18%
8	ENSHU-YE-08G	600	1,929.00	8	600	1,935.00	6.00	0.31%
9	ENSHU-YE-16G	250	1,387.50	9	250	1,390.00	2.50	0.18%
10	FCULTRA-16G	605	14,214.50	10	605	14,275.00	60.50	0.43%
11	FCULTRA-32G	300	9,720.00	11	300	9,750.00	30.00	0.31%
12	HAYABUSA-BU-4G	1,250	4,050.00	12	1,250	4,062.50	12.50	0.31%
13	HAYABUSA-BU-8G	1,320	5,491.00	13	1,320	5,504.20	13.20	0.24%
14	HAYABUSA-LB-8G	3,400	12,407.00	14	3,400	12,441.00	34.00	0.27%
15	HAYABUSA-OR-16G	1,359	8,830.51	15	1,359	8,844.10	13.59	0.15%
16	HAYABUSA-OR-4G	5,250	16,050.00	16	5,250	16,102.50	52.50	0.33%
17	HAYABUSA-OR-8G	1,500	4,935.00	17	1,500	4,950.00	15.00	0.30%
18	HAYABUSA-WH-16G	1,600	10,030.00	18	1,600	10,046.00	16.00	0.16%
19	HAYABUSA-WH-32G	583	7,017.87	19	583	7,023.70	5.83	0.08%
20	HAYABUSA-WH-4G	19,538	64,833.05	20	19,538	65,028.43	195.38	0.30%
21	HAYABUSA-WH-8G	5,300	21,063.00	21	5,300	21,116.00	53.00	0.25%
22	HDTS312AZSTA	90	7,007.10	22	90	7,008.00	0.90	0.01%
23	HDTS325AZSTA	85	11,514.15	23	85	11,515.00	0.85	0.01%
24	HDTS351AZSTA	30	7,709.70	24	30	7,710.00	0.30	0.00%
25	JEWEL CASE-FLUCARD	14,995	749.75	25	14,995	899.70	149.95	20.00%
26	MIKAWA-CY-16G	1,400	7,366.00	26	1,400	7,380.00	14.00	0.19%
27	MIKAWA-GY-32G	700	7,018.00	27	700	7,025.00	7.00	0.10%
28	MIKAWA-MAG-4G	8,500	24,015.00	28	8,500	24,100.00	85.00	0.35%
29	MIKAWA-YE-8G	5,200	16,033.00	29	5,200	16,085.00	52.00	0.32%
30	SURUGA-BK-16G	630	3,779.70	30	630	3,786.00	6.30	0.17%
31	SURUGA-BK-32G	270	3,496.30	31	270	3,499.00	2.70	0.08%
32	SURUGA-BK-8G	1,900	7,245.00	32	1,900	7,264.00	19.00	0.26%
33	SURUGA-BU-4G	665	2,154.60	33	665	2,161.25	6.65	0.31%
34	SURUGA-RE-8G	1,100	4,653.00	34	1,100	4,664.00	11.00	0.24%
35	SURUGA-WH-16G	730	4,458.70	35	730	4,466.00	7.30	0.16%
36	SURUGA-WH-4G	3,250	10,299.60	36	3,250	10,332.10	32.50	0.32%
37	SURUGA-WH-8G	900	3,441.00	37	900	3,450.00	9.00	0.26%
38	TDM-HIPPO-4G	300	1,053.00	38	300	1,056.00	3.00	0.28%
39	TDM-HIPPO-8G	300	1,236.00	39	300	1,293.00	57.00	4.61%
40	TDMICRO 32GB-CC.TREK	300	2,850.00	40	300	2,850.00	-	0.00%
41	TDSLEEK 16G-CC	16	122.40	41	16	122.56	0.16	0.13%
42	TDSLEEK 32G-CC	12	176.28	42	12	176.40	0.12	0.07%
43	TDSLEEK 4G-CC	2	8.22	43	2	8.24	0.02	0.24%
44	TDSLEEK 8G-CC	83	405.87	44	83	406.70	0.83	0.20%
45	TH-CF-EXC-16G-PRO	10	391.40	45	10	391.50	0.10	0.03%
46	TH-CF-EXC-32G	10	442.90	46	10	443.00	0.10	0.02%
47	TH-CF-EXC-32G-PRO	100	7,927.00	47	100	7,928.00	1.00	0.01%
48	TH-CF-EXC-64G	5	447.95	48	5	448.00	0.05	0.01%
49	TH-MSD-04G	10,900	27,681.00	49	10,900	27,785.00	104.00	0.38%
50	TH-MSD-08G	10,950	33,115.65	50	10,950	33,225.15	109.50	0.33%
51	TH-MSD-16G	800	4,872.00	51	800	4,880.00	8.00	0.16%
52	TH-MSD-C10-16G	50	387.00	52	50	387.50	0.50	0.13%
53	TH-MSD-C10-32G	229	3,571.31	53	229	3,573.60	2.29	0.06%
54	TH-SD-04G-BP	14,995	46,784.35	54	14,995	46,934.30	149.95	0.32%
55	TH-SD-08G	1	3.69	55	1	3.70	0.01	0.27%
56	TH-SD-C10-16G	10,837	75,166.53	56	10,837	75,274.90	108.37	0.14%
57	TH-SD-C10-32G	1,678	24,797.42	57	1,678	24,814.20	16.78	0.07%
58	TH-SD-C10-64G	20	614.20	58	20	614.40	0.20	0.03%
59	TH-SD-C10-8G	10,294	42,367.06	59	10,294	42,459.20	92.14	0.22%
60	TH-SD-EXC-16G	768	19,379.34	60	768	19,387.02	7.68	0.04%
61	TH-SD-EXC-16G-T2	2,510	29,865.15	61	2,510	29,890.25	25.10	0.08%
62	TH-SD-EXC-16G-UHS2	5	241.95	62	5	242.00	0.05	0.02%
63	TH-SD-EXC-32G	629	27,274.81	63	629	27,281.10	6.29	0.02%
64	TH-SD-EXC-32G-T2	2,413	57,658.14	64	2,413	57,682.27	24.13	0.04%
65	TH-SD-EXC-32G-UHS2	5	411.95	65	5	412.00	0.05	0.01%
66	TOS-FLAIR-16GB-C10	2,900	72,175.00	66	2,900	72,204.00	29.00	0.04%
67	TOS-FLAIR-32GB-C10	1,143	34,922.17	67	1,143	34,889.50	(32.67)	-0.09%
68	TOS-FLAIR-8GB	27	701.73	68	27	702.00	0.27	0.04%
69	TOS-FLAIR-8GB-C10	3,948	79,389.52	69	3,948	79,429.90	40.38	0.05%
		<b>161,968</b>	<b>907,611.96</b>		<b>161,968</b>	<b>909,313.27</b>	<b>1,701.31</b>	<b>0.19%</b>

sale to

sale to

T-Data

- 2.2.39 We found a total of 287 sets of transactions which took place between 12 November 2012 and 28 November 2014. Due to the volume of transactions, we have not shown the dates of each of the transactions but rather, grouped the transactions by stock code in the diagram above.
- 2.2.40 Based on the supporting documents, most of the sales from Trek Singapore to T-Data took place on the same day as the corresponding sales from T-Data to Trek Thailand, and most of the Trek Singapore invoices to T-Data contained the same remarks on the corresponding Trek Thailand PO number.
- 2.2.41 Whilst the transactions above resulted in T-Data earning a negligible profit of US\$1,701.31 or 0.19% profit margin from the Group, they have caused the sales and purchases amounts to be inflated. Put another way, if there were direct sales from Trek Singapore to Trek Thailand, the sales by Trek Singapore and the purchases by Trek Thailand would have been eliminated on consolidation of the Group's results. By inserting T-Data as a "middle party", the sales and purchases amount will increase as T-Data was treated as a "third party" and no elimination would be carried out.
- 2.2.42 The Company (through Foo) explained that T-Data's role in the transactions with Trek Thailand was to act as a "shipping agent" of the Group. The term "shipping agent" was used loosely - not so much as the conventional understanding of a logistics service provider, but rather an agent whose role is to assist the Group to cushion or overcome trade sensitivities and territorial controls, and circumvent import / export procedures.
- 2.2.43 We were informed by Henn and Foo that T-Data was used by the Group, in the case of Trek Thailand, for the following:
- (i) Circumvent territorial controls – Party C, the largest and most important supplier of the Group, prohibits the direct export of Party C products into Thailand via Trek Thailand. However, Trek Thailand is allowed to purchase Party C products from any other resellers in the market. This was apparently a stance taken by Party C long ago to protect the business of Party C Thailand.

By using T-Data as an agent, Trek Singapore could sell Party C products to Trek Thailand without restrictions as T-Data was not part of the Group;

- (ii) Circumvent import / export procedures – T-Data would assist to hand-carry products into Thailand or in some instances under-declare the value of the goods in order to avoid or reduce import taxes and customs duties;
- (iii) Cushion trade sensitivities – logistics companies come into possession of sensitive trade information such as pricing and products sold through documents such as invoices, packing list and DOs which are usually provided to the logistics companies for preparation of shipping documentation. These valuable information could be sold to competitors. By using T-Data, only documents issued by T-Data would be disclosed to the logistics companies hence concealing the Group's sensitive information to competitors.

2.2.44 Based on our review of the Company's records and information provided by Foo, all the stock codes above were Party C-branded goods except for several items including AIBALL, FCULTRA, JEWEL CASE and TDSLEEK.

2.2.45 As explained by Foo, these non-Party C products make up a small proportion of the transactions above and were included as part of the sale through T-Data to ride on the shipment to Trek Thailand and as such, these explanations appear to be plausible reasons for involving T-Data in the transactions with Trek Thailand.

### **2.3 Suspected Round-Tripping Transactions Involving S-Com HK**

2.3.1 S-Com HK is a company incorporated in Hong Kong on 3 October 2005. S-Com HK was deemed an Interested Person since 30 April 2008 up to at least 3 October 2017 (date of the latest Annual Return submitted by S-Com HK), by virtue of the following relationships:-

- (i) From 30 April 2008 to 3 July 2015, Henn was the 100% shareholder of S-Com HK; and

- (ii) Pursuant to an allotment of shares to Wayne on 3 July 2015, Henn and Wayne currently hold 51% and 49% of shares in S-Com HK respectively.

2.3.2 Henn has been the sole director of S-Com HK since 30 April 2008.

2.3.3 The information above is based on the Annual Return submitted by S-Com HK on 3 October 2017.

2.3.4 During the Maxwellisation Process, Henn informed that when he acquired S-Com HK, the company was involved in capacitor customisation products for Sanyo. Subsequently, Sanyo was bought over by Party A and did not require S-Com HK’s services. S-Com HK then functioned as an International Purchasing Office and also acted as a consolidation and collection point. For example, a customer could go to S-Com HK to order 20 different parts and S-Com HK could source these parts from different suppliers. From 2013, the business of S-Com HK gradually declined and Henn did not pay much attention to it thereafter.

2.3.5 We were provided with the audited financial statements of S-Com HK for certain financial years. Our review on the financial statements revealed that S-Com HK had virtually no employees. Below is a summary of the disclosure on the staff costs including director’s fees, extracted from the financial statements of S-Com HK from FY2009 to FY2014:

<b>Extracted from the Financial Statements of S-Com HK</b>	<b>FY 2009</b>	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2012</b>	<b>FY 2013</b>	<b>FY 2014</b>
	1.4.09 to 31.03.10	1.4.10 to 31.03.11	1.4.11 to 31.03.12	1.4.12 to 31.03.13	1.4.13 to 31.03.14	1.4.14 to 31.03.15
<b>S\$ equivalent</b>	<i>Audited</i>	<i>Audited</i>	<i>Audited</i>	<i>Audited</i>	<i>Audited</i>	<i>Audited</i>
Director's fees	5,557	5,154	4,847	4,806	17,440	19,934
Staff medical	-	-	-	-	-	3,828
Salaries and related costs	-	5,291	5,230	-	-	-
<b>Total</b>	<b>5,557</b>	<b>10,445</b>	<b>10,078</b>	<b>4,806</b>	<b>17,440</b>	<b>23,762</b>

2.3.6 Henn informed us that after he acquired S-Com HK on 30 April 2008, he recruited an employee by the name of Jacky, who is presently no longer with the company. However, neither Henn nor the Company provided any documentary evidence of the existence of this individual “Jacky”. For example, no emails sent to or from “Jacky”

were produced. As we have seen certain documents issued by S-Com HK which were signed by Emily (a staff based in Hong Kong), we asked Henn if Emily was employed by S-Com HK. Henn said no and asserted that S-Com HK has its own staff.

- 2.3.7 We found it difficult to accept Henn's statements. Those statements appear to contradict the financial statements of S-Com HK which showed no staff costs from 1 April 2009 to 31 March 2010 and 1 April 2012 to 31 March 2015. Even in the intermediate period from 1 April 2010 to 31 March 2012 when there were staff costs, the total staff costs were only about S\$10,000 for the two years. During the Maxwellisation Process, Henn clarified that there were personnel engaged by S-Com HK on a freelance basis and the costs for these personnel were recorded as consultancy fees. Henn also obtained confirmation from S-Com HK's auditors that these consultancy fees (or staff costs) were recorded as Director's remuneration in the financial statements of S-Com HK. A copy of the email received from S-Com HK's auditors together with the relevant ledger entries for consultancy fees for the period from April 2008 to March 2012 were provided to us (please refer to **Appendix 13**). However, based on our review of the documents provided, we need that the figures stated on the ledger entries did not match those of the financial statements. For example, the directors' remuneration stated in the audited financial statements for the year ended 31 March 2011 was HK\$30,084.91 but the ledger showed a significantly different amount of HK\$385,709.
- 2.3.8 Further, based on the financial statements provided, for the six-year period from 1 April 2009 to 31 March 2015, S-Com HK generated revenue of approximately S\$31 million (HK\$187 million). A question then arises as to who had been running the business and operations of S-Com HK if it had no employees.
- 2.3.9 Even though Henn has been the sole director of S-Com HK, he claimed to have no knowledge of where S-Com HK operated from and the general and day-to-day operations of the company. Henn informed that he relied on Foo who had "*full control so he should know what is going on*"<sup>49</sup>.

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<sup>49</sup> During the Maxwellisation Process, Henn clarified that his comment on Foo's knowledge and control was insofar as transactions between the Company and S-Com HK were concerned.

2.3.10 Further information obtained from the various interviews and review of documents included the following:

- (i) Foo told us that S-Com HK's business was handled by the Trek HK team and that Trek HK and S-Com HK operated a common warehouse;
- (ii) Foo's statement is consistent with Poo's statement that the team that was managing Trek HK was the same team that was managing S-Com HK. Poo also said that he had always assumed that S-Com HK was a subsidiary of the Company from the way S-Com HK's business was being conducted and managed;
- (iii) Emily informed us that she used to perform work for S-Com HK including preparation of documentation, delivery / shipment scheduling and liaison, and answering telephone calls and enquiries;
- (iv) Cynthia confirmed that she had assisted in the preparation of billings for S-Com HK in the past; and
- (v) We sighted invoices issued under S-Com HK's letterhead which bore the same office address, telephone number and facsimile number as Trek HK.

2.3.11 Based on the above, it appears that the business of S-Com HK was operated and managed by the Group's senior management and employees.

2.3.12 In his Maxwellisation response, Foo clarified that he did not mean that S-Com HK's business was handled by the Trek HK team. Instead, he meant that it was the business between the Group and S-Com HK which was handled by the Trek HK<sup>50</sup>. In addition, Foo also stated that to the best of his knowledge and information, Cynthia would have assisted in preparing the invoices to be issued by the Company to S-Com HK and not in the preparation of billings for S-Com HK.

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<sup>50</sup> This was echoed by Henn in his Maxwellisation response.

2.3.13 Even if we were to accept Foo’s explanation, there were other evidence that the business of S-Com HK was operated and managed by the Group’s senior management and employees and as such, our view remains the same.

2.3.14 On 4 January 2018, the Company confirmed that the Group has ceased to transact with S-Com HK and that the last transaction was on 28 December 2015 (a purchase transaction, the payment of which was made to S-Com HK on 29 February 2016).

2.3.15 There were five types of suspected round-tripping transactions involving S-Com HK as follows:

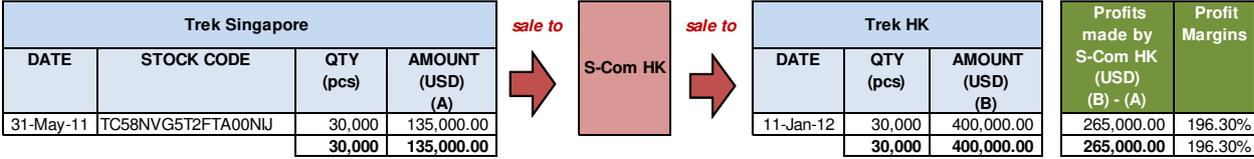
- (i) Sale from Trek Singapore to S-Com HK and thereafter sale from S-Com HK to Trek HK (Trek Singapore → S-Com HK → Trek HK);
- (ii) Sale from Trek HK to S-Com HK and thereafter sale from S-Com HK to Trek Singapore (Trek HK → S-Com HK → Trek Singapore);
- (iii) Sale from Trek Malaysia to S-Com HK and thereafter sale from S-Com HK to Trek HK (Trek Malaysia → S-Com HK → Trek HK);
- (iv) Sale from Trek HK to S-Com HK and thereafter sale from S-Com HK to Trek HK (Trek HK → S-Com HK → Trek HK); and
- (v) Sale from Trek HK to S-Com HK and thereafter sale from S-Com HK to S-Com Singapore (Trek HK → S-Com HK → S-Com Singapore).

2.3.16 The details of each type of transactions above are further elaborated below.

### Trek Singapore → S-Com HK → Trek HK

2.3.17 The diagram below summarises the suspected round-tripping transactions involving the sale from Trek Singapore to S-Com HK and the subsequent sale from the latter to Trek HK:

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2.3.18 For the transaction above, given the lapse of time of approximately 7.5 months between the sale from Trek Singapore to S-Com HK and the subsequent sale from S-Com HK to Trek HK, the Company was of the view that the transactions could be for different batches of stocks.

2.3.19 Assuming that the two transactions above relate to the same batch of stocks, the transactions resulted in S-Com HK earning a substantial profit of US\$265,000 or 196.30% profit margin from the Group.

2.3.20 The Company (through Foo) explained that Trek HK made the purchase from S-Com HK on 11 January 2012 as it had a requirement or order to fulfil. However, our review on the stock movement report showed that the subsequent sale by Trek HK took place more than a year later on 28 February 2013 and it was for a sale of only about 15% of the stocks purchased from S-Com HK.

2.3.21 Foo then explained that there could be a project for which the products were needed but the project could have been shelved subsequently and hence the stocks were not used. However, he was unable to provide any documentation to support its explanation or confirm the facts or events for the purchase of the products by Trek HK from S-Com HK. Foo later confirmed that the explanation above was based on speculation and assumption on the situation which could have occurred.

2.3.22 Without a satisfactory explanation for Trek HK’s purchase of the products which remained unutilised in its inventory for more than a year, there appears to be no proper justification for this set of transactions especially when Trek HK’s purchase from S-Com HK was made at almost three times the price sold by Trek Singapore to S-Com HK 7.5 months earlier.

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Trek HK → S-Com HK → Trek Singapore

2.3.23 The diagram below summarises the suspected round-tripping transactions involving sales from Trek HK to S-Com HK and the subsequent sales from the latter to Trek Singapore:

Trek HK				S-Com HK	Trek Singapore			Profits made by S-Com HK (USD) (B) - (A)	Profit Margins
DATE	STOCK CODE	QTY (pcs)	AMOUNT (USD) (A)		DATE	QTY (pcs)	AMOUNT (USD) (B)		
14-Aug-14	IT1172E-48C	1,050	399.00		14-Aug-14	1,050	420.00	21.00	5.26%
14-Aug-14	LBWA1DASKZ-507	677	507.75		14-Aug-14	677	541.60	33.85	6.67%
6-Aug-14	JD082715A	110	53.90		2-Sep-14	110	55.00	1.10	2.04%
6-Aug-14	Li-on-Battery	120	342.00		2-Sep-14	120	348.00	6.00	1.75%
6-Aug-14	USB-16GB-S	1	5.70		2-Sep-14	1	5.70	-	0.00%
26-Aug-14	MT29F32G08CBADA	1,050	2,730.00		2-Sep-14	1,050	2,782.50	52.50	1.92%
29-Aug-14	MT29F32G08CBADA	2	4.00		29-Aug-14	2	4.00	-	0.00%
29-Aug-14	TC58TEG6DDKTA00	50	150.00		29-Aug-14	50	155.00	5.00	3.33%
22-Sep-14	USB CONN MICRO	1,000	300.00		1-Oct-14	1,000	400.00	100.00	33.33%
22-Sep-14	LBWA1DASKZ-507	7,000	5,250.00		1-Oct-14	7,000	5,600.00	350.00	6.67%
1-Sep-14	MT29F64G08CBAAAWP:A	400	1,820.00		5-Sep-14	400	1,920.00	100.00	5.49%
18-Sep-14	MT29F64G08CBAAAWP:A	450	2,070.00		19-Sep-14	450	2,160.00	90.00	4.35%
		<b>11,910</b>	<b>13,632.35</b>			<b>11,910</b>	<b>14,391.80</b>	<b>759.45</b>	<b>5.57%</b>

2.3.24 While some of the sale and purchase transactions took place within the same day, others took place between several days or almost a month apart.

2.3.25 The invoices issued by Trek HK to S-Com HK and those issued by S-Com HK to Trek Singapore were all signed by Emily, who was and remains an employee of Trek HK.

2.3.26 The transactions above resulted in S-Com HK earning a small profit of US\$759.45 or 5.57% profit margin from the Group.

2.3.27 Similar to the explanation given on T-Data’s role as a “shipping agent” of the Group, the Company, through Foo, explained that S-Com HK also acted in the same role vis-à-vis the Group. Foo further explained that the Group used to be Sanyo’s main distributor for Sanyo’s capacitors before Sanyo was acquired by Party A. Trek HK was a distributor for the Hong Kong / China market whilst S-Com Singapore was a distributor for the Southeast Asia market. Sanyo did not allow cross-trade between Trek HK and S-Com Singapore to prevent pricing arbitrage activities as Sanyo employed different pricing structures for different markets. This meant that Trek HK

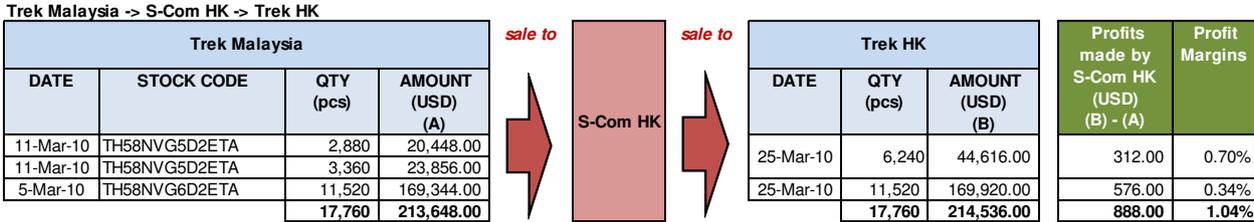
**TREK 2000 INTERNATIONAL LTD – REPORT ON SUSPICIOUS TRANSACTIONS**

was unable to sell Sanyo products to Singapore and S-Com Singapore was unable to sell the same to Hong Kong.

- 2.3.28 The Group supported various customers who were manufacturers-subcontractors. These subcontractors typically utilise the just-in-time manufacturing model which requires orders for materials to be fulfilled quickly to enable them to keep inventory levels to a minimum. If for any reasons the Group was not able to supply the materials to these customers within a short period of time, penalties could be imposed on the Group.
- 2.3.29 At times, when the materials required by customers could only be sourced from Trek HK within a short period, the Group would transact through S-Com HK, given the cross-trade restrictions imposed by Sanyo, in order to avoid being penalised by the customers for late delivery<sup>51</sup>.
- 2.3.30 We are unable to accept the Company’s explanation for the simple reason that the relevant transactions did not involve Sanyo products. Put another way, the cross-trade restrictions did not apply, and there appears to be no proper justification for S-Com HK’s involvement in the transactions above.

Trek Malaysia → S-Com HK → Trek HK

2.3.31 The diagram below summarises the suspected round-tripping transactions involving sales from Trek Malaysia to S-Com HK and the subsequent sales from the latter to Trek HK:



<sup>51</sup> Assuming there was a genuine circumvention of the trade restrictions put in place by Sanyo, we were not asked to consider, and have not considered, the liability of the Company (or its subsidiaries) vis-à-vis Sanyo.

- 2.3.32 All the transactions above took place within 3 weeks. No documents were available for our review.
- 2.3.33 The transactions above resulted in S-Com HK earning a small profit of US\$888.00 or 1.04% profit margin from the Group.
- 2.3.34 The Company's explanation (through Foo) was that in this case, S-Com HK's role was akin to a purchasing house or representative to assist Trek HK in its imports and exports. As the transactions above were Trek HK's imports from Trek Malaysia, the imports were done through S-Com HK.
- 2.3.35 We find this explanation questionable and unconvincing. As stated above, it appears that S-Com HK was operated and managed by the Group's senior management and employees. If that were the case, then there was no real need for Trek HK to require the assistance of S-Com HK to handle its imports and exports. The work would have been carried out by the Group's employees in any event.
- 2.3.36 Furthermore, Trek Malaysia or Trek HK could have engaged the services of their usual logistics service provider to handle the shipment and pay a fee for such services. Even if S-Com HK's assistance were required, there appears to be no reason for Trek Malaysia to sell the entire order to S-Com HK only for S-Com HK to sell everything to Trek HK, other than to boost the Group's revenue. Instead, Trek Malaysia could have paid a service fee to S-Com HK for the handling of the shipment to Trek HK.
- 2.3.37 Based on the above, there does not appear to be proper justification for the involvement of S-Com HK in the transactions above.

### Trek HK → S-Com HK → Trek HK

- 2.3.38 The diagram below summarises the suspected round-tripping transactions involving sales from Trek HK to S-Com HK and the subsequent sales back to Trek HK:

**TREK 2000 INTERNATIONAL LTD – REPORT ON SUSPICIOUS TRANSACTIONS**

Trek HK				sale to	S-Com HK	sale to	Trek HK			Profits made by S-Com HK (USD) (B) - (A)	Profit Margins
DATE	STOCK CODE	QTY (pcs)	AMOUNT (USD) (A)				DATE	QTY (pcs)	AMOUNT (USD) (B)		
31-Dec-08	25 CE33AXT	13,000	492.70			15-Apr-09	1,000	37.40	(6.50)	-1.32%	
27-Jan-10	6 TPC33M	60,000	7,080.00			29-May-09	1,000	37.40			
30-Apr-10	63 CE100BS	4,000	311.60			15-Jun-09	10,000	374.00	(168.00)	-2.37%	
14-Apr-11	10 CE1000BS	3,000	243.00			19-Jun-09	1,000	37.40			
		<b>80,000</b>	<b>8,127.30</b>			20-Aug-10	60,000	6,912.00			
						28-May-10	3,000	233.70	-	0.00%	
						25-Jun-10	1,000	77.90			
						3-Jun-11	1,500	120.90	(1.20)	-0.49%	
						28-Jul-11	1,500	120.90			
						<b>80,000</b>	<b>7,951.60</b>	<b>(175.70)</b>	<b>-2.16%</b>		

2.3.39 We note that unlike the previous sale and purchase transactions which took place within a very short period of time, the corresponding sale transactions from S-Com HK above took place after a longer period of one to six months after the first sale transactions to S-Com HK. No documents were available for review save for the transactions in 2011.

2.3.40 The transactions above resulted in S-Com HK making a small loss of US\$175.70 which represent a loss margin of 2.16%.

2.3.41 The Company explained that S-Com HK had difficulties selling the products and hence the items were sold back to Trek HK to help S-Com HK to clear the stocks.

2.3.42 We checked the stock movement reports for the items above and found that most of the items were sold by Trek HK to third parties first before the items were repurchased from S-Com HK, causing the stock balances to run into negative territory. We enquired with the Company and were informed that Trek HK and S-Com HK operated a common warehouse and hence Trek HK had sold the stocks in the warehouse first and subsequently arranged for the repurchase of the stocks from S-Com HK. It is unclear as to why the items could not be sold directly by S-Com HK instead.

2.3.43 In any case, the stocks were repurchased back from S-Com HK either at slightly lower prices or the same price as the initial sale from Trek HK to S-Com HK, resulting in S-Com HK suffering a small loss of US\$175.70. According to the Company’s records, Trek HK subsequently sold the items to third parties for a profit. Hence, the transactions above in fact benefited the Group.

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Trek HK → S-Com HK → S-Com Singapore

2.3.44 The diagram below summarises the suspected round-tripping transactions involving sales from Trek HK to S-Com HK and the subsequent sales from the latter to S-Com Singapore:

Trek HK				sale to	S-Com HK	sale to	S-Com Singapore			Profits made by S-Com HK (USD) (B) - (A)	Profit Margins
DATE	STOCK CODE	QTY (pcs)	AMOUNT (USD) (A)				DATE	QTY (pcs)	AMOUNT (USD) (B)		
3-Apr-12	10 SVP330M	19,600	5,164.60			3-Apr-12	800	210.72	(1.96)	-0.04%	
19-Apr-12	10 SVP330M	3,600	936.00			3-Apr-12	18,800	4,951.92			
26-Apr-12	6 SVP470M	6,000	1,560.00			19-Apr-12	2,000	526.80			
7-May-12	16 TQC68M	2,500	1,001.75			19-Apr-12	400	105.36	12.24	1.31%	
7-May-12	6 SVP470M	10,400	2,704.00			19-Apr-12	1,200	316.08			
14-May-12	6 SVP470M	5,200	1,352.00			26-Apr-12	6,000	1,536.00	(24.00)	-1.54%	
14-May-12	4 SVP560M	16,000	6,192.00			8-May-12	2,500	932.50	(69.25)	-6.91%	
		<b>63,300</b>	<b>18,910.35</b>			8-May-12	1,600	409.60			
						8-May-12	7,200	1,843.20	(41.60)	-1.54%	
						8-May-12	1,600	409.60			
						5-Jun-12	5,200	1,331.20	(20.80)	-1.54%	
						5-Jun-12	16,000	6,080.00	(112.00)	-1.81%	
							<b>63,300</b>	<b>18,652.98</b>	<b>(257.37)</b>	<b>-1.36%</b>	

2.3.45 Most of the sale and purchase transactions above took place on the same day or a day apart. Invoices issued by Trek HK to S-Com HK for all transactions were available for review while only five out of seven of the invoices issued by S-Com HK to S-Com Singapore were available. All the invoices sighted, whether issued by Trek HK or S-Com HK, were signed by Emily.

2.3.46 The transactions above resulted in S-Com HK making a small loss of US\$257.37 which represent a loss margin of 1.36%.

2.3.47 The explanation given for S-Com HK’s involvement in these transactions was the same as that given for the Trek HK → S-Com HK → Trek Singapore transactions, whereby S-Com HK was used as an intermediary to overcome the trade restrictions imposed by Sanyo which disallowed the sale of Sanyo products by Trek HK to Singapore<sup>52</sup>.

<sup>52</sup> Assuming there was a genuine circumvention of the trade restrictions put in place by Sanyo, we were not asked to consider, and have not considered, the liability of the Company (or its subsidiaries) vis-à-vis Sanyo.

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2.3.48 Unlike the Trek HK → S-Com HK → Trek Singapore transactions, the products subject to the transactions above were indeed Sanyo-branded products.

2.3.49 As the majority of the sales from S-Com HK to S-Com Singapore was based on lower prices compared to S-Com HK's purchase price from Trek HK, these transactions caused S-Com HK to suffer a small loss of US\$257.37. According to the Company's records, S-Com Singapore subsequently sold the items to third parties for a profit. Hence, the transactions above had benefited the Group.

### 2.4 Financial Impact of the Round-Tripping Transactions

2.4.1 For the transactions of which T-Data and S-Com HK's involvements were not properly and reasonably justified, our view is that these were probably round-tripping transactions in reality.

