

**REPORT ON
THE INVESTMENT PROCESSES OF**



Innopac Holdings Limited
(Company Registration Number: 197301788K)
(Incorporated in the Republic of Singapore)

prepared by



Provenance Capital Pte. Ltd.
(Company Registration Number: 200309056E)
(Incorporated in the Republic of Singapore)

*as Professional Firm appointed pursuant to the Notice of Compliance
issued by SGX RegCo*

23 November 2018

CONTENTS

| | Page |
|---|----------|
| DEFINITIONS | 3 |
| COVER LETTER | 9 |
| FULL REPORT WHICH CONSISTS OF THE FOLLOWING: | |
| <u>SECTIONS:</u> | |
| 1. INTRODUCTION | 18 |
| 2. TERMS OF REFERENCE | 26 |
| 3. SCOPE OF THE INVESTMENT PROCESS REVIEW | 28 |
| 4. MERLIN DIAMONDS TAKEOVER OFFER | 30 |
| 5. EXTERA ACQUISITION | 50 |
| 6. GAOCHENG JV | 79 |
| 7. ARTEL GOLD EXPLORATION JV | 94 |
| 8. MICROALGAE JV | 110 |
| <u>APPENDICES:</u> | |
| A. INFORMATION ON THE GROUP | 139 |
| B. LIST OF INVESTMENT PROJECTS | 154 |
| C. PROFILES OF RELEVANT DIRECTORS AND MANAGEMENT OF THE COMPANY | 155 |
| D. SHARE PRICE CHART OF THE COMPANY | 160 |

DEFINITIONS

Entities

| | | |
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| “ACRA” | : | Accounting and Corporate Regulatory Authority |
| “Ao Ying” | : | Ao Ying Oil & Gas Trading Co. Ltd (奥英油气销售有限公司) |
| “Artel” | : | Artel Trade LLC |
| “Baker Tilly” | : | Baker Tilly TFW LLP, being the new statutory auditors of the Company for its Interim Audit and for FY2017/2018 |
| “Company” or “Innopac” | : | Innopac Holdings Limited (UEN: 197301788K), a company incorporated in the Republic of Singapore |
| “Extera” | : | Extera Pte. Ltd. |
| “GEM” | : | Golden Eagle Mining Pte. Ltd., a wholly-owned subsidiary of the Company |
| “Group” | : | The Company and its subsidiaries |
| “FKT” | : | Foo Kon Tan Advisory Services Pte Ltd |
| “Heritage” | : | Heritage Investment Corporation |
| “KGI Securities” | : | KGI Securities (Singapore) Pte. Ltd. |
| “MED” or “Merlin Diamonds” | : | Merlin Diamonds Limited |
| “MME” | : | Malaysian Microalgae Enterprise Sdn Bhd |
| “Moore Stephens” | : | Moore Stephens LLP, auditors of the Company for FY2012 to FY2016 |
| “Primeforth” | : | Primeforth Renewable Energy Limited |
| “Provenance Capital” | : | Provenance Capital Pte. Ltd. |
| “Rubic Prize” | : | Rubic Prize Limited |
| “Saxo Bank” | : | Saxo Bank A/S |
| “SGX RegCo” | : | Singapore Exchange Regulation Pte. Ltd., a wholly-owned independent regulatory subsidiary of Singapore Exchange Limited |
| “SGX-ST” | : | Singapore Exchange Securities Trading Limited |
| “Sheng Rong” | : | Dezhou Sheng Rong Gas Co. Ltd. (德州胜荣燃气有限公司) |
| “Wang Da Investment” | : | Wang Da Investment Ltd |

DEFINITIONS

Personnel

- “Dato’ Izat”** : Dato’ Moehamad Izat Emir, Independent Non-Executive Director of the Company
- “Dr Arslan”** : Dr Arslan Koichiev, Independent Non-Executive Director of the Company
- “Mr CY Wong”** : Mr Wong Chin Yong, the Chairman and CEO of the Company
- “Mr Gutnick”** : Mr Joseph Isaac Gutnick
- “Mr Philip Leng”** : Mr Leng Yew Chee Philip, Lead Independent Non-Executive Director of the Company
- “Mr Stanley Chu”** : Mr Stanley Chu Kam Po, the former Group Financial Controller cum Company Secretary who had resigned on 1 December 2017
- “Mr Yoon”** : Mr Yoon Wai Nam, the Independent Non-Executive Director of the Company from 1 September 2011 until 31 May 2013
- “Ms Jenny Soh”** : Ms Jenny Soh Woon Chuen, the former General Manager for Corporate Affairs of the Company who had resigned on 2 January 2018

General

- “ABS Guidelines”** : The Association of Banks in Singapore: Listings Due Diligence Guidelines
- “AGM”** : Annual general meeting
- “Artel Gold Exploration JV”** : The gold exploration and exploitation joint venture in the Kyrgyz Republic through GEM’s acquisition of 50% equity interest in Artel
- “Artel Gold Exploration JVA”** : The JV agreement between GEM and Artel dated 15 April 2015 to establish a 50:50 joint venture with Artel through an unincorporated JV
- “Associate”** : (a) in relation to any director, chief executive officer, substantial shareholder or controlling shareholder (being an individual) means:
- (i) his immediate family;
 - (ii) the trustees of any trust of which he or his immediate family is a beneficiary or, in the case of a discretionary trust, is a discretionary object; and
 - (iii) any company in which he and his immediate family together (directly or indirectly) have an interest of 30.0% or more;
- (b) in relation to a substantial shareholder or a controlling shareholder (being a company) means any other company which is its subsidiary or holding company or is a subsidiary

DEFINITIONS

of such holding company or one in the equity of which it and/or such other company or companies taken together (directly or indirectly) have an interest of 30.0% or more

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| “Audit Committee” or “AC” | : | The audit committee of the Company |
| “Australia” | : | Commonwealth of Australia |
| “Board” | : | The board of directors of the Company |
| “BVI” | : | British Virgin Islands |
| “CEO” | : | Chief Executive Officer |
| “CG Code” | : | Code of Corporate Governance |
| “CG Code 2005” | : | Code of Corporate Governance issued by the Corporate Governance Committee dated 14 July 2005 |
| “CG Code 2012” | : | Code of Corporate Governance issued by the Corporate Governance Committee dated 2 May 2012, being the applicable version prevailing at the time of the Selected Transactions |
| “CNG” | : | Compressed natural gas |
| “Controlling Shareholder” | : | A person who:- (a) holds directly or indirectly 15% or more of the total voting rights in the company. SGX-ST may determine that a person who satisfies this paragraph is not a controlling shareholder; or (b) in fact exercises control over a company |
| “Directors” | : | Directors of the Company |
| “EGM” | : | Extraordinary general meeting |
| “EPC” | : | Engineering, procurement and construction of the microalgae facility pursuant to the Microalgae JV |
| “Extera Acquisition” | : | The acquisition of 45,000,000 ordinary shares representing 81.82% of the issued and paid-up share capital of Extera for a purchase consideration of S\$17,100,000 pursuant to a conditional sale and purchase agreement entered into between the Company and Rubic Prize Limited on 29 November 2013 |
| “Financial Entry Criteria” | : | Pursuant to Rule 1311(1) of the Listing Manual, an issuer is placed on the watch-list under the Financial Entry Criteria when the issuer records pre-tax losses for the three (3) most recently completed consecutive financial years (based on audited full year consolidated accounts) and an average daily market capitalisation of less than S\$40 million over the last 6 months |

DEFINITIONS

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| “Gaocheng JV” | : | The joint venture between Extera (a subsidiary of the Company), Aceford Limited and Mr Liang Gaocheng, as announced by the Company on 27 February 2015 |
| “IFA” | : | Independent financial adviser |
| “Independent Director”, “Independent Non-Executive Director” or “INED” | : | An independent non-executive director of the Company |
| “Interim Audit” | : | The interim audit carried out on the financial statements of the Group for 12M2017 as required pursuant to the Notice of Compliance |
| “Interim Audit Report” | : | The audited interim financial statements of the Group for 12M2017 |
| “Investment Process Review” | : | The review conducted by Provenance Capital on the Group’s existing processes and internal controls relating to its acquisition or investments in businesses and joint ventures, in particular, the Selected Transactions, pursuant to the Notice of Compliance |
| “JV” | : | Joint venture |
| “Latest Practicable Date” | : | 9 November 2018, being the latest practicable date prior to the issuance of this Report |
| “Listing Manual” | : | The listing manual for companies listed on the Mainboard of the SGX-ST |
| “Management” | : | Management of the Company |
| “Merlin Diamonds Takeover Offer” | : | The takeover bid of MED by the Company |
| “Microalgae JV” | : | The JV between the Company and Primeforth pursuant to the JV agreement dated 22 September 2015 and the supplemental agreement dated 21 January 2016 to establish a microalgae cultivation and oil extraction project |
| “Microalgae JVA” | : | JV agreement between the Company and Primeforth dated 22 September 2015 and the supplemental agreement dated 21 January 2016 to establish the Microalgae JV |
| “MTP Entry Criteria” | : | Pursuant to Rule 1311(2) of the Listing Manual, an issuer is placed on the watch-list under the Minimum Trading Price Entry Criteria when the issuer records a volume-weighted average price of less than S\$0.20 and an average daily market capitalisation of less than S\$40 million over the last 6 months |
| “NAV” | : | Net asset value |
| “Nominating Committee” or “NC” | : | The nominating committee of the Company |
| “Notice of Compliance” | : | Notice of compliance issued by SGX RegCo to the Company on 13 April 2018 |

DEFINITIONS

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| “NTA” | : | Net tangible assets |
| “PRC” or “China” | : | People’s Republic of China |
| “1 st Proposed Placement” | : | Proposed placement of up to 5,000,000,000 new Shares at a minimum average price of S\$0.001 each as announced by the Company on 29 April 2018 pursuant to the placement agreement with KGI Securities |
| “2 nd Proposed Placement” | : | Proposed placement of 8,400,000,000 new Shares at S\$0.001 each to 11 investors pursuant to the Company’s announcement dated 8 October 2018 |
| “Remuneration Committee” or “RC” | : | The remuneration committee of the Company |
| “Report” | : | This report addressed to the Board of the Company and dated 23 November 2018 |
| “Review Date” | : | 31 August 2018, being the date that Provenance Capital had substantially completed its review of the Selected Transactions |
| “SFA” | : | The Securities and Futures Act, (Chapter 289) of Singapore, as amended or modified from time to time |
| “Selected Transactions” | : | The 5 investment projects made or attempted to be made by the Group over the last 5 years from 2013 to 2017, namely the Merlin Diamonds Takeover Offer, Extera Acquisition, Gaocheng JV, Artel Gold Exploration JV and Microalgae JV |
| “SGXNET” | : | Singapore Exchange Network, a system network used by listed companies in sending information and announcements to the SGX-ST or any other system networks prescribed by the SGX-ST |
| “Shareholders” | : | The registered holders of the Shares, except that where the registered holder is CDP, the term “Shareholders” shall, in relation to such Shares, mean the Depositors whose Securities Accounts are credited with Shares |
| “Shares” | : | Ordinary shares in the issued and paid-up capital of the Company |
| “Substantial Shareholder” | : | A person who has an interest in not less than 5% of all the issued voting Shares of the Company |
| “The Edge Article” | : | The article entitled [X] set out in <i>The Edge Singapore</i> dated [X] |
| “USA” | : | United States of America |
| <u>Financials</u> | | |
| “FY2012” | : | Financial year ended 31 December 2012 |
| “FY2013” | : | Financial year ended 31 December 2013 |

DEFINITIONS

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| “FY2014” | : | Financial year ended 31 December 2014 |
| “FY2015” | : | Financial year ended 31 December 2015 |
| “FY2016” | : | Financial year ended 31 December 2016 |
| “FY2017/2018” | : | Financial period ended 30 June 2018 covering a period of 18 months from 1 January 2017 to 30 June 2018 as the Company had changed its financial year end from 31 December to 30 June as announced by the Company on 10 January 2018 |
| “1Q2015” | : | First quarter ended 31 March 2015 |
| “1Q2017” | : | First quarter ended 31 March 2017 |
| “12M2017” | : | 12-month period ended 31 December 2017 |
| “5Q2017/2018” | : | Fifth quarter and 15 months ended 31 March 2018 |
| “4Q2014” | : | Fourth quarter and financial year ended 31 December 2014 |
| “4Q2015” | : | Fourth quarter and financial year ended 31 December 2015 |
| “%” | : | Percentage or per centum |
| “A\$” | : | Australian dollar, the lawful currency of Australia |
| “RM” | : | Malaysian Ringgit, the lawful currency of Malaysia |
| “RMB” | : | Renminbi, the lawful currency of the PRC |
| “S\$” | : | Singapore dollars, the lawful currency of Singapore |
| “US\$” | : | United States dollars, the lawful currency of USA |

Words importing the singular shall, where applicable, include the plural and *vice versa* and words importing a specific gender shall, where applicable, include the other genders. Reference to person shall, where applicable, include corporations.

The heading in this Report are inserted for convenience only and shall be ignored in construing this Report.

Any reference in this Report to any enactment is a reference to that enactment as for the time being amended or re-enacted. Any word defined under the Listing Manual or any statutory modification thereof and not otherwise defined in this Report shall have the same meaning ascribed to that word under the Listing Manual or any statutory modification thereof, as the case may be.

Any reference to a time of day and date in this Report shall be a reference to Singapore time and date unless otherwise stated.

Any discrepancy with figures in this Report between the listed amounts and the totals thereof is due to rounding. Accordingly, figures shown as totals in this Report may not be an arithmetic aggregation of the figures that precede them.

COVER LETTER

PROVENANCE CAPITAL PTE. LTD.

(Company Registration Number: 200309056E)
(Incorporated in the Republic of Singapore)
96 Robinson Road #13-01 SIF Building
Singapore 068899

23 November 2018

To: The Board of Directors of Innopac Holdings Limited

| | |
|--------------------------|---|
| Mr Wong Chin Yong | (Chairman & CEO) |
| Dato' Moehamad Izat Emir | (Independent Non-Executive Director) |
| Mr Ong Kah Hock | (Independent Non-Executive Director) |
| Dr Arslan Koichiev | (Independent Non-Executive Director) |
| Mr Leng Yew Chee Philip | (Lead Independent Non-Executive Director) |
| Mr Chong Eng Wee | (Independent Non-Executive Director) |

(of which Mr Philip Leng, Mr Ong Kah Hock and Mr Chong Eng Wee are members of the Audit Committee as at the Latest Practicable Date)

Dear Sirs,

REPORT ON THE INVESTMENT PROCESSES OF INNOPAC HOLDINGS LIMITED

1. INTRODUCTION

1.1 We have been appointed by the Company on 28 May 2018 to carry out the Investment Process Review pursuant to the Notice of Compliance by the SGX-ST under Rule 1405(1)(f) of the Listing Manual. Our terms of reference for the Investment Process Review had been cleared with the SGX RegCo. We had a “kick-off” meeting on the project with the Company on 4 June 2018.

1.2 We have reviewed the following 5 Selected Transactions, namely:

- (a) Merlin Diamonds Takeover Offer
- (b) Extera Acquisition
- (c) Gaocheng JV
- (d) Artel Gold Exploration JV
- (e) Microalgae JV

These are investment projects made or attempted to be made by the Group over the last 5 years from 2013 to 2017. Our findings are based on our review of the Selected Transactions substantially completed as at the Review Date, being 31 August 2018.

While our review of the Selected Transactions was substantially completed on 31 August 2018 and some of our queries on certain Selected Transactions were clarified by Management during our various discussions with Management up till 11 September 2018, there were outstanding queries pending clarification from Management as at 11 September 2018. Our initial plan was to complete the interviews with certain Directors and former Directors on the Selected Transactions soon after Management had provided clarifications on our outstanding queries. These clarifications and interviews were, however, delayed due to unforeseen circumstances as stated in paragraph 1.3 below.

Our work on the Report resumed on 31 October 2018 with the one-on-one interviews with some of the Independent Directors following a meeting with the Board on 30 October 2018. Discussions with

COVER LETTER

Management on the outstanding queries resumed in the ensuing weeks up to the Latest Practicable Date on 9 November 2018.

For completeness, we had included certain material updates on the Selected Transactions and the Company in this Report which have been disclosed by the Company after the Review Date and up to the Latest Practicable Date. A summary of the material updates between the Review Date and the Latest Practicable Date is set out in Section 1.2 of this Report.

- 1.3** Our main point of contact with the Company is Mr Wong Chin Yong, Chairman and CEO of the Company, acting as the key Management of the Company. He had assisted us in making available the relevant information and clarification on various matters during the process of our review of the Selected Transactions. During the period of our review, Mr CY Wong broke his forearm at the end of July 2018 while overseas and after surgery was on hospitalisation leave for about 5 weeks from 31 July 2018 to 3 September 2018, and a further 4 weeks of hospitalisation leave from 18 September 2018 to 14 October 2018. Discussions with Mr CY Wong resumed in November 2018.

We also held discussions with other Directors and relevant personnel where appropriate, practicable and accessible. Where findings, information, comments, inferences and conclusions from these persons have been included in this Report, wherever reasonably practicable, these persons have been given the opportunity to comment on the said findings, information, comments, inferences and conclusions. Drafts of this Report have been given to the Directors for their comments prior to the finalisation of this Report.

- 1.4** This Report is prepared as required by SGX RegCo pursuant to the Notice of Compliance and for the purpose of the Investment Process Review and is addressed to the Board of Directors of the Company. As a term of our engagement, the Audit Committee of the Company or SGX RegCo may at their own discretion decide to publish certain portions or the whole of this Report. Notwithstanding the above, neither the Company, the Directors, any Shareholder nor any other party may reproduce, disseminate or quote this Report (or any part thereof) for any other purposes, at any time and in any manner, or use or rely on it for any other purposes without the prior written consent of Provenance Capital in each separate instance.

2. SCOPE OF THE INVESTMENT PROCESS REVIEW

- 2.1** The focus of this Report is on the review of the Group's existing processes and internal controls relating to its acquisition or investments in businesses and joint ventures, in particular, the Selected Transactions. Our scope of the Investment Process Review includes, *inter alia*, the following:
- (a) Whether the Company has an existing investment process and internal controls (including but not limited to, evaluation, approval, agreements, payment terms, approval of payments, recording, reporting of and follow up of proposed acquisitions/investments (including advances and loans)) which are in line with relevant regulatory requirements, including the Listing Manual and CG Code, and whether they are sufficiently robust based on best practices to ensure proper and good corporate governance;
 - (b) How the investment procedures for the Selected Transactions compare with the Company's existing investment processes and against best practices set out in the CG Code, ABS Guidelines and requirements under the Listing Manual;
 - (c) The extent of the due diligence, review and approval process undertaken by the Directors and Management for each of the Selected Transactions;

COVER LETTER

- (d) Highlight of any non-compliance, significant or unusual deviations with requirements or guidelines under the constitution of the Company, CG Code, ABS Guidelines and Listing Manual, and any conflict of interest;
- (e) Whether members of the Board had adhered to their legal obligations and Company's policies and procedures; and
- (f) Whether the failures or impairment of any of the investments could have been avoided through the improvements in internal controls or processes and where there have been failures or weaknesses noted in relation to the Selected Transactions, to quantify the impact on the Company's financials if they have not already been impaired.

2.2 Following from the above, we have carried out a review of each of the Selected Transactions and our findings and recommendations are set out in this Report which encompasses the following:

- (a) Overview of the Selected Transactions which sets out, *inter alia*, publicly available information and disclosures by the Company on the Selected Transactions;
- (b) Review of the Selected Transactions which involves our review of the investment procedures and deliberations by the Directors, Management and our independent findings and research, where applicable;
- (c) Our queries to the Company following our review and responses from Management;
- (d) Our interview notes with the Independent Directors, former Directors of the Company and other relevant persons and the follow-up comments from Management, if any; and
- (e) Our assessment of the Company's investment processes and recommendations for improvement.

3. SUMMARY OF OUR FINDINGS AND RECOMMENDATIONS

Based on our review of the Selected Transactions, we summarise our assessment of the Company's investment processes as follows:

Scope of Review

- (a) **Whether the Company has an existing investment process and internal controls (including but not limited to, evaluation, approval, agreements, payment terms, approval of payments, recording, reporting of and follow up of proposed acquisitions/investments (including advances and loans)) which are in line with relevant regulatory requirements, including the Listing Manual and CG Code, and whether they are sufficiently robust based on best practices to ensure proper and good corporate governance.**

Findings / Potential Breaches:

We observed that the Company does not have a written set of investment procedures or internal control manual with respect to its investments in businesses and joint ventures. The Company, however, has an investment policy and manual for investments in marketable securities.

Rule 719(1) of the Listing Manual requires the issuer to have a robust and effective system of internal controls, addressing financial, operational and compliance risks. In addition, Principle 11 of CG Code 2012 states that the board should ensure that management maintains a sound system of risk management and internal controls to safeguard shareholders' interests and the company's assets, and should determine the nature and extent of the significant risks which the board is willing to take in achieving its strategic objectives.

The Company had acknowledged the above and clarified that, in practice, it had adopted and followed a general framework of investment and internal controls procedures as follows:

- (i) deal origination and generation;

COVER LETTER

- (ii) research of industry, operating environment, financial and feasibility analysis, due diligence/research on the target company/investment;
- (iii) board presentation and deliberation;
- (iv) board approval; and
- (v) execution and monitoring.

In respect of the Merlin Diamonds Takeover Offer, the Company had also sought and obtained Shareholders' approval for the acquisition at its EGM held on 10 June 2013.

Notwithstanding the above, in compliance with the Listing Manual and CG Code, the Company should have a well-documented operational manual to guide its Management and the Board with respect to its investments in businesses and joint ventures including a robust and effective system of internal controls and due diligence process to ensure proper and good corporate governance, and the nature and extent of the risk that the Board is willing to take in achieving its strategic objectives.

Recommendation:

The Company should establish or consider appointing relevant professionals to assist the Company to establish a well-documented operational manual to guide its investment procedures, internal control processes and set out the nature and extent of the risk that the Board is prepared to take in considering each of the investments in businesses and/or joint ventures.

Company's response:

The Company agreed with the recommendation.

Scope of Review

- (b) **How the investment procedures for the Selected Transactions compare with the Company's existing investment processes and against best practices set out in the CG Code, ABS Guidelines and requirements under the Listing Manual; and**
- (c) **The extent of the due diligence, review and approval process undertaken by the Directors and Management for each of the Selected Transactions.**

Findings / Potential breaches / Recommendations:

As observed in point (a) above, the Company does not have existing investment procedures and internal control processes in writing for investments in businesses and/or joint ventures, from which we can compare against the actual investment procedures undertaken for the Selected Transactions.

For the Selected Transactions, we observed that the Company had generally carried out, *inter alia*, the following:

- conducted certain due diligence, for example, researching into the relevant industries of the target investments;
- obtained the necessary Board approvals for the investments;
- engaged professional advisers, including legal advisers, to advise on various matters relating to some of the Selected Transactions;
- obtained Shareholders' approval for the investment in respect of the Merlin Diamonds Takeover Offer; and
- conducted site visits for some of the proposed investments.

Due diligence

- (i) In some of the Selected Transactions, we observed that the Company could have carried out or appointed professional advisers to carry out a more detailed due diligence exercise before embarking on the Selected Transactions to avoid subsequent discovery of matters which were found to pose significant potential issues for the proposed investments. Some of the due diligence checks should have covered areas like the credentials and background of the JV partners, their key management and their track record, validity of the relevant patents, regulatory approvals and permits necessary for the businesses and ownership of the relevant assets.

Disclosure

- (ii) Overall, the Company could have made more informed disclosures in their announcements of the Selected Transactions and periodic updates of the progress of the Selected Transactions. We noted that the Company had made further disclosures of information in response to queries from the SGX-ST. In addition, where funding arrangements were not on a *pro rata* basis with the joint venture partners, the Company should have provided the

COVER LETTER

rationale and basis for such funding arrangements. We have also found certain inconsistencies and inaccurate disclosures of information in relation to certain of the Selected Transactions.

- (iii) We observed that the Company did not make timely disclosures on several material issues and adverse developments in relation to some of the Selected Transactions, for example, the various lawsuits and the implications on the project, and their developments pertaining to the Extera Acquisition, Mr CY Wong's position as the nominee shareholder and sole director of Extera on behalf of the vendor (Rubic Prize) prior to the Extera Acquisition, the Gaocheng JV being dependent on securing the relevant approvals for the business, the delay in disclosing the signing of the Artel Gold Exploration JVA and Mr CY Wong's interest in the Artel Gold Exploration JV.

Execution, monitoring and control

- (iv) The Company did not put in place relevant internal controls for the operation of the acquired businesses. For example, in the Extera Acquisition, the minority shareholder of Sheng Rong, namely Ao Ying, was able to take the daily sales collection of Sheng Rong without authority. In the Microalgae JV, the Company was not in control of where and how the funds were actually utilised by its joint venture partner, Primeforth. As a result, the Company's goodwill in relation to the Extera Acquisition (S\$13.7 million out of the purchase consideration of S\$17.1 million for the Extera Acquisition) and investment in the Microalgae JV of S\$6 million were eventually fully impaired. These are the 2 largest investments among the Selected Transactions, excluding the Merlin Diamonds Takeover Offer which had lapsed at the close of the offer.
- (v) The Company should have closer monitoring and follow-up actions on its investments in a timely manner. Management had acknowledged that the above occurred due to its limited staff resources to monitor its investments closely. The Company should consider employing additional senior executives to complement and assist the CEO in the review and monitoring of the Company's investments going forward.

Board approvals and minutes

- (vi) The Company should ensure that all Board approvals are obtained prior to the corporate action and should ensure that all such Board approvals and deliberations are well minuted. We noted that in the Extera Acquisition, the Company had sought Board's ratification for certain corporate actions that had taken place over a 2-year period prior to the Board's ratification.
- (vii) Board minutes should be reviewed carefully and checked by the Board before signing. The Company should ensure Board minutes are recorded accurately and information be verified with the relevant personnel. We noted that in the Artel Gold Exploration JV, the Board minutes had recorded incorrect information about the effective interests held by its Directors in the Artel Gold Exploration JV and was signed off by the Board.

Potential interested person transactions

- (viii) The Company had concluded that the acquisition of the 50% equity stake in Artel is not an interested person transaction even though Mr CY Wong, as a director of the Company, also holds 25% interest in Artel, as the Company had acquired the 50% interest from an unrelated third party. However, the Company had not considered whether its subsequent investments in Artel would be considered as interested person transactions in view of Mr CY Wong's existing interest in Artel. Consequently, the Company will need to consider whether further investments in Artel will require Shareholders' prior approval at an EGM and the opinion of an independent financial adviser, taking into consideration the latest audited NTA of the Group.

Potential new core businesses and Shareholders' approval

- (ix) For the Selected Transactions other than Merlin Diamonds Takeover Offer, the Company did not seek Shareholders' approval for the investments and/or acquisitions as it had relied on the materiality test under Chapter 10 of the Listing Manual. We noted that some of these investments will result in the target companies becoming subsidiaries of the Group, and if the businesses of these investments had taken off successfully, they would become new core businesses of the Group. These target businesses are varied, ranging from gold exploration, CNG filling stations, clean energy distribution to microalgae cultivation, and which could potentially change the existing risk profile of the Group. We noted that funding of the joint venture projects like Microalgae JV and Artel Gold Exploration JV, are borne solely or substantially by the Company. In addition, in the case of Artel Gold Exploration JV, further significant funding beyond the initial work programs is likely to be required. The Company did not disclose the size of these further funding needs and the funding arrangements with its joint venture partners. Accordingly, for these Selected Transactions other than Merlin Diamonds Takeover Offer, the Company should have considered the need for Shareholders' approval (or sought professional advice on the matter) and disclose the basis for not seeking Shareholders' approval for these Selected Transactions.

In relation to the Selected Transactions like Extera Acquisition, Artel Gold Exploration JV and Microalgae JV, the Company could have considered seeking Shareholders' approvals in view of the following circumstances:

- (a) For the Extera Acquisition, although the purchase consideration was below the 20% threshold under Chapter 10 of the Listing Manual which requires shareholders' approval, the Extera Acquisition will in effect result in the Company acquiring a subsidiary group with existing business operations in the CNG refilling business in the PRC, which could potentially change the risk profile of the Group;

COVER LETTER

- (b) In the case of the Artel Gold Exploration JV, the Company's shareholding interest in Artel was through the acquisition of a 50% interest from an existing shareholder of Artel, which the Company had concluded is not an interested person transaction and is below the 20% threshold under Chapter 10 of the Listing Manual. The investment in Artel, however, is likely to require further significant funding beyond the initial work programs. In view of Mr CY Wong's existing 25% interest in Artel, further investments by the Company in the Artel Gold Exploration JV would be deemed as interested person transactions. This may trigger the need for Shareholders' prior approval under Chapter 9 of the Listing Manual before the Company could extend further funding to Artel; and
- (c) The Company is of the opinion that the Microalgae JV, being a joint venture, does not come under the purview of Chapter 10 of the Listing Manual which is for acquisitions, and that JVs are not subject to any threshold test nor requirement for shareholders' approval. In view of the financial commitment of the Microalgae Project of US\$12.5 million which represents 100% of the Company's market capitalisation then as at the date of the Microalgae JVA Announcement, the Company should have considered seeking Shareholders' approval for the Microalgae JV. In addition, the Microalgae JV would have resulted in the Company committing to a potential new core business for the Group.

Company's response:

Overall, the Company agreed with the recommendations. However, the Company is of the opinion that public disclosures of insignificant events, operational and administrative matters are not required e.g. the lawsuits relating to Sheng Rong where the amounts involved were small.

With reference to Board approvals and minutes, the Company acknowledged that the shortcomings were due mainly to the insufficient staffing as Management was lean.

With reference to seeking Shareholders' approval to enter into potential new core businesses for the Extera Acquisition, Gaocheng JV, Artel Gold Exploration JV and Microalgae JV, the Company had not done so as it had relied on the materiality test under Chapter 10 of the Listing Manual for the Extera Acquisition and for the other projects, the Company is of the opinion that rules under Chapter 10 of the Listing Manual do not apply as the projects involved are investments in joint ventures and not acquisitions, the latter of which are governed under Chapter 10 of the Listing Manual. In addition, the Company views itself as a financial partner in these projects with no operational controls, hence the provision of most or all of the funding needs of the projects. The Company also viewed that seeking Shareholders' approval for the Extera Acquisition, Gaocheng JV, Artel Gold Exploration JV and Microalgae JV were not justifiable at the time of entering these investments as it was premature to determine whether these investments would become core businesses.

Scope of Review

- (d) **Highlight of any non-compliance, significant or unusual deviations with requirements or guidelines under the constitution of the Company, CG Code, ABS Guidelines and Listing Manual, and any conflict of interest.**

Findings / Potential breaches:

In the course of our review of the Selected Transactions, we have also noted the following instances of non-compliance which may not be directly related to the Selected Transactions:

- (i) We observed that Mr CY Wong, being an executive director, was also a member of the AC for approximately 4½ years from 24 December 2009 until 27 June 2014. In addition, we observed that after Mr Yoon resigned on 31 May 2013 as Director of the Company, the Board comprised the remaining 3 directors, namely Mr CY Wong, Dato' Izat and Mr Ong Kah Hock, and the AC then officially comprised only 2 directors, namely Mr CY Wong and Mr Ong Kah Hock (as AC Chairman). Although Dato' Izat had sat and participated in all the AC meetings during the year, he was not officially designated as an AC member.

The above was not in full compliance with both Guideline 11.1 of CG Code 2005 and Guideline 12.1 of CG Code 2012 and was ratified on 27 June 2014 after the query from the SGX-ST on 23 June 2014. The Company had designated Dato' Izat and Mr Jeremy Dyer as AC members and Mr CY Wong stepped down as AC member.

The above review is set out in Section 4.2.7 of this Report.

- (ii) Dato' Izat and Mr Ong Kah Hock have been Independent Directors of the Company for 23 years and 17 years respectively up to the Review Date, which are far beyond the recommended 9 years' tenure for independent directors under CG Code 2012.

The above review is disclosed in Sections 4, 5, 6, 7 and 8 in relation to our review of the Selected Transactions and in Appendix A to this Report.

- (iii) Principle 13 of CG Code 2012 requires the Company to establish an effective internal audit function. The Company had, on 5 June 2015, appointed FKT as the internal auditors for a period of 3 years but their services were unofficially

COVER LETTER

discontinued before the first internal audit report was finalised. The Board had, on 11 August 2016, resolved to terminate the services of FKT after a review was carried out on the draft internal audit report by FKT.

As at the Review Date, the Company has not formally terminated FKT's services.

The above review is disclosed in Appendix A to this Report under the caption entitled "**Internal auditors**".

- (iv) As at the Review Date, Mr Philip Leng is not a member of the Nominating Committee which is not in compliance with Guideline 4.1 of CG Code 2012, which states that the Lead Independent Director should be a member of the Nominating Committee.

The above review is disclosed in Sections 7.2.2 and 8.2.2 and Appendix A to this Report.

- (v) The Company had disclosed Mr Gutnick's deemed substantial shareholding interest in the Company's annual reports for the last 5 years from FY2012 to FY2016, in spite of knowing the discrepancy of such shareholding information with the listing of the top 20 Shareholders of the Company.

The above review is set out in Section 4.2.5 and Appendix A to this Report under the caption entitled "**Substantial Shareholder – Mr Gutnick's shareholding interest**".

Recommendations:

- (i) The Company may wish to consider the appointment of a Compliance Officer, internal or outsourced, to advise the Company on the composition of the AC and other compliance matters in accordance with the CG Code and Listing Manual;
- (ii) Dato' Izat and Mr Ong Kah Hock had served far beyond 9 years (23 and 17 years respectively) to justify their independence as Independent Directors of the Company. The Company should take steps to ratify the above position;
- (iii) During our "kick-off" meeting with the Company on 4 June 2018, we had highlighted to Mr CY Wong that the Company should follow-up on the outstanding matter with FKT, and to take active steps to comply with the CG Code in respect of the internal audit function;
- (iv) During our review, we had brought to the attention of the Company to consider including Mr Philip Leng as a member of the Nominating Committee. Subsequent to the Review Date, the Company had, on 25 September 2018, announced that Mr Philip Leng was designated as a member of the Nominating Committee and the Remuneration Committee, in addition to his role as the AC Chairman and Lead Independent Director; and
- (v) The Company should take proactive steps to ascertain the accuracy of its shareholding information of its Substantial Shareholder(s) when it discovers the discrepancy of such information. The Company should seek professional advice on the appropriate disclosure of shareholding information in its annual reports. Subsequent to the Review Date, we noted that the Company had made certain clarification in its annual report for FY2017/2018 on the above matter.

Company's response:

The Company agreed with the recommendations overall.

As for point (i), the Company is currently cash strapped.

With regards to point (iii), subsequent to the Review Date, the Company had clarified in its annual report for FY2017/2018 that for the financial period, the Company did not have an internal audit function as the only source of income was derived from rental of investment properties. Moreover, the Group's external auditor had reviewed internal accounting controls that are relevant to their audit. The AC will review the internal audit function when the business level of activities increases.

As for point (v), the substantial shareholding interest disclosed in the Company's Annual Reports were extracted from the Register of Substantial Shareholders kept by the Company's share registrar in accordance with ACRA and other regulatory requirements, and the top 20 Shareholders were based on CDP reports. The Company believes that it had complied with the Monetary Authority of Singapore's letter of 8 October 2012 to all SGX-ST listed companies and applicable sections of the SFA and the Company is also of the opinion that it is not its responsibility to ascertain the accuracy of the shareholding information but has the responsibility to disclose as per the Form 3 submitted by the relevant Shareholders, even though it was some time ago. For the annual report for FY2017/2018, the Company had made clarification statements on the substantial shareholders.

Scope of Review

- (e) **Whether members of the Board had adhered to their legal obligations and Company's policies and procedures.**

COVER LETTER

Findings / Potential breaches:

The Board has overall responsibility for the non-compliance listed in point (d) above. From our findings in points (a), (b) and (c), the Board also has overall responsibility for the lack of a written framework of prudent and effective controls of the Company's investment processes and generally an oversight of Management to ensure a sound design, implementation and monitoring of risk management and internal control systems.

Recommendation:

The Board should take immediate action to address the points listed above. Aside from our recommendations above, the Company should send its Directors for relevant training from time to time to keep abreast with the changes in the rules and regulations affecting Directors' fiduciary responsibilities and obligations.

Company's response:

The Company agreed with the recommendation.

Scope of Review

(f) Whether the failures or impairment of any of the investments could have been avoided through the improvements in internal controls or processes and where there have been failures or weaknesses noted in relation to the Selected Transactions, to quantify the impact on the Company's financials in this Report.

Findings / Potential breaches:

Of the 5 Selected Transactions, the Extera Acquisition and the Microalgae JV are the larger investments made by the Company, amounting to S\$17.1 million and S\$6 million respectively. These investments were among the key audit matters raised by the auditors of the Company which led to the auditors issuing a disclaimer of opinion or qualified opinion on the audited financial statements of the Group for FY2014, FY2015, FY2016 and 12M2017. The investment amounts of these 2 Selected Transactions were eventually fully or substantially impaired in the audited financial statements of the Group.

Of the 3 remaining Selected Transactions, namely Merlin Diamonds Takeover Offer, Gaocheng JV and Artel Gold Exploration JV, the Company had (i) incurred approximately S\$1.18 million of expenses in connection with the Merlin Diamonds Takeover Offer which had lapsed at the close of the offer; (ii) incurred minimal cost on the Gaocheng JV by the time of the termination of the Gaocheng JV as the relevant licences and permits were not in place 1 year after the Gaocheng JV Announcement; and (iii) with respect to the Artel Gold Exploration JV, Mr CY Wong had commented that he intends to re-focus on the project (subject to availability of funding) after 3 years of minimal progress after the signing of the Artel Gold Exploration JVA.

In hindsight, if the Company had carried out more detailed due diligence checks on these Selected Transactions and had discovered the material limitations in relation to each of the Selected Transactions, it might have re-considered its commitments in these Selected Transactions.

As at the Review Date, we note that the investment in the Artel Gold Exploration JV is relatively small and was not subject to any impairment in the audited financial statements of the Group as at 31 December 2017. However, we noted that limited progress had been made since the signing of the Artel Gold Exploration JVA on 15 April 2015. Up to the Review Date, Mr CY Wong had commented that he intends to re-focus on the Artel Gold Exploration JV subject to availability of funding and intends for himself to be appointed as a director of Artel.

Recommendations:

- (i) The Board should take cognizance of the matter and ensure that going forward proper due diligence checks are carried out before embarking on investments in businesses and joint ventures; and
- (ii) The Board should also ensure that going forward, for the Artel Gold Exploration JV, proper planning, monitoring and appropriate disclosures be made on the progress of the project.

Subsequent to the Review Date, the Company released an announcement dated 8 October 2018 that, *inter alia*, it intends to dispose of certain subsidiaries of the Group to Mr CY Wong. Some of these subsidiaries are in relation to the Selected Transactions, namely the Artel Gold Exploration JV, the Extera Acquisition and the Microalgae JV.

Company's response:

The Company generally agreed with the recommendations. The Company believed that at the time of the investments, based on its research and analysis, the Selected Transactions had prospective upside potential. However, the Company acknowledged that it had limited resources to monitor these investments, e.g. the Extera Acquisition and the Microalgae JV, and their failure could have been mitigated or otherwise avoided.

COVER LETTER

It should be noted that the above summary provides only a brief overview of our findings and recommendations, and may not set out all our findings which may be material. Accordingly, the above summary is recommended to be read in conjunction with and in the context of the entirety of this Report.

4. EXPRESSION OF THANKS

We would like to express our thanks to the Board and Management of the Company, and the relevant personnel for their co-operation throughout the course of our review and preparation of this Report.

Yours faithfully
For and on behalf of
PROVENANCE CAPITAL PTE. LTD.



Wong Bee Eng
Chief Executive Officer

SECTION 1: INTRODUCTION

1. INTRODUCTION

1.1 Rule 1405(1)(f) of the Mainboard Listing Manual provides the following:

“The Exchange may exercise administrative powers for the purposes of ensuring that the market is fair, orderly and transparent, and that the Exchange does not act contrary to the interests of the investing public, including the powers to:

- (f) require an issuer to appoint special auditors, compliance advisers, legal advisers or other independent professionals for specified purposes;”

Pursuant to Rule 1405(1)(f) and arising from the concerns raised by the auditors on the Company’s investments, the SGX RegCo had, on 13 April 2018, issued the Notice of Compliance to the Company “to appoint a Professional Firm acceptable to the Exchange by **12 May 2018** to conduct a review on the group’s investment processes and to recommend improvements in controls (“**Investment Process Review**”), if any and to announce findings of the Investment Process Review. The terms of reference of the Investment Process Review must be cleared with the Exchange.”

On 28 May 2018, we were appointed by the Board as the Professional Firm to carry out the Investment Process Review after the extension of time granted by the SGX-ST. Our terms of reference of the Investment Process Review had been cleared with the SGX RegCo.

We had a “kick-off” meeting on the project with the Company on 4 June 2018.

1.2 Overview of the Company and the Group

As at the Review Date

The Company was incorporated in Singapore on 22 September 1973 and was listed on the Mainboard of the SGX-ST on 24 May 1983.

Presently, the Group’s principal activities are in investments, investment holding and rendering of services to related companies. However, in the last two years, FY2016 and 12M2017, the Group’s activities had slowed down significantly and it only received rental income from investment properties amounting to S\$22,000 and S\$88,000 for FY2016 and 12M2017 respectively; and net gains on trading of marketable securities of S\$2,000 and S\$14,000 for the respective periods.

The Company had been placed on the watch-list of the SGX-ST since 3 June 2016 under the Financial Entry Criteria, and since 5 June 2017 under the MTP Entry Criteria pursuant to Rule 1311 of the Listing Manual. The Company had disclosed in its quarterly updates pursuant to Rule 1313(2) of the Listing Manual since 15 August 2016 that its objective is to build a portfolio of businesses and investments that can deliver consistent profits and cash flow as well as growth potential.

On 10 January 2018, the Company announced the change of its financial year end from 31 December to 30 June. Following the change of the financial year end, the next financial reporting year end is for a period of 18 months from 1 January 2017 to 30 June 2018, being FY2017/2018.

As part of the Notice of Compliance by SGX RegCo, the Company was also required to carry out an Interim Audit on the financial statements of the Group for 12M2017 to cover the period from 1 January 2017 to 31 December 2017 and to complete such Interim Audit Report by 31 May 2018. The Interim Audit Report was released by the Company on 15 July 2018 after an extension of time granted by the SGX-ST.

SECTION 1: INTRODUCTION

The Group had incurred losses for the last 5 years since FY2013. Moore Stephens, as the then auditors of the Group, had issued a disclaimer of opinion on the financial statements of the Group for FY2014 and FY2016 and a qualified opinion on the financial statements of the Group for FY2015.

Baker Tilly was appointed auditors of the Group for the Interim Audit and had also issued a disclaimer of opinion on the financial statements of the Group for 12M2017. On 17 August 2018, the Company had obtained Shareholders' approval at the EGM to appoint Baker Tilly as the new statutory auditors of the Group for FY2017/2018. The Company had also obtained Shareholders' approval at the EGM to amend its Constitution to hold its forthcoming AGM by 27 September 2018 following the change of the Company's financial year end. The Company held its AGM on 30 October 2018.

The Company had, in April and May 2018, announced the 1st Proposed Placement of new Shares to a group of investors to raise gross proceeds of S\$5 million to recapitalise the Company pursuant to a placement agreement with KGI Securities and which would also result in one of the investors becoming a new Controlling Shareholder. The 1st Proposed Placement was subject to Shareholders' approval. The Company does not currently have a Controlling Shareholder owning 15% or more of the issued share capital of the Company.

However, the 1st Proposed Placement was put on hold following the receipt of the letter of demand from Rajah & Tann Singapore LLP acting on behalf of Saxo Bank dated 1 June 2018 ("**Letter of Demand**"), demanding for payment of approximately S\$14.7 million purportedly for amounts incurred by the Group's subsidiaries. As a result, the Company had requested for a trading halt on the Shares on 4 June 2018 which had continued into a trading suspension from 7 June 2018 onwards. As at the Review Date, the trading of its Shares continued to be suspended.

Based on the quarterly update announcement by the Company on 25 September 2018, it was disclosed that the placement agreement with KGI Securities had since lapsed on 27 June 2018.

Based on 4,460,834,645 outstanding Shares and the last transacted Share price of S\$0.002 on 1 June 2018 prior to the trading halt and trading suspension, the market capitalisation of the Company was approximately S\$8.9 million. The Company confirmed that there has been no change in the number of outstanding Shares since 1 June 2018 to the Review Date.

Pursuant to the Interim Audit Report, the Group had reported loss after tax of S\$8.9 million for 12M2017 and the NAV/NTA of the Group was S\$2.9 million as at 31 December 2017. The Group does not have any intangible assets as at 31 December 2017.

Information on the Group including the financial highlights of the Group for the last five years from FY2013 to 12M2017 is set out in Appendix A to this Report.

Material updates after the Review Date and up to the Latest Practicable Date

Based on the Company's public disclosures, we noted the following material updates on the Company and developments in relation to the Selected Transactions:

- (a) The Company had, on 25 September 2018, issued its 6th quarterly update for FY2017/2018 pursuant to Rule 1313(2) of the Listing Manual wherein the Company had disclosed, *inter alia*, the following:
 - (i) Subject to the availability of working capital, the proposed work program for 2018 for the Artel Gold Exploration JV shall focus on samples collection, analysis and trial processing of the alluvial deposit; that in view of the lapsing of the share placement agreement dated 27 April 2018, the Company is looking for alternative funding for this work program; that the work program may have to be modified to accommodate the shrinking time window to work on the concession area;

SECTION 1: INTRODUCTION

- (ii) In relation to the claim from Saxo Bank, discussion is ongoing between Saxo Bank's third party adviser and the Company's representative; and
 - (iii) The Company is pursuing other options to raise working capital and exploring a comprehensive solution to significantly improve its financial position with the aim of removal of the Company from the Watch-List.
- (b) The Company had made 3 announcements dated 8 and 9 October 2018 in relation to, *inter alia*, the following:
- (i) The proposed disposal of shares in subsidiaries ("**Proposed Disposal**") to Mr CY Wong as an interested person transaction for an aggregate cash consideration of S\$100,000. These subsidiaries are Heritage, Wang Da Investment, GEM, Extera and MME. The Proposed Disposal is subject to, *inter alia*, Shareholders' approval at an EGM, the opinion of an IFA and completion of the 2nd Proposed Placement, as defined below. Upon the completion of the Proposed Disposal, Mr CY Wong shall resign as a director of the Company and its subsidiaries, and his employment with the Company.
- Heritage and Wang Da Investment are entities involved in the claim from Saxo Bank. Extera, GEM, and MME are subject matters of the Selected Transactions in this Report relating to the Extera Acquisition, Artel Gold Exploration JV and Microalgae JV respectively.
- The proposed placement of 8.4 billion new Shares at S\$0.001 each ("**2nd Proposed Placement**") to a group of 11 investors to raise gross proceeds of S\$8.4 million and which would result in 2 of the investors, Dato' Choo Beng Kai and Dato' Lim Soon Huat, becoming controlling Shareholders. The 2nd Proposed Placement is subject to, *inter alia*, approval of Shareholders at an EGM, the transfer of controlling interest, the Company having complied with the Notice of Compliance and resumption of trading of the Shares on the SGX-ST;
- (ii) The entry into a secured loan agreement with Joy Maker International Limited (which is 100% owned by Dato' Choo Beng Kai) for a loan quantum of up to S\$2.5 million at an interest rate of 18% per annum; and
 - (iii) That after consulting its solicitors and obtaining confirmations in relation to the claim from Saxo Bank, as at 30 June 2018, the Board is satisfied that the Company is able to reasonably assess its financial position and will make a formal application to the SGX-ST for resumption of trading in its Shares.
- (c) The Company had, on 15 October 2018, issued its annual report enclosing the audited financial statements of the Group for FY2017/2018 and held its AGM on 30 October 2018. Baker Tilly, the Company's auditors, had issued a disclaimer of opinion on the financial statements of the Group for FY2017/2018 on a similar basis as the Interim Audit for 12M2017.

In addition, Baker Tilly had issued a disclaimer of opinion on "Other Legal and Regulatory Requirements" as follows:

"In our opinion, in view of the significance of the matters referred in the Basis for Disclaimer of Opinion section of our report, we do not express an opinion on whether the accounting and other records required by the Act to be kept by the Company and by those subsidiary corporations incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act."

SECTION 1: INTRODUCTION

- (d) The Company had made 2 announcements dated 26 October 2018 in relation to, *inter alia*, the following:
- (i) The Company had, on 24 October 2018, through its solicitors, been served with a writ of summons in the High Court of Singapore for a claim filed by Saxo Bank; and
 - (ii) SGX-ST had, on 25 October 2018, notified the Company that its application made on 19 October 2018 for the trading resumption of its Shares is premature and rejected for reasons as set out in the announcement.
- (e) The Company had, on 5 November 2018, responded to SGX-ST's queries on the Proposed Disposal.

1.3 Investment Process Review

Pursuant to the agreed scope of our work for the Investment Process Review, we are to review and report on our findings on the Group's investment processes and internal controls, and to make any recommendations arising thereof. For the purpose of our Investment Process Review, 5 Selected Transactions were selected in consultation with the SGX RegCo based on the listing of investment projects provided by the Company as set out in Appendix B to this Report. Such listing of investment projects relates to investments in businesses or joint ventures which the Company had made as well as potential investments which the Company had considered but eventually abandoned over the last 5 years since January 2013.

In total, the Company had invested or attempted to invest in 7 projects over the last 5 years (from 2013 to 2017), of which 5 are the Selected Transactions covered in this Report. These projects were announced by the Company and/or the Company had made public disclosures of these projects during the relevant periods. In addition, the Company had evaluated at least 10 other proposals but did not proceed further. Hence, these proposed projects were not announced by the Company. Mr CY Wong had confirmed that the Company did not consider any investments since January 2018 to the Review Date.

A summary of the Selected Transactions and the reference section in this Report where the detailed review of each of the Selected Transactions is set out below:

| Project | Nature of Project | Date of first announcement | Amount invested (approximate) | Status as at the Review Date | Section reference in this Report |
|------------------------------------|---|--|-------------------------------|---|----------------------------------|
| Investments made by Company | | | | | |
| Extera Acquisition | Acquisition of 81.82% equity interest in Extera which in turn owns 90% equity interest in Sheng Rong which is involved in CNG filling stations in the PRC | 1 December 2013 | S\$17.1 million | Company decided to sell its CNG refilling station's operating assets, which was first disclosed in its 4Q2014 results announcement. | Section 5 |
| Artel Gold Exploration JV | Acquisition of a 50% equity interest in Artel which owns the concession and the licences for gold exploration in the Kyrgyz Republic | In the commentary section of the Company's results announcement for 1Q2015 | S\$0.8 million | Ongoing | Section 7 |

SECTION 1: INTRODUCTION

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| | | dated 15 May 2015 | | | |
| Microalgae JV | 70% equity interest in a JV company to cultivate microalgae using patented knowhow and technologies | 22 September 2015 | S\$6 million | Company decided to sell the project on an "as is where is" basis, which was first disclosed in the 1Q2017 results announcement on 9 May 2017; Company decided to terminate the Microalgae JV agreement with Primeforth and seek recovery of amount advanced to Primeforth as disclosed in the Interim Audit Report. | Section 8 |
| Investments considered but did not proceed to completion | | | | | |
| Merlin Diamonds Takeover Offer | Takeover offer for MED, a company listed on the Australian Securities Exchange and involved in diamond mining, conditional on, amongst others, minimum 90% acceptance level | 31 January 2013 | Incurred S\$1.18 million of expenses | The Company announced on 15 July 2013 that the takeover offer had lapsed following the close of the offer on 12 July 2013 as, among other things, the condition for acceptance level was not fulfilled. | Section 4 |
| Gaocheng JV | Joint venture through Extera with Aceford Limited and Mr Liang Gaocheng (梁高成) to set up a clean gasoline and diesel distribution business in the PRC | 27 February 2015 | minimal expenses incurred | Terminated on 14 March 2016. | Section 6 |

Our findings as detailed in Sections 4, 5, 6, 7 and 8 of this Report are based on our review of the Selected Transactions substantially completed as at the Review Date, being 31 August 2018.

