RSM

EXECUTIVE SUMMARY
OF THE
SPECIAL AUDIT REPORT
TO
ORIENTAL GROUP LTD

7 December 2016

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1 EXECUTIVE SUMMARY

1.1 Introduction

1.1.1 In early 2016, it came to the attention of the Board of Directors (the **"Board"**) that various irregularities had occurred in the management and operations of Oriental Group Ltd (**"OGL"** or the **"Company"**) and its subsidiaries (the "**Group**"), both in Singapore and the People's Republic of China.

1.1.2 RSM Corporate Advisory Pte Ltd (**"RSMCA"**) was appointed by the Company as Special Auditors to undertake a review of and assessment on the following as contained in RSMCA's engagement letter dated 7 July 2016:

i) The erroneous disclosure pertaining to the completion of the share placement exercise conducted in 2013 (the **"2013 Share Placement"**) even though the amount of S$ 30,000 had not been paid by one placee at that point in time;

ii) The erroneous disclosure pertaining to the completion of the convertible loan notes (**"CLNs"**) issuance in 2015 even though the amount of S$ 750,000 had not been paid by two note holders at that point in time;

iii) The recoverability of S$ 1,500,000 due from one placee for the share placement exercise conducted in 2015 (the **"2015 Share Placement"**) and the erroneous disclosure on the completion of the exercise even though the said sum had not been paid;

iv) The transactions with GL Engineering Pte Ltd (**"GL Engineering"**) including the purchase and the subsequent sale of galvanised iron pipes (**"GI Pipes"**), the validity and recoverability of the remaining GI Pipes and the transfer of S$ 500,000 to GL Engineering without the knowledge of the Board;

v) The irregularities with respect to the purchase of information technology ("**IT**") equipment such as duplicate payments, non-receipt of equipment purchased, unauthorised disposal and possible fictitious Productivity and

Innovation Credit Scheme (**"PIC"**) claims made by OGL and its subsidiary, Oriental Investments Group Pte Ltd (**"OIG"**);

vi) All transactions above S$ 100,000 entered into by the Company including the veracity of the documents and the receipts and payments made relating to those transactions from 1 January 2015 to 31 May 2016 (the **"Relevant Period"**);

vii) The Company's general ledgers for potential suspicious transactions (high level review only) during the Relevant Period;

viii) Financial impact of the transactions on the relevant entities and the Group; and

ix) Lapses / internal control weakness(es), beaches of listing rules and make appropriate recommendations.

1.1.3 The contents and findings set out herein are based on information made available to us up to the date of this report. We have, where possible, taken steps to ensure that the information provided is complete. In cases where such steps have not been practicable, we have relied on the Company's representation (including that of its board members) that such information provided is accurate, full and complete.

1.1.4 We would like to emphasise that the scope of work is different from that of an audit under the Companies Act (Cap. 50) or in accordance with generally accepted auditing practices and it does not constitute an audit. In this regard, we do not express an audit opinion in this report.

1.1.5 It should be noted that we are not qualified to provide legal advice. Our findings and comments should not at any time be construed as constituting legal advice on any matter. Where it is deemed appropriate or necessary, separate and independent legal advice should be sought on any of the matters, issues and / or findings contained, or referred to, in this report, which may have legal consequences.

1.2 Share placement in 2013

1.2.1 On 26 December 2012, OGL announced that it entered into a Placement Agreement with 32 placees (the **"2013 Share Placees"**) for the issuance of 179,166,667 new ordinary shares in the capital of the Company at an issue price of S$ 0.12 per share for an aggregate consideration of S$ 21,500,000.

1.2.2 On 16 April 2013, OGL announced on SGXNET that it completed the issuance and allotment of the placement shares and that following the completion of the placement, "*the Company's issued and paid up share capital has increased from 208,564,203 Shares to 387,730,870 Shares*" (the "**2013 Share Placement Completion Announcement"**).