2.4.2 We summarise below the profits earned / losses suffered by T-Data and S-Com HK as a result of the round-tripping transactions:

Round-Tripping Transactions	Profits / (Loss) Made by T-Data / S-Com HK		
	Transactions with Proper / Reasonable Justification	Transactions without Proper / Reasonable Justification	Total
	US\$	US\$	US\$
<u>T-Data</u>			
Trek Singapore → T-Data → Cloud Stringers (inventory purchase)		4,699.20	
Trek Singapore → T-Data → Cloud Stringers (fixed asset purchase)		-	
Trek Singapore → T-Data → Trek Thailand	1,701.31		
	1,701.31	4,699.20	6,400.51
<u>S-Com HK</u>			
Trek Singapore → S-Com HK → Trek HK		265,000.00	
Trek HK → S-Com HK → Trek Singapore		759.45	
Trek Malaysia → S-Com HK → Trek HK		888.00	
Trek HK → S-Com HK → Trek HK	(175.70)		
Trek HK → S-Com HK → S-Com Singapore	(257.37)		
	(433.07)	266,647.45	266,214.38
<b>Total</b>	<b>1,268.24</b>	<b>271,346.65</b>	<b>272,614.89</b>

- 2.4.3 Out of the total profits of US\$6,400.51 earned by T-Data from the Group arising from the round-tripping transactions, profits amounting to US\$4,699.20 were earned by T-Data without proper and/or reasonable justification for its involvement in the transactions.
- 2.4.4 The total profits earned by S-Com HK from the Group arising from the round-tripping transactions without proper and/or reasonable justification for S-Com HK's involvement in the transactions were US\$266,647.45. However, if the loss of US\$433.07 suffered by S-Com HK as a result of the properly / reasonably justified transactions were taken into consideration, the profits earned by S-Com HK would amount to US\$266,214.38.
- 2.4.5 The financial impact on the Group above was computed based on the difference between the current situation and the scenario if T-Data / S-Com HK were not involved, as summarised below:

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Financial Impact US\$	Overstated / (Understated)					Total
	FY2010	FY2011	FY2012	FY2013	FY2014	
<b>T-DATA</b>						
<i>Trek Singapore → T-Data → Cloud Stringers</i>						
Revenue				41,350.80	400,000.00	<b>441,350.80</b>
Costs of sales				46,050.00		<b>46,050.00</b>
Profits				(4,699.20)	400,000.00	<b>395,300.80</b>
Assets (fixed asset)					400,000.00	<b>400,000.00</b>
Assets (receivables)				41,350.80		<b>41,350.80</b>
Liabilities (payables)				46,050.00		<b>46,050.00</b>
Equity (retained earnings)				(4,699.20)	400,000.00	<b>395,300.80</b>
<b>S-COM HK</b>						
<i>Trek Singapore → S-Com HK → Trek HK*</i>						
Revenue		135,000.00				<b>135,000.00</b>
Costs of sales		129,000.00	271,000.00			<b>400,000.00</b>
Profits		6,000.00	(271,000.00)			<b>(265,000.00)</b>
Assets (receivables)		135,000.00				<b>135,000.00</b>
Liabilities (payables)		129,000.00	271,000.00			<b>400,000.00</b>
Equity (retained earnings)		6,000.00	(271,000.00)			<b>(265,000.00)</b>
<i>Trek HK → S-Com HK → Trek Singapore</i>						
Revenue					13,632.35	<b>13,632.35</b>
Costs of sales					14,391.80	<b>14,391.80</b>
Profits					(759.45)	<b>(759.45)</b>
Assets (receivables)					13,632.35	<b>13,632.35</b>
Liabilities (payables)					14,391.80	<b>14,391.80</b>
Equity (retained earnings)					(759.45)	<b>(759.45)</b>
<i>Trek Malaysia → S-Com HK → Trek HK</i>						
Revenue	213,648.00					<b>213,648.00</b>
Costs of sales	214,536.00					<b>214,536.00</b>
Profits	(888.00)					<b>(888.00)</b>
Assets (receivables)	213,648.00					<b>213,648.00</b>
Liabilities (payables)	214,536.00					<b>214,536.00</b>
Equity (retained earnings)	(888.00)					<b>(888.00)</b>
<b>S-Com HK sub-total</b>						
Revenue	213,648.00	135,000.00	-	-	13,632.35	<b>362,280.35</b>
Costs of sales	214,536.00	129,000.00	271,000.00	-	14,391.80	<b>628,927.80</b>
Profits	(888.00)	6,000.00	(271,000.00)	-	(759.45)	<b>(266,647.45)</b>
Assets (receivables)	213,648.00	135,000.00	-	-	13,632.35	<b>362,280.35</b>
Liabilities (payables)	214,536.00	129,000.00	271,000.00	-	14,391.80	<b>628,927.80</b>
Equity (retained earnings)	(888.00)	6,000.00	(271,000.00)	-	(759.45)	<b>(266,647.45)</b>
<b>GRAND TOTAL</b>						
Revenue	<b>213,648.00</b>	<b>135,000.00</b>	<b>-</b>	<b>41,350.80</b>	<b>413,632.35</b>	<b>803,631.15</b>
Costs of sales	<b>214,536.00</b>	<b>129,000.00</b>	<b>271,000.00</b>	<b>46,050.00</b>	<b>14,391.80</b>	<b>674,977.80</b>
Profits	<b>(888.00)</b>	<b>6,000.00</b>	<b>(271,000.00)</b>	<b>(4,699.20)</b>	<b>399,240.55</b>	<b>128,653.35</b>
Assets (fixed asset)	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>400,000.00</b>	<b>400,000.00</b>
Assets (receivables)	<b>213,648.00</b>	<b>135,000.00</b>	<b>-</b>	<b>41,350.80</b>	<b>13,632.35</b>	<b>403,631.15</b>
Liabilities (payables)	<b>214,536.00</b>	<b>129,000.00</b>	<b>271,000.00</b>	<b>46,050.00</b>	<b>14,391.80</b>	<b>674,977.80</b>
Equity (retained earnings)	<b>(888.00)</b>	<b>6,000.00</b>	<b>(271,000.00)</b>	<b>(4,699.20)</b>	<b>399,240.55</b>	<b>128,653.35</b>

\*Actual sales from Trek Singapore to S-Com HK took place in 2011 and the sales from S-Com HK to Trek HK took place in 2012. The financial impact assumed that if S-Com HK was not involved, the direct sale from Trek Singapore to Trek HK would have taken place in 2012.

2.4.6 The T-Data round-tripping transactions have caused the Group's:

- (i) Revenue and Assets to be overstated by US\$441,350.80,
  - (ii) Costs of Sales and Liabilities to be overstated by US\$46,050.00, and
  - (iii) Profits and Retained Earnings (equity) to be overstated by US\$395,300.80,
- in FY2013 and FY2014.

2.4.7 The S-Com HK round-tripping transactions have caused the Group's

- (i) Revenue and Assets to be overstated by US\$362,280.35,
  - (ii) Costs of Sales and Liabilities to be overstated by US\$628,927.80, and
  - (iii) Profits and Retained Earnings (equity) to be understated by US\$266,647.45,
- between FY2010 and FY2014<sup>53</sup>.

2.4.8 Overall the round-tripping transactions involving both T-Data and S-Com HK have caused the Group's

- (i) Revenue and Assets to be overstated by US\$803,631.15,
  - (ii) Costs of Sales and Liabilities to be overstated by US\$674,977.80, and
  - (iii) Profits and Retained Earnings (equity) to be overstated by US\$128,653.25,
- between FY2010 and FY2014.

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<sup>53</sup> Henn commented in his Maxwellisation response that any potential financial impact on the Group's financial statements would be insignificant and that it is inconceivable that the Company or Henn would have engaged in any round-tripping transactions just to boost the revenue or profits by such an insignificant amount.

### 3 TRANSACTIONS WITH THE PARTY B ENTITIES

#### 3.1 Background Information

3.1.1 The Company’s auditors, EY, previously highlighted that they were provided with two invoices purportedly issued by Party B1. The invoices raised suspicion as the address reflected on the invoices was in fact Trek HK’s office address.

3.1.2 Arising from the above, we were asked to review the transactions involving Party B1 and other entities related to it.

3.1.3 Based on the information provided by the Company, the Group through Trek Singapore and Trek HK, transacted with three Party B Entities with the transactions totalling US\$14,840,358.47 as follows:

	Trek Singapore	Trek HK	Total
	US\$	US\$	US\$
<u>Party B1</u>			
Sales	2,591,298.78	-	2,591,298.78
Purchases	1,150,925.00	-	1,150,925.00
	3,742,223.78	-	3,742,223.78
<u>Party B2</u>			
Sales	-	7,794,692.62	7,794,692.62
Purchases	1,000,000.00	324,367.27	1,324,367.27
	1,000,000.00	8,119,059.89	9,119,059.89
<u>Party B3</u>			
Sales	-	1,979,074.80	1,979,074.80
	-	1,979,074.80	1,979,074.80
<b>Total</b>	<b>4,742,223.78</b>	<b>10,098,134.69</b>	<b>14,840,358.47</b>

3.1.4 The details of the transactions above are further elaborated below.

**3.2 Transactions with Party B1**

3.2.1 The transactions with Party B1 were sales and purchases between Trek Singapore and Party B1 from 2008 to 2013 as shown below. Trek Singapore’s sales to Party B1 were mainly for the Thumbdrive products

Transactions with Party B1	2008 US\$	2009 US\$	2010 US\$	2011 US\$	2012 US\$	2013 US\$	2014 US\$	Total US\$
Trek Singapore								
Sales	729,248.60	370,778.95	132,960.86	170,446.20	36,969.60	1,150,894.57		2,591,298.78
Purchases							1,150,925.00	1,150,925.00
<b>Total</b>	<b>729,248.60</b>	<b>370,778.95</b>	<b>132,960.86</b>	<b>170,446.20</b>	<b>36,969.60</b>	<b>1,150,894.57</b>	<b>1,150,925.00</b>	<b>3,742,223.78</b>

3.2.2 Based on the Annual Reports of Party B (a company listed on Hong Kong Stock Exchange) covering the period from 1 April 2007 to 31 March 2014, Party B1 was a wholly-owned subsidiary of Party B with a paid-up capital of US\$80 million and was incorporated in China. Its principal activities are stated as ‘*manufacturing and distribution of IT products*’.

3.2.3 Supporting documents such as invoices issued by Trek Singapore, airway bills and packing lists were only available for some but not all of the transactions.

3.2.4 Based on the records extracted from the general ledgers and bank statements provided to us, the transactions with Party B1 were settled mainly via payments received and setoffs between sales and purchases, as follows:

Transactions with Party B1	Sales US\$	Purchases US\$
<b>Sales to / purchase from Party B1</b>	<b>2,591,298.78</b>	<b>1,150,925.00</b>
<u>Settlement:</u>		
Credit note	(4,584.45)	
Overbilling reversal via journal voucher	(130.00)	
Actual payments	(1,435,689.76)	
Offset against sales / purchases	(1,150,894.57)	(1,150,894.57)
Bank charges	-	(30.43)
	<b>(2,591,298.78)</b>	<b>(1,150,925.00)</b>

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3.2.5 Out of the actual payments received via TT purportedly from Party B1 of US\$1,435,689.76, only the sum of US\$234,035.38 was verified to bank statements as the bank statements for the earlier years from 2008 to 2010 were not available for review.

3.2.6 Sales totalling US\$1,150,894.57 which were setoff against the purchases of US\$1,150,925.00 were found to be questionable as we further elaborate below.

Irregularities Identified from the Transactions with Party B1

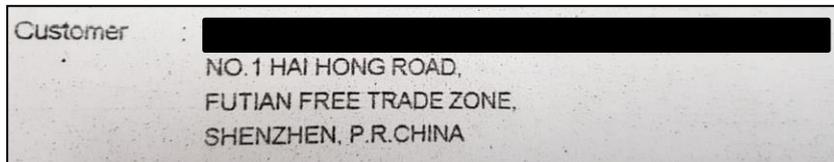
3.2.7 We found the following sale and purchase transactions with Party B1 to be highly questionable (“**Party B1 Questionable Transactions**”):

Date	Customer / Supplier	Stockcode	Quantity	Stock Report Description	Amount (US\$)
<b>Sales from Trek Singapore to Party B1</b>					
15-Oct-13	Cash sales	ENCLOSURE COMPONENT	26,479	Components for 1.8" Enclosure	592,070.44
14-Nov-13	Cash sales	THGVS5G6D2FBA19HEH	49,149	Toshiba NAND flash (eSD)	558,824.13
				(A)	<b>1,150,894.57</b>
<b>Purchases by Trek Singapore from Party B1</b>					
30-May-14	Cash purchase	USB COMPONENT	25,000	Components for USB Drive / HDD	592,125.00
30-May-14	Cash purchase	ET5ER5C-HS(W5THT)	100,000	Toshiba TLC Wafer	558,800.00
				(B)	<b>1,150,925.00</b>
				Setoff between sales and purchases (A) - (B)	(30.43)
				Contra to bank charges	30.43
				<b>Balance</b>	<b>-</b>

3.2.8 In relation to the purported sales to Party B1, the Trek Singapore invoices to Party B1 reflected Hengky as the preparer, Poo as the ‘Salesman’ and they were signed by Henn. As to the purported sales to Trek Singapore, the POs issued by Trek Singapore were prepared by Hengky and signed by Henn and the invoices purportedly issued by Party B1 were sent to the attention of Poo. The invoices relating to the Party B1 Questionable Transactions above are provided in **Appendix 17**.

3.2.9 Irregularities identified include the following:

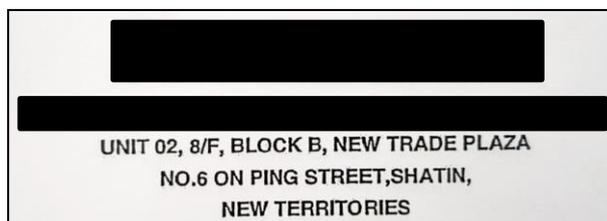
- (i) Apart from the Party B1 Questionable Transactions, all the invoices issued by Trek Singapore to Party B1 were addressed to a location in Shenzhen, China:



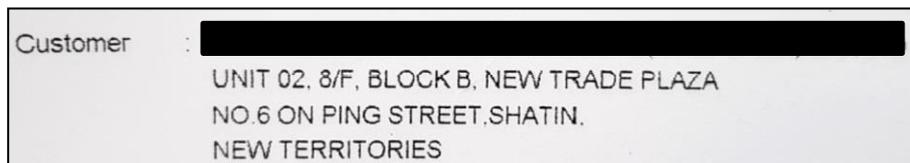
Although the official Party B website does not list down the addresses of its various locations, the address above matches that of Party B1 in at least two third party websites<sup>54</sup>.

For the four Party B1 Questionable Transactions, however, the invoices issued by Trek Singapore were addressed to a location in Hong Kong:

*Party B1 letterhead (for questionable transactions):*



*Customer information stated on Trek Singapore's invoices (for questionable transactions):*



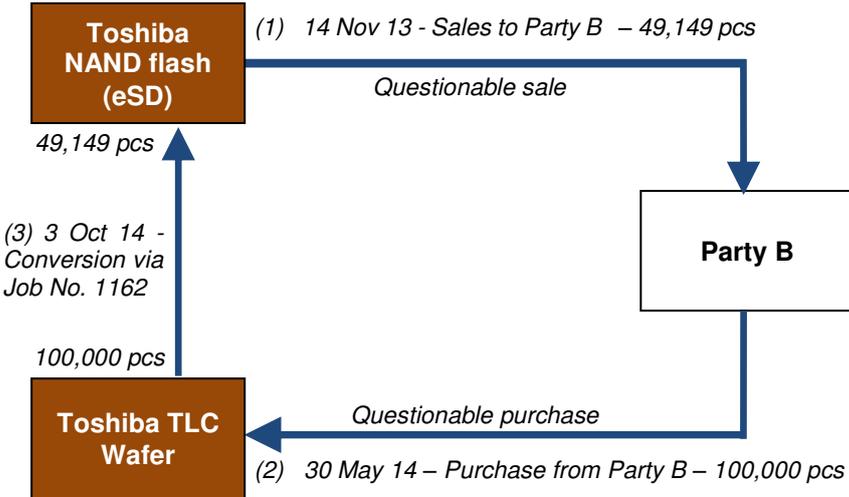
Further, the letterhead of the invoices purportedly issued by Party B1 also reflected that same HK address. We found it particularly troubling as this HK address is the address of Trek HK's office.

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<sup>54</sup> [REDACTED]

- (ii) Further, the Company had an account code which was tagged to Party B1. Apart from the Party B1 Questionable Transactions, this account code and the full name of Party B1 were used to record all the transactions with Party B1. However, there was a noticeable departure from this practice for the Party B1 Questionable Transactions – the sales were tagged to the '*Cash Sales*' account code and the purchases were tagged to the '*Cash Purchase*' account code. There was no explanation why the transactions were booked or tagged as cash transactions.
- (iii) Looking at the history of sales made to Party B1, Trek Singapore only sold Thumbdrive products to Party B1. Poo confirmed that fact. However, two of the Party B1 Questionable Transactions involved purported sales of Enclosure Components and Toshiba NAND flash to Party B1. There was no explanation why Party B1 purchased those items from the Group.
- (iv) Further, it is worth highlighting that the sales to Party B1, which occurred almost on a monthly basis, appear to have ceased since July 2012. Yet, the purported sales to Party B1 suddenly took place in October/November 2013.
- (v) The purported purchases from Party B1 are also questionable. The Group did not have a history of purchasing any stocks or goods from Party B1. Those questionable purchases were the only purchases made by the Group from Party B1.
- (vi) We also reviewed and queried on the products which were sold and purchased under the Party B1 Questionable Transactions. Every individual whom we interviewed, claimed to have no knowledge of and was unable to explain the nature and composition of the Enclosure Component stocks (sold by Trek Singapore) and USB Component stocks (sold by Party B1), or the difference between the two types of stocks. In our view, it defies logic and reason that no one knew what those stocks were, yet the sale and purchase transactions could take place.
- (vii) As for the Toshiba NAND flash (sold by Trek Singapore) and Toshiba TLC Wafer (sold by Party B1), these two stocks appear to be related to each other.

We sighted an internally generated Job Transfer form no. 1162 (exhibited in **Appendix 18**) which purportedly converted 100,000 pieces of the Toshiba TLC Wafer purchased from Party B1 to 49,149 pieces of the Toshiba NAND flash (eSD), the latter being the exact same stock and quantity which was purportedly sold to Party B1 seven months earlier. Please refer to the diagram below:



As such, even though the sale and purchase appear on paper to be for different stocks and quantities, these stocks could have been the same goods, giving rise to a potential round-tripping transaction. We asked various individuals if the conversion could be done vice versa but were told that, while the Toshiba TLC Wafer could be converted from wafer form to a chip form (which is the eSD), the reverse, although possible, was very unlikely and would be very costly.

In any case, we note that the conversion which was done through Job No. 1162 could have been a paper exercise to “convert” the stock code in the system with no real physical conversion taking place as there was no other evidence that such a physical conversion exercise actually took place<sup>55</sup>.

<sup>55</sup> During the Maxwellisation Process, Henn asserted that the 49,149 pieces of the Toshiba NAND flash (eSD) in the inventory as at 14 November 2013 were different from those manufactured as at 3 October 2014 through the Job transfer form no. 1162. Henn further pointed out that the Job transfer form no. 1162 made reference to TDO201311245 which corresponds to the invoice issued by Trek Singapore to Party B1 for the sale which took

(viii) As gleaned from the stock movement report, it would appear that 49,149 pieces of the Toshiba NAND flash (eSD) stocks went out on 14 November 2013 and the same quantity came back again on 3 October 2014, although the stocks which came back were, on paper, the Toshiba TLC Wafer which were “converted” into the Toshiba NAND flash (eSD). Please refer to the diagram below:

**THGVS5G6D2FBA19HEH Toshiba NAND flash (eSD)**

Date	Transaction	Stocks Quantity (pcs)	
		Movement	Balance
30-Sep-13	Closing stocks		49,849
14-Nov-13	Sale to Party B1	(49,149)	700
13-Dec-13	Job transfer out to FC8G-GOLD	(642)	58
3-Oct-14	Job transfer in from ET5ER5C-HS(W5THT)	49,149	49,207

Party B1 Questionable Transaction



Job transfer form no. 1162 converts 100,000 pieces of ET5ER5C-HS(W5THT) Toshiba TLC Wafer to 49,149 pieces of THGVS5G6D2FBA19HEH Toshiba NAND flash (eSD)

**ET5ER5C-HS(W5THT) Toshiba TLC Wafer**

Date	Transaction	Stocks Quantity (pcs)	
		Movement	Balance
	Opening		-
30-May-14	Purchase from Party B1	100,000	100,000
3-Oct-14	Job transfer out to THGVS5G6D2FBA19HEH	(100,000)	-

Party B1 Questionable Transaction

(ix) In addition, we note from the stock movement report for the Toshiba TLC Wafer that this stock was traded by Trek Singapore between June 2011 and June 2012 where stocks purchased were sold largely on a matching basis. After June 2012, there were no other transactions relating to this stock until the purported purchase from Party B1 in May 2014.

(x) There was no actual payment to settle the Party B1 Questionable Transactions. The transactions were setoff against each other and the small difference of US\$30.43 was recorded as bank charges.

(xi) Other than the invoices, there were no other supporting documents in relation to the transactions, for example shipping documents (packing lists, airway bills, cargo clearance permits, etc).

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place on 14 November 2013 and hence, the 49,149 pieces of stocks could have been manufactured for the purpose of replenishing the same number sold to Party B1. Contrary to Henn’s view, the reference on the Job transfer form no. 1162 to the invoice for the initial sale to Party B1 appears to suggest that the 100,000 pieces of Toshiba TLC Wafer which were subsequently converted to 49,149 pieces of the Toshiba NAND flash (eSD) were related to the initial sale to Party B1 for the same quantity of the same product.

- 3.2.10 The findings above raised serious doubts on the authenticity of the Party B1 Questionable Transactions.
- 3.2.11 We requested the Company to contact Party B1 to provide statements of account or listings of transactions to ascertain whether the latter has any records relating to the Party B1 Questionable Transactions. The Company informed us that it was unable to successfully establish contact with Party B1.
- 3.2.12 Further, we were informed of the following during the various interviews:
- (i) Hengky was the preparer of the invoices and POs issued by Trek Singapore to Party B1. However, he claimed that he had no knowledge of the details of the Party B1 Questionable Transactions. Whilst he prepared the documents based on instructions, he could not recall who gave the instructions and could only assume that it was Poo as his name appeared on the documents. As to why the transactions were recorded as '*Cash Sales*' and '*Cash Purchase*', he explained that he could not find the account code for Party B1. However, we found that explanation extremely difficult to accept as an account code had already been created for Party B1 and we could readily find the code in relation to previous transactions with Party B1 when we carried out our work.
  - (ii) Poo informed us that although his name was stated on the documents, he was not aware of the Party B1 Questionable Transactions and only knew about them when EY highlighted the issue in 2016. He said that he dealt with Party B1 in the past but only for the sale of Thumbdrives and did not have any further dealings with Party B1 since the last sale in 2012. Poo added that he '*finds it strange*' that Party B1 would purchase the Enclosure Components from Trek Singapore as '*it would be unlikely that Party B1 would be interested in buying enclosure components which are a mixture of loose materials and components*' based on his past dealings with Party B1. As for the purchases made by Trek Singapore from Party B1, Poo said that he had never purchased anything from Party B1 for the Group before.
  - (iii) When questioned on the documents he had signed relating to the Party B1 Questionable Transactions, Henn asserted that he signed, and continues to

sign, multiple documents on a daily basis and the only documents that he does not sign blindly are documents relating to outgoing payments. During the Maxwellisation Process, Henn informed that he was never involved in the transactions and had no personal knowledge of the same. Accordingly, he was not able to provide a first-hand explanation on the transactions.

- (iv) The accounting entries for the setoff of the Party B1 Questionable Transactions were approved by Singh. When queried, Singh informed us that he must have been advised by Hengky to effect the setoff and that it could have been an arrangement made by the operations team before the accounting entries took place. In contrast, Hengky said that had no personal knowledge of the setoff.
- (v) We also enquired about the Enclosure Component and USB Component stocks which were part of the Party B1 Questionable Transactions above. Poo recalled that these stocks '*have been there for a very long time and nobody touches these stock codes. Last I heard, Mr Singh was going to write off some of these*'. No one else appear to know what those stocks were.

3.2.13 The findings and observations laid out above strongly suggest that the Party B1 Questionable Transactions which comprised sales from Trek Singapore to Party B1 totalling US\$1,150,894.57 and purchases by Trek Singapore from Party B1 totalling US\$1,150,925.00, were highly doubtful and are likely to be fictitious transactions. It is also highly likely that the 49,149 pieces of the Toshiba NAND flash (eSD) stocks which purportedly sent out on 14 November 2013 and purportedly came back in again on 3 October 2014, were in fact not physically moved or changed hands between 14 November 2013 and 3 October 2014<sup>56,57</sup>.

3.2.14 In relation to these questionable transactions, the Company had fabricated two invoices which were purportedly issued by Party B1 totalling US\$1,150,925.00, and

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<sup>56</sup> During the Maxwellisation Process, Singh informed that he had no knowledge of this as it was handled by the Sales or Operations staff.

<sup>57</sup> Henn stated in his Maxwellisation response that he is prejudiced in that he is now unable to prepare a complete response to the allegations concerning these transactions since it is now impossible to seek clarification or verification from the relevant staff who had previously handled these transactions since they have left the Company and are uncontactable.

two invoices issued by Trek Singapore for the purported sale to Party B1 totalling US\$1,150,894.57.

3.2.15 It may also be useful to also note that the questionable purchases of the USB Component and the Toshiba TLC Wafer were also related to other transactions under review covered in Sections 4 and 5 below. In particular, the USB Component stocks were later converted into other stocks which were purportedly sold to Colite, while the Toshiba TLC Wafer were converted into the Toshiba NAND flash (eSD) which were the subject of a doubtful sale.

### **3.3 Transactions with Party B2**

3.3.1 There were purported sales and purchases transactions with Party B2 undertaken by both Trek Singapore and Trek HK from 2011 to 2014, as follows:

<b>Transactions with Party B2</b>	<b>2011 US\$</b>	<b>2012 US\$</b>	<b>2013 US\$</b>	<b>2014 US\$</b>	<b>Total US\$</b>
<u>Trek Singapore</u> Purchase		1,000,000.00			1,000,000.00
<u>Trek HK</u> Sales	5,689,044.18	1,781,281.17	324,367.27		7,794,692.62
Purchases				324,367.27	324,367.27
	5,689,044.18	1,781,281.17	324,367.27	324,367.27	8,119,059.89
<u>Total</u> Sales	5,689,044.18	1,781,281.17	324,367.27		7,794,692.62
Purchases		1,000,000.00		324,367.27	1,324,367.27
<b>Grand Total</b>	<b>5,689,044.18</b>	<b>2,781,281.17</b>	<b>324,367.27</b>	<b>324,367.27</b>	<b>9,119,059.89</b>

3.3.2 A check on the Annual Reports of Party B covering the period from 1 April 2010 up to 31 March 2015 revealed that it did not have any subsidiaries by the name of 'Party B'. We also conducted a general internet search and could not find any result for any entity by that name.

3.3.3 Only invoices for some transactions were available for review.

3.3.4 Based on the records extracted from the general ledgers and bank statements provided to us, the transactions with Party B2 were settled via a mixture of credit notes, actual payments received and setoffs. The bulk of the settlement modes were through setoffs between sales and purchases and using accounting entries via JVs. Please refer to the breakdown in the table below:

<b>Transactions with Party B2</b>	<b>Sales US\$</b>	<b>Purchases US\$</b>
<b>Trek Singapore</b> Purchase from Party B2		<b>1,000,000.00</b>
<u>Settlement:</u> Offset against Trek HK's sales		(1,000,000.00)
		-
<b>Trek HK</b> Sales to / purchase from Party B2	<b>7,794,692.62</b>	<b>324,367.27</b>
<u>Settlement:</u> Credit note	(448,944.00)	
Actual payment received	(1,057,251.61)	
Offset against sales / purchases	(324,367.27)	(324,367.27)
Offset against Trek Singapore's purchase	(1,000,000.00)	
Offset via journal vouchers	(4,964,129.74)	
	-	-

3.3.5 The actual payments received by Trek HK of US\$1,057,251.61 were all verified to bank statements and bank advices. Further details on the above are provided in Paragraph 3.3.9 below.

Irregularities Identified from the Transactions with Party B2

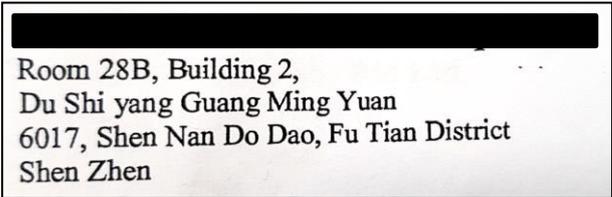
3.3.6 First, the existence of Party B2 cannot be confirmed. As mentioned above, Party B2 was not listed as one of the subsidiaries of Party B and internet searches on this entity did not yield any results. This suggests the non-existence of Party B2 as an entity.

**Trek Singapore and Party B2**

3.3.7 As to the purported purchase by Trek Singapore from Party B2, this was a single purchase transaction on 20 April 2012 for ‘Wireless Drive SIP ASIC’ for US\$1,000,000 which was recorded as an R&D expense. Of all the purported purchases by Trek Singapore and Trek HK from Party B2, this was the only purchase where a Party B2 invoice was available for review. A copy of the invoice is exhibited in **Appendix 19**.

3.3.8 We note the following:

- (i) The Party B2 invoice was issued under a letterhead with the following information:



We note that Party B stated on its website<sup>58</sup> that it has a Research Center in Shenzhen which is located at the Party B2 Building but the address stated on the website is different from the address stated on the purported invoice<sup>59</sup>. Foo informed us that the address above belongs to a third party assembly house contracted for one of the Group’s projects, and not Party B. After further review, we note that the address above is very similar to the Company’s previous office in Shenzhen, perhaps a few office units away (Room 28B versus 28E), as found in an email sent by a former employee:

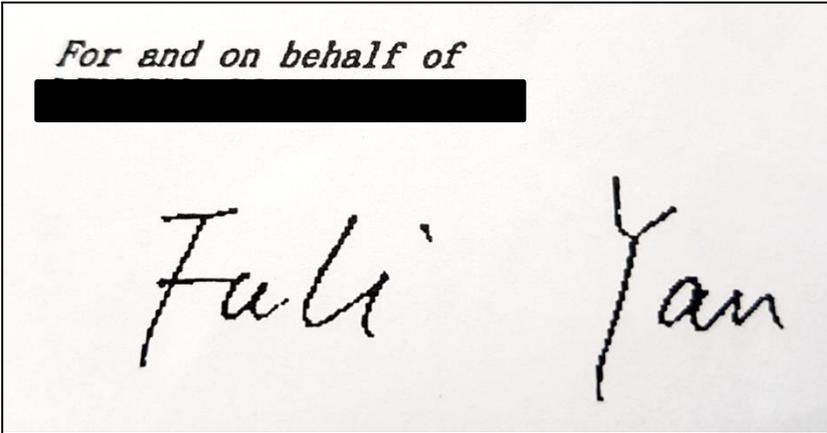
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<sup>58</sup> [Redacted]

<sup>59</sup> In his Maxwellisation response, Henn provided the printout from Party B’s website which indicated that the Party B has a Research Center at a building named Party B R&D Building in Shenzhen, which address he claimed matches the address stated on the Party B R&D invoice. Upon closer review, we note that the address stated on the website is different from the one stated on the Party B R&D invoice. While the actual Party B R&D office is located at the Party B R&D Building, the address stated on the invoice is located at a building named Du Shi Yang Guang Ming Yuan (都市阳光名苑), which is located approximately 10km from the Party B R&D Building.



- (ii) The invoice appears to be signed by one 'Fuli Yan' for and on behalf of Party B3 (and not Party B2). Upon closer inspection, the signature appears pixelated, an indication that it could have been superimposed from another source.



- (iii) No actual payment was made for this purchase. Instead, it was setoff against the sales from Trek HK to Party B2 in the books;

- (iv) Henn informed us that he did not know about this transaction and that it could be Dr Paul or Poo who handled this transaction<sup>60</sup>; and
- (v) Dr Paul and Poo were both in the R&D department, with Poo heading the department in the past and Dr Paul being presently employed in the R&D department. However, Dr Paul said that he was unaware of the transaction and added that this appeared to be unusual as the Company seldom use wireless drives back in 2012. It was only in the last three years or so that the Company was seeing more of the product. Similarly, Poo, who had past dealings with Party B, told us that he did not know about this transaction and did not have any dealings with any Party B entities with respect to R&D.

**Trek HK and Party B2**

3.3.9 As to the transaction between Trek HK and Party B2, there were various sales transactions but only one purchase transaction. Our findings are as follows:

Transactions with Party B2	Sales US\$	Purchases US\$
<b>Trek HK</b>		
Sales to / purchase from Party B2	<b>7,794,692.62</b>	<b>324,367.27</b>
<u>Settlement:</u>		
Credit note	(448,944.00)	
Actual payment received	(1,057,251.61)	
Offset against sales / purchases	(324,367.27)	(324,367.27)
Offset against Trek Singapore's purchase	(1,000,000.00)	
Offset via journal vouchers	(4,964,129.74)	
	-	-

<sup>60</sup> However, in his Maxwellisation response, Henn stated that the Wireless Drive SIP ASIC could possibly have been for the integrated circuit design carried out for the Company for the FluCard or Ai-Ball products. He further stated that It is common for the Company to engage Party B or other companies to carry out such R&D work (i.e. SIP ASIC) for the ASIC designs for its products. There is nothing unusual in the description of the work as set out in the invoice and a typical ASIC design invoice would probably appear similar to this.

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- (i) There were two credit notes issued in July 2013, for the sums of US\$440,812.80 and US\$8,131.20. No documents were available for review.
  
- (ii) Out of the total sales of US\$7,794,692.62, actual payments received were only US\$1,057,251.61. Based on the bank advices sighted, none of the payments came from Party B2 but other parties instead. The bulk of the receipts (97%) were in fact received from S-Com HK. Please refer to the table below for the breakdown of the sums received from other parties:

Date Received	Received from	Amount (US\$)
18-Oct-11	S-Com HK	374,672.76
27-Oct-11	S-Com HK	544,139.73
3-Jan-12	S-Com HK	103,819.54
2-Apr-12	Jabil Circuit (Wuxi) Co.,Ltd	3,123.60
10-Apr-12	Jabil Circuit (Guangzhou) Ltd	31,495.98
	<b>Total</b>	<b>1,057,251.61</b>

} 1,022,632.03

In our interview with Chin (the former Accounts Assistant Manager) during which we enquired on the relationship between S-Com HK and the Party B Entities, she informed that whenever payments were received from third parties, the accounts team would check with Singh on the nature and purpose of the receipt. She said that *‘Mr Singh will provide us with the information and we will record in the system based on instructions’*. However, when questioned on the reason for S-Com HK to make payments on behalf of Party B2, Singh claimed to have no knowledge of the same. In his Maxwellisation response, Singh reiterated that these transactions were handled by the Sales and Operations staff and that he would be informed by them of the nature of these transactions. It was based on his understanding from the Sales or Operations staff that payments for these transactions were made by S-Com HK. Further, Singh explained that he did not go through each payment received from third parties. Instead, his staff would present the financial statements to him on a consolidated basis and he would run through them. He would then give his staff general instructions to reconcile the accounts payable against accounts receivables.

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The payments received of US\$1,057,251.61 were in relation to 12 invoices totalling US\$1,518,742.33 only (some invoices were partially paid). The remaining invoiced amount of US\$461,490.72 was setoff via JV which is further elaborated below. The details of the payments received are as follows:

No.	Date	Doc. No.	Amount Invoiced (US\$)	Amount Paid by Third Parties (US\$)			Remaining Amount Setoff via JV (US\$)
				S-Com HK	Jabil Circuit (Wuxi) Co.,Ltd	Jabil Circuit (Guangzhou) Ltd	
1	19-Sep-11	201109026	315,869.40	188,532.16			127,337.24
2	21-Sep-11	201109029	255,846.99	255,846.99			
3	22-Sep-11	201109033	148,995.00	148,995.00			
4	30-Sep-11	201109044	236,278.35	236,278.35			
5	30-Sep-11	201109045	42,352.79	42,352.79			
6	30-Sep-11	201109047	46,807.20	46,807.20			
7	21-Oct-11	201110037	93,614.40	37,728.99			55,885.41
8	30-Oct-11	201110043	7,880.00	7,880.00			
9	31-Oct-11	201110047	22,730.40	22,730.40			
10	1-Nov-11	201111002	22,730.40	22,730.40			
11	2-Nov-11	201111008	104,016.00	12,749.75			91,266.25
12	15-Nov-11	201111030	221,621.40		3,123.60	31,495.98	187,001.82
<b>Total</b>			<b>1,518,742.33</b>	<b>1,022,632.03</b>	<b>3,123.60</b>	<b>31,495.98</b>	<b>461,490.72</b>

1,057,251.61

- (iii) Sales from Trek HK to Party B2 totalling US\$324,267.27 were setoff against purchases from Party B2 for the same amount. Our review revealed that the setoff was related to one particular sale and one particular purchase transaction involving the same stock code, quantity and transaction value, which took place approximately 7 months apart. Our view is that this pair of transactions could well be a round-tripping transaction. Please refer to the table below for the details of the transactions as extracted from the sales and purchases listings. No documents were available for review:

Date	Type	Description	Stock Code	Quantity	Amount (US\$)
6-Dec-13	Sale	Toshiba Int Circuit	TC58NVG5T2FTA00NIJ	24,696	324,367.27
25-Jul-14	Purchase		TC58NVG5T2FTA00NIJ	24,696	(324,367.27)

- (iv) A total of 15 invoices issued by Trek HK to Party B2 between 30 March and 18 April 2012 totalling US\$1,084,165.69 were setoff (some wholly while others partially) against Trek Singapore's questionable purchase of US\$1,000,000 from Party B2 as highlighted in Paragraph 3.3.7 above;

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- (v) A key suspicion is the offsets which were done through the internally generated JVs which account for US\$4,964,129.74 or 64% of the total purported sales to Party B2. Based on the information provided by the Company as verified against the general ledgers, the accounting entries to put the JVs into effect were convoluted and difficult to understand. After some analysis, we note that the net effect of the JV entries was that a large portion (US\$4,694,817.21 or 95%) of the entire amount of US\$4,964,129.74 could be traced to S-Com HK, either through
  - a direct setoff / contra with S-Com HK (US\$1,144,817.21); or
  - setoff / contra with other entities but the funds could be traced to S-Com HK (US\$3,550,000.00).