For completeness, we have also included material updates on the Selected Transactions and the Company which had been disclosed by the Company after the Review Date and up to the Latest Practicable Date, being 9 November 2018 in the relevant sections of the Selected Transactions and in Appendix A to this Report. Of particular significance, is that the Company had disclosed in its announcement dated 8 October 2018 the proposed disposal of shares in certain subsidiaries to Mr CY Wong. Some of these subsidiaries are in relation to the Selected Transactions, namely the Extera Acquisition, the Artel Gold Exploration JV and the Microalgae JV.

- 1.4** For the purpose of our Investment Process Review, our main point of contact with the Company is Mr CY Wong, Chairman and CEO of the Company, being the key Management of the Company, as the 2 key executive officers, namely Mr Stanley Chu (Group Financial Controller and Company Secretary) and Ms Jenny Soh (General Manager for Corporate Affairs), who had assisted Mr CY Wong during the Selected Transactions, had resigned on 1 December 2017 and 2 January 2018 respectively.

SECTION 1: INTRODUCTION

Although the Company had since replaced Mr Stanley Chu with another executive officer on 1 December 2017, that executive officer is new to the Company and unfamiliar with the Selected Transactions.

Mr CY Wong had therefore assisted us in making available the relevant information as requested by us and had provided clarification on various matters during the process of our review of the Selected Transactions. During the period of our review, Mr CY Wong broke his forearm at the end of July 2018 while overseas and after surgery was on hospitalisation leave for about 5 weeks from 31 July 2018 to 3 September 2018, and a further 4 weeks of hospitalisation leave from 18 September 2018 to 14 October 2018. Discussions with Mr CY Wong resumed in November 2018.

While our review of the Selected Transactions was substantially completed on 31 August 2018 and some of our queries on certain Selected Transactions were clarified by Management during our various discussions with Management up till 11 September 2018, there were outstanding queries pending clarification from Management as at 11 September 2018. Our Report could not be completed on a timeline as we had originally planned as our queries on certain Selected Transactions were pending clarification from Management and arrangements for interviews with Directors and other relevant personnel were also outstanding.

Our work on the Report resumed on 31 October 2018 with the one-on-one interviews with some of the Independent Directors following a meeting with the Board on 30 October 2018. Discussions with Management on the outstanding queries resumed in the ensuing weeks up to the Latest Practicable Date on 9 November 2018.

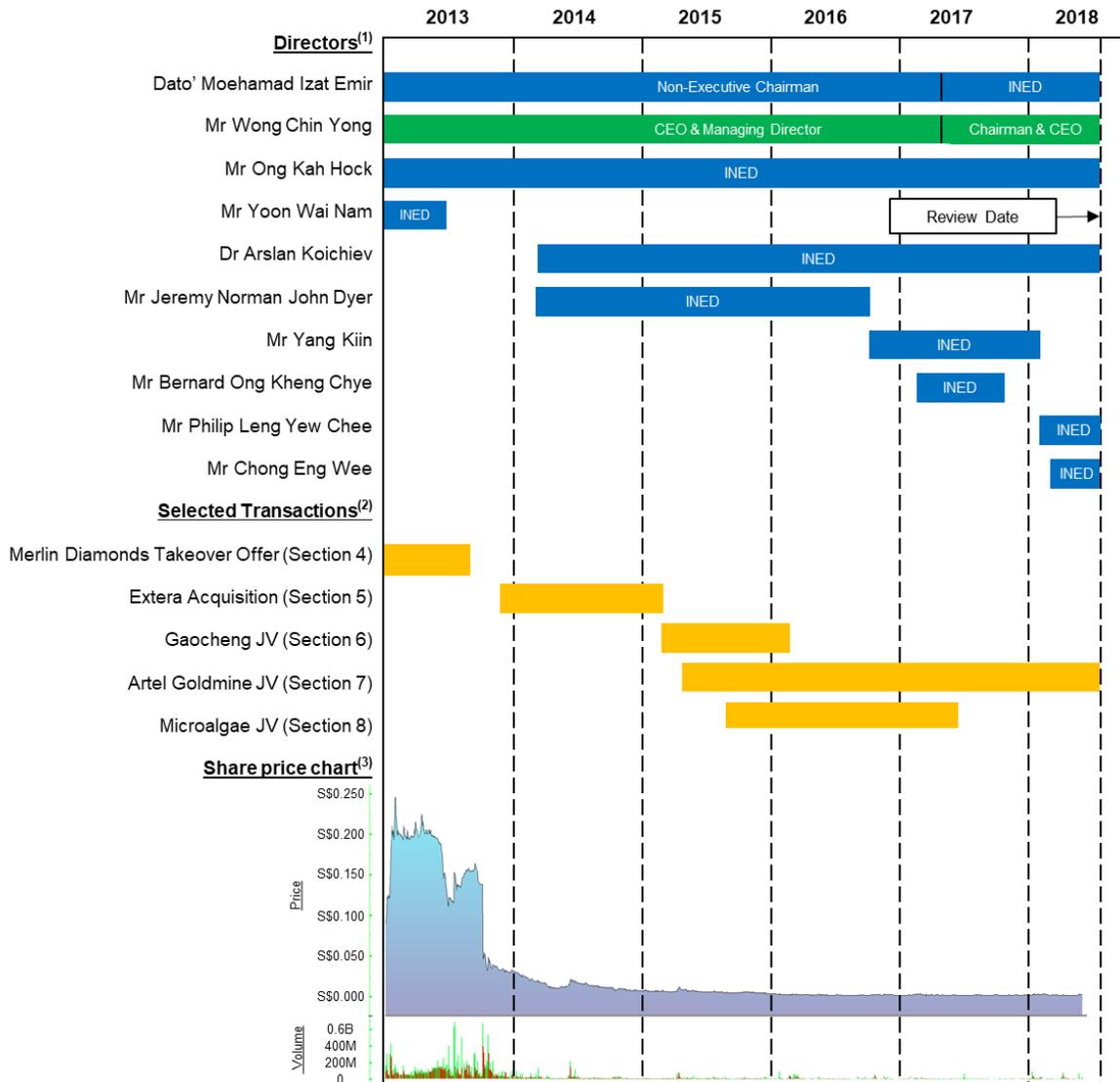
In the preparation of this Report, wherever appropriate and made available to us, besides obtaining clarifications from Management, we have also conducted interviews and held discussions with the Independent Directors and relevant personnel to assist us in our review of the Selected Transactions. Where findings, information, comments, inferences and conclusions from these persons have been included in this Report, wherever reasonably practicable, these persons have been given the opportunity to comment on the said findings, information, comments, inferences and conclusions. Our findings from these interviews and responses from the Company are also set out in each of the relevant sections in this Report.

As clarifications by the Directors and Management on the details of each of the Selected Transactions are also important to our understanding of the Selected Transactions, drafts of this Report were circulated to the Directors and Management for their comments prior to the finalisation of this Report.

- 1.5** During the last 5 years since 2013 and up to the Review Date, the Company had various changes of Directors who had overseen the Selected Transactions. The Company also has Independent Directors who have been with the Group for between 17 and 23 years. During this period, the Company's Share price had declined drastically from a peak of S\$0.245 on 30 January 2013 to the last transacted price of S\$0.002 prior to the trading halt and trading suspension on 4 June 2018.

For ease of reference and as an overview, we have set out below the timeline over the last 5 years since January 2013 and up to the Review Date showing the tenure of each of the Directors, the life span of each of the Selected Transactions and the Share price performance during this period.

SECTION 1: INTRODUCTION



Notes:

- (1) The profile of each of the Directors as extracted from the Company's annual reports is set out in Appendix C to this Report;
- (2) The time span of the Selected Transactions commenced from the date of announcement or public disclosure of these projects by the Company and deemed terminated when the Company announced its intention to exit or sell the projects/investments even though the Company may continue to record such investments in its balance sheet; and
- (3) The Share price chart of the Company over the last 5 years since 1 January 2013 and up to 1 June 2018, being the last trading day prior to the trading halt and trading suspension of the Shares on 4 June 2018, with markers on the time span of each of the Selected Transactions is set out in Appendix D to this Report.

SECTION 1: INTRODUCTION

- 1.6** This Report is prepared as required by SGX RegCo pursuant to the Notice of Compliance and for the purpose of the Investment Process Review and is addressed to the Board of Directors of the Company. As a term of our engagement, the Audit Committee of the Company or SGX RegCo may at their own discretion decide to publish certain portions or the whole of this Report. Notwithstanding the above, neither the Company, the Directors, any Shareholder nor any other party may reproduce, disseminate or quote this Report (or any part thereof) for any other purposes, at any time and in any manner, or use or rely on it for any other purposes without the prior written consent of Provenance Capital in each separate instance.

SECTION 2: TERMS OF REFERENCE

2. TERMS OF REFERENCE

Provenance Capital has been appointed as the Professional Firm pursuant to the Notice of Compliance issued by SGX RegCo to the Company to carry out the Investment Process Review.

We are not and were not involved or responsible, in any aspect, in the negotiations in relation to any of the investments made or considered by the Company, nor were we involved in the deliberations leading up to any decision on the part of the Directors relating to the investments or to obtain any approval from Shareholders for any of the investments or proposed investments, and we do not, by this Report, warrant the merits of any of the Company's investments.

We are not experts/specialists in the respective industries in which the Company had made the relevant investments. In addition, we will not be in a position to comment on the terms of such investments or whether the Company should have invested in any alternative transactions previously considered by the Company (if any) or that may otherwise be available to the Company currently or in the future, and we have not made such evaluation or comment. Such evaluation or comment, if any, remains the responsibility of the Directors and/or the Management although we may draw upon the views of the Directors and/or the Management or make such comments in respect thereof (to the extent deemed necessary and appropriate by us) in arriving at our findings and recommendations as set out in this Report.

In the course of our evaluation, we have held discussions with the Directors and Management, relevant professional advisers and personnel (where appropriate, practicable and accessible) and have examined and relied on publicly available information collated by us as well as information provided and representations made to us, both written and verbal, by the Directors, the Management and other relevant personnel (where applicable). While we have made reasonable enquiries where practicable in respect of such information or representations, we have not independently verified such information or representations, whether written or verbal, and accordingly cannot and do not make any representation or warranty, express or implied, in respect of, and do not accept any responsibility for the accuracy, completeness or adequacy of such information or representations.

The Directors have confirmed that, having made all reasonable enquiries and to the best of their respective knowledge and belief, information and representations as provided by the Directors and Management are true, complete and accurate and there is no other information or fact, the omission of which would cause any information or representation provided to us to be inaccurate, incomplete or misleading in any material aspect. They have also confirmed to us that, upon making all reasonable enquiries and to their best knowledge and belief, all material information available to them in connection with the Investment Process Review, the Company, the Group and/or the Selected Transactions have been disclosed to us, that such information is true, complete and accurate in all material respects and that there is no other information or fact, the omission of which would cause any information disclosed to us in relation to the Investment Process Review, the Company, the Group and/or the Selected Transactions stated in this Report to be inaccurate, incomplete or misleading in any material respect. The Directors have jointly and severally accepted full responsibility for such information described herein.

We have not independently verified and have assumed that all statements of fact, belief, opinion and intention made by the Directors in this Report have been reasonably made after due and careful enquiry. Whilst care has been exercised in reviewing the information on which we have relied on, we have not independently verified the information.

Save as disclosed, we would like to highlight that all information relating to the Company, the Group and the Selected Transactions, that we have relied upon in arriving at our findings or recommendation on the Company's investment processes, has been obtained from publicly available information and/or from the Directors and Management, relevant professional advisers and personnel. We have not independently assessed and do not warrant or accept any responsibility as

SECTION 2: TERMS OF REFERENCE

to whether the aforesaid information adequately represents a true and fair position of the financial, operational and business affairs of the Company, the Group and/or the Selected Transactions at any time or as at 31 August 2018, being the Review Date referred to in this Report. Where information has been extracted from websites, we have not sought the consent of the relevant owner, nor has the relevant owner provided their consent to the inclusion of such information in the context of this Report. No representations or warranties are made as to the truth, accuracy, or completeness of such information, and we assume no responsibility to update, revise or reaffirm our Report to reflect any updates or changes to any such information on the relevant websites.

Our findings and recommendations as set out in this Report is based on market, industry, regulatory and other conditions (if applicable) prevailing as at the Review Date and the information and representations provided to us as at the Review Date. We assume no responsibility to update, revise or reaffirm our Report in light of any subsequent development after the Review Date that may affect the information, our findings and recommendations contained herein.

The scope of our appointment does not require us to conduct a comprehensive independent review of the business, operations or financial condition of the Company, the Group, the Selected Transactions or to express, and we do not express, any view on the future growth prospects, value and earnings potential of the Company, the Group and/or the Selected Transactions. Such review or comment, if any, remains the responsibility of the Directors and the Management, although we may draw upon their views or make such comments in respect thereof (to the extent deemed necessary or appropriate by us) in arriving at our findings or recommendations as set out in this Report. We have not obtained from the Company and/or the Group any projection of the future performance including financial performance of the Company, the Group and/or the Selected Transactions, and we did not conduct discussions with the Directors and the Management on, and did not have access to, any business plan and financial projections of the Company, the Group and/or the Selected Transactions. In addition, we are not expressing any view as to the prices at which the Shares may trade or the future value, financial performance or condition of the Company and/or the Group, upon or after completion of the Investment Process Review.

We have not made an independent evaluation or appraisal of the assets and liabilities of the Company, the Group or the Selected Transactions (including without limitation, investment properties). As such, we will be relying on the disclosures and representations made by the Company on the value of the assets and liabilities, profitability of the Company, the Group and the Selected Transactions. We have not been furnished with any such evaluation or appraisal.

As a term of our engagement, the Audit Committee or SGX RegCo may at their discretion decide to publish certain portions or the whole of the Report on the SGXNET. Notwithstanding the above, neither the Company, the Directors, any Shareholder nor any other party may reproduce, disseminate or quote this Report (or any part thereof) for any other purposes, at any time and in any manner, or use or rely on it for any other purposes without the prior written consent of Provenance Capital in each separate instance.

SECTION 3: SCOPE OF THE INVESTMENT PROCESS REVIEW

3. SCOPE OF THE INVESTMENT PROCESS REVIEW

3.1 We noted that the Group had been active in investments in marketable securities in the earlier years prior to 2013 and in the 5 years thereafter, the Group had been active in investments in businesses and joint ventures. These investments in marketable securities and businesses and joint ventures had resulted in the Group incurring significant impairment losses and consequently losses over these years.

The focus of this Report is on the review of the Group's existing processes and internal controls relating to its acquisition or investments in businesses and joint ventures, in particular, the Selected Transactions. Our scope of the Investment Process Review includes, *inter alia*, the following:

- (a) Whether the Company has an existing investment process and internal controls (including but not limited to, evaluation, approval, agreements, payment terms, approval of payments, recording, reporting of and follow up of proposed acquisitions/investments (including advances and loans)) which are in line with relevant regulatory requirements, including the Listing Manual and CG Code, and whether they are sufficiently robust based on best practices to ensure proper and good corporate governance;
- (b) How the investment procedures for the Selected Transactions compare with the Company's existing investment processes and against best practices set out in the CG Code, ABS Guidelines and requirements under the Listing Manual;
- (c) The extent of the due diligence, review and approval process undertaken by the Directors and Management for each of the Selected Transactions;
- (d) Highlight of any non-compliance, significant or unusual deviations with requirements or guidelines under the constitution of the Company, CG Code, ABS Guidelines and Listing Manual, and any conflict of interest;
- (e) Whether members of the Board had adhered to their legal obligations and Company's policies and procedures; and
- (f) Whether the failures or impairment of any of the investments could have been avoided through the improvements in internal controls or processes and where there have been failures or weaknesses noted in relation to the Selected Transactions, to quantify the impact on the Company's financials if they have not already been impaired.

3.2 In addition to complying with the rules in the Listing Manual, the Company is encouraged to comply with the guidelines set out in the CG Code and the ABS Guidelines.

The ABS Guidelines which are published by the Association of Banks in Singapore are recommended guidelines on due diligence procedures required of issue managers and sponsors in connection with the offering of securities of certain companies seeking a listing on the SGX-ST and/or a reverse takeover of an existing SGX-ST listed company.

Notwithstanding the above, the general principles and recommended procedures of the ABS Guidelines provide best practices that Management and Directors of the Company can adopt and adapt to different circumstances when carrying out due diligence work on its investments in businesses and joint ventures.

The general principles of the due diligence guidelines cover the following 4 areas:

- (a) a structured and documented process;
- (b) checks and verifications;

SECTION 3: SCOPE OF THE INVESTMENT PROCESS REVIEW

- (c) overall control of the due diligence process; and
- (d) the appointment of and reliance on advisers and experts.

The recommended procedures set out specific inquiries that cover 3 broad aspects of due diligence:

- (i) management, directors and controlling shareholders of the company;
- (ii) business of the company; and
- (iii) opinion of an expert, including audited financial statements and/or valuation report.

3.3 Following from the above, we have carried out a review of each of the Selected Transactions which encompasses the following:

- (a) Overview of the Selected Transaction which set outs, *inter alia*, publicly available information and disclosures by the Company on the Selected Transaction;
- (b) Review of the Selected Transaction which involves our review of the Company's investment procedures, deliberations by the Directors and Management, and our independent findings and research, where applicable;
- (c) Our queries to the Company following our review and responses from Management;
- (d) Our interview notes with the Independent Directors, former Directors of the Company and other relevant persons; and
- (e) Our assessment of the Company's investment processes and recommendations for improvement.

Detailed write-ups on each of the Selected Transactions are set out in Sections 4, 5, 6, 7 and 8 of this Report as referenced in the table below:

| Selected Transactions | Time span of the Selected Transactions ⁽¹⁾ | Section reference in this Report |
|--------------------------------|---|----------------------------------|
| Merlin Diamonds Takeover Offer | 30 January 2013 to 12 July 2013 | Section 4 |
| Extera Acquisition | 1 December 2013 to 27 February 2015 | Section 5 |
| Gaocheng JV | 27 February 2015 to 14 March 2016 | Section 6 |
| Artel Gold Exploration JV | 15 April 2015, ongoing as at Review Date | Section 7 |
| Microalgae JV | 22 September 2015 to 9 May 2017 | Section 8 |

Note:

- (1) The time span of the Selected Transactions commenced from the date of announcement or public disclosure of these projects by the Company and deemed terminated when the Company announced its intention to exit or sell the project/investments even though the Company may continue to record such investments in its balance sheet.

It should be noted that the detailed write-ups set out above should be read in conjunction with and in the context of the entirety of this Report.

SECTION 4: MERLIN DIAMONDS TAKEOVER OFFER

4. MERLIN DIAMONDS TAKEOVER OFFER

4.1 Overview

- 4.1.1 On 31 January 2013, the Company announced that it had, on 30 January 2013, entered into a Bid Implementation Deed ("**Implementation Deed**") with MED whereby the Company had agreed to make a takeover bid ("**Takeover Offer**") for up to 212,147,063 fully paid ordinary shares of MED ("**Merlin Shares**"), constituting 100% of the issued and paid-up share capital of MED. MED is a company listed on the Australian Securities Exchange ("**ASX**"). The Takeover Offer is subject to, among others, a minimum acceptance level of at least 90% of the aggregate Merlin Shares, unless waived by the Company. Mr CY Wong explained that the intention of the Takeover Offer was for the Company to own 100% of MED and to delist MED from ASX.

The Takeover Offer is an all scrip acquisition, where the Company will issue 1.67 Shares for every Merlin Share at the bid price ("**Bid Price**") of A\$0.28 each (S\$0.358 at an exchange rate of A\$1.00 to S\$1.28). The aggregate consideration ("**Consideration**") for the Merlin Shares is up to approximately A\$59,401,178 (approximately S\$76,033,508 at an exchange rate of A\$1.00 to S\$1.28).

As a reference and in comparison with the size of the Takeover Offer of MED of S\$76 million, the market capitalisation of the Company was then S\$713.0 million based on the Company's outstanding number of 2,910,182,495 Shares and the last transacted Share price of S\$0.245 on 30 January 2013.

The Consideration for the Takeover Offer was to be satisfied by way of an allotment and issue of up to approximately 354,468,566 new Shares ("**Consideration Shares**") at an issue price of S\$0.2145 per Share ("**Issue Price**"), based on the volume weighted average Share price over 7 consecutive trading days on the SGX-ST prior to and including 30 January 2013, being the date of entry into the Implementation Deed. Pursuant to our clarification with Mr CY Wong, as the Company's general mandate for share issuance for the year had been utilised in a placement exercise in August 2012, the issuance of the Consideration Shares was subject to Shareholders' approval.

No valuation report was procured for the Merlin Shares. In determining the Bid Price, the Company had relied on the closing price of Merlin Shares of A\$0.205 on the ASX on 30 January 2013 and the NAV of each Merlin Share of A\$0.312 as at 30 June 2012, being the latest financial year end of MED prior to the Implementation Deed. The Bid Price represents a premium of approximately 36.59% above the closing price of each Merlin Share on 30 January 2013 and a discount of approximately 10.26% to the NAV of each Merlin Shares of A\$0.312 as at 30 June 2012. The Company was of the view that the Bid Price of A\$0.28 would be sufficient to sway existing shareholders of MED ("**MED Shareholders**") to agree to the Takeover Offer.

The Takeover Offer for up to 212,147,063 Merlin Shares took into account (a) the issued share capital of MED consisting of 150,783,427 Merlin Shares as at 30 January 2013; (b) the placement exercise announced by MED on 14 December 2012 to place out 43,000,000 new Merlin Shares at A\$0.21 each ("**MED Placement**") to 4 international investors ("**Placees**") (of which 18,000,000 Merlin Shares had been issued in January 2013 and the remaining 25,000,000 Merlin Shares had yet to be issued as at the date of the Implementation Deed but subsequently issued on 5 March 2013); and (c) the potential issuance of 36,363,636 new Merlin Shares arising from an agreement between MED and an investor ("**CN Holder**") on 14 December 2012 to issue A\$8 million convertible notes to the CN Holder which were convertible into new Merlin Shares at A\$0.22 each ("**MED Convertible Notes**"). The MED Convertible Notes had yet to be issued as at the date of the Implementation Deed. The Takeover Offer was also conditional upon all the MED Convertible Notes being converted into the Merlin Shares.

At the time of the announcement of the Takeover Offer on 31 January 2013, Mr Gutnick was the Executive Chairman, Managing Director and CEO of MED, and deemed as the single largest shareholder of MED via the Merlin Shares held by and held on trust for Legend International Holdings

SECTION 4: MERLIN DIAMONDS TAKEOVER OFFER

Inc. (“**Legend**”), then a company traded on the over-the-counter bulletin board (“**OTCBB**”) in the USA. Mr Gutnick, through his private companies, held an interest of more than 20% in Legend. MED had announced that its directors unanimously recommended the transaction to its MED Shareholders, in the absence of a superior proposal.

We noted that on 8 July 2016, Mr Gutnick resigned as a director of MED and according to a newspaper article in The Australian dated 12 July 2016, Mr Gutnick had declared himself bankrupt. Based on our public searches, Legend had, since 6 October 2017, been removed from OTCBB. Subsequently, on 8 June 2018, MED announced that it had appointed Mr Gutnick as the Executive Chairman of MED.

No MED Shareholder had given any undertaking to the Company to accept the Takeover Offer.

- 4.1.2** On 26 March 2013, the Company lodged the bidder’s statement (“**Bidder’s Statement**”) with the Australian Securities & Investment Commission and despatched the Bidder’s Statement to MED Shareholders on 28 March 2013. The Takeover Offer was opened for acceptances from 28 March 2013 until 28 June 2013 unless extended by the Company. On 20 June 2013, the Takeover Offer was extended by 2 weeks to 12 July 2013.

Mr CY Wong, as the key Management of the Company, had explained that the Implementation Deed was not the official launch of the Takeover Offer as it was an agreement between the bidder and the target company to set out the key terms and conditions on which the bidder agreed to bid for the target company. The Takeover Offer only commenced with the lodgement of the Bidder’s Statement on 28 March 2013.

- 4.1.3** The Company had assessed that the Takeover Offer was only a discloseable transaction for the purpose of Chapter 10 of the Listing Manual based on the respective tests under Rule 10 of the Listing Manual. Notwithstanding this, following the meeting with the SGX-ST on 22 February 2013, the Company had taken the view that Shareholders’ approval should be sought for the Takeover Offer, together with the proposed allotment and issuance of the Consideration Shares.

On 8 May 2013, the SGX-ST granted its approval in-principle for the listing and quotation of the Consideration Shares subject to conditions.

The circular (“**Circular**”) dated 23 May 2013 in relation to the Takeover Offer was despatched to Shareholders and, on 10 June 2013, the Company held the EGM to seek Shareholders’ approval for the Takeover Offer and the proposed allotment and issuance of the Consideration Shares. The ordinary resolutions for the above propositions were passed with 78.89% voting for the resolutions, 2.64% against and 18.47% spoilt/abstained votes.

- 4.1.4** On 20 June 2013, the Company announced that the Takeover Offer was extended by 2 weeks to 12 July 2013, following MED’s announcement on 7 June 2013 that it had issued the MED Convertible Notes. The extension of the offer period was to enable the Takeover Offer to be extended to any new Merlin Shares which may be issued on conversion of the MED Convertible Notes, as the conversion of the MED Convertible Notes was a condition to the Takeover Offer.
- 4.1.5** On 15 July 2013, the Company announced that as at the date of the announcement (after the close of Takeover Offer), total acceptances received by the Company was 72.73% and the MED Convertible Notes remained unconverted.

The Company had considered (a) the implications of having to keep MED’s listing on the ASX; (b) the potential dilutive effect of the MED Convertible Notes on the Merlin Shares that the Company would have acquired if the Takeover Offer acceptance condition on the MED Convertible Notes was waived; and (c) the need to increase the Bid Price if the Company elected to further extend the closing date for the Takeover Offer.

SECTION 4: MERLIN DIAMONDS TAKEOVER OFFER

Following the above, the Board decided not to waive the acceptance conditions to the Takeover Offer and had allowed the Takeover Offer to lapse. As a result of the lapse of the Takeover Offer, the Company no longer had any interest in any Merlin Shares.

4.1.6 The proposed investment in MED, which commenced from around January 2013 and ended in July 2013 when the Takeover Offer lapsed, spanned approximately 6 months.

Source:

- (1) Company's 109th Board Meeting Minutes dated 30th January 2013;
- (2) Company's announcements dated 31 January 2013, 26 March 2013, 2 April 2013, 10 June 2013, 20 June 2013 and 15 July 2013;
- (3) Circular to Shareholders dated 23 May 2013;
- (4) MED's announcements dated 14 December 2012, 2 January 2013, 25 January 2013, 31 January 2013, 5 March 2013, 21 March 2013, 22 April 2013, 24 May 2013, 7 June 2013, 8 July 2016 and 8 June 2018;
- (5) MED's annual reports for FY2012 and FY2013;
- (6) Gretchen Friemann, & Ben Butler. (2016, July 12). Joseph Gutnick files for bankruptcy. The Australian. Retrieved from <https://www.theaustralian.com.au/business/joseph-gutnick-files-for-bankruptcy/news-story/8f8249fff36429d88827ea0ea282b75a>;
- (7) Bloomberg. (n.d.). Bloomberg. Retrieved from Bloomberg L.P. Web site: <https://www.bloomberg.com/research/stocks/private/snapshot.asp?privcapId=7667232>; and
- (8) Nasdaq. (n.d.). The Nasdaq Stock Market. Retrieved from The Nasdaq Stock Market Web site: <https://www.nasdaq.com/g00/markets/spos/company/legend-international-holdings-inc-82849-55602?i10c.encReferrer=aHR0cHM6Ly93d3cubmFzZGFxLmNvbS9nMDAvbWFya2V0cy9zcG9zL2NvbXBhbnkvbGVnZW5kLWludGVybmF0aW9uYWwtaG9sZGluZ3MtaW5jLTgyODQ5LTU1NjAyP2kxMGMuZW5jUmVmZXJy>

SECTION 4: MERLIN DIAMONDS TAKEOVER OFFER

4.2 Review of the Merlin Diamonds Takeover Offer

4.2.1 On 18 January 2013, in response to the SGX-ST's queries on the substantial increase in its Share price, the Company had stated that it was not aware of any information not previously announced concerning the Company, its subsidiaries or associated companies which might explain for the trading activity and increase in its Share price and confirmed its compliance with the Rules, in particular, Rule 703 of the Listing Manual. On 23 January 2013, the Company further reiterated the above in its announcement, and also stated that in the ordinary course of its business, it was in preliminary and non-binding discussions with various parties concerning several business proposals and these discussions were preliminary and non-binding in nature and nothing fit for announcement had materialised.

4.2.2 Based on the minutes of the Board meeting on 30 January 2013, we noted that Mr CY Wong, as the key Management of the Company, was introduced to Mr Gutnick by a Shareholder, Mr Nelson Fernandez, sometime in November 2012.

On 21 January 2013, Mr CY Wong corresponded with Mr Gutnick on the proposed investment in MED. Terms of the Takeover Offer were negotiated and finalised by 29 January 2013 by Mr CY Wong (from the Company), and Mr Gutnick and Mr Craig Michaels (executive directors of MED). The Board meeting of the Company was called at short notice to discuss and approve the Takeover Offer on 30 January 2013. The Board meeting commenced from 2 pm and ended at 5 pm. Subsequently, the Company announced the Takeover Offer before trading hours on 31 January 2013.

Mr Gutnick had joined the Board meeting to present MED, its diamond properties and the project. Mr Gutnick confirmed that he and his board at MED will support the Company's Takeover Offer for MED.

The Board then proceeded to approve the Takeover Offer and authorised Mr CY Wong to do all things necessary in relation to the Takeover Offer.

Pursuant to our clarification with Management, Mr CY Wong explained that he was introduced to Mr Gutnick in November 2012, during an informal Board meeting where the other Board members were also present, and the potential investment opportunity in MED was then discussed. Mr Gutnick expressed an interest in having a Singapore platform for MED as it would be a more unique listing platform as compared to ASX, which had too many listed mining companies and trading liquidity on these counters were weak. If MED was part of the Group, the Group would be the first diamond mining company listed on SGX-ST and in Asia. In addition, Singapore has a diamond exchange.

Mr CY Wong also explained that he was interested in the investment in MED because MED's mining assets had a history of exploration and development by major mining companies like Rio Tinto Group and was near production. The possibility of being the first diamond mining company listed on SGX-ST and Asia was also appealing. Mr CY Wong was considering using an all scrip acquisition as the Share price of the Company was then on the uptrend.

Mr CY Wong had explained that during the ensuing 2 months after meeting Mr Gutnick, the Company had made various analyses and research into the diamond markets and industry, other listed diamond mining companies and MED. Mr CY Wong further explained that the Company was also told by Mr Gutnick that it cannot have access to information on MED other than publicly disclosed and available information as MED is a publicly listed company on the ASX. Nevertheless, based on publicly available information and Mr CY Wong's previous experience in the mining industry, the Company was of the view that it had a good background knowledge of the diamond markets and industry, and about MED.

The Board was also convinced of the merits of the Takeover Offer because the Company will be issuing new Shares for the Takeover Offer and its Share price had risen substantially. MED was

SECTION 4: MERLIN DIAMONDS TAKEOVER OFFER

established since the 90's with several changes in controlling shareholders. MED had raised approximately A\$9 million from the MED Placement and a further A\$8 million from MED Convertible Notes. This was one of the reasons the Company had agreed to the Takeover Offer as MED did not require funding from the Company.

Mr CY Wong explained that the Company had engaged Holding Redlich, the Australian legal counsel, to carry out due diligence on MED.

Mr Gutnick was deemed the single largest shareholder of MED through Legend. Pursuant to the clarification with Mr CY Wong, the Company had considered but did not obtain an undertaking from Legend for the Takeover Offer as it would have been difficult and cumbersome. He explained that Holding Redlich had consulted the USA lawyers, Carter Ledyard & Milburn LLP, who had advised that if Legend had given an undertaking to tender their Merlin Shares in exchange for the Company's Shares, the Company would be deemed to be distributing its shares in the USA, as Legend, being a USA incorporated corporation, would have to comply with the securities laws in the USA.

The Board meeting was called at short notice on 30 January 2013 as the Share price had moved very quickly during that period and Mr CY Wong had wanted to finalise and announce the terms of the Takeover Offer and the issue price of the Consideration Shares. The discussion during the Board meeting was mainly focused on understanding the processes and procedures of the Takeover Offer in Australia as Mr CY Wong explained that the Board were already apprised and convinced of the merits of the Takeover Offer.

For the entire duration of the Merlin Diamonds Takeover Offer from January to July 2013, the Board had comprised the following Directors:

| Name | Position on the Board | Remarks |
|---------------------|---|---|
| (1) Mr CY Wong | Managing Director & CEO | Member of AC from 24 December 2009 until 27 June 2014 |
| (2) Dato' Izat | Chairman and Independent Non-Executive Director | |
| (3) Mr Ong Kah Hock | Independent Non-Executive Director | Chairman of AC since 1 September 2011 |
| (4) Mr Yoon | Independent Non-Executive Director | Member of AC from 1 September 2011 until 30 May 2013, until his resignation as director with effect from 31 May 2013. |

We observed that Dato' Izat and Mr Ong Kah Hock have been with the Company for 23 years and 17 years respectively up to the Review Date, which are beyond the recommended 9 years' tenure for independent directors under CG Code 2012. We also observed that Mr CY Wong, being an executive director, was a member of the AC. In addition, after Mr Yoon resigned as Director of the Company, the AC comprised only 2 members, including Mr CY Wong. Please see further details in Section 4.2.7 below.

4.2.3 On 20 February 2013, the Board resolved that the due diligence and verification planning memorandum for the takeover be adopted, and approved the appointment of Mr CY Wong, Ms Jenny Soh and Mr Stanley Chu as members of the due diligence committee in relation to the Bidder's Statement.

4.2.4 We observed that Legend had, in an announcement by MED on 21 January 2013, entered into a contract to sell 24 million Merlin Shares at A\$0.21 each which would reduce Legend's shareholding interest in MED from 42.2% to 25.3%. This was known to Mr CY Wong before the proposed investment in MED.

SECTION 4: MERLIN DIAMONDS TAKEOVER OFFER

Additionally, MED announced on 13 March 2013, that Legend entered into another contract to sell 35 million Merlin Shares at A\$0.22 each which would further reduce Legend's shareholding interest in MED. The above contracts were completed between 20 and 26 March 2013. Legend ceased to be a substantial shareholder of MED on 26 March 2013 as it held less than 1% shareholding interest in MED.

We observed that Legend did not give any undertaking to accept the Takeover Offer and instead continued to dispose of the Merlin Shares in off-market transactions, even though Mr Gutnick, as a director of MED, had, together with the other directors of MED, supported the Takeover Offer.

- 4.2.5** During the period from 5 February 2013 to 16 April 2013, Mr Gutnick had filed several Form 3 to declare his deemed interest in the Shares, in particular, the 300 million Shares which Mr Gutnick (through Jollyboat Management Ltd ("**Jollyboat**")) was deemed to have an interest in, through 3 sale and purchase agreements. Mr Gutnick owned 100% shareholding interest of Jollyboat. By 16 April 2013, Mr Gutnick was deemed to have an interest in 302,220,000 Shares, representing 10.39% shareholding interest in the Company, according to his Form 3.

However, in the preparation of the Company's annual report for FY2012 and disclosure of the top 20 shareholders of the Company as at 1 April 2013, the Company's share register and CDP shareholders' listing did not show Mr Gutnick or Jollyboat's names on the list. As a result, Mr Gutnick and Jollyboat's names did not appear as the top 20 Shareholders in the Company's annual report for FY2012 but the Company had disclosed them as Substantial Shareholders.

Based on the disclosure in the Company's annual report, as at 1 April 2013, Mr Gutnick had a direct interest of 1,220,000 Shares and deemed interest of 300,000,000 Shares through Jollyboat, totalling 301,220,000 Shares and representing 10.35% shareholding interest in the Company.

According to Mr CY Wong, the Company had then enquired with the Company's share registrar, Intertrust Singapore Corporate Services Pte. Ltd. ("**Intertrust**"), the CDP and nominee companies but they showed no evidence of Mr Gutnick or Jollyboat owning the 300,000,000 Shares. Intertrust had verbally advised that the Company's responsibility, pursuant to the Monetary Authority of Singapore letter of 8 October 2012 to all SGX-listed companies and applicable sections of the SFA was to report substantial shareholders/shareholdings as notified to the Company by the Form 3. The disclosure of substantial shareholding was based on the Register of Substantial Shareholders maintained by the Company's share registrar. There was no update from Mr Gutnick on his interests in the Shares since 16 April 2013.

We noted that according to a newspaper article in The Australian dated 12 July 2016, Mr Gutnick had declared himself bankrupt.

- 4.2.6** We observed that among the top 20 shareholders of the Company listed in its 2012 annual report as at 1 April 2013, **42.58%** of the shareholding interests in the Company were held by persons/entities that were purportedly linked to or were known to be associates of [X], based on information set out in The Edge Article.

The Company provided further information on the shareholding interests of these persons/entities as at 31 January 2013 to show that the aggregate shareholdings of persons/entities linked to [X] were much lower at the time of the announcement of the Implementation Deed in relation to the Takeover Offer.

SECTION 4: MERLIN DIAMONDS TAKEOVER OFFER

The details of the shareholdings of these persons/entities as at 31 January 2013 and 1 April 2013 are set out in the table below:

| | | No. of Shares | Percentage shareholding in the Company as at 31 January 2013 | No. of Shares | Percentage shareholding in the Company as at 1 April 2013 |
|------|---------------------------------|--------------------|--|----------------------|--|
| (1) | [> Entity A] ^(a) | 252,282,800 | 8.67% | 252,282,800 | 8.66% |
| (2) | [> Entity B] ^(b) | - | - | 200,000,000 | 6.87% |
| (3) | [> Individual C] | 112,105,000 | 3.85% | 112,105,000 | 3.85% |
| (4) | [> Individual D] | 100,000,000 | 3.44% | 100,000,000 | 3.44% |
| (5) | [> Individual E] | - | - | 100,000,000 | 3.44% |
| (6) | [> Entity F] | - | - | 100,000,000 | 3.44% |
| (7) | Nelson Fernandez ^(d) | - | - | 100,000,000 | 3.44% |
| (8) | [> Individual G] | 73,124,000 | 2.51% | 73,124,000 | 2.51% |
| (9) | [> Individual H] | 55,208,000 | 1.90% | 55,208,000 | 1.90% |
| (10) | [> Individual I] | 40,532,110 | 1.39% | 40,532,110 | 1.39% |
| (11) | [> Entity J] ^(c) | 38,550,000 | 1.32% | 38,550,000 | 1.32% |
| (12) | [> Individual K] | 33,616,000 | 1.16% | 33,616,000 | 1.16% |
| (13) | [> Entity L] | - | - | 33,500,000 | 1.15% |
| | Total | 705,417,910 | 24.24% | 1,238,917,910 | 42.57% |

Notes:

- (a) [> Entity A] was a wholly-owned subsidiary of [> Entity M], a company listed on the SGX-ST;
- (b) [> Entity B] was a wholly-owned subsidiary of [> Entity N], a company listed on the SGX-ST;
- (c) [> Entity J] was a wholly-owned subsidiary of [> Entity N], a company listed on the SGX-ST; and
- (d) Mr Nelson Fernandez introduced Mr Gutnick to Mr CY Wong as set out in Section 4.2.2 above.

We observed that Legend's sale of 24 million Merlin Shares (representing 13.65% of MED's issued share capital based on 175,783,427 Merlin Shares prior to the conversion of the MED Convertible Notes) was to [> Entity O] (executed by [> Individual H] as director) and sale of 35 million Merlin Shares (19.91%) was to [> Individual C] and [> Individual G]. As mentioned above, these persons (collectively defined as "**Purchasers**") were purportedly known to be associates of [> Individual X], based on information set out in The Edge Article.

In addition, the Placees of the MED Placement totalling 43 million new Merlin Shares were (i) [> Individual P] (9 million Merlin Shares representing 5.12% shareholding interest of MED); (ii) [> Individual Q] (9 million Merlin Shares representing 5.12% shareholding interest of MED); (iii) [> Individual I] (21.6 million Merlin Shares representing 12.29% shareholding interest of MED); and (iv) [> Entity R] (3.4 million Merlin Shares representing 1.93% shareholding interest of MED). [> Individual P], [> Individual I] and [> Entity R]* were purportedly known to be associates of [> Individual X], based on information set out in The Edge Article. (*We have considered [> Entity R] to be an associate of [> Individual X] as its director, [> Individual S], was purportedly known to be an associate of [> Individual X], based on information set out in The Edge Article.)

In total, the Purchasers and Placees owned 58.03% of MED's issued share capital prior to the conversion of the MED Convertible Notes.

We also observed that the CN Holder of the MED Convertible Notes was [> Entity R] and the MED Convertible Notes agreement was executed by [> Individual S] as director of [> Entity R]. [>

SECTION 4: MERLIN DIAMONDS TAKEOVER OFFER

Individual S] was the Executive Chairman of [X Entity M] and a Director of [X Entity A]. [X Individual S] and [X Entity M] were also purportedly known to be associates of [X Individual X], based on information set out in The Edge Article. The MED Convertible Notes were subsequently converted on 17 September 2013, representing 17.14% of MED's enlarged issued share capital. Together, the shareholding interests held by the Purchasers, Placees and CN Holder, amounted to **65.22%** of the enlarged share capital of MED.

Mr CY Wong clarified that he either did not know some of these purported associates of [X Individual X], or was not in close contact with them and did not discuss Company's matters with any of them. Mr CY Wong said that he was not aware of the common shareholders of the Company and MED, the Placees, Purchasers and CN Holder.

- 4.2.7** On 8 May 2013, Mr Yoon gave notice to Mr CY Wong of his resignation as Independent Director of the Company with immediate effect, due to his work commitment as an independent director of another SGX-ST listed company. However, upon the request from the Board, Mr Yoon had agreed to delay his resignation till 31 May 2013 in view of the on-going matters in relation to the Takeover Offer.

After Mr Yoon's resignation, the Board comprised the remaining 3 directors, namely Mr CY Wong, Dato' Izat and Mr Ong Kah Hock, and the AC then comprised only 2 directors, namely Mr CY Wong and Mr Ong Kah Hock (as AC Chairman).

In response to the queries from the SGX-ST, the Company had explained in its SGXNET announcement dated 25 June 2014 that Dato' Izat had sat and participated in all the AC meetings during the year (*even though he was not designated as a member of the AC*), and the AC was not officially re-constituted since 31 May 2013 when Mr Yoon resigned. Though the Company was not in full compliance with Guideline 12.1 of CG Code 2012 that "all of the members of the AC should be non-executive directors", the Company was of the opinion that the independence, objectivity and integrity of the AC had been adequately safeguarded.

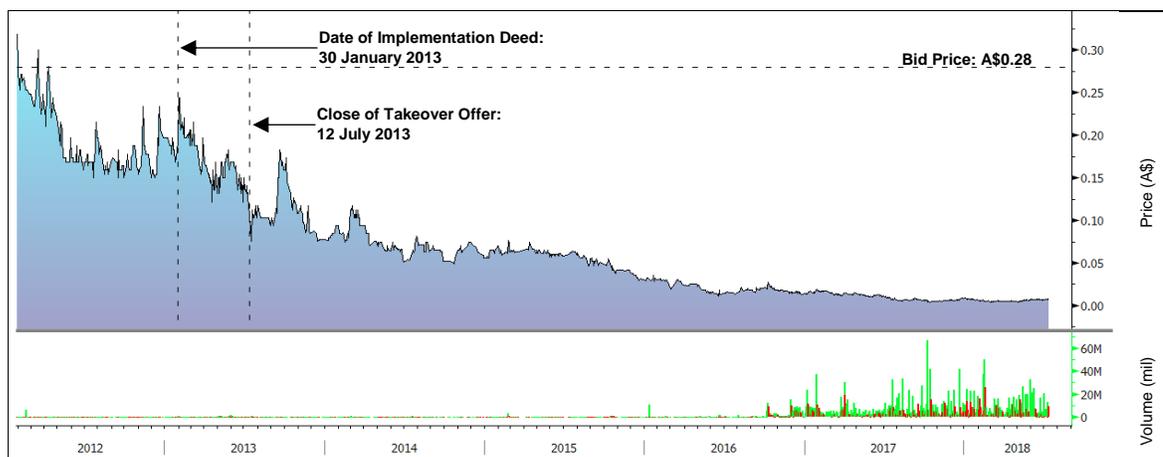
The Company is of the view that the above non-compliance occurred when the relevant guideline of CG Code 2012 had not been effected yet.

We have highlighted to the Company that the above CG Code guideline that "all of the members of the AC should be non-executive directors" has been in place since the Code was first introduced in 2001.

- 4.2.8** We observed that the Circular had included, *inter alia*, rationale for the Takeover Offer, disclosures on information on MED, the JORC report and reason for not commissioning an independent technical report. The Company had appointed professionals for the Takeover Offer, namely Robert Wang & Woo LLP as its Singapore lawyers and Holding Redlich as its Australian lawyers.
- 4.2.9** We observed that, overall, the Merlin Share price had declined since the close of the Takeover Offer on 12 July 2013. Set out below is the share price performance and trading volume chart of Merlin Shares on the ASX for the last 1-year period prior to the announcement of the Implementation Deed and up to the 5-year period after the close of the Takeover Offer.

SECTION 4: MERLIN DIAMONDS TAKEOVER OFFER

Price movement and trading volume of the Merlin Shares 1 year before the announcement of the Implementation Deed and 5 years after the close of the Takeover Offer



Source: Bloomberg L.P., based on the daily last transacted prices of the Merlin Shares for the last 1-year period prior to the announcement of the Implementation Deed and up to the 5-year period after the close of the Takeover Offer.

4.2.10 We observed that the Share price of the Company had trended upwards over the last one year, especially in the last one month, prior to the announcement of the Implementation Deed when Share prices had moved significantly from S\$0.09 on 2 January 2013 to S\$0.245 on 30 January 2013. Share price appeared to be supported by the Issue Price of S\$0.2145 per Share following the announcement until early June 2013 when the Share price started to decline significantly. By early October 2013, around the time of the “penny stock crash”⁽¹⁾ on the SGX-ST, the Share price had plunged and continued to trade at below S\$0.05 in the one year period after the close of the Takeover Offer.

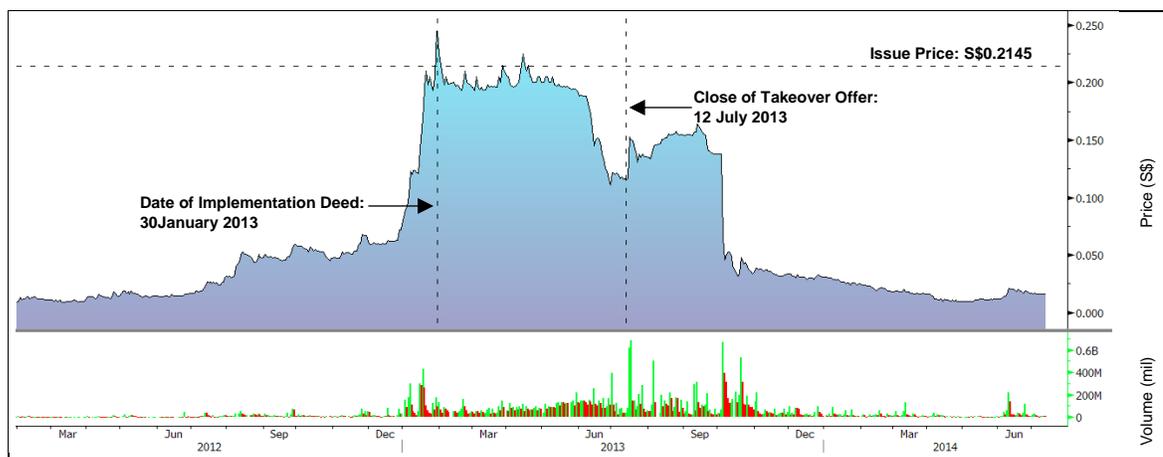
Note:

(1) “penny stock crash” refers to stock price crash of the shares of Blumont Group Ltd., Asiasons Capital Limited and Liongold Corp Ltd, leading to the temporary trading suspension of these counters on the SGX-ST on 4 October 2013.

Set out below is the share price performance and trading volume chart of the Shares on the SGX-ST for the last 1-year period prior to the announcement of the Implementation Deed and up to the 1-year period after the close of the Takeover Offer.

SECTION 4: MERLIN DIAMONDS TAKEOVER OFFER

Price movement and trading volume of the Shares of the Company 1 year prior to the announcement of the Implementation Deed and 1 year after the close of the Takeover Offer



Source: Bloomberg L.P., based on the daily last transacted prices of the Shares of the Company for the last 1-year period prior to the announcement of the Implementation Deed and up to the 1-year period after the close of the Takeover Offer.

4.2.11 The Company had incurred expenses of S\$1.18 million in relation to the Takeover Offer. These relate mainly to fees paid to professionals (Australia and Singapore legal advisers, auditors, PR firm), ASX related entities and printing expenses.

