



Regulatory Announcement

14 April 2023

SGX RegCo's Statement on GS Holdings Limited's Independent Review Report

Singapore Exchange Regulation ("SGX RegCo") refers to the Company's announcement on 14 April 2023, in relation to findings by independent reviewer, Deloitte & Touche Financial Advisory Services Pte Ltd ("Deloitte" or "Independent Reviewer").

Background

In March 2019, GS Holdings Limited (the "Company", together with its subsidiaries, the "Group") announced that the Company's subsidiary, Wish Hospitality Holdings Private Limited ("Wish") had entered into a master service agreement (the "MSA") with Henan Jufel Technology Group Co., Ltd. ("Henan Jufel"). Pursuant to the MSA, Henan Jufel would secure for Wish, at least 200 current and future outlets located in various parts of the world within 2 years from the date of the MSA. Wish would provide the branding, operation and procurement (the "BOP") services to each of the outlets.

By May 2019, the Company had entered into BOP services agreements with 14 outlets in PRC with the agreed service fees amounting to RMB 50 million per quarter. The BOP business contributed to majority of the Group's revenue and was the sole profitable business segment of the Group in FY2019.

For the financial year ended 31 December 2020 ("FY2020"), the Company's statutory auditors had subjected the Company's financial statements to a disclaimer of audit opinion due the issues surrounding the BOP business as a significant amount of BOP service fees had been outstanding. Despite the Group's claims that RMB 100 million of BOP services fees were received and held in its bank account in the PRC, the auditors were of the view that it should continue to be classified as outstanding trade receivables in view of an encumbrance on the monies which had cast doubts on the Group's recourse to the receipt.

The Covid-19 pandemic situation in PRC adversely affected the Group's BOP business and the business was terminated by August 2021.

In view of the disclaimer of audit opinion, the Company's Audit and Risk Committee ("ARC") appointed Deloitte to undertake an independent review of the BOP business (the "Independent Review").

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Findings from Deloitte's Independent Review Report

In the Independent Review Report released on 14 April 2023, Deloitte identified lapses by the Board of Directors ("Board") and Management of the Company in relation to diversifying into and managing the BOP business, as well as collection of the BOP service fees. The report highlighted the following findings amongst others:

- (a) Management did not fully meet the conditions set by the then Board when it decided to diversify into the BOP business. The Board had required management to conduct due diligence on all the BOP outlets prior to entering into BOP service agreements with the outlets. Such due diligence requirements include (i) site visits to BOP outlets to investigate the ongoing traffic and operations and (ii) performance of desktop due diligence on the contracting parties.
- (b) Inadequate legal and financial due diligence conducted on relevant parties prior to diversifying into the BOP business. Although the management considered the investment value of SGD 400 as not being substantial, Deloitte is of the view that this does not warrant dispensation with adequate due diligence as the investment value does not reflect the risks of the new business to be undertaken by the Group and the legal risk and contractual obligations associated with the business.
- (c) Lack of management control and supervision over the BOP business and inadequate control over bank accounts.
- (d) Lack of internal policies and procedures governing the BOP business, such as the onboarding of new BOP outlets, the monitoring of the operations of these outlets and the performing of customer credit assessments.
- (e) Inaccuracies in the Company's exchange filings relating to the BOP Business, including inaccurate representation on the terms of the MSA. The Company announced that the securing of 200 outlets was on a best effort basis, which was not factual given that Henan Jufel was required under the MSA to assign and secure at least 200 outlets.

Rule Breaches and Referrals to authorities

Arising from the above findings, Deloitte highlighted potential disclosure breaches and lapses in internal controls. Deloitte also noted potential breaches of directors' fiduciary duties under Section 156 and 157 of the Companies Act. SGX RegCo will look into any potential listing rule breaches and refer the potential contravention of the Companies Act to the relevant authorities. Where investigations indicate any breaches of the listing rules, SGX RegCo will proceed to take disciplinary actions against the culpable parties.

The Exchange expects listed issuers to conduct adequate due diligence and exercise due care prior to entering into new business ventures. Listed issuers should also establish adequate and effective systems of internal controls to safeguard the interest of the company and its shareholders.

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