Please refer to the table below for the summary and breakdown of the net effect of the JV entries relating to the setoff:

Trek HK JV No.	Date	Amount US\$	Contra with S-Com HK US\$	Contra with Trek Singapore US\$	Contra with S-Com Singapore US\$	Contra with Jabil GZ US\$	Bank charges US\$
JV-201109000014	30-Sep-11	800,000.00		800,000.00			
JV-201111000001	15-Nov-11	370,568.87	370,568.87				
JV-201112000009	31-Dec-11	800,000.00		800,000.00			
JV-201112000001	31-Dec-11	240,694.34	240,694.34				
JV-201201000009	31-Jan-12	350,000.00		350,000.00			
JV-201202000015	29-Feb-12	300,000.00		300,000.00			
JV-201203000001	31-Mar-12	133,170.90	113,907.61			19,263.29	
JV-201203000008	31-Mar-12	100,000.00		100,000.00			
JV-201204000008	30-Apr-12	570,000.00		570,000.00			
JV-201205000008	31-May-12	400,000.00		400,000.00			
JV-201206000010	30-Jun-12	400,000.00		400,000.00			
JV-201206000016	30-Jun-12	419,646.39	419,646.39				
JV-201207000012	31-Jul-12	80,049.24			80,000.00		49.24
		<b>4,964,129.74</b>	<b>1,144,817.21</b>	<b>3,720,000.00</b>	<b>80,000.00</b>	<b>19,263.29</b>	<b>49.24</b>

Total = US\$3,819,263.29  
 Funds originated from or paid by S-Com HK  
 = US\$3,550,000.00

- (vi) In all, out of Trek HK’s total sales of US\$7,794,692.62 purportedly made to Party B2, 73% or US\$5,717,449.24 could be traced to S-Com HK via direct payments made to Trek HK, direct contra/setoff against S-Com HK or

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payments made by S-Com HK to other entities which were then used to setoff against the amount owing from Party B2, as shown below:

Trek HK sales to Party B2	Amount (US\$)	Credit Notes	Offsets	Traced to S-Com HK	Others
<b>Sales to Party B2</b>	<b>7,794,692.62</b>				
<u>Settlement:</u>					
Credit note	(448,944.00)	(448,944.00)			
Actual payment received	(1,057,251.61)			(1,022,632.03)	(34,619.58)
Offset against sales / purchases	(324,367.27)		(324,367.27)		
Offset against Trek Singapore's purchase	(1,000,000.00)		(1,000,000.00)		
Offset via journal vouchers	(4,964,129.74)			(4,694,817.21)	(269,312.53)
<b>Total</b>	<b>(7,794,692.62)</b>	<b>(448,944.00)</b>	<b>(1,324,367.27)</b>	<b>(5,717,449.24)</b>	<b>(303,932.11)</b>
		<b>6%</b>	<b>17%</b>	<b>73%</b>	<b>4%</b>

3.3.10 Additional information was provided by the following individuals:

- (i) Henn asserted that he was unable to clarify the transactions with Party B2 as he was not involved in the day-to-day operations<sup>61</sup>. He mentioned that Foo who handled the operations could be in a better position to clarify.
- (ii) Most of the invoices issued by Trek HK to Party B2 were signed by Emily. She informed us that she took instructions from various personnel in the Singapore office on the invoices to be generated, signed and sent out. The customer account code and address would have been created in the system and all she would do is to select the customer as instructed by Singapore office. She also informed us that she did not handle any receipts or payments.
- (iii) Foo explained the relationship between Trek HK, Party B2 and S-Com HK. Trek HK and S-Com HK were purportedly involved in a project with Party B2 for the supply of a type of Thumbdrive product called USB Disk in Package or in short, UDP. Trek HK had contracted Dawning Leading Technology Inc in Taiwan (“**Dawning**”) to assist in the packaging of wafers into UDP. For this,

<sup>61</sup> Henn added in his Maxwellisation response that his involvement was limited to the strategic negotiations with Party B on behalf of the Company. After the business deals were struck, he would then instruct the management team to implement and carry out the relevant transactions. As to how the relevant transactions took place, he has no personal knowledge and was unable to provide details.

Trek HK sold wafers to Dawning which the latter used and packaged into UDPs. After the packaging was done, Dawning would sell the UDP back to Trek HK at the price which would have included the packaging fee<sup>62</sup>. Trek HK then sold the UDP to S-Com HK and the latter would use a third party assembly house to put the UDP and other parts together as Thumbdrives to be sold to Party B. Foo informed that the third party assembly house was located at the address which was reflected on Party B2's letterhead. In the end, Party B paid S-Com HK, and in turn, S-Com HK paid Trek HK. Foo added that the sales were genuine even though the documentation was lacking / incorrect. He concluded that the team in Trek HK could have made a mistake and the reference to Party B2 should have appeared as remarks and not used as the name of the customer.

- (iv) Henn added in his Maxwellisation response that as far as he was aware, S-Com HK was appointed by Party B to act as consolidation and collection point whereby S-Com HK would purchase several components of products required by Party B from various sources and consolidate them before Party B takes delivery.

3.3.11 Notwithstanding Foo's explanation above, he also informed that he was never personally involved in the transactions or the abovementioned project with Party B2 and he did not know who was handling the transactions. He said that he *'learnt about those transactions after studying the documents and checking the history'*. However, other than the documents obtained by us from CAD (which appear to be incomplete), no other / further supporting documents were provided by the Company to us to support Foo's explanation. We are concerned that Foo's explanation may be an afterthought as there were no other supporting documents (see further below) and none of this explanation came up during our enquiry with the Company which was conducted before our interview with Foo.

3.3.12 Furthermore, we were unable to corroborate Foo's explanation above as no other individuals whom we have interviewed mentioned or appeared to have any

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<sup>62</sup> During the Maxwellisation Process, Foo clarified that it was the Company that contracted Dawning to assist in the packaging of wafers into UDP. The UDP was eventually sold by the Company to Trek HK. Henn in his Maxwellisation response stated that it was Trek Singapore that transacted with Dawning and not Trek HK.

knowledge of the UDP transactions with Party B2. As mentioned above, there were also no documents proving or supporting Foo’s explanation above. This is important because if Foo’s explanation were to be believed, there should have been multiple supporting documents – such as documents evincing any sale between Trek HK and Dawning – but none is available.

3.3.13 Given the above and a large portion of the transactions with Party B2 were settled via setoffs and a large portion of the setoffs were traced to S-Com HK, and where actual payments were received, 97% of the payments were from S-Com HK, a company which belongs to Henn and his son, Wayne, the transactions with Party B2 are highly doubtful and suspicious.

3.3.14 Even if the transactions were genuine (which we are unable to confirm), our findings revealed that the invoice purportedly issued by Party B2 for Trek Singapore’s purchase of the Wireless Drive SIP ASIC for US\$1,000,000 was likely to have been fabricated (refer to Paragraph 3.3.7 above). As this fictitious purchase was setoff against 15 sale invoices issued by Trek HK to Party B2 between 30 March and 18 April 2012, the authenticity of the 15 sale transactions and the entire series of transactions is called into serious doubt.

**3.4 Transactions with Party B3**

3.4.1 The transactions with Party B3 were all related to sales made by Trek HK, which took place over the course of a 6-month period from February to July 2012 mainly for the Thumbdrive products:

<b>Transactions with Party B3</b>	<b>2012 US\$</b>
Trek HK Sales	1,979,074.80
Purchases	-
<b>Total</b>	<b>1,979,074.80</b>

- 3.4.2 Based on the 2012/13 Annual Report of Party B, Party B3 is a wholly-owned subsidiary of Party B with a paid-up capital of HK\$2.00 incorporated in Hong Kong. Its principal activities are stated as ‘*procurement agency and distribution of IT products*’.
- 3.4.3 The Party B3 address stated on the invoice issued by Trek HK appears to be consistent with the address disclosed on third party websites<sup>63</sup>.
- 3.4.4 Supporting documents such as invoices issued by Trek HK, airway bills and packing lists were only available for some but not all of the transactions.
- 3.4.5 Based on the records extracted from the general ledgers and bank statements provided to us, the sales of US\$1,979,074.80 made to Party B3 were settled via two credit notes and actual payments made, as follows:

Transactions with Party B3	Amount US\$
Sales to Party B3	1,979,074.80
<u>Settlement:</u>	
Credit note	(4,710.00)
Actual payment	(1,974,364.80)
	(1,979,074.80)

- 3.4.6 All payments were verified to the bank statements except for one payment of US\$11,290.00, for which the bank statement was not available for review.
- 3.4.7 We did not find any evidence which suggests impropriety with respect to the transactions with Party B3.

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<sup>63</sup> [REDACTED]

**3.5 Financial Impact of the Transactions with Party B1 and Party B2**

3.5.1 We have highlighted above the irregularities and issues found with respect to the transactions with Party B1 and Party B2.

Party B1

3.5.2 The Party B1 Questionable Transactions are summarised below for easy reference:

<b>Date</b>	<b>Customer / Supplier</b>	<b>Amount (US\$)</b>
<b>Sales from Trek Singapore to Party B1</b>		
15-Oct-13	Cash sales	592,070.44
14-Nov-13	Cash sales	558,824.13
		<b>1,150,894.57</b>
<b>Purchases by Trek Singapore from Party B1</b>		
30-May-14	Cash purchase	592,125.00
30-May-14	Cash purchase	558,800.00
		<b>1,150,925.00</b>
30-May-14	Bank charges	<b>30.43</b>

3.5.3 On the basis that various transactions as highlighted above were fictitious, the financial impact of the Party B1 Questionable Transactions is as follows:

- (i) Revenue was overstated by US\$1,150,894.57;
- (ii) Costs of sales were overstated by US\$1,150,148.54;
- (iii) Expenses were overstated by US\$30.43;
- (iv) Profit was overstated by US\$715.60;
- (v) Assets (stocks) were overstated by US\$776.46;
- (vi) Assets (receivables) were overstated by US\$1,150,894.57;

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(vii) Liabilities (payables) were overstated by US\$1,150,955.43; and

(viii) Equity (retained earnings) was overstated by US\$715.60,

between FY2013 and FY2014. Please refer to the table below:

Financial Impact US\$	Overstated / (Understated)		
	FY2013	FY2014	Total
<b><u>Fictitious sales from Trek Singapore to Party B1</u></b>			
Revenue	1,150,894.57		<b>1,150,894.57</b>
Costs of sales	1,150,148.54		<b>1,150,148.54</b>
Profits	746.03		<b>746.03</b>
Assets (stocks)	(1,150,148.54)		<b>(1,150,148.54)</b>
Assets (receivables)	1,150,894.57		<b>1,150,894.57</b>
Equity (retained earnings)	746.03		<b>746.03</b>
<b><u>Fictitious purchases by Trek Singapore from Party B1</u></b>			
Costs of sales (purchases)		1,150,925.00	<b>1,150,925.00</b>
Costs of sales (closing inventory)		1,150,925.00	<b>1,150,925.00</b>
Profits		-	<b>-</b>
Assets (stocks)		1,150,925.00	<b>1,150,925.00</b>
Liabilities (payables)		1,150,925.00	<b>1,150,925.00</b>
Equity (retained earnings)		-	<b>-</b>
<b><u>Setoff</u></b>			
Expenses (bank charges)		30.43	<b>30.43</b>
Profits		(30.43)	<b>(30.43)</b>
Liabilities (payables)		30.43	<b>30.43</b>
Equity (retained earnings)		(30.43)	<b>(30.43)</b>
<b><u>Total</u></b>			
Revenue	1,150,894.57	-	<b>1,150,894.57</b>
Costs of sales	1,150,148.54	-	<b>1,150,148.54</b>
Expenses (bank charges)	-	30.43	<b>30.43</b>
Profits	746.03	(30.43)	<b>715.60</b>
Assets (stocks)	(1,150,148.54)	1,150,925.00	<b>776.46</b>
Assets (receivables)	1,150,894.57		<b>1,150,894.57</b>
Liabilities (payables)	-	1,150,955.43	<b>1,150,955.43</b>
Equity (retained earnings)	746.03	(30.43)	<b>715.60</b>

\*Cost of sales = Opening inventory + Purchases - Closing inventory

Party B2

3.5.4 As highlighted above, we found the transaction with Party B2 to be highly questionable. The transactions between Trek Singapore and Trek HK, and Party B2 are summarised below for easy reference:

<b>Transactions with Party B2</b>	<b>2011 US\$</b>	<b>2012 US\$</b>	<b>2013 US\$</b>	<b>2014 US\$</b>	<b>Total US\$</b>
<b>Sales</b>					
From Trek HK	5,689,044.18	1,781,281.17	324,367.27		7,794,692.62
<b>Purchases</b>					
By Trek Singapore		1,000,000.00			1,000,000.00
By Trek HK				324,367.27	324,367.27
<b>Total transactions</b>	<b>5,689,044.18</b>	<b>2,781,281.17</b>	<b>324,367.27</b>	<b>324,367.27</b>	<b>9,119,059.89</b>

3.5.5 If the transactions with Party B2 were fictitious, the financial impact of the transactions is as follows:

- (i) Revenue was overstated by US\$7,794,692.62;
- (ii) Costs of sales were overstated by US\$7,436,253.40;
- (iii) Expenses were overstated by US\$1,000,000.00;
- (iv) Profit was understated by US\$641,560.78;
- (v) Assets (stocks) were understated by US\$7,111,886.13
- (vi) Assets (receivables) were overstated by US\$7,794,692.62;
- (vii) Liabilities (payables) were overstated by US\$1,324,367.27; and
- (viii) Equity (retained earnings) was understated by US\$641,560.78,

between FY2011 and FY2014. Please refer to the table on the following page.

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Financial Impact US\$	Overstated / (Understated)				Total
	FY2011	FY2012	FY2013	FY2014	
<b><u>Sales from Trek HK to Party B2</u></b>					
Revenue	5,689,044.18	1,781,281.17	324,367.27		7,794,692.62
Costs of sales	5,417,763.68	1,694,122.45	324,367.27		7,436,253.40
Profits	271,280.50	87,158.72	-		358,439.22
Assets (stocks)	(5,417,763.68)	(1,694,122.45)	(324,367.27)		(7,436,253.40)
Assets (receivables)	5,689,044.18	1,781,281.17	324,367.27		7,794,692.62
Equity (retained earnings)	271,280.50	87,158.72	-		358,439.22
<b><u>Purchases by Trek Singapore from Party B2</u></b>					
Expenses (R&D)		1,000,000.00			1,000,000.00
Profits		(1,000,000.00)			(1,000,000.00)
Liabilities (payables)		1,000,000.00			1,000,000.00
Equity (retained earnings)		(1,000,000.00)			(1,000,000.00)
<b><u>Purchases by Trek HK from Party B2</u></b>					
Costs of sales (purchases)				324,367.27	324,367.27
Costs of sales (ending inventory)				324,367.27	324,367.27
Profits				-	-
Assets (stocks)				324,367.27	324,367.27
Liabilities (payables)				324,367.27	324,367.27
Equity (retained earnings)				-	-
<b><u>Total</u></b>					
Revenue	5,689,044.18	1,781,281.17	324,367.27		7,794,692.62
Costs of sales	5,417,763.68	1,694,122.45	324,367.27	-	7,436,253.40
Expenses (R&D)		1,000,000.00		-	1,000,000.00
Profits	271,280.50	(912,841.28)	-		(641,560.78)
Assets (stocks)	(5,417,763.68)	(1,694,122.45)	(324,367.27)	324,367.27	(7,111,886.13)
Assets (receivables)	5,689,044.18	1,781,281.17	324,367.27		7,794,692.62
Liabilities (payables)		1,000,000.00		324,367.27	1,324,367.27
Equity (retained earnings)	271,280.50	(912,841.28)	-	-	(641,560.78)

\*Cost of sales = Opening inventory + Purchases - Closing inventory

3.5.6 The above financial impact does not take into account the unravelling of the various setoffs / contra performed via JVs which would presumably have impact on the transactions with the parties subject to the setoffs / contra including S-Com HK, Jabil Wuxi, Jabil GZ, Trek Singapore, S-Com Singapore and the Company.

## **4 TRANSACTION WITH COLITE**

### **4.1 Background Information**

4.1.1 In its letter dated 21 March 2016 to the Company, EY highlighted the issues encountered during the course of the audit of the FY2015 financial statements, relating to one sale transaction.

4.1.2 In particular, EY noted that there was a sale from Trek Singapore to Unimicron in 2015 involving slow-moving stocks which were subjected to partial allowance for obsolescence but were sold at more than 83% gross margin. Partial payments were purportedly made by the customer but these were later found to be payments made by Henn and S-Com HK, an entity owned by Henn and his son, Wayne. After further requests from EY for documents to substantiate the transaction, the Company provided certain documents which indicated that the customer was not Unimicron but was in fact, Colite.

4.1.3 Subsequently, the Company was informed by EY that the latter had reported the matter to the ACRA as announced by the Company on 26 April 2016. Whilst the Company is not privy to the contents in the said report, EY informed that the report was accompanied by the correspondence between EY and the Company during a specific period which included the queries and clarification sought by EY relating to the transaction with Colite.

### **4.2 Transaction with Colite**

4.2.1 We lay down below the chronological events which took place based on our review of the documents as well as explanations given by various individuals for this transaction.

Origination of Transaction

- 4.2.2 Poo told us that the Company’s dealings with Unimicron originated from him back in 2014 through Alex, his contact at Unimicron, which culminated in the setting up of Unimemory, a joint venture between the Company and Unimicron.
  
- 4.2.3 Sometime in February 2015, Alex approached him regarding a requirement for a controller. Based on the description given by Alex, Poo thought that it was similar to the Company’s FluCard Controller and as such, the Company would be able to support Alex on the project if the pricing was acceptable. Poo said that after the initial enquiries, he introduced Foo to Alex to discuss on the quantity and pricing since Poo’s primary role was R&D and Foo’s primary role was sales. However, we note that Poo’s account contradicted with Foo’s statement. Foo claimed that his involvement took place much later when he was tasked to follow up with the customer to take delivery of the orders made.
  
- 4.2.4 On 20 May 2015, Poo submitted a Customer Application Form for Unimicron under Trek Singapore to open an account and a customer code for Unimicron in anticipation of the sale even though no orders were received as yet.
  
- 4.2.5 We further note that on 26 June 2015, Poo signed and confirmed on an Order Requisition form (refer to **Appendix 20**) for Unimicron in the capacity as the Sales Manager. The form specified the following details of the order:

Description	Quantity	Unit Price	Delivery Date
UM1G-HGAB	200,000	US\$ 6.40	Oct 2015
UM1G-HGAB	200,000	US\$ 6.40	Nov 2015
UM1G-HGAB	100,000	US\$ 6.40	Dec 2015

- 4.2.6 On 10 July 2015, Colite issued a PO No. 1507001 to Trek Singapore (refer to **Appendix 21**) with the following details:

**TREK 2000 INTERNATIONAL LTD – REPORT ON SUSPICIOUS TRANSACTIONS**

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Description	Quantity	Unit Price	Amount (US\$)	Delivery Date
UM1G-HGAB	200,000 pcs	US\$ 6.40	1,280,000.00	30 Octpber 2015
UM1G-HGAB	200,000 pcs	US\$ 6.40	1,280,000.00	30 November 2015
UM1G-HGAB	100,000 pcs	US\$ 6.40	640,000.00	31 December 2015
			<u><b>3,200,000.00</b></u>	

Remarks: Include PCB design, Schematic, firmware and production tools support, test, production samples and training

4.2.7 The order was for 500,000 pieces of UM1G chips together with the provision of design, schematics, firmware and production tools support, testing, production samples and training. When asked to clarify what UM1G was, Poo informed us that UM1G is essentially the Company’s WiFi chip, an application-specific integrated circuit or ASIC which cannot be purchased off the shelf. When he initiated the sale with Alex, he understood the requirement to be this specific chip and not any other product. A photo of the UM1G chip as verified by Poo is as follows:



4.2.8 Alex informed us during our interview that he viewed this as a turnkey project with total solutions where he needed the chips as well as some software and engineering services.

Job Transfer

4.2.9 On 6 October 2015, an internally-generated Job No. 1547, which was a transfer form typically used by the Company to convert certain stock codes to another or when several parts under different stock codes needed to be combined into one stock code, was prepared by Hengky. Poo was stated as the Salesman and Singh approved the transfer form (**refer to Appendix 22**). The purpose of the Job transfer was to convert 22,660 pieces of a stock named USB Component to 500,000 pieces of UM1G chips.

The cost attached to the USB Component of US\$536,702 was then transferred as the cost of the 500,000 pieces of UM1G chips.

- 4.2.10 Hengky informed us that he did not know what UM1G was or how the conversion was done. He said he was provided with the details of the stock codes and quantity and was instructed by Poo to effect the conversion in the system.
- 4.2.11 Poo explained to us that when the sale was about to materialise, he realised that the ASIC chip which was to be sold had in fact been written-off and as such, there was no value or cost assigned to the stock. He claimed to have discussed the matter with Singh and suggested that since the USB Component stocks were going to be written-off, whether it was possible to *'assign the value of this component to be written-off to UM1G IC chip'* from a financial perspective. Singh apparently accepted the suggestion and Poo sought Hengky's assistance to convert the USB Components and its remaining cost value of US\$536,702 to UM1G. In other words, the conversion was nothing more than a "paper" conversion, or more accurately, a system conversion to change the stock code for the purpose of attaching a cost value to the UM1G chips. There was no actual or physical conversion.
- 4.2.12 When asked, Singh said that he signed on the Job transfer form because someone requested him to, which he usually did, as with other documents whenever Henn was away. He considered the form as part of normal operational work and he signed it based on the trust that the person in charge would have done the required work. Singh further said he could not remember if he had a discussion with Poo as to assigning the cost of USB Components to UM1G chips, but he remarked that he did not usually discuss issues such as this.
- 4.2.13 Based on our review, the USB Component, the cost of which was supposedly transferred to the UM1G chips, originated from one of the questionable purchases made on 30 May 2014 under the Party B1 Questionable Transactions (refer to Paragraph 3.2.7 above). This particular stock was on record, slow-moving and was the subject of discussions between EY and the management in late 2015 for impairment allowance. The Company had also instructed for the stocks to be partially written-off at approximately US\$5,000 a month from 31 March 2015 to 4 September 2015 (7 months).

The sale was made to Colite and not Unimicron

4.2.14 Alex informed us that Colite was the purchaser of the goods, and that Colite is independent of and not related to Unimicron. Unimicron and Colite also had dealings with each other with respect to Unimicron’s trading business. He also informed us that he is a major shareholder of Colite with 70% equity stake and also an employee of Unimicron.

4.2.15 On 23 October 2015, 20 November 2015 and 24 December 2015, Trek Singapore issued three invoices accompanied by its respective DO (refer to **Appendix 23**), as shown in the table below. All the invoices and DO were signed by Henn and Singh. We further note that the customer had acknowledged receipt on the DOs. At this point the documents were issued to and the customer was still stated as Unimicron. According to Alex and Foo, there was an understanding between the parties that the UM1G chips would be sent by Trek Singapore to Trek HK’s office-cum-warehouse and Colite would arrange for collection from there.

Date	Invoice No.	DO No.	Customer	Product	Quantity	Amount (US\$)
23-Oct-15	TDO201510164	TDO201510164	Unimicron	UM1G	200,000 pcs	1,280,000.00
20-Nov-15	TDO201511136	TDO201511136	Unimicron	UM1G	200,000 pcs	1,280,000.00
24-Dec-15	TDO201512100	TDO201512100	Unimicron	UM1G	100,000 pcs	640,000.00
						<b>3,200,000.00</b>

4.2.16 In its written explanation to EY sent via email by Singh, the Company stated that it only found out that a PO had been issued sometime in October 2015 but it was not aware that the PO was issued under Colite (PO was dated 10 July 2015, refer to Paragraph 4.2.6 above). That was because the PO was sent to Trek HK’s office and not Trek Singapore’s office even though the addressee was Trek Singapore. Alex confirmed during our interview that he had sent the PO to Trek HK’s office as he was supposed to collect the chips from Trek HK’s office. As such, even though Colite had issued its PO on 10 July 2015, the Company’s team in Singapore was not aware that the transaction was to be with Colite and not Unimicron. This was the reason why the three invoices and DOs above were issued to Unimicron.

4.2.17 Only in February 2016 after the Company reviewed its receivables position with Unimicron and requested Alex to make payment did it realise that the sale

transaction was with Colite. After the meeting held between EY, the AC, Henn, Singh, Foo and Poo to explain the situation on 29 February 2016, the management decided to take corrective steps to make good the documentation by cancelling the existing documents issued to Unimicron and replacing them with new documents issued to Colite. This resulted in the issuance of a Credit Note No. 2015120005 back-dated to 29 December 2015 (refer to **Appendix 24**) to cancel all the invoices issued to Unimicron as listed in Paragraph 4.2.15 above, and the issuance of an invoice and DO with the same reference number, TDO201512185 back-dated to 31 December 2015 for 500,000 pieces of UM1G chips valued at US\$3,200,000.00 to Colite (refer to **Appendix 25**).

- 4.2.18 Given the above, a question then arises as to the DOs issued to Unimicron which were purportedly acknowledged by Unimicron. Alex confirmed that neither he nor anyone else from Colite signed on the DOs as he had not received the stocks then. Since the DOs were issued to Unimicron, it is possible that Unimicron employees could have signed them but he was unsure as to the identity of such an employee.
- 4.2.19 Based on the explanation provided by the Company through SLB in a letter sent on 25 April 2016, the Company explained to EY that Foo contacted Alex sometime in October 2015 to inform that the first batch of 200,000 pieces of UM1G chips was ready for delivery but Alex requested for delivery to be postponed. Afraid that he would subsequently cancel the order, Foo asked that Alex sign and acknowledge on the DO dated 23 October 2015. By Alex signing on the DO, Foo thought that *'the title of the goods has been passed on to him and he needs to make payment'* and this would serve as Colite's commitment towards the orders. The same was done for the DOs dated 20 November and 24 December 2015. Alex agreed to acknowledge on all three DOs to commit to the orders.
- 4.2.20 However, as we have highlighted above, the DOs were acknowledged by an unknown person and not Alex. Further, this explanation also contradicts Alex's statement that he did not sign on the DOs.

### Delivery of the UM1G chips

4.2.21 When EY requested for shipping documents to prove the delivery of the 500,000 pieces of UM1G chips, it was provided with the following documents:

- (i) Two packing lists issued by Trek Singapore dated 30 December 2015 to Trek HK containing the description of the items, quantity and dimensions of a total of 6 cartons on one list and five cartons on the other;
- (ii) The packing lists referred to invoices no. TDO201512158 and TDO201512160;
- (iii) Airway Bill No. 160 SIN 96510982 issued by Global Airfreight International Pte Ltd dated 31 December 2015 (“**Global Airfreight**”);
- (iv) Cargo Clearance Permit No. ODL5L975989G with a validity period from 31 December 2015 to 14 January 2016.

Copies of the documents above are exhibited in **Appendix 26**.

4.2.22 We noted the following discrepancies with respect to the shipping documents above:

- (i) The packing lists referred to two invoice numbers which do not relate to the sale of the UM1G chips to Colite. Instead the invoices were issued by Trek Singapore to Trek HK for two types of products: Ai-Ball and Diodes.
- (ii) Although one of the packing lists included the UM1G chips, the Airway Bill and Cargo Clearance Permit did not have any references to the UM1G chips. Instead, these documents only referred to the Ai-Ball and Diodes, consistent with the invoices above.
- (iii) The packing list which purportedly included the UM1G chips appears peculiar as it did not have carton number or carton dimensions attached to it. Please refer to the image below extracted from the said packing list:

CARTON NO. =====	DESCRIPTION =====	QUANTITY =====	DIMENSION (CM) =====
1	TLP291-4(GB-TP,E(T	14,000 PCS/CTN	36X36X37
2-3	TLP290-4(GB-TP,E(T	6,000 PCS/CTN	36X36X37
4-5	TLP290-4(GB-TP,E(T	6,000 PCS/CTN	36X36X37
6	TLP290-4(GB-TP,E(T	2,000 PCS/CTN	42X36X22
	UM1G-HGAB	500,000 PCS/CTN	

(iv) Colite subsequently returned 14,400 pieces of the UM1G chips, which we will examine in detail in the later part of this section. Based on the courier slip, it would appear that the 14,400 pieces of UM1G chips weighed 12 kilograms. However, we note that the packing list which contain the 500,000 pieces of UM1G chips plus 40,000 pieces of other items, weighed only 25.28 kilograms. As is immediately obvious, that is far too light.

4.2.23 We enquired about these discrepancies and were informed by Foo that after he became aware of the discrepancies, he approached Global Airfreight to verify the documents in the latter’s records. Global Airfreight provided the entire set of shipping documents above, save for the Cargo Clearance Permit (refer to **Appendix 27**). We note that the packing lists in Global Airfreight’s records did not contain the UM1G chips. We present below extracts of the two versions of packing lists for reference:

*Provided by Company to EY:*

CARTON NO. =====	DESCRIPTION =====	QUANTITY =====	DIMENSION (CM) =====
1	TLP291-4(GB-TP,E(T	14,000 PCS/CTN	36X36X37
2-3	TLP290-4(GB-TP,E(T	6,000 PCS/CTN	36X36X37
4-5	TLP290-4(GB-TP,E(T	6,000 PCS/CTN	36X36X37
6	TLP290-4(GB-TP,E(T	2,000 PCS/CTN	42X36X22
	UM1G-HGAB	500,000 PCS/CTN	

*Provided by Company to Global Airfreight:*

CARTON NO. =====	DESCRIPTION =====	QUANTITY =====	DIMENSION (CM) =====
1	TLP291-4(GB-TP,E(T	14,000 PCS/CTN	36X36X37
2-3	TLP290-4(GB-TP,E(T	6,000 PCS/CTN	36X36X37
4-5	TLP290-4(GB-TP,E(T	6,000 PCS/CTN	42X36X22
6	TLP290-4(GB-TP,E(T	2,000 PCS/CTN	36X36X37

- 4.2.24 It is clear from the above that the UM1G chips were not part of the shipment provided to Global Airfreight on 31 December 2015.
- 4.2.25 Two issues then arises. First, was the packing list which included the UM1G chips fabricated, and if so, was it fabricated to deceive EY who were reviewing this matter? Second, since the shipment on 31 December 2015 did not include the UM1G chips, when did the shipment of these goods take place? The Company was unable to provide any explanations for these two questions and both Poo and Foo denied involvement in arranging for the shipment. To date, the Company has not provided any supporting documents for the purported shipment of the UM1G chips to HK.
- 4.2.26 The replacement DO no. TDO201512185 dated 31 December 2015 (issued in February 2016) to replace the three DOs issued previously to Unimicron was acknowledged by Alex with a handwritten remark stating that the goods were *‘Collected in Hongkong Office on 4 Jan 2016’*. Alex confirmed that he had collected the goods from Trek HK’s office and hence provided the acknowledgement.
- 4.2.27 However, Alex’s evidence still does not answer the questions as to when and how the UM1G chips were shipped to HK and collected by him, when those chips did not even make it to the shipment on 31 December 2015 in the first place. Again, none of the individuals we interviewed was able to provide an explanation. It is also possible that Alex was not truthful about the receipt of goods but we are uncertain as to the motivation for Alex to wish to deceive or fabricate the events.
- 4.2.28 During the Maxwellisation Process, even though he claimed he was not involved in making arrangements for the shipping of the goods, Henn offered a possible explanation that the UM1G chips could have been shipped out by the Company from Hong Kong. Henn explained that the Company would typically store its dead stock in Trek HK’s warehouse. Given that Colite had subsequently returned the goods (refer to Paragraphs 4.2.39 to 4.2.56 below) and also that residue UM1G chips stock was found in Trek HK’s warehouse, it is possible that the goods sold to Colite had been shipped to Colite from the Company’s dead stocks in Trek HK’s warehouse. Henn’s explanation appears to be speculative. Regardless of the inventory status (whether dead stocks or otherwise), there should be records of the inventory and its movements. No such records were provided to us from our interview with Henn in

November 2017 when this possibility was first raised, up to the completion of the Maxwellisation Process.

- 4.2.29 In addition, we note that there was an email from Alex on 25 February 2016 addressed to Singh and copied to Henn and Poo in which Alex made reference to a meeting with Henn and Poo during which it was discussed that *‘due to the current market slow down, we would need to reschedule the shipment to later Jun – July 2016. Do assure we will uphold our commitment on our PO issue’* (refer to **Appendix 28**). If Alex had truly taken delivery of the UM1G chips on 4 January 2016, there would be no need for the shipment, or indeed any shipment, to be rescheduled. Alex clarified during our interview that the reference to “shipment” was a typographical error; he meant to state “payment” instead. When queried, Poo informed us that during the meeting, Alex mentioned delaying payment due to difficulties with his end-customer. We are unable to verify the veracity of Alex’s and Poo’s statements.

### Payments for the UM1G chips

- 4.2.30 In or around February 2016, as part of the audit process, the Company provided to EY, two bank advices showing that Unimicron remitted two payments to Trek Singapore comprising US\$250,000 on 12 February 2016 and US\$2,400,000 on 22 February 2016. The bank advices are exhibited in **Appendix 29**.
- 4.2.31 Subsequently, during a meeting held between EY, the AC, Henn, Foo, Singh and Poo on 29 February 2016, the management informed EY that the payments above were in actual fact remitted by S-Com HK with respect to the US\$250,000 and by Henn personally with respect to the US\$2,400,000. The facts above were stated in EY’s letter to the Company dated 21 March 2016. Copies of the bank advices are exhibited in **Appendix 30**.
- 4.2.32 In the same letter, EY stated that during the aforementioned meeting, Henn stated that he had remitted the sums totalling US\$2,650,000 mentioned above as *‘a short-term loan extended to Alex Wu’*. However, during our interview with Henn, he denied that there was a loan. Instead, he said that Alex had called him to tell him that his cash flow was tight and that he would only settle the payment in the later part of the year. Arising from this, Henn told Singh he would provide an undertaking for the

payment due from Unimicron by giving a “loan” to Trek Singapore and the “loan” must be returned to Henn once Unimicron makes payment for the purchase. In the event that Unimicron failed to make payment, Henn’s “loan” would be *‘impounded’*. Henn said he was confident that Unimicron would pay due to its size and reputation, not knowing that the sale was with Colite and not Unimicron at that point.