Source:

- (1) The Company's annual reports from financial year 2010 until FY2016;
- (2) MED's annual reports for FY2012 and FY2013;
- (3) [× Entity N]'s annual reports for financial year 2013 and financial year 2017.
- (4) Company's 109th Board Meeting Minutes dated 30th January 2013, at 2.00PM;
- (5) Company's directors resolutions in writing pursuant to the articles of association of the Company dated 20 February 2013;
- (6) Company's written resolutions of the directors of the Company dated 22 March 2013;
- (7) Company's directors resolutions in writing pursuant to the articles of association of the Company dated 20 May 2013;
- (8) Company's directors resolutions in writing pursuant to the articles of association of the Company dated 3 June 2013;
- (9) Company's written resolutions of the directors of the Company dated 19 June 2013;
- (10) Company's directors resolutions in writing pursuant to the articles of association of the Company dated 15 July 2013;
- (11) Company's announcement dated 18 January 2013, 23 January 2013, 5 February 2013, 6 February 2013, 18 February 2013, 21 February 2013, 16 April 2013, 25 June 2014, 27 June 2014 and 13 November 2014;
- (12) Circular to Shareholders dated 23 May 2013;
- (13) MED's announcements dated 14 December 2012, 2 January 2013, 21 January 2013, 25 January 2013, 14 February 2013, 5 March 2013, 13 March 2013, 21 March 2013, 22 March 2013, 27 March 2013, 28 March 2013, 22 April 2013, 24 May 2013, 7 June 2013 and 17 September 2013;
- (14) [× Entity M]'s announcement dated 30 April 2014;
- (15) The Edge Article; and
- (16) Gretchen Friemann, & Ben Butler. (2016, July 12). Joseph Gutnick files for bankruptcy. The Australian. Retrieved from <https://www.theaustralian.com.au/business/joseph-gutnick-files-for-bankruptcy/news-story/8f8249fff36429d88827ea0ea282b75a>;

SECTION 4: MERLIN DIAMONDS TAKEOVER OFFER

4.3 Queries to and responses from the Company

| S/N | Reference section | Queries by Provenance Capital | Company's responses |
|-----|-------------------|--|--|
| (1) | 4.2.4 | <p>Mr Gutnick was a key management of MED.</p> <p>What were the considerations and written commitment to keep Mr Gutnick's interest aligned with the Company's interest after the Takeover Offer?</p> <p>Instead, Legend was free to dispose of its interest in MED before the Takeover Offer was opened for acceptances on 28 March 2013. Legend had disposed of almost all its interest and held less than 1% shareholding interest in MED by 26 March 2013.</p> <p>Was the Company aware of the buyers of the Merlin Shares from Legend, who were purportedly known associates of [X], who were also Shareholders of the Company?</p> | <p>Mr CY Wong clarified that as Legend was a public listed company in the USA, it was unable to swap its Merlin Shares for the Consideration Shares, without complying with the securities laws in the USA. The Company also had no control over the actions of Legend.</p> <p>While the Company was aware of Legend's disposal of its interest in MED, it was not aware of the identities of the buyers of these Merlin Shares.</p> <p>Mr Gutnick had, however, declared his substantial shareholding interests in the Company during this period from 5 February 2013 to 16 April 2013.</p> |
| (2) | 4.2.4 | <p>In light of Legend's disposal of Merlin Shares in the off market instead of accepting the Takeover Offer, how does it gel with Mr Gutnick's expressed support for the Takeover Offer?</p> | <p>The Company's intention was to privatise and delist MED by acquiring and owning more than 90% of MED after the Takeover Offer, and as the high acceptance level was a condition to the Takeover Offer, the Company was not concerned with and could not control Legend's disposal of the Merlin Shares.</p> |
| (3) | 4.2.4 | <p>What were the bases of consideration that the Bid Price would be sufficient to sway MED Shareholders to accept the Takeover Offer?</p> <p>What measures did the Company take to help it to reasonably reach its minimum 90% acceptance level, given that the shareholding in MED is quite fragmented and the largest shareholder of MED was Legend and Legend had been disposing of its Merlin Shares.</p> | <p>The Bid Price represented a premium of approximately 36.59% above the closing price of each Merlin Share on 30 January 2013.</p> <p>The Company had also considered the illiquidity of Merlin Shares on the ASX and was of the opinion that the Takeover Offer represented an exit opportunity for the MED Shareholders to realise their investments in exchange for the Shares of the Company that were more liquid.</p> <p>The Company had also engaged media and investor relationship consultancy services to conduct shareholders' solicitation. However, despite the efforts, the Company was unable to reach the minimum 90% acceptance level.</p> |
| (4) | 4.2.6 | <p>Was the Company aware of the commonality between the Company's Shareholders and MED's substantial shareholders?</p> <p>Would the disclosure of this information affect the outcome of the Takeover Offer?</p> | <p>To the best of Mr CY Wong's knowledge, the Company was not aware of the commonality between the Company's Shareholders and MED's substantial shareholders. The Company would have disclosed the information if it were aware of the commonality of the shareholders.</p> <p>When the Company first researched into MED, Legend was the single largest shareholder. While the Company was aware of Legend's disposal of its interest in MED, it was not aware</p> |

SECTION 4: MERLIN DIAMONDS TAKEOVER OFFER

| S/N | Reference section | Queries by Provenance Capital | Company's responses |
|------|-------------------|--|--|
| | | | of the identities of the buyers of these Merlin Shares. Mr Gutnick had explained to the Company then that Legend had sold its Merlin Shares to non-USA buyers to avoid having the share swap transaction coming under the securities laws in USA. In addition, the Company had no control over the actions of Legend. |
| (5) | 4.2.6 | <p>The purportedly known associates of [§< Individual X] were Shareholders of the Company, the substantial shareholder of MED and also the CN Holder.</p> <p>Did the Company consider procuring undertakings from these individuals to accept the Takeover Offer?</p> | As clarified in response to Q4 above, the Company was not aware of the commonality and therefore did not approach or procure undertakings from these respective persons. |
| (6) | 4.2.7 | The reason for not officially designating Dato' Izat as an AC member even though he had sat in all AC meetings including after Mr Yoon's resignation on 31 May 2013? | After Mr Yoon's resignation, the remaining Directors of the Company were Dato' Izat, Mr Ong Kah Hock and Mr CY Wong, and they were actively involved in all Board matters. Hence, the Management did not pay attention to the official designation of Dato' Izat, and as a result the oversight. |
| (7) | 4.2.2 & 4.2.7 | <p>Mr CY Wong was a member of AC from 24 December 2009 till 27 June 2014, even though he was an executive director. The above non-compliance with the CG Code for a duration of about 4½ years was ratified after the query from the SGX-ST on 23 June 2014.</p> <p>Was there any trigger for the Company to realise this non-compliance during its AC meetings?</p> | <p>Mr CY Wong was not aware of the non-compliance as he was under the impression that the CG Code only requires a majority of Independent Directors to be on the AC and he was not aware of the requirement that all AC members should be non-executive.</p> <p>He was also of the view that the applicable CG Code 2005 then did not have this requirement.</p> |
| (8) | 4.2.8 | The Circular did not provide for the status of the Takeover Offer in the event that Shareholders' approval was not obtained at the EGM, i.e. if the resolutions were not passed at the EGM on 10 June 2013 and the Takeover Offer had already been opened for acceptances from 28 March 2013, then what would be the consequence on the Takeover Offer? | Mr CY Wong said that the Bidder's Statement was clear on the void contracts, that if any of the conditions was not fulfilled, all contracts resulting from the acceptance of the Takeover Offer would be automatically void. |
| (9) | 4.1.3 | <p>The ordinary resolutions in relation to the Takeover Offer were passed with 78.89% voting for the resolutions, 2.64% against and 18.47% spoilt/abstained votes.</p> <p>The number of spoilt/abstained votes was exceptionally high? Please share with us the reason for such an outcome.</p> | Mr CY Wong mentioned that during the offer period, the Company found potential difficulty in working with Mr Gutnick and his team who would remained as management of MED after the Takeover Offer. Hence, Mr CY Wong had garnered spoilt votes at the EGM. |
| (10) | 4.1.3 | Could the Company had carried out the investigation on Mr Gutnick before embarking on the Implementation Deed, instead of during the offer period, for if the Takeover Offer had been | Mr CY Wong clarified that the Company did carry out checks based on publicly available information and clarification with Mr Gutnick. The Company did not find any potential material |

SECTION 4: MERLIN DIAMONDS TAKEOVER OFFER

| S/N | Reference section | Queries by Provenance Capital | Company's responses |
|------|-------------------|--|---|
| | | successful, the Company would have been saddled with issues? | issues with Mr Gutnick. However, it was later highlighted to the Company by the Australian lawyer in its legal due diligence that Mr Gutnick had also used AXIS Consultants Pty Ltd (" AXIS "), a management service company that was controlled by him, to provide management services to several of his companies besides MED. Mr CY Wong was concerned that MED might not get the full management's attention under such an arrangement with AXIS and had proposed to change the management after the takeover of MED. This was resisted by Mr Gutnick. In addition, through further interaction with Mr Gutnick, Mr CY Wong was of the view that it might be difficult to work with Mr Gutnick and his management. |
| (11) | 4.1.5 | Was there any post-mortem discussion by the Board on the lapse of the Takeover Offer, and pitfalls that the Company could have avoided, to help the Company in similar situations going forward? | There was no post mortem review by the Board as the Board was fully aware of the situation and had approved for the Takeover Offer to lapse. |
| (12) | 4.2.5 | What does the Company intend to do on the disclosure of the substantial shareholding interest of Mr Gutnick and Jollyboat, given that they had not updated the Company on their shareholding interest over the last 5 years? | <p>The Company intends to take proactive actions and seek professional advice on the appropriate disclosure of Mr Gutnick's shareholding interest in the Company.</p> <p>Subsequent to the Review Date, the Company had made certain clarification statement on the interests of the Substantial Shareholders in its annual report for FY2017/2018.</p> |

SECTION 4: MERLIN DIAMONDS TAKEOVER OFFER

4.4 Interviews with Independent Directors, former Directors and other relevant persons

We have interviewed or attempted to interview the following Independent Directors, former Directors of the Company and other relevant persons:

| Names | Interview | Interview Notes |
|---|--|--|
| (a) Mr Ong Kah Hock, Independent Director | Conducted on 31 October 2018. | <p>With respect to the share price run-up in January 2013 and the Company's responses to the SGX queries, he is of the view that the Company should make announcement only when there is something concrete.</p> <p>On the non-compliance in relation to the composition of AC, he thinks that he had been misled by the Company Secretary that an executive director can be a member of the AC.</p> <p>He was not aware of the common shareholders of the Company and MED who were purported associates of [§< Individual X]. He is also not aware of the discrepancy in Mr Gutnick's shareholding interest as a Substantial Shareholder and listing of the top 20 shareholders of the Company.</p> <p>He could not remember the details of the spoilt/abstained votes and how he had casted his votes at the EGM to approve the Merlin Diamonds Takeover Offer.</p> |
| (b) Dato' Izat, Independent Director | Conducted on 31 October 2018. | In general, he had relied on Management to handle most matters after the Board had given its approval. He was generally not aware or could not remember the details of our findings including (i) non-compliance with CG Code; (ii) the discrepancy in the disclosure of Mr Gutnick's shareholding interest; (iii) the common shareholders between the Company and MED who were purported associates of [§< Individual X]; and (iv) the high spoilt/abstained votes during the EGM. |
| (c) Mr Yoon, former Independent Director | The Company said that Mr Yoon could not be reached. | Not applicable. |
| (d) Mr Stanley Chu, former Group Financial Controller and Company Secretary | The Company said that Mr Stanley Chu declined to be interviewed. | Not applicable. |
| (e) Ms Jenny Soh, former General Manager for Corporate Affairs | Conducted on 9 November 2018. | When the Company responded to SGX-ST's queries on 18 January 2013, she was not aware of the Merlin Diamonds Takeover Offer. She was also not aware that there were common shareholders in Innopac and MED. She was not aware of the powers available to Innopac under the SFA to ascertain Mr Gutnick's shareholding interest and had relied on the advice from Intertrust, Innopac's share registrar who maintains the Company's Register of Substantial Shareholders. |

SECTION 4: MERLIN DIAMONDS TAKEOVER OFFER

4.5 Our assessment of the Company's investment process

| | Scope of review | Findings / Potential breaches | Recommendation |
|-----|---|---|--|
| (a) | <p>Whether the Company has an existing investment process and internal controls (including but not limited to, evaluation, approval, agreements, payment terms, approval of payments, recording, reporting of and follow up of proposed acquisitions/investments (including advances and loans)) which are in line with relevant regulatory requirements, including the Listing Manual and Code of Corporate Governance, and whether they are sufficiently robust based on best practices to ensure proper and good corporate governance.</p> | <p>We observed that the Company does not have a written set of investment procedures or internal control manual with respect to its investments in businesses and joint ventures. The Company, however, has an investment policy and manual for investments in marketable securities.</p> <p>Rule 719(1) of the Listing Manual requires the issuer to have a robust and effective system of internal controls, addressing financial, operational and compliance risks. In addition, Principle 11 of CG Code 2012 states that the board should ensure that management maintains a sound system of risk management and internal controls to safeguard shareholders' interests and the company's assets, and should determine the nature and extent of the significant risks which the board is willing to take in achieving its strategic objectives.</p> <p>The Company had acknowledged the above and clarified that, in practice, it had adopted and followed a general framework of investment and internal controls procedures as follows:</p> <ul style="list-style-type: none"> (i) deal origination and generation; (ii) research of industry, operating environment, financial and feasibility analysis, due diligence/research on the target company/investment; (iii) board presentation and deliberation; (iv) board approval; and (v) execution and monitoring. <p>In respect of the Merlin Diamonds Takeover Offer, the Company had also sought and obtained Shareholders' approval for the acquisition at the EGM on 10 June 2013.</p> <p>Notwithstanding the above, in compliance with the Listing Manual and CG Code, the Company should have a well-documented operational manual to guide its Management with respect to its investments in businesses and joint ventures including a robust and effective system of internal controls and due diligence process to ensure proper and good corporate governance, and the nature and extent of</p> | <p>The Company should establish or consider appointing relevant professionals to assist the Company to establish a well-documented operational manual to guide its investment procedures, internal control processes and set out the nature and extent of the risk that the Board is prepared to take in considering each of the investments in businesses and/or joint ventures.</p> <p>Company's response:</p> <p>The Company agreed that for good corporate governance, such investment and internal control processes should be documented with sufficient details in accordance with best practices.</p> |

SECTION 4: MERLIN DIAMONDS TAKEOVER OFFER

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| | | the risk that the Board is willing to take in achieving its strategic objectives. | |
| (b) | How the investment procedures for the Merlin Diamonds Takeover Offer compare with the Company's existing investment processes and against best practices set out in the CG Code, ABS Guidelines and requirements under the Listing Manual. | <p>As observed in point (a) above, the Company does not have existing investment procedures and internal control processes in writing for investment in businesses and joint ventures, from which we can compare against the actual investment procedures undertaken for the Merlin Diamonds Takeover Offer.</p> <p>For the Merlin Diamonds Takeover Offer, we observed that the Company had carried out, <i>inter alia</i>, the following:</p> <ul style="list-style-type: none"> - researched into other listed diamond mining companies through publicly available information; - reviewed publicly available information of MED; - appointed Australian and Singapore legal advisers to advise the Company on the takeover; - presented the key executive directors of MED including Mr Gutnick, to the Board; - negotiated with MED on the terms and conditions of the Takeover Offer; and - sought the necessary Board approvals as well as Shareholders' approval for the acquisition of MED at the EGM on 10 June 2013. <p><u>Management</u></p> <p>(i) However, we noted that during the offer period, the Company became aware through its Australian lawyer that Mr Gutnick had used a separate entity, AXIS, to provide management services to several of his companies including MED, as a result of which Mr CY Wong was concerned that Mr Gutnick may not have the dedicated time and attention to MED. Attempts to change the management after the proposed takeover of MED was resisted by Mr Gutnick. In addition, through further interaction with Mr Gutnick, Mr CY Wong was of the view that it might be difficult to work with Mr Gutnick and his management. Mr CY Wong had therefore garnered spoilt votes at the EGM, although the unusually high spoilt votes did not affect the outcome of the shareholders' approval for the acquisition of MED.</p> | <p>(i) If the acquisition of MED had gone through, MED would have become a subsidiary of the Group. The Company would be dependent on the existing management of MED to operate MED as the Group's management is rather thin and diamond mining operations would have been a new core business of the Group. Although the acquisition was to be fully funded by the Company's Shares, and not by cash or borrowings, the absolute size of the acquisition of MED was not small (\$\$76 million).</p> <p>Given the above, the Company should have carried out more detailed due diligence checks on Mr Gutnick and the key management of MED and their relationship with Mr Gutnick before embarking on the Takeover Offer.</p> <p>The Company could have also considered appointing a financial adviser to advise the Company to carry out more detailed due diligence checks on MED. This might have also uncovered the commonality of shareholders in the Company and MED.</p> <p>If the Company had uncovered earlier the management arrangement in MED which the Company viewed was not in its best interest, then the Company might have avoided the takeover exercise altogether.</p> <p>(ii) With respect to Mr Gutnick's deemed substantial shareholding interest in the Company, the Company had sought the informal views of its share registrar for the disclosure in the annual report for FY2012.</p> <p>However, the Company should have obtained formal advice in writing and in each of the subsequent years of annual reporting disclosures, it should have taken proactive steps including powers available to the Company under Section 137F of the SFA to ascertain the accuracy of information when it discovered the continued discrepancy of information. The Company should have sought professional advice on the appropriate disclosure of shareholding information in its annual reports.</p> |
| (c) | The extent of the due diligence, review and approval process undertaken by the Directors and Management for each of the Selected Transactions. | | |

SECTION 4: MERLIN DIAMONDS TAKEOVER OFFER

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| | | <p>The above discovery on the arrangement of the key management of MED should have been carried out as part of the due diligence process before making the takeover offer.</p> <p>The submission of spoilt votes at the EGM by Mr CY Wong (as an Executive Director of the Company) and his friendly parties runs contrary to the Directors' recommendation to Shareholders to vote in favour of the acquisition.</p> <p><u>Substantial Shareholder</u></p> <p>(ii) The Company had also made 2 press releases on Mr Gutnick becoming a substantial shareholder of the Company as a show of confidence in the Company. Mr Gutnick had filed several Form 3 with the Company on his deemed interest in the Company through sale and purchase agreements. The Company had not enquired further into the sale and purchase agreements and had not enquired into the discrepancies between the top 20 shareholders list and the Form 3 disclosures after the annual report for FY2012. This had lasted for the next 4 years since the disclosures in the annual reports for FY2012 until FY2016.</p> <p><u>Due diligence</u></p> <p>(iii) The Company was also told by Mr Gutnick that it cannot have access to information on MED other than publicly disclosed and available information as MED is a publicly listed company on the ASX. The Company had accepted this and as a result, due diligence on MED was somewhat constrained.</p> <p>Had access to information on MED been made available to the Company on a confidential basis, the Company may have uncovered the management agreement with AXIS. The Company would also have interactions with and assessed the key management of MED on their commitment on MED after the acquisition by the Company.</p> | <p>Subsequent to the Review Date, the Company had made certain clarification statement on its Substantial Shareholders in its annual report for FY2017/2018.</p> <p>(iii) The spoilt vote by Mr CY Wong contradicts with his recommendation as a Director to Shareholders to vote in favour of the acquisition of MED at the EGM. The Company should consider seeking professional advice on the due diligence findings during the offer period that may be material and unfavourable to the Company, how such findings should be disclosed and how Mr CY Wong and other directors should vote at the EGM, given their recommendation to Shareholders in the Circular.</p> <p>(iv) The Company must observe strict confidentiality pursuant to Appendix 7.1 Part 5 under "Corporate Disclosure Policy" of the Listing Manual, including monitoring unusual trading activity of the Shares under Practice Note 7.2 of the Listing Manual, making appropriate announcements and keeping a list of persons privy to the transaction.</p> <p>The Company had made a negative statement following the query of trading activities from the SGX-ST on 18 January 2013 and a further announcement on the Company's general engagement in preliminary non-binding discussions on 23 January 2013 and finally released the announcement of the Implementation Deed on the takeover of MED on 31 January 2013.</p> <p>Company's response:</p> <p>The Company agreed with the above recommendations overall. As for point (ii) the Company believes that it had complied with the directive from the Monetary Authority of Singapore and applicable sections of the SFA and the Company is also of the opinion that it is not its responsibility to ascertain the accuracy of the shareholding information but has the responsibility to disclose as per the Form 3 submitted by the relevant shareholders, even though it was some time ago. Nevertheless, it had made certain clarification statements on this matter in its annual report for FY2017/2018.</p> |
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SECTION 4: MERLIN DIAMONDS TAKEOVER OFFER

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| | | <p><u>Common shareholders</u></p> <p>(iv) The Company and MED had at that time significant overlap of common shareholders who were purported to be associates of [X Individual X]. Mr CY Wong acknowledged that he was not aware of the commonality of shareholders and if he had known that, he would have made the relevant disclosures.</p> <p><u>Offer lapsed</u></p> <p>(v) The Company received acceptances of 72.73% from shareholders of MED and had allowed the offer to lapse as the minimum 90% acceptance condition was not reached.</p> <p>From the developments arising during the Takeover Offer, it appeared that the Company was not keen to continue with the acquisition of MED.</p> <p><u>Share price movements</u></p> <p>(vi) Share price had run up significantly prior to (weeks before) the announcement of the implementation deed.</p> <p>There appeared to be some anticipation of the takeover offer before the announcement of the deal.</p> | |
| (d) | <p>Highlight of any non-compliance, significant or unusual deviations with requirements or guidelines under the constitution of the Company, CG Code, ABS Guidelines and Listing Manual, and any conflict of interest.</p> | <p>In the course of our review of the Merlin Diamonds Takeover Offer, we have also noted the following instances of non-compliance which are not directly related to the takeover exercise:</p> <p>(i) We observed that Mr CY Wong, being an executive director, was also a member of the AC for approximately 4½ years from 24 December 2009 until 27 June 2014. In addition, we observed that after Mr Yoon resigned on 31 May 2013 as Director of the Company, the Board comprised the remaining 3 directors, namely Mr CY Wong, Dato' Izat and Mr Ong Kah Hock, and the AC then officially comprised only 2 directors, namely Mr CY Wong and Mr Ong Kah Hock (as AC Chairman). Although Dato' Izat had sat and</p> | <p>(i) The Company may wish to consider the appointment of a Compliance Officer, internal or outsourced, to advise the Company on the composition of the AC and other compliance matters in accordance with the CG Code and Listing Manual.</p> <p>(ii) Dato' Izat and Mr Ong Kah Hock had served far beyond 9 years (23 and 17 years respectively) to justify their independence as Independent Directors of the Company. The Company should take steps to ratify the above position.</p> <p>(iii) During our kick-off meeting with the Company on 4 June 2018, we had highlighted to Mr CY Wong that the</p> |

SECTION 4: MERLIN DIAMONDS TAKEOVER OFFER

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| | | <p>participated in all the AC meetings during the year, he was not officially designated as an AC member.</p> <p>The above was not in full compliance with both Guideline 11.1 of CG Code 2005 and Guideline 12.1 of CG Code 2012 and was ratified on 27 June 2014 after the query from the SGX-ST on 23 June 2014. The Company designated Dato' Izat and Mr Jeremy Dyer as AC members and Mr CY Wong stepped down as AC member.</p> <p>(ii) Dato' Izat and Mr Ong Kah Hock have been with the Company for the last 23 and 17 years respectively, which are beyond the recommended 9 years tenure for independent directors under CG Code 2012. The Board had, however, considered and determined their continued independence.</p> <p>(iii) Principle 13 of CG Code 2012 requires the Company to establish an effective internal audit function. During the time of the Merlin Diamonds Takeover Offer exercise, the Company had not put in place an internal audit function.</p> <p>The Company had, on 5 June 2015 appointed FKT as the internal auditors for a period of 3 years. Management and the Board were not satisfied with the services of FKT and had, on 11 August 2016, resolved to terminate the services of FKT after a review was carried out on the draft internal audit report by FKT.</p> <p>As of the date of this Review, FKT had not continued with its services as internal auditors and the Company had not formally terminated FKT's services. Please refer to further information set out in Appendix A under the caption entitled "Internal auditors".</p> | <p>Company should follow-up on the outstanding matter with FKT, and to take active steps to comply with the CG Code in respect of the internal audit function.</p> <p>Company's response:</p> <p>(i) The Company noted and agreed to consider appointing a compliance officer, but is currently cash strapped.</p> <p>(ii) The Company agreed with the recommendation.</p> <p>(iii) The Company agreed with the recommendation. It had also clarified in its annual report for FY2017/2018 that for the financial period, the Company did not have an internal audit function as the only source of income was derived from rental of investment properties. The AC will review this internal audit function when the business level of activities increases.</p> |
| (e) | <p>Whether members of the Board had adhered to their legal obligations and Company's policies and procedures.</p> | <p>The Board has overall responsibility for the non-compliance listed in point (d) above. From our findings in points (a), (b) and (c), the Board also has overall responsibility for the lack of a written framework of prudent and effective controls in the Company and generally an oversight of Management to ensure a sound design, implementation and monitoring of risk management and internal control systems.</p> | <p>The Board should take immediate action to address the points listed above.</p> <p>Company's response:</p> <p>The Company agreed with the recommendation.</p> |

SECTION 4: MERLIN DIAMONDS TAKEOVER OFFER

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| (f) | <p>Whether the failures or impairment of any of the investments could have been avoided through the improvements in internal controls or processes and where there have been failures or weaknesses noted in relation to the Selected Transactions, to quantify the impact on the Company's financials in this Report.</p> | <p>The Company had incurred expenses of S\$1.18 million in relation to the Takeover Offer which spanned over a period of approximately 6 months.</p> <p>If the due diligence checks had uncovered the matters of concern earlier, the Company might not have entered into the Implementation Deed and the subsequent takeover exercise.</p> <p>The Company would have avoided incurring the full amount of the expenses and saved Management's and Board's time in attending to the execution of the Takeover Offer, including seeking Shareholders' approval for the takeover at the EGM on 10 June 2013.</p> | <p>The Board should take cognizance of the matter and evaluate the impact the investment may have on the Group's financial performance.</p> <p>Company's response:</p> <p>The Company agreed with the recommendation.</p> |
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5. EXTERA ACQUISITION

5.1 Overview

On 1 December 2013, the Board announced (“**Extera Acquisition Announcement**”) that the Company had, on 29 November 2013, entered into a conditional sale and purchase agreement (“**Extera Agreement**”) with Rubic Prize, for the acquisition of 45,000,000 ordinary shares, representing 81.82 % of the issued and paid-up share capital of Extera, for a purchase consideration of S\$17,100,000 (“**Purchase Consideration**”) (“**Extera Acquisition**”).

Extera’s sole investment is its 90% interest in Sheng Rong (德州胜荣燃气有限公司). Sheng Rong was principally engaged in the ownership and operation of CNG filling stations and natural gas supply and distribution business in Shandong Province (山东省), PRC.

The Purchase Consideration was determined after taking into consideration, *inter alia*, the prospects and opportunities in the natural gas business in the PRC, Sheng Rong’s existing CNG filling stations business and its growth potential.

The Purchase Consideration of S\$17,100,000 was to be satisfied via a cash consideration of S\$7,200,000 and the issuance of 300,000,000 new Shares to the Vendor (“**Extera Consideration Shares**”) at an issue price of S\$0.033 each (the “**Extera Issue Price**”).

The Company had relied on the share issue mandate approved by Shareholders at the AGM of the Company held on 29 April 2013 for the issue of the Extera Consideration Shares. The Extera Issue Price represented a discount of approximately 2.077% to the weighted average price of S\$0.0337 for each Share traded on 28 November 2013, being the market day preceding the Extera Acquisition Announcement, which was within the discount of 10% prescribed under Rule 811(1) of the Listing Manual. In addition, the Extera Consideration Shares represented approximately 9.48% of the Company’s issued share capital as at 29 November 2013 comprising 3,165.2 million Shares.

As at the date of the Extera Acquisition Announcement, the Purchase Consideration represented approximately 16.03% of the Company’s market capitalisation of approximately S\$106.7 million. Pursuant to the issuance of the Extera Consideration Shares to Rubic Prize, Rubic Prize would become a Substantial Shareholder with approximately 8.66% interest of the enlarged number of Shares post the Extera Acquisition.

The Company had considered that as the relative figures pursuant to Rule 1006 of the Listing Manual exceeded 5% but were less than 20%, the Extera Acquisition was a discloseable transaction and did not require Shareholders’ approval.

The Extera Acquisition was completed on 26 December 2013.

5.1.1 Information on Rubic Prize, Extera and Sheng Rong

Rubic Prize and Mr Wong Yu

According to the Extera Acquisition Announcement, Rubic Prize is a BVI company and is wholly-owned by Mr Wong Yu (王宇), a businessman resident in Hong Kong SAR. Mr CY Wong clarified that Mr Wong Yu is a PRC national resident in Hong Kong. Rubic Prize was the 100% shareholder of Extera and following the sale of the 81.82% interest in Extera to the Company, Rubic Prize would continue to hold the remaining 18.18% equity interest in Extera.

SECTION 5: EXTERA ACQUISITION

Extera

Extera[§] is a Singapore private limited company incorporated on 16 November 2010 with an issued and paid-up capital of S\$5.5 million. Extera is an investment holding company and was wholly-owned by Rubic Prize before the sale of 81.82% interest of Extera to the Company.

Extera's sole investment is its 90% equity interest in Sheng Rong, a Chinese-Foreign joint venture company. The balance 10% equity interest in Sheng Rong was registered and owned by Ao Ying^{§§} (奥英油气销售有限公司) a PRC registered private company wholly-owned by Mr Li Lin Sheng (李林胜), a PRC national. Sheng Rong was principally engaged in the ownership and operation of CNG filling stations and natural gas supply and distribution business in Shandong Province, PRC.

Mr CY Wong clarified that Ao Ying, the minority shareholder of Sheng Rong, was the manager and operator of Sheng Rong's Dezhou CNG Station.

[§] was formerly known as Twenty4 Pte. Ltd. Please see Section 5.2.8 below.

^{§§} Ao Ying's 10% equity interest in Sheng Rong was subsequently transferred to another party based our internet search as set out in Section 5.2.8 of this Report.

Sheng Rong

Sheng Rong was established in the PRC on 12 July 2013. As at the date of the Extera Agreement, Sheng Rong has a registered capital of RMB30 million and contributed capital of RMB27 million.

According to the Extera Acquisition Announcement, Sheng Rong was operating 2 CNG filling stations located at Xin He East Road, Dezhou City (德州市) ("**Dezhou CNG Station**") and Lao Ling County (乐陵县) ("**Lao Ling CNG Station**"), Shandong Province, PRC. Sheng Rong was in the process of building a third CNG filling station and had the permits and approvals to build a mother CNG station and two additional CNG filling stations.

It was noted in the Board resolution dated 24 November 2015 that Mr CY Wong was made the legal representative of Sheng Rong on 13 March 2014.

It was later clarified by the Company on 22 March 2016 in its response to the SGX-ST's queries on the discontinued operations of Sheng Rong that Sheng Rong had owned and operated the Dezhou CNG Station and had contracted to purchase the Lao Ling CNG Station. It was also disclosed that Sheng Rong was in the process of building the third CNG filling station.

The above disclosure by the Company on Sheng Rong's CNG gas stations on 22 March 2016 was inconsistent with the announcement by the Company on Sheng Rong on 1 December 2013 which stated that Sheng Rong already own and operate 2 existing CNG filling stations.

Mr CY Wong had clarified that the Company was given the understanding that the purchase of the Lao Ling CNG Station, an existing operating CNG filling station, would be completed in due course and the profit from the Lao Ling CNG Station would be attributable to Sheng Rong from the signing of the agreement with 山东泰维能源发展有限公司 ("泰维") for the purchase of the Lao Ling CNG station on 24 December 2013. Hence, the Company had disclosed in the Extera Acquisition Announcement that Sheng Rong was operating 2 CNG filling stations. However, the acquisition of the Lao Ling CNG Station did not go through as elaborated in Section 5.1.2 below.

5.1.2 Board minutes and resolutions

Late Directors' resolutions on 24 November 2015 to approve, ratify and confirm the acts relating to Sheng Rong

In the Board minutes of 24 November 2015, Mr CY Wong had highlighted the need for good practice to obtain Board's written resolutions to agree and approve the corporation actions. Accordingly, the following earlier acts of the Company (*in chronological order*) were subsequently ratified via the above Board resolutions on 24 November 2015:

- (a) Sheng Rong had, on 19 October 2013 (*which is before the Extera Acquisition Announcement*), entered into an agreement with 于希明, an individual, for services to procure all necessary licences, permits and approvals to build a CNG station at Ping Yuen city, Shandong, PRC at a fee of RMB850,000. A further RMB200,000 was paid as 5 years' advance rental to the landlord of the designated construction site ("**Fees and Advance Rental for CNG station to be built**"). It was also minuted in the Directors' resolution that the landlord had informed Sheng Rong that a CNG station could not be built on that site until further notice.

Mr CY Wong clarified that the above reference to CNG station in Ping Yuen city refers to the third CNG station to be built as mentioned in the Extera Acquisition Announcement. In addition, he added that the above minutes that recorded that the landlord had informed Sheng Rong that a CNG station could not be built on that site until further notice were not factually accurate. Mr CY Wong explained that the Company had, on its own enquiry, found out that the licence to operate a CNG filling station on that site was not granted and hence construction work could not be carried out on that site; and that 于希明 had failed to procure the necessary licences for Sheng Rong;

- (b) Sheng Rong had, on 24 December 2013 (*which is after the Extera Acquisition Announcement but before the completion of the Extera Acquisition*), entered into an agreement with 泰维 for the purchase of the Lao Ling CNG station for RMB10 million, for which a deposit of RMB1 million had been paid ("**Deposit for Lao Ling CNG Station**"). Due to the failure of 泰维 to transfer the required licences to Sheng Rong, Sheng Rong had decided to terminate the agreement and commenced legal action to recover the deposit;
- (c) On or about 13 March 2014, Mr CY Wong had engaged Mr Xu Peiguo as General Manager of Sheng Rong to manage the day-to-day affairs of Sheng Rong;
- (d) The Company had, on 1 April 2014, entered into an agreement to appoint Mr James Toh Siew Keong as consultant to, *inter alia*, provide strategic leadership and services to support Sheng Rong's business and operation of its Dezhou CNG Station. Mr Toh's appointment was terminated on 30 September 2014 after he had informed the Company that he was unable to comply and fulfil his obligations under the agreement;
- (e) Ao Ying had repeatedly taken the daily sales collection from the Dezhou CNG Station without authority. Attempts to recover such monies were rebuffed and Mr CY Wong decided to terminate the relationship with Ao Ying. On 16 August 2014, Sheng Rong appointed a PRC law firm, 山东德联邦律师事务所, to negotiate, including the engagement of a debt collector, to reach a final settlement agreement with Ao Ying on its behalf;
- (f) Sheng Rong had entered into a settlement agreement on 21 August 2015 with Ao Ying to terminate their relationship. Ao Ying had agreed to compensate Sheng Rong by transferring properties of RMB11 million in value, being the agreed settlement sum, in exchange for the

SECTION 5: EXTERA ACQUISITION

Dezhou CNG Station, and also undertaken to transfer its 10% equity stake in Sheng Rong to a party nominated by Sheng Rong. In order to minimise property transfer taxes, these properties would be transferred to a nominated party who will execute a declaration of trust in favour of Sheng Rong; and

- (g) Sheng Rong had, on 22 October 2015, appointed the PRC law firm, 山东国曜律师事务所, to investigate if (a) 于希明 should be held accountable for the development of the CNG station to be built and whether the Fees and Advance Rental for the CNG station to be built could be recovered; and (b) whether the Deposit for Lao Ling CNG Station can be recovered.

Pursuant to our public searches, we noted that 于希明 is the Chairman of 泰维 and 于希明 is a “中国人民政治协商会议第十二届山东省委员会委员” (member of the Shandong Committee of the Chinese People’s Political Consultative Conference).

Based on our public searches on the final judgement on 9 June 2017 on the suit by Sheng Rong against 泰维, we noted that Sheng Rong had lost its case against 泰维, and that Sheng Rong was not able to recover its Deposit for Lao Ling CNG Station. The Company did not announce the above.

Mr CY Wong clarified that the Company did not announce the above lawsuits as he was of the view that the amounts involved were relatively small and that managing these matters were part of the Company’s ordinary course of business. Mr CY Wong further added that Sheng Rong is appealing on the Court judgement of 9 June 2017.

Board minutes on 25 February 2016

At the above Board meeting, Mr CY Wong proposed and the Board approved the following:

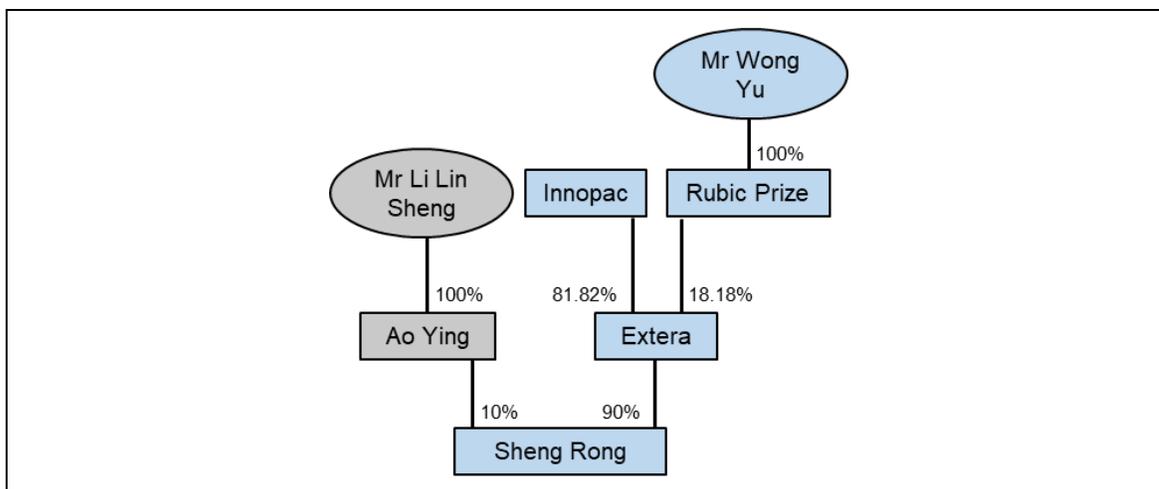
- (a) to exit the China business carried out by Sheng Rong as the CNG business was very tough in China. Going forward, the Group would liquidate Sheng Rong or alternatively sell Sheng Rong to IPCO International Limited, a SGX-ST listed company which had been operating CNG business in China for more than 10 years;
- (b) to discuss with Rubic Prize to reduce the Purchase Consideration for the Extera Acquisition by returning the 300 million Extera Consideration Shares to the Company; and
- (c) to terminate the Gaocheng JV* as the Gaocheng JV could not proceed as there were outstanding permits and licences to conduct the business.

* The review of Gaocheng JV is set out in Section 6 of this Report.

5.1.3 Group structure

The Company’s interest in Sheng Rong is shown in the group structure below:

SECTION 5: EXTERA ACQUISITION



5.1.4 Financial Information in relation to Extera

FY2013

The Company had initially recognised goodwill of S\$12.8 million in its unaudited results announcement for FY2013 in relation to the Extera Acquisition based on the Consideration of S\$17.1 million.

It was disclosed in the annual report for FY2013 that Sheng Rong had entered into an agreement with a third party to acquire land use rights in Dezhou City for the construction of a CNG filling station, for a total consideration of RMB14.6 million (approximately S\$3,053,000) and was payable as follows:

- (i) a deposit of RMB4 million (approximately S\$837,000); and
- (ii) the balance of RMB10.6 million (approximately S\$2,216,000) to be paid upon transfer of the title of the land.

The Group had accounted for the total consideration of land use rights of S\$3,053,000 under non-current assets in its books as at 31 December 2013.

The Company had disclosed in its annual report for FY2013 that as at 31 December 2013, the construction of the gas station had been completed and operating but the title of the land use rights had not been transferred to Sheng Rong. In the event the title of the land use rights was not transferred to Sheng Rong, a situation may arise where the Group may be unable to continue operating on the property.

(Mr CY Wong clarified that the above CNG filling station refers to the Dezhou CNG Station.)

Hence, Moore Stephens, as the auditor of the Group, had recommended and the Group then made a provision of S\$913,000 in the carrying value of the gas station. Accordingly, the goodwill arising from the Extera Acquisition had increased by S\$0.9 million from S\$12.8 million to S\$13.7 million as the underlying net identifiable assets of Extera was reduced to S\$3.4 million.

Pursuant to our public searches, we noted that there was a court judgement dated 20 December 2017 relating to a lawsuit initiated on 23 August 2013 at the 山东省高级人民法院 (Shandong Provincial High Court). The lawsuit was related to a dispute involving Ao Ying and its partner (as defendants) and 山东宜城燃气有限公司 (as plaintiff) regarding, *inter alia*, the land use rights of the

SECTION 5: EXTERA ACQUISITION

Dezhou CNG Station. According to the court judgement, the land use rights was registered under 山东宜城燃气有限公司 on 26 January 2010.

Mr CY Wong explained that he was aware of the lawsuit before the Extera Acquisition Announcement but proceeded with the acquisition relying on the representations from Mr Li Lin Sheng that he owned the land use rights of the Dezhou CNG Station.

FY2014

In the unaudited results announcement of the Group for FY2014 (on 27 February 2015) and the Company's annual report for 2014, it was disclosed that the Group had decided to sell its CNG filling station's operating assets and anticipated that the disposal will be completed within the next financial year FY2015. As a result, the assets and liabilities of Extera was classified as assets and liabilities held for sale as at 31 December 2014. The net assets of the CNG filling station classified as held for sale was S\$1.8 million.

At the AC meeting of the Company held on 6 February 2015, Moore Stephens had highlighted the need to impair the goodwill arising from the Group's investment in Extera as Sheng Rong would dispose of its CNG station to its minority shareholder⁽¹⁾. The Company was of the view that there should not be an impairment of the above investment and goodwill taking into consideration *inter alia*, the various planned construction and operation of CNG filling stations at other locations.

As a result, one of the bases that Moore Stephens had issued a disclaimer of opinion in respect of the audited financial statements of the Group for FY2014 was in relation to the above matter as the Company's cost of investment in Extera was S\$17.1 million and the goodwill arising from the Extera Acquisition was S\$13.7 million.

Note:

- (1) the only minority shareholder of Sheng Rong was Ao Ying. The Company did not disclose that the sale of the CNG filling station's operating assets was to the minority shareholder of Sheng Rong until the annual report of the Company for FY2015.

At the same AC meeting of the Company on 6 February 2015, Mr CY Wong had disclosed confidentially that the Group is proposing for Extera to enter into the Gaocheng JVA to form CJV to distribute clean gasoline and diesel and through CJV, the Company had hoped to enlarge its footprint in the clean energy distribution business in the PRC. Please see write-up on Gaocheng JV in Section 6 of this Report.

FY2015

In the annual report of the Company for FY2015, the Company disclosed that the CNG filling stations business had become very competitive due to the entrance of state-owned oil and gas companies into the retailing CNG filling stations business. Sheng Rong had ceased its CNG business in 2015. The Company, after due consideration of the dim prospects of the CNG filling station business, its business plans and strategy, decided to exit this business in the PRC. Accordingly, the Company had provided full impairment on the goodwill of S\$13.7 million.

In the Board resolutions dated 24 November 2015 to approve and ratify the earlier acts of the Company and Sheng Rong, it was disclosed, *inter alia*, that:

- (a) Ao Ying had repeatedly taken the daily sales collection from the Dezhou CNG Station without authority. Attempts to recover such monies were rebuffed and Mr CY Wong decided to terminate the relationship with Ao Ying. On 16 August 2014, Sheng Rong had appointed a law firm in PRC,

SECTION 5: EXTERA ACQUISITION

山东德联邦律师事务所, to negotiate, including the engagement of a debt collector, to reach the final settlement agreement with Ao Ying on behalf of the Company; and

- (b) Sheng Rong had entered into a settlement agreement on 21 August 2015 with Ao Ying to terminate their relationship. Ao Ying had agreed to compensate Sheng Rong by transferring properties of RMB11 million in value, being the agreed settlement sum, in exchange for the Dezhou CNG Station, and also undertaken to transfer its 10% equity interest in Sheng Rong to a party nominated by Sheng Rong. In order to minimise property transfer taxes, the properties would be transferred to a nominated party who would execute a declaration of trust in favour of Sheng Rong.

It was also disclosed in the annual report that during FY2015 the Group had recovered RMB11.0 million (S\$2.4 million) from the non-controlling shareholder of Sheng Rong (i.e. Ao Ying) for the payments made by Sheng Rong for the CNG station. The Group then recognised a receivable of S\$2.4 million and a write-back of S\$244,000 losses arising from the recovery of payments made, and the assets and liabilities held for sale were zero-rised as at 31 December 2015. It was also disclosed that Ao Ying had agreed to pay Sheng Rong by transferring various⁽²⁾ properties in the PRC, totalling RMB5.0 million (S\$1.1 million) and the assignment of debts totalling RMB6.0 million (S\$1.3 million) which were personally guaranteed by Mr Li Lin Sheng, the owner of Ao Ying. Ao Ying also agreed to liquidate its 10% equity interest in Sheng Rong by transferring it to an unrelated third party to be appointed by Sheng Rong.

Note:

- (2) Subsequently disclosed as 4 properties in the Interim Audit for 12M2017.

We noted that the decision to terminate the relationship with Ao Ying which happened as early as August 2014 was not disclosed by the Company until 27 February 2015 in the unaudited results announcement of the Group for FY2014.

In addition, the compensation to Sheng Rong in the form of transferring interests in properties of RMB11 million in value, which was approved and ratified by the Board on 24 November 2015 appeared to be changed and disclosed in the annual report to be transferring of various properties totalling RMB5.0 million and the assignment of debts totalling RMB6.0 million.

Mr CY Wong clarified that there is no change in the settlement agreement as the assignment of debts is also secured over properties. The details of the assignment of debts are set out in Note 3 of the Interim Audit Report.

It was also disclosed in the annual report for FY2015 that the Company had on 28 March 2016 entered into a memorandum of understanding with Rubic Prize ("**MOU**") to reduce the Purchase Consideration for the Extera Acquisition. The MOU contemplated the Purchase Consideration to be adjusted and reduced by Rubic Prize by:

- (1) transferring its 18.18% equity interest in Extera to the Company; and
- (2) returning the Extera Consideration Shares (valued at S\$9.9 million based on the Extera Issue Price) to the Company for either cancellation or otherwise as the Company may determine following advice from its professional advisors.

On 19 July 2017, Rubic Prize had notified the Company via Form 3 that it had disposed of 200 million Shares for a total consideration of S\$200,000 via off-market transaction. As a result, Rubic Prize's shareholding interest in the Company was reduced from 6.73% to 2.24%.

We noted that the above disposal of Shares by Rubic Prize is against the terms of the MOU, and the transfer of Rubic Prize's 18.18% equity interest in Extera to the Company had not happened as at

SECTION 5: EXTERA ACQUISITION

the Review Date. The Company also did not make any disclosure of the above developments on Rubic Prize.

Mr CY Wong clarified that the MOU did not progress to a legally binding agreement and he was not able to control Rubic Prize's dealing in its Shares.

As at the Review Date, the Company did not announce the above developments on Rubic Prize.

FY2016

On 13 December 2016, in response to the SGX-ST's queries, the Company disclosed that Ao Ying had yet to transfer all the properties to Sheng Rong and Sheng Rong had initiated legal action in May 2016 against Ao Ying for the recovery of the receivables of S\$2.3 million. Timing of the recovery of the receivables is subject to the legal process in the PRC.

The Company also disclosed that there is a receivable from Rubic Prize of S\$0.5 million, being the unpaid issued share capital of Extera. The Company was in the process of settling the transfer of the 18.18% equity interest in Extera⁽³⁾ and the receivable of S\$0.5 million from Rubic Prize.

Note:

(3) see description above on the MOU.

Mr CY Wong clarified that the Company had fully impaired the receivable of S\$0.5 million from Rubic Prize as Rubic Prize had ceased contact with the Company.

The Company had disclosed in its annual report for FY2016 that as at 31 December 2016, the debts totalling RMB6.0 million (S\$1.3 million) had been assigned to Sheng Rong and 1 property worth RMB500,000 (S\$0.1 million) had been transferred to Mr Xu Pei Guo⁽⁴⁾, a trustee appointed by the Group. Other properties forming part of the collateral to the debt have yet to be transferred. It was also disclosed that Ao Ying had agreed to liquidate its 10% equity interest in Sheng Rong by transferring it to an unrelated third party to be nominated by Sheng Rong⁽⁵⁾.

Notes:

- (4) Mr CY Wong had updated that Mr Xu Pei Guo had resigned as the GM of Sheng Rong around September 2017. The above property had been transferred to Mr Xu Pei Guo as the trustee or nominee for Sheng Rong. Although the property title is in the name of Mr Xu Pei Guo, the Company is not too concerned on the indiscretionary disposal by Mr Xu Pei Guo as the Company is in possession of the legal document on the property and the property had been affirmed by 2 PRC Court judgements in favour of Sheng Rong; and
- (5) Mr CY Wong clarified that the 10% equity interest in Sheng Rong was eventually sold and transferred to an unrelated third party as disclosed below in the Interim Audit for 12M2017 and not held in trust for the Group.

Moore Stephens had issued a disclaimer of opinion on the audited financial statements of the Group for FY2016 and one of the bases for the disclaimer of opinion was that they could not obtain sufficient appropriate audit evidence nor carry out alternative audit procedures to satisfy themselves regarding the certainty of the recoverability of receivables of S\$2.3 million.

Interim Audit for 12M2017

As disclosed in the Interim Audit Report announced in 15 July 2018, Ao Ying had transferred its 10% equity interest in Sheng Rong to an unnamed unrelated third party during 12M2017.

The Company had disclosed in the Interim Audit Report that the remaining 3 properties with an aggregate value of RMB4.5 million (approximately S\$0.9 million) had been affirmed by two PRC court judgments in favour of Sheng Rong in June 2017⁽⁶⁾.

SECTION 5: EXTERA ACQUISITION

The Company had disclosed that the monetisation of the receivables of RMB11 million from Ao Ying was in progress. The assigned debt of RMB6 million was secured by a first charge over 39 near completion apartments in a development project in Yucheng, Shandong, PRC. The development project was under Chinese court administration and the Chinese court was in the process of auctioning the 39 near completion apartments to pay the assigned debt due to Sheng Rong. The Company expected the auction proceeds to be no less than RMB11 million (including interest). The Company expected the auction to be completed and the 3 remaining properties to be transferred by the end of 2018. The Company also stated that it was in discussions to sell its shareholdings in Extera or Sheng Rong⁽⁷⁾.

Notes:

- (6) As at the Review Date, Mr CY Wong updated that the remaining 3 properties were not transferred as Mr Xu Pei Guo had resigned and the Company had yet to nominate another trustee for the transfer. In addition, Mr CY Wong clarified that the Company was not concerned that the first property was still under the name of Mr Xu Pei Guo as according to the PRC Court judgement, Mr Xu Pei Guo is stated as the trustee for Sheng Rong for the transfer of titles of the 4 properties. Mr CY Wong therefore is of the opinion that Mr Xu Pei Guo has no legal rights to deal with the property under his name without Sheng Rong's approval.
- (7) As at the Review Date, there was no update from the Company on the monetisation of the receivables of RMB11 million.

Therefore, the Company was of the view that for all intent and purposes, the receivables of RMB11 million had been recovered and there is no need to impair the receivables.

Baker Tilly, as auditor for the Interim Audit, had issued a disclaimer of opinion on the financial statements of the Group for 12M2017 on various grounds including the recoverability of the receivables of S\$2.3 million from Ao Ying.

Subsequent to the Review Date, we note that the Company had disclosed in its announcement dated 8 October 2018 that it intends to dispose of the shares of Extera, together with shares of certain other subsidiaries of the Group, to Mr CY Wong for S\$100,000 in cash. The Company has not disclosed how the sale of Extera will affect the Company's ability to monetise the above S\$2.3 million of receivables.

5.1.5 Duration of the Extera Acquisition

The Extera Acquisition which commenced on 1 December 2013 and deemed to have been abandoned on 27 February 2015 when the Company announced that it had decided to sell its CNG filling station's operating assets, spanned approximately 1 year.

Source:

- (1) Company's annual report for FY2013, FY2014, FY2015, FY2016 and FY2017/2018;
- (2) Company announcements dated 1 December 2013, 5 December 2013, 26 December 2013, 26 February 2014, 12 June 2014, 7 July 2014, 27 February 2015, 28 February 2016, 22 March 2016, 28 March 2016, 13 December 2016, 19 July 2017, 15 July 2018, 8 October 2018 and 9 October 2018;
- (3) Directors' resolution in writing pursuant to the article of association of the Company dated 24 November 2015;
- (4) Board meeting minutes dated 25 February 2016;
- (5) AC meeting minutes dated 6 February 2015;
- (6) 中国人民政治协商会议山东省委员会网站, retrieved from: <http://www.sdzx.gov.cn/articles/ch00060/201801/1ae1924a-7363-4eeb-9ebc-633591222d74.shtml>;
- (7) 山东宜诚燃气有限公司、德州奥英油气销售有限公司合同纠纷二审民事判决书, (2017)鲁民终1661号(山东省高级人民法院1220, 2017); and
- (8) 德州胜荣燃气有限公司等买卖合同纠纷二审民事判决书, (2017)鲁01民终2953号(山东省济南市中级人民法院69, 2017).

SECTION 5: EXTERA ACQUISITION

5.2 Review of the Extera Acquisition

5.2.1 For the entire duration of the Extera Acquisition from 1 December 2013 to 27 February 2015, the following 3 Directors were on the Board throughout the period:

| | Name | Position on the Board |
|-----|-----------------|--|
| (1) | Mr CY Wong | Managing Director (re-designated as Chairman in April 2017) & CEO |
| (2) | Dato' Izat | Non-Executive Chairman (re-designated as Independent Non-Executive Director in April 2017) |
| (3) | Mr Ong Kah Hock | Independent Non-Executive Director |

The following 2 Directors were also involved at different times of the Extera Acquisition as observed below:

Dr Arslan was appointed as Independent Non-Executive Director on 5 March 2014 and he remained on the Board throughout the period of the Extera Acquisition.

Mr Jeremy Dyer was appointed as Independent Non-Executive Director on 21 March 2014 and was designated as a member of the AC on 27 June 2014. He remained as a member of the AC until his resignation on 4 November 2016, and the reason given for his resignation was due to his other personal work commitments.

5.2.2 We observed that a Board resolution dated 28 November 2013 was passed (a) to approve the Extera Acquisition and the Extera Agreement, (b) to confirm and ratify the appointment of Robert Wang & Woo LLP as the Company's legal adviser and (c) to authorise Robert Wang & Woo LLP to submit an additional listing application to SGX-ST for its approval.

5.2.3 Based on the minutes of the AC meeting on 25 February 2014, we noted that the Company had received a letter dated 20 November 2013 from Mr Wong Yu ("**Rubic Prize Letter**") which was addressed to the Board. The Board comprised 3 directors, Dato' Izat, Mr Ong Kah Hock and Mr CY Wong; and the AC members were officially⁽¹⁾ Mr Ong Kah Hock and Mr CY Wong; and all directors were present at the AC meeting.

Note:

(1) See Section 4.2.7 of this Report on the composition of the AC members.