- 4.2.33 Singh admitted that he had instructed Hengky to assist him to digitally alter the bank advices such that the remittances from S-Com HK and Henn would appear as though they were received from Unimicron<sup>64</sup>. EY in its letter dated 21 March 2016 also claimed that Singh had on *‘a number of occasions’* confirmed to them that the bank advices were evidence of payment from Unimicron to Trek Singapore<sup>65</sup>.
- 4.2.34 During our interview with Singh, he informed that he did not know the details of the arrangement between Henn and Alex. He was given the bank advices by Henn and was told that it was an advance which Singh could use to setoff against the amount due from Colite in the event that Colite failed to pay. The bank advices were altered for his *‘own internal referencing, because it was such a big amount’*. Singh also said that the amount received from Henn was never used to offset against the payment due from Colite but was instead recorded as an advance from or liability owing to Henn. In his Maxwellisation response, Singh said the fact that the payments were recorded in the books as advances is entirely consistent with his position that the bank advices were meant for his own internal reference only.
- 4.2.35 We found Singh’s explanation highly unconvincing and cannot be accepted. First, there was never any need for any alteration of the bank advices, which act, in itself, is improper. If any “internal reference” was required, it seemed to us that all Singh needed to do was to make such “internal reference” by manuscript on the bank advices, instead of taking steps to digitally alter the same. Second, if the alterations were indeed done solely for his internal reference, then Singh would not have needed to deceive and mislead EY on *‘a number of occasions’* into believing that the altered

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<sup>64</sup> In his Maxwellisation response, Henn stated that it was him who raised to EY that he had remitted the sum of US\$2,400,000 to the Company instead of Unimicron. Henn was unaware of the digital alteration of the bank advices at the material time and was certainly not involved in the preparation of the altered bank advice.

<sup>65</sup> During the Maxwellisation Process, Singh informed that he could not recall informing EY that the bank advices were evidence of payment from Unimicron to Trek Singapore. He only recalled informing EY at the AC meeting on 29 February 2016 that the bank advices were created for his internal reference and were not meant to be shared.

bank advices were evidences of payments from Unimicron. *Third*, creating “internal references” would only make sense if the payments were correspondingly recorded in the books as payments received from Unimicron. However, that was not the case here. In this case, the sums received were recorded as an advance from Henn, thereby making the alterations not just unnecessary and redundant, but also misleading or false.

- 4.2.36 In his Maxwellisation response, Singh mentioned that it did not occur to him to use other ways to create an internal reference as it was a busy period and he did not give much thought to it. He also did not think that it was inappropriate as he did not intend to share the document. He maintained that it was done in good faith and he never had any intention to deceive or mislead anyone and that he did not personally benefitted from it.
- 4.2.37 On 4 May 2016, Colite apparently remitted a sum of US\$499,417.17 to the Company as partial payment for the total purchase cost of US\$3,200,000 as verified to the bank advice (refer to **Appendix 31**) and bank statement. However, we are uncertain as to the real source of funds as the remittance could have originated from another party.
- 4.2.38 Following the receipt US\$499,417.17, the sums of US\$250,000 and US\$2,400,000 were returned by Trek Singapore to S-Com HK and Henn on 6 May 2016 and 20 May 2016 respectively. We found this surprising. It contradicts Henn’s purported intention for these sums of US\$250,000 and US\$2,400,000 to be used as an undertaking for the payment due, particularly since the full amount due from Colite has not been paid. Henn informed during the Maxwellisation Process that the sums were returned to him on the advice of EY at the material time on the basis that it was improper for Henn to be ‘loaning’ monies or providing an undertaking in this matter.

### Return of some goods

- 4.2.39 Alex told us that sometime in May / June 2016, he decided to put a stop on the project as it had been delayed for some time due to certain development issues on the Company’s part.

- 4.2.40 According to Foo, as Colite did pay the remaining balance, Henn directed that the Company should seek the return of the goods. Foo then proceeded to contact Colite for the return of the goods.
- 4.2.41 On 1 September 2016, Colite issued a DO No. 1609001 to Trek Singapore (refer to **Appendix 32**) for the return of 421,880 pieces of UM1G chips valued at US\$2,700,032 (based on the same price of US\$6.40 per piece). The goods were shipped to Trek HK's office and Trek HK acknowledged receipt of the same.
- 4.2.42 On 24 October 2016, as part of the audit procedure, EY requested to sight the returned goods at Trek HK's office. A physical sighting and count was conducted by EY in the presence of a Trek HK employee on 31 October 2016. There were two issues raised by EY:
- (i) The returned stocks sighted by EY were very different in appearance compared to the UM1G chips which should have a TREK® logo, shown in Paragraph 4.2.7 above. The photos taken by EY which were provided to the Company are attached in **Appendix 33**; and
  - (ii) By way of physical counting, there were only 415,677 pieces of stock, as opposed to the 421,880 pieces stated in the Colite DO. The difference of 6,203 pieces was unaccounted for.
- 4.2.43 Foo informed us that, upon realising the shortfall of the 1<sup>st</sup> Batch Stocks Returned above, he contacted Colite to return the remaining 6,203 chips with the TREK® logo which was essentially the UM1G chips shown in Paragraph 4.2.7 above. On 14 November 2016, Trek Singapore received the 2<sup>nd</sup> Batch Stocks Returned totalling 14,400 pieces of the UM1G chips purportedly from Colite, this time 8,197 pieces more than what it should receive. On 8 August 2017, we conducted a physical sighting of the UM1G chips which were returned and confirmed that the chips appear to be the same UM1G chips with the TREK® logo shown above. Photos taken by us of the returned UM1G chips are exhibited in **Appendix 34**.

4.2.44 Prior to the return of stocks by Colite, the Company provided its explanations to EY's queries via SLB's letter issued on 25 April 2016 with respect to the components or parts involved for the UM1G chips ordered by Colite, as follows:

- (i) Whilst Colite ordered the UM1G chips, the Company apparently did not assemble the final product or supply the same to Colite. The UM1G chip may be found in two types of larger chip module produced by the Company namely the ASIC Chip Components and USB Components. There was one UM1G chip in each of the ASIC Chip Components and USB Components;
- (ii) On or about 12 June 2012, the Company wrote-off about 500,000 units of the ASIC Chip Component from its inventory list. Notwithstanding the write-off, the physical stocks continued to be held by the Company.
- (iii) When the order was received from Colite, the Company supplied 500,000 pieces of UM1G chips to Colite, of which 477,340 pieces were taken from the written-off ASIC Chip Components and 22,660 pieces were taken from the USB Components.

4.2.45 The ASIC Chip Components mentioned above is likely to be the chip with the TREK® logo as shown in Paragraph 4.2.7 above as Poo mentioned that the UM1G chip shown in the photo is a type of ASIC chip which had been written-off.

4.2.46 The USB Components, as mentioned earlier, originated from one of the questionable purchases made on 30 May 2014 under the Party B1 Questionable Transactions (refer to Paragraph 3.2.7 above). We also highlighted above that every individual whom we have interviewed, claimed to have no knowledge of and were unable to explain the nature and composition of the USB Components. These individuals included Henn, Poo, Foo and Singh. No one seemed to know what the USB Components stocks were. If that were true, we are perplexed with how anyone could then have instructed SLB on the contents of its letter issued on 25 April 2016 concerning the presence of a UM1G chip in each USB Component.

4.2.47 Further, when we sought clarification from the Company on what the UM1G chip was, Foo explained to us on several occasions that the UM1G chip consisted of 477,340

pieces of written-off inventory and 22,660 of what he termed as supporting components or companion chips. This appears to be consistent with the Company's explanation to EY above. However, during our subsequent interview with Foo, he claimed to have no knowledge of the composition of UM1G chip as he had not seen it and was not part of the initial discussion with Alex on his requirements.

4.2.48 The explanation provided by the Company via SLB's letter issued on 25 April 2016 also contradicted with Poo's statement. As mentioned in Paragraph 4.2.11 above (and even though he claimed he had no knowledge of what the USB Components stocks were), Poo had directed for 22,660 pieces of USB Components to be converted to 500,000 pieces of UM1G chips solely for the purpose of attaching a cost value to UM1G chips. As far as he was aware, the chips that Alex required were the ASIC chip with the TREK® logo (shown in Paragraph 4.2.7 above) and not any other chips. All other individuals whom we interviewed claimed to have no knowledge on Alex's requirements and what the UM1G chip was.

4.2.49 Before we examine the stocks which were purportedly returned by Colite, it is important to first establish the actual stocks which were purportedly delivered to Colite (putting aside the questions we raised on the issue of delivery above). Both Poo and Foo agreed that Poo was involved at the early stage of the negotiation and discussion with Alex while Foo was involved later on. However, the two individuals cannot agree on the timing of Foo's involvement, which is an important point to establish the identity of the person who was involved and had knowledge of the stocks which were purportedly delivered to Colite. During the Maxwellisation Process, Foo informed that his role in the transaction with Colite was limited to: (i) revising the contract documents to reflect the correct particulars of the buyer, Colite, instead of Unimicron, (ii) following up with Colite to take delivery of the products sold; and (iii) obtaining confirmation from Colite on their receipt of the products.

4.2.50 What is common ground – whether from the Company (through SLB's letter) or Poo's account – is that the ASIC chips which had been written-off were used in the transaction. This meant that someone must have given instructions to the warehouse personnel on the exact items to be shipped to Colite (if they were shipped at all), or at least knew what had been shipped. Surprisingly, both Poo and Foo claimed to have no hand in this. Both of them told us that they were not in charge of, and did

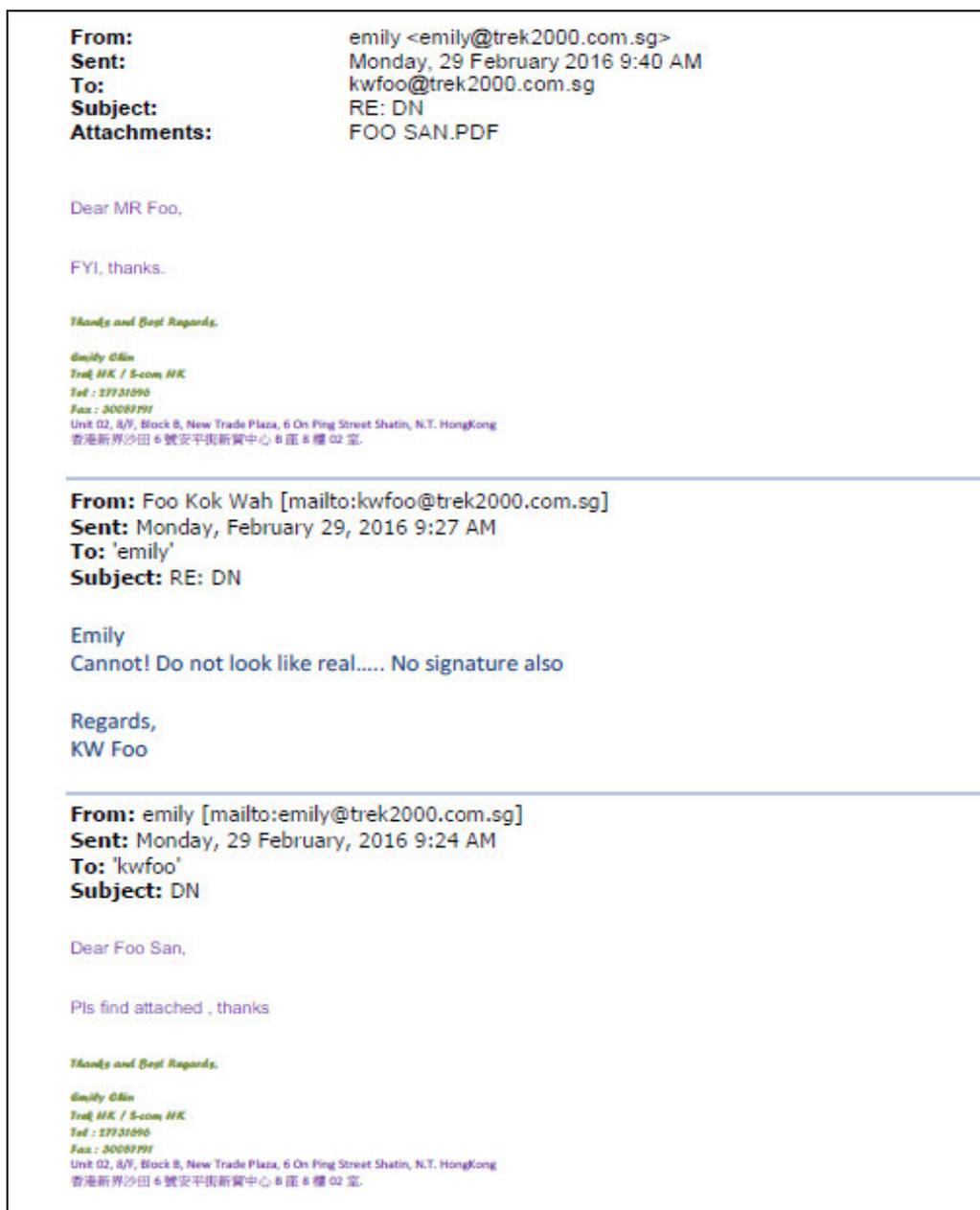
not give the instructions on, the goods to be packed and shipped. Foo mentioned that he only informed the sales coordinators, the identities of whom he was unable to recall, that Colite was ready to take delivery. He did not give any instructions on the items to be shipped.

- 4.2.51 We also checked with Alex on the stocks that he purportedly received on 4 January 2016. He informed us that Colite's customer, a company known as Zilltek, had collected the goods from Trek HK's office directly without going through Colite. As it was a turnkey solution, he did not know what were the components sent by Trek Singapore, the quantities involved or how many shipments were sent.
- 4.2.52 On the stocks which were returned by Colite in two separate batches, we showed to several individuals during the interview process, the photos taken by EY of the 1st Batch Stocks Returned. Poo, Foo and Dr Paul mentioned that those items in the photos consisted of low-value components such as capacitors, resistors, regulators, semiconductors, etc. These components were a far cry from the WiFi controller required by Alex, and would be of much lower value than the ASIC chips.
- 4.2.53 Without any credible and concrete information as to the exact items which were shipped to Colite, it is difficult if not impossible, to match them against the stocks which were purportedly returned by Colite and confirm the value of those returned stocks. The only information which can be verified is that the Company has to date received 415,677 pieces of the components (as sighted and counted by EY) and 14,400 pieces of the ASIC chips (as sighted and counted by us).
- 4.2.54 We also find it perplexing that the Company took a lackadaisical, and seemingly indifferent, attitude towards the stocks which were returned. Given the high value of the stocks which Colite was supposed to return (US\$2,700,032), there was no procedure or policy in place to inspect or verify the stocks when they arrived in Hong Kong. It was only when EY requested for a physical sighting was a stock count done.
- 4.2.55 Alex was also unable to confirm the stocks which were returned as they were purportedly sent directly by Zilltek, Colite's customer, to Trek HK's office. He was also unable to obtain the packing lists for the 1<sup>st</sup> Batch Stocks Returned and 2<sup>nd</sup> Batch Stocks Returned from Zilltek.

- 4.2.56 In addition, when we enquired with Alex, he mentioned that what he required was not only the chips but also engineering and other services as it was meant to be a turnkey solution from the Company. As such, the value of the transactions included the services to be provided. He said that there was an agreement between all parties at the initial stage that all the engineering software and services would be lumped together and reflected in the cost of the 500,000 pieces of chips, because if they were to separate the costs between hardware and services, it would attract higher taxes. Therefore, the actual quantity of chips supplied to Colite / Colite's customer might not be 500,000 pieces as the quantity was stated '*for documentation purpose*' only. Alex added that the US\$3.2 million deal was based on the total solution package offered by Trek to support the project until completion of the development phase where mass production was possible. Supply of hardware materials would largely depend on how extensive the development issues would be, i.e., if there were many issues, then consumption would be higher and Trek would need to supply more. That said, Alex informed that the hardware required was estimated at 500,000 pieces.
- 4.2.57 Alex's explanation above was not corroborated with statements from other individuals or any records of the Company. Neither Poo nor Foo mentioned the above to us. This issue raised more questions and created even more doubt on the authenticity of the transaction with Colite.

### Other issues

- 4.2.58 Other than the issues highlighted above, there were several other instances of document fabrication.
- 4.2.59 The digital image of Foo's laptop revealed an email correspondence between Foo and Emily (employee of Trek HK) on 29 February 2016:



- (i) Emily first sent an email to Foo enclosing a DO dated 2 January 2016 evidencing the delivery of the 500,000 pieces of UM1G chips to Colite which was purportedly stamped by a company named Jumbo Logistics (China) Co Limited;
- (ii) Foo replied and said, 'Cannot! Do not look like real..... No signature also'.

- (iii) Emily then replied 13 minutes later with another version of the DO which bore the same stamp but this time with a signature. It is inconceivable that Emily would have been able to obtain the signature of the logistics company within 13 minutes.

Copies of the documents above are exhibited in **Appendix 35**.

- 4.2.60 Foo told us during the interview that he was compiling all the documents relating to this transaction for reporting to the Board and had asked Emily to provide the DO for the delivery of goods to Colite. Foo claimed that he did not know if Emily had fabricated the DOs and denied giving instructions to Emily to do so. We found this difficult to believe. Further, we note from EY's letter to the Company dated 21 March 2016 in which EY stated that Foo had confirmed to EY that the DOs were created by Emily. Foo told us that the DOs provided by Emily were never referred to, relied on or provided to EY as he had discarded them.
- 4.2.61 The digital image of Poo's laptop contained a Microsoft Excel file named '*PO123.xls*'. The file appears to be a PO dated 5 October 2015 prepared under Unimicron's name and logo for 500,000 pieces of UM1G chips for US\$3,200,000 (refer to **Appendix 36**). The file properties show that the file was last modified by Poo. Poo explained to us that at that time, when the issue first surfaced, EY had requested for a copy of the PO from Unimicron but the PO could not be found. Poo admitted to creating the document with the intention of using it but subsequently decided against it as he knew it was not the right thing to do. Therefore, the PO was not printed, signed or presented to anyone.
- 4.2.62 We note that Poo's explanation above seems to differ from the explanation offered by the Company to EY contained in SLB's letter issued on 25 April 2016. In the said letter, the Company explained that the purpose of creating the document was for Poo to showcase the deal to the Company's clientele as he was then expecting to meet several potential customers.
- 4.2.63 In addition, there was an email sent by Dr Paul to Poo on 22 February 2016 (refer to **Appendix 37**) in which he provided a draft Statement of Work ("**SOW**") to Poo for

review with respect to the transaction with Unimicron. Dr Paul further stated that he would sign for TREK and Han Bing, also a Group employee, would sign for Unimicron:

**From:** Paul Shew [mailto:paul@trek2000.com.sg]  
**Sent:** Monday, 22 February 2016 6:23 PM  
**To:** Poo Teng Pin <tengpin@trek2000.com.sg>  
**Cc:** 'Gurcharan Singh' <gurcharan@trek2000.com.sg>  
**Subject:** UNIMICRON chips

Hi Teng Pin,

I'm sending the draft of SOW for your review.

Please let me know if there is anything to change.

I'll sign for TREK and Han Bing will sign for UNIMICRON. Please advise (and add to the softcopy) the name and position representing UNIMICRON.

Regards,  
Paul Shew

- 4.2.64 Dr Paul explained that he received a call from Poo who was travelling at that time that the SOW had been misplaced and they needed to recreate the document. Dr Paul prepared the draft based on the telephone conversation with Poo but was told that the draft was wrong when Dr Paul met Poo after he returned to Singapore.
- 4.2.65 Poo's explanation contradicted Dr Paul's explanation. He asserted that he did not ask Dr Paul to prepare the SOW. Singh apparently thought that there was a SOW with Unimicron and had requested for a copy. Dr Paul, not being able to locate one, had created one as he thought he had misplaced it. Poo said he later told Dr Paul that he did not ask for the document to be created as the customer did not request for it. As such, the SOW did not exist in the first place. In any case, the draft SOW was not printed, signed or presented to anyone.
- 4.2.66 The events above as well as other findings contained in this report give the impression that fabrication of documents was a frequent and pandemic practice, which we found extremely troubling and is should be thoroughly investigated.

### Summary of Issues / Irregularities Identified

4.2.67 We have highlighted at length our findings and the various issues identified with respect to the transaction with Colite above. We now summarise below the questionable aspects of the transaction as well as the contradictions noted from the conflicting statements and evidence:

- (i) On paper, the transaction with Colite appeared to be for 500,000 pieces of UM1G chips valued at US\$3,200,000. This contradicts with Alex's explanation that the 500,000 pieces of UM1G chips was an estimated number and '*for documentation purpose only*' and that the actual supply of materials had not been determined;
- (ii) No one was able to confirm the actual composition or quantity of the items that were purportedly shipped to Colite, whether it was the higher-value ASIC chip with the TREK® logo or included other low-value components;
- (iii) In fact, there is presently no evidence to prove that the UM1G chips were even shipped to Colite since the shipping documents showed that the goods were not part of the 31 December 2015 shipment;
- (iv) When questioned on whether payments were made by Colite for the goods, Singh instructed the bank advices for the sums totalling US\$2,650,000 to be altered and deliberately provided the same to EY with the intention to deceive and mislead EY into believing that the sums were received from Unimicron. Only when it was clarified that the sale was made to Colite and not Unimicron were the true identities of the parties who remitted the sums (being S-Com HK and Henn) revealed;
- (v) The sum of S\$499,417.17 purportedly paid by Colite on 4 May 2016 could not tally to the value of goods purportedly purchased (delivered less return)<sup>66</sup>.

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<sup>66</sup> The sale was purportedly for 500,000 pieces of UM1G for US\$3.2 million or average price of US\$6.40 per piece. A total of 430,077 pieces were returned (415,677 x US\$6.40 = approximate value of US\$2,752,492.80 assuming average price). After deducting the returned stocks, the remaining stocks which were "retained" by Colite was 69,923 pieces (69,923 x US\$6.40 = approximate value of US\$447,507.20 assuming average price).

It is not certain if the sum was indeed paid by Colite or originated from another party;

- (vi) No one was able to confirm the actual items which were purportedly delivered to Colite, the purported return from Colite and whether the items returned were those which were delivered to Colite in the first place;
- (vii) The Company's curiously indifferent attitude towards the purported return of the stocks and the heedless manner in which the return was managed by all the parties concerned suggest that the purported movements of goods might never have taken place;
- (viii) There were instances where documents were (or intended to be) fabricated / altered, with the purpose of misleading the recipient of the documents (although we note that these documents were not provided to third parties); and
- (ix) The explanations offered by various individuals conflicted or differed from one another. The various individuals also could not offer explanations for key questions or issues, for example, the actual goods which were purportedly delivered to Colite and the timing of the purported delivery.

4.2.68 The various issues above raised serious concerns and doubts, and called to question the authenticity of the transaction, and the accuracy and truthfulness of the statements given by various individuals. There are strong indications that the transaction with Colite could have been a fictitious transaction. The subsequent conduct of the Company further support this (refer to Paragraphs 4.3.1 to 4.3.7 below).

### **4.3 Financial Impact of the Transaction with Colite**

4.3.1 The US\$3,200,000 transaction with Colite was initially recorded in Trek Singapore's books. However, due to the issues raised by EY and the ongoing CAD investigations, the Company performed a reversal of the transaction pending the completion of the

investigations. As such, the FY2015 audited financial statements did not reflect or include the effect of this transaction, i.e., the sale to Colite has not been recognised and the book value for the 500,000 pieces of UM1G of US\$536,702 was taken back into Trek Singapore's stocks.

- 4.3.2 On 31 January 2016, the Company again recognised the sale transaction for 500,000 pieces of UM1G chips at the book value of US\$536,702, but the sale value recorded was US\$509,650, in contrast to the earlier sale value of US\$3,200,000. According to Foo, as the sale transaction was reversed in 2015, the management decided to recognise the sale in 2016. Foo said that subsequently, as the matter was investigated by CAD, the management decided to perform yet another reversal. As at 31 December 2016, the sale to Colite was not recognised and the book value for the 500,000 pieces of UM1G chips of US\$536,702 remained in Trek Singapore's stocks.
- 4.3.3 Sometime in October / November 2016, the Company purportedly received 430,077 pieces of returned stocks from Colite comprising 415,677 pieces of components and 14,400 pieces of ASIC chips with the TREK® logo. The remaining 69,923 pieces of stocks were "retained" by Colite. As the sale to Colite has not been recognised, the 500,000 pieces of UM1G chips were still included in Trek Singapore's books on record.
- 4.3.4 Separately, there was another transaction with Colite in April 2016 for the sale of IOT modules for US\$298,900.80. We have verified this sale to the PO, invoice, DO, packing list and the airway bill. Colite has also settled the payment for this sale in the same month. However, the total payment received was US\$309,117.14, an excess of US\$10,216.34.
- 4.3.5 As mentioned above, on 4 May 2016, a partial payment of US\$499,417.17 was purportedly made by Colite to Trek Singapore. Together with the excess payment of US\$10,216.34 received from Colite for another transaction, the total sum of US\$509,633.51 has been recorded as an advance received from or liability owing to Colite, in view that the recognition of the sale to Colite has been reversed.

- 4.3.6 On 25 January 2018, we enquired with the Company on whether there were further accounting entries recorded for this transaction subsequent to May 2016. We were informed by the accounting staff that an entry was recorded to recognise the sale of the 500,000 pieces of UM1G chips for US\$509,634.00 on the instructions of Foo. During our meeting with Foo on 29 January 2018, he explained that since there was an advance received from Colite of US\$509,633.51 and the Company did not have any of the 500,000 pieces of UM1G chips which were sold to Colite, he gave instructions for the sale to Colite to be recognised and the invoice to be prepared on 29 December 2017. We highlighted that 430,077 pieces of the stocks have purportedly been returned to the Company, and as such, his statement that the Company did not have any of the 500,000 pieces of UM1G chips contradicted the representation given earlier that the stocks sighted by us and EY were returned by Colite. Furthermore, the original purported sale of the 500,000 pieces of UM1G chips was priced at US\$3,200,000 but the value appeared to have significantly reduced to US\$509,634.00 which was without proper basis and justification. This series of events added to the cloud of uncertainty over the authenticity of the entire transaction. After our meeting, Foo gave instructions for the reversal of the accounting entries recording the recognition of the sale of the 500,000 pieces of UM1G chips for US\$509,634.00<sup>67</sup>.
- 4.3.7 In summary, Trek Singapore's financial statements for FY2015, FY2016 and FY2017 reflected the following:

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<sup>67</sup> During the Maxwellisation Process, Foo acknowledged that he instructed that revenue of US\$509,634.00 be recognised on account of the fact that the Company has in fact received the payment from Colite for the transaction. Notwithstanding the return of the stocks by Colite to the Company, the Company has not refunded Colite the sum of US\$509,634.00 hence Foo had provided instructions for the revenue to be recognised. Foo further stated that in view of the fact that the Company had received partial payment from Colite, which notwithstanding the return of the stocks by Colite, he considered that the receipt of monies from Colite had to be booked as revenue.

## TREK 2000 INTERNATIONAL LTD – REPORT ON SUSPICIOUS TRANSACTIONS

		Balance as at 31 December		
		2015	2016	2017
<u>Reflected in Trek Singapore's books</u>				
Sale to Colite	US\$	-	-	-
UM1G stocks (cost/book value)	US\$	536,702.00	536,702.00	536,702.00
UM1G stocks	pcs	500,000	500,000	500,000
Advance received from Colite (liability)	US\$	-	509,633.51	509,633.51
<u>Stocks purportedly delivered / returned</u>				
Stocks purportedly delivered to Colite	pcs	500,000		
Stock purportedly returned by Colite	pcs		430,077	430,077

- (i) The purported sale to Colite has not been recognised;
- (ii) The UM1G stocks value carried in Trek Singapore's books was US\$536,702.00 for 500,000 pieces, for all three years, even though the stocks were purportedly delivered to Colite in 2015. The purported return of 430,077 pieces of stocks by Colite in 2016 was also not recorded; and
- (iii) The sum purportedly received from Colite of US\$509,633.51 was recorded as an advance payment or liability owing to Colite in FY2016 and FY2017.

## 5 TRANSACTIONS RELATING TO eSD INVENTORIES

### 5.1 Background Information

5.1.1 Following EY's review on the Party B1 Questionable Transactions during the audit process, EY raised further questions on the subsequent transactions involving the stocks which were purportedly purchased from Party B1 under the Party B1 Questionable Transactions.

5.1.2 In particular, EY found that the stock movement reports showed certain movements which were inconsistent with the documentation for the transactions which took place after the purported purchase from Party B1.

5.1.3 We further understand that due to the discrepancy, EY requested for a stock take to be conducted on the remaining stocks but was later informed by the management that the stocks had been consigned and sent to PT Racer, a former subsidiary of the Group in Batam, Indonesia. Subsequently, the stocks were found to have been sold but the stocks were delivered out of Singapore and not Batam.

### 5.2 Transactions Relating to the eSD Inventories

5.2.1 The stock code for the eSD inventories is '*THGVS5G6D2FBA19HEH Toshiba NAND flash (eSD)*'.

5.2.2 We should highlight from the onset that this particular stock is the same stock which was related to the questionable sale to and purchase from Party B1 explained in Section 3 above. Briefly, on 14 November 2013, Trek Singapore purportedly sold 49,149 pieces of the eSD stocks to Party B1. On 30 May 2014, Trek Singapore purportedly purchased 100,000 pieces of another stock from Party B1 but this stock was later converted to 49,149 pieces of eSD via Job No. 1162 dated 3 October 2014. See diagram below:

**TREK 2000 INTERNATIONAL LTD – REPORT ON SUSPICIOUS TRANSACTIONS**

**THGVS5G6D2FBA19HEH Toshiba NAND flash (eSD)**

Date	Transaction	Stocks Quantity (pcs)	
		Movement	Balance
30-Sep-13	Closing stocks		49,849
14-Nov-13	Sale to Party B1	(49,149)	700
13-Dec-13	Job transfer out to FC8G-GOLD	(642)	58
3-Oct-14	Job transfer in from ET5ER5C-HS(W5THT)	49,149	49,207

Party B1 Questionable Transaction



Job transfer form no. 1162 converts 100,000 pieces of ET5ER5C-HS(W5THT) Toshiba TLC Wafer to 49,149 pieces of THGVS5G6D2FBA19HEH Toshiba NAND flash (eSD)

**ET5ER5C-HS(W5THT) Toshiba TLC Wafer**

Date	Transaction	Stocks Quantity (pcs)	
		Movement	Balance
30-May-14	Opening		-
30-May-14	Purchase from Party B1	100,000	100,000
3-Oct-14	Job transfer out to THGVS5G6D2FBA19HEH	(100,000)	-

Party B1 Questionable Transaction

We concluded in Section 3 that the Party B1 Questionable Transactions were likely to be fictitious transactions and it is highly likely that the eSD stocks did not physically move or change hands between 14 November 2013 and 3 October 2014.

5.2.3 Subsequent to the above, on 22 July 2015, Trek Singapore made a purported sale to Trek HK. Documentation discrepancies were found for this sale:

- (i) The Invoice No. TDO201507123 issued by Trek Singapore to Trek HK dated 22 July 2015 shows that the sale was for 49,207 pieces of the eSD for the amount of US\$36,905.25. This invoice was signed by Singh;
- (ii) We sighted another invoice issued by Trek Singapore on the same date, to the same party (Trek HK), bearing the same invoice number and description of the product sold, but with a different quantity of 3,246 pieces and slightly different amount of US\$36,907.02 instead. This invoice also contained a note which appear to be printed on the document using a typewriter stating ‘P/S: CONSIST OF 49,207PCS OF SD CONTROLLER’. This invoice was signed by both Henn and Foo. We note that the accounting entries for the sale reflected the details on this invoice;
- (iii) The DO No. TDO201507123 dated 22 July 2015 and the packing list reflected 49,207 pieces. The number of packages and the weight of the packages

stated on the airway bill were consistent with the packing list, implying that there were 49,207 pieces of items shipped; and

- (iv) Trek Singapore’s stock movement report showed an outward movement of 3,246 pieces. The quantity received by Trek HK was 49,207 pieces.
- (v) A summary of the quantities stated in various documents is provided below:

Documents	Quantity Stated (pcs)	
	3,246	49,207
Trek Singapore invoice (version 1) with total value of S\$36,905.25		√
Trek Singapore invoice (version 2) with total value of S\$36,907.02	√	
Accounting records	√	
Trek Singapore stock movement report	√	
DO		√
Packing list		√
Airway bill		√
Stocks received by Trek HK		√

Copies of the documents mentioned above are exhibited in **Appendix 38**.

- 5.2.4 The key focus is on the quantity of stocks sold by Trek Singapore to Trek HK, whether it was 3,246 or 49,207 pieces, there being a significant difference in numbers.
- 5.2.5 There were two different versions of an invoice from Trek Singapore to Trek HK. As Hengky was reflected as the preparer of both versions, we asked him about the matter. He informed us that he was unaware of, and did not prepare, the invoices even though his name was reflected as the preparer. His explanation was that the name of the preparer appearing on the documents is dependent on the user account which was logged in to the system at the point when the invoices were first created. As his account was also used by other colleagues including Poo, Foo, Cynthia and several others, his name would usually appear as the preparer of the documents even though he had not prepared it. He further said that it is also possible that he had created the document in the system without the details in order to save or retain a DO / invoice number at the request of others but the details were later entered into the system by someone else.

5.2.6 We also enquired with other individuals on the documentation discrepancies but no one was able to recall or had any knowledge of the transaction above. Foo signed on one of the invoices but said that he did not remember whether he was involved in the transaction. That said, he offered a possible explanation for the discrepancies which he gathered from various sources including review of documents.

5.2.7 According to Foo, every piece of stock under the eSD stock code consisted of a controller and a memory component. There was a customer in Hong Kong who wanted to purchase 49,207 pieces of controller without the memory component. The sale to this customer was done through Trek HK. At first, an invoice was prepared to reflect 49,207 pieces but this would mean that the system would record an outward movement of 49,207 pieces of eSD when in actual fact the Company would still have 49,207 pieces of the memory component (as only the controller was to be sold). To overcome the situation, the Company computed the cost of the 49,207 pieces of the controller being the equivalent to 3,246 pieces of the complete eSD stock. The remaining value represented the cost of the memory component which had not been sold.

5.2.8 In order to verify Foo’s explanation above, we reviewed the subsequent transactions that took place after the sale from Trek Singapore to Trek HK, as follows:

<b>Date</b>	<b>eSD Stock Quantity</b>	<b>Trek Singapore</b>	<b>Trek HK</b>
3-Oct-14	Initial stock balance	49,207	0
22-Jul-15	Sale from Trek Singapore to Trek HK	(3,246)	49,207
	Stock balance	<b>45,961</b>	<b>49,207</b>
23-Jul-15	Sales to Flashstar		(49,207)
Aug-15 to Feb-16	Stocks written off	(3,080)	
30-Mar-16	Sale to Best Rely	(42,880)	
31-Mar-16	Stocks written off	(1)	
		<b>(45,961)</b>	<b>(49,207)</b>

### Subsequent transaction – Trek Singapore

- 5.2.9 Based on the table above, if the initial sale to Trek HK was reflected at 49,207 pieces instead of 3,246 pieces, Trek Singapore would not have sufficient stock balance to sell 42,880 pieces of the memory component of the eSD to Best Rely Technology Co., Ltd (“**Best Rely**”) subsequently. Therefore, it is important to review the sale to Best Rely.
- 5.2.10 The sale to Best Rely was concluded on 30 March 2016 for 42,880 pieces of eSD as well as other items totalling US\$516,867.80. The goods were delivered to Dawning, a third party semiconductor assembly & testing company, as instructed by Best Rely. The transaction with Best Rely was verified against the following documents:
- (i) PO dated 30 March 2016 received from Best Rely;
  - (ii) Invoice and DO both numbered TDO201603166 dated 30 March 2016 issued by Trek Singapore to Best Rely for 42,880 pieces of eSD (under stock code: THGVS5G6D2FBA19HEH) as well as other items; and
  - (iii) FedEx airway bill no. /0015/0050/0012266859/0 for the delivery of the goods.
- 5.2.11 The payment for the transaction was made by Best Rely in two tranches, both on 6 April 2016 to settle this transaction as well as other transactions with Trek Singapore, as verified against bank advices.
- 5.2.12 The documents relating to the transaction with Best Rely including the payment details are exhibited in **Appendix 39**.
- 5.2.13 Based on the documents reviewed, it would appear that the sale to Best Rely was a genuine transaction. This meant that Trek Singapore did in fact have sufficient stocks to make the sale to Best Rely.
- 5.2.14 On a related matter brought up by EY, prior to the sale to Best Rely on 30 March 2016, EY had requested for a stock take of the balance eSD stocks held in the inventory to verify if the earlier sale to Trek HK was 3,246 or 49,207 pieces. However,

the Company informed EY that the stocks had been consigned and sent to PT Racer in Batam. PT Racer was formerly a Group entity until the disposal of Trek Singapore's 19% equity stake in Racer Technology Pte Ltd, the immediate holding company of PT Racer.

- 5.2.15 We have sighted a DO No. TDO2015/12-013 dated 8 December 2015 addressed to PT Racer for 43,761 pieces. However, there were no shipping documents available for review and the eSD stock movement report did not show any movements of stocks. EY was previously informed by the Company that the stocks were carried by hand to Batam. Henn informed that PT Racer has a team that goes to a factory in Batam every day by ferry. Hence, items were frequently carried by hand to Batam, which was a much faster method than to ship by freight. Foo explained that the stocks were sent to PT Racer as a consignment and as such no movement was recorded in the stock movement report as the stocks still belonged to Trek Singapore. Singh further confirmed that if the stocks were on consignment, no movement will be recorded in the stock movement report.
- 5.2.16 However, we note that when the sale to Best Rely took place, the stocks were delivered out of Singapore and not Batam. Henn informed us that the stocks were first sent to Batam for certain work to be done by PT Racer. Both Henn and Foo mentioned that the stocks could have been hand-carried back to Singapore.
- 5.2.17 As we have established that the subsequent sale to Best Rely appear to be a genuine transaction, we do not see a major issue with the above movement of stocks to PT Racer.

### Subsequent transaction – Trek HK

- 5.2.18 According to Foo, the sale from Trek Singapore to Trek HK for 49,207 pieces of controllers was to facilitate the sale to a customer in Hong Kong who had a requirement for controllers only.
- 5.2.19 We sighted the following documents:

- (i) PO no. BPO20150701 dated 15 July 2015 issued by Flashstar Technology Ltd (“**Flashstar**”) to Trek HK for 49,207 pieces of Controller. The stock code for the eSD was also stated on the said PO;
- (ii) Invoice and DO both numbered THK201507003 dated 23 July 2015 for 49,207 pieces of eSD (under stock code: THGVS5G6D2FBA19HEH) for the amount of US\$38,381.46 issued by Trek HK to Flashstar;
- (iii) The bank advice issued by Trek HK’s bank for the receipt of the sum of US\$38,381.46; and
- (iv) Email correspondence between a Trek HK employee and a Flashstar employee confirming that goods have been received and the payment has been made by Flashstar. A bank slip provided by the employee of Flashstar was also enclosed.

Copies of the documents above are exhibited in **Appendix 40**.

5.2.20 Based on the documents reviewed, it would appear that the sale from Trek HK to Flashstar was a genuine transaction and Flashstar had in fact ordered and subsequently purchased the controller as explained by Foo.

### Issues Relating to the eSD Transactions

- 5.2.21 As the subsequent sales from Trek Singapore and Trek HK appear to be genuine, we are satisfied that the sale from Trek Singapore to Trek HK was also genuine.
- 5.2.22 Notwithstanding the above, the Company should have exercised more diligence and care in making sure that its books and records reflect a true and accurate position.
- 5.2.23 For the sale of 49,207 pieces of controller to Trek HK, instead of taking a convenient approach by computing the quantity of the controller vis-à-vis its cost which does not reflect the actual situation, the Company should have separated the stocks into two distinct stock codes, each with its own cost for the memory and controller

components before recording the sale to Trek HK. This would ensure that the stock quantity and value are properly and accurately reflected in its books and for better management of its inventory.

### **5.3 Financial Impact of the Transactions Relating to eSD Inventories**

5.3.1 The transactions relating to the eSD inventories did not cause any financial impact on the Group as all the transactions appear to be genuine.

## **6 TRANSACTIONS WITH KEY ASIC**

### **6.1 Background Information**

6.1.1 During a routine check by IRAS on the Company's claim under the PIC Scheme, it was found that some of the payments for the purchases made by the Group from Key Asic were in fact made to Henn and not Key Asic. Arising from this discovery, the AC directed that we include the purchase transactions with Key Asic in our scope of review.

6.1.2 According to public information, Key Asic is a wholly owned subsidiary of Key Asic Berhad, a company listed on the Mainboard of Bursa Malaysia since 2008. In the 2017 Annual Report, it was disclosed that Key Asic was incorporated in Taiwan with principal activities in '*providing designing services in relation to the electronic components of integrated circuit, semiconductor and related parts*'.

6.1.3 Based on the announcements made by Key Asic Berhad, JP Peng was the CEO of Key Asic Berhad from 25 August 2010 until his retirement on 20 November 2014.

### **6.2 Transactions with Key Asic**

6.2.1 Based on our review of the Company's records and the information provided by the Company, both Trek Singapore and S-Com Singapore had made a number of purchases from Key Asic in the past, as follows:

## TREK 2000 INTERNATIONAL LTD – REPORT ON SUSPICIOUS TRANSACTIONS

Purchases from Key Asic	2010 US\$	2011 US\$	2012 US\$	2013 US\$	2014 US\$	2015 US\$	2016 US\$	Total US\$
Trek Singapore Intangible assets		62,999.50					240,000.00	302,999.50
S-Com Singapore Stocks	42,295.50	213,169.50	138,583.75	561,621.25	40,000.00	65,000.00		1,060,670.00
Intangible assets		722,375.00	25,000.00					747,375.00
	42,295.50	935,544.50	163,583.75	561,621.25	40,000.00	65,000.00	-	1,808,045.00
<b>Total</b> Stocks	<b>42,295.50</b>	<b>213,169.50</b>	<b>138,583.75</b>	<b>561,621.25</b>	<b>40,000.00</b>	<b>65,000.00</b>	<b>-</b>	<b>1,060,670.00</b>
Intangible assets	<b>-</b>	<b>785,374.50</b>	<b>25,000.00</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>240,000.00</b>	<b>1,050,374.50</b>
	<b>42,295.50</b>	<b>998,544.00</b>	<b>163,583.75</b>	<b>561,621.25</b>	<b>40,000.00</b>	<b>65,000.00</b>	<b>240,000.00</b>	<b>2,111,044.50</b>

6.2.2 Other than the purchases above, we note from the sales and purchases listings that the Group also had several sales transactions of insignificant value with Key Asic in the past under Trek Singapore in 2011 (US\$770.00) and Unimemory in 2015 (US\$1,766.00). These sales transactions were reviewed and we found no evidence of irregularity.

6.2.3 The purchases above were settled as follows:

Purchases from Key Asic US\$	Trek Singapore	S-Com Singapore	Total
<b>Total purchases</b>	<b>302,999.50</b>	<b>1,808,045.00</b>	<b>2,111,044.50</b>
<u>Settlement:</u>			
Credit note		(21,622.00)	<b>(21,622.00)</b>
Paid via TT to Key Asic account	(240,000.00)	(1,349,048.00)	<b>(1,589,048.00)</b>
Paid via cash	(62,999.50)	(39,479.60)	<b>(102,479.10)</b>
Paid to Henn		(187,635.00)	<b>(187,635.00)</b>
Paid to Loo		(153,365.00)	<b>(153,365.00)</b>
Offset against Thumbdrive Malaysia		(60,000.00)	<b>(60,000.00)</b>
Exchange differences		3,104.60	<b>3,104.60</b>
	<b>(302,999.50)</b>	<b>(1,808,045.00)</b>	<b>(2,111,044.50)</b>

6.2.4 Transactions of grave concerns include those which were paid in cash, paid to Henn and Loo, as well as the offset against Thumbdrive Malaysia, which did not have any transactions with Key Asic. These issues are further elaborated below.

**6.3 Issues Identified from the Transactions with Key Asic**

6.3.1 The suspicious modes of settlement mentioned above relate to four Key Asic Questionable Transactions, the details of which are provided below. Copies of the four Key Asic invoices above are exhibited in **Appendix 41**.

Entity	Key Asic Invoice No.	Date	Amount on Invoice		Cash Payment S\$	Cash Payment US\$	Payment to Henn S\$	Payment to Loo S\$	Thumbdrive Malaysia Offset US\$	Exchange Differences US\$
			S\$	US\$ equiv. in books						
S-Com Singapore	11060007	3-Jun-11	150,000.00	122,100.00			150,000.00			
S-Com Singapore	11060025	28-Jun-11	185,000.00	153,365.00				185,000.00		
S-Com Singapore	11100057	11-Oct-11	210,000.00	161,910.00	26,300.00	18,387.00	85,000.00		60,000.00	(3,104.60)
Trek Singapore	11040007*	27-May-11	77,300.00	62,999.50	77,300.00					
			<b>622,300.00</b>	<b>500,374.50</b>	<b>103,600.00</b>	<b>18,387.00</b>	<b>235,000.00</b>	<b>185,000.00</b>	<b>60,000.00</b>	<b>(3,104.60)</b>

\*Actual amount stated on the invoice was S\$100,300. However, only payment of S\$77,300 was made and the balance was not recorded.

(i) *Key Asic Invoice No. 11060007 – S\$150,000*

We sighted a TT form dated 7 July 2011 for the transfer of S\$150,000 from S-Com Singapore’s bank account to Henn’s bank account maintained with JP Morgan International Bank Limited, Brussels. The payment was checked by Singh and authorised by an unknown person<sup>68</sup> while the TT form was signed / authorised by Henn. Copies of the payment approval and TT form are exhibited in **Appendix 42**.

(ii) *Key Asic Invoice No. 11060025 – S\$185,000*

The payment was made in two separate cheques of the same amount in favour of Loo which were signed by Henn:

- OCBC cheque no. 364406 dated 15 August 2011 for S\$92,500
- OCBC cheque no. 364405 dated 25 August 2011 for S\$92,500

Copies of the payment details and cheques are exhibited in **Appendix 43**. We understand from Loo that shortly after receiving these cheque payments, the entire sum was remitted via TT to T-Data. Further details are elaborated in Paragraph 6.3.4 below.

<sup>68</sup> We note that the signature bears some similarity to Henn’s signature.

(iii) *Key Asic Invoice No. 11100057 – S\$210,000*

We sighted an S-Com Singapore petty cash voucher dated 22 November 2011 which was checked by Singh and approved by Henn for the payment of S\$26,300.00 to Key Asic.

We also found an unsigned document for petty cash reimbursement which shows that payment was made by Trek Singapore on behalf of S-Com Singapore to Key Asic for the sum of US\$18,387.00 on 31 October 2011. The accounting entries to record the sum as a loan from Trek Singapore to S-Com Singapore were approved by Singh.

We sighted a TT form dated 28 October 2011 for the transfer of S\$85,000 from S-Com Singapore's bank account to Henn's bank account maintained with JP Morgan International Bank Limited, Brussels. The payment was checked by Singh and approved by Henn, and the TT form was also signed / authorised by Henn.

We found an invoice which was issued without a letterhead which appear to be issued by Thumbdrive Malaysia to Key Asic for 'Income Licensing' amounting to US\$60,000 dated 19 February 2013<sup>69</sup>. The invoice was signed by Henn. Based on our review of the general ledgers, this sum was setoff against the intercompany balances between S-Com Singapore and Thumbdrive Malaysia.

Copies of the documents showing the payments above are exhibited in **Appendix 44**.

(iv) *Key Asic Invoice No. 11040007 – S\$77,300*

The invoice sighted was for a different amount of S\$100,300. However, we note that this invoice was not recorded as a payable item. Instead, the sum

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<sup>69</sup> During the Maxwellisation Process, Henn informed that the Company typically uses its Malaysian subsidiary, Thumbdrive Malaysia to transact with third parties for its licensing agreements so as to maximise profitability as there is a 5+5% tax relief extended by the Malaysian government for such transactions.

of S\$77,300 was recorded as payment and the corresponding entry was an increase in intangible assets for the same amount.

We sighted a cash cheque no. OCBC 365304 dated 27 May 2011 issued by Trek Singapore. The identity of the person who encashed the cheque is unknown as the Company's request for the back portion of the cheque image was denied by the bank due to banking secrecy rules. A copy of the said cash cheque is exhibited in **Appendix 45**.

- 6.3.2 The Key Asic Questionable Transactions were recorded in the books with debit entries to (thereby increasing) Intangible Assets and credit entries to (thereby reducing) Cash at Bank or to (thereby increasing) Payables.
- 6.3.3 A key difference between the four Key Asic Questionable Transactions and other transactions with Key Asic is that the invoices for the Key Asic Questionable Transactions were issued in Singapore Dollars, in contrast to all the other invoices which were issued in United States Dollars and were paid via TT to Key Asic's bank account as indicated in the general ledgers and TT forms sighted for some transactions.
- 6.3.4 During the interview of Loo and Poo on the cheque payments of S\$185,000.00 (see Paragraph 6.3.1(ii) above) which were issued to Loo's name, Poo informed us that Henn had asked him for a favour to use Loo's bank account for a payment to be made to T-Data. Poo confirmed that there were two cheques which were issued to Loo and that he had asked Loo to deposit the cheques and thereafter remit the same sum via TT to T-Data. Poo said that he was not aware that the cheque payments were related to the transactions with Key Asic as Henn did not inform him as such. Loo also provided us a copy of her bank statement showing that the cheques were deposited on 23 August 2011 and 26 August 2011, as well as a SWIFT confirmation obtained from the bank confirming the remittance of S\$184,980.00 (after deduction of S\$20 in bank charges) to T-Data on 1 September 2011.
- 6.3.5 Henn explained the reason for the cash payments to Key Asic. He said that JP Peng had contacted him to seek help for an advancement as Key Asic was having difficulties with its bank accounts. Whilst he would like to extend assistance, Henn

said he was mindful that it would create problems for the Company to make an advance payment to a supplier without receiving any goods. He also realised that the Company did not have sufficient cash as needed by JP Peng. Therefore, Henn made those advances to JP Peng on behalf of the Company using his personal funds and sought reimbursement from the Company at a later date. The advances were given on the condition that JP Peng must make himself available in Singapore, which he did, over four or five trips to Singapore. Henn also informed that every time he paid JP Peng, he would ask JP Peng to acknowledge receipt and the acknowledgments would be passed on to Singh for record-keeping and reimbursement.

- 6.3.6 The cash advances given to JP Peng were apparently drawn from cash that Henn held on hand and not withdrawn from the bank. As such, Henn was unable to provide any bank statements as documentary proof of the cash withdrawal(s) for the payments to JP Peng.
- 6.3.7 When asked for the reason that the payments needed to go through Loo / T-Data, Henn mentioned that he did not have so much cash with him and he could have requested T-Data to assist. However, he could not remember the details and asked that we checked the acknowledgement signed by JP Peng instead to confirm. Regardless, we note that his explanation still did not clarify the need for Loo's involvement as even if T-Data had come out with the cash first, the Company could have reimbursed T-Data directly.
- 6.3.8 We also requested for Henn's assistance to obtain bank statements from T-Data to show how the payment was made to JP Peng. Henn then informed us that Shirley, being the current director and shareholder of T-Data on record, was not agreeable to share the information with Henn which she deemed to be sensitive information unless RSM wrote to her directly for her consideration. Shirley also apparently told Henn that documents which were dated more than five years had been incinerated.
- 6.3.9 Singh informed us that he was aware of some arrangements between Henn and JP Peng wherein Henn made some advances on behalf of the Company to JP Peng, but he did not have the details of the arrangement. He mentioned that there was a one-page '*agreement*' done up for each payment in which it contained JP Peng's

acknowledgement of receipt, the invoice number and the amount. Every time Henn paid JP Peng, the latter would sign on the agreement which Henn would then pass on to Singh for reimbursement to Henn<sup>70</sup>. Singh told us that the agreements were kept in a plastic folder in the room which he used to occupy at the Company's office premises. At our request, the Company tried searching for the said plastic folder together with Singh but it was not found. Subsequently, with the permission of CAD, we accessed all the documents seized by CAD from the room occupied by Singh but no plastic folder was found<sup>71</sup>. We found it troubling that such an important folder would conveniently be missing when production of the same was sought.

6.3.10 In addition, through the Maxwellisation Process, Singh provided eight (8) copies of the one-page '*agreements*' for payments totalling S\$523,600 and US\$18,387.00 which he claimed were obtained from JP Peng (please refer to **Appendix 14** for copies of the documents). We note the following:

- (iii) The so-called one-page agreement was in fact payment vouchers. Given Singh's seniority and the CFO position he held, it is inconceivable that Singh would confuse a payment voucher with an agreement;
- (iv) The payment vouchers were acknowledged by an unidentified individual whom by Henn and Singh's accounts, was JP Peng. We note however, the signature on the payment vouchers was significantly different from JP Peng's signature on the Cash Receipts documents (see image below). The signature found on the Cash Receipt documents was confirmed to be JP Peng's based on our enquiries with him (please refer to Paragraph 6.3.13 below for further details on the Cash Receipts). If that was the case, the

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<sup>70</sup> In his Maxwellisation response, Singh mentioned that insofar as the arrangements between Henn and JP Peng are concerned, Henn would inform him that he would be making advance payment on behalf of the Company to JP Peng of Key Asic. Henn would also inform him of the amount of money to be advanced to JP Peng. Singh would then instruct his staff to prepare the one-page agreement for Henn which Henn would then return with the same agreement bearing JP Peng's acknowledgement of the payment received. This then formed the basis for the Company's reimbursement to Henn. Two copies of the agreement would be prepared for each payment where one copy would be kept by Singh and the other with JP Peng for each of the payments made.

<sup>71</sup> In his Maxwellisation response, Singh claimed that he was not present for the search and denied that the Company tried searching for the plastic folder together with him. This is in contradiction to the confirmation we received from Dr Edwin Long, the Deputy Chief Executive Officer of the Company that Singh was present during the search.

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question arises as to whether the payment vouchers were genuine documents or was this another instance where documents were fabricated.

TREK 2000 INTERNATIONAL LTD

S-COM SYSTEM (S) PTE LTD  
 TREK TECHNOLOGY (S) PTE LTD  
 OTHERS

CHEQUE PAYMENT  
 PETTY CASH VOUCHER

PAY: Key ASIC

Voucher No. \_\_\_\_\_  
 Date: 27/8/2011

Particulars of Payment	AMOUNT
Being fuel payment for (NW 1102800) dated 9/4/2011	\$ 77,300.00
Dollars:	\$ 77,300.00

Cash / Cheque: \_\_\_\_\_

Cheque Signatory: \_\_\_\_\_  
 Prices & Calculations Checked: \_\_\_\_\_  
 Authorized for Payment: \_\_\_\_\_

Account No.	Debit	Credit	Received By:
			<i>[Signature]</i> b7 behalf of Key ASIC

- (v) During our interview with Singh, he did not bring up the existence of another copy of the one-page agreement which was purportedly given to JP Peng. Even when the search for the plastic folder was unsuccessful, there was no mention that another copy existed although he ought to have known that the document was an important evidence; and
- (vi) Based on the above and given that Singh was involved in various fabrication and alteration of documents for other transactions, the authenticity of the one-page agreements which turned out to be payment vouchers, is highly doubtful.

6.3.11 With respect to Loo’s involvement, Singh mentioned that he received an email from JP Peng wherein JP Peng requested Singh to reimburse Loo because he had received money from Loo. Singh recalled that he even made a call to JP Peng after the receipt of the email to confirm it. The email was apparently printed and placed

together with the rest of the documents in the same plastic folder which could not be located. We searched through the digital image of Singh's email accounts but did not find any email from JP Peng as mentioned by Singh.

6.3.12 With respect to the OCBC cheque no. 365304 dated 27 May 2011 issued by Trek Singapore for S\$77,300, of which the identity of the person who encashed the cheque remains unknown, Singh recalled personally handing over one cash cheque to either JP Peng or Henn. Although he could not recall the exact details of the cash cheque, he remembered clearly that there was one cash cheque for payment to Key Asic.

6.3.13 On 27 June 2017, we were provided with the following documents by the Company:

(i) The following undated Cash Receipts with the rubber stamp of the name and address of Trek Singapore affixed on the top left corner, purportedly issued to Key Asic:

- No. 0000332 for the amount of US\$122,100 purportedly signed by JP Peng
- No. 0000333 for the amount of US\$153,365 purportedly signed by JP Peng
- No. 0000334 for the amount of US\$105,014.60 but was left unsigned

(ii) A listing of transactions with handwritten notes in Chinese stating that the writer has retired since 31 January 2015 and all transactions subsequent to this date were not to the writer's knowledge. The listing was purportedly signed by JP Peng and contained the following:

- Purchase transactions between S-Com Singapore and Key Asic from 20 December 2010 to 30 March 2015 totalling USD1,786,423; and
- Purchase transactions between Trek Singapore and Key Asic from 27 May 2011 to 21 September 2016 totalling USD303,000.



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- 6.3.15 Foo confirmed that the documents above were all signed by JP Peng. Foo further explained that the documents were prepared at his instructions on 15 June 2017 in response to our request for the Company to obtain confirmation / acknowledgement from Key Asic on the suspicious payments above. Since Henn would be meeting JP Peng in Shanghai on 16 June 2017, Foo thought it would be useful to obtain JP Peng's acknowledgement for the purpose of our review.
- 6.3.16 On the curious choice of documents used for JP Peng's acknowledgement, Foo informed that *'we could not obtain any appropriate form for Mr. Peng acknowledge at that time. We found a booklet of 'Cash Sales' that we used them during exhibition, we believed it could be used to have Mr. Peng's acknowledgement for the money that Key Asic received. We typed the invoice number and amount, changed the 'cash sales' to 'cash receipt' for Mr. Peng's acknowledgement'*.
- 6.3.17 With respect to the Cash Receipt No. 0000334 for the amount of US\$105,014.60 which was not signed, Foo informed that JP Peng could have missed out that particular document when he signed the rest of the documents.
- 6.3.18 The matching of the amounts paid in the Company's records to the amounts acknowledged by JP Peng is provided below:

Suspicious Payments	Invoice No.	Based on Company Records		Amount Acknowledged Receipt by JP Peng
		Actual Payment	US\$ equiv.	
Cash payment	11100057	S\$ 26,300.00	US\$ 21,092.60	US\$ 21,092.60
Cash payment	11100057	US\$ 18,387.00	US\$ 18,387.00	US\$ 18,387.00
Cash payment	11040007	S\$ 77,300.00	US\$ 62,999.50	
Payment to Henn	11060007	S\$ 150,000.00	US\$ 122,100.00	US\$ 122,100.00
Payment to Henn	11060007	S\$ 85,000.00	US\$ 65,535.00	US\$ 65,535.00
Payment to Loo	11040007	S\$ 185,000.00	US\$ 153,365.00	US\$ 153,365.00
TDM Offset	11100057	US\$ 60,000.00	US\$ 60,000.00	
Exchange difference		US\$ (3,104.60)	US\$ (3,104.60)	
			<b>US\$ 500,374.50</b>	<b>US\$ 380,479.60</b>

- 6.3.19 We also made enquiries with JP Peng via email. He confirmed the following in his emails dated 13 September 2017, 12 October 2017, 28 October 2017 and 4 November 2017:

- (i) He confirmed that the documents were given to him for signing in Shanghai by Henn in June 2017;
- (ii) He confirmed the receipt of the sums of US\$122,100, US\$153,365 and US\$105,014.60 (total: US\$380,479.60) including the amount stated on the Cash Receipt which was unsigned and that he might have missed it<sup>72</sup>;
- (iii) He insisted that the total sum of US\$380,479.60 was paid to and received by Key Asic, and not to him personally, as Key Asic '*had a little issues then*';
- (iv) He signed on the undated Cash Receipts '*since the fund were received during my tenure as CEO of the company and the company did not send the confirmation due to the issues of the company, so I think I should sign the 'Cash Receipts' instead*'; and
- (v) He said that the payments were made via TT and not cash. This is contradictory to Henn and Singh's statement that some of the sums in cash were paid to JP Peng.

We followed up with further questions on his response that the payments were made via TT as well as the cash cheque of S\$77,300 issued under OCBC cheque no. 365304. However, subsequent to his last reply on 4 November 2017, JP Peng did not reply to our email dated 24 November 2017 even after our reminders on 5 December 2017 and 17 January 2018. A copy of the email correspondence with JP Peng between 10 September 2017 and 17 January 2018 is exhibited in **Appendix 47**. Notwithstanding, both Henn (during the Maxwellisation Process) and Singh (during the interview) informed that the cheque for the sum of S\$77,300 was collected by JP Peng from the Company's office premises at the material time.

6.3.20 What is even more troubling is that Key Asic confirmed that it has never issued, and does not have records of, the four invoices under the Key Asic Questionable Transactions. At our request, the Company managed to contact certain employees

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<sup>72</sup> During the Maxwellisation Process, Henn stated that the acknowledgement forms constitute incontrovertible proof that monies were received by JP Peng on behalf of Key Asic at that point in time and that it is inconceivable that JP Peng would acknowledge receipt of monies if he had not in fact received such monies.

of Key Asic for the purpose of obtaining information and confirmation on the transactions above. After providing some information, a Key Asic employee by the name of Lia Chiou informed the Company that she would prefer to communicate with us directly on the information that we need.

- 6.3.21 Since the Key Asic Questionable Transactions took place in 2011, we requested Key Asic to provide us the list of transactions between Key Asic and S-Com Singapore and Trek Singapore in 2011. It was confirmed that the list provided by Key Asic did not contain the invoices of the Key Asic Questionable Transactions. We were, however, able to verify the other Key Asic transactions in 2011 to the list.
- 6.3.22 As mentioned above, Key Asic confirmed that it has never issued and does not have records of the four invoices under the Key Asic Questionable Transactions. Further, Key Asic also confirmed that it did not have any dealings with Thumbdrive Malaysia or received the invoice for licensing fee of US\$60,000 from Thumbdrive Malaysia. A copy of the email correspondence with Key Asic between 13 April 2017 and 18 October 2017 is exhibited in **Appendix 48**.
- 6.3.23 When this was highlighted to Henn during our interview, his position was that Key Asic should clarify this with JP Peng, their former CEO as JP Peng had received the monies. During the Maxwellisation Process, Henn questioned the reliability of the information received from the Key Asic employee, Lia Chiou as the identity of this employee appears unclear in contrast to the information / confirmation received from JP Peng, who was the former CEO of Key Asic. We wish to highlight that Lia Chiou was in fact the contact point in Key Asic introduced by the Company to us. At our request to obtain clarification / confirmation from Key Asic on the transactions, the Company went on to contact Key Asic for this purpose and the communication with Lia Chiou was then handed over to us as Lia Chiou had requested to communicate with us directly.
- 6.3.24 In addition, Henn appears to have reached out to Key Asic's current Chairman and CEO, Mr Eg Kah Yee and Financial Controller, Mr Thong Kooi Pin to verify the authenticity of certain transactions. Based on the email correspondence provided to us in Henn's Maxwellisation response, Mr Thong Kooi Pin on 12 April 2018 confirmed that '*the transactions are correct*' (refer to **Appendix 13**) in response to Henn's email

on 10 April 2018. It was not clear what he had confirmed and what were sent to him for confirmation; there was no attachment to Henn's email of 10 April 2018 to Key Asic. We also find it peculiar that this email was produced at the eleventh hour notwithstanding that Henn knew Key Asic had informed us that it did not have records of the invoices for the Key Asic Questionable Transactions since 27 November 2017 when we interviewed him. Given the new evidence produced by Henn which is contradictory to the earlier confirmation given by Key Asic, the new but questionable evidence produced by Singh, and the inconsistent / contradictory statements provided by Singh and JP Peng, we are unable to place complete reliance on the new evidence provided by both Henn and Singh.

- 6.3.25 If it is proven that the invoices did not exist, it is highly likely that the purchases made under the Key Asic Questionable Transactions as well as the licensing income of US\$60,000 recorded in Thumbdrive Malaysia's books were also fictitious. That also meant that the invoices relating to the four Key Asic Questionable Transactions as well as the invoice issued by Thumbdrive Malaysia for the licensing fee charged to Key Asic must have been fabricated.
- 6.3.26 If that were the case, then the sums of S\$523,600.00 and US\$18,387.00 paid by S-Com Singapore and Trek Singapore cannot be accounted for and may possibly have been misappropriated.
- 6.3.27 In addition, we understand from the Company that Trek Singapore had made claims under the PIC Scheme with respect to one of the four invoices under the Key Asic Questionable Transactions, namely invoice no. 11040007 dated 27 May 2011. The amount claimed was 60% of the amount paid under the invoice of US\$62,999.50, or US\$37,799.70. If the invoices are fictitious, it follows that a PIC claim in relation to a fictitious invoice is irregular or fraudulent. In addition, S-Com Singapore had also made certain deductions as allowable R&D expenses in its income tax returns. That also raises serious questions about the propriety or legitimacy of those deductions.

**6.4 Financial Impact of the Transactions with Key Asic**

6.4.1 If the Key Asic Questionable Transactions were proven to be fictitious, the financial impact of the Key Asic Questionable Transactions on the Group is as follows:

- (i) Revenue was overstated by US\$60,000.00;
- (ii) Expenses were overstated by US\$3,104.60;
- (iii) Profit was overstated by US\$56,895.40;
- (iv) Assets (intangible assets) were overstated by US\$500,374.50;
- (v) Assets (cash) were understated by US\$443,479.10; and
- (vi) Equity (retained earnings) was overstated by US\$56,895.40,

in total for FY2011 and FY2013. Please refer to the table below:

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Financial Impact US\$	Overstated / (Understated)		
	FY2011	FY2013	Total
<b><u>S-Com Singapore</u></b>			
Expenses (exchange loss, realised)		3,104.60	<b>3,104.60</b>
Profit		(3,104.60)	<b>(3,104.60)</b>
Assets (intangible assets - R&D)	122,100.00		<b>122,100.00</b>
Assets (cash)	(122,100.00)		<b>(122,100.00)</b>
Assets (intangible assets - R&D)	153,365.00		<b>153,365.00</b>
Assets (cash)	(153,365.00)		<b>(153,365.00)</b>
Assets (intangible assets - R&D)	161,910.00		<b>161,910.00</b>
Assets (cash)	(86,627.60)		<b>(86,627.60)</b>
Liabilities (interco - Trek Singapore)	18,387.00		<b>18,387.00</b>
Liabilities (interco - Thumbdrive Malaysia)		60,000.00	<b>60,000.00</b>
Equity (retained earnings)		(3,104.60)	<b>(3,104.60)</b>
<b><u>Thumbdrive Malaysia</u></b>			
Revenue		60,000.00	<b>60,000.00</b>
Profit		60,000.00	<b>60,000.00</b>
Assets (interco - S-Com Singapore)		60,000.00	<b>60,000.00</b>
Equity (retained earnings)		60,000.00	<b>60,000.00</b>
<b><u>Trek Singapore</u></b>			
Assets (intangible assets - R&D)	62,999.50		<b>62,999.50</b>
Assets (cash)	(62,999.50)		<b>(62,999.50)</b>
Assets (cash)	(18,387.00)		<b>(18,387.00)</b>
Assets (interco - S-Com Singapore)	18,387.00		<b>18,387.00</b>
<b><u>Total</u></b>			
Revenue		60,000.00	<b>60,000.00</b>
Expenses (exchange loss, realised)		3,104.60	<b>3,104.60</b>
Profit		56,895.40	<b>56,895.40</b>
Assets (intangible assets - R&D)	500,374.50		<b>500,374.50</b>
Assets (cash)	(443,479.10)		<b>(443,479.10)</b>
Equity (retained earnings)		56,895.40	<b>56,895.40</b>
<b><u>Group Elimination</u></b>			
Assets (interco - S-Com Singapore)		60,000.00	
Assets (interco - S-Com Singapore)	18,387.00		
Liabilities (interco - Trek Singapore)	18,387.00		
Liabilities (interco - Thumbdrive Malaysia)		60,000.00	

## 7 TRANSACTIONS WITH THE PARTY C ENTITIES

### 7.1 Background Information

7.1.1 Party C1 was and still is a major supplier of the Group. During the course of the audit work undertaken by EY for the FY2015 financial statements, EY came across certain issues relating to the transactions with Party C1.

7.1.2 As stated in EY's letter to the Company dated 1 June 2016, the issues stemmed from the audit confirmations sent to and responded by Party C1 with respect to the balances between Trek Singapore and Party C1. The audit confirmations revealed huge discrepancies on the transactions and records between the two entities.

7.1.3 EY subsequently performed verification of the items contained in the Statement of Account provided by Party C1 against Trek Singapore's accounting records. EY found that the amounts for certain invoices stated in Trek Singapore's accounting records were different from the amounts stated in Party C's Statement of Account.

7.1.4 During the interview with Singh and Poo, EY was informed that some of the invoices issued by Party C1 had been digitally altered while there were others which had been fabricated for the purpose of making '*internal adjustments*'. These invoices were available in photocopied versions. Singh also represented to EY that notwithstanding the above, there were no overpayments to Party C1 as the payments made were processed based on the original invoices and Statements of Account provided by Party C1, and not the photocopied versions.