In the Rubic Prize Letter, Mr Wong Yu had informed the Board that he was the sole shareholder of Rubic Prize and had requested Mr CY Wong to be his nominee shareholder and director of, and to act on his behalf on all corporate matters for Extera. Mr Wong Yu also confirmed in the Rubic Prize Letter that all acts performed by Mr CY Wong for the past few months were within his knowledge and had obtained his prior approval. Mr Wong Yu also stated that he had discussed with Mr CY Wong and had proposed to sell 45 million shares in the paid up capital of Extera (81.82% of Extera) to the Company through Rubic Prize, subject to certain terms and conditions.

Mr Ong Kah Hock, the AC Chairman, confirmed that Mr CY Wong had on earlier occasions informed the Board about the Rubic Prize Letter. After reviewing the Rubic Prize Letter, the Board was satisfied that the sale of Extera by Rubic Prize to the Company was not an interested person transaction.

5.2.4 The Board resolution dated 24 November 2015 had ratified certain past actions which included the following, in relation to the Extera Acquisition Announcement on 1 December 2013:

- (i) Sheng Rong entering into agreement on 19 October 2013 with 于希明 in relation to the Fees and Advance Rental, totalling RMB1,050,000 for the CNG station to be built at Ping Yuen City.

SECTION 5: EXTERA ACQUISITION

- (ii) Sheng Rong entering into agreement on 24 December 2013 with 泰维 in relation to the purchase of the Lao Ling CNG Station for which a deposit of RMB1 million had been paid; and
- (iii) Appointment of PRC lawyers, 山东国曜律师事务所, on 22 October 2015 to recover the above amounts.

These actions were taken before prior approval from the Board was obtained, and hence ratified later on 24 November 2015.

In the same Board minutes, the Board had also ratified and approved the settlement agreement with Ao Ying to terminate their relationship for RMB11 million, as disclosed in Section 5.1.2 and Section 5.1.4 under the caption entitled “**FY2015**”.

In summary, we observed that the various CNG filling stations that Sheng Rong was purported to be operating/owned according to the Extera Acquisition Announcement, had met with various issues as follows:

| S/N | CNG filling station | Information provided in the Extera Acquisition Announcement | Subsequent development and matters that were not announced by the Company |
|-----|---|---|---|
| 1. | Dezhou CNG Station | In operation | <p>This gas station had some land use rights issues which may affect the operations of the gas station;</p> <p>As part of the settlement agreement with Ao Ying, this gas station was to be sold to Ao Ying;</p> <p>Mr CY Wong clarified that the Dezhou CNG Station had been sold to Ao Ying.</p> |
| 2. | Lao Ling CNG Station | In operation | <p>This gas station was not owned by Sheng Rong at the time of the Extera Acquisition Announcement. Sheng Rong had only entered into an agreement with 泰维 to acquire the gas station and had paid RMB1 million deposit to 泰维;</p> <p>Based on our public searches on the final judgement on 9 June 2017 on the suit by Sheng Rong against 泰维, we noted that Sheng Rong had lost its case against 泰维, and that Sheng Rong was not able to recover its Deposit for Lao Ling CNG Station.</p> |
| 3. | 3 rd CNG Station at Ping Yuen City | In the process of building | <p>Sheng Rong had before the Extera Acquisition Announcement entered into an agreement with 于希明 for services to procure all necessary licences, permits and approvals to build the CNG station for a fee of RMB850,000. Sheng Rong also paid RMB200,000 advance rental for the site. The Company found out later that the licence to operate a CNG filling station on that site was not granted and construction of the CNG station could not proceed.</p> <p>Based on the Board resolution dated 24 November 2015, the Company had, on 22 October 2015, appointed a PRC law firm to investigate on the recoverability of the Fees and Advance Rental for CNG station to be built.</p> <p>As at the Review Date, there is no update on the above.</p> |

SECTION 5: EXTERA ACQUISITION

| | | | |
|----|------------------------------------|--|---|
| 4. | Various other CNG filling stations | Had the permits and approvals to build a mother CNG station and 2 additional CNG filling stations. | There were no updates or reference to this matter by the Company. |
|----|------------------------------------|--|---|

5.2.5 As set out in Section 5.1.4 under the caption entitled “**FY2016**”, the Company had recognised a receivable of S\$0.5 million from Rubic Prize, being the unpaid issued share capital of Extera.

Mr CY Wong clarified that the Company had fully impaired the receivable of S\$0.5 million from Rubic Prize as Rubic Prize had ceased contact with the Company.

5.2.6 During the AC meeting on 9 May 2017, Mr Bernard Ong Kheng Chye, the AC Chairman then, among other things, enquired on the Group’s cash and cash equivalents of S\$1.436 million as at 31 March 2017, as reflected in the unaudited financial statements for 1Q2017. Mr Stanley Chu, the Financial Controller cum Company Secretary then, confirmed that all the S\$1.436 million was in cash and the majority of cash was in the bank account of Sheng Rong in the PRC. Mr Stanley Chu also explained that there were strict Chinese regulations prohibiting the repatriation of this cash to Singapore, and that the cash can only be used for limited purposes of Sheng Rong.

5.2.7 We noted that during the Board meeting on 9 November 2017, Mr CY Wong had informed the Board that he had identified a potential buyer willing to buy over Sheng Rong at an indicative consideration discounted price of S\$2 million, and that due to the complication in legal enforcement and remote condition of the properties, the chances of developing the land was unlikely. Stanley Chu explained that the book value of Extera was S\$2.6 million and the present value of Extera would be S\$2 million taking into account the discounted rate over 2 years and if the Company receives the funds now. The proposal to dispose Extera/Sheng Rong was unanimously supported and Mr CY Wong was to proceed with the negotiation on the disposal with the potential purchaser.

We note that the above proposed sale of Sheng Rong did not happen as at the Review Date.

5.2.8 We conducted an internet search on Sheng Rong and noted the following:

- (a) 90% shareholder of Sheng Rong was held by Twenty4 Pte. Ltd., the former name of Extera;
- (b) Ao Ying ceased to be a 10% shareholder of Sheng Rong on 8 September 2017 and 施丹 became the 10% shareholder of Sheng Rong on the same date; and
- (c) Mr Luke Ho Khee Yong ceased to be a director (董事) of Sheng Rong on 31 January 2018.

Mr Luke Ho Khee Yong is the CEO of Magnus Energy Group Limited. The Company had some business interactions with Magnus Energy Group Limited in respect of the Microalgae JV as set out in Sections 8.2.4 and 8.2.5 of this Report.

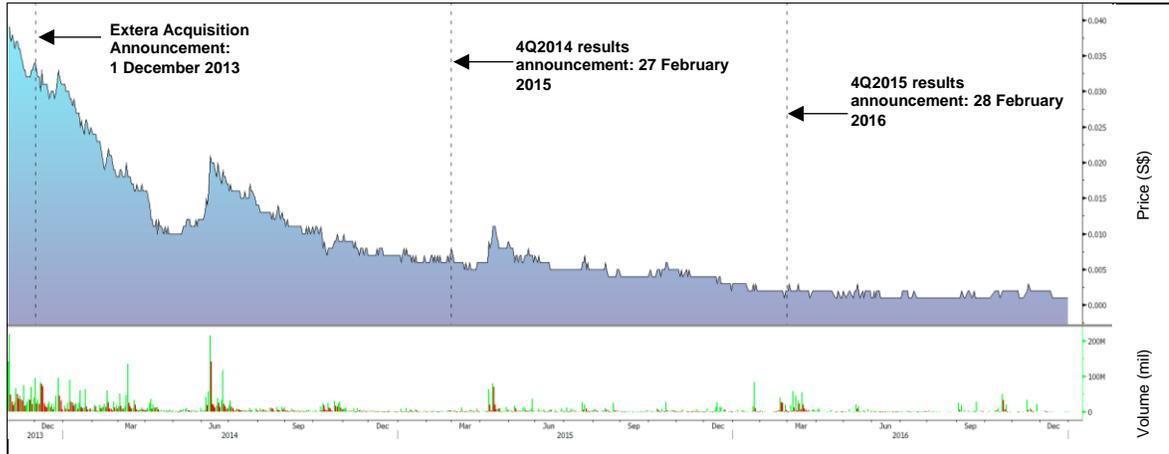
5.2.9 The Company’s Share price was generally on a downward trend during the time of the Extera Acquisition Announcement until the end of February 2016 except for 2 spikes around May to June 2014, when Share prices experienced a temporary increase from S\$0.010 to S\$0.020 before the announcement on the rights issue exercise⁽¹⁾ which was proposed by the Company on 20 June 2014; and around April 2015, when there was a temporary spike from S\$0.006 to S\$0.011, the timing of which coincided with the Artel Gold Exploration JV. Our review of the Artel Gold Exploration JV is set out in Section 7 of this Report. The Share price chart with markers on the Extera Acquisition Announcement on 1 December 2013, the announcement of the Company’s decision to sell its CNG filling station’s operating assets on 27 February 2015 (fourth quarter of FY2014 results announcement) and the announcement of the Company’s decision to exit the CNG business in the PRC on 28 February 2016 (fourth quarter of FY2015 results announcement) are set out below:

SECTION 5: EXTERA ACQUISITION

Note:

- (1) Proposed rights issue on the basis of 2 rights shares with 1 free warrant for every one Share held, with the rights shares priced at S\$0.01 each and the warrant exercise price determined at S\$0.012 each.

Price movement and trading volume of the Shares of the Company From 1 November 2013 to 31 December 2016



Source: Bloomberg L.P., based on the daily last transacted Share prices of the Company for the last 1-month period prior to the Extera Acquisition Announcement and up to 31 December 2016.

Source:

- (1) The Company's annual reports for FY2013, FY2014, FY2015, FY2016 and FY2017/2018;
- (2) Directors' resolutions in writing pursuant to the articles of association of the Company dated 28 November 2013 and 24 November 2015;
- (3) Board meeting minutes dated 23 & 24 November 2015 and 9 November 2017;
- (4) AC meeting minutes dated 25 February 2014, 6 February 2015 and 9 May 2017;
- (5) Company announcement dated 27 June 2014, 8 October 2018 and 9 October 2018; and
- (6) 企查查. (2018, 10 16). 企查查. Retrieved from https://www.qichacha.com/firm_8099f5407ac2fdabfbd25e2a0dee50c5.html#base

SECTION 5: EXTERA ACQUISITION

5.3 Queries to and responses from the Company

| S/N | Reference section | Queries by Provenance Capital | Company's responses |
|-----|-------------------|--|--|
| (1) | 5.1 | <p>(i) It was stated that the consideration of S\$17.1 million was arrived at after taking into account the prospects and opportunities in the CNG business in China and Sheng Rong's existing CNG filling stations business and its growth potential.</p> <p>Please elaborate whether any valuation was undertaken for the business of Sheng Rong as it was disclosed that Extera's net identifiable assets were only S\$4.5 million and profits was small.</p> <p>(ii) Was the Company aware of the additional investments it had to make in addition to the S\$17.1 million Purchase Consideration, i.e. the RMB10 million for the Lao Ling CNG Gas Station, Fees and Advance Rental for CNG station to be built, etc. If so, what was the rationale and the reason for not disclosing a more complete understanding of the investments in Extera and Sheng Rong;</p> <p>(iii) Given that the size of investment in Extera was not small and that after the acquisition when Extera group becomes a subsidiary of the Company, the existing CNG business of the Extera Group may become a new core business and the Company's risk profile would change significantly, what was the Company's rationale for not seeking Shareholders' approval regarding the acquisition of Extera?</p> | <p>(i) No independent valuation was undertaken as the Company had evaluated the acquisition based on its internal DCF valuation analysis of forward earnings and commercial evaluation. The net identifiable assets were the RMB27 million cash in Sheng Rong.</p> <p>(ii) The Purchase Consideration had taken into consideration Sheng Rong's existing cash balances which could be utilised to fund the future expansion of additional CNG stations. The payment for the Lao Ling CNG Station was part of the plan, which was supposed to take effect from the date of the agreement to purchase the station as Lao Ling CNG Station was already operating. The Company was of the view that there was no need to disclose such operational details of Sheng Rong.</p> <p>(iii) Mr CY Wong explained that the Company had viewed the Extera Acquisition, as with the other Selected Transactions, as an investment as the core business of the Company is investment holding. The Company could consider holding on to its investments or disposing of its investments at its discretion. Furthermore, the Company also viewed that seeking shareholders' approval for the acquisition of Extera, was not justifiable at the point of investment as it was premature to determine whether this investment would become a core business.</p> |
| (2) | 5.1.1 | <p>(i) Please elaborate on the due diligence work conducted by the Company before embarking on the Extera Acquisition.</p> <p>(ii) To what extent did the Company verify the assets of Sheng Rong and assess the sustainability of the business, taking into account the resources available to the Company and the experience and track record of its management in managing a new business in China? To what extent did the Company carry out checks on the vendor, the minority shareholder and the local PRC management?</p> <p>(iii) What was the Company's plans in monitoring/controlling the operations of Sheng Rong and the ongoing developments of the various CNG stations? Please clarify what resources were allocated by the Company to oversee the operations.</p> <p>(iv) Given the inconsistencies of information of the 3 CNG stations and the difficulties in</p> | <p>(i) The Company had conducted market research, seen the master plan of CNG filling stations for Shandong Province and carried out site visits of the CNG stations and prospective CNG stations in Jinan, Dezhou, Dongying and Qingdao, and had relied on the representations of the Chinese partner, Government officials and CNG owners and operators.</p> <p>(ii) The Company was of the view that the CNG filling station business in China was a straightforward business and had relied on Mr Li Lin Sheng's business network in China. Hence, it was agreed for Ao Ying to continue to manage the daily operations of the Dezhou CNG Station.</p> <p>(iii) The Company had stationed a Singapore employee in China to oversee the daily operations of the Dezhou CNG Station. However, this employee could not control the local management.</p> |

SECTION 5: EXTERA ACQUISITION

| S/N | Reference section | Queries by Provenance Capital | Company's responses |
|-----|-------------------|--|--|
| | | <p>getting the titles to the CNG stations, approval for the land, etc., when did the Company become aware of these developments and what due diligence did the Company carry out to ascertain the possibility of securing the relevant approvals prior to the Extera Acquisition?</p> <p>(v) It was mentioned in the Extera Acquisition Announcement that Sheng Rong had permits and approvals to build a mother CNG station and two additional CNG filling stations. What due diligence did the Company carry out to ascertain the authenticity of these approvals and, if approvals were already obtained, what was the reason for not proceeding to build the mother CNG station and the additional filling stations?</p> | <p>Mr CY Wong explained that after Management became aware of the unauthorised takings of daily sales collections at the Dezhou CNG Station around the Chinese New Year period in 2014, it triggered off alarms on other matters like the relevant approvals and licences required for Lao Ling CNG Station and Ping Yuen CNG Station in late 2014. The Company had relied on 泰维 and 于希明 to procure these licences for Lao Ling and Ping Yuen CNG stations as they had the necessary track record, experience and connections in China.</p> <p>(iv) Mr CY Wong explained that Sheng Rong had the approvals to build the mother CNG stations but had not obtained the necessary gas allocation approvals. The discussions to procure these gas allocation approvals were later abandoned when Sheng Rong had to handle issues relating to the Dezhou, Lao Ling and Ping Yuen CNG stations.</p> |
| (3) | 5.1.2 | <p>(i) Please elaborate on how often was the Board updated about Sheng Rong's operation, as we noted that the Board only ratified the early actions of Management almost 2 years after the Extera Acquisition Announcement? If the Board had been regularly briefed, please explain why no minutes were taken at Board meetings.</p> <p>(ii) Was the Company aware of the arrangement with 于希明 prior to the Announcement? What was the basis of paying 5 years' advance rental to the landlord and when did the landlord inform Management that the CNG station could not be built on the land until further notice. Please clarify why the Company did not disclose the above arrangement?</p> <p>(iii) Please clarify why the Company did not disclose the agreement to buy the Lao Ling CNG Station from 泰维 at the time of the agreement with 泰维 (24 December 2013), or at the time of the completion of the Extera Acquisition (26 December 2013), and the relationship between 泰维 and 于希明. What was the reason for the failure to transfer the required licences to Sheng Rong, and when was the Company notified of such failure, and the reason for not making an announcement or public disclosure in the Company's updates.</p> | <p>(i) Mr CY Wong had briefed the Board on the developments from time to time but no minutes were taken. The Management's focus was to preserve the cash in Sheng Rong and pursue the recovery of funds from Ao Ying. The ratification was carried out later when the Company Secretary realised that he had not noted these items in the Board minutes.</p> <p>(ii) Mr CY Wong was aware of the arrangement and he commented that the payment of the 5 years' advance rental was a common practice in China to secure the land before application of the necessary permits to build and operate the CNG filling station could be submitted to relevant authorities.</p> <p>(iii) Sheng Rong had paid the deposit for the Lao Ling CNG Station on the date of the purchase agreement with 泰维 on 24 December 2013 for the effective completion of the transfer of the station to be on the same date and the revenue and profit generated from the Lao Ling CNG Station would accrue to Sheng Rong from the date of the purchase agreement, as the Lao Ling CNG Station was already in operation. Therefore, the Company was of the view that Sheng Rong had owned the Lao Ling CNG Station as at the date of the completion of the Extera Acquisition. The Company did not see the need to make disclosures relating to such operational details of Sheng Rong, including the relationship between 泰维 and 于希明.</p> |

SECTION 5: EXTERA ACQUISITION

| S/N | Reference section | Queries by Provenance Capital | Company's responses |
|-----|-------------------|--|--|
| | | <p>(iv) Were the Fees and Advance Rental for CNG station to be built and the Deposit for Lao Ling CNG Station paid from the cash balances in Sheng Rong? If so, then at the time of the Extera Acquisition, the Lao Ling CNG Stations were not in place yet?</p> | <p>However, the sale and purchase of the Lao Ling CNG station could not complete subsequently as 泰维 could not transfer its license to Sheng Rong.</p> <p>The Lao Ling CNG Station was operating under a master licence owned by 泰维 which 泰维 could not segregate it from the master licence to be transferred to Sheng Rong. The Management had relied on the representations by 于希明 that he could procure the necessary licences for the Lao Ling CNG Station and Ping Yuen CNG Station to be transferred to Sheng Rong but failed to do so subsequently.</p> <p>Mr CY Wong explained that the Company did not announce such developments as the flow of information from China was slow, delayed and hard to verify.</p> <p>(iv) Yes, the payments were made from Sheng Rong cash balances, and the understanding was that Lao Ling CNG Station would be in place before completion of the Extera Acquisition, as disclosed in the responses (iii) above.</p> |
| (4) | 5.1.2 & 5.1.4 | <p>(i) When and how did the Company find out that Ao Ying had been repeatedly taking the sales collection from Sheng Rong's CNG station? What follow up actions did the Company take to stop it?</p> <p>(ii) Why did the Company not consider announcing this development?</p> <p>(iii) The decision to terminate relationship with Ao Ying happened as early as August 2014. The Company only disclosed its decision to sell the CNG station's operating assets on 27 February 2015 in its unaudited results for FY2014.</p> <p>What was the reason for not disclosing the decision to terminate the relationship with Ao Ying in August 2014, and why was this fact (the decision to terminate relationship with Ao Ying) not disclosed together with the sale of the CNG station's operating assets?</p> <p>(iv) Please explain how the settlement agreement with Ao Ying was arrived at and the actual amount lost by Sheng Rong and the basis of agreeing on the settlement amount.</p> | <p>(i) The Company became aware after the Chinese New Year in 2014 when Mr CY Wong noticed that the daily sales collections were not banked in and had questioned Mr Li Lin Sheng.</p> <p>Mr CY Wong became the legal representative in place of Mr Li Lin Sheng and had also replaced the local management of the Dezhou CNG Station with Mr Xu Pei Guo and Mr James Toh.</p> <p>(ii) Mr CY Wong explained that the sums involved were small and hence the Company did not make an announcement.</p> <p>(iii) Mr CY Wong explained that after the Company terminated its relationship with Ao Ying, the Company was still pursuing the CNG filling station business through Lao Ling and Ping Yuen CNG stations. Hence, the Company did not see the need to announce such information. However, by February 2015, the Company had decided to go with the Gaocheng JV and hence on that same date, announced the decision to sell the CNG station's assets.</p> <p>(iv) Mr CY Wong explained that the settlement agreement was based on the cost and</p> |

SECTION 5: EXTERA ACQUISITION

| S/N | Reference section | Queries by Provenance Capital | Company's responses |
|-----|-------------------|---|--|
| | | <p>(v) Please elaborate on the rationale for transferring the 10% equity stake in Sheng Rong to a nominee/unrelated third party instead of Extera or the Company directly? How was the value of this transfer of equity stake and transfer of Dezhou CNG Station being determined?</p> <p>What was the reason for not disclosing the identity of whom the Shares were transferred to.</p> <p>(vi) Did the Company appoint any professionals to advise on the transfer and sale of the properties due from Mr Li Lin Sheng, sole shareholder of Ao Ying and the monetisation of these assets?</p> | <p>expenses incurred by Mr Li Lin Sheng via Sheng Rong for the Dezhou CNG Station. Similarly, Sheng Rong had taken actions against 泰维 and 于希明 for the cost and expenses incurred for the Lao Ling CNG Station and Ping Yuen CNG Station.</p> <p>(v) Mr CY Wong explained that Ao Ying had contributed to its 10% Sheng Rong capital and Mr Li Lin Sheng had wanted to be paid for its 10% equity stake which the Company was not agreeable to make. Eventually, it was sold to an unrelated third party based on direct negotiations between Mr Li Lin Sheng and the third party buyer. The Company felt it was not necessary to disclose the identity of the unrelated third party as the buyer was only a minority shareholder of Sheng Rong.</p> <p>(vi) Sheng Rong had engaged 山东国曜律师事务所, a local Chinese law firm, to advise it on these matters.</p> |
| (5) | 5.1.4 | <p>(i) With regards to the MOU with Rubic Prize and the subsequent disposal of Shares by Rubic Prize which is against the intent of the MOU, what actions did the Company take to follow up with Rubic Prize on the MOU and what was the basis for not making an update announcement on the status of the MOU?</p> <p>The Company had only disclosed the declaration of Form 3 filed by Rubic Prize when it ceased to be a Substantial Shareholder. Please provide reason for not proceeding to enter into an agreement with Rubic Prize after the MOU.</p> <p>(ii) What is the status of the Company's effort in pursuing the S\$0.5 million unpaid issued share capital of Extera from Rubic Prize.</p> | <p>(i) Mr CY Wong explained that Mr Wong Yu (shareholder of Rubic Prize) had ceased discussion and avoided contact with the Company, so the Company could not proceed further with the MOU.</p> <p>(ii) Mr CY Wong clarified that the recording of the receivable of S\$0.5 million was an administrative mistake by the Company Secretary. The S\$0.5 million was eventually written-off in the accounts of the Company subsequently.</p> |
| (6) | 5.2.3 | <p>(i) The Rubic Prize Letter was dated 20 November 2013. However, AC members' discussion regarding the Rubic Prize Letter was only carried out on 25 February 2014. (The Board comprised 3 directors, Dato' Izat, Mr Ong Kah Hock and Mr CY Wong; and the AC members were officially Mr Ong Kah Hock and Mr CY Wong; and all directors were present at the AC meeting).</p> <p>AC minutes disclosed that the Board was aware earlier of Mr CY Wong's position as the nominee shareholder and sole director of Extera for Rubic Prize (the Vendor), at the time of the Extera Acquisition Announcement. This being so, please</p> | <p>(i) Mr CY Wong explained that he had informed the other two Directors of the Company then of his position prior to the Extera Acquisition but it was not minuted.</p> <p>Mr CY Wong explained that he was only facilitating and assisting Mr Wong Yu in the Extera Acquisition and hence did not realise the need to disclose the arrangement nor the Board's deliberation. The Company did not engage any adviser for the matter.</p> <p>(ii) Mr CY Wong had assisted Mr Wong Yu by first setting up Extera with a nominal paid up capital to hold the shares in Sheng Rong. Hence, Mr CY Wong was the</p> |

SECTION 5: EXTERA ACQUISITION

| S/N | Reference section | Queries by Provenance Capital | Company's responses |
|-----|-------------------|---|---|
| | | <p>explain why this fact was not disclosed in the Extera Acquisition Announcement.</p> <p>Who advised the Company on the Extera Acquisition Announcement and what was the adviser's advice on the matter?</p> <p>(ii) Please elaborate on the reason for Mr CY Wong's appointment as the nominee shareholder (and how was this effected) and sole director of Extera.</p> <p>(iii) Did the Company consider disclosing the content of the Rubic Prize Letter and the reasons that Extera Acquisition should not be considered as an IPT?</p> <p>(iv) Given that Mr CY Wong was the nominee shareholder and director of Extera, please explain why Mr CY Wong did not abstain from voting and signing on the Extera Acquisition on the Board resolution?</p> | <p>nominee shareholder and director of Extera at formation. When Extera was recapitalised for the purpose of investing in Sheng Rong, the entire shareholding in Extera was transferred to Rubic Prize and Mr CY Wong ceased to be a nominee shareholder. This was just before the sale of 81.82% interest in Extera to the Company.</p> <p>Mr CY Wong continued to be the director of Extera following the completion of the Extera Acquisition to represent the Company's interest in Extera.</p> <p>(iii) The Company had not considered such disclosure.</p> <p>(iv) The Company acknowledged that Mr CY Wong should have abstained from signing on the Board resolution.</p> |
| (7) | 5.2.8 | When was Mr Luke Ho Khee Yong appointed as a director (董事) of Sheng Rong? What was the rationale for his appointment? | Mr Luke Ho Khee Yong was appointed as a director of Sheng Rong sometime in 2014 when the Company was in dispute with Ao Ying and wanted more representation on Sheng Rong's board. Mr CY Wong explained that Mr Luke Ho Khee Yong was appointed as he traveled to China frequently and speaks fluent Mandarin. |
| (8) | 5.1.4 | Subsequent to the Review Date, we note that the Company intends to dispose of the shares of Extera, together with shares of certain other subsidiaries of the Group, to Mr CY Wong for S\$100,000 in cash. How will this affect the Company's ability to monetise the S\$2.3 million of other receivables? | Mr CY Wong explained that the S\$2.3 million receivables in the form of properties have yet to be transferred to Sheng Rong and will be time consuming, lengthy and uncertain, before the monetisation process can commence. The monetisation process is also difficult, lengthy and uncertain. For these reasons, the new investors had requested for the entities to be disposed as a condition for the 2 nd Proposed Placement. |

SECTION 5: EXTERA ACQUISITION

5.4 Interviews with Independent Directors, former Directors and other relevant persons

We have interviewed or attempted to interview the following Independent Directors, former Directors of the Company and other relevant persons:

| Names | Interview | Interview Notes |
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| (a) Mr Ong Kah Hock, Independent Director | Conducted on 31 October 2018. | <p>Mr Ong Kah Hock could not remember the reason why the Company did not hire advisers (legal and/or financial) to advise on the Extera Acquisition.</p> <p>With respect to the Board ratifications on 24 November 2015 of various corporate matters over a 2-year period, Mr Ong says he was aware of these material developments and corporate actions in Sheng Rong during the relevant times. He had left it to Management to make the necessary disclosures and documentation.</p> <p>He was disappointed with the outcome of the Extera Acquisition and was of the opinion that the failure was due to the Chinese business partner.</p> <p>He acknowledged that the Company should have disclosed the Rubic Prize Letter and the Board's deliberation on why it was not an interested person transaction.</p> |
| (b) Dato' Izat, Independent Director | Conducted on 31 October 2018. | <p>In general, Dato' Izat had left most matters to the Management including hiring of advisers, disclosures, procedures and documentation of the project.</p> <p>He could not remember or was not aware of the details of the matters highlighted in our findings and explained that he was in Malaysia most of the time or traveling overseas. In addition, he acknowledged that the project was in China and conducted in Chinese which he does not understand and the situation in China changes all the time.</p> <p>In his opinion, Mr CY Wong is very thorough. The Extera Acquisition could have turned out to be a good investment for the Company.</p> |
| (c) Mr Jeremy Dyer, former Independent Director | For accountability of the interview, the Company had requested for an in-person interview. However, as Mr Jeremy Dyer is based overseas, the Company was not prepared to bear the traveling and accommodation expenses of Mr Jeremy Dyer for the purpose of the interview. | Not applicable. |
| (d) Dr Arslan, Independent Director | Conducted on 31 October 2018. | Dr Arslan was appointed after the Extera Acquisition and after the deliberation of the Rubic Prize Letter. After he joined the Board he was informed that the project was not going too well and was briefed about the various corporate actions and material developments during the Board meeting on 24 November 2015. He was more interested in the Company's effort in monetising the receivables arising |

SECTION 5: EXTERA ACQUISITION

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| | | <p>from the settlement with the joint venture partner in Sheng Rong.</p> <p>On why the Company took up the Gaocheng deal referral from Mr Wong Yu, the owner of Rubiz Price, Dr Arslan was of the opinion that the clean energy products of the Gaocheng JV has potential to be expanded to Central Asia.</p> |
| (e) Mr Stanley Chu, former Group Financial Controller and Company Secretary | The Company said that Mr Stanley Chu declined to be interviewed. | Not applicable. |
| (f) Ms Jenny Soh, former General Manager for Corporate Affairs | Conducted on 9 November 2018. | She was mainly involved in liaising with Intertrust on the issuance of the Extera Consideration Shares, vetting of documents and announcements. |

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| SECTION 5: EXTERA ACQUISITION |
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5.5 Our assessment of the Company's investment process

| | Scope of review | Findings / Potential breaches | Recommendation |
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| (a) | <p>Whether the Company has an existing investment process and internal controls (including but not limited to, evaluation, approval, agreements, payment terms, approval of payments, recording, reporting of and follow up of proposed acquisitions/investments (including advances and loans)) which are in line with relevant regulatory requirements, including the Listing Manual and Code of Corporate Governance, and whether they are sufficiently robust based on best practices to ensure proper and good corporate governance.</p> | <p>We observed that the Company does not have a written set of investment procedures or internal control manual with respect to its investments in businesses and joint ventures. The Company, however, has an investment policy and manual for investments in marketable securities.</p> <p>Rule 719(1) of the Listing Manual requires the issuer to have a robust and effective system of internal controls, addressing financial, operational and compliance risks. In addition, Principle 11 of CG Code 2012 states that the board should ensure that management maintains a sound system of risk management and internal controls to safeguard shareholders' interests and the company's assets, and should determine the nature and extent of the significant risks which the board is willing to take in achieving its strategic objectives.</p> <p>The Company had acknowledged the above and clarified that, in practice, it had adopted and followed a general framework of investment and internal controls procedures as follows:</p> <ul style="list-style-type: none"> (i) deal origination and generation; (ii) research of industry, operating environment, financial and feasibility analysis, due diligence/research on the target company/investment; (iii) board presentation and deliberation; (iv) board approval; and (v) execution and monitoring. <p>Notwithstanding the above, in compliance with the Listing Manual and CG Code, the Company should have a well-documented operational manual to guide its Management with respect to its investments in businesses and joint ventures including a robust and effective system of internal controls and due diligence process to ensure proper and good corporate governance, and the nature and extent of the risk that the Board is willing to take in achieving its strategic objectives.</p> | <p>The Company should establish or consider appointing relevant professionals to assist the Company to establish a well-documented operational manual to guide its investment procedures, internal control processes and set out the nature and extent of the risk that the Board is prepared to take in considering each of the investments in businesses and/or joint ventures.</p> <p>Company's response:</p> <p>The Company agreed that for good corporate governance, such investment and internal control processes should be documented with sufficient details in accordance with best practices.</p> |

SECTION 5: EXTERA ACQUISITION

| | Scope of review | Findings / Potential breaches | Recommendation |
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| (b) | How the investment procedures for the Extera Acquisition compare with the Company's existing investment processes and against best practices set out in the CG Code, ABS Guidelines and requirements under the Listing Manual. | As observed in point (a) above, the Company does not have existing investment procedures and internal control processes in writing for investments in businesses and/or joint ventures, from which we can compare against the actual investment procedures undertaken for the Extera Acquisition. | (i) The Company should have carried out a more detailed due diligence exercise on, <i>inter alia</i> , the investment entities, the key management, licences and permits that are required for the operation of the business. |
| (c) | The extent of the due diligence, review and approval process undertaken by the Directors and Management for the Extera Acquisition. | <p>For the Extera Acquisition, we observed that the Company had carried out, <i>inter alia</i>, the following:</p> <ul style="list-style-type: none"> - conducted certain due diligence; - obtained certain Board approvals; and - obtained Board's ratifications on certain past actions of the Management. <p><u>Due diligence</u></p> <p>(i) We noted that the Company did not engage a PRC legal adviser on the Extera Acquisition to carry out due diligence checks on the PRC related entities and the key management, to ascertain the valid licences and permits that the Extera group has or does not have, and the additional cost and process of obtaining the outstanding licences and permits and the ownership status of the relevant assets.</p> <p>(ii) The Company also did not verify the information disclosed in the Extera Acquisition Announcement as we subsequently noted that there were discrepancies and/or unclear references as to the operating CNG stations and CNG station that was supposed to be in the process of building. After the completion of the Extera Acquisition, the Group also had to incur additional cost to pay third parties to assist to procure the licences and permits which were necessary in order for the CNG stations to operate, and these were not disclosed or announced by the Company.</p> <p>(iii) The Company also did not carry out an independent valuation of the Extera group or its business to support the significant goodwill amount of S\$12.8 million that the Company is paying to the Vendor (Rubic Prize) for the Extera Acquisition.</p> | <p>(ii) The Company should have considered the appointment of professional advisers in the PRC to assist it on the due diligence exercise.</p> <p>(iii) The Company should have considered the appointment of professional adviser to assist the Company on the accurate disclosure of information in the Extera Acquisition Announcement, and from time to time during the entire time span of the Extera Acquisition on the necessary updates and disclosures of developments in relation to Sheng Rong, its joint venture partners, Rubic Prize and Ao Ying, and the legal suits.</p> <p>(iv) The Company should have immediately implemented a system of internal controls and dedicated more resources (by employing additional senior executives to complement and assist the CEO) to monitor its investment upon the completion of the Extera Acquisition to ensure proper oversight of the operations of Sheng Rong. This would have prevented, <i>inter alia</i>, the loss of monies taken out without authority.</p> <p>(v) The Company should have disclosed Mr CY Wong's position as the nominee shareholder and sole director of Extera on behalf of Rubic Prize prior to the Extera Acquisition, and the Board's opinion on whether the Extera Acquisition is an IPT. Notwithstanding the above, Mr CY Wong should have abstained from recommending and voting on the Extera Acquisition at the Board meeting, as he has a conflict of interest.</p> <p>(vi) Management should have provided more timely and detailed updates to the Board on the material developments of the Extera Acquisition, and if it had, then such Board meetings, deliberations and approvals should be minuted in a timely manner. In any event, Board's approval should be obtained prior to the corporate actions and should avoid ratification wherever possible.</p> |

SECTION 5: EXTERA ACQUISITION

| | Scope of review | Findings / Potential breaches | Recommendation |
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| | | <p>(iv) The Company did not put in place internal controls for the operations of Sheng Rong immediately after the Extera Acquisition on 26 December 2013 as a few months later, the Company discovered that its minority shareholder in Sheng Rong, Ao Ying, had taken the daily sales collection without authority. The Company then made Mr CY Wong as the legal representative of Sheng Rong on 13 March 2014.</p> <p>The Company did not disclose the amount of the losses arising from the above.</p> <p>By February 2015, the Company had decided to sell its CNG filling business but was of the view that the investment and goodwill on Extera need not be impaired for FY2014. This was one of the key audit matters that led to the disclaimer of opinion by the auditors of the Company for FY2014. Eventually, the full amount was impaired in FY2015.</p> <p>(v) There was no Board minutes to deliberate on the terms of the settlement with Ao Ying, how the settlement sum of RMB11 million was agreed compared to the monies taken from Sheng Rong by Ao Ying, and how the settlement sum was agreed to be in the form of assignment of debts and transfer of properties.</p> <p>The Company did not appoint professional advisers to ascertain and assist in the recoverability or monetisation of the assignment of debts and transfer of properties. The recoverability of the assets is one of the key audit matters which formed the basis of disclaimer of opinion by the auditors of the Company for FY2016 and 12M2017.</p> <p>As at the Review Date, the settlement sum has not been monetised.</p> <p>(vi) The Company did not see to the completion of the terms of the MOU with Rubic Prize, on returning the 300 million Shares to the Company and transferring the 18.18% shareholding interest in Extera to the Company. Instead, Rubic Prize had sold 200 million</p> | <p>In the case of Extera Acquisition, the Board's ratification was in relation to corporate actions over a 2-year period.</p> <p>(vii) The Company may wish to consider the need to seek Shareholders' approval in investments where it is relatively significant which will give rise to the Group diversifying into a new core business with a risk profile that is different from the existing business of the Group.</p> <p>(viii) The Company should consider dedicating more resources in monitoring its investments after the acquisition (to prevent losses arising from removing of cash or assets without authority), and/or appointing professionals to advise the Company on the monetisation of the receivables due from Ao Ying/Mr Li Lin Sheng, and the MOU with Rubic Prize/Mr Wong Yu.</p> <p>Company's response:</p> <p>Overall, the Company agreed with the recommendations. As for point (iii), the Company is of the opinion that public disclosures of insignificant, operational and administrative events are not required e.g. the lawsuits relating to Sheng Rong where the amounts involved were small. As for point (xvii) of the findings, the Company had relied on the materiality test under Chapter 10 of the Listing Manual and the Extera Acquisition is below the threshold test that requires Shareholders' approval at an EGM.</p> |

SECTION 5: EXTERA ACQUISITION

| | Scope of review | Findings / Potential breaches | Recommendation |
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| | | <p>Shares in an off-market transaction for S\$200,000 and the outstanding 100 million Shares and 18.18% interest in Extera were not returned or transferred to the Company.</p> <p>Mr Wong Yu who is the sole shareholder of Rubic Prize had introduced the Gaocheng JV to the Company in early 2015.</p> <p>(vii) As part of the due diligence prior to the Extera Acquisition, the Board should have deliberated on and minuted the discussions on the relationship between Mr CY Wong, Mr Wong Yu and Rubic Prize and whether the Extera Acquisition is deemed an IPT, and whether the above ought to have been disclosed in the Extera Acquisition Announcement. If in doubt, the Company should have sought professional advice on the matter. Please see further details below under "<u>Rubic Prize Letter</u>".</p> <p><u>Disclosure</u></p> <p>(viii) The Company had made inconsistent public disclosures in relation to the Lao Ling CNG Station, that Lao Ling CNG Station was one of the 2 operating stations owned by Sheng Rong in the Extera Acquisition Announcement but later, on 22 March 2016 in response to the SGX-ST's query, the Company had disclosed that Sheng Rong had owned one CNG station and had contracted to purchase the Lao Ling CNG Station.</p> <p>We noted that Sheng Rong had, on 24 December 2013, entered into a contract with 泰维 to purchase the Lao Ling CNG Station for RMB10 million and had made a deposit of RMB1 million. As 泰维 failed to deliver the station, Sheng Rong commenced legal action to recover the deposit. The final judgement on 9 June 2017 showed that Sheng Rong had lost its suit against 泰维 to recover the Deposit for Lao Ling CNG Station.</p> | |

SECTION 5: EXTERA ACQUISITION

| | Scope of review | Findings / Potential breaches | Recommendation |
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| | | <p>The Company did not disclose any of the above events.</p> <p>(ix) The Company had disclosed that Sheng Rong owned the Dezhou CNG Station. In the Company's annual report for FY2013, the Company disclosed that Sheng Rong has a CNG station that has been completed and operating but does not have the land use rights. In the event that the land use rights is not obtained, Sheng Rong will not be able to continue to operate on that property. No reference was made to the Dezhou CNG Station.</p> <p>Based on the above, the Company's disclosure on the Extera Acquisition might be incomplete and/or inaccurate. It also raises concerns on the extent of due diligence carried out by the Company on the necessary valid approvals that Sheng Rong had obtained or had not obtained to operate the business, and the justification for the Purchase Consideration paid for the acquisition.</p> <p>(x) The Company did not disclose the extent of losses suffered by Sheng Rong as a result of Ao Ying repeatedly taking the daily sales collection from the Dezhou CNG Station without authority. Similarly, the Company's decision to terminate its relationship with Ao Ying which happened as early as August 2014 was not disclosed at that time. It was disclosed in February 2015 in the Company's unaudited results for FY2014 that it had decided to sell the CNG station's operating assets.</p> <p>(xi) The Company did not disclose that Sheng Rong had paid 于希明 Fees and Advances for a CNG station to be built, that the CNG station is not permitted to be built on the site until further notice, and that Sheng Rong had appointed PRC law firm to investigate on the recoverability of the Fees and Advance Rental paid to 于希明.</p> <p>(xii) The Company did not disclose the law suit against 泰维 in relation to the recovery of the Deposit for Lao Ling</p> | |

SECTION 5: EXTERA ACQUISITION

| | Scope of review | Findings / Potential breaches | Recommendation |
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| | | <p>CNG Station. In addition, the Company did not disclose that it had lost its case against 泰维 and that Sheng Rong was not able to recover its Deposit for Lao Ling CNG Station in the final judgement on 9 June 2017.</p> <p>(xiii) The Company did not provide update announcements after the MOU with Rubic Prize that Rubic Prize did not honour the terms of the MOU as it had disposed of 200 million Shares via off-market transaction, and had not transferred the 18.18% shareholding interest in Extera to the Company. The Company had only released the declaration of Form 3 by Rubic Prize on the sale of the 200 million Shares and that it ceased to be a substantial shareholder of the Company thereafter.</p> <p><u>Rubic Prize Letter</u></p> <p>(xiv) The Company did not make relevant disclosures of the relationships between Mr CY Wong, Mr Wong Yu and Extera in the Extera Acquisition Announcement dated 1 December 2013 pursuant to the Rubic Prize Letter dated 20 November 2013 which disclosed that Mr CY Wong was the nominee shareholder and sole director of Extera acting on behalf of Mr Wong Yu, and the Board's deliberation and conclusion that the Extera Acquisition is not considered as an IPT.</p> <p>(xv) Given Mr CY Wong's position as described in point (xiv) above, Mr CY Wong should have but did not abstain from voting on and approving the Extera Acquisition at the Board meeting.</p> <p><u>Tardiness in documenting Board approvals and minutes</u></p> <p>(xvi) The Company had, on 24 November 2015, obtained Board's ratification for certain corporate actions relating to the Extera Acquisition that had taken place over the last 2 years prior to the ratification.</p> <p>Board's approval should have been obtained prior to the corporate action. In addition, minutes should be taken on the Board deliberation and decision on whether there is a need to disclose these actions or</p> | |

SECTION 5: EXTERA ACQUISITION

| | Scope of review | Findings / Potential breaches | Recommendation |
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| | | <p>developments which are either inconsistent with earlier announcements or disclosures on the Extera Acquisition or which are material to the progress of the Extera Acquisition.</p> <p><u>Potential new core business and shareholders' approval</u></p> <p>(xvii) The Extera Acquisition would result in the Company acquiring an existing CNG filling business through the acquisition of Extera which will become a 81.81%-owned subsidiary of the Company.</p> <p>Did the Company consider or sought professional advice on the matter of seeking Shareholders' approval for the Extera Acquisition and entering into the CNG filling business in the PRC as a new core business for the Group?</p> | |
| (d) | Highlight of any non-compliance, significant or unusual deviations with requirements or guidelines under the constitution of the Company, CG Code, ABS Guidelines and Listing Manual, and any conflict of interest. | <p>In the course of our review of the Extera Acquisition, we have also noted the following instances of non-compliance which are not directly related to the Extera Acquisition:</p> <p>(i) During the time span of the Extera Acquisition, as was also noted in our review of the Merlin Diamonds Takeover Offer in Section 4 of this Report, Mr CY Wong, being an Executive Director, was an AC member for approximately 4½ years from 24 December 2009 until 27 June 2014. In addition, the AC had officially comprised Mr CY Wong and Mr Ong Kah Hock after Mr Yoon's resignation on 31 May 2013. This was not in full compliance with both Guideline 11.1 of CG Code 2005 and Guideline 12.1 of CG Code 2012 and was ratified on 27 June 2014 after the query from the SGX-ST on 23 June 2014. The Company designated Dato' Izat and Mr Jeremy Dyer as AC members and Mr CY Wong stepped down as AC member.</p> <p>(ii) Dato' Izat and Mr Ong Kah Hock have been with the Company for the last 23 and 17 years respectively, which are beyond the recommended 9 years tenure for independent directors under CG Code 2012. The Board had, however, considered and determined their continued independence.</p> | <p>(i) The Company may wish to consider the appointment of a Compliance Officer, internal or outsourced, to advise the Company on the composition of the AC and other compliance matters in accordance with the CG Code and Listing Manual.</p> <p>(ii) Dato' Izat and Mr Ong Kah Hock had served far beyond 9 years (23 and 17 years respectively) to justify their independence as Independent Directors of the Company. The Company should take steps to ratify the above position.</p> <p>(iii) During our kick-off meeting with the Company on 4 June 2018, we had highlighted to Mr CY Wong that the Company should follow-up on the outstanding matter with FKT, and to take active steps to comply with the CG Code in respect of the internal audit function.</p> <p>Company's Response:</p> <p>(i) The Company noted and agreed to consider appointing a compliance officer, but is currently cash strapped.</p> <p>(ii) The Company agreed with the recommendation.</p> |

SECTION 5: EXTERA ACQUISITION

| | Scope of review | Findings / Potential breaches | Recommendation |
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| | | <p>(iii) Principle 13 of CG Code 2012 requires the Company to establish an effective internal audit function. The Company had, on 5 June 2015 appointed FKT as the internal auditors for a period of 3 years. Management and the Board were not satisfied with the services of FKT and had, on 11 August 2016, resolved to terminate the services of FKT after a review was carried out on the draft internal audit report by FKT.</p> <p>As of the Review Date, FKT had not continued with its services as internal auditors and the Company had not formally terminated FKT's services. Please refer to further information set out in Appendix A under the caption entitled "Internal auditors".</p> | <p>(iii) The Company agreed with the recommendation. Subsequent to the Review Date, the Company had clarified in its annual report for FY2017/2018 that for the financial period, the Company did not have an internal audit function as the only source of income was derived from rental of investment properties. Moreover, the Group's external auditor had reviewed internal accounting control that are relevant to their audit. The AC will review the internal audit function when the business level of activities increases.</p> |
| (e) | Whether members of the Board had adhered to their legal obligations and Company's policies and procedures. | The Board has overall responsibility for the non-compliance listed in point (d) above. From our findings in points (a), (b) and (c), the Board also has overall responsibility for the lack of a written framework of prudent and effective controls in the Company and generally an oversight of Management to ensure a sound design, implementation and monitoring of risk management and internal control systems. | <p>The Board should take immediate action to address the points listed above.</p> <p>Company's response:</p> <p>The Company agreed with the recommendation.</p> |
| (f) | Whether the failures or impairment of any of the investments could have been avoided through the improvements in internal controls or processes and where there have been failures or weaknesses noted in relation to the Selected Transactions, to quantify the impact on the Company's financials in this Report. | <p>The Extera Acquisition had cost the Company S\$17.2 million in terms of Purchase Consideration, which was substantially impaired in FY2015.</p> <p>The settlement sum with Ao Ying of RMB11 million (S\$2.3 million) which is still recorded in the books as other receivables was one of the key audit matters which led to the disclaimer of opinion by the auditors for FY2016, 12M2017 and FY2017/2018.</p> <p>As at the Review Date, the Company has not monetised any part of the receivables of RMB11 million.</p> <p>If the due diligence checks had uncovered the matters of concern earlier, the Company might not have proceeded with the acquisition.</p> <p>The Company would have avoided significant impairment on its investment, saved substantial Management's and Board's time in attending to the legal matters in resolving the</p> | <p>The Board should take cognizance of the matter, carry out more detailed due diligence before committing on the investment and evaluate the impact the investment may have on the Group's financial performance.</p> <p>The Board should put in place close monitoring processes for the outstanding unresolved matters, including the monetisation of the settlement sum and the MOU.</p> <p>Company's response:</p> <p>The Company agreed with the recommendations.</p> |

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| SECTION 5: EXTERA ACQUISITION |
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| | Scope of review | Findings / Potential breaches | Recommendation |
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| | | <p>loss of money in Sheng Rong, the monies paid to secure approvals and permits, and the long outstanding process in the recovery of settlement sums and the unresolved terms of the MOU that was not honoured by the counterparty.</p> <p>Subsequent to the Review Date, we note that the Company intends to dispose of the shares of Extera, together with shares of certain other subsidiaries of the Group, to Mr CY Wong for S\$100,000 in cash.</p> | |

SECTION 6: GAOCHENG JV

6. GAOCHENG JV

6.1 Overview

6.1.1 On 27 February 2015, the Company announced (“**Gaocheng JV Announcement**”) that Extera, a subsidiary of the Company, had entered into an agreement (“**Gaocheng JVA**”) with Aceford Limited (“**Aceford**”) and Mr Liang Gaocheng (梁高成) to establish a Chinese joint venture company in Shandong Province, PRC (“**CJV**”). The primary business of the CJV was to distribute clean gasoline and diesel produced by Shandong Gaocheng Petroleum Technology Co., Ltd. (山东高成石油科技有限公司) (“**Gaocheng Petroleum**”). Through the CJV, the Company had hoped to enlarge its footprint in the clean energy distribution business in China.

Extera is an 81.82%-owned subsidiary of the Company. The balance 18.18% interest in Extera is owned by Rubic Prize Limited, a substantial shareholder of the Company at the time of the Gaocheng JV. Mr Wong Yu (王宇) is the sole shareholder of Rubic Prize Limited. Extera has a 90% equity stake in Sheng Rong (德州胜荣燃气有限公司). The balance 10% equity interest in Sheng Rong is owned by Ao Ying (奥英油气销售有限公司), a PRC company wholly-owned by Mr Li Lin Sheng (李林胜), a PRC national. Sheng Rong is principally engaged in the ownership and operations of CNG filling stations and natural gas supply and distribution business in Shandong province, PRC. Extera is one of the Selected Transactions reviewed in this Report. Further information on Extera is set out in Section 5 of this Report.

On the same date as the Gaocheng JV Announcement, the Company had separately disclosed that it had decided to sell its CNG filling station’s operating assets under Sheng Rong in its results announcement for FY2014.

The joint venture with Aceford and Mr Liang Gaocheng (“**Gaocheng JV**”) was introduced to the Company by Mr Wong Yu. No commission was payable to Mr Wong Yu for introducing the investment opportunity to the Group.

Aceford is an investment holding company owned by Mr Liang Gaocheng and Mr Duan Shenyu (段升余). Percentage shareholding was not disclosed in the Gaocheng JV Announcement. Mr CY Wong clarified that Mr Duan Shenyu is a nominee of Mr Liang Gaocheng. Accordingly, Aceford could be deemed to be wholly-owned by Mr Liang Gaocheng.

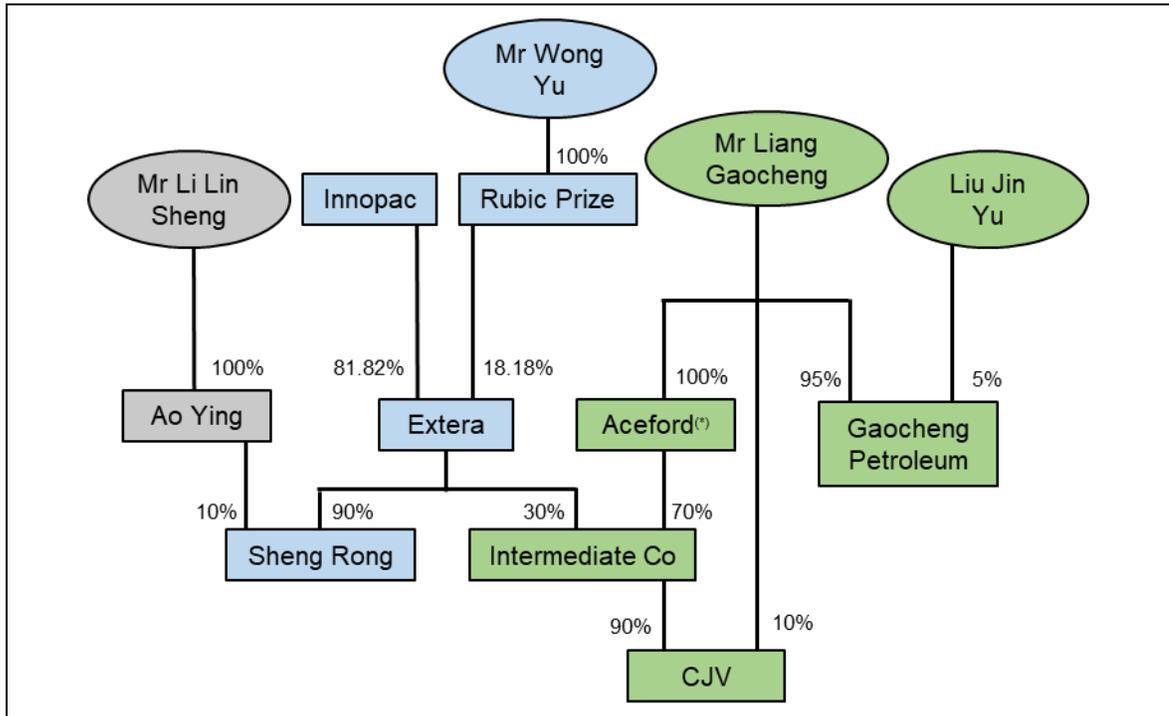
Mr Liang Gaocheng had established Gaocheng Petroleum in May 2009 to commercialise his proprietary know-how. Gaocheng Petroleum operates a refinery with a capacity to produce 1 million tonnes of clean gasoline and diesel fuel annually. Based on our searches, Mr Liang Gaocheng owns 95% interest in Gaocheng Petroleum and balance 5% is owned by Liu Jin Yu (刘金玉).

As disclosed in the Gaocheng JV Announcement, Mr Liang Gaocheng was a post-graduate from the Tsinghua University (清华大学), Beijing and he had been engaged in polymer and clean fuel research. He had the proprietary know-how for the production of high performance unleaded clean gasoline and diesel (patent application number 01118350.0). The quality of the products had been tested by PRC State authorities and met with China V standard of high performance clean gasoline. The technology received accolades and recognition from both state-owned and private oil companies. Gaocheng Petroleum together with the Chinese Academy of Scientific Research and Tsinghua University also founded a research and development institute which became an enterprise technology centre for integration of production, learning and research.

SECTION 6: GAOCHENG JV

The parties to the Gaocheng JVA agreed to establish an intermediate investment holding company (“**Intermediate Co**”) to hold a 90% equity interest in the proposed CJV, and the remaining 10% of CJV will be owned by Mr Liang Gaocheng or his nominee. The shareholders of Intermediate Co would be Aceford (70%) and Extera (30%).

Accordingly, Extera and the Company’s effective interests in CJV would be 27% and 22% respectively as shown in the group structure below:



Note:

- (1) Aceford is owned by Mr Liang Gaocheng and Mr Duan Shenyu. Mr CY Wong had clarified that Mr Duan Shenyu is a nominee of Mr Liang Gaocheng.

It was intended for the CJV to have a registered capital of RMB30 million (S\$6.52 million at an exchange rate of RMB1.00 to S\$0.2174 on 27 February 2015), which shall be funded entirely by Extera.

As a reference and in comparison with the investment in CJV of S\$6.52 million, as at the date of the Gaocheng JVA Announcement, the market capitalisation of the Company was S\$30.8 million.

The CJV was to be the exclusive purchaser and supplier of raw materials for Gaocheng Petroleum and the sole marketing and distribution agent for Gaocheng Petroleum. Mr Liang Gaocheng and Aceford had undertaken to procure and cause Gaocheng Petroleum to award these contracts to the proposed CJV. Mr Liang Gaocheng and Aceford had also undertaken to procure and cause Gaocheng Petroleum to give first right of refusal to the shareholders of the CJV, including Extera, to participate and invest in new refineries in the PRC.

- 6.1.2** On 6 November 2015, the Company updated, in its third quarter results announcement ended 30 September 2015, that the CJV had not been established as the necessary licences and permits for the contemplated activities of the CJV had not been procured by Mr Liang Gaocheng and that it was

SECTION 6: GAOCHENG JV

reviewing its PRC investments and business strategy and would update the Shareholders when a decision had been made.

On 28 February 2016, the Company updated, in its fourth quarter results announcement ended 31 December 2015, that the Board had decided to exit its investments in PRC as they were not congruent with the Group's plan and strategy moving forward. The Company had notified Aceford and Mr Liang Gaocheng of its intention to terminate the Gaocheng JVA. Mr Liang Gaocheng had yet to procure all the necessary licences and permits for the contemplated activities of the CJV which had not been established.

On 14 March 2016, the Company announced the termination of the Gaocheng JVA and that Extera, Aceford and Mr Liang Gaocheng had signed the termination agreement. Since the signing of the Gaocheng JVA, the necessary licences and permits for the contemplated activities of the CJV had not been procured by Mr Liang Gaocheng, the CJV had not been established and the contemplated activities had not commenced.

The Gaocheng JV which commenced on 27 February 2015 and terminated on 14 March 2016 spanned approximately 1 year.

A total of S\$3,612.30 had been incurred for the formation and related expenses of Weili Global Limited, the Intermediate Co, and the Board had, on 31 May 2016, approved for the amount to be written off.

Source:

- (1) Company announcements dated 1 December 2013, 27 March 2015, 6 November 2015, 28 February 2016 and 14 March 2016;
- (2) Directors' resolution in writing pursuant to the articles of association of the Company dated 31 May 2016; and
- (3) 企查查. (n.d.). Retrieved from 企查查: https://www.qichacha.com/cbase_a4b97b9b0a6b55a984c21ef3fa86ba12

SECTION 6: GAOCHENG JV

6.2 Review of the Gaocheng JV

6.2.1 For the entire duration of the Gaocheng JV from 27 February 2015 to 14 March 2016, the following 5 Directors were on the Board throughout the period:

| | Name | Position on the Board |
|-----|-----------------|--|
| (1) | Mr CY Wong | Managing Director (re-designated as Chairman in April 2017) & CEO |
| (2) | Dato' Izat | Non-Executive Chairman (re-designated as Independent Non-Executive Director in April 2017) |
| (3) | Mr Ong Kah Hock | Independent Non-Executive Director |
| (4) | Dr Arslan | Independent Non-Executive Director |
| (5) | Mr Jeremy Dyer | Independent Non-Executive Director |

6.2.2 We observed that the Company was provided with an investment summary and information memorandum dated October 2014 (both in Chinese and English translated version) ("**Information Memorandum**") relating to an investment opportunity in Gaocheng Petroleum for an investment sum of RMB93 million to build a production facility with a capacity of 1 million tons of high-definition unleaded gasoline per annum ("**Gaocheng Investment**"). The Information Memorandum contained information including feasibility study report, project implementation plan and schedule and financial forecast of the Gaocheng Investment.

The structure of the Company's investment in the Gaocheng Investment was subsequently changed to the Gaocheng JV where CJV would be the exclusive purchaser and supplier of raw materials for Gaocheng Petroleum and its sole marketing and distribution agent. Mr CY Wong had explained that such structure will minimise investment risk for the Company.

We also observed from an email correspondences dated 25 November 2014 that Mr Stanley Chu and Mr Nick Ong Sing Huat, the Company's legal adviser from Robert Wang & Woo LLP, had visited Gaocheng Petroleum's site in Shandong, PRC. The email correspondence also stated that Mr Stanley Chu and Mr Nick Ong Sing Huat saw trucks loading and unloading gas raw materials and finished products and that no financial reports were available at that time.

6.2.3 We have conducted internet searches on the Gaocheng Petroleum's trademark and our findings were summarised as follows:

| | Trademarks | Findings |
|-----|----------------------------|--|
| (1) | 高成石油 Gaocheng Petroleum | <p>注册号 : 16809996</p> <p>申请日期 : 2015 年 04 月 27 日</p> <p>专用权期限: 2016 年 06 月 21 日 至 2026 年 06 月 20 日</p> <p>商标状态图标: LIVE/REGISTRATION/Issued and Active</p> <p style="text-align: center;">注册</p> |
| | | <p>Based on our interpretation of the above, the search results are as follows:</p> <p>Application number: 16809996</p> <p>Application date: 27 April 2015</p> <p>Trademark effective period: 21 June 2016 – 20 June 2026</p> <p>Trademark status: LIVE/REGISTRATION/Issued and Active</p> |

SECTION 6: GAOCHENG JV

| | | |
|--|--|--|
| | | The trademark was filed with 中华人民共和国国家工商行政管理总局商标局 (Trademark Office of the State Administration For Industry & Commerce of PRC). |
|--|--|--|

Source:

- (1) 中华人民共和国国家工商行政管理总局商标局 (Trademark Office of the State Administration For Industry & Commerce of PRC) website

We observed from the above searches that although it was purported that Gaocheng Petroleum was reputable and was already in the production and sales of clean gasoline business, Gaocheng Petroleum's trademark was applied on 27 April 2015 which was after the Gaocheng JVA Announcement on 27 February 2015. The trademark was validly registered in June 2016.

- 6.2.4** We observed from an email correspondence from Mr Nick Ong Sing Huat to the Company dated 5 December 2014 confirming that the results of the patent search that was cited by Mr Liang Gaocheng in his company information and the application was largely consistent with what Mr Liang Gaocheng had disclosed verbally to the Company.

We have also conducted internet searches on the patent referred to in the Gaocheng JVA Announcement (patent application number 01118350.0) that was owned by Mr Liang Gaocheng with respect to his proprietary know-how for the production of high performance unleaded clean gasoline and diesel. Our findings are summarised as follows:

| | Patents | Findings |
|-----|---------------------|--|
| (1) | 专利申请号: CN01118350.0 | <p>申请日 : 2001.05.25</p> <p>法律状态含义 : 发明专利申请公布后的驳回</p> <p>法律状态生效日 : 20070516</p> <hr/> <p>Based on our interpretation of the above, the search results are as follows:</p> <p>Patent application number: CN01118350.0</p> <p>Application date: 25 May 2001</p> <p>Legal status : Rejected</p> <p>Legal status effective date: 16 May 2007</p> <hr/> <p>The patent was filed with the State Intellectual Property Office of the PRC</p> |

Source:

- (1) State Intellectual Property Office of the PRC website

We observed from the above searches that the patent was rejected before Gaocheng Petroleum was established and was not validly registered.

The above findings in Sections 6.2.3 and 6.2.4 seem to contradict with the representations on the background of Mr Liang Gaocheng and Gaocheng Petroleum.

- 6.2.5** On 15 May 2015, during the Board meeting, Mr CY Wong informed the Board that he and Mr Liang Gaocheng had met Petrol China's CEO from London who offered to supply 2 million metric tons ("MT") of naphtha per annum at market price based on free-on-board Singapore. Naphtha was the

SECTION 6: GAOCHENG JV

main ingredient used in the production of the clean fuel. The plan was to blend the clean fuel in either Singapore or Malaysia as there was heavy demand for gasoline in this part of the world. He also updated the Board that the Company would source for letter of credit facility from banks and check out lease rental for storage tanks in Singapore or Malaysia. According to Mr Liang Gaocheng, the production cycle time was 3 days. Further updates on the feasibility of the project would be provided to the Board in due course.

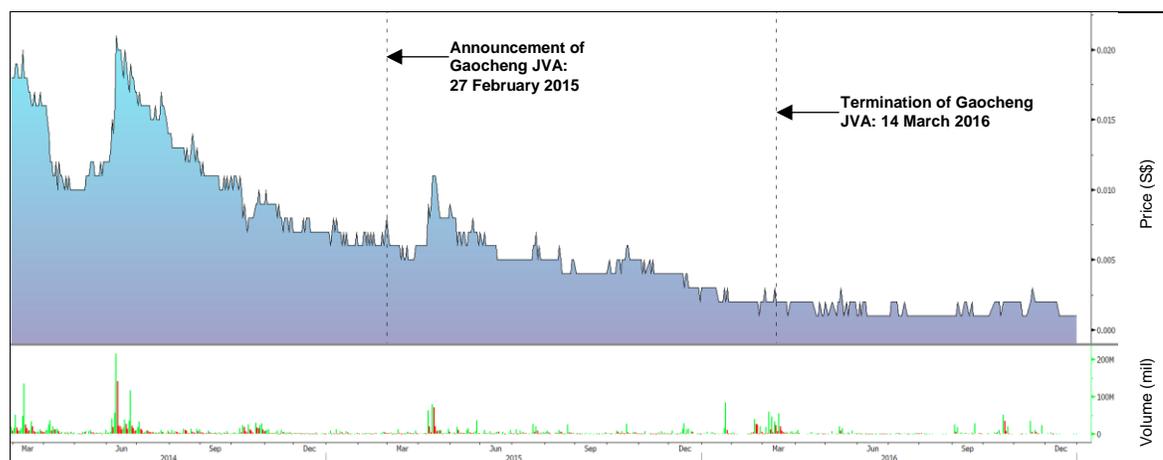
Pursuant to our clarification, Mr CY Wong said that he was interested in the Gaocheng JV mainly because of the potential to develop a similar project in Singapore and/or Malaysia. However, pursuant to further interaction with Mr Liang Gaocheng, Mr CY Wong noticed that Mr Liang Gaocheng was not responsive to inquiries raised by the Company and was not willing to share more details of the blending/production process which were necessary for the Company to carry out further feasibility studies. This was the reason that the Management was not comfortable with proceeding with the Gaocheng JV.

On 6 August 2015, Mr CY Wong updated the Board that there was no significant progress in the CJV other than signing the Gaocheng JVA and the incorporation of a corporate vehicle for the CJV. No substantial financial resources was deployed. Mr CY Wong also stated that Mr Liang Gaocheng had not been responsive to inquiries raised by the Company on the CJV. As the financial resources at stake were huge, the Management was not comfortable to go ahead without seeing any wholehearted commitment from Mr Liang Gaocheng.

Eventually, on 25 February 2016, the Board resolved to terminate the Gaocheng JVA.

- 6.2.6** The announcement of the Gaocheng JV did not seem to have an impact on the Share price at the time of the announcement. The spike in Share price in April 2015 appeared to be linked to the Artel Gold Exploration JV. Our review of the Artel Gold Exploration JV is set out in Section 7 of this Report. The Share price chart with markers on the announcement and termination of the Gaocheng JV is set out below:

Price movement and trading volume of the Shares of the Company



Source: Bloomberg L.P., based on the daily last transacted Share prices of the Company for the last 1-year period prior to the Gaocheng JV Announcement and up to 31 December 2016.

Source:

- (1) The Company's annual reports for FY2014 and FY2015;
- (2) Directors' resolutions in writing pursuant to the articles of association of the Company dated 27 February 2015, 14 March 2016 and 31 May 2016;

SECTION 6: GAOCHENG JV

- (3) Board meeting minutes dated 15 May 2015, 6 August 2015 and 25 February 2016;
- (4) AC meeting minutes dated 6 February 2015;
- (5) Email correspondences between Mr Stanley Chu, Mr Nick Ong Sing Huat and Mr CY Wong dated 25 November 2014;
and
- (6) Email correspondences between Mr Nick Ong Sing Huat and the Management dated 5 December 2014.

SECTION 6: GAOCHENG JV

6.3 Queries to and responses from the Company

| S/N | Reference section | Queries by Provenance Capital | Company's responses |
|-----|----------------------|---|--|
| (1) | 6.1.1 | <p>Mr Wong Yu was the vendor in connection with the Extera Acquisition that the Company had invested in 2013, and that by August 2014 there had been certain adverse developments with regard to the Company's exit from the Extera investment (please see Section 5 of this Report).</p> <p>In view of the above, please provide rationale for proceeding in February 2015 with the Gaocheng JV which was introduced by Mr Wong Yu.</p> | <p>Mr CY Wong explained that after the adverse developments in the Extera Acquisition, Mr Wong Yu had introduced the Gaocheng JV to the Company as he had wanted to help turnaround Sheng Rong as Mr Wong Yu also has interest in Sheng Rong via Extera. The Company could channel Sheng Rong's existing funds to invest in new opportunities in China.</p> <p>Hence, the announcements/disclosures were made on the same date (27 February 2015) for the Company to terminate the relationship with Ao Ying and to enter into the Gaocheng JV.</p> |
| (2) | 6.1.1 | <p>As Aceford has no shareholding interest in Gaocheng Petroleum, please provide the basis of how Aceford could deliver the undertaking to procure Gaocheng Petroleum to award contracts to the CJV and to give CJV the first right of refusal, as disclosed in the Gaocheng JV Announcement?</p> | <p>Aceford was 100% owned by Mr Liang Gaocheng and he owned 95% of Gaocheng Petroleum. The spirit of the Gaocheng JVA was that Mr Liang Gaocheng as the common shareholder of Aceford and Gaocheng Petroleum would procure Gaocheng Petroleum to award contracts to the CJV.</p> |
| (3) | 6.1.1, 6.2.3 & 6.2.4 | <p>Taking into account our findings on the trademark and patent of Gaocheng Petroleum which were not in existence at the time of the Gaocheng JV Announcement, please explain rationale for the Company to contribute 100% of the registered capital of the CJV when its effective shareholding interest of the Company in the Gaocheng JV was only 22%?</p> <p>What was the basis of determining the registered capital of CJV and the contribution expected from Mr Liang Gaocheng and Aceford?</p> | <p>Mr CY Wong explained that the Company had relied on the representations by the legal adviser regarding the patent search.</p> <p>The registered capital of CJV was determined taking into consideration the registered capital in Sheng Rong. The Company had 3 years' timeframe to contribute to the paid up capital of CJV and no paid up capital was incurred for the CJV.</p> <p>The Company was the financial partner in the Gaocheng JV and Mr Liang Gaocheng were expected to contribute the technology and procure Gaocheng Petroleum to award distribution contracts to the CJV.</p> |
| (4) | 6.1.2 & 6.2.2 | <p>Please elaborate on the due diligence work conducted by the Company before signing the Gaocheng JVA?</p> <p>To what extent did the Company verify the credentials, track records, accolades, patents and trademark of Mr Liang Gaocheng and Gaocheng Petroleum?</p> <p>Did the Company follow up on the site visit to Gaocheng Petroleum in November 2014, in particular, Gaocheng Petroleum's financial reports to ascertain and support the disclosures on Gaocheng Petroleum in the Gaocheng JV Announcement?</p> | <p>The Company had relied mainly on the representations made by Mr Wong Yu and Mr Liang Gaocheng. Mr CY Wong explained that the legal adviser and the Company Secretary had also conducted site visits to Gaocheng Petroleum and sighted a refinery facility in Shandong province. In addition, the Management conducted reference checks on Mr Liang Gaocheng and was informed that he had conducted research in Tsinghua University, Beijing.</p> <p>Mr CY Wong explained that no financial reports of Gaocheng Petroleum was given as the investment structure was eventually decided to be in a new CJV instead of investing in Gaocheng Petroleum directly.</p> |

SECTION 6: GAOCHENG JV

| | | | |
|-----|-------|---|---|
| (5) | 6.2.2 | <p>The Company was first shown the Information Memorandum on a fund raising proposal on the building of production facilities for Gaocheng Petroleum. Subsequently, the Company embarked on the Gaocheng JV structure to be the exclusive purchaser and supplier of raw materials to Gaocheng Petroleum and sole marketing and to distribution agent for Gaocheng Petroleum.</p> <p>Please explain the rationale for the change in investment structure and the extent of due diligence done on the feasibility and rationale as the exclusive supplier and distributor for Gaocheng Petroleum?</p> | <p>Mr CY Wong explained that investing directly in Gaocheng Petroleum would be capital intensive. Therefore, the Company had changed the investment structure to trading and marketing of Gaocheng Petroleum's products. The Company had conducted market analysis and concluded that the clean energy market has good potential in China.</p> <p>The change of investment structure would address the working capital needs of Gaocheng Petroleum and benefit the Company as the Company would have better control over the operations of CJV.</p> |
|-----|-------|---|---|

SECTION 6: GAOCHENG JV

6.4 Interviews with Independent Directors, former Directors and other relevant persons

We have interviewed or attempted to interview the following Independent Directors, former Directors of the Company and other relevant persons:

| Names | Interview | Interview Notes |
|---|--|--|
| (a) Mr Ong Kah Hock, Independent Director | Conducted on 31 October 2018. | He was aware of the funding arrangement with the joint venture partner as the Company is the financial partner and the joint venture partner contributes the technology, etc and that the funding arrangement is a commercial decision. He was not aware of our findings that the patent and trademark for the project was not in place at the time of the announcement. He was aware of the Company's investment in the Gaocheng JV through Extera as Extera is the Company's vehicle to carry out investments and businesses in China. |
| (b) Dato' Izat, Independent Director | Conducted on 31 October 2018. | Dato' Izat had depended on Management's evaluation and the Board then made the necessary decision. He had also depended on Management and the legal advisers to carry out the due diligence on the project. He could not remember the reason and the details for using Extera as the subsidiary to enter into the Gaocheng JV. |
| (c) Mr Jeremy Dyer, former Independent Director | For accountability of the interview, the Company had requested for an in-person interview. However, as Mr Jeremy Dyer is based overseas, the Company was not prepared to bear the traveling and accommodation expenses of Mr Jeremy Dyer for the purpose of the interview. | Not applicable. |
| (d) Dr Arslan, Independent Director | Conducted on 31 October 2018. | He was aware of the funding arrangement with the joint venture partner and had approved of it at the Board meeting. He was not aware of our findings in relation to the patent and trademark which the joint partner supposed to have in place. He understood that the reason for using Extera as the Group's subsidiary to enter into the Gaocheng JV was to channel Extera's existing available funds in China for the Gaocheng JV which is also in China. |
| (e) Mr Stanley Chu, former Group Financial Controller and Company Secretary | The Company said that Mr Stanley Chu declined be interviewed. | Not applicable. |
| (f) Ms Jenny Soh, former General Manager for Corporate Affairs | Conducted on 9 November 2018. | She was not involved in this transaction. |

SECTION 6: GAOCHENG JV

6.5 Our assessment of the Company's investment process

| | Scope of review | Findings / Potential breaches | Recommendation |
|-----|--|--|--|
| (a) | <p>Whether the Company has an existing investment process and internal controls (including but not limited to, evaluation, approval, agreements, payment terms, approval of payments, recording, reporting of and follow up of proposed acquisitions/investments (including advances and loans)) which are in line with relevant regulatory requirements, including the Listing Manual and Code of Corporate Governance, and whether they are sufficiently robust based on best practices to ensure proper and good corporate governance</p> | <p>We observed that the Company does not have a written set of investment procedures or internal control manual with respect to its investments in businesses and joint ventures. The Company, however, has an investment policy and manual for investments in marketable securities.</p> <p>Rule 719(1) of the Listing Manual requires the issuer to have a robust and effective system of internal controls, addressing financial, operational and compliance risks. In addition, Principle 11 of CG Code 2012 states that the board should ensure that management maintains a sound system of risk management and internal controls to safeguard shareholders' interests and the company's assets, and should determine the nature and extent of the significant risks which the board is willing to take in achieving its strategic objectives.</p> <p>The Company had acknowledged the above and clarified that, in practice, it had adopted and followed a general framework of investment and internal controls procedures as follows:</p> <ul style="list-style-type: none"> (i) deal origination and generation; (ii) research of industry, operating environment, financial and feasibility analysis, due diligence/research on the target company/investment; (iii) board presentation and deliberation; (iv) board approval; and (v) execution and monitoring. <p>Notwithstanding the above, in compliance with the Listing Manual and CG Code, the Company should have a well-documented operational manual to guide its Management with respect to its investments in businesses and joint ventures including a robust and effective system of internal controls and due diligence process to ensure proper and good corporate governance, and the nature and extent of the risk that the Board is willing to take in achieving its strategic objectives.</p> | <p>The Company should establish or consider appointing relevant professionals to assist the Company to establish a well-documented operational manual to guide its investment procedures, internal control processes and set out the nature and extent of the risk that the Board is prepared to take in considering each of the investments in businesses and/or joint ventures.</p> <p>Company's response:</p> <p>The Company agreed that for good corporate governance, such investment and internal control processes should be documented and sufficiently detailed in accordance with best practices.</p> |

SECTION 6: GAOCHENG JV

| | Scope of review | Findings / Potential breaches | Recommendation |
|-----|--|---|--|
| (b) | How the investment procedures for the Gaocheng JV compare with the Company's existing investment processes and against best practices set out in the CG Code, ABS Guidelines and requirements under the Listing Manual | As observed in point (a) above, the Company does not have existing investment procedures and internal control processes in writing for investments in businesses and/or joint ventures, from which we can compare against the actual investment procedures undertaken for the Gaocheng JV. | (i) The Company should have carried out more detailed due diligence on Gaocheng Petroleum, Mr Liang Gaocheng and the Gaocheng JV, including verifying the trademark, patent, the necessary licences and permits and ascertaining the commitment of Mr Liang Gaocheng in the CJV before entering into the Gaocheng JVA. |
| (c) | The extent of the due diligence, review and approval process undertaken by the Directors and Management for the Gaocheng JV | <p>For the Gaocheng JV, we observed that the Company had carried out, <i>inter alia</i>, the following:</p> <ul style="list-style-type: none"> - conducted certain due diligence by researching on the clean fuel market and the industry outlook; - obtained Information Memorandum from the JV partner; - conducted site visit to Gaocheng Petroleum - engaged legal adviser to advise on the structure of the Gaocheng JV; and - obtained the necessary Board approval. <p><u>Due diligence</u></p> <p>(i) The Company had not conducted searches on the trademark of Gaocheng Petroleum.</p> <p>We noted that Gaocheng Petroleum's trademark was filed in April 2015, which was after the Gaocheng JV Announcement, and was only validly registered in June 2016.</p> <p>(ii) The Company had not conducted detailed searches on the patent of Gaocheng Petroleum, which if done, seemed to contradict with the representations on the background of Mr Liang Gaocheng and Gaocheng Petroleum.</p> <p>Based on our internet searches on the patent referred to in the Gaocheng JVA Announcement, we noted that the patent was rejected on 16 May 2007, which was 2 years before Gaocheng Petroleum was established in May 2009, and was not validly registered.</p> <p>The email confirmation from Mr Nick Ong Sing Huat (legal adviser to the Company) on 5 December 2014</p> | <p>(ii) The Company should have made more informed disclosures of the arrangement with Mr Liang Gaocheng, and the rationale and basis for the Company contributing to the full sum of the registered capital when it only has 22% effective interest in CJV.</p> <p>(iii) The Company's investment in Extera was not proceeding as expected by the Company by August 2014, and the exit from the CNG business held through Extera was announced on 27 February 2015. On this same date, the Company announced the Gaocheng JVA. The Company should have made more informed disclosures on the rationale to proceed with the Gaocheng JVA through Extera, which in turn was jointly held by the Company and indirectly by Mr Wong Yu.</p> <p>Company's response:</p> <p>The Company generally agreed with the recommendations. The Company had proceeded with the Gaocheng JVA through Extera group as it is the Company's vehicle to carry out investments and businesses in China and it could channel Extera's existing available funds in China for the Gaocheng JV.</p> |

SECTION 6: GAOCHENG JV

| | Scope of review | Findings / Potential breaches | Recommendation |
|--|-----------------|---|----------------|
| | | <p>that the results of the patent search and that the application was largely consistent with what Mr Liang Gaocheng had disclosed verbally to the Company, also contradicts with the results of our internet searches that the patent was rejected.</p> <p>(iii) Besides the Company's decision to exit its investment in the PRC as they were not congruent with the Group's plans and strategy moving forward, the Company had not conducted due diligence on Mr Liang Gaocheng and obtained his commitment in the Gaocheng JV, as the termination of the JV one year later on 14 March 2016 was also due to the non-responsiveness of Mr Liang Gaocheng on the project and the inability to secure the necessary licences and permits for the Gaocheng JV.</p> <p>(iv) The Company's investment in Extera was not proceeding as expected by August 2014, and the Company's decision to exit from the CNG business held through Extera was announced on 27 February 2015. On this same date, the Company announced the Gaocheng JVA to be held through Extera. Mr Wong Yu had introduced the Gaocheng JV to the Company.</p> <p>The Company should have made more informed disclosures on the rationale to proceed with the Gaocheng JVA through Extera, which was jointly owned by the Company and indirectly by Mr Wong Yu.</p> <p><u>Disclosure</u></p> <p>(v) The Company should have secured the relevant licences and permits before embarking on the Gaocheng JV or it should have alerted Shareholders in its announcement that the Gaocheng JV is conditional upon obtaining all these relevant approvals and that the JV is dependent on Mr Liang Gaocheng securing these approvals.</p> <p>(vi) The Company should have disclosed in the Gaocheng JVA Announcement the rationale for the Company contributing the full sum of the registered capital of the JV when it only has an effective interest of 22%, the</p> | |

SECTION 6: GAOCHENG JV

| | Scope of review | Findings / Potential breaches | Recommendation |
|-----|--|--|---|
| | | basis of valuation of CJV, and how the registered capital is to be deployed and over what timeframe. | |
| (d) | Highlight of any non-compliance, significant or unusual deviations with requirements or guidelines under the constitution of the Company, CG Code, ABS Guidelines and Listing Manual, and any conflict of interest | <p>In the course of our review of the Gaocheng JV, we have also noted the following instances of non-compliance which are not directly related to the Gaocheng JV:</p> <p>(i) Dato' Izat and Mr Ong Kah Hock have been with the Company for the last 23 and 17 years respectively, which are beyond the recommended 9 years tenure for independent directors under CG Code 2012. The Board had, however, considered and determined their continued independence.</p> <p>(ii) Principle 13 of CG Code 2012 requires the Company to establish an effective internal audit function. The Company had, on 5 June 2015 appointed FKT as the internal auditors for a period of 3 years. Management and the Board were not satisfied with the services of FKT and had, on 11 August 2016, resolved to terminate the services of FKT after a review was carried out on the draft internal audit report by FKT.</p> <p>As of the date of this Review, FKT had not continued with its services as internal auditors and the Company had not formally terminated FKT's services. Please refer to further information set out in Appendix A under the caption entitled "Internal auditors".</p> | <p>(i) Dato' Izat and Mr Ong Kah Hock had served far beyond 9 years (23 and 17 years respectively) to justify their independence as Independent Directors of the Company. The Company should take steps to ratify the above position.</p> <p>(ii) During our kick-off meeting with the Company on 4 June 2018, we had highlighted to Mr CY Wong that the Company should follow-up on the outstanding matter with FKT, and to take active steps to comply with CG Code in respect of the internal audit function.</p> <p>Company's response:</p> <p>The Company agreed with the recommendations.</p> <p>Subsequent to the Review Date, the Company had clarified in its annual report for FY2017/2018 that for the financial period, the Company did not have an internal audit function as the only source of income was derived from rental of investment properties. Moreover, the Group's external auditor had reviewed internal accounting control that are relevant to their audit. The AC will review the internal audit function when the business level of activities increases.</p> |
| (e) | Whether members of the Board had adhered to their legal obligations and Company's policies and procedures | The Board has overall responsibility for the non-compliance listed in point (d) above. From our findings in points (a), (b) and (c), the Board also has overall responsibility for the lack of a written framework of prudent and effective controls in the Company and generally an oversight of Management to ensure a sound design, implementation and monitoring of risk management and internal control systems. | <p>The Board should take immediate action to address the points listed above.</p> <p>Company's response:</p> <p>The Company agreed with the recommendation.</p> |
| (f) | Whether the failures or impairment of any of the investments could have been avoided through the improvements in internal controls or processes and where there have been failures or weaknesses noted in relation to the Selected | <p>We noted that no material expenses was incurred on the Gaocheng JV but it took about 1 year from the day it was announced till its termination.</p> <p>If the due diligence checks had uncovered the matters of concern earlier, the Company might not have entered into</p> | <p>The Board should take cognizance of the matter and ensure that going forward proper due diligence be carried out before embarking on investments and joint ventures.</p> <p>Company's response:</p> |

SECTION 6: GAOCHENG JV

| | Scope of review | Findings / Potential breaches | Recommendation |
|--|---|--|---|
| | Transactions, to quantify the impact on the Company's financials in this Report | the Gaocheng JVA and the Company would have saved Management's and Board's time in attending to the matters relating to the Gaocheng JV. | The Company agreed with the recommendation. |

SECTION 7: ARTEL GOLD EXPLORATION JV

7. ARTEL GOLD EXPLORATION JV

7.1 Overview

- 7.1.1 At the Board meeting on 27 June 2014, Mr CY Wong reported that the Company was looking at several projects in gold, as the Company was searching for opportunities in natural resources such as gold, coal and oil & gas.

On 14 November 2014, Mr CY Wong had briefed the Board of a proposed investment in a gold mine in Makmal, Kyrgyzstan which was introduced by Dr Arslan, a local Kyrgyz, and an Independent Director of the Company. Dr Arslan was appointed as an Independent Director of the Company on 5 March 2014.

Mr CY Wong explained that the Company did not proceed further with the Makmal gold mine as the Makmal gold mine was owned by the Kyrgyzstan state government and the Company could not proceed further due to bureaucracy in getting the relevant state approval. The Makmal gold mine was estimated to have 10 tonnes of gold deposits, already in production and was seeking funding from investors.

On 9 April 2015, the Board passed the resolution (with an attached investment proposal) to approve the Company's proposed investment of US\$400,000 in a 50% joint venture ("**Artel Gold Exploration JV**") with Artel in the Kuramator gold exploration project in Kyrgyzstan, estimated to have 0.4 tonnes of gold deposits. The Company's investment in the Kuramator gold exploration project would be carried out through its wholly-owned subsidiary, GEM. In addition, GEM would fund the 2015 work program of US\$150,000 for the gold mine. As per the Board resolution, both Mr CY Wong and Dr Arslan had effective interests of 22.5% and 5.0% respectively in the Kuramator gold mine, and both had abstained from voting on the Board resolution. Total investment based on the above appeared to be US\$550,000.

Mr CY Wong clarified that the reference to Mr CY Wong and Dr Arslan's effective interests of 22.5% and 5% respectively in the Kuramator gold exploration in the Board resolution dated 9 April 2015 was incorrect and was an oversight in the drafting of the Board resolution. Mr CY Wong said his interest in the Kuramator gold exploration had always been at 25% at the outset and Dr Arslan does not have any interest in the Kuramator gold exploration.

Artel was a limited liability company registered in Kyrgyzstan on 21 December 2006. Artel had obtained the mining licence in a concession in the Kyrgyz Republic for gold exploration with an area of 63.72 square kilometers.

On 14 April 2015, the Board passed the resolution for GEM to (a) enter into the joint venture agreement with Artel ("**Artel Gold Exploration JVA**") where GEM will acquire a 50% interest in Artel, (b) authorise Mr CY Wong in respect of the acquisition of interest in Artel, (c) appoint Dr Arslan as GEM's lawful attorney in respect of GEM's interest in Artel and (d) appoint Dr Arslan as the director of Artel. Only Dr Arslan had abstained from voting on the Board resolution.

The Artel Gold Exploration JVA was signed on 15 April 2015.

As a reference and in comparison with the investment in Artel Gold Exploration JV of US\$550,000, the market capitalisation of the Company was then S\$48.63 million as at 15 April 2015, being the date of the Artel Gold Exploration JVA.

As the Company was of the view that the investment in Artel was deemed a non-discloseable transaction, not an interested person transaction and not subject to Shareholders' approval, the Artel Gold Exploration JV was disclosed on 15 May 2015 in the commentary section in the Company's results announcement for 1Q2015. It was disclosed in the commentary that Artel had the licence to

SECTION 7: ARTEL GOLD EXPLORATION JV

explore and mine for precious metals in the Kuramator concession, and that the licence which would expire on 22 May 2019 was extendable for a further 20 years. We noted that Mr CY Wong's 25% interest in the Artel Gold Exploration JV was not disclosed in the above commentary.

In the Company's annual report for 2015 issued on 14 April 2016, the Company disclosed that its interest in the Artel Gold Exploration JV was 50% in an unincorporated joint venture ("UJV") and that Artel and Mr CY Wong each owned 25% participating interest in the UJV.

Mr CY Wong clarified that the original intention was to participate in the Artel Gold Exploration JV through the UJV as due diligence on Artel was not completed then. The Company had appointed Beyond Investment Group ("BIG"), a professional consultancy firm in Kyrgyzstan, to conduct financial and legal due diligence on Artel. Following the due diligence on Artel, the participation in the Artel Gold Exploration JV was done directly through Artel, where GEM held 50% shareholding interest, Mr CY Wong 25% and the balance 25% by Mr Madiarov Azmat, an unrelated Kyrgyz person. Mr Taymir Orozov, the cousin of Dr Arslan, was appointed by the 3 shareholders of Artel as the sole director of Artel.

- 7.1.2** In the response to the SGX-ST's queries on 22 March 2016, the Company had disclosed that Artel was issued 2 licences: (a) Licence #3447 AP dated 22 January 2014 for subsoil use for geological exploration works of (alluvial) gold till 22 January 2019 at Kuramator area #1; and (b) Licence #4217 AP dated 29 June 2015 for subsoil use for geological exploration works of (vein) gold till 29 June 2019 at Kuramator area #2. In addition, these licences may be extendable for a further total period of 20 years.

We noted that the expiry dates of these licences differ from the disclosure by the Company on 15 May 2015 and in its annual report for 2015.

In response to the SGX-ST's queries on 20 February 2018, the Company mentioned that the licences may be renewed for a further 5 years on expiration. This differed from the earlier disclosure of extension for a period of 20 years.

Mr CY Wong clarified that these licences may be renewed every 5 years for up to 20 years.

- 7.1.3** As at 31 December 2015, the Company had invested US\$400,000 for its 50% participating interest in the Artel Gold Exploration JV and had funded US\$100,000 out of US\$150,000 for the 2015 work program, totalling S\$707,000 and had accounted for the total sum of S\$707,000 as an interest in joint venture in its audited balance sheet for the financial year ended 31 December 2015.

The Company had disclosed that it had invested US\$533,500 (S\$728,600) in the Artel Gold Exploration JV as at 22 March 2016 in response to SGX-ST's queries on that date.

On 13 May 2016, the Company disclosed that work program for 2016 was being prepared by Artel's local geologist for submission to the Geological Agency of the Kyrgyz Republic for approval. One of the main objectives of the proposed 2016 work program was to upgrade the alluvial gold reserves and have it registered in the State balance which would enable Artel to start mining the alluvial gold.

As at 30 June 2016, the Company had extended the full amount of US\$150,000 for the 2015 work program.

Mr CY Wong clarified that the above amount was extended to Artel in the form of shareholders' loans.

The Company disclosed in its annual report for 2016 that 2016 work program as at 31 December 2016 had been limited to mapping and data analysis by Artel's local geologist, who had identified 2 areas within the concession for further exploration in 2017.

SECTION 7: ARTEL GOLD EXPLORATION JV

On 21 September 2017, in response to SGX-ST's queries, the Company disclosed that it intended to invest a further S\$10,000 and S\$300,000 in the Artel Gold Exploration JV before the end of FY2017 and FY2018 respectively.

On 30 November 2017, the Company disclosed that the 2017 work program had been revised to analysis of existing data of the concession and field work will be deferred to 2018.

Mr CY Wong clarified that work program expenses incurred in 2016 and 2017 were small and funded by advances by the Group to Artel.

On 20 February 2018, the Company had explained, in response to SGX-ST's queries, that the Artel Gold Exploration JV was an exploration project and the Company was unable to determine the total investment required at that juncture, that the Company was required to fund its share of the cost in the project (namely 50% of the project cost), that no approval was required for the 2018 work program except certain permissions would be required to conduct trial exploitation, and further studies were needed to determine funding requirement to bring the project to completion.

On 16 March 2018, the Company disclosed that the 2018 work program shall focus on samples collection, analysis and trial processing of the alluvial deposit.

The Company gave the same update on the Artel Gold Exploration JV as the above in its 5th quarterly update for FY2017/2018 on 25 June 2018. The total amount invested in the Artel Gold Exploration JV by the Company as at 31 March 2018 was S\$772,000.

Pursuant to the Interim Audit Report released on 15 July 2018, it was disclosed that the Group is planning to conduct bulk sampling exploration work (with the possibility of extracting economic amounts of gold in the process) during the next 12 months. In the event of a successful work program, the Group expects the operations of Artel to begin contributing to the Group's revenue and profits within the next 12 months.

Mr CY Wong clarified that it is typical in exploration mining projects for joint venture partners to extend funding for work programs until the mines have proven that it can proceed to the next stage of exploitation and commercialization, as the original owner of the project has offered the investment opportunity to the joint venture partners with the potential mining prospects. Thereafter, the eventual shareholding interests of the joint venture partners will be recalibrated depending on the extent of funding each partner has made to the project. Hence, the Company had extended the advances to Artel for the work programs for 2015, 2016 and 2017.

- 7.1.4** On 8 April 2017, the Company's auditors, Moore Stephens LLP, had issued a disclaimer of opinion on the audited financial statements of the Group for the financial year ended 31 December 2016. Among other things, the auditors had expressed disclaimer of opinion on the recoverability of investments in joint ventures of S\$767,000 in Artel and the recoverability of amount due from its subsidiary, GEM, of S\$802,000. The investment in Artel was made through the Company's subsidiary, GEM.

In the latest Interim Audit for 12M2017, the disclaimer of opinion by the auditors, Baker Tilly, was not in respect of the recoverability of investments in Artel. The investment in the Artel Gold Exploration JV in the statement of financial position of the Group was not subject to impairment as at 31 December 2017.

- 7.1.5** For more than 3 years since the Artel Gold Exploration JVA was signed on 15 April 2015, progress on the Kuramator gold mine project had been slow and limited to data analysis, sample collection and mapping. Total investment in the Artel Gold Exploration JV was less than S\$800,000 to-date.

SECTION 7: ARTEL GOLD EXPLORATION JV

Mr CY Wong had clarified that progress on the gold exploration project had been slow as Management had focused on its investments in the Microalgae JV and the Gaocheng JV projects. In addition, the work season during the year in Kyrgyzstan is quite short from June to around November/December due to the severe winter season in that region.

Mr CY Wong intends to re-focus on the Artel Gold Exploration JV and intends for himself to be appointed as a director of Artel. From 22 July to 30 July 2018, Mr CY Wong visited Artel Gold Exploration and broke his forearm during the trip there. He was on hospitalisation leave for about 5 weeks upon his return to Singapore from 31 July 2018 to 3 September 2018, and a further 4 weeks of hospitalization leave from 18 September 2018 to 14 October 2018.

7.1.6 In the Company's 6th quarterly update for FY2017/2018 on 25 September 2018, the Company disclosed that subject to the availability of working capital, the proposed work program for 2018 will focus on samples collection, analysis and trial processing of the alluvial deposit. In view of the lapsing of the share placement agreement dated 27 April 2018, the Company is looking for alternative funding for this work program. The work program may have to be modified to accommodate the shrinking time window to work on the concession area.

7.1.7 Pursuant to the Company's announcement dated 8 October 2018, the Company intends to dispose of the shares of GEM, together with shares of other subsidiaries of the Group, to Mr CY Wong for a cash consideration of S\$100,000, subject to certain conditions precedent.

Source:

- (1) Directors' resolution in writing pursuant to the article of associate of the Company dated 9 April 2015 and 14 April 2015;
- (2) Board meeting minutes dated 27 June 2014, 14 November 2014;
- (3) The Company's annual report for FY2015, FY2016 and FY2017/2018;
- (4) Company's announcements dated 15 May 2015, 6 August 2015, 6 November 2015, 22 March 2016, 27 April 2016, 13 May 2016, 12 August 2016, 11 November 2016, 18 November 2016, 1 March 2017, 8 April 2016, 21 September 2017, 30 November 2017, 12 February 2018, 20 February 2018, 16 March 2018, 25 June 2018, 15 July 2018, 25 September 2018, 8 October 2018 and 9 October 2018;
- (5) Agenda for Mr Nick Ong Seng Huat, Robert Wang & Woo LLP. Trip to Bishkek, Kyrgyzstan, Sunday 10 April 2016;
- (6) Financial and legal due diligence report on Artel by BIG dated 15 September 2015; and
- (7) Artel Gold Exploration JVA between GEM and Artel dated 15 April 2015.

SECTION 7: ARTEL GOLD EXPLORATION JV

7.2 Review of the Artel Gold Exploration JV

7.2.1 Mr CY Wong explained that he already had the 25% interest in the Kuramator gold mine project since July 2014 before the project was shown to the Company and that he had bought the stake for US\$200,000 from Mr Madiarov Azmat. Mr CY Wong was introduced to the Kuramator gold mine project by Dr Arslan.

Mr CY Wong explained that the Kuramator gold mine project was not shown to the Company as the Company was then only looking to invest in larger scale projects, like the Makmal gold mining project. However, after the Company had decided not to pursue the Makmal gold mining project, Mr CY Wong introduced the Kuramator gold mine project to the Board. The same valuation of Artel was offered to the Company for its 50% interest in Artel, which amounted to US\$400,000 for the 50% stake. Mr CY Wong had disclosed to the Board his 25% participating interest in the Kuramator gold mine project.

The Company had obtained the Board's approval to invest US\$400,000 in Artel and to fund the 2015 work program of US\$150,000, giving an impression of a total investment in Artel Gold Exploration JV of US\$550,000.

Pursuant to the Artel Gold Exploration JVA, the US\$150,000 was with reference to the initial amount required for the work program. This might mean that further amounts were required for the work program. In addition based on the Company's response to the SGX-ST's queries on 21 September 2017 and 20 February 2018, further investments would be required to bring the project to commercialisation. Accordingly, the total amount of investments required of the Company with respect to the Artel Gold Exploration JV is expected to be higher than the initial total amount of US\$550,000.

Mr CY Wong clarified that the project is currently at exploration stage and the work programs involve, *inter alia*, samples collections, data analysis and mapping, until a significant deposit is proven. If required, Artel can also apply for extensions of the exploration licence for up to a total of 20 years. Thereafter, the project will move to the exploitation stage of mining and commercialization. At that stage, the valuation of the mine would likely be much higher and funding prospects would also be better. The Company can then decide whether to sell and exit its investment in Artel or invest further to fund the exploitation stage. Hence, Mr CY Wong is of the view that it is difficult and premature to determine the investment amount required for the project until the exploration work reaches a level which is closer to the exploitation stage. At the exploitation stage, Artel will also be applying for the relevant licences from the State Agency to mine the reserves on a commercial basis. Such mining licences can be for a period of up to 30 years.

7.2.2 Since November 2014 when the Company was considering the gold mining projects in Kyrgyzstan and up till the Review Date, the following 4 Directors were on the Board throughout this period:

| Name | Position on the Board |
|---------------------|--|
| (1) Mr CY Wong | Managing Director (re-designated as Chairman in April 2017) & CEO |
| (2) Dato' Izat | Non-executive Chairman (re-designated as Independent Non-Executive Director in April 2017) |
| (3) Mr Ong Kah Hock | Independent Non-Executive Director |
| (4) Dr Arslan | Independent Non-Executive Director |

In addition, Mr Jeremy Dyer was on the Board as Independent Non-Executive Director until his resignation on 4 November 2016, and the reason given for his resignation was due to his other personal work commitments.

SECTION 7: ARTEL GOLD EXPLORATION JV

Mr Yang Kiin and Mr Bernard Ong were appointed to the Board as Independent Non-Executive Directors on 15 November 2016 and 31 March 2017 respectively. Mr Bernard Ong had resigned from the Board on 20 October 2017 and Mr Yang Kiin's resignation was announced on 1 February 2018.

On 5 March 2018 and 27 April 2018, Mr Philip Leng Yew Chee and Mr Chong Eng Wee were appointed as Independent Non-Executive Directors of the Company respectively. During our kick-off meeting with the Company on 4 June 2018, we had highlighted to Mr CY Wong the need for the Company to consider the appointment of a Lead Independent Director as Mr CY Wong is both the Chairman and CEO. In addition, pursuant to Guideline 12.2 of CG Code 2012, the AC Chairman, should have recent and relevant accounting or related financial management expertise or experience. Subsequently, pursuant to the Company's announcement dated 23 June 2018, Mr Philip Leng was re-designated as the Lead Independent Director and AC Chairman in place of Mr Ong Kah Hock with effect from 23 June 2018.

As at the Review Date, we also noted that Mr Philip Leng is not a member of the Nominating Committee which is not in compliance with Guideline 4.1 of CG Code 2012, which states that the Lead Independent Director should be a member of the Nominating Committee. We had advised the Company to look into this matter. Subsequent to the Review Date, the Company had on 25 September 2018, announced that Mr Philip Leng was designated as a member of the Nominating Committee and Remuneration Committee.

7.2.3 Although Dr Arslan was approved by the Board to be GEM's representative on the board of Artel and the lawful attorney for GEM in Artel, Mr CY Wong explained that the Company had agreed on the appointment of Mr Taymir Orozov, the cousin of Dr Arslan, as the director of Artel as Dr Arslan was primarily based in UK and might not have the time to oversee the Artel Gold Exploration JV. In addition, Dr Arslan had proposed Mr Taymir Orozov as the director of Artel as he has the relevant experience in the resources industry and in dealing with the relevant state departments and resides in Kyrgyzstan. Both Dr Arslan and Mr Taymir Orozov were the main contact persons for the Company for the Artel Gold Exploration JV. Mr CY Wong expressed interest to participate more actively in Artel and intends for himself to be appointed as a director of Artel.

7.2.4 The plan for 2018, as disclosed by the Company in its quarterly updates on 16 March 2018 and 25 June 2018, is to focus on samples collection, analysis and trial processing of the alluvial deposit, and a further S\$300,000 is required for the project in 2018.

Mr CY Wong clarified that the amount of S\$300,000 required for the project in 2018 was calculated based on the expected proceeds from the 1st Proposed Placement. As the 1st Proposed Placement has been derailed for the time being, Mr CY Wong expressed that the proposed funding amount and work plans for Artel in 2018 may differ from earlier announcements made by the Company in view of unexpected development within the Group. Subsequent to the Review Date, the Company had, on 25 September 2018, announced in its 6th quarterly update for FY2017/2018 that the Company's plan for 2018 was subject to the availability of working capital and that in view of the lapsing of the share placement agreement dated 27 April 2018, the Company is looking for alternative funding for its 2018 work program, which may have to be modified to accommodate the shrinking time window to work on the concession area.

We noted that any further investment by the Company in the Artel Gold Exploration JV would be deemed as an interested person transaction in view of Mr CY Wong's existing interest in Artel, and hence may trigger the need for Shareholders' prior approval under Rule 906 of the Listing Manual. As at the Review Date, the Group's last audited NTA was S\$2.9 million as at 31 December 2017. This would mean that any investment amount of S\$145,000 and above, being 5% of its last audited NTA, would be subject to, *inter alia*, Shareholders' approval.

In addition, with reference to Section 7.1.3 of this Report, the Company had explained in its response to SGX-ST's queries that it will fund the project in accordance to its interest in the project, namely

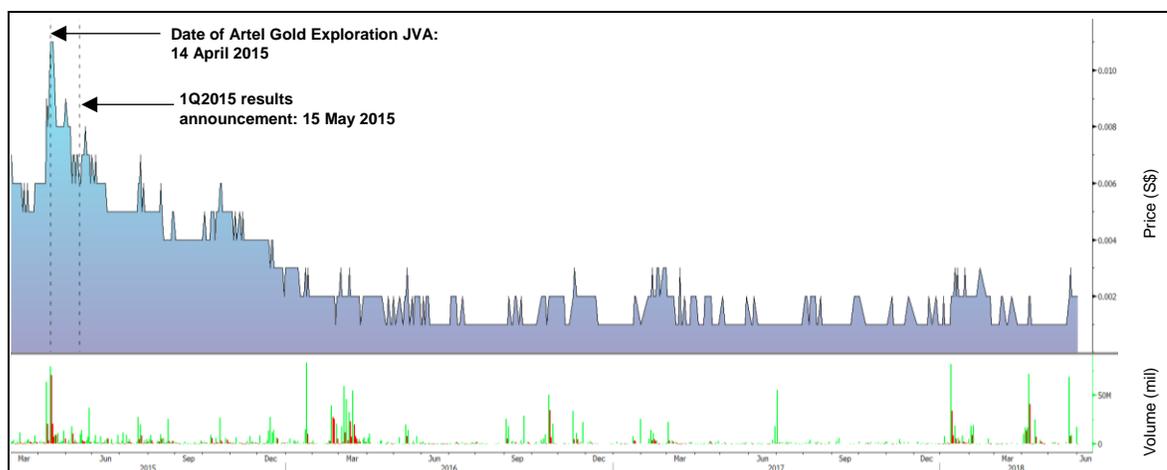
SECTION 7: ARTEL GOLD EXPLORATION JV

50% of the project cost. However, this was not apparent as the 2015, 2016 and 2017 work programs were funded solely by the Company. We noted that the Company had not disclosed the funding arrangement on the project.