7.1.5 We have carried out a review of the transactions with Party C1 and Party C2 (collectively referred to as the Party C Entities) from 2008 up to 2016. In carrying out the review, we have relied on the following:

- (i) The general ledgers of the Company, Trek Singapore, S-Com Singapore, and Trek Malaysia from 2008 to 2016;

- (ii) Statements of Account issued by Party C1 for its transactions with Trek Singapore for February, June, September and November 2011 (obtained from the records seized by CAD), and from January 2012 to December 2016 (provided by Party C1);
- (iii) Statements of Account issued by Party C1 for its transactions with S-Com Singapore from April 2015 to December 2016 provided by Party C1;
- (iv) Statement of Account issued by Party C1 for its transactions with Trek Malaysia for February 2011 obtained from the records seized by CAD; and
- (v) Original copies of the invoices issued by Party C1 from November 2011 to December 2016 and photocopied versions obtained from the records seized by CAD which may not be complete.

7.1.6 When we requested from the Company for Party C's Statements of Account for (i) the period from 2008 to 2011 for Trek Singapore, and (ii) the period from 2008 to 2014 for S-Com Singapore, the Company informed us on 23 March 2017 that Party C1 was unable to provide the same as Party C1 did not keep records for more than five years. The Company also confirmed that S-Com Singapore only started transacting with Party C1 in 2015.

## **7.2 Types of Documents Alteration / Fabrication and Their Uses**

7.2.1 There were four entities in the Group which had transactions with the Party C Entities, namely the Company, Trek Singapore, S-Com Singapore and Trek Malaysia.

7.2.2 There are two account codes created for Party C1 in the Company's accounting system to differentiate between the usual transactions with Party C1 and those transactions relating to the purchases which were exported to India. This differentiation was also practiced by Party C and was apparent in the Statements of Account issued by Party C.

7.2.3 Based on our review of the general ledgers and the available Party C's Statements of Account, we did not find discrepancies with respect to the following transactions between:

- S-Com Singapore and Party C1;
- Trek Singapore and Party C1 (for export to India);
- Trek Malaysia and Party C1 (for export to India); and

7.2.4 Transactions which were doubtful and questionable include those between:

- Trek Singapore and Party C1;
- Trek Singapore and Party C2;
- Trek Singapore and Party C3 ("**Party C3**");
- The Company and Party C2; and
- Trek Malaysia and Party C1

7.2.5 Based on our findings, there were five broad types of documents alteration / fabrication used by the Group to manipulate certain financials and accounting records as follows:

- (i) Alteration of Party C1 invoices to inflate the invoiced amount;
- (ii) Alteration of Party C1 invoices to reduce the invoiced amount;
- (iii) Fabrication of non-existent Party C1 invoices;
- (iv) Fabrication of non-existent Party C1 credit notes; and
- (v) Genuine Party C1 credit notes which were used to manipulate accounting records.

7.2.6 We explain further on how each of the above were used to manipulate the accounting records of the Group below.

### Alterations to Inflate Invoiced Amount

- 7.2.7 The original Party C1 invoices were digitally altered such that they reflect a higher amount. At the same time, Trek Singapore would issue an invoice for licensing fees to Party C1 for the incremental amount. The higher cost following the alteration of the Party C invoice was effectively neutralised by the licensing income that Trek Singapore “billed” to Party C1.
- 7.2.8 Payment made to Party C1 were based on the net amount after the setoff of the inflated invoice (payable) and the licencing fees charged to Party C (receivable), which is effectively the original amount invoiced by Party C1. Please refer to the illustration below:

<b>Party C1 Invoice</b>		<b>US\$</b>	
Photocopy (inflated) version		102.00	
Original version		<u>100.00</u>	
Difference		<u>2.00</u>	
<b>Being purchase from Party C1</b>		<b>DR</b>	<b>CR</b>
Purchases		95.33	
GST input tax		6.67	
Payable - Party C1			102.00
<b>Being licensing income from Party C1</b>			
Receivable - Party C1		2.00	
Licensing Income			1.87
GST output tax			0.13
<b>Being settlement of invoices</b>			
Payable - Party C1		102.00	
Receivable - Party C1			2.00
Cash at bank			<u>100.00</u>
<b>Financial Impact</b>		<b>Overstated / (Understated)</b>	
Licensing income		1.87	
Purchases		1.87	
Net profit		0.00	
Receivables		2.00	
GST input tax		0.13	
Payables		2.00	
GST output tax		0.13	

7.2.9 As mentioned above, the purpose of inflating the Party C1 invoices was to reflect licensing fees which were purportedly chargeable to Party C1. During the interview, Henn informed that Party C1 was supposed to pay licensing fee to the Company under a cross licensing arrangement negotiated by him. However, Party C1 made it clear that they did not want to use the term “licensing fee” as ‘it will capture a lot of traction and other people may start suing them’ in order to collect licensing fees from Party C1. During the earlier years and due to certain reasons, Party C1 would provide the Company with a monthly purchase rebate based on a certain agreed percentage. These rebates would be used by the Company to offset its purchases from Party C1.

- 7.2.10 Henn further elaborated that after a few years, Party C1 informed him that they had to put a stop to the rebates due to a change in its internal policy arising from malpractices found in another country. Instead of issuing monthly rebates, Party C1 would factor the rebates into the prices it quoted to the Company for the Company's purchases. The Company was told to make its own necessary internal arrangements to reflect the licensing income. Henn then tasked Singh to find a way to reflect the licensing income in its books but did not check on how Singh did it.
- 7.2.11 Singh's explanation was consistent with Henn's. Singh added that the licensing fee was applicable to the purchase of NAND flash memory products only. Singh informed us that at first, Party C1 would issue the rebates in the form of credit notes. Later, when Party C1 was unable to continue with the issuance of credit notes, a former employee in the purchasing department (employees in the purchasing department is also called a purchaser) by the name of Roger who was involved in the discussion with Party C1, started the 2% system whereby *'original invoice would be photocopied and amended to reflect a 2% increase in the purchase price'*. The 2% increase was to enable the licensing income from Party C1 to be captured in the Company's books. Singh was not personally involved in the discussion with Party C1 and only knew about the arrangement from Roger and Henn. After Roger left, Hengky who took over the role of a purchaser, continued with the practice.
- 7.2.12 Poo also mentioned that the purchaser at that time was Roger Chan but apparently it was Henn who informed Roger Chan that he had an agreement with Party C1 whereby the latter would give the Company a strategic price instead of paying licensing fees to the Company. Poo was certain that the practice of altering the Party C1 invoices started more than ten years ago.
- 7.2.13 According to the statements given by various individuals, the practice of altering the invoices, recording the amounts in the system to eventually making payment to Party C1 involved several teams / departments. In his Maxwellisation response, Henn informed that at the material time, he was not aware, neither had he participated in nor approved of the digital alterations or fabrications of invoices and credit notes, and there was no reason for him to suspect so.

- 7.2.14 Poo said that the process begins with the allocation of quantity and the price quote by Party C1. As the demand for the goods are high, the Company would accept any quantities allocated and price quoted by Party C1. Once the goods were delivered, Party C1 would issue an invoice which would be received by the purchaser but not given to Poo. As delivery of stocks by Party C1 would usually take place during month-end, Poo would compute the 2% licensing fee in the following month by referring to the email from Party C1 on the allocation of quantity and price quote. He would provide the figures to Cynthia who would then assist him to raise an invoice on licensing fees to be charged to Party C1.
- 7.2.15 According to Singh, once the purchaser (previously Roger and later, Hengky) received an invoice from Party C1, the purchaser will compute the 2% increase on grossed up basis, digitally alter the invoices and record the inflated amount in the system. On his part, Singh would ask his staff to perform the necessary reconciliation of the inflated invoice and licensing fees charged to Party C1 at the end of the month to ensure that the payment to Party C1 was correct, i.e, the 2% increase in the invoice should be setoff against the 2% licensing fees so that the payment will always be based on the amount stated on the original invoice.
- 7.2.16 According to Singh, since this practice has been established for a long time, the entire process was capable of running on its own and each individual involved knew their respective roles and what to do and. Hence, no specific instructions were required to be given. This somewhat contradicted Hengky's position that he received instructions from Poo or Singh who would provide him with the details of the invoice and amounts to alter.
- 7.2.17 In contrast to the explanation that the Party C1 invoices were inflated based on a fixed percentage of 2%, our review showed that the percentage ranged between 1.75% and 5.00%. There was also an instance where the percentage was a staggering 44.55%. In total, we found 141 Party C1 invoices to Trek Singapore which had been inflated between 2011 and 2015 and the total amount which had been inflated was US\$5,471,164.80 (before GST) as follows:

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In US\$ Year	No. of Invoice	After GST			Before GST		
		Inflated Invoice	Actual Invoice	Inflated Amount	Inflated Invoice	Actual Invoice	Inflated Amount
2011	19	11,995,057.27	11,742,501.09	252,556.18	11,210,333.90	10,974,300.08	236,033.81
2012	12	8,453,031.46	8,286,627.79	166,403.67	7,900,029.40	7,744,511.95	155,517.45
2013	13	10,120,778.45	9,921,544.62	199,233.83	9,458,671.45	9,272,471.61	186,199.84
2014	44	68,871,726.54	67,477,517.93	1,394,208.61	64,366,099.57	63,063,100.87	1,302,998.70
2015	53	103,057,308.67	99,215,564.62	3,841,744.05	96,315,241.75	92,724,826.75	3,590,415.00
Total	141	202,497,902.39	196,643,756.05	5,854,146.34	189,250,376.07	183,779,211.26	5,471,164.80

The list of invoices we found which had been inflated in each year is exhibited in **Appendix 49**.

7.2.18 We should highlight that the 141 altered invoices were identified based on our verification against the Statements of Account of Party C1 which were only available for certain months in 2011 and the full period from 2012 to 2016. As mentioned in Paragraph 7.1.6 above, the statements for the earlier periods were not available for review. Without those statements, it would not be possible to determine if other invoices had been altered. Nevertheless, in view of the evidence from various individuals that the practice of inflating/altering Party C1 invoices was long-standing and systemic, we cannot discount the possibility that there would be more Party C1 invoices which had been inflated/alterd.

### Alterations to Reduce Invoiced Amount

7.2.19 The Company also digitally altered certain invoices to reduce the amount stated on the original Party C1 invoices.

7.2.20 The purpose of this practice was to transfer some of the cost of purchase to other expense items such as R&D Consumables and Advertising/Brochures in the books.

7.2.21 The Company would then fabricate non-existent Party C1 invoices to create R&D Consumables and Advertising/Brochures expenses for the amount which had been reduced above.

7.2.22 The alteration to reduce the Party C1 invoices was always done in tandem with the fabrication of the Party C1 invoices as the reduced and fabricated invoices would be used together to manipulate the accounts (which will be elaborated below).

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7.2.23 Please refer to Paragraph 7.2.31 below for an illustration of how the altered reduced invoices were used together with the fabricated invoices.

7.2.24 Based on our review, we found 19 Party C1 invoices which had been altered to reduce the invoiced amounts in 2011, 2015 and 2016. The total reduction was US\$2,936,560.62 (before GST). Please refer to the table below:

In US\$ Year	No. of Invoice	After GST			Before GST		
		Reduced Invoice	Actual Invoice	Reduction Amount	Reduced Invoice	Actual Invoice	Reduction Amount
2011	2	56,394.22	122,589.35	(66,195.13)	52,704.88	114,569.49	(61,864.61)
2015	9	24,812,266.08	27,559,507.70	(2,747,241.62)	23,189,033.72	25,756,549.25	(2,567,515.53)
2016	8	14,597,844.91	14,926,528.02	(328,683.11)	13,642,845.71	13,950,026.19	(307,180.48)
Total	19	39,466,505.21	42,608,625.07	(3,142,119.86)	36,884,584.31	39,821,144.93	(2,936,560.62)

The list of invoices we found which had been altered to reduce the invoiced amount in each year is exhibited in **Appendix 50**.

7.2.25 Similarly, we should highlight that the 19 altered invoices were identified based on our verification against the Statements of Account of Party C1, without which, it would not be possible for us to determine if the invoices had been altered. As mentioned in Paragraph 7.1.6 above, the statements for the earlier periods prior to 2012 were not available for review. We cannot discount the fact that there may be more Party C1 invoices altered before 2012.

### Fabrication of Party C1 Invoices

7.2.26 As mentioned above, the Company had fabricated a number of non-existent Party C1 invoices which were used in tandem with the Party C1 invoices which have been altered to reflect reduced amounts.

7.2.27 These invoices were not listed in the Statements of Account of Party C1. Further, Singh and Hengky have confirmed that the invoices were fabricated and not genuine. The invoices were fabricated for the following expenses:

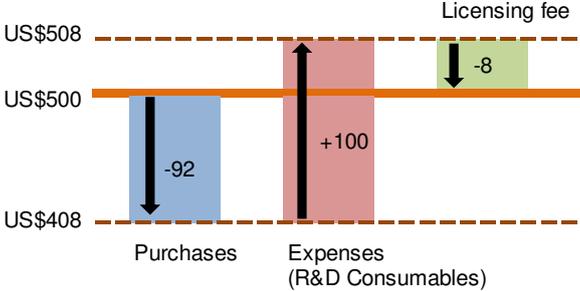
Purpose (as stated on the fabricated invoices)	Recording in books
Engineering fabrication process works incurred to bring product to production stage	Expense item - R&D Consumables
NRE Cost	Expense item - R&D Consumables
Marketing activities for FLASH AIR	Expense item - Advertising / Brochure

- 7.2.28 According to Henn, Party C1 had performed certain fabrication or engineering work on the products before they were sold to the Company. However, instead of billing the Company separately for the products and the additional work performed, Party C1 would consolidate the total cost and bill them as one cost item to the Company. Henn’s view was that these costs should be identified and classified separately. As such, he instructed Singh to do so. Both Henn and Singh informed us that Party C1 would usually provide the Company with the fabrication cost and Singh would obtain the same from Henn. Singh would then instruct Hengky to create the non-existent Party C1 invoices.
- 7.2.29 Henn informed us that there were also collaborative works which were done with Party C1 for which Party C1 would charge to the Company by adjusting upwards the selling price of the goods ordered by Trek Singapore. The Company would also, at times, ride on Party C1’s marketing efforts and exhibitions, which Party C1 would charge back by factoring the expenses incurred in the price of the goods sold to Trek Singapore.
- 7.2.30 Based on Henn’s explanation above, the original invoices from Party C1 have reflected higher prices / amounts. As Henn wanted these costs to be identified and separated, Singh came up with the method of doing so by excluding the portion of the non-product related costs from the Party C1 original invoices via digital alteration (which had the effect of reducing the amount on the invoice), and thereafter creating non-existent Party C1 invoices for these non-product related costs. The amount reduced on the original invoice is effectively transferred to the fabricated invoices. The non-product related costs were then recorded as a separate expense item which appear below the gross profit line.

7.2.31 To add to the complication, the Company would also include the 2% licensing fee in arriving at the final amount to be altered on the invoice. The outcome is an invoice which has been altered to take into consideration the 2% licensing fee (upward adjustments) and transfer of non-product related costs (downward adjustments) to a separate fabricated invoice. We provide below an illustration showing how the alterations and fabrications were used together:

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Assuming the Company received an original Party C1 invoice of US\$500 and was informed that it included NRE Cost of US\$100. If the NRE Cost was excluded, the total product-related purchase cost was only US\$400 (reduction of US\$100). In addition, the Company would also factor in the 2% licensing fee, which worked out to be US\$8. The purchase cost would then be increased to US\$408.



	Fabricated Party C Inv US\$	Licensing Trek Inv US\$	Reduced Party C Inv US\$
Photocopy (reduced) version	100.00		408.00
Original version	-		500.00
Difference	<u>100.00</u>	<u>8.00</u>	<u>(92.00)</u>

	DR	CR
<b>Being NRE cost from Party C1</b>		
R&D Consumables	93.46	
GST input tax	6.54	
Payable - Party C1		100.00
<b>Being licensing income from Party C1</b>		
Receivable - Party C1	8.00	
Licensing Income		7.48
GST output tax		0.52
<b>Being purchase from Party C1</b>		
Purchases	381.31	
GST input tax	26.69	
Payable - Party C1		408.00
<b>Being settlement of invoices</b>		
Payable - Party C1 (R&D Consumables)	100.00	
Payable - Party C1 (Purchases)	408.00	
Receivable - Party C1		8.00
Cash at bank		500.00

Financial Impact	Overstated / (Understated)
Licensing income	7.48
Purchases	(85.98)
Expenses - R&D Consumables	93.46
Net profit	0.00
Receivables	8.00
GST input tax	0.52
Payables	8.00
GST output tax	0.52

7.2.32 Based on our review, we found a total of 18 Party C1 invoices which were fabricated in 2015 and 2016 totalling US\$3,262,026.20 (before GST). Please refer to the table below:

In US\$	No. of Invoice	After GST	Before GST
<b>R&amp;D Consumables</b>			
2015	9	1,977,404.09	1,848,041.21
2016	2	603,463.94	563,984.99
	11	2,580,868.03	2,412,026.20
<b>Advertising / Brochure</b>			
2015	4	321,000.00	300,000.00
2016	1	53,500.00	50,000.00
	5	374,500.00	350,000.00
<b>Intangible asset - R&amp;D</b>			
2015	2	535,000.00	500,000.00
	2	535,000.00	500,000.00
<b>Grand total</b>	<b>18</b>	<b>3,490,368.03</b>	<b>3,262,026.20</b>

The list of non-existent invoices we found which had been fabricated together with copies of those invoices is exhibited in **Appendix 51**.

7.2.33 As mentioned earlier, the Statements of Account of Party C1, which are the only source for verification check, were only available from 2012 to 2016 (and some months in 2011). Furthermore, the Company informed that it had incinerated all the records prior to 2011. As such, it is possible that there may be more fabricated Party C1 invoices, apart from the 18 identified above.

7.2.34 Putting aside the obvious fact that there can be no justification for fabricating sham documents, we should further highlight here that some of the explanations given by Henn and Singh on the purpose of the fabricated invoices appear contradictory. While Henn mentioned that Party C1 had incurred certain expenses which it had charged to the Company through the higher pricing for the goods that the Company purchased from Party C1, Singh's version was that the Company had incurred marketing expenses on behalf of Party C1 instead. In addition, Singh also informed that the Company had '*collaborated with Party C1 on certain projects which enabled the Company to save on R&D expenses*' and the Party C1 invoices were fabricated

to reflect those cost savings<sup>73,74</sup>. We could not accept either person’s explanation, various parts of which were illogical.

Fabrication of Party C1 Credit Notes

7.2.35 We found instances where the fabricated Party C1 invoices were not used together with the altered reduced Party C1 invoices but were instead used together with fabricated Party C credit notes.

7.2.36 Based on the documents reviewed, we found two fabricated credit notes with the same number totalling US\$1,274,000 (before GST) issued in 2015 as follows:

Date	Credit Note No.	Reference No. (in accounting records)	Description	Amount US\$	7% GST US\$	Total Amount US\$
31-Jul-15	CPC0006154	SCRN 201507002	Being lump sum credit support	856,000.00	59,920.00	915,920.00
31-Aug-15	CPC0006154	SCRN 201508003	Being lump sum credit support	418,000.00	29,260.00	447,260.00
				<b>1,274,000.00</b>	<b>89,180.00</b>	<b>1,363,180.00</b>

Copies of the fabricated credit notes are exhibited in **Appendix 52**.

7.2.37 There may be more fabricated credit notes which could have been issued prior to 2012 but we were not able to identify for the reasons stated in Paragraph 7.2.33 above.

7.2.38 Singh admitted to EY that the credit notes above were ‘*internal documents*’ generated by Trek Singapore. During the interview, Singh informed us that the purpose of these fabricated credit notes was the same as the altered reduced Party C1 invoices, i.e, to transfer some of the cost of purchase which is not related to the

<sup>73</sup> During the Maxwellisation Process, Singh denied that Henn and his explanations were contradictory. He stated that Henn informed him that Party C1 would factor in the expenses for carrying out fabrication work, marketing and R&D work into the price of its goods. In Henn’s views, Singh explained that this represented notional cost savings and he wanted these expenses to be reflected in the accounts which formed the basis for the arrangement in respect of the invoices.

<sup>74</sup> In his Maxwellisation response, Henn informed that he was given to understand that the digital alterations and fabrications of the invoices and credit notes were meant solely to reflect the licensing income earned pursuant to the cross-licensing arrangement and to itemise the invoices, and was done in accordance with the true state of affairs. Henn is also given to understand that there was no intentional inflation of figures, and overall, the bottom-line, i.e. the net profits of the Company would not be affected.

cost of the product, to other expense items. These expense items appear below the gross profit line.

7.2.39 Specifically, the fabricated credit notes were used to reduce the purchases from Party C1. At the same time, Party C1 invoices were fabricated for the following expenses for the same total amount as the credit notes:

<b>Purpose (as stated on the fabricated invoices)</b>	<b>Recording in books</b>
Engineering fabrication process works incurred to bring product to production stage	Expense item - R&D Consumables
NRE Cost	Expense item - R&D Consumables
Marketing activities for FLASH AIR	Expense item - Advertising / Brochure
Medical Technology: Predictive Analysis Project	Intangible asset - R&D

7.2.40 We provide below an illustration of how the fabricated credit notes were used together with the fabricated invoices:

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<b>Party C1</b>	<b>Fabricated Credit Note US\$</b>	<b>Fabricated (Exp - R&amp;D) US\$</b>	<b>Fabricated (Exp - Ad) US\$</b>	<b>Fabricated (IA - R&amp;D) US\$</b>
Photocopy (reduced) version	(1,000.00)	50.00	350.00	600.00
Original version	-	-	-	-
Difference	<u>(1,000.00)</u>	<u>50.00</u>	<u>350.00</u>	<u>600.00</u>

	<b>DR</b>	<b>CR</b>
<b><i>Being recording of fabricated credit note</i></b>		
Payable - Party C1	1,000.00	
Purchases		934.58
GST input tax		65.42
<b><i>Being Engineering Fabrication cost from Party C1</i></b>		
R&D Consumables (expense)	46.73	
GST input tax	3.27	
Payable - Party C1		50.00
<b><i>Being Marketing Activities charges from Party C1</i></b>		
Advertising / Brochure (expense)	327.10	
GST input tax	22.90	
Payable - Party C1		350.00
<b><i>Being expenses on Medical Technology from Party C1</i></b>		
Intangible asset - R&D	560.75	
GST input tax	39.25	
Payable - Party C1		600.00

<b>Financial Impact</b>	<b>Overstated / (Understated)</b>
Purchases	<b>(934.58)</b>
Expenses	373.83
Net profit	<b>(560.75)</b>
Intangible assets	560.75
GST input	0.00
Payable	0.00

Manipulation of Accounting Records Using Genuine Credit Notes

**A. Genuine credit notes used to increase licencing income**

7.2.41 We found that certain Party C1 credit notes issued between 2013 and 2016 were recorded as licencing income. Typically, a credit note has the effect of decreasing purchases and should rightfully be recorded in the books as a reduction of purchases. However, in this instance, the credit notes were recorded as licencing income for Trek Singapore.

7.2.42 Whilst the credit notes were not available for review, we have verified the credit note reference numbers and amounts that appeared in the general ledgers against the Statement of Account provided by Party C1 and established that the credit notes were genuine.

7.2.43 Based on our review of the accounting entries in the general ledgers, there were 31 genuine credit notes issued by Party C1 which were used to increase the licencing income of Trek Singapore between 2013 and 2016 as follows:

In US\$ Year	No. of Invoice	Genuine Party C1 Credit Notes	
		After GST	Before GST
2013	4	979,325.93	915,257.88
2014	12	617,235.74	576,855.83
2015	12	273,402.30	255,516.17
2016	2	59,015.85	55,155.00
Total	<b>30</b>	<b>1,928,979.82</b>	<b>1,802,784.88</b>

The full list of Party C1 credit notes above is exhibited in **Appendix 53**.

7.2.44 We provide below an illustration of how the genuine credit notes were used to increase the licencing income of Trek Singapore:

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Party C1 Credit Note	<b>US\$</b> 100.00		
<b><i>Being recording of Party C1 credit note</i></b>		<b>DR</b>	<b>CR</b>
Payable - Party C1		100.00	
GST input tax			6.54
Licensing Income			93.46
<b>Financial Impact</b>		<b>Overstated / (Understated)</b>	
Licensing income			93.46
Purchases			93.46
Net profit			0.00
GST input tax			0.00
Payables			0.00
GST output tax			0.00

7.2.45 In addition, we found one instance whereby the fabricated credit note was used to first reduce purchases and then on the same date, further accounting entries were entered to increase the purchases and licencing income by the same amount, resulting in the same net effect as the illustration above, as follows:

Party C1 Credit Note	<b>US\$</b> 100.00		
<b><i>Being recording of Party C1 credit note</i></b>		<b>DR</b>	<b>CR</b>
Payable - Party C1		100.00	
Purchases			93.46
GST input tax			6.54
<b><i>Being recording of licensing income</i></b>			
Purchases		93.46	
Licensing income			93.46
<b>Financial Impact</b>		<b>Overstated / (Understated)</b>	
Licensing income			93.46
Purchases			93.46
Net profit			0.00
GST input tax			0.00
Payables			0.00
GST output tax			0.00

- 7.2.46 In both the scenarios above, we note that the GST portion of the credit notes were correctly recorded as a reduction of GST input tax and only the amounts without GST were recorded as licencing income. Hence, no impact on GST was created as a result of the manipulation.
- 7.2.47 As mentioned previously, Singh informed us that in the past, Party C1 used to issue the rebates for the licensing fees in the form of credit notes. Subsequently, Party C1 ceased the issuance of credit notes and the Company started the practice of altering the Party C1 invoices in order to continue capturing the licensing income from Party C1. Singh confirmed that the accounting entries relating to the Party C1 credit notes above were with respect to Party C1's previous practice of issuing credit notes for the rebates for licensing fees.
- 7.2.48 The veracity of Singh's explanation is doubtful. As we have highlighted above, the alteration of Party C1's invoices started as early as 2011. This is based on our verification of the Statements of Account of Party C1 which were only available from 2011 onwards. Therefore, it is possible that the practice of altering the invoices could have started even earlier than that. Poo mentioned that this practice started more than ten years ago<sup>75</sup>.
- 7.2.49 This is where Singh's explanation in Paragraph 7.2.47 above contradicts with the explanation of the origin of the alteration<sup>28</sup>. If the reason for altering the invoices was because Party C1 could no longer issue rebates via credit notes for the licensing fees as explained by Henn, Singh and Poo, then the credit notes, which were issued from 2013 to 2016, were unlikely to be for licensing fees. However, if the credit notes above were issued for the licensing fees, then there was no reason for the Company to alter the Party C1 invoices in order to capture the licencing fees.

***B. Genuine credit notes used to reduce receivables***

- 7.2.50 In addition to the above, two genuine Party C1 credit notes (as identified from the general ledgers and verified to the Statements of Account of Party C1) were used to

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<sup>75</sup> In his Maxwellisation response, Singh denied that there was contradiction between his explanation and the matters stated.

reduce both payables and receivables. As mentioned earlier, a credit note from a supplier is typically used to reduce both payables and purchases.

7.2.51 The details of the two genuine credit notes are as follows:

<b>Date</b>	<b>Credit Note No.</b>	<b>GL Voucher No.</b> (in accounting records)	<b>Amount</b>	<b>7% GST</b>	<b>Total Amount</b>
			<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
22-Nov-13	CPC0004254	201311300024	150,322.69	10,522.59	160,845.28
14-Jan-14	CPC0004343	201401310005	105,360.55	-	105,360.55
			<b>255,683.24</b>	<b>10,522.59</b>	<b>266,205.83</b>

7.2.52 The accounting entries which were put in to record the credit note of US\$150,322.09 (before GST) are as follows:

*DR Trade payable – Party C1*  
*CR Trade receivable – Party C2*

The credit note was used to partially offset against Trek Singapore’s trade receivable from Party C2 which arose from the licensing fees purportedly charged by Trek Singapore. The credit entry was recorded in the receivable account, thereby reducing the licensing fee receivable from Party C2<sup>76</sup>. This arrangement did not make accounting sense and is highly suspicious.

7.2.53 The accounting entries which were put in to record the other credit note which amounted to US\$105,360.55 are as follows:

*DR Trade payable – Party C1*  
*CR Other debtors – others*

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<sup>76</sup> Typically when a credit note is received from a supplier, the accounting entries to be recorded would be a debit to (thereby reducing) the payable account and a credit to (thereby reducing) the purchases / expenses account. However, in this case, the credit entry was recorded in the receivable account instead of the purchases / expenses account.

The credit note was used to partially offset against Trek Singapore's other receivables which was transferred from the Company. The other receivables arose from the licensing fees purportedly charged by the Company to Party C2. Similar to the above, the credit entry was recorded in the other receivable account thereby reducing the receivables from Party C2<sup>77</sup>. Again, this arrangement did not make accounting sense and is highly suspicious.

7.2.54 Based on our findings, these credit notes appear to have been used to eliminate the receivables arising from licensing fees charged to Party C2, which was highly questionable. We will elaborate further on this below.

### **7.3 Fabrication of Licensing Income**

7.3.1 As a general observation, we note that during the earlier years from 2008 to 2012, the licensing fees were mainly charged by the Company to Party C2 and these would be setoff against the purchases of Trek Malaysia. From 2012 onwards (with the exception of one transaction in 2010), the licensing fees were mainly charged by Trek Singapore to Party C1 and Party C2.

7.3.2 Overall, the receivables arising from the licensing fees were setoff against the payables arising from the purchases made by Trek Singapore and Trek Malaysia from Party C1 and Party C3, as well as setoff against other unrelated creditors such as Giken Sakata (supplier of Trek Singapore) and White & Case LLP (patent law firm engaged by the Company).

7.3.3 Based on the statements given by Henn, Singh and Poo, the issues relating to the documentation of the transactions with the Party C Entities originated from the "refusal" of the Party C Entities to recognise the licensing fees that they ought to be paying to the Company. This "refusal" was based solely on the communication between Henn and Party C, of which the information was then passed down by Henn to Singh and Poo. The alterations of documents and manipulation of accounting entries were premised upon and were the direct results of this communication between Henn and Party C. There was nothing official or in writing to support the

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<sup>77</sup> See Note 76 above.

claim that the Party C Entities did not wish to recognise the licensing fees or the Company's assumption that Party C had factored in the effect of the licensing fees in the pricing given by Party C.

7.3.4 Further, we have sighted a Purchase and Sales Agreement signed on 5 January 2006 between the Company and Party C2 which was supposed to be in force for a period of 10 years unless terminated by either party. The Purchase and Sales Agreement made reference to a Patent License Agreement entered into between the parties which was also signed on the same day. We have not seen the signed copy of the said Patent License Agreement but have sighted a draft copy dated 2 December 2005. Copies of the agreements mentioned above are exhibited in **Appendix 54**. We note the following:

- (i) The Purchase and Sales Agreement relate to the supply of NAND flash memory products by Party C2 to the Company. There were terms relating to the order quantities committed by the Company and the quarterly '*Strategic Price*' to be discussed between the parties. There was no mention of any licensing fees to be paid by Party C2 or to be reflected in the '*Strategic Price*' to be discussed. Singh had informed us that the licensing fees to be charged to Party C relate to NAND flash memory only;
- (ii) In the recitals of the Purchase and Sales Agreement, reference was made to the Patent License Agreement entered into, '*pursuant to which, TREK and PARTY C shall grant to each other certain royalty-free, worldwide and non-exclusive rights and licenses under their respective patents*';
- (iii) The draft copy of the Patent License Agreement states that '*TREK, on behalf of itself and its SUBSIDIARIES, agrees to grant and hereby grants to PARTY C and its SUBSIDIARIES a non-exclusive, world-wide, royalty free and paid up license under TREK PATENTS*'. The definition of '*TREK PATENTS*' include all patents owned or controlled by the Company as at that date and thereafter for the entire duration of the Patent License Agreement, which was intended to track the duration of the Purchase and Sales Agreement; and

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- (iv) Based on the agreements above, it would appear that the Group was not entitled to charge any licensing fees to the Party C Entities.

7.3.5 In the absence of any evidence that the Party C Entities did in fact agree to pay the licensing fees, it is reasonable to believe, and we have taken the view that all the licensing income purportedly earned from the Party C Entities was questionable. This is further supported by the fact that most of the licensing fees purportedly charged to the Party C Entities were settled via contra and setoffs against the altered and fabricated Party C1 documents.

7.3.6 As documents available for review were not complete, we have relied on the general ledgers of the 12 entities of the Group listed in the table under Paragraph 2.1.3 above to carry out our review and analysis. Our review confirmed that only the Company, Trek Singapore and Thumbdrive Malaysia had recorded licensing income from the Party C Entities from 2008 to 2016 which amounted to US\$9,503,655.85, as follows:

In US\$	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	Total
<u>The Company</u>										
Party C2	738,246.50	429,765.50	595,980.00	22,020.60	450,000.00					2,236,012.60
<u>Trek Singapore</u>										
Party C2			300,000.00			586,000.00				886,000.00
Party C1				215,453.79	164,217.45	1,061,509.00	2,043,060.84	2,660,597.17	136,805.00	6,281,643.25
	-	-	300,000.00	215,453.79	164,217.45	1,647,509.00	2,043,060.84	2,660,597.17	136,805.00	7,167,643.25
<u>Thumbdrive Malaysia</u>										
Party C2						100,000.00				100,000.00
Party C2	738,246.50	429,765.50	895,980.00	22,020.60	450,000.00	686,000.00	-	-	-	3,222,012.60
Party C1	-	-	-	215,453.79	164,217.45	1,061,509.00	2,043,060.84	2,660,597.17	136,805.00	6,281,643.25
<b>Grand Total</b>	<b>738,246.50</b>	<b>429,765.50</b>	<b>895,980.00</b>	<b>237,474.39</b>	<b>614,217.45</b>	<b>1,747,509.00</b>	<b>2,043,060.84</b>	<b>2,660,597.17</b>	<b>136,805.00</b>	<b>9,503,655.85</b>

7.3.7 An in-depth review of the general ledgers and accounting entries of these three entities was undertaken to understand and establish how these licensing fees purportedly charged to the Party C Entities were settled. Since it was represented that part of the reason for the alteration of the Party C1 documents was to capture licensing income, a review on the ways the licensing fees were settled would provide further indications, in addition to our observations on the Purchase and Sales Agreement and the draft Patent License Agreement above, on whether the licensing fees were genuine.

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7.3.8 Based on our review, out of the total licencing income recorded of US\$9,503,655.85, there were payments purportedly made by the Party C Entities totalling US\$1,342,625.23 which appear to be directly attributed to the licencing fees, as follows:

In US\$	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	Total
Total licencing income recorded	738,246.50	429,765.50	895,980.00	237,474.39	614,217.45	1,747,509.00	2,043,060.84	2,660,597.17	136,805.00	9,503,655.85
Cash payments directly attributable to licencing income			(806,100.00)		(150,000.00)	(357,845.23)	(28,680.00)			(1,342,625.23)
Fictitious licencing income	738,246.50	429,765.50	89,880.00	237,474.39	464,217.45	1,389,663.77	2,014,380.84	2,660,597.17	136,805.00	8,161,030.62

7.3.9 However, upon further verification against the bank statements and other records of the Company which were available, we noted that the actual payments received from the Party C Entities were only US\$475,000.00. Please refer to the details below:

In US\$	FY2010	FY2012	FY2013	FY2014	Total
Cash payments received which were directly attributable to licencing income	(806,100.00)	(150,000.00)	(357,845.23)	(28,680.00)	(1,342,625.23)
<u>Received from:</u>					
- Party C2			(39,000.00)		(39,000.00)
- Party C1		(150,000.00)	(286,000.00)		(436,000.00)
- Trek HK			(6,377.14)		(6,377.14)
- S-Com Singapore			(4,110.19)		(4,110.19)
- Trek Malaysia			(9,859.58)		(9,859.58)
- Unknown parties			(13,132.99)	(28,680.00)	(41,812.99)
- Bank statements not available	(806,100.00)				(806,100.00)
- Exchange differences				634.67	634.67
	(806,100.00)	(150,000.00)	(358,479.90)	(28,680.00)	(1,342,625.23)

(475,000.00)

7.3.10 As mentioned earlier, documents sighted indicated that the Group was not entitled to charge any licencing fees to the Party C Entities and there was no concrete evidence to suggest otherwise. Hence, the payments received from Party C2 and Party C1 could be for other purposes and not for licencing income.

7.3.11 Apart from the payments received above, the remaining balance of the licencing income totalling US\$8,160,395.95 was settled by other means. Please refer to the

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table below which shows a summary of the settlement mode for the remaining balance:

In US\$	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	Total
Fictitious licensing income	738,246.50	429,765.50	89,880.00	237,474.39	464,217.45	1,389,663.77	2,014,380.84	2,660,597.17	136,805.00	<b>8,161,030.62</b>
<b>Settled by way of:</b>										
- Setoff against payables due to Party C Entities (Note 1)	(738,246.50)	(429,765.50)	(89,880.00)	(237,474.39)	(164,217.45)	(339,874.75)	(1,464,918.75)	(2,405,081.00)	(81,650.00)	<b>(5,951,108.34)</b>
- Recorded using genuine credit notes issued by Party C1 (Note 2)	-	-	-	-	-	(915,257.88)	(576,855.83)	(255,516.17)	(55,155.00)	<b>(1,802,784.88)</b>
- Genuine credit notes issued by Party C1 were used to setoff receivables arising from licensing income (Note 3)	-	-	-	-	-	(150,322.69)	(105,360.55)	-	-	<b>(255,683.24)</b>
- Setoff against payables due to other creditors (Note 4)	-	-	-	-	-	(63,292.83)	(61,867.01)	-	-	<b>(125,159.84)</b>
- Provision for doubtful debts (Note 5)	-	-	-	-	-	-	(25,000.00)	-	-	<b>(25,000.00)</b>
- Adjustment for exchange difference	-	-	-	-	-	-	(659.65)	-	-	<b>(659.65)</b>
<b>Balance</b>	-	-	-	-	<b>300,000.00</b>	<b>(79,084.38)</b>	<b>(220,280.95)</b>	-	-	-

### Notes:

1. One of the methods used by the Company was to inflate the Party C1 invoices via digital alteration where the amount inflated will be recorded as the licensing income. The licensing income would then be setoff against the inflated payables due to the Party C Entities. Please refer to Paragraphs 7.2.7 to 7.2.18 above relating to Alteration to Inflate Invoiced Amount.
2. Typically, a credit note should rightfully be recorded in the books as a reduction of purchases (credit) and payable (debit). However, these genuine credit notes issued by Party C1 were recorded as reduction of payables (debit) and increment of licensing income for Trek Singapore (credit). Please refer to Paragraphs 7.2.41 to 7.2.49 above relating to Genuine credit notes used to increase licensing income.
3. These genuine credit notes issued by Party C1 were used to reduce both payables and receivables (instead of payables and purchases). These receivables arose from the licensing fees charged by the Company and Trek Singapore to Party C2. Please refer to Paragraphs 7.2.50 to 7.2.54 above relating to Genuine credit notes used to reduce receivables.
4. Curiously, the receivables arising from the licensing income were also setoff against the payables due to other unrelated creditors / suppliers. Specifically, Trek Singapore's receivable from Party C2 for the licensing income amounting to US\$63,292.83 was setoff against the amount owing by Trek

*Singapore to Giken Sakata, a supplier of Trek Singapore, while Thumbdrive Malaysia's receivable from Party C2 for the licensing income amounting to US\$61,876.01 was setoff against the amount owing by the Company to White & Case LLP, a patent law firm engaged by the Company. This may imply that there were additional questionable accounting entries in the books.*

5. *This relates to the licensing income purportedly charged by Thumbdrive Malaysia to Party C2 in June 2013 for US\$100,000. Only the sum of US\$13,132.99 was paid by Party C2 (which could be for other purpose). The balance of US\$61,876.01 was setoff against the amount due to White & Case LLP (see Note 4 above) and US\$25,000.00 was provided as doubtful debts. While provisions made for doubtful debts are not uncommon, when viewed in the overall scheme of things, we find this provision and the origin of the debt highly questionable.*

7.3.12 Based on our review above, we believe that the licensing income totalling US\$9,503,655.85 recorded by the Company, Trek Singapore and Thumbdrive Malaysia between 2008 and 2016 were highly questionable and at best, without proper basis or justification.

7.3.13 We should also highlight that invoices for the licensing fees charged to the Party C Entities were prepared by the respective entities but were never sent to the Party C Entities as confirmed by Henn and Singh. This is another instance where documents were created or fabricated to facilitate the manipulation of accounting entries which would give a misleading view on the financial statements of the Group.

7.3.14 A detailed analysis and breakdown of the accounting entries and transactions with the Party C Entities is exhibited in **Appendix 55**.

#### **7.4 Classification of Purchases Using Fabricated Invoices**

7.4.1 This relates to the fabrication of Party C1 Invoices as explained in Paragraphs 7.2.26 to 7.2.34 above. In essence, Henn explained that certain purchase costs for the products from Party C1 included other costs for add-on works such as engineering / fabrication works or marketing costs which were not related to the cost of the product itself, and he had instructed for these costs and the recording of these costs to be separated.

7.4.2 In order to do that, Singh gave instructions for the genuine Party C invoices to be digitally altered to exclude the purported “non-product related costs” and for (non-existent) Party C1 invoices to be fabricated to reflect the purported “non-product related costs” which had been taken out from the genuine invoices. We reproduce below the table showing those fabricated invoices issued in 2015 and 2016 which were recorded as separate expense items namely under the R&D Consumables and Advertising / Brochure account codes:

<b>In US\$</b>	<b>No. of Invoice</b>	<b>After GST</b>	<b>Before GST</b>
<b><i>R&amp;D Consumables</i></b>			
2015	9	1,977,404.09	1,848,041.21
2016	2	603,463.94	563,984.99
	11	2,580,868.03	2,412,026.20
<b><i>Advertising / Brochure</i></b>			
2015	4	321,000.00	300,000.00
2016	1	53,500.00	50,000.00
	5	374,500.00	350,000.00
<b>Grand total</b>	<b>16</b>	<b>2,955,368.03</b>	<b>2,762,026.20</b>

7.4.3 As for the basis or justification for these costs to be separated from the total purchase costs, Henn and Singh informed us that Party C1 would usually provide the Company with the fabrication cost and Singh would obtain the figure from Henn and then instruct Hengky to create the non-existent Party C1 invoices. Again, similar to the licensing income issue, the fabrication of the invoices was premised solely upon Henn’s purported communication with Party C1. We have not sighted or been provided with any documentary evidence to support this communication.

7.4.4 The effect of the above was the reclassification of purchase cost of US\$2,762,026.20, which is a component of the costs of sales (above the gross profit line), to an expense item which appear below the gross profit line. Whilst there was no impact on the net profit, it would have resulted in the gross margins appearing better than they actually were.

7.4.5 Our view is that, as there was no documentary evidence to support the claim that the purchase costs included other costs (and their quantum), the Company should not have undertaken the re-allocation of expenses. Even if there were documentary

evidence to support the re-allocation of expenses, the Company should not resorted to fabricating documents.

7.4.6 Since the issue arose during the FY2015 audit, the Company had put in certain reversal entries to reclassify the cost of US\$350,000.00 from Advertising / Brochure to Purchases, while the cost of US\$2,412,026.20 was reclassified from R&D Consumables to Masking Charges / Rework Charges. Although the Masking Charges / Rework Charges expense is a line item under the Costs of Sales and therefore the reclassification would result in the correct gross profit being reflected, our view is that it should have been reclassified to Purchases (also a line item under Costs of Sales) on the basis that it was a purchase cost and there was no evidence proving otherwise.

7.4.7 A detailed analysis and breakdown of the accounting entries and transactions with the Party C Entities is exhibited in **Appendix 55**.

**7.5 Fabrication of Intangible Assets Using Fabricated Invoices**

7.5.1 This is similarly related to the fabrication of Party C1 Invoices as explained in Paragraphs 7.2.26 to 7.2.34 above, and Section 7.4 above. In addition to using the fabricated invoices to transfer the purchase costs to other expense items as described in Section 7.4, the fabricated invoices were also used to transfer some of the purchase costs to intangible assets in 2015, as follows:

In US\$	No. of Invoice	After GST	Before GST
<i>Intangible asset - R&amp;D</i> 2015	2	535,000.00	500,000.00
	<b>2</b>	<b>535,000.00</b>	<b>500,000.00</b>

7.5.2 The circumstances in which the transfer of US\$500,000 from the purchase cost to intangible assets was undertaken were the same as mentioned in Paragraph 7.4.3 above, that it premised solely on Henn’s representation of his communications with Party C1.

7.5.3 The transfer above would have effectively reduced the Company's purchases by US\$500,000 and increased its intangible assets by the same amount, thereby overstating its net profit and assets position by US\$500,000 in 2015.

7.5.4 However, as the issue came to light during the FY2015 audit, the Company had performed reversal entries to reclassify the US\$500,000 cost from intangible assets to purchases to rectify the issue.

7.5.5 A detailed analysis and breakdown of the accounting entries and transactions with the Party C Entities is exhibited in **Appendix 55**.

### **7.6 Issue Relating to GST**

7.6.1 We have presented in the tables under Paragraphs 7.2.8 above and 7.2.31 above which show that the alteration of the Party C1 invoices would cause the overstatement of the GST input tax and GST output tax by the same amount. Hence, it has no impact on the net GST position as the overstatement of GST input tax would be netted off completely against the overstatement of the GST output tax.

7.6.2 After further review of the general ledgers, we found that the above holds true only for the licensing fees charged to Party C1 as it was a local company. However, in the case of Party C2, as it was a foreign company, the licensing fees recorded had no GST output tax component attached to the same. In that case, the relevant entities would have overstated the GST input tax (due to inflated purchase invoices) without a corresponding GST output tax to net off the position which would result in the overclaim of GST. Three entities had billed Party C2 for licensing fees: the Company, Trek Singapore and Thumbdrive Malaysia.

7.6.3 However, the GST overclaiming situation is only applicable to the Company and Trek Singapore. In the case of Thumbdrive Malaysia, although it is a GST-registered company<sup>78</sup>, the licensing fees billed to Party C2 of US\$100,000 was partially setoff

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<sup>78</sup> According to a search conducted on the Register of GST-registered Businesses maintained by IRAS, Thumbdrive Malaysia was GST-registered from 5 July 2010 up to 1 January 2014. The licensing fees it charged to Party C2 was on 19 June 2013.

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against the amount owing to a third party creditor, White & Case LLP, which also did not have a GST component. As such, there was no GST input tax and output tax claimed.

7.6.4 As stated above, we believe that the licensing income was highly questionable. The licensing fees which were charged to Party C2, would give rise to GST overclaiming as the increase in input tax from the inflated purchases were not net off against the output tax, as the billing to Party C2 was at zero-rated GST.

7.6.5 For the questionable licensing income which was settled by contras / setoffs, some of these contras and setoffs do not give rise to the overclaim issue and as such have been excluded from the calculation of the impact on GST.

7.6.6 We provide below the breakdown of the licencing fees charged by the Company to Party C2 and the portion which was settled by setoffs as a basis for the computation of the GST overclaim amount:

In US\$	FY2008	FY2009	FY2010	FY2011	FY2012	Total
<u>The Company</u> Licensing fees charged to Party C2	738,246.50	429,765.50	595,980.00	22,020.60	450,000.00	<b>2,236,012.60</b>
<u>Amount settled by way of setoffs with GST impact</u>						
- Against payables due to Party C Entities	738,246.50	429,765.50	89,880.00	22,020.60	193,979.80	<b>1,473,892.40</b>
- Against receivables arising from licensing income using genuine credit notes					105,360.55	<b>105,360.55</b>
Questionable licensing fees with GST impact (a)	738,246.50	429,765.50	89,880.00	22,020.60	299,340.35	1,579,252.95
<b>GST input overclaimed based on 7% of (a)</b>	<b>51,677.26</b>	<b>30,083.59</b>	<b>6,291.60</b>	<b>1,541.44</b>	<b>20,953.82</b>	<b>110,547.71</b>

7.6.7 Based on the computation above, the Company had overclaimed GST by US\$110,547.71 from 2008 to 2012.

7.6.8 The table below provides the breakdown of the licencing fees charged by Trek Singapore to Party C2 and the portion which was settled by setoffs as a basis for the computation of the GST overclaim amount:

## TREK 2000 INTERNATIONAL LTD – REPORT ON SUSPICIOUS TRANSACTIONS

In US\$	FY2010	FY2013	Total
<u>Trek Singapore</u>			
Licensing fees charged to Party C2	300,000.00	586,000.00	<b>886,000.00</b>
<u>Amount settled by way of setoffs with GST impact</u>			
- Against payables due to Party C Entities		27,037.57	<b>27,037.57</b>
- Against payables due to other creditors		63,292.83	<b>63,292.83</b>
Questionable licensing fees with GST impact (a)	-	90,330.40	<b>90,330.40</b>
<b>GST input overclaimed based on 7% of (a)</b>	-	<b>6,323.13</b>	<b>6,323.13</b>

7.6.9 Based on the computation above, Trek Singapore had overclaimed GST by US\$6,323.13 in 2013.

7.6.10 In total, the Group had overclaimed GST totalling US\$116,870.83, due to the inflated Party C1 purchase invoices which were not setoff against the corresponding GST output tax as the licensing income were billed to Party C2, a foreign company<sup>79</sup>.

7.6.11 We also raised the question on whether Trek Singapore also claimed for additional deductions for the fabricated R&D Consumables expenses of US\$2,412,026.20 (before GST) and the purported R&D expenses recorded in the Intangible Asset – R&D of US\$500,000.00 (before GST), in its income tax returns. The Company informed us on 27 February 2018 that these transactions had been reversed before the submission of tax returns and as such, no additional deductions were claimed.

<sup>79</sup> During the Maxwellisation Process, Henn informed that he was given to understand that sometime in or around 2015 / 2016, the Company's auditor, EY, brought in tax experts to evaluate the potential impact on the tax returns filed by the Company with regard to the transactions with the Party C Entities. EY did not raise any issue on this matter. In light of this, we requested for a copy of the tax evaluation mentioned by Henn. However, the documents provided were in fact Trek Singapore's income tax computation for the Years of Assessment 2013, 2014, 2015 and 2017, which do not relate to the GST issue above.

### 7.7 Financial Impact of the Transactions with Party C Entities

7.7.1 The issues relating to the transactions with Party C Entities ultimately led to the recognition of licensing income and intangible assets which appear to be highly questionable or at best, without proper basis and justification, as well as the improper recording of the costs and expenses. These issues were covered under Sections 7.3, 7.4 and 7.5 above.

7.7.2 As mentioned before, we have undertaken a detailed review of the general ledgers of the entities and were able to determine the accounting entries which were entered to give rise to the licensing income, intangible assets, purchases, expenses and other account codes which were affected by the transactions with the Party C Entities. Our detailed analysis and breakdown of the accounting entries and transactions with the Party C Entities is exhibited in **Appendix 55**.

7.7.3 Based on the various conclusions stated above, the financial impact of the transactions with the Party C Entities on an overall basis, before taking into consideration the adjustments already made by the Company in 2016 which will be covered later, is as follows:

- (i) Licensing income was overstated by US\$9,503,655.85;
- (ii) Other income was overstated by US\$17,836.73;
- (iii) Sales was overstated by US\$200,000.00;
- (iv) Purchases were overstated by US\$5,028,679.83;
- (v) Advertising / Brochure expenses were overstated by US\$350,000;
- (vi) R&D Consumables expenses were overstated by US\$2,412,026.19;
- (vii) Provision for doubtful debts was overstated by US\$25,000.00;
- (viii) Exchange differences were overstated by US\$1,294.32;

- (ix) Net profits were overstated by US\$1,904,492.24;
- (x) Intangible assets – R&D were overstated by US\$500,000.00;
- (xi) Payables to White & Case LLP were understated by US\$61,867.01;
- (xii) Payables to Other Creditors were understated by US\$1,342,625.23; and
- (xiii) Equity (retained earnings were overstated by US\$1,904,492.24,

between 2008 and 2016. Please refer to the tables on the following pages:

TREK 2000 INTERNATIONAL LTD – REPORT ON SUSPICIOUS TRANSACTIONS

Financial Impact BEFORE taking into consideration the adjustment entries undertaken by the Company in 2016

Financial Impact In US\$	Overstated / (Understated)										Total	
	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016			
<b>The Company</b>												
Licensing income	738,246.50	429,765.50	595,980.00	22,020.60	450,000.00							2,236,012.60
Net Profit	738,246.50	429,765.50	595,980.00	22,020.60	450,000.00							2,236,012.60
Receivable - Trek Malaysia	738,246.50	429,765.50	89,880.00									1,257,892.00
Receivable - Trek Singapore			150,000.00	22,020.60	450,000.00							622,020.60
Receivable - Trek Singapore						(61,867.01)						(61,867.01)
Payable - White & Case LLP			(356,100.00)			(61,867.01)						(61,867.01)
Payable - Other Creditors <sup>1</sup>												(356,100.00)
Equity (retained earnings)	738,246.50	429,765.50	595,980.00	22,020.60	450,000.00							2,236,012.60
<b>Trek Singapore</b>												
Licensing income			300,000.00	215,453.79	164,217.45	1,647,509.00	2,043,060.84	2,660,597.17	136,805.00			7,167,643.25
Other income							17,836.73					17,836.73
Sales								200,000.00				200,000.00
Purchases				215,453.79	164,217.45	1,302,162.09	2,014,380.84	2,660,597.17	136,805.00			6,493,616.34
Purchases							17,836.73					17,836.73
Purchases								200,000.00				200,000.00
Purchases								(300,000.00)	(50,000.00)			(350,000.00)
Purchases								(1,848,041.21)	(563,984.98)			(2,412,026.19)
Purchases								(500,000.00)				(500,000.00)
Purchases				22,020.60	299,340.35							321,360.95
Advertising / Brochure								300,000.00	50,000.00			350,000.00
R&D Consumables									1,848,041.21	563,984.98		2,412,026.19
Provision for doubtful debts						25,000.00						25,000.00
Exchange differences									634.67			1,294.32
Net Profit			300,000.00	(22,020.60)	(300,000.00)	319,712.24	28,680.00	500,000.00				826,371.64
Intangible Assets - R&D								500,000.00				500,000.00
Payable - the Company			150,000.00	22,020.60	450,000.00	(61,867.01)						560,153.59
Payable - Thumbdrive Malaysia						100,000.00						100,000.00
Payable - Other Creditors <sup>1</sup>			(450,000.00)		(150,000.00)	(357,845.23)	(28,680.00)					(986,525.23)
Equity (retained earnings)	738,246.50	429,765.50	300,000.00	(22,020.60)	(300,000.00)	319,712.24	28,680.00	500,000.00				826,371.64
<b>Trek Malaysia</b>												
Purchases	738,246.50	429,765.50	89,880.00									1,257,892.00
Net Profit	(738,246.50)	(429,765.50)	(89,880.00)									(1,257,892.00)
Payable - the Company	738,246.50	429,765.50	89,880.00									1,257,892.00
Equity (retained earnings)	(738,246.50)	(429,765.50)	(89,880.00)									(1,257,892.00)
<b>Thumbdrive Malaysia</b>												
Licensing income						100,000.00						100,000.00
Net Profit						100,000.00						100,000.00
Receivable - Trek Singapore						100,000.00						100,000.00
Equity (retained earnings)						100,000.00						100,000.00

**Financial impact BEFORE taking into consideration the adjustment entries undertaken by the Company in 2016**

Financial Impact In US\$	Overstated / (Understated)										Total	
	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016			
<b>Total</b>												
Licensing income	738,246.50	429,765.50	895,980.00	237,474.39	614,217.45	1,747,509.00	2,043,060.84	2,660,597.17	136,805.00		9,503,655.85	
Other income	-	-	-	-	-	-	17,836.73	-	-	-	17,836.73	
Sales								200,000.00			200,000.00	
Purchases	738,246.50	429,765.50	89,880.00	237,474.39	463,557.80	1,302,162.09	2,032,217.57	212,555.96	(477,179.98)		5,028,679.83	
Advertising / Brochure								300,000.00	50,000.00		350,000.00	
R&D Consumables								1,848,041.21	563,984.98		2,412,026.19	
Provision for doubtful debts						25,000.00					25,000.00	
Exchange differences					659.65	634.67					1,294.32	
Net Profit			806,100.00		150,000.00	419,712.24	28,680.00	500,000.00			1,904,492.24	
Intangible Assets - R&D								500,000.00			500,000.00	
Payable - White & Case LLP						(61,867.01)					(61,867.01)	
Payable - Other Creditors <sup>1</sup>			(806,100.00)		(150,000.00)	(357,845.23)	(28,680.00)				(1,342,625.23)	
Equity (retained earnings)			806,100.00		150,000.00	419,712.24	28,680.00	500,000.00			1,904,492.24	
<b>Group Elimination</b>												
Receivable - Trek Malaysia	738,246.50	429,765.50	89,880.00									
Receivable - Trek Singapore			150,000.00	22,020.60	450,000.00							
Receivable - Trek Singapore						(61,867.01)						
Receivable - Trek Singapore						100,000.00						
Payable - the Company			150,000.00	22,020.60	450,000.00	(61,867.01)						
Payable - Thumbdrive Malaysia						100,000.00						
Payable - the Company	738,246.50	429,765.50	89,880.00									

Note 1 - For the cash payments which were recorded as received from the Party C Entities, our review showed that some of the payments were received from other parties and not the Party C Entities. Due to the lack of information, we take the view that the payments received should be recorded as amount owing to Other Creditors until such time that the purpose of these payments and the identity of the payor(s) could be established.

7.7.4 We mentioned in Paragraph 7.3.11 (Note 4) above that a small portion of the licensing income were setoff against the amount of US\$63,292.83 with Giken Sakata, a supplier of Trek Singapore, and the amount of US\$61,867.01 with White & Case LLP, a law firm engaged by the Company to assist the Group on patent matters. We wish to highlight we have not reviewed in detail the transactions between the Group and Giken Sakata and White & Case LLP and we are not aware of any reason why the seemingly unrelated debts could be setoff against each other.

Adjustments carried out by the Company in 2016

7.7.5 For the purpose of FY2015 audit, we were informed that the Company had undertaken a number of adjustments for Trek Singapore’s transactions with the Party C Entities for FY2013, FY2014 and FY2015. We also note from the general ledgers that the Company had made further adjustments to Trek Singapore’s accounting entries for FY2016. These adjustment entries are as follows:

No.	Adjustment Entries* in US\$	FY2013	FY2014	FY2015	FY2016	Total
1	Dr - Licensing income	1,674,009.00	2,043,060.84	2,660,597.17	136,805.00	<b>6,514,472.01</b>
	Cr - Purchases	(1,674,009.00)	(2,043,060.84)	(2,660,597.17)	(136,805.00)	<b>(6,514,472.01)</b>
2	Dr - Sales - Loyang			200,000.00		<b>200,000.00</b>
	Cr - Purchases			(200,000.00)		<b>(200,000.00)</b>
3	Dr - Purchases			800,000.00	50,000.00	<b>850,000.00</b>
	Cr - Advertising / Brochures			(300,000.00)	(50,000.00)	<b>(350,000.00)</b>
	Cr - Intangible Assets - R&D			(500,000.00)		<b>(500,000.00)</b>
4	Dr - Masking Chgs/Rework Chgs			1,848,041.21	563,984.98	<b>2,412,026.19</b>
	Cr - R&D Consumables			(1,848,041.21)	(563,984.98)	<b>(2,412,026.19)</b>

*\*We have not included other adjustment entries relating to period adjustments and stock costing variance adjustments.*

7.7.6 It would appear based on the adjusting entries above that the Company:

- (i) Has adjusted all licensing income related to the Party C Entities from 2013 to 2016 including the portions which were paid in cash (adjustment no. 1);
- (ii) Has reversed the entries for the initial transfer of purchase costs to Advertising / Brochures and Intangible Assets – R&D, to transfer these back to Purchases (adjustment no. 3);

- (iii) Has reclassified the R&D Consumables expenses to Masking Charges / Rework Charges (adjustment no. 4). As mentioned in Paragraph 7.4.6 above, although the Masking Charges / Rework Charges expense is a line item under the Costs of Sales and therefore the reclassification would result in the correct gross profit being reflected, our view is that it should have been reclassified to Purchases (also a line item under Costs of Sales) on the basis that it was a purchase cost and there was no evidence proving otherwise; and
- (iv) Has only adjusted the entries for Trek Singapore for the period from 2013 to 2016. Other prior periods and entities which were also affected were not adjusted.

7.7.7 The financial impact of the transactions with the Party C Entities on an overall basis, after taking into consideration the adjustments already made by the Company in 2016 above, is as follows:

- (i) Licensing income was overstated by US\$2,989,183.84;
- (ii) Other income was overstated by US\$17,836.73;
- (iii) Purchases were understated by US\$835,792.18;
- (iv) Masking charges / Rework charges are overstated by US\$2,412,026.19;
- (v) Provision for doubtful debts was overstated by US\$25,000.00;
- (vi) Exchange differences were overstated by US\$1,294.32;
- (vii) Net profits were overstated by US\$1,404,492.24;
- (viii) Payables to White & Case LLP were understated by US\$61,867.01;
- (ix) Payables to Other Creditors were understated by US\$1,342,625.23; and
- (x) Equity (retained earnings) were overstated by US\$1,404,492.24,

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between 2008 and 2016. Please refer to the tables below and on the following page.

The recommended adjustment entries are provided in **Appendix 56**.

Financial impact **AFTER** taking into consideration the adjustment entries undertaken by the Company in 2016  
Changes are marked as  

Financial Impact In US\$	Overstated / (Understated)										Total	
	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016			
<b>The Company</b>												
Licensing income	738,246.50	429,765.50	595,980.00	22,020.60	450,000.00							2,236,012.60
Net Profit	738,246.50	429,765.50	595,980.00	22,020.60	450,000.00							2,236,012.60
Receivable - Trek Malaysia	738,246.50	429,765.50	89,880.00									1,257,892.00
Receivable - Trek Singapore			150,000.00	22,020.60	450,000.00							622,020.60
Receivable - Trek Singapore						(61,867.01)						(61,867.01)
Payable - White & Case LLP						(61,867.01)						(61,867.01)
Payable - Other Creditors			(356,100.00)									(356,100.00)
Equity (retained earnings)	738,246.50	429,765.50	595,980.00	22,020.60	450,000.00							2,236,012.60
<b>Trek Singapore</b>												
Licensing income			300,000.00	215,453.79	164,217.45	(26,500.00)						653,171.24
Other income						17,836.73						17,836.73
Sales												
Purchases				215,453.79	164,217.45	(371,846.91)	(28,680.00)					(20,855.67)
Purchases							17,836.73					17,836.73
Purchases												
Purchases												
Purchases								(1,848,041.21)	(563,984.98)			(2,412,026.19)
Purchases												
Purchases				22,020.60	299,340.35							321,360.95
Masking / Rework Charges								1,848,041.21	563,984.98			2,412,026.19
Advertising / Brochure												
R&D Consumables												
Provision for doubtful debts						25,000.00						25,000.00
Exchange differences					659.65	634.67						1,294.32
Net Profit			300,000.00	(22,020.60)	(300,000.00)	319,712.24	28,680.00					326,371.64
Intangible Assets - R&D												
Payable - the Company			150,000.00	22,020.60	450,000.00	(61,867.01)						560,153.59
Payable - Thumbdrive Malaysia						100,000.00						100,000.00
Payable - Other Creditors			(450,000.00)		(150,000.00)	(357,845.23)	(28,680.00)					(986,525.23)
Equity (retained earnings)			300,000.00	(22,020.60)	(300,000.00)	319,712.24	28,680.00					326,371.64
<b>Trek Malaysia</b>												
Purchases	738,246.50	429,765.50	89,880.00									1,257,892.00
Net Profit	(738,246.50)	(429,765.50)	(89,880.00)									(1,257,892.00)
Payable - the Company	738,246.50	429,765.50	89,880.00									1,257,892.00
Equity (retained earnings)	(738,246.50)	(429,765.50)	(89,880.00)									(1,257,892.00)
<b>Thumbdrive Malaysia</b>												
Licensing income						100,000.00						100,000.00
Net Profit						100,000.00						100,000.00
Receivable - Trek Singapore						100,000.00						100,000.00
Equity (retained earnings)						100,000.00						100,000.00

Financial impact **AFTER** taking into consideration the adjustment entries undertaken by the Company in 2016  
 Changes are marked as  

Financial Impact In US\$	Overstated / (Understated)										Total	
	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016			
<b>Total</b>												
Licensing income	738,246.50	429,765.50	895,980.00	237,474.39	614,217.45	73,500.00	-	-	-	-	2,989,183.84	
Other income	-	-	-	-	-	-	17,836.73	-	-	-	17,836.73	
Sales	-	-	-	-	-	-	-	-	-	-	-	
Purchases	738,246.50	429,765.50	89,880.00	237,474.39	463,557.80	(371,846.91)	(10,843.27)	(1,848,041.21)	(563,984.98)	563,984.98	(835,792.18)	
Masking / Rework Charges	-	-	-	-	-	-	-	-	-	-	-	
Advertising / Brochure	-	-	-	-	-	-	-	-	-	-	-	
R&D Consumables	-	-	-	-	-	-	-	-	-	-	-	
Provision for doubtful debts	-	-	-	-	-	25,000.00	-	-	-	-	25,000.00	
Exchange differences	-	-	-	-	659.65	634.67	-	-	-	-	1,294.32	
Net Profit	-	-	806,100.00	-	150,000.00	419,712.24	28,680.00	-	-	-	1,404,492.24	
Intangible Assets - R&D	-	-	-	-	-	-	-	-	-	-	-	
Payable - White & Case LLP	-	-	-	-	-	(61,867.01)	-	-	-	-	(61,867.01)	
Payable - Other Creditors <sup>1</sup>	-	-	(806,100.00)	-	(150,000.00)	(357,845.23)	(28,680.00)	-	-	-	(1,342,625.23)	
Equity (retained earnings)	-	-	806,100.00	-	150,000.00	419,712.24	28,680.00	-	-	-	1,404,492.24	
<b>Group Elimination</b>												
Receivable - Trek Malaysia	738,246.50	429,765.50	89,880.00	-	-	-	-	-	-	-	-	
Receivable - Trek Singapore	-	-	150,000.00	22,020.60	450,000.00	-	-	-	-	-	-	
Receivable - Trek Singapore	-	-	-	-	-	(61,867.01)	-	-	-	-	-	
Receivable - Trek Singapore	-	-	-	-	-	100,000.00	-	-	-	-	-	
Payable - the Company	-	-	150,000.00	22,020.60	450,000.00	(61,867.01)	-	-	-	-	-	
Payable - Thumbdrive Malaysia	-	-	-	-	-	100,000.00	-	-	-	-	-	
Payable - the Company	738,246.50	429,765.50	89,880.00	-	-	-	-	-	-	-	-	

Note 1 - For the cash payments which were recorded as received from the Party C Entities, our review showed that some of the payments were received from other parties and not the Party C Entities. Due to the lack of information, we take the view that the payments received should be recorded as amount owing to Other Creditors until such time that the purpose of these payments and the identity of the payor(s) could be established.

## 8 FLUCARD PATENTS REGISTERED UNDER T-DATA

### 8.1 Background Information

8.1.1 In our IPT Inquiry Report, we highlighted that the Company had entered into the 2009 Agency Agreement with T-Data dated 1 January 2009, whereunder (i) the Company would sell certain products to T-Data and (ii) T-Data would grant a license to the Company over certain intellectual property rights including its patents in consideration of the Company paying for the patent registration and renewal fees.

8.1.2 The obligations under the 2009 Agency Agreement were superseded by the following two agreements:

- (i) The 2015 Licensing Agreement dated 1 March 2015 but taking effect from 4 September 2008; and
- (ii) 2015 Agency Agreement dated 1 March 2015 between Trek Singapore and T-Data.

We note that the terms under 2015 Licensing Agreement and the 2015 Agency Agreement were materially the same as those terms under the 2009 Agency Agreement.

8.1.3 To recap, the explanation provided by Henn during the IPT Inquiry with respect to the use and ownership of the patents registered under T-Data based on the terms and intention under the 2009 Agency Agreement and 2015 Agency Agreement is as follows:

- (i) T-Data was the owner and/or authorised licensor of all patents, know-how and technology relating to the FluCard and the FluCard Pro;
- (ii) Wayne was the person who conceptualized the FluCard and therefore, the FluCard should not be registered as a patent in the Company's name. When Henn was asked why he did not request for the patents to be registered under

one of the Company's subsidiaries, Henn explained that this was due to a cross-licensing arrangement the Company had with certain business partners. We have sighted an announcement made by the Company dated 5 January 2006 that refers to its cross-licensing arrangement with Party C, whereby the Company and Party C would "*cross license each other's patents for controller technology*" as part of "*strengthening their business relationship*". Registering it under one of the Company's subsidiaries would give such business partners the rights to use under such cross-licensing arrangements. Based on our searches, we note that Wayne is listed as inventor for a majority of the patents owned by T-Data (relating to FluCard and FluCard Pro) under the 2015 Licensing Agreement;

- (iii) in consideration for T-Data granting the Company a non-exclusive license to use the relevant patents, know-how and technology to manufacture, use and sell the FluCard and FluCard Pro in all countries in the world, the Company agreed to pay all the registration and renewal fees for T-Data's patents relating to the FluCard and the FluCard Pro; and
- (iv) T-Data was authorised to sell the Group's products and solutions to customers, including the FluCard and FluCard Pro. However, the Group reserved the right to sell the products and solutions directly or indirectly under its own brand and to work with other parties.

8.1.4 Arising from the Agreements above, based on our review during the IPT Inquiry for the period up to 2015, the Company had made payments for the patent prosecution, registration and renewal fees in relation to the 19 patents registered under T-Data totalling US\$1,605,790.12 from 2009 up to 2015.