7.2.5 Set out below is the historical Share price chart of the Company over approximately a 3-year period from 1 March 2015 (1 month prior to the signing of the Artel Gold Exploration JVA) to 1 June 2018 (the last trading day prior to the trading halt and trading suspension of Shares).

We observed that the Share price moved significantly from S\$0.006 on 8 April 2015 to S\$0.009 on 9 April 2015 and increased further to S\$0.011 on 14 April 2015, which coincided with the dates of the Board approvals on 9 and 14 April 2015 in relation to the Artel Gold Exploration JV. Thereafter, the Share price had been declining gradually to around S\$0.001 and S\$0.002 in late January 2016 and stayed at that level until 1 June 2018.

Price movement and trading volume of the Shares of the Company from 1 March 2015 to 1 June 2018



Source: Bloomberg L.P., based on the daily last transacted prices of the Shares of the Company from 1 March 2015 and up to 1 June 2018.

Source:

- (1) Directors' resolution in writing pursuant to the article of associate of the Company dated 9 April 2015 and 14 April 2015;
- (2) Company's annual reports for FY2015, FY2016 and FY2017/2018;
- (3) Company's announcements dated 15 May 2015, 15 November 2016, 31 March 2017, 4 November 2016, 21 September 2017, 1 February 2018, 20 February 2018, 5 March 2018, 16 March 2018, 27 April 2018, 23 June 2018, 25 June 2018, 15 July 2018 and 25 September 2018;
- (4) Agenda for Mr Nick Ong Seng Huat, Robert Wang & Woo LLP. Trip to Bishkek, Kyrgyzstan, Sunday 10 April 2016;
- (5) Financial and legal due diligence report on Artel by BIG dated 15 September 2015; and
- (6) Artel Gold Exploration JVA between GEM and Artel dated 15 April 2015.

SECTION 7: ARTEL GOLD EXPLORATION JV

7.3 Queries to and responses from the Company

| S/N | Reference section | Queries by Provenance Capital | Company's responses |
|-----|----------------------|---|--|
| (1) | 7.1.1 | <p>The Artel Gold Exploration JVA was signed on 15 April 2015 and the Company had disclosed the Artel Gold Exploration JVA one month later, on 15 May 2015, as part of the commentary in the results announcement for 1Q2015.</p> <p>Please explain the reason for not disclosing the Artel Gold Exploration JVA as soon as the Artel Gold Exploration JVA was signed under Rule 703, Rule 704 and Appendix 7.1 of the Listing Manual, as we noted that the Share price had spiked around the time of the Board approvals for the Artel Gold Exploration JVA.</p> <p>Please also explain why Mr CY Wong's interest in the Artel Gold Exploration JV was not disclosed in the same commentary, but only disclosed later on in the 2015 annual report.</p> | <p>The Company acknowledged that for good corporate governance, it should have disclosed the Artel Gold Exploration JV as soon as the Artel Gold Exploration JVA was signed and also disclosed his interest in the Artel Gold Exploration JV.</p> |
| (2) | 7.1.1, 7.1.3 & 7.2.1 | <p>The Company was of the view that the investment in Artel was presumably small and therefore does not warrant a separate announcement. However, it became clear from the responses to SGX-ST's queries that further investment is required on the Artel Gold Exploration JV and further studies are needed to determine the funding requirement to bring the project to completion.</p> <p>Please clarify the reason for not assessing the total project cost to bring the project to completion at the outset, so that the proposed investment amount could be considered in totality, instead of only the initial investment amount.</p> <p>As mining is a new business to the Group and the investment amount required of the Company could be substantially higher than what was announced by the Company, what is the Company's rationale for not considering the proposed investment as a new core business, and have it subject to Shareholders' approval and as an interested person transaction, if applicable.</p> <p>The Company's shareholding interest in Artel was through the acquisition of a 50% interest from an existing shareholder of Artel, which the Company had concluded is not an interested person transaction and is below the 20% threshold under Chapter 10 of the Listing Manual. The investment in Artel, however, is likely to require further significant funding beyond the initial work programs. In view of Mr CY Wong's existing 25% interest in Artel, further investments by the Company in the Artel Gold Exploration JV would be deemed as interested person transactions. This may trigger the need for Shareholders' prior approval under Chapter 9 of the Listing Manual</p> | <p>Mr CY Wong had clarified in Section 7.2.1 on the difficulty in determining the funding requirement as the Artel Gold Exploration was only at the exploration stage.</p> <p>The Company was of the opinion that the Artel Gold Exploration JV was one of the portfolio of investments that the Company had made and until the Artel Gold Exploration proceeds to commercialization and should the Company decide to carry on with it, then it will seek Shareholders' approval for the Company to include it as a new core business.</p> <p>The Company was not aware that further investments by the Company in Artel would have been considered as an IPT in view of Mr CY Wong's shareholding interest in Artel and will be subject to the requirements in Chapter 9 of the Listing Manual.</p> |

SECTION 7: ARTEL GOLD EXPLORATION JV

| S/N | Reference section | Queries by Provenance Capital | Company's responses |
|------------|--------------------------|---|---|
| | | before the Company could extend further funding to Artel. | |
| (3) | 7.1.1 | <p>Both Mr CY Wong and Dr Arslan abstained from voting on the Board resolution held on 9 April 2015, but only Dr Arslan abstained from the Board resolution held on 14 April 2015 in respect of the Artel Gold Exploration JV.</p> <p>Please clarify the reason for the abstentions if Dr Arslan did not have any interest in the project and the different abstention on 14 April 2015.</p> | <p>Mr CY Wong had abstained as he had a 25% interest in Artel Gold Exploration project, and Dr Arslan had abstained as he was the introducer and main coordinator of the Artel Gold Exploration JV.</p> <p>Mr CY Wong acknowledged that he should have also abstained from the Board resolution on 14 April 2015, and agreed that it was an oversight on his part.</p> |
| (4) | 7.1.1 | Please state the conditions for the extension of the licences and applicable costs involved for the extension? | <p>The exploration licences are extendable for up to 20 years at minimal cost and the submission of work program was necessary to maintain the concession.</p> <p>Thereafter upon the completion of the exploration works, Artel will need to apply for the exploitation licences to commence commercial production and mining.</p> |
| (5) | 7.1.3 | Please clarify whether there are any work program reports for 2016 and 2017 and the reasons if such reports are not available? | Mr CY Wong clarified that the 2015 work program was carried into 2016. Only mapping work was done for 2016 and 2017 and hence no reports were prepared. |
| (6) | 7.1.7 | Subsequent to the Review Date, we note that the Company intends to dispose of the shares of GEM, together with shares of certain other subsidiaries of the Group, to Mr CY Wong for S\$100,000 in cash, subject to certain conditions precedent. How will this affect the recovery of shareholders' loans advanced to GEM and potential impairment of its investments in the Artel Gold Exploration JV? | Upon the completion of the Proposed Disposal, the inter-company loan would be waived or capitalised. Mr CY Wong also explained that the 2018 work program was not carried out and the work season for Kyrgyzstan had passed. The exploration licences are expiring in 2019 and the renewal is uncertain. Furthermore, the new investors had requested for the entities to be disposed as a condition to the 2 nd Proposed Placement. |

SECTION 7: ARTEL GOLD EXPLORATION JV

7.4 Interviews with Independent Directors, former Directors and other relevant persons

We have interviewed or attempted to interview the following Independent Directors, former Directors of the Company and other relevant persons:

| Names | Interview | Interview Notes |
|--|--|---|
| (a) Mr Ong Kah Hock, Independent Director | Conducted on 31 October 2018. | <p>Mr Ong Kah Hock was aware of the funding arrangement with the joint venture partners and that it was a commercial decision.</p> <p>He is aware of Mr CY Wong's 25% interest in the Artel Gold Exploration JV and that Dr Arslan has no interest in the project. He was not aware that Mr CY Wong had not abstained from voting on the 14 April 2015 Board resolution.</p> <p>He had left the necessary disclosure of interests in the Artel Gold Exploration JVA to Management.</p> |
| (b) Dato' Izat, Independent Director | Conducted on 31 October 2018. | <p>Dato' Izat opined that the duty to announce lies with the Management and as Chairman of the Board then he would go along with the decision made by the majority of the Directors.</p> <p>He understand that Mr CY Wong is the introducer of the Artel Gold Exploration JV and had an interest in it, and Dr Arslan was assisting in the project as he was a Kyrgyz.</p> <p>He could not remember details regarding the funding arrangement nor whether Mr CY Wong should have abstained from voting on the 14 April 2015 Board resolution.</p> |
| (c) Mr Jeremy Dyer, former Independent Director | For accountability of the interview, the Company had requested for an in-person interview. However, as Mr Jeremy Dyer is based overseas, the Company was not prepared to bear the traveling and accommodation expenses of Mr Jeremy Dyer for the purpose of the interview. | Not applicable. |
| (d) Dr Arslan, Independent Director | Conducted on 31 October 2018. | <p>Dr Arslan was aware of the funding arrangement with the joint venture partners and that it was a commercial decision.</p> <p>He confirmed that he has no interest in the project and was aware of Mr CY Wong's 25% interest.</p> <p>He had left the necessary disclosure of interests in the Artel Gold Exploration JVA to Management.</p> |
| (e) Mr Yang Kiin, former Independent Director | For accountability of the interview, the Company had requested for an in-person interview. However, as Mr Yang Kiin is based overseas, the Company was | Not applicable. |

SECTION 7: ARTEL GOLD EXPLORATION JV

| | | |
|---|---|--|
| | not prepared to bear the traveling and accommodation expenses of Mr Yang Kiin for the purpose of the interview. | |
| (f) Mr Bernard Ong, former Independent Director | The Company said that Mr Bernard Ong did not respond to its request. | Not applicable. |
| (g) Mr Stanley Chu, former Group Financial Controller and Company Secretary | The Company said that Mr Stanley Chu declined to be interviewed. | Not applicable. |
| (h) Ms Jenny Soh, former General Manager for Corporate Affairs | Conducted on 9 November 2018. | She was generally not involved and could not recall the details of this transaction. |

SECTION 7: ARTEL GOLD EXPLORATION JV

7.5 Our assessment of the Company's investment process

| | Scope of review | Findings / Potential breaches | Recommendation |
|-----|--|--|--|
| (a) | <p>Whether the Company has an existing investment process and internal controls (including but not limited to, evaluation, approval, agreements, payment terms, approval of payments, recording, reporting of and follow up of proposed acquisitions/investments (including advances and loans)) which are in line with relevant regulatory requirements, including the Listing Manual and Code of Corporate Governance, and whether they are sufficiently robust based on best practices to ensure proper and good corporate governance</p> | <p>We observed that the Company does not have a written set of investment procedures or internal control manual with respect to its investments in businesses and joint ventures. The Company, however, has an investment policy and manual for investments in marketable securities.</p> <p>Rule 719(1) of the Listing Manual requires the issuer to have a robust and effective system of internal controls, addressing financial, operational and compliance risks. In addition, Principle 11 of CG Code 2012 states that the board should ensure that management maintains a sound system of risk management and internal controls to safeguard shareholders' interests and the company's assets, and should determine the nature and extent of the significant risks which the board is willing to take in achieving its strategic objectives.</p> <p>The Company had acknowledged the above and clarified that, in practice, it had adopted and followed a general framework of investment and internal controls procedures as follows:</p> <ul style="list-style-type: none"> (i) deal origination and generation; (ii) research of industry, operating environment, financial and feasibility analysis, due diligence/research on the target company/investment; (iii) board presentation and deliberation; (iv) board approval; and (v) execution and monitoring. <p>Notwithstanding the above, in compliance with the Listing Manual and CG Code, the Company should have a well-documented operational manual to guide its Management with respect to its investments in businesses and joint ventures including a robust and effective system of internal controls and due diligence process to ensure proper and good corporate governance, and the nature and extent of the risk that the Board is willing to take in achieving its strategic objectives.</p> | <p>The Company should establish or consider appointing relevant professionals to assist the Company to establish a well-documented operational manual to guide its investment procedures, internal control processes and set out the nature and extent of the risk that the Board is prepared to take in considering each of the investments in businesses and/or joint ventures.</p> <p>Company's response:</p> <p>The Company agreed that for good corporate governance, such investment and internal control processes should be documented and sufficiently detailed in accordance with best practices.</p> |

SECTION 7: ARTEL GOLD EXPLORATION JV

| | Scope of review | Findings / Potential breaches | Recommendation |
|-----|--|---|---|
| (b) | How the investment procedures for the Artel Gold Exploration JV compare with the Company's existing investment processes and against best practices set out in the CG Code, ABS Guidelines and requirements under the Listing Manual | <p>As observed in point (a) above, the Company does not have existing investment procedures and internal control processes in writing for investments in businesses and/or joint ventures, from which we can compare against the actual investment procedures undertaken for the Artel Gold Exploration JV.</p> <p>For the Artel Gold Exploration JV, we observed that the Company had carried out, <i>inter alia</i>, the following:</p> <ul style="list-style-type: none"> - engaged a professional consultancy firm in Kyrgyzstan to conduct financial and legal due diligence on Artel; - obtained the necessary Board approval; - obtained the report on the 2015 work program; and - engaged Robert Wang & Woo LLP to resolve certain outstanding matters on a trip to Kyrgyzstan on 10 April 2016. <p><u>Disclosure</u></p> <p>(i) The Company did not disclose the Artel Gold Exploration JVA as soon as it was signed on 15 April 2015 as required under Rule 703, Rule 704 and Appendix 7.1 of the Listing Manual, and had only disclosed the Artel Gold Exploration JVA one month later, on 15 May 2015, as part of the commentary in the results announcement for 1Q2015. Share price had moved significantly around the time of the Board approval for the Artel Gold Exploration JVA.</p> <p>In addition, the Company did not disclose Mr CY Wong's interest in the Artel Gold Exploration JV in the same commentary contained in the results announcement for the 1Q2015 and had only disclosed such information in the annual report for FY2015.</p> <p>(ii) Given the nature of the exploration and mining project, the Company did not disclose sufficient details of the project in the initial announcement, and did not provide more detailed and informative updates on the progress of the project.</p> <p>On 20 February 2018, in response to SGX-ST's queries, the Company had explained that it will fund</p> | <p>(i) The Company should have disclosed the Artel Gold Exploration JVA and Mr CY Wong's interest as soon as practicable after the Artel Gold Exploration JVA was signed on 15 April 2015, or seek professional advice on the above.</p> <p>(ii) The Company should have disclosed sufficient details on the Artel Gold Exploration JV including, <i>inter alia</i>, background of the joint venture partners, funding requirements, sources of funding and risk factors. The Company should also provide more informative updates on the progress of the project going forward.</p> <p>(iii) The Company should have made appropriate disclosures and rationale for the funding arrangement with the joint venture partners.</p> <p>(iv) The Company should ensure that all Board minutes are recorded accurately and information be verified with the relevant personnel. The Board should review the Board minutes carefully and verify the information where necessary before signing off.</p> <p>(v) Mr CY Wong should have abstained from approving all Board resolutions relating to the Artel Gold Exploration JV in view of his personal interest.</p> <p>(vi) The Company will need to consider the need to seek Shareholders' approval for further investments in Artel as interested person transactions in view of Mr CY Wong's interest in Artel.</p> <p>(vii) The Company should establish a project timeline for the exploration works and commercialisation of the gold exploration to achieve its investment objectives, set up close monitoring, internal controls and follow-up actions on its investments in a timely manner.</p> <p>Company's response:</p> <p>The Company generally agreed with the recommendations. As for point (iv), the Company acknowledged that the shortcomings were due mainly to the insufficient staffing as Management was lean.</p> |
| (c) | The extent of the due diligence, review and approval process undertaken by the Directors and Management for the Artel Gold Exploration JV | | |

SECTION 7: ARTEL GOLD EXPLORATION JV

| | Scope of review | Findings / Potential breaches | Recommendation |
|--|-----------------|--|----------------|
| | | <p>the project in accordance to its share of the project (i.e. 50% of the project cost). However, this was not apparent as the 2015, 2016 and 2017 work programs were funded solely by the Company. The Company should have disclosed the funding arrangements.</p> <p><u>Board minutes</u></p> <p>(iii) The Board minutes dated 9 April 2015 which contained an incorrect recording (according to Mr CY Wong) of the effective interests of the Directors was signed off by the Board without proper checks.</p> <p><u>Mr CY Wong's interest in the Artel Gold Exploration JV and Shareholders' approval</u></p> <p>(iv) Mr Wong did not and should have abstained from the Board resolution dated 14 April 2015 in respect of the Artel Gold Exploration JV in view of his interest in the Artel Gold Exploration JV.</p> <p>(v) In view of Mr CY Wong's existing interest in Artel, further investments by the Company in the Artel Gold Exploration JV are deemed as interested person transactions under Chapter 9 of the Listing Manual, and may trigger the need for Shareholders' approval in view of the latest audited NTA of the Group.</p> <p>The Company was not aware of the above.</p> <p><u>Execution, monitoring and control</u></p> <p>(vi) The Artel Gold Exploration JVA was signed more than 3 years ago and the progress on the gold exploration project had been slow and limited to data analysis, sample collection and mapping. The Company did not seem to have a committed timeline and resources to see to the progress and roll-out of the commercial production of the mine.</p> <p>(vii) In addition, although we noted Mr CY Wong's intention to be a director of Artel, as at the Review Date, the</p> | |

SECTION 7: ARTEL GOLD EXPLORATION JV

| | Scope of review | Findings / Potential breaches | Recommendation |
|-----|---|--|---|
| | | <p>Company does not have board representation at Artel even though it has a 50% shareholding interest in Artel.</p> <p>(viii) The Company had engaged Robert Wang & Woo LLP to resolve certain outstanding matters on the Artel Gold Exploration JV one year after the signing of the JVA and some of these matters relate to accounting for payments, ascertaining pre-acquisition liabilities, ascertaining completed report of the 2015 work program, appointment of directors of Artel and establishing shareholders' agreement.</p> <p>The Company should have closer monitoring and follow-up actions on its investments in a timely manner.</p> | |
| (d) | <p>Highlight of any non-compliance, significant or unusual deviations with requirements or guidelines under the constitution of the Company, CG Code, ABS Guidelines and Listing Manual, and any conflict of interest</p> | <p>In the course of our review of the Artel Gold Exploration JV, we have also noted the following instances of non-compliance which are not directly related to the Artel Gold Exploration JV:</p> <p>(i) Dato' Izat and Mr Ong Kah Hock have been with the Company for the last 23 and 17 years respectively, which are beyond the recommended 9 years tenure for independent directors under CG Code 2012. The Board had, however, considered and determined their continued independence.</p> <p>(ii) As at the Review Date, Mr Philip Leng is not a member of the Nominating Committee which is not in compliance with Guideline 4.1 of CG Code 2012, which states that the Lead Independent Director should be a member of the Nominating Committee; and</p> <p>(iii) Principle 13 of CG Code 2012 requires the Company to establish an effective internal audit function. The Company had, on 5 June 2015 appointed FKT as the internal auditors for a period of 3 years. Management and the Board were not satisfied with the services of FKT and had, on 11 August 2016, resolved to terminate the services of FKT after a review was carried out on the draft internal audit report by FKT.</p> | <p>(i) Dato' Izat and Mr Ong Kah Hock had served far beyond 9 years (23 and 17 years respectively) to justify their independence as Independent Directors of the Company. The Company should take steps to ratify the above position.</p> <p>(ii) During our review, we had brought to the attention of the Company to consider including Mr Philip Leng as a member of the NC. Subsequent to the Review Date, the Company had on 25 September 2018, announced that Mr Philip Leng was designated as a member of the NC and RC.</p> <p>(iii) During our kick-off meeting with the Company on 4 June 2018, we had highlighted to Mr CY Wong that the Company should follow-up on the outstanding matter with FKT, and to take active steps to comply with CG Code in respect of the internal audit function.</p> <p>Company's response:</p> <p>The Company agreed with the recommendations.</p> <p>Subsequent to the Review Date, the Company had clarified in its annual report for FY2017/2018 that for the financial period, the Company did not have an internal audit function as the only source of income was derived from rental of investment properties. Moreover, the Group's external</p> |

SECTION 7: ARTEL GOLD EXPLORATION JV

| | Scope of review | Findings / Potential breaches | Recommendation |
|-----|--|---|--|
| | | As of the date of this Review, FKT had not continued with its services as internal auditors and the Company had not formally terminated FKT's services. Please refer to further information set out in Appendix A under the caption entitled " Internal auditors ". | auditor had reviewed internal accounting control that are relevant to their audit. The AC will review the internal audit function when the business level of activities increases. |
| (e) | Whether members of the Board had adhered to their legal obligations and Company's policies and procedures | The Board has overall responsibility for the non-compliance listed in point (d) above. From our findings in points (a), (b) and (c), the Board also has overall responsibility for the lack of a written framework of prudent and effective controls in the Company and generally an oversight of Management to ensure a sound design, implementation and monitoring of risk management and internal control systems. | The Board should take immediate action to address the points listed above. Company's response: The Company agreed with the recommendation. |
| (f) | Whether the failures or impairment of any of the investments could have been avoided through the improvements in internal controls or processes and where there have been failures or weaknesses noted in relation to the Artel Gold Exploration JV, to quantify the impact on the Company's financials in this Report | The Company had invested a total of approximately S\$800,000 in the Artel Gold Exploration JV (of which work program expenses were funded by shareholders' loan from the Group to Artel) but limited progress had been made since the signing of the Artel Gold Exploration JVA on 15 April 2015 till the Review Date. We note that the Company's investment in the Artel Gold Exploration JV in the audited statement of financial position of the Group was not subject to impairment as at 31 December 2017 and as at 30 June 2018. Subsequent to the Review Date, we note that the Company intends to dispose of the shares of GEM, together with shares of certain other subsidiaries of the Group, to Mr CY Wong for S\$100,000 in cash, subject to certain conditions precedent. | The Board should take cognizance of the matter and ensure that going forward proper planning, monitoring and appropriate disclosures should be made on the progress of the project. Company's response: The Company agreed with the recommendation. |

8. THE MICROALGAE JOINT VENTURE

8.1 Overview

- 8.1.1** On 22 September 2015, the Company announced (“**Microalgae JVA Announcement**”) that it had signed a joint venture agreement with Primeforth to form a JV company (“**JVCO**”) to commercially cultivate and process microalgae using Primeforth’s proprietary, patented knowhow and technologies with special focus on the recovery of algae oil as fuel sources (“**Microalgae JV**”).

The JVCO was expected to be incorporated in Singapore with a paid up capital of S\$1 million to be contributed by the Company and Primeforth in the proportion of 70:30 and the first microalgae facility (“**Microalgae Project**”) to be located in Singapore. The JVCO will have the right of refusal to participate in any other microalgae projects in Singapore with Primeforth or any other party.

The Company had agreed to provide the financing commitment of up to US\$12.5 million (equivalent to S\$17.7 million based on then foreign exchange rate of US\$1:S\$1.417) for the first Microalgae Project, which includes capital investment on an EPC contract on a turnkey basis and working capital requirements for the Microalgae Project’s operations. It was also anticipated that a budget of up to US\$12.5 million was required for investment on an EPC turnkey basis for each subsequent Microalgae Project. Each facility was estimated to have a capacity to process and produce 20 MT of microalgae oil a day.

It was agreed that Primeforth would be responsible for the operations and roll out of the Microalgae Project.

As at the date of the Microalgae JVA Announcement, the market capitalisation of the Company was S\$17.6 million.

- 8.1.2** On 30 December 2015, the Company announced that the first Microalgae Project would be in Malaysia instead of Singapore as the Company was unable to secure a suitable land in Singapore for the Microalgae Project and that the parties to the Microalgae JVA would enter into a variation agreement.

On 21 January 2016, the Company entered into a supplemental agreement (“**Supplemental Agreement**”) with Primeforth to provide, *inter alia*, for the first Microalgae Project to be in Malaysia, the set-up of a JVCO in Malaysia with a paid up capital of S\$1 million equivalent in Malaysian Ringgit, to clarify that the Company will contribute to Primeforth’s initial 30% subscription of the share capital of JVCO and to agree that the right of first refusal shall exclude existing and ongoing discussions by Primeforth with other parties that were disclosed in the Supplemental Agreement and shall extend to microalgae projects in Singapore or elsewhere.

The JVCO in Malaysia was identified as Malaysian Microalgae Enterprise Sdn Bhd (“**MME**”), an off-the-shelf company, as early as 30 December 2015.

On 13 May 2016, the Company had disclosed in its first quarter results announcement for 31 March 2016, that it had by 31 March 2016 advanced S\$3.8 million for the first Microalgae Project.

On 17 June 2016, in response to the SGX-ST’s queries, it was stated that the Company had advanced S\$4.6 million out of the US\$12.5 million for the first Microalgae Project and that it had informed Primeforth that it was unlikely to provide the full funding of US\$12.5 million for the first Microalgae Project by November 2016 and that alternative project financing or down-sizing of the Microalgae Project had to be considered. On 13 December 2016, in response to the SGX-ST’s queries, it was stated that the start date for the Microalgae Project to generate revenue had been delayed as there was a delay in securing a suitable site in Malaysia, and the JV parties had agreed

SECTION 8: MICROALGAE JV

to implement the Microalgae Project in 3 phases with production capacity of 5 MT, 10 MT and 20 MT respectively.

By 23 September 2016, the Company had advanced S\$6 million (US\$4.5 million), which was the required amount to complete Phase 1 of the Microalgae Project. Work on the Microalgae Project had commenced at the site in Kundang, Selangor, Malaysia, which was secured in June 2016.

On 11 November 2016, the Company in its third quarter results announcement ended 30 September 2016, disclosed that Phase 1 of the Microalgae Project was expected to start commercial operation by end of January 2017 and subsequently, had disclosed in its 2016 annual report in April 2017 that the commercial operation of Phase 1 would be delayed to mid-2017.

On 9 December 2016, the Company announced that it had entered into a Deed of Novation with Primeforth Renewable Energy Pte Ltd (“**PREPL**”) and MME to novate the EPC contract dated 10 October 2016 entered into between the Company and PREPL (“**EPC Contract**”) from the Company to MME. PREPL is a wholly-owned subsidiary of Primeforth, and had carried out the EPC Contract as the contractor (“**EPC Contractor**”). According to our ACRA search, PREPL is registered as Primeforth Renewable Energy Private Limited with a paid up capital of S\$100 and its sole director is Mr U Kean Seng.

In the Company’s responses to the SGX-ST’s queries dated 13 December 2016, it was stated that the S\$6 million was utilised by the JVCO.

The breakdown of the utilisation of the cumulative funds advanced by the Company of S\$4.6 million (US\$3.4 million) by June 2016 and S\$6 million (US\$4.5 million) by December 2016 was disclosed in the Company’s announcements on 17 June 2016 and 13 December 2016 respectively, as follows:

| Utilisation of funds | 17 June 2016 (S\$'000) | 13 December 2016 (S\$'000) |
|--|---------------------------|-------------------------------|
| Civil works including site survey, land clearing, soil testing, groundwater drilling, technical drawings, civil construction works including land compacting, perimeter concreting and hoarding, fabricating steel tracks, rails and platforms, and project management costs | 513 | 1,600 |
| Harvesting machine | 1,080 | 1,100 |
| Tank making machine, tanks and installation | 540 | 1,300 |
| Plumbing, electric works, supply and installation of generators and allied equipment | - | 700 |
| Purchase of algae seeds | 405 | 1,300 |
| Pre-construction works | 41 | - |
| Miscellaneous | 53 | - |
| Sub-total | 2,632 | 6,000 |
| Cash balance | 1,968 | - |
| Total | 4,600 | 6,000 |

The total amount of S\$6 million (US\$4.5 million) was classified as “investments in joint venture” as at 31 December 2016, being the financial year end of the Group for 2016, and re-classified as “assets classified as held for sale” as at 31 March 2017, being the Company’s results announcement for 1Q2017, announced on 9 May 2017.

The Group was informed by Primeforth that it had received an expression of interest on 5 May 2017 from an unrelated third party to acquire the Microalgae Project on an “as is where is” basis. The

SECTION 8: MICROALGAE JV

original budget for the Microalgae Project was US\$12.5 million and the Company had invested S\$6 million (US\$4.5 million) for the construction of a down-sized facility. As the facility was not able to achieve the optimal results, the Company and Primeforth had decided to sell the Microalgae Project. Accordingly, the investment was re-classified as assets held for sale as at 31 March 2017. No revenue was generated from the Microalgae Project to-date.

On 8 April 2017, the Company's auditors, Moore Stephens, had issued a disclaimer of opinion on the audited financial statements of the Group for the financial year ended 31 December 2016. Among other things, the auditors had expressed disclaimer on the "Recoverability of Investments in Joint Ventures" in relation to MME and the Microalgae Project.

On 21 September 2017, in response to SGX-ST's queries, the Company elaborated that Primeforth and the Company had decided not to proceed with the commercial operations of the down-sized Microalgae Project as it would not have the economies of scale and consequently would be loss-making as the down-sized Microalgae Project would not require the mechanical harvester and most operational activities would be handled by manual labour which would result in significantly higher operational costs.

Based on the latest update from Primeforth on 2 January 2018, there had been no material progress on the potential sale of the Microalgae Project.

On 15 July 2018, the Company announced the audited financial statements of the Group for 12M2017 pursuant to its Interim Audit which was carried out by Baker Tilly. Baker Tilly had issued a disclaimer of opinion on the Interim Audit. Further details of the disclaimer of opinion are set out Section 2 under the caption entitled "**Financial overview**" of Appendix A to this Report.

With respect to the Microalgae Project, in Note 3(a)(i) of the Interim Audit, it was disclosed that the Company had in-principle agreed with Primeforth to terminate the Microalgae JVA and to dissolve the JVCO, namely MME, and that the Company was in negotiations with Primeforth on the recovery and repayment of the S\$6.0 million advanced by the Company for the Microalgae Project. In Note 12(a) of the Interim audit, the Company disclosed that an impairment loss of S\$5,996,000 was recognised for 12M2017 to write down the Company's investment in the Microalgae Project to its recoverable amount.

The Microalgae JV which commenced on 22 September 2015 and deemed to have been abandoned on 9 May 2017 when the Company announced that it had decided to sell the Microalgae Project and reclassified the investment as "assets classified as held for sale" in its results announcement as at 31 March 2017, spanned approximately one and a half years.

8.1.3 Background on Primeforth and Mr Kim

It was disclosed in the Microalgae JVA Announcement dated 22 September 2015 that Primeforth (previously known as PF Special Situation Fund) was incorporated in the Cayman Islands to house the patents registered in the name of Mr Peter Kim Jae Hoon ("**Mr Kim**"). Primeforth owned all the proprietary and patented technologies, know-how and trade secrets in respect of the cultivation, harvesting and manufacturing of biofuels from microalgae, currently and hereafter developed by Mr Kim.

Pursuant to the Memorandum of Agreement ("**MOA**") dated 22 January 2015 between Primeforth Capital Limited and Mr Kim (disclosed as a Korean national), the parties would jointly own Primeforth in the proportion of 65%:35%. From the public announcement by Sino Construction Limited (now known as MMP Resources Limited) dated 9 February 2015, the beneficial shareholder of Primeforth was stated as Mr U Kean Seng.

SECTION 8: MICROALGAE JV

Mr CY Wong said that he was aware of 2 prominent names behind Primeforth including Mr U Kean Seng and that Mr U Kean Seng was an experienced lawyer and a founder of the Primeforth group of companies which were engaged in, *inter alia*, business consultancy, investment and advisory work.

Mr CY Wong also said that Mr U Kean Seng was appointed as a director of MME, together with Dato' Izat and himself.

In the Company's Microalgae JVA Announcement, it was disclosed that Mr Kim is a U.S. citizen and has over 30 years of international business experience, mainly in the USA and South Korea, that he was a pioneer in bio-fuels and the renewable energy sector in South Korea. Mr Kim had 6 patents in his name in this specialised field (now under Primeforth).

The Company's announcement also disclosed that Mr Kim was the founder and CEO of TAC Corp (Korea), Dream Energy Inc. (Korea) and Weros Technologies Sdn Bhd (Malaysia). Mr Kim was the principal technology consultant to the microalgae farm facility in Kumagaya, Nagoya, Japan and a USD220 million microalgae facility in Okinawa, Japan in 2012-2013. At the time of the announcement, Mr Kim was the Chairman of Magnum Modular Power Generation Pte Ltd, an indirect subsidiary of a Singapore listed company.

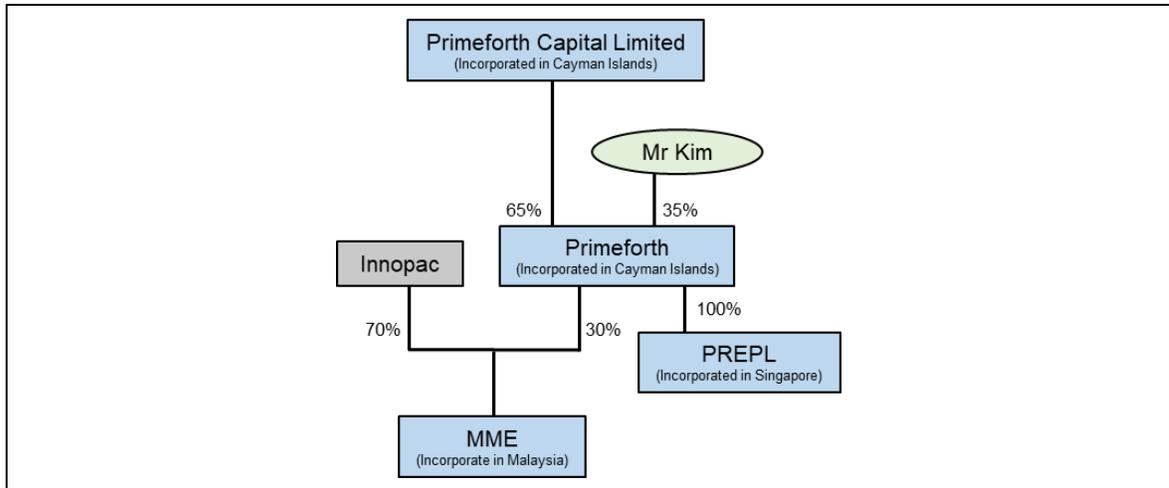
We noted that this listed company was MMP Resources Limited (formerly known as Sino Construction Limited).

On 5 October 2015, in response to SGX-ST's queries on the Microalgae Project, the Company further elaborated on the patents held by Primeforth (see Section 8.2.3 below), Mr Kim's involvement in other companies, and the Company's assessment that Mr Kim's other involvements did not result in any conflict of interest with the Microalgae JV. The Company also clarified that it had agreed to contribute to the entire initial share capital of S\$1 million of JVCO despite holding only 70% as Primeforth's contribution was in-kind via its proprietary, patented knowhow and technologies. The Company also stated that the Microalgae JVA was not an acquisition and Rule 1006 of the Listing Manual was not applicable, that the Company was looking for a suitable site for the facility and expected construction of the facility to complete and become operational within 6 months.

Mr CY Wong explained that the key success factors of the Microalgae Project were the special species of algae seeds with high oil yield, herbicides and nutrients formula which were developed by Mr Kim and his design of the cultivation and harvesting process. The EPC Contract works were mainly civil construction and piping works.

- 8.1.4** Based on the above findings, the Company's interest in MME is as shown in the group structure below:

SECTION 8: MICROALGAE JV



Source:

- (1) The Company's annual report for FY2016;
- (2) Company's announcements dated 22 September 2015, 5 October 2015, 30 December 2015, 21 January 2016, 13 May 2016, 17 June 2016, 12 August 2016, 11 November 2016, 9 December 2016, 13 December 2016, 8 April 2017, 9 May 2017, 21 September 2017, 20 February 2018 and 15 July 2018;
- (3) Company's correspondences with Primeforth dated 23 September 2016, 5 May 2017, 9 May 2017, 1 August 2017, 4 August 2017, 22 September 2017, 26 September 2017, 22 December 2017 and 2 January 2018;
- (4) MOA dated 22 January 2015 between Primeforth Capital Limited and Mr Kim;
- (5) Sino Construction Limited's (now known as MMP Resources Limited) announcements dated 27 January 2015, 3 February 2015, 9 February 2015 and 15 November 2015; and
- (6) ACRA bizfile of PREPL, retrieved on 17 August 2018.

SECTION 8: MICROALGAE JV

8.2 Review of the Microalgae JV

- 8.2.1 We observed that Mr CY Wong had, on 16 June 2015, informed Dato' Izat of, *inter alia*, the Microalgae JV via email with attached Primeforth EPC presentation V1.01 May 2015.

Mr CY Wong explained that the Microalgae JV was introduced to him around February/March 2015 by Mr Lim Kim Chew ("**Mr KC Lim**"), Head of Business Development of Primeforth and PREPL whom Mr CY Wong knew from his business contacts in Malaysia. Mr KC Lim then introduced Mr U Kean Seng and Mr Kim to Mr CY Wong. Both Mr KC Lim and Mr U Kean Seng were the main contact persons between the Company and Primeforth throughout the Microalgae JV. Mr CY Wong further explained that pursuant to the MOA, he viewed Mr Kim as part of Primeforth and he had also dealt directly with Mr Kim on several occasions throughout the Microalgae Project.

Further presentation materials on the Microalgae Project were sent to the Company on 13 June 2015 and 15 August 2015 ("**Presentation Materials**").

We observed that the first briefing on the Microalgae JV at the Board meeting was held on 6 August 2015. Mr CY Wong briefed the Board that the Company was proposing to form a joint venture company for the Microalgae JV project and to build production plants in Johor Bahru, Malaysia initially before expanding to other parts of the world. In addition, broad terms of the Microalgae JVA and financial impact were also discussed.

The Company did not appoint any independent advisers for the purpose of the Microalgae JVA or evaluation of the Microalgae Project, and the Microalgae JVA was drafted by Primeforth as the founder of Primeforth was a lawyer.

We observed that on 22 September 2015, Board approval was obtained to execute the Microalgae JVA and release the Microalgae JVA Announcement, and to authorise Mr CY Wong to execute the Microalgae JVA and any other necessary documents to give effect to the Microalgae JV. In the Microalgae JVA Announcement, it was stated that the Company was evaluating sites in Malaysia for the expansion of this business and also disclosed that the first facility shall be located in Singapore and the JVCO will be a Singapore incorporated company.

Mr CY Wong explained that the original intention was to have the facility in Singapore and the statement on evaluating sites in Malaysia could be a drafting oversight.

On 24 November 2015, Mr CY Wong briefed the Board on the details of the Microalgae JVA, which appeared to be the disclosed information in the Microalgae JVA Announcement.

On 30 December 2015, the Company announced, *inter alia*, that the first Microalgae Project would be in Malaysia instead of Singapore.

Pursuant to our clarification, Mr CY Wong said that at the time when the Microalgae JV was considered, the Company had about S\$6 million cash remaining from a rights issue exercise in 2014. Together with the Company's other assets, he estimated that the Company could raise sufficient funds to fund the entire US\$12.5 million required for the Microalgae Project. The decision to select Malaysia instead of Singapore for the Microalgae Project was because the land in Singapore was too costly compared to Malaysia.

- 8.2.2 During the span of one and a half years since the Microalgae JVA Announcement on 22 September 2015 until it was deemed abandoned on 9 May 2017, the following 4 Directors were on the Board throughout the period:

SECTION 8: MICROALGAE JV

| Name | Position on the Board |
|---------------------|---|
| (1) Mr CY Wong | Managing Director & CEO |
| (2) Dato' Izat | Chairman and Independent Non-Executive Director |
| (3) Mr Ong Kah Hock | Independent Non-Executive Director |
| (4) Dr Arslan | Independent Non-Executive Director |

The following 3 Directors were also involved at different times of the Microalgae Project, as observed below:

Mr Jeremy Dyer was already on the Board as Independent Non-Executive Director until his resignation on 4 November 2016, and the reason given for his resignation was due to his other personal work commitments.

Mr Yang Kiin was appointed as Independent Non-Executive Director on 15 November 2016. Before his appointment as Director, Mr Yang Kiin was already acquainted with Dato' Izat and the Board through the Company's joint venture agreement with RC Carbon Sdn Bhd ("**RC Carbon**") in June 2016, in which Mr Yang Kiin was one of the 5 shareholders and managing director of RC Carbon. The joint venture agreement with RC Carbon was to set up a recovered carbon black ("**rCB**") production facility in Malaysia to produce rCB from waste and end-of-life tyres char. The joint venture agreement with RC Carbon was terminated as the necessary financing and environmental approvals had not been obtained for the project as disclosed in the Company's quarterly update on 30 November 2017. It was subsequently disclosed in response to the SGX-ST's queries on 4 February 2018 that the joint venture agreement with RC Carbon was terminated on 9 November 2017.

Both of Dato' Izat and Mr Yang Kiin had done some site visits to the Microalgae Project at Kundang, Selangor, Malaysia. They updated the Board at the Board meeting on 10 November 2016. At the Board meeting on 10 November 2016, Mr CY Wong had nominated Mr Yang Kiin as a Director of the Company.

On 26 January 2018, Mr Yang Kiin tendered his resignation as Director of the Company and the Board accepted his resignation on 1 February 2018. Reasons given for Mr Yang Kiin's resignation were (a) his differences with the Management and (b) unfounded allegations of his misconduct by the Board. Details of the above were given by the Company in response to the SGX-ST's queries on 4 and 8 February 2018. Mr Yang Kiin's tenure as a director of the Company was less than 15 months.

We also observed that on 10 March 2018, Mr CY Wong had lodged a police report in Kuala Lumpur, Malaysia against Mr Yang Kiin for illegally occupying the residential property at unit 18-03 Clearwater Residence, a condominium unit owned by the Group in Kuala Lumpur, Malaysia, following his resignation as a Director of the Company on 27 January 2018 and for not paying rent for residing at the property even though he had agreed to vacate the premises on 9 March 2018. Mr CY Wong updated that Mr Yang Kiin eventually vacated the premises after Dato' Izat filed another police report against Mr Yang.

Mr Bernard Ong joined the Board as Independent Non-Executive Director on 31 March 2017 and took over the Chairmanship of the AC from Mr Ong Kah Hock on 28 April 2017 until Mr Bernard Ong's resignation from the Board on 20 October 2017, when Mr Ong Kah Hock resumed the AC Chairmanship. The reason given for Mr Bernard Ong's resignation was due to his other personal commitments. Mr Bernard Ong's tenure as a director of the Company was less than 7 months.

On 28 April 2017, there were some changes to the constitution of the various committees: Dato' Izat stepped down as Chairman of the Board and member of the AC, RC and NC. Mr CY Wong took over as Chairman of the Board. Mr Bernard Ong took over as the AC Chairman. Dr Arslan also stepped down as member of the AC, RC and NC. So the members of the AC and RC were Mr Bernard Ong

SECTION 8: MICROALGAE JV

(Chairman), Mr Ong Kah Hock and Mr Yang Kiin. The members of the NC comprised Mr CY Wong (Chairman), Mr Bernard Ong and Mr Ong Kah Hock.

On 10 November 2017, after Mr Bernard Ong's resignation on 20 October 2017, Dato' Izat was reinstated as a member of the AC and also took over as the NC and RC Chairman. Dr Arslan was also reinstated as a member of the NC and RC.

Mr CY Wong was NC Chairman from 28 April 2017 to 10 November 2017, which was not in compliance with CG Code 2012 Guideline 4.1 which states that the Chairman of NC should be independent.

Pursuant to our clarification, Mr CY Wong said that he was not aware of the non-compliance. In addition, Provenance Capital had highlighted that Mr CY Wong's appointment as Chairman and CEO without appointing a lead independent director was also not in compliance with Guideline 3.3 of CG Code 2012. In addition, pursuant to Guideline 12.2 of CG Code 2012, the AC Chairman should have recent and relevant accounting or related financial management expertise or experience. Subsequently, pursuant to the Company's announcement dated 23 June 2018, Mr Philip Leng was re-designated as the Lead Independent Director and AC Chairman in place of Mr Ong Kah Hock with effect from 23 June 2018.

As at the Review Date, we also noted that Mr Philip Leng is not a member of the Nominating Committee which is not in compliance with Guideline 4.1 of CG Code 2012, which states that the Lead Independent Director should be a member of the Nominating Committee. We had advised the Company to look into the matter. Subsequent to the Review Date, the Company had on 25 September 2018, announced that Mr Philip Leng was designated as a member of the Nominating Committee and Remuneration Committee.

8.2.3 With regard to the Microalgae JV, we observed that Primeforth was supposed to own the relevant patents registered in the name of Mr Kim. 5 patents were disclosed in the Microalgae JVA Announcement, and subsequently in response to SGX-ST's queries dated 5 October 2015 in relation to the Microalgae JVA, 6 patents were disclosed to be belonging to Primeforth.

We conducted internet searches on the 6 patents and our findings are summarised as follows:

| | Patents | Findings |
|-----|--|---|
| (1) | Patent relating to microalgae cultivation, registration no. 1012946550000 published on 9 August 2013 – defined as "Patent 1" | <p>Legal status : Ended Application date: 8 May 2013 Date of Decision to Grant Registration (Trial Decision): 30 July 2013 (Expected) Date of Expiration: 8 May 2033 (20 years) <u>Registration of Extinguishment</u> Date of Cause of Registration: 3 August 2016 Cause of Registration: non-payment of registration fee Registered on: 5 July 2017</p> <p>The patent was filed with the Korean Intellectual Property Office ("KIPO").</p> |
| (2) | Same patent as above was filed in Malaysia under the number PI 2014002704 – defined as "Patent 2" | <p>Legal status : Deemed Refused Application Date : 22 September 2014</p> <p>The patent application was filed with the Intellectual Property Corporation of Malaysia.</p> |
| (3) | Patent relating to version 1 of the harvesting machine, serial no. | <p>Legal status : Ended Application date: 4 July 2012 Date of Decision to Grant Registration (Trial Decision): 26 June 2014</p> |

SECTION 8: MICROALGAE JV

| | | |
|-----|--|--|
| | 1020120072821 – defined as “Patent 3” | <p>(Expected) Date of Expiration: 4 July 2032 (20 years)</p> <p><u>Registration of Extinguishment</u></p> <p>Date of Cause of Registration: 29 August 2017 Cause of Registration: non-payment of registration fee Registered on: 8 June 2018</p> <p>The patent was filed with KIPO.</p> |
| (4) | Patent relating to version 2 of the harvesting machine, serial no. 1020120103260 – defined as “Patent 4” | <p>Legal status : Rejected</p> <p>Application date: 18 September 2012 Date of Decision to Refused a Patent: 11 July 2014</p> <p>The patent was filed with KIPO.</p> <p>Patent 4 and Patent 5 appeared on the same patent application result. Patent 5 serial number was referred to as Unexamined Publication Number and dated 26 March 2014.</p> |
| (5) | Patent relating to version 3 of the harvesting machine, unexamined publication no. 1020140036751 – defined as “Patent 5” | |
| (6) | Patent relating to conversion method, serial no. 100762106 – defined as “Patent 6” | <p>Legal status : Ended (transfer of patent right)</p> <p>Application date: 8 September 2006 Date of Decision to Grant Registration (Trial Decision): 30 July 2007 (Expected) Date of Expiration: 8 September 2026 (20 years)</p> <p><u>Registration of Extinguishment</u></p> <p>Date of Cause of Registration: 21 September 2013 Cause of Registration: non-payment of registration fee Registered on: 9 August 2014</p> <p>The patent was filed with KIPO.</p> |

Source:

- (1) KIPO website; and
- (2) Intellectual Property Corporation of Malaysia website.

We observed from the above searches that the above patents were not registered in the name of Primeforth as was originally intended, and only Patent 1 and Patent 3 appeared to be validly registered patents during the duration of Microalgae JV. Mr CY Wong clarified that the Management did conduct public searches on the patents. However, they could have missed out the information relating to the legal status of the patents. In addition, he viewed that the patents were relating to the mechanical aspects of the cultivation and harvesting process which were not critical to the Microalgae Project as compared to Mr Kim’s development of the special species of algae seeds, herbicide and nutrients formula.

- 8.2.4** We observed that on 22 June 2016, Magnus Energy Group Limited (“**Magnus**”), a company listed on the Catalist board of the SGX-ST, had announced that its subsidiary had entered into an EPC contract and an operation and maintenance agreement with Algae Farm Engineering Sdn Bhd (“**AFE**”) to build and manage a microalgae oil cultivation facility in Selangor, Malaysia. The above Magnus subsidiary had entered into the patent licence agreement with Mr Kim, the founder and director of AFE, for the use of patents (which appears to be Patents 1, 2 and 3 named in Section 8.2.3 above) on both the cultivation of microalgae and the harvesting machine for the plant. The plant in Selangor was later disclosed in the announcement by Magnus on 28 May 2018 to be in “Kudang”, probably a mis-spelling for Kundang, Selangor, Malaysia.

We further observed that in Magnus’ responses to SGX-ST’s queries on 17 July 2017, it was disclosed that the reason for Mr Kim’s other microalgae oil cultivation joint ventures with other SGX-

SECTION 8: MICROALGAE JV

ST listed companies which did not make significant progress or failed to take off could be due to project funding and that Mr Kim had terminated his collaborations with the said party.

Pursuant to our clarification with Mr CY Wong, he said that he was aware of Magnus' microalgae project from Magnus' announcements but he was not aware of Mr Kim's termination of his collaborations with Primeforth, as the Company's Microalgae Project was with Primeforth, which was in turn a collaboration with Mr Kim.

We noted that based on the progress report in June 2016, Primeforth had secured the land in Kundang, Selangor, Malaysia for the Microalgae Project. Mr CY Wong explained that Mr Kim and Primeforth had approached the Company to discuss co-locating both Magnus and the Company's projects on the same site as the piece of land of 6 acres was very big. Subsequently, Primeforth also proposed to Mr CY Wong the sharing of the harvesting machine as the harvesting machine could take on a large capacity and was expensive.

By September 2016, the Company had extended S\$6 million to Primeforth, which was the required amount to complete Phase 1 of the Microalgae Project on the understanding that the Company could share the harvesting machine with Magnus. As at 31 December 2016, the Company had classified the Microalgae Project as investment in joint venture.

Mr Wong explained that eventually, Magnus did not agree to share the harvesting machine with the Company, and hence, the Company's view was that the down-sized project could not achieve optimal results, and had also decided to sell the project when there was an expression of interest from a buyer. As at 31 March 2017, the Company re-classified the Microalgae Project as "assets classified as held for sale".

Magnus is purportedly a known associate of [REDACTED Individual X], based on information set out in The Edge Article.

Based on disclosures of the top 20 shareholders of the Company in its annual reports for 2012, 2013, 2014, 2015 and 2016, we observed that the shareholding interests held by purportedly known associates of [REDACTED Individual X] (based on information set out in The Edge Article) had declined over the years as follows:

- 42.57% as at 1 April 2013;
- 10.10% as at 28 May 2014;
- 7.96% as at 27 March 2015;
- 0.58% as at 28 March 2016; and
- 0.90% as at 27 March 2017.

After the Review Date, we noted in the disclosures of the top 20 Shareholders in the annual report of the Company for FY2017/2018 that the same purportedly known associate of [REDACTED Individual X] continued to hold 0.90% shareholding interest in the Company as at 21 September 2018.

8.2.5 We noted that the Company was periodically provided with the feasibility monitor reports and progress reports on the Microalgae Project from Primeforth and PREPL, the EPC Contractor, respectively.

The feasibility monitor reports showed that the Microalgae Project was viable based on the prevailing CPO (crude palm oil) prices as a benchmark for the potential selling prices of the microalgae biofuels.

The progress reports showed the acknowledgement of receipts of funds from the Company and the deployment of funds towards the Microalgae Project. However, we noted that Primeforth was unable to obtain the relevant approvals from the Malaysian authorities to commence construction work at

SECTION 8: MICROALGAE JV

the Microalgae Project site during the entire period of the Microalgae Project but the funds had been described as being “allocated”.