8.1.5 We will examine in this report, issues relating to the ownership of the 19 patents relating to FluCard.

## **8.2 Creation and Ownership of the Patents**

8.2.1 The FluCard product was officially launched by the Company in January 2010.

8.2.2 Wayne informed us that the FluCard was an idea he conceptualised when he was still studying, as a result of an incident where a camera was misplaced and all the photos taken were lost. The loss of data could have been avoided if he was able to transfer the data to any device at that time. He shared this idea with his father, Henn, and the latter suggested that the idea be filed under Wayne's name.

8.2.3 While the idea could have originated from Wayne, we note from various sources that the engineering and development work were carried out entirely by the R&D team in the Company:

- (i) Wayne admitted that he only had a broad idea of the FluCard and that it was supposed to be an SD card embedded with a WiFi chip to allow the wireless transfer of files. He was not aware and has no knowledge on the mechanics, engineering details or how the process would work to achieve the capability. He also did not have full knowledge of what went on during the development stage and had only participated or contributed some ideas whenever he was asked. The engineering team took care of the development of the idea, and the application and filing of the patents were carried out by the Company;
- (ii) Both Poo and Dr Paul told us that the engineering team in the Company developed the FluCard '*from scratch*' and '*from ground*'. Poo also said that it was through a team brainstorming session which included Henn's participation that Trek first came up with the product. However, he did not rule out that Henn could have gotten his idea from Wayne. As far as Poo was aware of, neither T-Data employees nor Wayne were involved in the development stage or in the R&D of the FluCard product. However, after the product was completed, Wayne did participate in discussions as he was involved in the sales of the product through Cloud Stringers;
- (iii) We have seen certain timesheets of various Group employees, which may not be complete, showing the manhours spent on FluCard, as summarised below:

Staff	Manhours	Period
Hengky	2,281	Oct 2008 - Sep 2009
Lau Lak Yuen	512	Oct 2008 - Dec 2008
Yun Mei	311	Oct 2009, Oct-Nov 2011
Sean JC	691	Jan - Aug 2011
Alex Tran	1,714	Jan - Dec 2011
<b>Total</b>	<b>5,509</b>	

Copies of the timesheets are exhibited in **Appendix 57**.

- (iv) The financial statements of T-Data did not record any R&D expenses incurred or capitalised as assets up until 2014. As mentioned earlier, the FluCard was launched in January 2010 and the development of the product would have taken place a few years earlier. In addition, as highlighted in Paragraph 2.2.5 above, the financial statements of T-Data also revealed that it had very low staff costs at least until 2013. Therefore, it is reasonable to conclude that T-Data was never involved in the development of the FluCard;
- (v) In the Company’s announcement made on 20 January 2010 to publicise the launching of FluCard, the Company referred to it as its invention. In a letter dated 3 March 2010 addressed to the Japanese Embassy in Singapore for the launch event invitation, the Company wrote that the FluCard was ‘*created by our research and development team*’. In other announcements dated 10 February 2014 and 28 October 2014, the Company stated that it was the ‘*inventor and patent owner*’ of FluCard. Even on its website, the Company prided itself as the ‘*innovator, original inventor and patent owner of the...FluCard*’<sup>80</sup>. Copies of the documents above are attached in **Appendix 58**.

8.2.4 Given our findings above, our view is that the 19 patents should be registered under the Company as the patent owner. There had been no contribution from T-Data for

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<sup>80</sup> During the Maxwellisation Process, Singh responded that the Company had been paying registration and renewal fees in respect of the FluCard patent and that the Company had also invested a significant amount of time and money in R&D for the FluCard patent. On this basis, the Company deemed itself as the inventor and patent owner of FluCard. Singh’s comment appear to be consistent with our position that the 19 patents should have been registered under the Company as the patent owner, and not T-Data.

it to be entitled to be the patent owner, especially since FluCard is an important product of the Group.

- 8.2.5 As to why the 19 patents were registered under T-Data, Henn informed that he had advised Wayne to do so as Wayne would not benefit from it if the patents were registered under the Company, given that it was his idea. Henn also did not wish to hijack Wayne's idea as it would be unethical. As such, Henn suggested to Wayne to consider registering them under T-Data and to consult Loo on whether it could be done.
- 8.2.6 When asked if he knew the reasons for the patents to be registered under T-Data, Wayne initially said that he did not know during the interview. However, he later amended the minutes of the interview and stated instead that he had sought consent from Loo to register it under T-Data. Both Loo and Poo denied that Wayne had ever spoken to them to seek consent for the registration.
- 8.2.7 If Henn's intention was to protect Wayne's interest in the patents, we fail to see how that could be achieved by registering the patents under T-Data instead of the Company. T-Data was not owned by Wayne or Henn when the registrations were made. T-Data only came to be owned by Wayne (80%) for only a short period of time from 18 September 2012 to 26 March 2014, way after the initial registration of the patents. From 26 March 2014 up to present, T-Data was and is owned by other individuals related to Henn and Wayne but not themselves. Unless Henn has control over T-Data and the shares in T-Data were and are held by those individuals on trust on behalf of Henn and Wayne, which Henn has denied, Wayne's interest in the patents registered under T-Data would never be protected any more than it would have been if they were registered under the Company.
- 8.2.8 Henn also provided another explanation during the IPT Inquiry, in response to the question on why the patents were not registered under one of the Company's subsidiaries. He explained then that it was due to the cross-licensing arrangement the Company had with Party C, the effect of which would give the latter the rights to use the FluCard patents. This explanation appears to contradict the Company's announcement made on 20 January 2010 (refer to **Appendix 59**) on the launch of FluCard. In the said announcement, as highlighted earlier, the Company had called

FluCard its invention. In addition, the Company announced that Party Chad given its commitment and support on the product through several initiatives from Party C as well as a joint product launch in Japan scheduled for February 2010. Given the close working relationship portrayed and the highly publicised news that the Company is the inventor and patent owner of FluCard, it is difficult to fathom that the Company would be able to escape the effect of the cross-licencing arrangement with Party C by registering the 19 patents under T-Data<sup>81</sup>.

8.2.9 Based on the above, we believe that the 19 patents registered under T-Data should rightfully belong to the Group.

**8.3 Assignment of the Patents**

8.3.1 Out of the 19 patents registered under T-Data, the Company subsequently obtained the assignment of T-Data’s rights, title and interest in 14 patents to Trek Singapore via three Patent Assignment Agreements, as follows:

<b>Date of Agreement</b>	<b>Assignor</b>	<b>Assignee</b>	<b>Consideration</b>	<b>No. of Patents Assigned</b>
15-Feb-16	T-Data	Trek Singapore	S\$1.00	1
15-Feb-16	T-Data	Trek Singapore	S\$1.00	1
27-Nov-17	T-Data	Trek Singapore	US\$1.00	12

8.3.2 The remaining five patents were not assigned as the registrations were abandoned either due to objections raised by various patent offices or decision by the Company not to proceed with the filing of the registration. Please refer to the list provided in

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<sup>81</sup> During the Maxwellisation Process, Henn’s position is that the publications by the Company relating to the FluCard are irrelevant to the legal issue on whether the Company would be able to escape the effect of the cross-licencing arrangement with Party C. This cross-licencing arrangement with Party C will therefore constitute a justifiable reason for the patents to be registered under T-Data if registration of the patents under T-Data would not contravene Trek’s cross licensing agreement with Party C. Henn’s view is that the comments made above are inappropriate, speculative and unfair. We do not agree with his view.

In addition, Henn emphasised he had consistently maintained that Wayne came up with the idea of FluCard because that is the truth and it is peculiar that RSM casts doubt on this matter despite a complete lack of evidence showing the contrary. We wish to refute Henn’s claim and state that nowhere in the report did we cast doubt on Wayne’s claim that the idea originated from him. The matter on hand was whether the 19 patents should be registered under the Company or T-Data as the patent owner. We did not question the fact that Wayne was named the inventor of the patents.

**Appendix 59** for the details of the patents which had been assigned and of which registrations had been abandoned.

8.3.3 Based on our review of the schedules contained in the Patent Assignment Agreements which provided the listings of the patent registration numbers in various countries under the assignment, verified against the patent registration / renewal invoices we have sighted, we note that a number of patent registrations had not been included in the schedules and hence did not form part of the assignment. The list of the patent registrations which had been omitted is exhibited in **Appendix 59**. We enquired with the Company and we understand that the omissions were inadvertent and that it has instructed its patent attorney to prepare an addendum to the agreements to include the omitted patent registrations.

#### **8.4 Financial Impact of the Ownership and Assignment of the Patents**

8.4.1 Prior to the IPT Inquiry, the Company had recorded the costs incurred for the 19 patents registered under T-Data as its intangible assets notwithstanding that it was not the patent owner. The total amount recognised as the Company's intangible assets was US\$1,605,790.12, being the patent costs paid between 2009 and 2015.

8.4.2 After further review by management, the Company made adjustments to its books in FY2015 to expense off the entire patent costs by reversing the intangible assets of US\$1,605,790.12 to licensing expenses. The adjustments were done on the basis that the patents were not owned by the Company and that the Group only has non-exclusive use of the patents.

8.4.3 Since then, we understand from the Company that all payments made in relation to the patents had been expensed off and not recorded as intangible assets.

8.4.4 This practice of treating the patent costs as expenses continued even after the assignment of the patents to Trek Singapore in 2016 and 2017, which is acceptable if the Company and its management have made the necessary assessments and decided that it was not appropriate to record the patent costs as intangible assets under the Singapore Financial Reporting Standards.

8.4.5 In addition, we also raised the question on whether the Company had made any claims for the deductions and enhanced deductions under the PIC Scheme with respect to the patent costs incurred by it totalling US\$1,605,790.12 up to 2015 when the patents were owned by T-Data. The Company confirmed on 8 March 2018 that claims under Section 14A of the Income Tax Act were made (100% deduction) for the patent costs incurred from 2009 to 2014 while the patent costs incurred in 2015 were claimed under the normal business expense (100% deduction). As the Company did not own the patents from 2009 to 2015, at best, the Company would only be able to claim the patent costs as normal business expense. In any case, as both scenarios resulted in 100% tax deduction, it would appear that there was no impact on the tax assessed. Notwithstanding, we would suggest that the Company seek proper tax advice and review this together with its tax agents.

## 9 POTENTIAL BREACHES AND OUR RECOMMENDATIONS

### 9.1 Summary of Issues

9.1.1 We have highlighted a number of issues in the earlier sections of this report, which we summarise below for easy reference.

#### A. Round-tripping Transactions Involving T-Data and S-Com HK

9.1.2 The issues relating to the round-tripping transactions involving T-Data and S-Com HK are summarised below:

- (i) As highlighted in the IPT Inquiry Report, T-Data and S-Com HK were deemed to be Interested Persons related to Henn up to at least 18 February 2016 and 3 October 2017 respectively;
- (ii) The Company provided explanations and reasons for the involvement of T-Data and S-Com HK in various transactions that could have been undertaken directly between the Group entities. While there were reasons which appear plausible and reasonable, we found some of the reasons given to be unconvincing and doubtful. Those transactions which were without proper and/or reasonable justification for involving T-Data and S-Com HK are deemed to be round-tripping transactions;
- (iii) The round-tripping transactions caused the overstatements of revenue and assets by US\$803,631.15, overstatement of costs of sales and liabilities of US\$674,977.80, and overstatement of profits and retained earnings of US\$128,653.25 between FY2010 and FY2014;
- (iv) Computer servers which were provided by Party A for free was sold to T-Data at US\$400,000 (Company claimed that NRE services were provided to T-Data) which in turn was sold to Cloud Stringers at the same price. Claims under the PIC Scheme were made by Cloud Stringers for the purchase of computer servers; and

- (v) Evidence suggests that Henn was making executive decisions and employees of the Group were tasked to carry out work for T-Data, an indication that T-Data's business and operations were run by Henn and employees of the Group. In addition, based on documents reviewed and information obtained from various interviews, there was strong indication that the business of S-Com HK was also operated and managed by the Group's senior management and employees.

9.1.3 Persons with involvement on the issues above include Henn, Singh, Poo and Foo. While Henn is still the Group CEO and Executive Director, Singh, Poo and Foo were former Executive Directors and had held senior management posts in the Company.

### B. Transactions with the Party B Entities

9.1.4 The issues relating to the transactions with the Party B Entities are summarised below:

- (i) There were four Party B1 Questionable Transactions, two of which were related to purported sales from Trek Singapore to Party B1 totalling US\$1,150,894.57, and the remaining two were related to purported purchases from Party B1 by Trek Singapore totalling US\$1,150,925.00. The sales and purchases transactions were eventually setoff against each other and the small difference of US\$30.43 were recorded as banks charges. Our findings strongly suggest that the Party B1 Questionable Transactions were highly questionable and were likely to be fictitious transactions. To support the fictitious transactions, the Company fabricated two invoices which were purportedly issued by Party B1 totalling US\$1,150,925.00 to Trek Singapore which bear the address of Trek HK's office, as well as creating two sale invoices under Trek Singapore totalling US\$1,150,894.57 to Party B1;
- (ii) There were also transactions with Party B2 which comprised sales from Trek HK totalling US\$7,794,692.62 and purchases by Trek Singapore and Trek HK totalling US\$1,324,367.27. Circumstantial evidence suggests that Party B2 does not exist.

Out of the total sales made to Party B2 of US\$7,794,692.62, we found that 73% could be traced to S-Com HK through the direct and indirect payments made by S-Com HK totalling US\$4,572,632.03 and setoff against S-Com HK balances of US\$1,144,817.21. The remaining 27% of the sales were settled by way of setoffs against purchases (17%), issuance of credit notes (6%), setoffs against balances of other third parties (3%), and amount paid by third parties (0.4%). With respect to the total purchases from Party B2 of US\$1,324,367.27, the entire amount was setoff against the sales to Party B2. We are unable to establish with a comfortable level of certainty as to S-Com HK's involvement in the transactions with Party B2;

No invoices from Party B2 were available for review, save for one invoice for US\$1,000,000, which we strongly believe were fabricated based on our review and information obtained during the interview;

- (iii) The fictitious and questionable transactions above caused financial impact on the Group including the possible overstatement of revenue totalling US\$8,945,587.19 and understatement of profits totalling US\$640,845.18, as well as other financial impact as detailed in Paragraphs 3.5.3 and 3.5.5 above.

9.1.5 We were not able to conclusively identify the persons who were involved in the transactions as those whose names appear on the documents reviewed including Poo, Hengky and Singh claimed that they were not involved. Henn, who is related to S-Com HK and Foo who was in charge of the Group's operations, also claimed to have no knowledge of the transactions.

9.1.6 During Maxwellisation, Poo reiterated that he was only aware of the sales of USB Thumbdrives to Party B. As for the transactions above, he was made aware of the issues only after they were flagged out by EY in early 2016.

### C. Transaction with Colite

9.1.7 The issues relating to the transaction with Colite are summarised below:

- (i) There are crucial facts relating to the transaction which could not be established as no one appears to have knowledge or was able to provide the details. These include the basis of the sale transaction of US\$3,200,000, the actual composition of the UM1G chips, how and when the UM1G chips were delivered to Colite as there is presently no evidence to prove that the UM1G chips were indeed shipped to Colite, the actual type of goods and quantity which were delivered to Colite if the goods were delivered at all, and whether the goods purportedly returned by Colite were the goods that were purportedly delivered to it in the first place. We also received various explanations which were conflicting, contradicting and different from the previous explanations given by the same person and/or by other parties;
- (ii) Bank advices for the sums of US\$250,000 and US\$2,400,000 received from Henn and S-Com HK respectively were digitally altered by Hengky at Singh's instructions purportedly for his own internal reference. However, his false representations to EY and the way the accounting entries were recorded did not support his case that they were for internal reference, but instead provided strong indication that the banks advices were digitally altered for the purpose of deceiving and misleading EY into believing that the payments were made by the customer. These sums were eventually returned to Henn and S-Com HK in May 2016;
- (iii) Even though a sum of S\$499,417.17 was purportedly received from Colite on 4 May 2016, it is not certain if the sum was indeed originated from Colite and not from another party. We are unable to verify this;
- (iv) There were also instances where documents were or intended to be fabricated or altered with the purpose of misleading the parties who may come into possession of the same. This relates to the DO sent by Emily to Foo and the SOW which Dr Paul intended to prepare and arrange for signatures to be forged for Poo.
- (v) We further note that the Company had demonstrated a lackadaisical attitude towards the return of the stocks from Colite and the heedless manner in which the return was managed by the Company and Colite; and

- (vi) Based on the above, there are indications that the transaction with Colite could have been a fictitious transaction.

9.1.8 Persons with involvement on the issues above include Singh, Poo, Foo, Hengky, Emily and Dr Paul.

### D. Transactions Relating to eSD Inventories

9.1.9 The issues relating to the transactions involving the eSD inventories are summarised below:

- (i) Based on our review, the transactions appear to be genuine; and
- (ii) Notwithstanding the above, we found that the Company did not exercise sufficient diligence and care, and instead resorted to taking an easy approach with respect to the recording of its inventory which does not reflect the actual situation. This caused the stock quantity and value not to be properly and accurately reflected in its books and would have no doubt made inventory management more difficult.

9.1.10 Persons with involvement on the issues above include Foo and Hengky.

9.1.11 During Maxwellisation, Poo informed that he was not aware of the transactions relating to the eSD inventories.

### E. Transactions with Key Asic

9.1.12 The issues relating to the transactions with Key Asic are summarised below:

- (i) The Key Asic Questionable Transactions relate to four purported purchases related to FluCard made by Trek Singapore and S-Com Singapore which amounted to S\$523,600.00 and US\$18,387.00 (total: US\$443,479.10). Instead of making payment to Key Asic, these sums were paid to Henn and Loo. The sums paid to Loo were subsequently remitted in full (save for bank charges) to T-Data as confirmed via documentary evidence;

- (ii) According to Henn and Singh, the monies were eventually paid to the former CEO of Key Asic, JP Peng. Henn claimed that JP Peng had sought assistance from him as Key Asic was having difficulties with its bank accounts. Through our email correspondence with JP Peng, he had confirmed the receipt of the sum of US\$380,479.60 on behalf of Key Asic. When asked if he also received the remaining balance US\$62,999.50, JP Peng did not respond to our query;
- (iii) Critically, Key Asic confirmed that it did not issue and did not have records of the invoices pertaining to the four Key Asic Questionable Transactions. Further, Key Asic also confirmed that it did not have any dealings with Thumbdrive Malaysia or received the invoice for licensing fee of US\$60,000 from Thumbdrive Malaysia<sup>82</sup>. As such, it is highly likely that the purchases made under the Key Asic Questionable Transactions were fictitious;
- (iv) However, given the new evidence produced by Henn which is contradictory to the earlier confirmation given by Key Asic, the new but questionable evidence produced by Singh, and the inconsistent / contradictory statements provided by Singh and JP Peng, we are unable to place complete reliance on the new evidence provided by both Henn and Singh;
- (v) If the Key Asic Questionable Transactions are proven to be fictitious, then the sums of S\$523,600.00 and US\$18,387.00 paid by S-Com Singapore and Trek Singapore cannot be accounted for and may possibly have been misappropriated. It also means that the invoices relating to the four Key Asic Questionable Transactions as well as the invoice issued by Thumbdrive Malaysia for the licensing fee charged to Key Asic had been fabricated;
- (vi) We note that claims under the PIC Scheme and allowable deductions for R&D expenses had been made based on the Key Asic Questionable Transactions;  
and

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<sup>82</sup> The receivable arising from the purported licensing fee charged by Thumbdrive Malaysia to Key Asic was used to partially setoff against one of the invoices of the Key Asic Questionable Transactions.

- (vii) If the Key Asic Questionable Transactions are proven to be fictitious, then the transactions would have caused the Group's revenue to be overstated by US\$60,000.00, profits to be overstated by US\$56,895.40, intangible assets to be overstated by US\$500,374.50 and cash to be understated by US\$443,479.10 between FY2011 and FY2013, amongst others. Other financial impacts include those listed in Paragraph 6.4.1 above.

9.1.13 Persons with involvement on the issues above were Henn and Singh.

### F. Transactions with the Party C Entities

9.1.14 The issues relating to the transactions with the Party C Entities are summarised below:

- (i) Party C1 invoices were digitally altered to inflate the invoiced amount for the purpose of recording licencing income. The amount inflated based on our review of documents which were available was US\$5,471,164.80 (before GST) from 2011 to 2015<sup>83</sup>;
- (ii) Party C1 invoices were digitally altered to reduce the invoiced amount for the purpose of transferring some of the cost of purchase to other expense items below the gross profit margin line. The amount reduced based on our review of documents which were available was US\$2,936,560.62 (before GST) for 2011, 2015 and 2016<sup>84</sup>;
- (iii) Non-existent Party C1 invoices were fabricated and used in tandem with the invoices which had been digitally altered to reflect reduced amounts for the same purpose of transferring some of the cost of purchase to other expense

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<sup>83</sup> This is based on our verification against the Statements of Account of Party C1 which are only available for certain months in 2011 and the full period from 2012 to 2016. The statements for the earlier periods are not available for review. Without these statements, it would not be possible for us to determine if the invoices had been altered. As such, there could be more Party C1 invoices altered before 2012 which we are unable to ascertain.

<sup>84</sup> See footnote 83 above.

items below the gross profit margin line. The total invoices which were fabricated amounted to US\$3,262,026.20 (before GST) in 2015 and 2016;<sup>85</sup>

- (iv) Non-existent Party C1 credit notes totalling US\$1,274,000.00 (before GST) were fabricated in 2015 and used together with the invoices which had been digitally altered to reflect reduced amounts for the same purpose of transferring some of the cost of purchase to other expense items below the gross profit margin line;
- (v) Genuine credit notes issued by Party C1 were used to manipulate accounting entries either by increasing licensing income (US\$1,802,784.88 before GST, from 2013 to 2016) or reducing receivables (US\$255,683.24 before GST, in 2013 and 2014) manipulate accounting entries to reflect a different financial position;
- (vi) Licensing income totalling US\$9,503,655.85 recorded in the books is highly questionable. The invoices for the licensing income purportedly issued to the Party C Entities were fabricated but were never sent to the Party C Entities;
- (vii) Purchases totalling US\$2,762,026.20 (before GST) made in 2015 and 2016 were classified to expense items below the gross profit margin line instead of costs of sales;
- (viii) Fictitious intangible assets were recorded in the books in 2015 using fabricated / fictitious Party C1 invoices. We note that adjustments had been made to reverse these intangible assets before the issuance of the financial statements for FY2015;
- (ix) All the above was premised upon Henn's purported communications with Party C. We have not sighted or been provided with any documentary evidence to support these communications;

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<sup>85</sup> See footnote 83 above.

- (x) As a result of the above and the manipulation of the accounting entries, GST returns were likely to be impacted. Both the Company and Trek Singapore could have overstated the GST input tax with the effect of either receiving higher GST refunds or making less GST payments than they should; and
- (xi) The above has caused the overstatements of the Group's revenue, purchases and net profits from FY2008 to FY2016, even after taking into consideration the adjustments made by the Company in 2016 to its financial statements for FY2013, FY2014 and FY2015. For the full list of the financial impact, please refer to Paragraph 7.7.7 above.

9.1.15 Persons with involvement on the issues above include Henn, Singh, Poo and Hengky.

9.1.16 During Maxwellisation, Poo informed that he was only aware of the issue pertaining to the licensing fee. He was made aware of the other issues relating to the transactions with Party C in early 2016 during the audit carried out by EY.

### G. FluCard Patents Registered Under T-Data

9.1.17 The issues relating to the 19 FluCard patents which were registered under T-Data are summarised below:

- (i) The inventor and owner of the FluCard patents were claimed to be Wayne and T-Data respectively. While the idea behind FluCard could have originated from Wayne (as claimed by Wayne and Henn), we note from various sources that the engineering and development work were carried out entirely by the R&D team in the Company. In addition, the patent prosecution and registration process were undertaken entirely by the Company;
- (ii) Based on documents reviewed and information obtained during the interview, it is reasonable to conclude that T-Data was never involved in the development of the FluCard. Nevertheless, the patents were registered under T-Data. Our view is that the 19 patents should be registered under the Company as the patent owner. There had been no contribution from T-Data

for it to be entitled to be the patent owner, especially since FluCard is an important product of the Group;

- (iii) Notwithstanding that the patents were owned by T-Data and the Company was only given a non-exclusive use of the patents, the Company had recorded the expenses it incurred for the patent registrations and renewals as intangible assets in its books. These intangible assets were subsequently expensed off in FY2015 when the issue pertaining to the ownership of the patents arose;
- (iv) We found various publication materials including announcements made by the Company, statements on its website and invitation letter sent to the Japanese Embassy in Singapore for a launch event, in which the Company represented that it was the innovator, original inventor and patent owner of the FluCard. This contradicted with the claims that the inventor and patent owner of FluCard were Wayne and T-Data respectively;
- (v) Out of the 19 patents, the Company has subsequently obtained the assignments of T-Data's rights, title and interest in 14 patents to Trek Singapore via three Patent Assignment Agreements signed in February 2016 and November 2017. The remaining five patents were not assigned as the registrations were abandoned either due to objections raised by various patent offices or a decision by the Company not to proceed with the filing of the registration; and
- (vi) For the 14 patents which were assigned to Trek Singapore, a number of patent registrations had been inadvertently omitted. We understand that the Company has instructed its patent lawyers to rectify the situation via the signing of addendums to the Patent Assignment Agreements.

9.1.18 Persons with involvement on the issues above were Henn and Singh.

## 9.2 Potential Breaches

9.2.1 The potential breaches by the Company and/or its directors, officers and employees arising from the issues summarised above include the following:

Notes Ref.	Issue / Applicable laws	Transactions Relating To						
		Round-tripping	Party B Entities	Colite	eSD Inventories	Key Asic	Party C Entities	FluCard Patents
	<i>Section Reference</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7</i>	<i>8</i>
1	Common law fiduciary duties of a director	●	●	●	●	●	●	●
2	Section 157 of the Companies Act	●	●	●	●	●	●	●
3	Section 199 of the Companies Act		●	●	●	●	●	●
4	Section 201 of the Companies Act		●			●	●	●
5	Section 401 of the Companies Act		●			●	●	●
6	Section 402 of the Companies Act		●	●		●	●	●
7	Section 405 of the Penal Code					●		
8	Section 415 of the Penal Code							
9	Section 463 of the Penal Code		●	●		●	●	
10	Section 468 of the Penal Code		●	●		●	●	
11	Section 471 of the Penal Code		●	●		●	●	
12	Section 477A of the Penal Code		●	●		●	●	●
13	Section 199 of the SFA						●	●
14	Section 200 of the SFA						●	●
15	Rule 703 (4) of the Mainboard Rules							●
16	Rule 705 (5) of the Mainboard Rules		●			●	●	●
17	Rule 719 (1) of the Mainboard Rules	●	●	●	●	●	●	●
18	Rule 745 of the Mainboard Rules	●	●	●	●	●	●	●
19	Code of Corporate Governance	●	●	●	●	●	●	●
20	Section 95 of the Income Tax Act					●		
21	Section 59 of the Goods and Services Tax Act						●	

Notes:

1. **Common law fiduciary duties of a director** including but not limited to:

- *Act in good faith*
- *Act in the best interests of the company*

- *Act with reasonable care, skill and diligence*
  - *Avoid conflicts of interest*
  - *Exercise powers with proper purpose*
2. **Section 157 of the Companies Act** requires a director to act honestly and use reasonable diligence in the discharge of his duties, and shall not make improper use of his position as an officer or agent of the company or any information acquired by virtue of his position as an officer or agent of the company to gain, directly or indirectly, an advantage for himself or for any other person or to cause detriment to the company.
  3. **Section 199 of the Companies Act** requires every company to maintain proper accounting records and devise and maintain a system of internal accounting controls to safeguard against losses from unauthorised use / disposition and to ensure that transactions are properly authorised and recorded to permit the preparation of true and fair financial statements and to maintain accountability of assets.
  4. **Section 201 of the Companies Act** requires every company to prepare financial statements to give a true and fair view of the financial position and performance of the company.
  5. **Section 401 of the Companies Act** states that any person who makes or authorises the making of any false or misleading return, report, certificate, balance sheet, financial statements or other document required under the Act, knowing it to be false or misleading or wilfully omits or authorises the omission of any matter or thing without which the document is materially misleading shall be guilty of an offence. This includes the person who lodges / files or authorises the lodgement / filing with ACRA knowing that the document is false or misleading.
  6. **Section 402 of the Companies Act** states that an officer of a corporation who, with intent to deceive, makes or furnishes, or knowingly and wilfully authorises or permits the making or furnishing of, any false or misleading statement or report to a director, auditor, member, etc., relating to the affairs of the corporation, shall be guilty of an offence.

7. **Section 405 of the Penal Code** states that whoever, being entrusted with property, or with any dominion over property, dishonestly misappropriates or converts to his own use that property, or dishonestly uses or disposes of that property in violation of any law prescribing the mode in which such trust is to be discharged, or wilfully suffers any other person to do so, commits “criminal breach of trust”
8. **Section 415 of the Penal Code** states that it is an offence to fraudulently or dishonestly deceive any person to deliver any property to any person, or intentionally induces the person to do or omit to do anything which he would not do or omit to do if he were not deceived, and which act or omission causes or is likely to cause damage or harm to any person.
9. **Section 463 of the Penal Code** states that whoever makes any false document or electronic record or part of a document or an electronic record with intent to cause damage or injury to the public or to any person, or to support any claim or title, or to cause any person to part with property, or to enter into any express or implied contract, or with intent to commit fraud or that fraud may be committed, commits forgery. A person is said to make a false document or false electronic record if he commits the any of the act under **Section 464** of the Penal Code.
10. **Section 468 of the Penal Code** states that whoever commits forgery, intending that the document or electronic record forged shall be used for the purpose of cheating, shall be punished.
11. **Section 471 of the Penal Code** states that whoever fraudulently or dishonestly uses as genuine any document or electronic record which he knows or has reason to believe to be a forged document or forged electronic record, shall be punished in the same manner as if he had forged such document or electronic record.
12. **Section 477A of the Penal Code** which states that the wilful conduct of any clerk, officer or servant to destroy, alter, conceal, mutilate or falsify any book, electronic record, paper, writing, valuable security or account which belongs to or is in the possession of his employer, or to make or abet the making of any false entry in, or omits or alters or abets the omission or alteration of any material particular from or

*in any such book, electronic record, paper, writing, valuable security or account, with intention to defraud shall be punishable.*

13. **Section 199 of the SFA** prohibits any person from making statements or disseminate information that are materially false or misleading, and is likely to induce the subscription, purchase or sale of securities or have the effect of raising, lowering, maintaining or stabilising the market price of securities.
14. **Section 200 of the SFA** prohibits any person from by making or publishing any statement, promise or forecast that he knows or ought reasonably to have known to be misleading, false or deceptive, by any dishonest concealment of material facts, by the reckless making or publishing of any statement, promise or forecast that is misleading, false or deceptive, or by recording or storing in, or by means of, any mechanical, electronic or other device information that he knows to be false or misleading in a material particular, to induce another person to deal in securities.
15. **Rule 703 (4) of the Mainboard Rules** requires the observation of the Corporate Disclosure Policy set out in Appendix 7.1 of the Mainboard Rules which stipulates that the contents of announcements must be factual, clear and succinct (policy item 25).
16. **Rule 705 (5) of the Mainboard Rules** requires directors to provide a confirmation that the interim financial statements as announced are not false or misleading.
17. **Rule 719 (1) of the Mainboard Rules** states that an issuer should have a robust and effective system of internal controls, addressing financial, operational and compliance risks.
18. **Rule 745 of the Mainboard Rules** states that an issuer must ensure that its directors accept responsibility, collectively and individually for the issuer's compliance with the Mainboard Rules.
19. **Code of Corporate Governance** issued by the Corporate Governance Committee dated 2 May 2012 provides the guidelines on the maintenance of a sound system of risk management and internal controls to safeguard shareholders' interests and

*company's assets. Although the Company did provide a disclosure on its compliance with the requirements of the Code in its Annual Report as required under **Rule 710 of the Mainboard Rules**, we note that the inadequacies of the internal controls were not identified nor disclosed in the Annual Report.*

20. **Section 95 of the Income Tax Act** provides that every person who makes or without reasonable excuse or through negligence makes incorrect return or gives any incorrect information in relation to any matter affecting the liability to tax shall be guilty of an offence.
21. **Section 59 of the Goods and Services Tax Act** states that a person who makes an incorrect return by omitting or understating any output tax or by overstating any input tax of which he is required to make a return, or gives any incorrect information in relation to any matter affecting his own liability to tax, shall be guilty of an offence.

### 9.3 Our Recommendations

9.3.1 Based on the various issues and irregularities discovered during our review and the potential (and non-exhaustive) breaches arising from them, we recommend the Company to take the following remedial actions to rectify the situation and minimise the recurrence of these issues:

- (i) Review, improve and put in place a complete system of internal controls on compliance, financial systems and reporting, and operational processes for an effective risk management on all aspects of the Group's business and affairs;
- (ii) Cease all practices of making digital alterations on and fabrications of documents even if they were for internal reference purpose, and investigate the practice of fabricating sham documents to, among other things, find out the extent of such a practice;

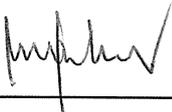
- (iii) Emphasize to all employees the importance of internal controls, keeping proper records, ensuring all accounting entries and true and accurate as well as best practices through trainings, implementation of policies and communications with employees;
- (iv) Explore the employment of suitably qualified personnel with experience on compliance and accounting matters to strengthen the internal controls, book-keeping and financial reporting practices;
- (v) Review if the business relationship with T-Data is vital for the Group's operations and make a decision on whether the continuation of such relationship is appropriate;
- (vi) Notwithstanding that the Group no longer transacts with S-Com HK since December 2015, the Board ought to ensure that none of the management personnel or employees of the Group is performing any work for and managing the affairs and operations of S-Com HK;
- (vii) Perform a thorough review of its inventories and inventory system, strengthen its management of inventory and deal appropriately with the inventories which cannot be identified such as the USB Components and Enclosure Components as well as others, if any, which no one we interviewed was able to provide details on;
- (viii) Make the appropriate adjustments and/or put in new accounting entries to correct the misstatements in the accounting records as well as discuss with the current auditors on the restatements and/or reclassifications, as appropriate, to be carried out for the financial statements of the Company;
- (ix) Make voluntary disclosures to IRAS under the IRAS Voluntary Disclosure Programme on fraudulent and errors made in the claims under the PIC Scheme, GST returns and income tax returns. IRAS may impose reduced penalties if certain criteria are satisfied; and

- (x) Prohibit the sharing and misuse of employee user account and hold employees who do so accountable for all acts done under his/her user account to prevent any abuse and for easy identification of the personnel responsible for certain acts.

9.3.2 As indicated in Paragraph 1.3.6 above, we are not qualified to provide legal advice. The Board and/or the Company should seek legal advice on the appropriate actions to be taken with respect to the issues and the potential breaches arising from those issues, as highlighted in Sections 9.1 and 9.2 above.

❧ END OF REPORT ❧

This Report is prepared by RSM Corporate Advisory Pte Ltd for the Audit Committee of the Company.



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Chee Yoh Chuang  
Executive Director