- (a) As at 16 June 2016, of the S\$4.6 million (US\$3.385 million) received from the Company, bulk of the monies (US\$1.88 million) had been “allocated” to pay for deposit for civil construction work (US\$380,000), order for tank making machine (US\$400,000), first payment for harvest machine (US\$800,000) and algae seed order (US\$300,000), with a cash balance of US\$1,436,250 left unutilised;
- (b) On 30 September 2016, Primeforth alerted the Company on the increase in project costs due to the reconfiguration arising from the revised plans to implement the Microalgae Project in 3 phases, that it would provide the harvest machine at its own cost but will give full rights to the Company for the use of the harvest machine upon the full implementation of Phase 3, and in the meantime Phases 1 and 2 will use manual harvesting methods;
- (c) By 27 January 2017, the full amount of S\$6 million (US\$4.5 million) had been “allocated” by Primeforth for the following main items: civil construction works (US\$2 million), tanks x 500 (US\$1 million), algae seed (US\$1 million); and
- (d) On 2 January 2018, besides updating that there is no material progress on the potential sale of the Microalgae Project, Primeforth also informed the Company that certain monies had been committed to contractors and suppliers and remained contractually obligated to the original designs despite the scaling down of the Microalgae Project to 5MT/day, and that it does not see a requirement to disclose and account for the monies spent to-date.

Mr CY Wong clarified that the discussions to share the harvesting machine with Magnus did not work out as relationship between Primeforth and Magnus had soured.

Hence, the Microalgae Project was deemed not feasible, and both Primeforth and the Company had then decided not to proceed with the commercial operations of the down-sized Microalgae Project.

- 8.2.6** We noted that on 8 April 2017, the Company's auditors had issued a disclaimer of opinion on the audited financial statements of the Group for FY2016 which relates to, among other things, the recoverability of the Company's investments in the Microalgae JV. The Board, however, was of the opinion then that the amount stated reflects the fair value of the investment in the Microalgae JV as at 31 December 2016.

Subsequently, the Group re-classified the investments in the Microalgae JV as “assets classified as held for sale” as at 31 March 2017 after the Company's decision to sell the Microalgae Project as the down-sized facility was not able to achieve the optimal results and the Company had received expression of interest to acquire the Microalgae Project.

Since then, there was no material progress on the potential sale of the Microalgae Project.

Pursuant to the Interim Audit, the Company had fully impaired its investment in the Microalgae Project of S\$6.0 million as at 31 December 2017. It was also disclosed that the Company and Primeforth had in-principle agreed to terminate the Microalgae JV and the Company was in negotiations with Primeforth on the recovery and repayment of the S\$6 million advanced by the Company for the Microalgae Project.

Mr CY Wong had explained that he is confident of recovering substantial amount of the S\$6 million advanced to Primeforth as the EPC Contract has a provision for the recovery of cost paid by the Company to the EPC Contractor in the event of a failure to complete the Microalgae Project. However, the Company will need to wait till the expiry of the EPC Contract before commencing on the negotiation of the recoverable amount with Primeforth.

SECTION 8: MICROALGAE JV

Pursuant to the Company's announcement dated 8 October 2018, the Company intends to dispose of the shares of MME, together with shares of certain other subsidiaries of the Group, to Mr CY Wong for a cash consideration of S\$100,000, subject to certain conditions precedent. The Company has not disclosed how the sale of MME will affect the Company's recoverability of cost from Primeforth pursuant to the EPC Contract.

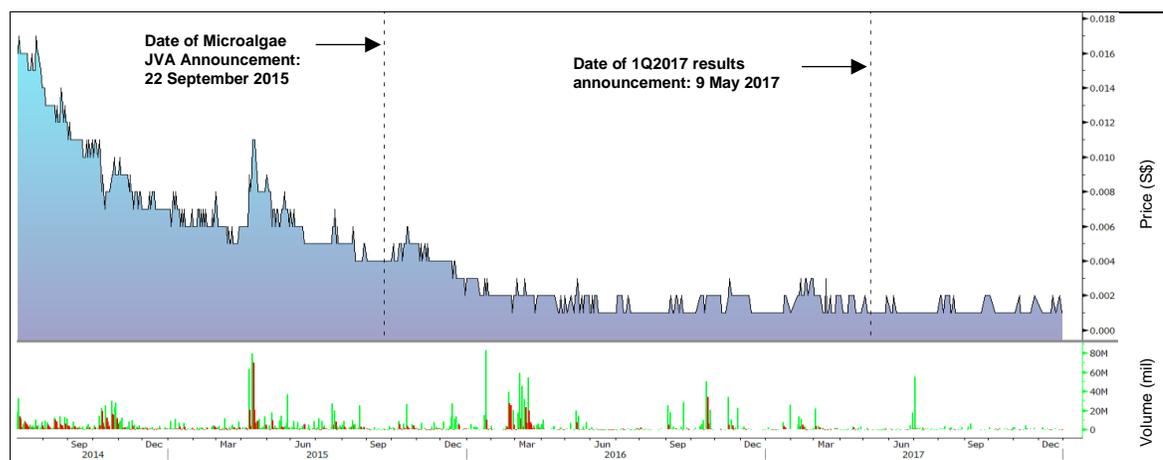
8.2.7 Set out below is the historical Share price chart of the Company from 1 July 2014 to 31 December 2017.

Prior to the Microalgae JVA Announcement, Share price of the Company had been on the decline since 1 July 2014, except in April 2015 when the Share price had spiked from S\$0.05 to a high of S\$0.11⁽¹⁾. The Shares were trading at around S\$0.004 at the time of the Microalgae JVA Announcement on 22 September 2015. Share price climbed to S\$0.006 on 20 and 21 October 2015 before declining gradually to around S\$0.001 and S\$0.002 in late January 2016 and stayed at that level until 31 December 2017. The Microalgae Project did not appear to have any significant impact on the Share price during the time when the Microalgae Project was announced to the time the Microalgae Project was deemed to have been abandoned.

Note:

(1) See write-up on the Artel Gold Exploration JV in Section 7 of this Report.

Price movement and trading volume of the Shares of the Company from 1 July 2014 to 31 December 2017



Source: Bloomberg L.P., based on the daily last transacted prices of the Shares of the Company from 1 July 2014 and up to 31 December 2017.

Source:

- (1) 123rd Board meeting minutes, dated 6 August 2015;
- (2) 125th Board meeting minutes, dated 23 & 24 November 2015;
- (3) 130th Board meeting minutes, dated 10 November 2016;
- (4) 132nd (adjournment) Board meeting minutes dated 28 April 2017;
- (5) 134th Board meeting minutes dated 8 August 2017;
- (6) 137th Board meeting appendix, Police report filed by Mr CY Wong on 10 March 2018;
- (7) Directors' resolution in writing pursuant to the Article of Association dated 22 September 2015, 26 November 2015, 30 December 2015, 21 January 2016, 9 December 2016, 13 April 2017 and 1 February 2018;
- (8) Email sent by Mr CY Wong to Dato' Izat and copied to Jana Emir and Ms Jenny Soh dated 16 June 2015, 5:45pm. Email subject – Green Energy and attachment named "Primeforth EPC Presentation V1.01.pdf.";
- (9) Primeforth's presentation material – Proposal To Develop Integrated Algae Cultivation & Power Generation Facility V1.01 May 2015;

SECTION 8: MICROALGAE JV

- (10) Primeforth's presentation materials – Proposal for the Full Turnkey EPC of a Microalgae Oil Cultivation Project, prepared for Innopac, dated 13 June 2015;
- (11) Primeforth's presentation materials – A Proposal to Finance an Integrated BioAlgae and Power Generation Farm (the "Project") comprising of (A) 20MT/day Microalgae Oil Facility (in Malaysia/Indonesia), and (B) 3MWh Micro Power Plants (in South Korea), prepared for Innopac, dated 15 August 2015;
- (12) Company's correspondences with Primeforth dated 23 September 2016, 2 December 2016, 5 May 2017, 9 May 2017, 1 August 2017, 4 August 2017, 22 September 2017, 26 September 2017, 22 December 2017 and 2 January 2018;
- (13) Microalgae JVA between Innopac and Primeforth dated 22 September 2015;
- (14) Supplemental Agreement between Innopac and Primeforth dated 21 January 2016;
- (15) EPC Contract between Innopac and PREPL dated 10 October 2016;
- (16) MOA between Primeforth Capital Limited and Mr Kim dated 22 January 2015;
- (17) Site visit report prepared by Mr CY Wong, dated 20 March 2017;
- (18) Progress reports prepared by PREPL and submitted to Innopac dated 4 March 2016, 9 April 2016, 11 May 2016, 16 June 2016, 30 September 2016, 25 November 2016 and 27 January 2017;
- (19) The Company's annual report for FY2012, FY2013, FY2014, FY2015, FY2016 and FY2017/2018;
- (20) Company's announcements dated 22 September 2015, 5 October 2015, 21 January 2016, 2 June 2016, 16 June 2016, 17 June 2016, 4 November 2016, 13 December 2016, 31 March 2017, 8 April 2017, 28 April 2018, 9 May 2017, 21 September 2017, 20 October 2017, 10 November 2017, 1 February 2018, 4 February 2018, 8 February 2018, 20 February 2018, 23 June 2018, 15 July 2018, 25 September 2018, 8 October 2018 and 9 October 2018;
- (21) Magnus' announcements dated 22 June 2016, 17 July 2017 and 28 May 2018;
- (22) Magnus' circular to shareholders dated 14 October 2017 in relation to (i) the proposed allotment and issuance of up to 3,000,000,000 new shares (the "Conversion Shares") in the capital of Magnus to AFE pursuant to the outstanding amount conversion agreement dated 27 September 2017 (the "outstanding amount conversion"); and (ii) the possible transfer of controlling interest in the company to AFE arising from the outstanding amount conversion; and
- (23) The Edge Article.

SECTION 8: MICROALGAE JV

8.3 Queries to and responses from the Company

| S/N | Reference section | Queries by Provenance Capital | Company's responses |
|-----|-------------------|--|---|
| (1) | 8.1.1 | <p>(i) What were the due diligence work conducted by the Company before signing the Microalgae JVA other than relying on the presentations / representations by Primeforth?</p> <p>(ii) Did the Company consider that going into the Microalgae JV of that size into a new industry could be considered as a new core business of the Company, as JVCO would become a 70%-owned subsidiary of the Group? Did the Company consider seeking shareholders' approval to go into the microalgae business?</p> <p>(iii) Did the Company appoint any professionals to advise it on the Microalgae JVA or independent industry expert to advise on the Microalgae Project?</p> <p>(iv) Did the Company have any back-up plans in the event the Microalgae Project does not go as planned in order to ensure a smooth exit to minimise losses as the project had in turn depended on the joint venture between Primeforth Capital Limited and Mr Kim?</p> | <p>(i) The Company had relied mainly on Mr Kim's representation and available public information. They understood that the cultivation process was not unknown and the success depends on the cost of extraction of the oil. Mr Kim had represented that his system was cost efficient, which will enable the harvested oil to be sold at similar pricing as CPO but at relatively lower cost as compared to producing CPO.</p> <p>In addition, the Company was of the view that Primeforth was run by reputable and experienced founders and partners. The Company was given the MOA between Primeforth Capital Limited and Mr Kim, to form a joint venture company, i.e. Primeforth, to own and develop projects involving microalgae oil harvesting technology and that Primeforth would own and hence have the right to use all the proprietary and patented technologies and know-how of Mr Kim.</p> <p>(ii) Mr CY Wong clarified that he had the understanding that the requirements under Chapter 10 of the Listing Manual would only apply to acquisitions or disposals and was not applicable to investments into joint venture and hence did not consider seeking Shareholders' approval.</p> <p>(iii) No advisor was engaged for the Microalgae Project. The JVA was drafted by Primeforth as the founder of Primeforth was a lawyer.</p> <p>(iv) Mr CY Wong was of the view that the Microalgae Project was "modular", referring to the ability to scale up or scale down (including implementing in phases), and was a relatively safe and non-pollutive project. Hence, he was optimistic that licences and approvals could be obtained easily and that the Company would be able to raise sufficient funds for the project, and in the event that funds were not sufficient, the project could be scaled down accordingly by implementing in phases.</p> |
| (2) | 8.2.2 | <p>Mr CY Wong was Chairman of NC from 28 April 2017 until 10 November 2017. Under CG Code 2012 Guideline 4.1, the Chairman of NC should be independent. In addition, under CG Code 2012 Guideline 3.3, Company should appoint a lead independent director if Chairman and CEO is the same person.</p> | <p>The Company was not aware of the non-compliance.</p> <p>Mr CY Wong stepped down as Chairman of NC on 11 November 2017 and Mr Philip Leng, Independent Director, was designated as the Lead Independent Director on 23 June 2018.</p> |

SECTION 8: MICROALGAE JV

| S/N | Reference section | Queries by Provenance Capital | Company's responses |
|-----|-------------------|---|---|
| | | <p>Lead independent director should be a member of the NC. Mr Philip Leng is not a member of the NC.</p> <p>Was the Company aware of the non-compliance with the above CG guideline?</p> | <p>After the Review Date, the Company had on 25 September 2018, announced that Mr Philip Leng was designated as a member of the NC and RC.</p> |
| (3) | 8.1.2 & 8.2.5 | <p>(i) Securing the land site and getting relevant approvals to construct the facility at the site appeared to be difficult, resulting in extensive delays. In addition, the Company acknowledged in June 2016 that it could not provide full funding for the Microalgae Project. In spite of this, the Company had advanced S\$6 million to Primeforth by September 2016 on the basis of down-sized facility as Phase 1. Progress reports showed "allocation" of funds and eventually, Primeforth responded to the Company that it does not need to account for the monies spent to-date.</p> <p>(ii) How does the Company satisfy itself that the advances made to Primeforth is utilised for the items stated and in accordance with the estimated costs in the presentation materials, as opposed to "allocated"?</p> <p>(iii) Why were the funds not advanced directly to the JVCO, in which the Company has a 70% shareholding interest?</p> <p>(iv) Why was JVCO not the party to the EPC Contract with PREPL from the start, but instead the EPC Contract was novated from the Company to JVCO on 9 December 2016?</p> <p>(v) Is there any difference for the Company or JVCO as the party to the EPC Contract? Would this affect the amount claimable from the EPC contractor now that the EPC Contract has been assigned from the Company to the JVCO?</p> <p>(vi) Is PREPL a qualified EPC contractor?</p> | <p>(i) The Company had continued to advance the S\$6 million as the Microalgae Project was still considered to be feasible as the understanding was that it could share/lease the harvesting machine with Magnus. However, when it was eventually made known that the Company/ Microalgae Project could no longer share such facility with Magnus, the Company was of the view that the Microalgae Project could not achieve the optimal result.</p> <p>(ii) Mr CY Wong explained that pursuant to the terms of the EPC Contract, the EPC contractor would be liable for all actual sums paid by the Company if the contractor fails to complete the Microalgae Project by a certain time. Hence, he did not monitor the utilisation or allocation of funds during the course of the Microalgae Project closely.</p> <p>(iii) The Company does not see any material difference whether monies was advanced to Primeforth directly or via JVCO. In addition, there was difficulty for JVCO, as a foreign owned entity, to open a bank account in Malaysia due to certain local regulations.</p> <p>(iv) As above.</p> <p>(v) No material difference. Please refer to the response to Question 10 for further details.</p> <p>(vi) The works performed by the EPC contractor were simple civil construction works such as earthwork and piping works, which do not require special qualifications. The proprietary technological know-how of the Microalgae Project is the special species of algae which has high oil yield and the design of the cultivation and harvesting system by Mr Kim.</p> |
| (4) | 8.1.2 | <p>Did the internal and external auditors of the Company carry out any work on the actual monies utilised? What was the contention of the external auditors on questioning the recoverability of the investment in the microalgae JV?</p> | <p>Internal auditors were appointed in 2015 to carry out internal audit work for 2015, 2016 and 2017. The scope of the internal audit work was to focus on investment in marketable securities and investment properties in 2015, joint venture (procurement and payments) in 2016 and joint</p> |

SECTION 8: MICROALGAE JV

| S/N | Reference section | Queries by Provenance Capital | Company's responses |
|-----|-------------------|---|--|
| | | | <p>venture (revenue and collection) in 2017. However, the internal audit report for 2015 was not completed as there was some disagreement between the Board and the internal auditors. Accordingly, the work for 2015 did not complete and internal audit work was discontinued thereafter.</p> <p>The external auditors had not been able to obtain sufficient appropriate audit evidence to satisfy themselves as to the recoverable amounts of the Microalgae JV for FY2016.</p> <p>Based on Interim Audit, the Company had fully impaired its investment in the Microalgae Project as at 31 December 2017.</p> |
| (5) | 8.1.3 | <p>(i) Did the Company carry out any due diligence on its JV partners, i.e. Primeforth and Mr Kim?</p> <p>(ii) As the microalgae operations were dependent on Mr Kim, the inventor of the know-how, did the Company consider dealing directly with Mr Kim instead of through Primeforth? What was Primeforth's contribution to the Microalgae Project, as it does not provide funding nor technical know-how?</p> <p>(iii) Was the Company aware of the key people behind Primeforth, other than Mr Kim? Did the Company consider disclosure of the owners and background of Primeforth as a material information, being the JV partner with the Company for the Microalgae Project, as we observed that Primeforth is a 65:35 joint venture between Primeforth Capital Limited and Mr Kim, and the beneficial shareholder of Primeforth is Mr U Kean Seng?</p> <p>(iv) The Company had relied on Mr KC Lim's representation and sign off on documents on behalf of Primeforth even though he is not a director of Primeforth. Please provide rationale for doing so.</p> | <p>(i) As mentioned, the Company was of the view that Primeforth was run by reputable and experienced founders and partners and Mr Kim was part of Primeforth. No further due diligence was carried out on Primeforth and Mr Kim as he had relied on the representations made by Primeforth and Mr Kim.</p> <p>(ii) Mr CY Wong had dealt with Mr Kim on several occasions, together with Primeforth.</p> <p>(iii) Yes, the Company was aware of 2 prominent names behind Primeforth. In addition, Mr CY Wong also knew Mr KC Lim who was the head of business development at Primeforth. The Company had not disclosed much information on Primeforth other than those already disclosed relating to the housing of the patents and know-how, as well as information on Mr Kim, as Mr CY Wong viewed that disclosure on Mr Kim was more important as he was the main person who provides the know-how and key to the Microalgae Project.</p> <p>(iv) Mr CY Wong clarified that the Company has the authorisation letter by Primeforth which authorises Mr KC Lim to execute the Microalgae Project and sign the necessary documents on behalf of Primeforth.</p> <p>We noted the "Unanimous Written Consent" board resolution dated 25 January 2015 by PF Special Situation Fund (former name of Primeforth) which authorised Mr KC Lim and empowered him to act on behalf of the entity. We also noted a letter "To whom this may concern" by Primeforth dated 22 June 2018 confirming the above board resolution dated 25 January 2015 that Mr KC Lim is the</p> |

SECTION 8: MICROALGAE JV

| S/N | Reference section | Queries by Provenance Capital | Company's responses |
|-----|-------------------|--|--|
| | | | authorised person acting on behalf of Primeforth for matters in respect of the microalgae business. |
| (6) | 8.2.3 | <p>Primeforth was supposed to own the 6 Patents.</p> <p>Did the Company carry out due diligence on the validity of the Patents as represented by Mr Kim, as our searches had shown that only 2 out of 6 patents were validly registered during the material time of the Microalgae Project and none of these were registered under Primeforth?</p> | The Company did not independently verify the ownership of the 6 patents and had relied on the representations made by Primeforth and Mr Kim. |
| (7) | 8.2.4 | <p>(i) Was the Company aware that Mr Kim had in June 2016 entered into a similar microalgae business with Magnus and at a similar site in Selangor, and that Mr Kim had terminated his collaborations with the "said party"?</p> <p>(ii) The Microalgae JVA had provided right of first refusal to the JVCO. How was it possible then for Mr Kim to enter into another JV with Magnus?</p> <p>(iii) Did the Board deliberate on this development and consider how this could affect the Microalgae Project? Did the Company approach Mr Kim to clarify whether the termination of his collaborations with the "said party" was referring to Primeforth? If indeed it was Primeforth, would the Company have made an announcement on this matter? If Mr CY Wong was aware that there was no such termination, should the Company consider making a clarification announcement?</p> <p>(iv) If the use of the Patent was non-exclusive, why did the Company not consider getting an exclusive right from Mr Kim/Primeforth from the start?</p> | <p>(i) The Company was aware that Mr Kim had entered into a similar microalgae business with Magnus via its announcement and had no objection for Magnus project to be co-located on the same site as the Company, as the piece of land of 6 acres was very big.</p> <p>(ii) The right of first refusal was between Primeforth and the Company. Hence, Mr Kim was not obliged to provide a right of first refusal to the Company. In any case, the Company did not have the financial resources to venture into a second microalgae project and the Company wanted to focus on the first project before expanding further.</p> <p>(iii) The Company was not concerned about the Magnus project as the Magnus project would in fact help to complement and validate the feasibility of the Company's Microalgae Project. The Company was not informed of the said termination between Primeforth and Mr Kim and hence was not aware and did not seek confirmation if there was such a termination between Mr Kim and Primeforth.</p> <p>(iv) As mentioned above, the Company's resources are limited and it was also not reasonable to obtain exclusive rights from Mr Kim / Primeforth. Nevertheless, the Company did have a right of first refusal.</p> |
| (8) | 8.2.5 | <p>First payment of US\$800,000 was made for the harvest machine by 16 June 2016 and listed in the use of funds. By 27 January 2017, harvest machine was not a listed item in the use of funds.</p> <p>Did the Company enquire into the details of the progress reports?</p> | The Company did not enquire into the details due to reasons as stated above in his response to Question 3(ii). It was also due to the downsizing of the project to phases, monies initially committed for the harvesting machine was allocated for other uses as the harvesting machine would not form part of the project component. |
| (9) | 8.1.2 & 8.2.6 | (i) Was the Company given the identities of the interested buyers for the Microalgae Project? If not, why not? | (i) The Company was informed by PREPL that the potential buyer was Pertamina Group, a state-owned oil and gas company |

SECTION 8: MICROALGAE JV

| S/N | Reference section | Queries by Provenance Capital | Company's responses |
|------|-------------------|--|--|
| | | <p>(ii) Could the Company have dealt directly with the potential buyers given that the Company owns 70% of the JVCO and have greater interest to see to the successful disposal?</p> | <p>in Indonesia. Pertamina Group had requested for a trial test on the microalgae cultivation using 10 tanks before deciding on whether to buy the Microalgae Project. However, there was no further update since then. The Company was also informed of another potential buyer from Indonesia, which had entered into an EPC contract with Primeforth to build power plants in Indonesia. There was no further update on this either.</p> <p>(ii) The Company was not in direct contact with the potential buyers as the potential buyers had contacted Primeforth directly.</p> |
| (10) | 8.1.2 & 8.2.6 | <p>(i) Is there any documentation on the "in principle agreement" with Primeforth to terminate the Microalgae JVA and to dissolve the JVCO? What are the conditions of the termination and the impact on the recoverable amount of the advances made by the Company to Primeforth? Will the agreement on recoverability be concluded before the dissolution of the JVCO?</p> <p>(ii) Does the impairment of S\$6 million investment have any impact on the recovery of the monies from Primeforth or from PREPL?</p> <p>(iii) What actions have the Company taken to recover the S\$6.0 million? How confident is the Company on the recovery of the S\$6.0 million and on what basis, including whether PREPL has the financial resources to repay the Company?</p> <p>(iv) Given that following the Deed of Novation the EPC Contract was between the JVCO and PREPL and the Company's shareholding interest in the JVCO is only 70%, will the Company be entitled to recover the full amount or only 70% of the amount?</p> <p>(v) Subsequent to the Review Date, we noted that the Company had announced in October 2018 that it intends to dispose of the shares of MME, together with shares of certain other subsidiaries of the Group, to Mr CY Wong, for S\$100,000 in cash. How does this affect the recovery and repayment of the S\$6 million advanced by the Company to Primeforth?</p> | <p>(i) The Company is currently negotiating with Primeforth on the recovery of the S\$6 million and the terms of the termination of the Microalgae JVA.</p> <p>Mr CY Wong clarified that the EPC Contract has not expired and the Company will need to wait till the expiry of the EPC Contract before commencing on the negotiation of the recoverable amount with Primeforth.</p> <p>(ii) The Company had decided to impair the amount as it could not provide sufficient audit evidence to the auditors. The Company was of the opinion that the impairment will not impact the Company's negotiations with Primeforth on the recovery of the investments.</p> <p>(iii) In addition to point (i) above, Mr CY Wong noted that there was certain sunk cost incurred during the Microalgae Project, such as civil construction works, which may not be recoverable. Nevertheless, the Company would still negotiate on the basis of the recovery of the full amount.</p> <p>(iv) The Company is negotiating a "global settlement" with Primeforth which will disregard the legal technicalities (such as the legal entities involved in the EPC and the timing of claim) as he was of the opinion that the Company was the party that advanced the full S\$6 million and hence should be entitled to recover the full amount.</p> <p>(v) The Company had, on 5 November 2018, in its response to the SGX-ST's queries, disclosed that it had started the recovery process and had issued a letter of demand to PREPL. Mr CY Wong explained that the recovery process could be cumbersome, lengthy and uncertain. Furthermore, the</p> |

SECTION 8: MICROALGAE JV

| S/N | Reference section | Queries by Provenance Capital | Company's responses |
|------------|--------------------------|--------------------------------------|---|
| | | | new investors had requested for the entities to be disposed as a condition to the 2 nd Proposed Placement. |

SECTION 8: MICROALGAE JV

8.4 Interviews with Independent Directors, former Directors and other relevant persons

We have interviewed or attempted to interview the following Independent Directors, former Directors of the Company and other relevant persons:

| Names | Interview | Interview Notes |
|---|--|--|
| (a) Mr Ong Kah Hock, Independent Director | Conducted on 31 October 2018. | Mr Ong Kah Hock had not met Mr Kim, does not know the people behind Primeforth and had not visited the Kundang site. He had left it to Management to manage the project. He noted our findings in relation to the disclosure on Primeforth and the need to appoint an adviser to advise the Company on various aspects of the Microalgae JV. |
| (b) Dr Arslan, Independent Director | Conducted on 31 October 2018. | Dr Arslan had not met Mr Kim, does not know the people behind Primeforth and had not visited the Kundang site. He felt that the outcome of the project was unpleasant and agreed that the Company should have appointed an independent legal adviser to draft the Microalgae JVA. |
| (c) Dato' Izat, Independent Director | Conducted on 31 October 2018. | Dato' Izat had met Mr Kim to hear his presentation on the Microalgae Project and to understand how the project can benefit the Company. He did not know the people behind Primeforth and had visited the Kundang site once. He was disappointed with the outcome of the Microalgae JV. He could not remember the details of the project. In general, he had relied on Management to implement the project once the Board had discussed and given its approval. |
| (d) Mr Yang Kiin, former Independent Director | For accountability of the interview, the Company had requested for an in-person interview. However, as Mr Yang Kiin is based overseas, the Company was not prepared to bear the traveling and accommodation expenses of Mr Yang Kiin for the purpose of the interview. | Not applicable. |
| (e) Mr Jeremy Dyer, former Independent Director | For accountability of the interview, the Company had requested for an in-person interview. However, as Mr Jeremy Dyer is based overseas, the Company was not prepared to bear the traveling and accommodation expenses of Mr Jeremy Dyer for the purpose of the interview. | Not applicable. |

SECTION 8: MICROALGAE JV

| | | |
|---|--|--|
| (f) Mr Bernard Ong, former Independent Director | The Company said that Mr Bernard Ong did not respond to its request. | Not applicable. |
| (g) Mr Stanley Chu, former Group Financial Controller and Company Secretary | The Company said that Mr Stanley Chu declined to be interviewed. | Not applicable. |
| (h) Ms Jenny Soh, former General Manager for Corporate Affairs | Conducted on 9 November 2018. | She has not met Mr Kim before and she could not recall the details of this transaction. She was involved in vetting the Company's announcements in response to SGX-ST's queries on this transaction. |

SECTION 8: MICROALGAE JV

8.5 Our assessment of the Company's investment process

| | Scope of review | Findings / Potential breaches | Recommendation |
|-----|--|--|--|
| (a) | <p>Whether the Company has an existing investment process and internal controls (including but not limited to, evaluation, approval, agreements, payment terms, approval of payments, recording, reporting of and follow up of proposed acquisitions/investments (including advances and loans)) which are in line with relevant regulatory requirements, including the Listing Manual and Code of Corporate Governance, and whether they are sufficiently robust based on best practices to ensure proper and good corporate governance</p> | <p>We observed that the Company does not have a written set of investment procedures or internal control manual with respect to its investments in businesses and joint ventures. The Company, however, has an investment policy and manual for investments in marketable securities.</p> <p>Rule 719(1) of the Listing Manual requires the issuer to have a robust and effective system of internal controls, addressing financial, operational and compliance risks. In addition, Principle 11 of CG Code 2012 states that the board should ensure that management maintains a sound system of risk management and internal controls to safeguard shareholders' interests and the company's assets, and should determine the nature and extent of the significant risks which the board is willing to take in achieving its strategic objectives.</p> <p>The Company had acknowledged the above and clarified that, in practice, it had adopted and followed a general framework of investment and internal controls procedures as follows:</p> <ul style="list-style-type: none"> (i) deal origination and generation; (ii) research of industry, operating environment, financial and feasibility analysis, due diligence/research on the target company/investment; (iii) board presentation and deliberation; (iv) board approval; and (v) execution and monitoring. <p>Notwithstanding the above, in compliance with the Listing Manual and CG Code, the Company should have a well-documented operational manual to guide its Management with respect to its investments in businesses and joint ventures including a robust and effective system of internal controls and due diligence process to ensure proper and good corporate governance, and the nature and extent of the risk that the Board is willing to take in achieving its strategic objectives.</p> | <p>The Company should establish or consider appointing relevant professionals to assist the Company to establish a well-documented operational manual to guide its investment procedures, internal control processes and set out the nature and extent of the risk that the Board is prepared to take in considering each of the investments in businesses and/or joint ventures.</p> <p>Company's response:</p> <p>The Company agreed that for good corporate governance, such investment and internal control processes should be documented and sufficiently detailed in accordance with best practices.</p> |

SECTION 8: MICROALGAE JV

| | Scope of review | Findings / Potential breaches | Recommendation |
|-----|--|--|---|
| (b) | How the investment procedures for the Microalgae JV compare with the Company's existing investment processes and against best practices set out in the CG Code, ABS Guidelines and requirements under the Listing Manual | As observed in point (a) above, the Company does not have existing investment procedures and internal control processes in writing for investments in businesses and/or joint ventures, from which we can compare against the actual investment procedures undertaken for the Microalgae JV. | (i) The Company should have carried out a more detailed due diligence exercise or consider appointing relevant professionals to advise it on, <i>inter alia</i> , the Microalgae JVA, the Microalgae Project, the JV partner, the relevant patents and their validity, assess the availability and source of funding, as well as the risk factors in investing in the Microalgae Project. |
| (c) | The extent of the due diligence, review and approval process undertaken by the Directors and Management for the Microalgae JV | <p>For the Microalgae JV, we observed that the Company had carried out, <i>inter alia</i>, the following:</p> <ul style="list-style-type: none"> - obtained periodic feasibility monitor report from Primeforth which shows the viability of the Microalgae Project - obtained periodic progress report from PREPL regarding the Microalgae Project; - conducted site visits; and - obtained the necessary Board approval. <p><u>Due diligence</u></p> <p>(i) The Company did not conduct due diligence checks and verification on Primeforth and its promoters, and on Mr Kim who is the key man behind the patents and the technology behind the project, before signing the Microalgae JVA. We subsequently noted that the joint venture between the promoters of Primeforth and Mr Kim did not materialise and Mr Kim was therefore not a shareholder of Primeforth.</p> <p>(ii) The Company did not conduct searches on the 6 patents that it had disclosed in its announcement that were supposed to be owned by Primeforth. Pursuant to our public searches on the patents referred to in the Microalgae JVA Announcement, we noted that only 2 out of the 6 patents were validly registered during the material time of the Microalgae Project and none of these patents were registered under Primeforth.</p> <p>(iii) The Company did not obtain exclusive rights on the use of patents for the Microalgae Project from Primeforth and/or Mr Kim and only had a right of first refusal from Primeforth to invest in other microalgae projects. We noted that Primeforth could not have given exclusive rights on the use of the patents as it did not own the patents and/or these patents were not transferred from Mr Kim to Primeforth. As result, we noted that Mr Kim had subsequently in June 2016</p> | <p>(ii) The Company should have considered the appointment of professional adviser to assist the Company on more detailed and accurate disclosure of information in the Microalgae JV Announcement, and from time to time during the entire time span of the Microalgae JV on the necessary updates and disclosures of material developments.</p> <p>(iii) The Company may wish to consider the need to seek Shareholders' approval in investments where it is relatively significant which will give rise to the Group diversifying into a new core business with a risk profile that is different from the existing business of the Group.</p> <p>(iv) The Company should have immediately implemented a system of internal controls and dedicated more resources (by employing additional senior executives to complement and assist the CEO) to monitor its investment upon the commencement of the Microalgae Project to ensure proper oversight of the work status of the EPC Contract and the utilisation of funds.</p> <p>(v) The Company should take more active steps to finalise the negotiation with Primeforth on the termination and recovery of monies on the project.</p> <p>Company's response:</p> <p>The Company generally agreed with the recommendations. As for point (iv), the Company acknowledged that it had limited resources and manpower to monitor its investment. As for point (xiv) of the findings, the Company is of the opinion that the Microalgae JV, being a joint venture, does not come under the purview of Chapter 10 of the Listing Manual which is for acquisitions.</p> |

SECTION 8: MICROALGAE JV

| | Scope of review | Findings / Potential breaches | Recommendation |
|--|-----------------|---|----------------|
| | | <p>entered into a similar microalgae business with Magnus on a similar site in Selangor.</p> <p>(iv) The Company did not appoint a professional adviser or independent industry expert to ascertain and verify the representations by Primeforth and had relied on Primeforth, who itself is a party to the JV, for drafting the Microalgae JVA, as the founder of Primeforth was a lawyer.</p> <p>(v) The Company did not assess whether it has the necessary means to fund the entire project, and the viability of the project if it were to be carried out on a smaller scale.</p> <p>(vi) The Company did not conduct sufficient background checks on the experience of Primeforth and the key personnel responsible for overseeing the EPC works.</p> <p>(vii) The Company was prepared to solely fund the entire project including Primeforth's 30% share of the paid up capital of the JVCO, on the belief that Primeforth with Mr Kim as the key man and the ownership of the patents, would contribute to the execution and operation of the project. The Company did not verify the above facts.</p> <p>The Company also did not verify whether Primeforth's partnership or collaboration with Mr Kim had been terminated following Magnus' announcement on 22 June 2016 of similar project in Malaysia with Mr Kim. The Company had continued to extend up to S\$6 million to Primeforth by September 2016 relying on the above belief.</p> <p>(viii) As part of the due diligence, the Company should have involved Mr Kim in the drafting of the Microalgae JVA Announcement and/or obtained consent on the disclosures of his information in the above announcement and all subsequent announcements on the project as Mr Kim is instrumental in the roll-out of the project.</p> <p>We noted that the Company did not involve Mr Kim in all these disclosures but had relied on Primeforth's, in particular Mr KC Lim's representations, without any verifications.</p> | |

SECTION 8: MICROALGAE JV

| | Scope of review | Findings / Potential breaches | Recommendation |
|--|-----------------|---|----------------|
| | | <p><u>Disclosure</u></p> <p>(ix) The Company should have made more informed disclosures of the background of Primeforth, its promoters, the dependency on Mr Kim becoming a significant joint venture partner in Primeforth and the transfer of his patents to Primeforth, the Company's plan in securing funding for the project and the risk factors involved in the Microalgae JV. Instead, the Company's disclosures gave the impression that Mr Kim has been on the project with the Company since the announcement of the Microalgae JVA on 22 September 2015. The above announcement and all subsequent disclosures made by the Company that we have seen thus far, did not disclose the shareholders or directors of Primeforth.</p> <p>(x) The Company had inaccurately disclosed in the Microalgae JVA Announcement that Primeforth had owned all the proprietary and patented technologies, know-how and trade secrets in respect of the cultivation, harvesting and manufacturing of biofuels from microalgae, currently and hereafter developed by Mr Kim. Pursuant to our public searches, the relevant patents were not registered under Primeforth's name.</p> <p>(xi) The Company had made inconsistent and inaccurate disclosure in the Microalgae JVA Announcement in relation to the patents. We observed that Primeforth was supposed to own the relevant patents registered in the name of Mr Kim. 5 patents were disclosed in the Microalgae JVA Announcement. Subsequently in response to SGX-ST's queries dated 5 October 2015 in relation to the Microalgae JVA, 6 patents were disclosed to be belonging to Primeforth. Pursuant our public searches, out of the 6 patents disclosed by the Company only 2 were validly registered during the material time of the Microalgae JV and none of them were registered under Primeforth.</p> <p>(xii) We noted from the progress report that Primeforth was unable to obtain the relevant approvals from the Malaysian authorities to commence construction work after securing the land.</p> | |

SECTION 8: MICROALGAE JV

| | Scope of review | Findings / Potential breaches | Recommendation |
|--|-----------------|--|----------------|
| | | <p>The Company did not disclose this matter in its update of the project.</p> <p>The Company also did not verify if Primeforth had secured the lease on the land but had relied on the representations on the progress report.</p> <p>(xiii) The Company did not disclose that the success of the down-sized Microalgae Project was on the basis that the Company could share the harvesting machine with Magnus. Eventually, when Magnus did not agree to share the harvesting machine with the Company, the down-sized project was deemed not feasible.</p> <p><u>Potential new core business and Shareholders' approval</u></p> <p>(xiv) The Microalgae JV would result in MME becoming a 70%-owned subsidiary of the Company and the Group entering into commercial microalgae cultivation business. Did the Company consider or sought professional advice to seek Shareholders' approval for the Group to go into commercial microalgae cultivation as a new core business for the Group?</p> <p>The Company is of the opinion that the Microalgae JV, being a joint venture, does not come under the purview of Chapter 10 of the Listing Manual which is for acquisitions, and that JVs are not subject to any threshold test or requirement for shareholders' approval. In view of the financial commitment of the Microalgae Project of US\$12.5 million which represents 100% of the Company's market capitalisation as at the date of the Microalgae JVA Announcement, the Company could have considered seeking Shareholders' approval for a joint venture of such significant size.</p> <p><u>Execution, monitoring and control</u></p> <p>(xv) The Company had relied solely on Primeforth and Mr KC Lim (who had authorisation from Primeforth although he is not a director of Primeforth) for updates on the Microalgae Project and had no control or monitoring over the work status of the EPC contractor. The Company did not enquire into the details of the progress reports including obtaining a copy of the land</p> | |

SECTION 8: MICROALGAE JV

| | Scope of review | Findings / Potential breaches | Recommendation |
|-----|--|---|---|
| | | <p>lease agreement, verifying the utilisation of the S\$6 million and the assets acquired.</p> <p>In addition, first payment of US\$800,000 was made for the harvest machine by 16 June 2016 and listed in the use of funds section in the progress report provided by PREPL. By 27 January 2017, harvest machine was not a listed item in the use of funds. The Company did not enquire into the actual utilisation of monies and accepted that monies were allocated from the harvesting machine to other items.</p> <p>(xvi) The Company did not put in place internal controls for the operations of MME immediately after the EPC Contract commenced or when the Company began advancing money to PREPL and did not satisfy itself that advances made to Primeforth were utilised for the items stated and in accordance with the estimated costs in the presentation materials, as opposed to “allocated”. As a result, Primeforth had responded to the Company that it does not need to account for the monies spent to-date when the Company decided in 2018 to inquire further on the use of funds.</p> <p><u>Follow up</u></p> <p>(xvii) The Company had earlier disclosed that it had decided to sell the Microalgae Project but had relied on Primeforth to follow up with the potential seller.</p> <p>(xviii) Pursuant to the Interim Audit released on 15 July 2018, it was also disclosed that the Company and Primeforth had agreed in-principle to terminate the Microalgae JV and the Company was in negotiations with Primeforth on the recovery and repayment of the S\$6 million advanced by the Company for the Microalgae Project.</p> <p>The Company should follow-up more closely with the authorised personnel from Primeforth on the above matters.</p> | |
| (d) | Highlight of any non-compliance, significant or unusual deviations with requirements or guidelines under | In the course of our review of the Microalgae JV, we have also noted the following instances of non-compliance which are not directly related to the Microalgae JV: | (i) Dato' Izat and Mr Ong Kah Hock had served far beyond 9 years (23 and 17 years respectively) to justify their independence as Independent Directors of the |

SECTION 8: MICROALGAE JV

| | Scope of review | Findings / Potential breaches | Recommendation |
|-----|--|---|--|
| | the constitution of the Company, CG Code, ABS Guidelines and Listing Manual, and any conflict of interest | <p>(i) Dato' Izat and Mr Ong Kah Hock have been with the Company for the last 23 and 17 years respectively, which are beyond the recommended 9 years tenure for independent directors under CG Code 2012. The Board had, however, considered and determined their continued independence.</p> <p>(ii) As at the Review Date, Mr Philip Leng is not a member of the Nominating Committee which is not in compliance with Guideline 4.1 of CG Code 2012, which states that the Lead Independent Director should be a member of the Nominating Committee; and</p> <p>(iii) Principle 13 of CG Code 2012 requires the Company to establish an effective internal audit function. The Company had, on 5 June 2015 appointed FKT as the internal auditors for a period of 3 years. Management and the Board were not satisfied with the services of FKT and had, on 11 August 2016, resolved to terminate the services of FKT after a review was carried out on the draft internal audit report by FKT.</p> <p>As of the date of this Review, FKT had not continued with its services as internal auditors and the Company had not formally terminated FKT's services. Please refer to further information set out in Appendix A under the caption entitled "Internal auditors".</p> | <p>Company. The Company should take steps to ratify the above position.</p> <p>(ii) During our review, we had brought to the attention of the Company to consider including Mr Philip Leng as a member of the NC. Subsequent to the Review Date, the Company had on 25 September 2018, announced that Mr Philip Leng was designated as a member of the NC and RC.</p> <p>(iii) During our kick-off meeting with the Company on 4 June 2018, we had highlighted to Mr CY Wong that the Company should follow-up on the outstanding matter with FKT, and to take active steps to comply with CG Code in respect of the internal audit function.</p> <p>Company's response:</p> <p>The Company agreed with the recommendations.</p> <p>Subsequent to the Review Date, the Company had clarified in its annual report for FY2017/2018 that for the financial period, the Company did not have an internal audit function as the only source of income was derived from rental of investment properties. Moreover, the Group's external auditor had reviewed internal accounting control that are relevant to their audit. The AC will review the internal audit function when the business level of activities increases.</p> |
| (e) | Whether members of the Board had adhered to their legal obligations and Company's policies and procedures | The Board has overall responsibility for the non-compliance listed in point (d) above. From our findings in points (a), (b) and (c), the Board also has overall responsibility for the lack of a written framework of prudent and effective controls in the Company and generally an oversight of Management to ensure a sound design, implementation and monitoring of risk management and internal control systems. | <p>The Board should take immediate action to address the points listed above.</p> <p>Company's response:</p> <p>The Company agreed with the recommendation.</p> |
| (f) | Whether the failures or impairment of any of the investments could have been avoided through the improvements in internal controls or processes and where there have been failures or weaknesses noted | The Company's investment of S\$6 million in the Microalgae JV was fully impaired in the audited financial statements of the Group for 12M2017. | The Board should take cognizance of the matter, carry out more detailed due diligence before committing on the investment, maintained a closer monitoring of its investment and evaluate the impact the investment may have on the Group's financial performance. |

SECTION 8: MICROALGAE JV

| | Scope of review | Findings / Potential breaches | Recommendation |
|--|--|---|--|
| | <p>in relation to the Microalgae JV, to quantify the impact on the Company's financials in this Report</p> | <p>As at the Review Date, the Company had not provided any update on the sale of the Microalgae Project, or the recovery of the S\$6 million investment from Primeforth.</p> <p>If the due diligence checks had uncovered the matters of concern earlier and controls were in place to monitor the Microalgae Project closely, the Company might not have proceeded with the joint venture with Primeforth or would have ceased remitting the monies to Primeforth earlier.</p> <p>The Company would have minimised losses on the project.</p> <p>Subsequent to the Review Date, we noted that the Company had announced in October 2018 that it intends to dispose of the shares of MME, together with shares of certain other subsidiaries of the Group, to Mr CY Wong, for S\$100,000 in cash.</p> | <p>Company's response:</p> <p>The Company agreed with the recommendation.</p> |

APPENDIX A – INFORMATION ON THE GROUP

1. Salient information of the Company and the Group

- 1.1 The Company is listed on the Mainboard of the SGX-ST with its principal place of business and registered office at 190 Middle Road #19-07 Fortune Centre, Singapore 188979.

The Company was incorporated in Singapore in 22 September 1973 and was listed on the Mainboard of the SGX-ST on 24 May 1983 under the name of Kentucky Fried Chicken (S) Ltd, which was subsequently changed to Inno-Pacific Holdings Ltd in 1988 and to its present name, Innopac Holdings Limited, on 25 October 2012.

Presently, the Group's principal activities are in investments, investment holding and rendering of services to related companies. However, the Group's activities had slowed down significantly over the last few years.

Based on the Interim Audit Report, the Company has an issued and paid up share capital of S\$121,572,000 consisting of 4,460,834,645 Shares with no par value as at 31 December 2017.

As at 31 December 2017, the Company has outstanding 75.5 million share options granted to Directors and staff under the Innopac Share Option Scheme at the exercise price of S\$0.008 each, and 30.0 million outstanding share awards granted to Directors and staff under the Innopac Performance Share Scheme which have not been vested yet. Save for the above, the Company does not have any treasury shares or outstanding instruments convertible into, rights to subscribe for, and options in respect of, Shares or securities which carry voting rights in the Company.

The Company confirmed that there is no change in the above number of issued Shares, share awards and share options since 31 December 2017 to the Review Date.

As at the Review Date, the Shares have been suspended from trading on the SGX-ST. The Company had requested for a trading halt on the Shares on 4 June 2018 which continued into a trading suspension on 7 June 2018 pursuant to Rule 1303(3)(c) of the Listing Manual, as further elaborated in Section 1.3 below.

The Shares were last transacted at S\$0.002 on 1 June 2018 prior to the trading halt and trading suspension. The market capitalisation of the Company was S\$8.9 million based on the above last transacted Share price.

- 1.2 The Group had incurred losses for the last 5 years since FY2013. Pursuant to Rule 1311 of the Listing Manual, the Company was placed on the watch-list of the SGX-ST on 3 June 2016 under the Financial Entry Criteria, and on 5 June 2017 under the MTP Entry Criteria.

Pursuant to Rule 1311 of the Listing Manual, an issuer is placed on the watch-list under (i) the Financial Entry Criteria when the issuer records pre-tax losses for the three (3) most recently completed consecutive financial years (based on audited full year consolidated accounts) and an average daily market capitalisation of less than S\$40 million over the last 6 months; and (ii) the MTP Entry Criteria when the issuer records a volume-weighted average price of less than S\$0.20 and an average daily market capitalisation of less than S\$40 million over the last 6 months.

Pursuant to Rule 1315 of the Listing Manual, if the Company fails to comply with Rule 1314 of the Listing Manual within 36 months of the date on which it was placed on the watch-list, the SGX-ST may either remove the Company from the Official List, or suspend trading of Shares (without the agreement of the Company) with a view to removing the Company from the Official List.

The Company had disclosed in its quarterly updates pursuant to Rule 1313(2) of the Listing Manual since 15 August 2016 that its objective is to build a portfolio of businesses and investments that can deliver consistent profits and cash flow as well as growth potential.

On 10 January 2018, the Company announced the change of its financial year end from 31 December to 30 June. The financial statements for the next full financial year will be for a period of 18 months from 1 January 2017 to 30 June 2018.

Following the SGX-ST's Notice of Compliance on 13 April 2018, the Company had published its Interim Audit Report for 12M2017 on 15 July 2018. Baker Tilly, the auditors of the Company for 12M2017, had issued a disclaimer of opinion on the financial statements of the Group in the Interim Audit Report. For 12M2017, the Group reported loss after tax of S\$8.9 million and NAV/NTA of S\$2.9 million as at 31 December 2017.

Baker Tilly was also unable to conclude on the appropriateness of the use of the going concern assumption by the Company in the preparation of the financial statements for 12M2017. The losses incurred by the Group for 12M2017 and amount of current liabilities exceeding current assets were conditions indicating the existence of a material uncertainty which may cast significant doubt on the ability of the Group to continue as going concern.

The previous auditors, Moore Stephens, had also issued disclaimer of opinion or qualified opinion on the financial statements of the Group for the last few financial years from FY2013 to FY2016.

On 17 August 2018, the Company obtained Shareholders' approval at the EGM to appoint Baker Tilly as its statutory auditors in place of Moore Stephens, for the financial year FY2017/2018.

1.3 1st Proposed Placement, Letter of Demand from Saxo Bank and trading suspension

In an effort to recapitalise the Company, the Company had, on 27 April 2018, appointed the placement agent, KGI Securities, to assist the Company to raise new equity for the Company. On 30 May 2018, the Company announced the 1st Proposed Placement to potential investors to subscribe for 5 billion new Shares at S\$0.001 each (based on the VWAP Share price on 26 April 2018, being the full market day prior to the date of the placement agreement with the placement agent), to raise gross proceeds of S\$5 million.

The completion of the 1st Proposed Placement was subject to Shareholders' approval at an EGM to be convened as the 1st Proposed Placement had exceeded the Company's general mandate and one of the subscribers, Mr Jack Lim, will become a controlling shareholder of the Company with approximately 26.42% of the enlarged share capital of the Company after the 1st Proposed Placement.

However, the Company could not proceed further with the 1st Proposed Placement as the Company had, on 1 June 2018, received a Letter of Demand from Saxo Bank demanding for payment of S\$14.7 million from the Company, for amounts incurred by the Company's subsidiaries, Heritage and Wang Da Investment. The Company was in consultation with its lawyers on the matter.

As the Board was of the view that the Company is unable to reasonably assess and inform the market of its financial position in accordance with Rule 1303(3)(c) of the Listing Manual, the Company had, requested for the trading halt on 4 June 2018 which continued into a trading suspension on 7 June 2018. As at the Review Date, the trading on its Shares continued to be suspended.

The placement agreement with KGI Securities had since lapsed on 27 June 2018.

Subsequent to the Review Date, the Company had disclosed in the Chairman and CEO's statement dated 12 October 2018 in its annual report for FY2017/2018 that it had obtained a legal opinion and advice on the claim from Saxo Bank that reinforces the earlier legal advice that the claim from Saxo Bank against the Company is without merit.

1.4 Material updates after the Review Date and up to the Latest Practicable Date

Based on the Company's public disclosures, we noted the following material updates on the Company and developments in relation to the Selected Transactions:

- (a) The Company had, on 25 September 2018, issued its 6th quarterly update for FY2017/2018 pursuant to Rule 1313(2) of the Listing Manual wherein the Company had disclosed, *inter alia*, the following:
 - (i) Subject to the availability of working capital, the proposed work program for 2018 for the Artel Gold Exploration JV shall focus on samples collection, analysis and trial processing of the alluvial deposit; that in view of the lapsing of the share placement agreement dated 27 April 2018, the Company is looking for alternative funding for this work program; that the work program may have to be modified to accommodate the shrinking time window to work on the concession area;
 - (ii) In relation to the claim from Saxo Bank, discussion is ongoing between Saxo Bank's third party adviser and the Company's representative; and
 - (iii) The Company is pursuing other options to raise working capital and exploring a comprehensive solution to significantly improve its financial position with the aim of removal of the Company from the Watch-List.
- (b) The Company had made 3 announcements dated 8 and 9 October 2018 in relation to, *inter alia*, the following:
 - (i) The Proposed Disposal of shares in subsidiaries to Mr CY Wong as an interested person transaction for an aggregate cash consideration of S\$100,000. These subsidiaries are Heritage, Wang Da Investment, GEM, Extera and MME. The Proposed Disposal is subject to, *inter alia*, Shareholders' approval at an EGM, the opinion of an IFA and completion of 2nd Proposed Placement. Upon the completion of the Proposed Disposal, Mr CY Wong shall resign as a director of the Company and its subsidiaries, and his employment with the Company.

Heritage and Wang Da Investment are entities involved in the claim from Saxo Bank. Extera, GEM, and MME are subject matters of the Selected Transactions relating to the Extera Acquisition, Artel Gold Exploration JV and Microalgae JV respectively.

The 2nd Proposed Placement of 8.4 billion new Shares at S\$0.001 each to a group of 11 investors to raise gross proceeds of S\$8.4 million and which would result in 2 of the investors, Dato' Choo Beng Kai and Dato' Lim Soon Huat, becoming controlling Shareholders. The 2nd Proposed Placement is subject to, *inter alia*, (i) approval of Shareholders at an EGM of the 2nd Proposed Placement, the proposed transfer of controlling interest and any related transactions as may be required in relation thereto; and (ii) the Company having complied with the Notice of Compliance and resumption of trading of the Shares;

- (ii) The entry into a secured loan agreement with Joy Maker International Limited (which is 100% owned by Dato' Choo Beng Kai) for a loan quantum of up to S\$2.5 million at an interest rate of 18% per annum; and
- (iii) That after consulting its solicitors and obtaining confirmations in relation to the claim from Saxo Bank, as at 30 June 2018, the Board is satisfied that Company is able to reasonably assess its financial position and will make a formal application to the SGX-ST for resumption of trading in its Shares.

APPENDIX A – INFORMATION ON THE GROUP

- (c) The Company had, on 15 October 2018, issued its annual report enclosing the audited financial statements of the Group for FY2017/2018 and held its AGM on 30 October 2018. Baker Tilly, the Company's auditors, was unable to conclude on the appropriateness of the use of the going concern assumption by the Company and had issued a disclaimer of opinion on the financial statements of the Group for FY2017/2018 on a similar basis as the Interim Audit for 12M2017.

In addition, Baker Tilly had issued a disclaimer of opinion on "Other Legal and Regulatory Requirements" as follows:

"In our opinion, in view of the significance of the matters referred in the Basis for Disclaimer of Opinion section of our report, we do not express an opinion on whether the accounting and other records required by the Act to be kept by the Company and by those subsidiary corporations incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act."

- (d) The Company had, on 26 October 2018, made 2 announcements in relation to, *inter alia*, the following:
- (i) The Company had, on 24 October 2018, through its solicitors, been served with a writ of summon in the High Court of Singapore for a claim filed by Saxo Bank; that the Company has taken legal advice from its solicitors and is disputing the claim by Saxo Bank, as it believes that the Claim has no merit; and
 - (ii) SGX-ST had, on 25 October 2018, notified the Company that its application for trading resumption is premature and rejected for the following reasons: (1) the claim by Saxo Bank has not been settled and there was no clarity; (2) the Company's auditor had raised certain concerns and had issued a disclaimer of audit opinion in relation to the Company's financial statements for FY2017/2018 and the Company has not demonstrated that it is able to operate as a going concern; (3) the Company had appointed Provenance Capital for its Investment Process Review and the report is pending finalisation; and (4) the Company has not addressed the issues raised by the auditors and Provenance Capital in their respective reports.
- (e) The Company had, on 5 November 2018, responded to SGX-ST's queries on the Proposed Disposal.

2. Financial overview

- 2.1 The Group had reported annual losses for the last five years since 1 January 2013 to 31 December 2017, being FY2013, FY2014, FY2015, FY2016 and 12M2017. Moore Stephens as auditors of the Group had issued a true and fair opinion on the audited financial statements of the Group for FY2013, but had issued a disclaimer of opinion on the financial statements of the Group for FY2014 and FY2016 and a qualified opinion on FY2015. Baker Tilly as auditors of the Group for the Interim Audit had also issued a disclaimer of opinion on the financial statements of the Group for 12M2017.

A summary of the basis of disclaimer of opinion/qualified opinion in each of the relevant years up to the Review Date is set out below:

FY2014

The disclaimer of opinion in respect of the financial statements for FY2014 was based on the following:

APPENDIX A – INFORMATION ON THE GROUP

- (a) the Company had accounted for the cost of its investment in Extera at S\$17,100,000 million and had recognised goodwill arising from the acquisition of Extera at S\$13,709,000. Management was of the view that no impairment loss was required for the cost of investment and goodwill;
- (b) the Company had recorded net trade receivables of S\$30,855,000 arising from the sale of certain marketable securities, after an impairment loss of S\$26,653,000. Management was of the opinion that no further impairment was required.

The auditors expressed that they had not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, they had not expressed an opinion on the financial statements for FY2014.

FY2015

The basis of the qualified opinion in respect of the financial statements for FY2015 was as follows:

- (c) The Group had provided an allowance for impairment of S\$13,739,000 to write down its investment in Extera to its recoverable amount and full impairment of the goodwill pursuant to the Company's decision to exit the CNG refilling station business in the PRC; and
- (d) The Group provided further allowance for impairment on the trade receivables which reduced the net trade receivables from S\$30,865,000 as at 31 December 2014 to S\$1,332,000 as at 31 December 2015.

As the matters referred to in points (a) and (b) were considered resolved in FY2015, the auditors gave a qualified opinion on the financial statements for FY2015 due to the possible effects of the matters raised when comparing FY2015 figures against FY2014 figures.

FY2016

The basis for disclaimer of opinion in respect of the financial statements for FY2016 was as follows:

- (e) the recoverability of other receivables, in relation to the amount of S\$2,300,000 due from the non-controlling shareholder of Sheng Rong;
- (f) the recoverability of investments in Microalgae JV of S\$6,000,000 and Artel Gold Exploration JV of S\$767,000;
- (g) the recoverability of amount of S\$802,000 due from GEM. GEM is a wholly-owned subsidiary of the Company which invested in the Artel Gold Exploration JV; and
- (h) the appropriateness of going concern assumption as the Group had incurred a loss of S\$3,361,000 for FY2016, and the Group's and Company's current liabilities had exceeded current assets by S\$10,029,000 and S\$5,487,000 respectively.

Interim Audit for 12M2017

The basis of the disclaimer of opinion on the financial statements for 12M2017 was as follows:

- (i) the recoverability of available for sale investment of S\$4,600,000 in relation to Sawyer Falls Co, LLC;
- (j) the recoverability of other receivables, in relation to the amount of S\$2,300,000 due from the non-controlling shareholder of Sheng Rong;

APPENDIX A – INFORMATION ON THE GROUP

- (k) the appropriateness of going concern assumption as the Group had incurred loss of S\$8,882,000 for 12M2017, and the Group's and Company's current liabilities had exceeded current assets by S\$10,369,000 and S\$6,112,000 respectively; and
- (l) Opening balances. As Moore Stephens had issued a disclaimer of opinion for FY2016, Baker Tilly was unable to determine whether the opening balances as at 1 January 2017 were fairly stated. With reference to matters raised in point (f) above, the Group had provided for an impairment loss of S\$5,996,000 to fully write down its investment in the Microalgae JV for 12M2017.

Some of the investments mentioned above, namely Extera, Sheng Rong, Artel Gold Exploration JV (including GEM) and Microalgae JV are the subjects of our review in this Report, as set out in Sections 5, 7 and 8 of this Report.

2.2 Financial performance of the Group from FY2013 to 12M2017

We set out below a summary of the audited financial results of the Group from FY2013 to 12M2017:

| S\$'000 | FY2013 | FY2014 | FY2015 | FY2016 | 12M2017 |
|--|----------|---------|----------|---------|---------|
| <u>Continuing Operations</u> | | | | - | |
| Net gains/(losses) on trading of marketable securities | (3,617) | (491) | (24) | 2 | 14 |
| Rental income | - | - | - | 22 | 88 |
| Loss after tax | (54,535) | (5,791) | (35,697) | (3,361) | (8,882) |
| <u>Discontinuing Operations</u> | | | | | |
| Loss for the year from discontinued operations | - | - | (13,465) | - | - |
| Total loss for the year | (54,535) | (5,791) | (49,162) | (3,361) | (8,882) |
| Attributable to: | | | | | |
| - owners of the Company | (54,535) | (5,405) | (48,984) | (3,404) | (8,791) |
| - non-controlling interests | - | (386) | (178) | 43 | (91) |

Source: Company's annual reports for FY2014 to FY2016 and the Interim Audit Report for 12M2017

The Group had recorded low revenue which was mainly derived from net gains/(losses) on trading of marketable securities over the last 5 years and in the last 2 years, also had rental income from investment properties.

However, the Group had incurred significant losses for the past 5 years, in particular, in FY2013 and FY2015, due mainly to fair value loss on marketable securities (S\$62.9 million) and impairment loss on its trade receivables (S\$29.5 million) respectively. For FY2015, the Group was also affected by impairment loss on its investment in Extera (S\$13.7 million) as the Group exited from the CNG filling station business in the PRC.

The Company had announced its unaudited results for 12M2017 on 12 February 2018 with reported loss of the Group of S\$2.3 million. The Interim Audit Report for 12M2017 (which was issued on 15 July 2018) had, however, shown a higher audited loss of the Group of S\$8.9 million. The higher audited loss for 12M2017 by S\$6,538,000 was due mainly to the provision of impairment on the investment in the Microalgae JV of S\$5,996,000 and the provision for impairment in the Group's investment in Trackplus Sdn Bhd ("**Trackplus**") of S\$541,980 to reduce the carrying value to the realisable value, as the Group's 35% equity interest in Trackplus was subsequently sold in January 2018.

APPENDIX A – INFORMATION ON THE GROUP

As the Interim Audit Report for 12M2017 was issued on 15 July 2018 after the 5Q2017/2018 financial results of the Group were announced on 14 June 2018, and in view of the significant difference between the audited 12M2017 and unaudited 12M2017 financial results, it would not be meaningful to analyse the financial results of 5Q2017/2018 in this section, as 5Q2017/2018 financial results had been prepared on the basis of the unaudited 12M2017 financial results.

Financial position of the Group as at 31 December 2017

A summary of the audited statement of financial position of the Group as at 31 December 2017 is set out below:

| S\$'000 | Audited as at 31 December 2017 |
|--|-----------------------------------|
| Non-current assets | 14,201 |
| Current assets | 4,662 |
| Total assets | 18,863 |
| Non-current liabilities | 365 |
| Current liabilities | 15,031 |
| Total liabilities | 15,396 |
| Equity attributable to owners of the Company | 2,942 |
| Non-controlling interests | 525 |
| Total equity | 3,467 |
| NAV/NTA of the Group (S\$) | 2,942,000 |
| Number of issued Shares | 4,460,834,645 |
| NAV/NTA per Share (S\$) | 0.00066 |

Source: Company's Interim Audit Report for 12M2017

Assets

As at 31 December 2017, the Group has total assets of S\$18.9 million comprising non-current assets of S\$14.2 million and current assets of S\$4.7 million.

Non-current assets of S\$14.2 million comprised mainly:

- (i) investment properties totalling S\$8.8 million which were based on valuation performed by independent professional valuers.

The investment properties relate to residential and commercial properties, which consist of an industrial land, a residential apartment and two shop-houses in Malaysia;

- (ii) investment in joint ventures of S\$772,000 which refers mainly to the Artel Gold Exploration JV;
- (iii) available-for-sale investments in Sawyer Falls Co, LLC of S\$4.6 million which is also the subject of the disclaimer of opinion by Baker Tilly in the Interim Audit Report.

Current assets of S\$ 4.7 million comprised mainly:

APPENDIX A – INFORMATION ON THE GROUP

- (i) available-for-sale investment of S\$1 million in relation to Trackplus, the sale of which was completed in January 2018;
- (ii) other receivables and prepayment of S\$2.4 million which relates mainly to the amount of S\$2.3 million due from the non-controlling shareholder of Sheng Rong, which is another subject of the disclaimer of opinion by Baker Tilly in the Interim Audit Report; and
- (iii) cash balance of S\$1,170,000, of which only S\$111,000 was held at the Company level.

Liabilities

Total liabilities of S\$15.4 million comprised mainly current liabilities of S\$15.0 million which relate mainly to the trade payables – bank and stock brokerage trading accounts of S\$12.3 million.

In relation to the above, the Company had, on 1 June 2018, received a Letter of Demand from Saxo Bank seeking payment of the outstanding amount owed by the Company's subsidiaries, Heritage and Wang Da Investment. The Company is seeking legal advice on the matter.

As at 31 December 2017, the Group had a negative working capital of S\$10.4 million.

Equity

Total equity as at 31 December 2017 was S\$3,467,000 of which S\$2,942,000 was attributable to owners of the Company.

We noted that the issued share capital of the Company of S\$121.6 million and reserves have been significantly reduced by the accumulated losses of S\$123.0 million incurred over the last few years.

As a result, the NAV of the Group as at 31 December 2017 was only S\$2.9 million, representing NAV per Share of S\$0.00066 based on 4,460,834,645 outstanding shares as at 31 December 2017. As the Group does not have any intangible assets, its NTA and NTA per Share are the same as its NAV and NAV per Share respectively.

The audited NAV of the Group of S\$2.9 million as at 31 December 2017 is significantly lower than the unaudited NAV of the Group as at the same date due mainly to the provision for impairment losses for the Microalgae JV and Trackplus which were charged to the profit and loss statement of the Group for FY2017, as described above.

2.3 Unaudited financial information of the Group for FY2017/2018

On the Review Date, the Company had announced its unaudited financial statements of the Group for FY2017/2018.

The Group had incurred further loss after tax of S\$581,000 for the 6 months period, resulting in a higher loss after tax of S\$9.5 million for FY2017/2018 compared to the loss after tax of S\$8.9 million for 12M2017. Loss attributable to owners of the Company for FY2017/2018 was S\$9.4 million.

As a result, the unaudited NAV of the Group and equity attributable to owners of the Company as at 30 June 2018 was reduced to S\$2.5 million, representing NAV per Share of S\$0.00056 based on the 4,460,834,645 outstanding Shares as at 30 June 2018. In comparison, the audited NAV and NAV per Share of the Group as at 31 December 2017 was S\$2.9 million and S\$0.00066 respectively.

APPENDIX A – INFORMATION ON THE GROUP

2.4 Audited financial information of the Group for FY2017/2018

Subsequent to the Review Date, the Company had issued its annual report enclosing the audited financial statements of the Group for FY2017/2018. The audited financial statements of the Group were similar to the unaudited financial statements except for the higher tax expense of S\$267,000 compared to a tax credit of S\$30,000 in its unaudited financial statements, and the consequential effects on the balance sheet and cashflow statements of the Group.

Audited loss after tax of the Group for FY2017/2018 was S\$9.76 million and audited NAV of the Group as at 30 June 2018 was S\$2.2 million, representing NAV per Share of S\$0.00049.

3. Salient information on the Board and Management

3.1 The current Board of the Company comprises a majority of Independent Directors as there is only 1 Executive Director and 5 Independent Directors.

Dato' Izat has stepped down on 28 April 2017 as the Non-Executive Chairman and remained on the Board as an Independent Director. Mr CY Wong took over the role of Chairman and is both the Chairman and CEO of the Company.

Pursuant to Guideline 3.3 of CG Code 2012, a Lead Independent Director should be appointed as Mr CY Wong is both the Chairman and CEO of the Company. In addition, pursuant to Guideline 12.2 of CG Code 2012, the AC Chairman, should have recent and relevant accounting or related financial management expertise or experience. We had on 4 June 2018, during the kick off meeting with the Company, suggested to the Company to consider appointing a Lead Independent Director and a person with the relevant accounting or finance background to be the AC Chairman. Subsequently, pursuant to the Company's announcement dated 23 June 2018, Mr Philip Leng was re-designated as the Lead Independent Director and AC Chairman in place of Mr Ong Kah Hock with effect from 23 June 2018.

Pursuant to Guideline 4.1 of CG Code 2012, the Lead Independent Director should also be a member of the Nominating Committee. As at the Review Date, Mr Philip Leng is not a member of the Nominating Committee and we had advised the Company to look into the matter.

The composition of the Board as at the Review Date is set out below:

| | Designation | Date of first appointment as a director of the Company (number of years to Review Date) |
|----|---|--|
| 1) | Mr CY Wong Chairman & CEO | 8 August 2001 (17 years) |
| 2) | Dato' Izat Independent Director | 1 November 1995 (23 years) |
| 3) | Mr Ong Kah Hock Independent Director | 31 August 2001 (17 years) |
| 4) | Dr Arslan Independent Director | 5 March 2014 (4 years) |
| 5) | Mr Philip Leng Lead Independent Director | 5 March 2018 (less than 1 year) |
| 6) | Mr Chong Eng Wee Independent Director | 27 April 2018 (less than 1 year) |

The composition of the AC, RC and NC as at the Review Date are as follows:

| | Audit Committee | Remuneration Committee | Nomination Committee |
|----|---------------------------|------------------------|----------------------|
| 1) | Dato' Izat - | Chairman | Chairman |
| 2) | Mr Ong Kah Hock Member | Member | Member |
| 3) | Dr Arslan - | Member | Member |

APPENDIX A – INFORMATION ON THE GROUP

| | | | | |
|----|------------------|----------|---|---|
| 4) | Mr Philip Leng | Chairman | - | - |
| 5) | Mr Chong Eng Wee | Member | - | - |

Source: *Company's announcements on the SGXNET*

Subsequent to the Review Date, the Company had, on 25 September 2018, announced that Mr Philip Leng was designated as a member of the Nominating Committee and Remuneration Committee.

Mr CY Wong has been with the Group as an Executive Director for the last 17 years. Of the 5 Independent Directors, 2 of them, Mr Ong Kah Hock and Dato' Izat, have been with the Company for 17 years and 23 years respectively, which are beyond the recommended 9 years tenure for independent directors under CG Code 2012. The Board had, however, considered and determined their continued independence. Dr Arslan has been an Independent Director of the Company for the last 4 years, and Mr Philip Leng and Mr Chong Eng Wee are newly appointed as Independent Directors in March and April 2018 respectively.

Among the current members of the Board, Mr CY Wong, Mr Ong Kah Hock and Dato' Izat have been with the Company throughout the period of the Selected Transactions, and Dr Arslan for 4 of the 5 Selected Transactions. Mr Philip Leng and Mr Chong Eng Wee are newly appointed in 2018 and, hence, were not involved in any of the Selected Transactions although Artel Gold Exploration JV was on-going as at the Review Date.

Please refer to Appendix C under the caption entitled "**Profiles of relevant Directors**" for the profile of each of the present Directors who were involved in the Selected Transactions as extracted from the Company's annual report for FY2016.

3.2 Besides the above Directors who had overseen the Selected Transactions, 4 other former Independent Directors were also involved in the Selected Transactions at various times during their tenure as directors of the Company. The chart in Section 1.5 of this Report shows an overview of the past and present Directors' tenure and time span of each of the Selected Transactions over the last 5 years since 2013 to the Review Date.

In particular, the former Directors who have overseen the Selected Transactions are as follows:

| | Past Director | Designation | Tenure of directorship | Involvement in Selected Transactions | Reason for resignation |
|-----|----------------|------------------------------------|--|--|---|
| (1) | Mr Yoon | Independent Non-Executive Director | 1 September 2011 to 30 May 2013 (less than 2 years) | Merlin Diamonds Takeover Offer | Due to his work commitments as an independent director of another SGX-ST listed company. |
| (2) | Mr Jeremy Dyer | Independent Non-Executive Director | 21 March 2014 to 4 November 2016 (more than 2½ years) | Extera Acquisition; Gaocheng JV; Artel Gold Exploration JV; and Microalgae JV. | Due to his other personal work commitments. |
| (3) | Mr Yang Kiin | Independent Non-Executive Director | 15 November 2016 to 1 February 2018 (less than 15 months) | Artel Gold Exploration JV; and Microalgae JV. | (a) His differences with the Management; and (b) unfounded allegations of his misconduct by the Board. For more details, please refer to Section 8 of this Report. |

APPENDIX A – INFORMATION ON THE GROUP

| | | | | | |
|-----|----------------|------------------------------------|--|--|--|
| (4) | Mr Bernard Ong | Independent Non-Executive Director | 31 March 2017 to 20 October 2017 (less than 7 months) | Artel Gold Exploration JV; and Microalgae JV. | His other personal commitments. For more details, please refer to Section 8 of this Report. |
|-----|----------------|------------------------------------|--|--|--|

Please refer to Appendix C under the caption entitled “**Profiles of relevant Directors**” for the profile of each of the above former Directors as extracted from the Company’s annual reports.

- 3.3** The Management of the Company has been very lean over the past 5 years during the Selected Transactions, comprising Mr CY Wong as the CEO and his 2 assistants, namely Mr Stanley Chu and Ms Jenny Soh.

Mr Stanley Chu was the Group Financial Controller cum Company Secretary from June 2007 until his resignation on 1 December 2017. He was replaced with another executive officer on 1 December 2017 but that executive officer is unfamiliar with the Selected Transactions.

Ms Jenny Soh was the General Manager for Corporate Affairs. She joined the Company in 1988. Ms Jenny Soh left the Company for a brief period of 6 months before rejoining in 1993. She resigned on 2 January 2018. There was no replacement for her role.

Please refer to Appendix C under the caption entitled “**Profiles of relevant Management excluding CEO**” for the profiles of Mr Stanley Chu and Ms Jenny Soh as extracted from the Company’s annual reports for 2016.

4. Substantial Shareholders – Mr Gutnick’s shareholding interest

- 4.1** We noted that the Company does not have a Controlling Shareholder holding 15% or more of the Shares. There were, however, 3 named Substantial Shareholders each holding less than 7% shareholding interest in the Company, as disclosed in the Company’s last annual report for FY2016 prior to our Review Date, namely Mr Gutnick & Jollyboat, Foo Seng Ngan and Clear Water Development Sdn Bhd. Of particular interest to note is the shareholding interest of Mr Gutnick arising from our review of the Selected Transaction in relation to the Merlin Diamonds Takeover Offer.

We noted that the Company had consistently disclosed the shareholding interests of Mr Gutnick and Jollyboat, as Substantial Shareholders in its annual reports since FY2012. Mr Gutnick owned 100% shareholding interest of Jollyboat according to earlier disclosures.

The Company had issued new Shares in FY2013, FY2014 and FY2016 as follows, which resulted in the current issued share capital comprising 4,460,750,145 Shares as at the Review Date:

| | No. of Shares issued | Purpose | Resultant number of Shares |
|--------|----------------------|--|----------------------------|
| FY2013 | 875,103,410 | Acquisition consideration, share placement and exercise of options | 3,465,182,495 |
| FY2014 | 931,567,650 | Rights issue of Shares cum Warrants | 4,396,750,145 |
| FY2015 | NIL | NIL | 4,396,750,145 |
| FY2016 | 64,000,000 | Issuance of shares upon vesting of share awards | 4,460,750,145 |

In the Company’s last annual report for FY2016, Mr Gutnick’s and Jollyboat’s shareholding interests were disclosed as follows:

APPENDIX A – INFORMATION ON THE GROUP

| | Direct Interest | Deemed Interest | Percentage Shareholding interest in the Company |
|----------------|-----------------|----------------------------|---|
| (1) Mr Gutnick | 2,220,000 | 300,000,000 ⁽¹⁾ | 6.73% ⁽³⁾ |
| (2) Jollyboat | - | 300,000,000 ⁽²⁾ | 6.73% ⁽³⁾ |

Notes:

- (1) Mr Gutnick is deemed interested through Jollyboat;
- (2) Jollyboat is deemed interested pursuant to Sale & Purchase Agreements; and
- (3) Based on 4,460,750,145 Shares.

However, we noted and the Company also acknowledged that such disclosure was inconsistent with the disclosure of the top 20 shareholders of the Company in the annual reports of the Company for the last 5 years from 2012 to 2016. The top 20 shareholders of the Company did not reveal Jollyboat or Mr Gutnick's interests in the Shares as the Company could not find Jollyboat or Mr Gutnick's names in the listing of the top 20 shareholders but the Company had continued to disclose them as Substantial Shareholders.

4.2 Background of shareholding interests of Mr Gutnick and Jollyboat

On 31 January 2013, the Company had announced the Implementation Deed on its proposed Merlin Diamonds Takeover Offer. MED is an Australian listed company which Mr Gutnick was the Executive Chairman, Managing Director and CEO. The Merlin Diamonds Takeover Offer eventually lapsed following the close of the offer on 12 July 2013. The Merlin Diamonds Takeover Offer is one of the 5 Selected Transactions reviewed in this Report, details of which are set out in Section 4 of this Report.

We note that Mr Gutnick had filed Form 3 on 5 and 6 February 2013 to notify the Company that he had, through Jollyboat, become a substantial shareholder of the Company through sale and purchase agreements. His deemed shareholding interest in the Company on 5 February 2013 was 200 million Shares (6.87%) and his deemed shareholding interest in the Company became 300 million Shares (10.31%) on 6 February 2013.

The Company had also made press releases on 5 and 6 February 2013 disclosing Mr Gutnick emerging as a substantial shareholder of the Company and increasing his stake in the Company, as a major show of confidence in the Company.

On 18 February, 21 February and 16 April 2013, Mr Gutnick filed further Form 3 to notify the Company of his direct acquisition of the Shares via market transactions, of 220,000 Shares, 1.0 million Shares and 1.0 million Shares respectively, totalling 2.22 million Shares.

As at 1 April 2013, being the date on which the shareholding statistics were collated for the Company's annual report for FY2012, the Company had disclosed under Substantial Shareholders that Mr Gutnick had a direct interest of 1.22 million Shares and deemed interest of 300 million Shares, representing in total 10.35% of the then issued share capital of the Company. In the following annual report for FY2013, the Company had updated Mr Gutnick's direct interest of 2.22 million Shares. The Company continued to disclose Mr Gutnick's direct interest in 2.22 million Shares and deemed interest of 300 million Shares which were held through Jollyboat in the annual reports for FY2014 to FY2016.

As mentioned above, the top 20 shareholders of the Company did not reveal Jollyboat or Mr Gutnick's interest in the Shares as the Company could not find Jollyboat or Mr Gutnick's names in the listing of the top 20 shareholders but the Company had continued to disclose them as Substantial Shareholders over the years.

APPENDIX A – INFORMATION ON THE GROUP

The Company's share registrar, Intertrust, had verbally advised the Company that it was the Company's responsibility to report substantial shareholders and their shareholdings as notified to the Company by Form 3. There was no update from Mr Gutnick on his interests in the Shares since 16 April 2013. The Company continued to disclose the same shareholding interest of Mr Gutnick in the next 4 annual reports in the absence of any further updates from Mr Gutnick or Jollyboat.

Based on our findings, according to the ASX announcement on 8 July 2016, Mr Gutnick had resigned as a director of MED and according to a newspaper article in The Australian dated 12 July 2016, Mr Gutnick had declared himself bankrupt. According to the ASX announcement on 8 June 2018, Mr Gutnick was appointed as the Executive Chairman of MED.

At the time of our review of the Merlin Diamonds Takeover Offer, we noted and the Company had acknowledged the above inconsistency in disclosures of Mr Gutnick's shareholding interest in the Company. We had highlighted to the Company to seek further professional advice on the steps that it should take to ascertain the shareholding interest of Mr Gutnick and the appropriate disclosure of Mr Gutnick's direct and deemed interest in the Shares in the circumstance, as the continuing disclosure of such information over the last 4 years, based solely on the absence of further notification to the Company from Mr Gutnick may result in an inaccurate disclosure of information by the Company.

Further details on the above are set out in Section 4 of this Report.

- 4.3** Subsequent to the Review Date, we noted that the Company had disclosed in its annual report for FY2017/2018 the following statement after the table of Substantial Shareholders as at 21 September 2018:

"The substantial shareholding of (2), (3) and (4) namely Joseph Isaac Gutnick, Jollyboat Management Ltd and Clear Water Development Sdn Bhd are based on the Register of Substantial Shareholders kept by the Company's Share Registrar and based on Form 3 Notification of Substantial Shareholder(s) submitted by these parties. However, based on the Company's inquiry with the Company's Share Registrar, the CDP and Nominees, the Company has not been able to ascertain any shares being held by these parties as at 21 Sep 2018. The Company is obliged to report their substantial shareholdings interest pursuant to the Form 3 Notifications, notwithstanding."

5. Internal auditors

- 5.1** We noted that at the AC meeting held on 28 December 2012, the AC had resolved to recommend to the Board to appoint Deloitte & Touche Enterprise Risk Services Pte Ltd ("**Deloitte**") to provide risk assessment services to the Group. However, the Company did not proceed with the appointment of Deloitte.

On 5 June 2015, with the recommendation of the AC, the Board had appointed FKT as the internal auditors of the Company in compliance with the CG Code. The objective of the internal audit services is to assist the Company to evaluate and test the effectiveness of controls that are in place to reduce the risk of the Company not meeting its business objectives. FKT's internal audit plan and scope was to cover a period of 3 years with the following focus for each year:

Year 1: Properties investment management and securities investment management;

Year 2: Joint venture – procurement and payments, and follow up on prior year audit; and

Year 3: Joint venture – revenue & collection and follow up on prior year audit.

On 11 August 2016, the Board deliberated on the review of the draft internal audit report and assessment of the performance of FKT, and resolved to terminate the services of FKT. The first

APPENDIX A – INFORMATION ON THE GROUP

internal audit report was not finalised nor issued by FKT. Through the minutes, it was apparent that Management and the Board were not satisfied with the services of FKT.

On 28 February 2017, it appeared that the Board had selected Baker Tilly as the internal auditors but Management was also suggesting having an in-house internal auditor or a smaller audit firm as internal auditors. There was no conclusion or resolution on the appointment of Baker Tilly.

The Board minutes for the above Board meeting also recorded that no internal audit was performed for 2016 as the 2 joint venture projects (that is, Microalgae JV and Carbon Black) had not started fully.

In the Company's annual report for FY2015, under the "Report on Corporate Governance - Internal Audit", the Company had disclosed, *inter alia*, that the findings of the internal auditors were discussed in detail at the AC meeting, including any internal control weaknesses, non-compliance or policy and procedures as well as follow-up actions required to strengthen the internal control system of the Group.

However, we noted that the first internal audit report was not finalised nor issued by FKT.

In the Company's annual report for FY2016, the Company had disclosed that the scope of work for FY2016 relates to the Group's joint venture projects which had not started and accordingly, the internal auditors had not commenced any internal audit work.

We noted that the annual report for FY2016 was issued on 8 April 2017 and the Board had on 11 August 2016 resolved to terminate the services of FKT. That being the case, FKT would not have worked on the scope of work set out for Year 2. While the Microalgae Project was not completed, the Company had extended S\$6 million to its joint venture partner, Primeforth, by 23 September 2016 for the purpose of the project.

The Company should have also considered including in the scope of review by the internal auditors the Group's internal control process in relation to the deployment of funds in its joint venture projects.

We noted that as at the Review Date, the Company had not formally terminated the services of FKT following the Board resolution to terminate their services on 11 August 2016 and FKT has not continued with its internal audit services with the Company since then.

We noted that the Company had mentioned FKT as its internal auditors in its annual reports for 2015 and 2016. There was no announcement or disclosure of the termination of FKT or replacement of internal auditors up to the Review Date. The next annual report of the Company is for FY2017/2018 due to the change in the financial year end from 31 December to 30 June.

During our kick-off meeting with the Company on 4 June 2018, we had highlighted the above to Mr CY Wong and that the Company should follow-up on the outstanding matter with FKT, and to take active steps to comply with the CG Code in respect of the internal audit function.

In the annual report for FY2017/2018 despatched to Shareholders on 15 October 2018, the Company had disclosed that "*During FP2018, the Company did not have an internal audit function as the only source of income was derived from rental of investment properties. Moreover, the Groups external auditor had reviewed internal accounting control that are relevant to their audit. The AC will review this internal audit function when the business level of activities increases.*"

The Company should take note of the revised CG Code dated 6 August 2018 and the proposed Rule 719(3) of the Listing Manual which will become effective from 1 January 2019 that "An issuer must establish and maintain on an ongoing basis, an effective internal audit function that is adequately resourced and independent of the activities it audits."

APPENDIX A – INFORMATION ON THE GROUP

5.2 We have interviewed or attempted to interview FKT in relation to their role as internal auditors of the Company.

The Company informed us that FKT declined to be interviewed.

5.3 We have interviewed or attempted to interview the following Independent Directors, former Directors of the Company and other relevant persons:

Interview notes with Directors

| Names | Interview | Interview Notes |
|---|--|--|
| (a) Mr Ong Kah Hock, Independent Director | Conducted on 31 October 2018. | Each of Mr Ong Kah Hock, Dr Arslan and Dato' Izat is of the similar opinion that they had left it to Management to follow through on the execution upon the Board's approvals in relation to the internal auditors, such as the termination of FKT, the necessary disclosure in the annual report and the appointment of new internal auditor. |
| (b) Dr Arslan, Independent Director | Conducted on 31 October 2018. | |
| (c) Dato' Izat, Independent Director | Conducted on 31 October 2018. | |
| (d) Mr Yang Kiin, former Independent Director | For accountability of the interview, the Company had requested for an in-person interview. However, as Mr Yang Kiin is based overseas, the Company was not prepared to bear the traveling and accommodation expenses of Mr Yang Kiin for the purpose of the interview. | Not applicable. |
| (e) Mr Jeremy Dyer, former Independent Director | For accountability of the interview, the Company had requested for an in-person interview. However, as Mr Jeremy Dyer is based overseas, the Company was not prepared to bear the traveling and accommodation expenses of Mr Jeremy Dyer for the purpose of the interview. | Not applicable. |
| (f) Mr Bernard Ong, former Independent Director | The Company said that Mr Bernard Ong did not respond to its request. | Not applicable. |
| (g) Mr Stanley Chu, former Group Financial Controller and Company Secretary | The Company said that Mr Stanley Chu declined to be interviewed. | Not applicable. |
| (h) Ms Jenny Soh, former General Manager for Corporate Affairs | Conducted on 9 November 2018. | She was not involved in the discussion of the internal audit function. |

APPENDIX B – LIST OF INVESTMENT PROJECTS

List of investment projects which the Company had made or considered over the last 5 years since January 2013

| No. | Name of Project | Date project shown (to the best of the Company's knowledge) | Date of Commencement (if project is selected) (Announcement Date) | Amount involved | Date of termination / cessation |
|--|--|---|---|-----------------------------------|---------------------------------|
| 1. | Artel Gold Exploration JV* | Sometime in Jan-Feb 2015 | N/A (non-discloseable transaction), acquired sometime in April 2015 | US\$400K | N/A |
| 2. | Microalgae JV* | Sometime in Jan-Feb 2015 | 22-Sep-2015 | US\$4.5m (from initial US\$12.5m) | N/A |
| 3. | Extera Acquisition* | Sometime in May-Jun 2013 | 1-Dec-2013 | S\$17.1m | N/A |
| 4. | Merlin Diamonds Takeover* | Sometime in Oct-Nov 2012 | 31-Jan-2013 | S\$76.0m | 15-Jul-2013 |
| 5. | Carbon Black | Sometime in Jan 2016 | 2-Jun-2016 | Up to US\$2.5m | 30-Nov-2017 |
| 6. | Dongwoo (Wood Pellet) | Sometime in Mar 2017 | 15-Jun-2017 | S\$1.2m | 30-Nov-2017 |
| 7. | Gaocheng JV* | Sometime in Sep 2014 | 27-Feb-2015 | RMB30m | 14-Mar-2016 |
| Projects evaluated and did not proceed and not announced (non-exhaustive) | | | | | |
| 8. | Makmal Gold Mine | Sometime in Dec 2014 | N/A | US\$2.0m | N/A |
| 9. | Pineapple Cultivation | Sometime in Mar 2017 | N/A | RM647K | N/A |
| 10. | Melon Cultivation | Sometime in 2016 | N/A | RM500K | N/A |
| 11. | Chilli Cultivation | Sometime in 2016 | N/A | RM500K | N/A |
| 12. | Kara Dobo Coal Mine | Sometime in Nov 2013 | N/A | US\$500K | N/A |
| 13. | Waste to Energy Project Colombia | Sometime in Mar 2017 | N/A | US\$87.3m | N/A |
| 14. | Potential Acquisition of Australian Online FX Brokerages | Sometime in Feb 2014 | N/A | A\$3-7m | N/A |
| 15. | Kokkia Coal | Sometime in 2013 | N/A | N/A | N/A |
| 16. | Manas Acquisition | Sometime in Oct-Nov 2013 | N/A | S\$20m | N/A |
| 17. | Mamat Coal | Sometime in Oct 2013 | N/A | N/A | N/A |

Note:

* The Selected Transactions

APPENDIX C – PROFILES OF RELEVANT DIRECTORS AND MANAGEMENT OF THE COMPANY

Profiles of Relevant Directors and Management of the Company

(as extracted from the Company's annual reports for FY2012, FY2015 and FY2016)

Profiles of relevant Directors

Mr Wong Chin Yong

Mr CY Wong is currently the Chairman and Chief Executive Officer of the Company.

Wong Chin Yong, age 65, is the Managing Director and Chief Executive Officer of the Company since 18 September 2001. Mr Wong is a Business Administration graduate from the University of Singapore. He has more than 40 years' experience in financial markets, investment banking, and management. Mr Wong spent his early career in treasury management with several international banks in Singapore before joining the Monetary Authority of Singapore as a senior officer. He also headed the Singapore branch of a U.S. investment bank in the 1980s. In the 1990s, Mr Wong was the chief executive of several public-listed companies in Canada, Hong Kong and Malaysia that were engaged in oil & gas exploration, gemstone mining, marketing and distribution.

Dato' Moehamad Izat Emir

Dato' Izat is currently an Independent Non-Executive Director of the Company.

Dato' Moehamad Izat Emir, age 79, is the Chairman of Innopac Holdings Limited (Singapore). He was a director of the Company since November 1995 before he was appointed as Executive Chairman in August 2001. He relinquished his executive role in August 2002.

Dato' Izat is a prominent Malaysian businessman with extensive business and corporate experiences. Currently he is Deputy Chairman of SKB Shutters Corporation Berhad, a Bursa Malaysia public listed company, Chairman of Emir Group of Companies, Deputy Chairman of Langkah Indera Properties Sdn Bhd and Executive Chairman of Imartek Sdn Bhd (formerly known as Impsa (Malaysia) Sdn Bhd), a hydro power plant company.

Dato' Izat is the President of Malay Businessmen and Industrialists Association Malaysia (PERDASAMA), an NGO with more than 18,000-strong members nation-wide since 1988. He is also appointed as Steering Committee for Malay Consultative Council, Malaysia since November 2014 and is also the Chairman of UMNO Setia Budi branch. Dato' Izat is a committee member on Economic Roundtable session with Prime Minister organised by Economic Planning Unit, Prime Minister's Office. He is also involved with the Malaysian Government's deliberation on dealing with the challenges facing the global halal industry.

Dato' Izat is active in connecting Malaysian businessmen and entrepreneurs with the local business council to collaborate and expand their businesses. He successfully collaborated with MCCC (Malaysia-China Chamber of Commerce) and Chinese Government in organising the Guangdong Maritime Silk Road International Expo for two consecutive years (2014 and 2015). This event is organised and held annually due to high demand from Malaysian businessmen and entrepreneurs.

He was appointed as MARDI (Ministry of Agriculture, Malaysia) Scientific Council member from June 2003 to 2013 and was also appointed as Chairman of Financial Committee Member of MTEM (Majlis Tindakan Ekonomi Melayu Bersatu) in December 2011. Formed in September 2011, MTEM is an NGO aimed to modernise the Malay economy, connecting the Malay Support Base to the Economic Transformation Program. He was also appointed as Advisory Council Member by Universiti Teknologi MARA (UiTM) from 2014 to 2016.

APPENDIX C – PROFILES OF RELEVANT DIRECTORS AND MANAGEMENT OF THE COMPANY

Dato' Izat has been actively involved in the promotion of international trade and was a committee member of the Malaysian-China Business Association, Malaysian-Thai Business Association and Chairman of the sub-committee for Economics-Trade and Investments of the Malaysia-Thailand Association. Dato' was also appointed by the Ministry of International Trade and Industry (MITI) Malaysia as a member of the Malaysia-Singapore Business Council in 2004. He was the Deputy President of the Malaysian- Finnish Business Council and was the Vice Chairman of the Malaysia-Cambodia Business Council. He had been invited thrice as the Malaysian representative observer in Uzbekistan elections.

Mr Ong Kah Hock

Mr Ong Kah Hock is currently an Independent Non-Executive Director of the Company.

Ong Kah Hock, age 63, has been a director of the Company since 31 August 2001. Mr Ong holds an MBA degree from University of Bradford, B.Sc. (Hons) degree from the University of Salford and Diploma in Marketing from Institute of Marketing, UK. He has more than 30 years' experience in marketing and general management in the shipbuilding, machinery and chemical industries. He is currently a director and general manager of a home appliances and hair care products distribution company.

Dr Arslan Koichiev

Dr Arslan Koichiev is currently an Independent Non-Executive Director of the Company.

Arslan Koichiev, age 52, was appointed as a director of the Company on 5 March 2014. Dr Koichiev holds a PhD in History from the Kyrgyz State University. He also attended the Master of Arts International and Comparative Legal Studies at the School of Oriental and African Studies, University of London. Currently, he is the director of Manas Resources LLC, a gold mining company in the Kyrgyz Republic. Dr Koichiev also headed Manas Coal LLC and Manas Minerals LLC, coal mining companies in the Kyrgyz Republic. From 2011 to 2012, he was the Country Consultant of Central Asia Resources, UK and a consultant to Premier Management Holdings, UK. From 1996 to 2011, he was a Radio Producer with the BBC World Service, London. Since 1994, Dr Koichiev has been a Political Columnist for "Kutbilm", a newspaper in the Kyrgyz Republic. He was also a Bishkek-based correspondent for Radio Free Europe and Radio Liberty of Munich, Germany from 1994 to 1996. Dr Koichiev has written and published three books in Kyrgyz, "The Disappearance: The Curse On The Bedel Pass", "Let My Words Reach Them" - which won him a second place in the national contest of writers in 2012 and "The Shaman and Genghis Khan", which he won the first place in the national contest of writers in 2014. Dr Koichiev is currently translating the late Mr Lee Kuan Yew's book – "From Third World to First: The Singapore Story, 1985-2000" into the Kyrgyz language.

Mr Yang Kiin

Mr Yang Kiin was a former Independent Non-Executive Director of the Company.

Yang Kiin, age 39, was appointed as a director of the Company on 15 November 2016. Mr Yang holds a BSc (honours) degree in Applied Management Studies from University of Birmingham, Birmingham UK and a Finance degree from George Mason University, Va, USA. Since entering the Biomass industries in 2011, Mr Yang has worked in partners with numerous private companies and government sectors from Malaysia, Indonesia, Thailand, United Kingdom and Korea. Besides specialising in the trading side of this market, he is also knowledgeable in the technologies in setting up biomass plants, refinery systems, and waste to energy ("WTE") plants. He also specializes in structuring and organising joint venture projects and products commercialisation.

APPENDIX C – PROFILES OF RELEVANT DIRECTORS AND MANAGEMENT OF THE COMPANY

Currently, Mr Yang is the Managing Director of RC Carbon Sdn Bhd, a company incorporated in Malaysia which is a customised business model for the production of recovered carbon black from waste tires. RC Carbon is developing projects in Malaysia, Vietnam, and the Middle East and is the project consultant for recycling and WTE. He was also the Managing Director of Gentech Innovation Limited from Jan 2014 to Jan 2016, a Hongkong EPC project development and consulting company focusing exclusively on the marketing and sales for torrefaction and gasification projects. From 2014 to 2015, he was the Managing Director of Enerlix Technology Sdn Bhd, a Malaysian company which develops and manufactures gasification and Co-Current Triple Pass Dryer as well as research and development for biomass solid fuel production.

Mr Yang was a panel speaker at the 4th International Conference on Oil Palm Biomass in May 2014, Indonesia-delivering a paper on “Torrefaction on Empty Fruit Bunch: A Reality Journey from R&D to Commercialisation”. He was also a speaker at the International Special Session: “Application Of Energy Sources Biomass” - “Issues with Oil Palm Waste to Energy: Influencing Factors and Solution” in Nov 2014 Autumn Meeting and Academic Research Presentation / Special Symposium I, II/Special Session I, II, III, IV and V held in Korea.

Mr Yang is also the Managing Director and CEO of Superior Carbontech & Solutions Sdn Bhd, as joint-venture with the Company to recover carbon black from end-of-life tires char.

Mr Bernard Ong Kheng Chye

Mr Bernard Ong was a former Independent Non-Executive Director of the Company.

Bernard Ong Kheng Chye, age 52, was appointed as a director of the Company on 31 March 2017. Mr Ong is a Business Administration graduate from the National University of Singapore. Currently, he is the Group Managing Director of Edge Capital Group, a financial services and family office provider in Singapore, Vietnam and the region. Edge Capital has multiple businesses mainly in real estate and food & beverages as well as strategic investments in various companies. Prior to this he was the Managing Director of the Glowtec Environmental Group, a regional environmental engineering group specializing in the provision of water and waste water treatment solutions within the region and also served as a Director of various companies including, SNF Ltd a public listed company on the SGX Main board.

Mr. Ong also served as a Council Member of the Maritime Port Authority’s - MERIT Committee for over 6 years as well as various other committees including that of the Services Committee of the Singapore Shipping Association. He was previously in the finance and banking industry for over 20 years and held managerial positions within HSBC’s corporate and investment banking as well as commercial banking divisions, (wherein he was credited for being a key driver and revenue contributor of the respective businesses). His finance and banking industry career spans several banks including the United Overseas Banking Group and the Oversea-Chinese Banking Group. His experience covers the breadth of the financial sector with extensive experience in retail / consumer banking as well as local and regional transactions covering mergers and acquisitions, capital markets and syndicated transactions within the shipping, real estate, construction and oil & gas industries.

Mr Jeremy Dyer

Mr Jeremy Dyer was a former Independent Non-Executive Director of the Company.

Jeremy dyer was appointed as director of the Company on 21 March 2014. Born and educated in UK, Mr Dyer holds a B.Sc. (Hons) degree in Geology from Manchester University. He has more than 35 years technical and managerial experience in the upstream petroleum industry in UK, USA, Malaysia and Indonesia. Mr Dyer is the technical director and founder of PT OPAC Barata, an Indonesian upstream

APPENDIX C – PROFILES OF RELEVANT DIRECTORS AND MANAGEMENT OF THE COMPANY

petroleum service company established in 1999. He is also a co-founder and non-executive director of Geoglide Holdings Pte Ltd, a petroleum service company operating in Australia and Indonesia. Since 1992, Mr Dyer has been living in Jakarta and is widely known in the Indonesian upstream oil and gas business.

Mr Yoon Wai Nam

Mr Yoon was a former Independent Non-Executive Director of the Company.

Yoon Wai Nam was appointed as an independent director of the Company on 1 September 2011. Currently, he is with the Centre for Non Profit Leadership (CNPL) as a Director. Prior to joining CNPL, Mr. Yoon was the Country Lead for a top US MNC in the Philippines. His other leadership roles encompassed CFO of a Hong Kong listed petrochemical company as well as regional leadership positions within Asia with a leading French multinational, providing leadership in the areas of business development, strategy and mergers & acquisitions. He has lived in Kuala Lumpur, Malaysia and Beijing, China in these various roles.

APPENDIX C – PROFILES OF RELEVANT DIRECTORS AND MANAGEMENT OF THE COMPANY

Profiles of relevant Management excluding CEO

Ms Jenny Soh Woon Chuen

Ms Jenny Soh was the former General Manager for Corporate Affairs of the Company.

Jenny Soh Woon Chuen is General Manager for Corporate Affairs of the Company. She is responsible for the day to day operations, administration, human resource and corporate affairs of the Singapore office. Ms. Soh joined the Company in January 1988 as Accounts Executive. After leaving the Group for a short period of six months for an executive search company as Finance and Administration Manager, she re-joined the Company in February 1993 as Assistant Manager (Finance). Ms. Soh was promoted to Corporate Manager in September 1996 where she was in charge of the Group's various fund raising and corporate exercises. Due to her vast experience and knowledge of the Group, Ms. Soh was promoted to her current position in July 2001.

Mr Stanley Chu Kam Po

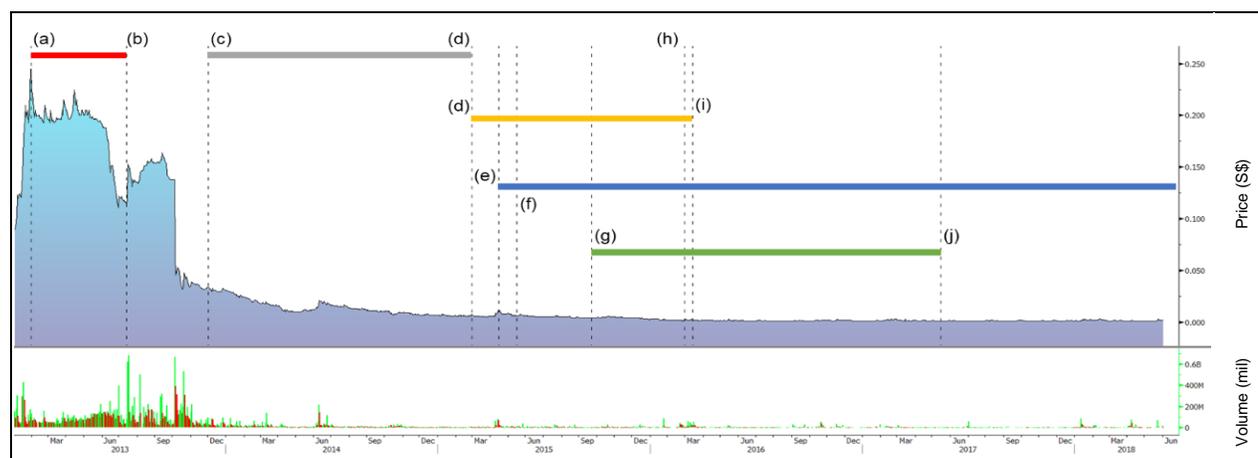
Mr Stanley Chu was the former Group Financial Controller and Company Secretary of the Company.

Stanley Chu Kam Po is the Group Financial Controller and Company Secretary. He joined the Company in June 2007 and took on the primary responsibility of overseeing the day to day operations of the finance department as well as the group accounts, finance, taxation, secretarial and other related functions. Mr. Chu holds a MBA degree from the Chinese University of Hong Kong, a Master degree in Information Systems from the Hong Kong Polytechnic, a Bachelor of Business degree from Curtin University of Technology, Western Australia and Bachelor of Laws degree from the University of Wolverhampton. He attained membership of the Chartered Institute of Management Accountants in 1985. Before assuming his current role, he was a director of an accounting and consulting service company for 5 years. Prior to this, he had over 20 years working experience in several corporations based in Hong Kong and Singapore, engaged in manufacturing, technology and ship repairing.

APPENDIX D – SHARE PRICE CHART OF THE COMPANY

Set out below is an overview of the Share price chart of the Company over the last 5 years since 1 January 2013 and up to 1 June 2018, prior to the trading halt and trading suspension of the Shares on 4 June 2018. The relevant time span of the Selected Transactions are marked on the Share price chart to show the correlation, if any, the announcement and termination dates of these Selected Transactions may have on the Share price performance during the Relevant Period.

Price movement and trading volume of the Shares of the Company over the last 5 years from 1 January 2013 to 1 June 2018



Source: Bloomberg L.P., based on the daily last transacted prices of the Shares of the Company from 1 January 2013 to 1 June 2018.

Notes:

- | | | | |
|-----|-------------------|---|--|
| (a) | 30 January 2013 | : | Announcement of the Merlin Diamonds Takeover Offer |
| (b) | 12 July 2013 | : | Close of the Merlin Diamonds Takeover Offer |
| (c) | 1 December 2013 | : | Announcement of the Extera Acquisition |
| (d) | 27 February 2015 | : | (i) Announcement of the Gaocheng JV; and (ii) Disclosure in the 4Q2014 results announcement of the Company's decision to sell the CNG filling station's operating assets held by Sheng Rong which is in turn held by Extera |
| (e) | 15 April 2015 | : | Signing of the Artel Gold Exploration JVA which was not disclosed until 15 May 2015 |
| (f) | 15 May 2015 | : | Disclosure in the 1Q2015 results announcement of the Artel Gold Exploration JV |
| (g) | 22 September 2015 | : | Announcement of the Microalgae JV |
| (h) | 28 February 2016 | : | Disclosure in the 4Q2015 results announcement of the Company's decision to exit its investments in the PRC i.e. Extera Acquisition and Gaocheng JV. The Company had intentions to terminate the Gaocheng JVA |
| (i) | 14 March 2016 | : | Announcement of the termination of the Gaocheng JVA |
| (j) | 9 May 2017 | : | Disclosure in the 1Q2017 results announcement of the Company's decision to sell the Microalgae Project |

The correlation of the announcement and termination dates of the Selected Transactions on the Share price chart does not appear to be prominent except for the Merlin Diamonds Takeover Offer. A more detailed analysis of the correlation, if any, is set out in the review of each of the Selected Transactions in Sections 4, 5, 6, 7 and 8 of this Report.