1.2.3 Based on our review, whilst payments totalling S$ 11,860,000 were collected from the placees before the 2013 Share Placement Completion Announcement was made, the balance sum of S$ 9,640,000 (representing 45% of the total consideration from the placement exercise) had not been received from the following nine placees as at 16 April 2013 when the 2013 Share Placement Completion Announcement was made:

S/N	Placee	Placement Amount (S$)	Amount outstanding as at 16 April 2013 (S$)
1	Dingji Investments Ltd	5,000,000	5,000,000
2	World Sure Investments Limited	2,900,000	2,000,000
3	Zheng Shuhua	2,000,000	1,000,000
4	Chang Wang International Limited	1,100,000	1,000,000
5	Frankland Investments Ltd	1,000,000	250,000
6	Lloyd Chan Mun San	120,000	120,000
7	Cheong Ah Fatt	120,000	120,000
8	John Michael Pek	120,000	120,000
9	Tan Choon Keat	30,000	30,000
	Total	**12,390,000**	**9,640,000**

1.2.4 The payments from the 2013 Share Placees were received in the following financial years. There are no outstanding payments to date:

Payments received for the 2013 Share Placement (S$)				
FY2013 (as at 2013 Share Placement Completion Announcement)	**FY2013** (after 2013 Share Placement Completion Announcement)	**FY2014**	**FY2016**	**Total**
11,860,000	8,610,000	1,000,000	30,000	21,500,000

1.2.5 Documents show that Lee Ong, the Group's former Financial Controller, was directly and principally involved in the release of the 2013 Share Placement Completion Announcement as he had signed off and approved the same.

1.2.6 Given Lee Ong's position as the Group's Financial Controller then, one would be reasonable to assume that it was his duty to check with personnel tasked to monitor and track the receipts on the status of the receipts from the 2013 Share Placees and in any event, ensure receipt of full payment, before he allowed and approved the allotment of shares and/or signed off and approved the release of the 2013 Share Placement Completion Announcement. He did not appear to have done so. Further, it is worth noting that Lee Ong would also have known or be deemed to have known the timing of the receipts (or at least most of them) by virtue of the acknowledgement of receipt letters issued to the various placees which were signed by him. As he did not respond to us on our request for an interview, we were unable to clarify the above with him.

1.2.7 Further, we note that shares were allotted to the 2013 Share Placees before payments were received from them, as authorised by Lee Ong.

1.2.8 Taking aside the issue of allotment of shares to placees who had not made full payment (which is, in itself a major concern), the Company's apparent lack of any

effort to demand payment may amount to a breach of Section 76 of the Companies Act (Cap. 50) which prohibits against the giving of financial assistance by a company to any person for the purpose of or in connection with the acquisition of shares in the company.

1.2.9 Based on the above, it is clear that Lee Ong had intentionally caused the release of the 2013 Share Placement Completion Announcement to mislead the public even though he was aware that the said announcement was factually incorrect and the share placement exercise had not been completed. This is likely to be in breach of Rule 703 (4) of the Catalist Rules which requires OGL to observe the Corporate Disclosure Policy set out in Appendix 7A of the Catalist Rules. Specifically, item 27 of Part IX of Appendix 7A states that the content of an announcement must be factual, clear and succinct. The statements contained in the 2013 Share Placement Completion Announcement were clearly not factual. There is also a concern whether provisions in other legislation (including but not limited to the Securities and Futures Act (Cap. 289) ("**SFA**")) have been breached.

1.2.10 The Company had recognised the increase in share capital for the entire share placement amount of S$ 21,500,000 on 1 April 2013 notwithstanding the outstanding payments from some placees. As a result, our view is that the receivables and share capital of the Company as at 31 December 2013 had been overstated by S$ 1,030,000, while the figures as at 31 December 2014 and 31 December 2015 had been overstated by S$ 30,000. We also note that no disclosure had been made in the Company's Annual Report for FY2013, FY2014 and FY2015 that the Company had not received the full payment for the 2013 Share Placement.

1.3 Convertible loan notes issuance in 2015

1.3.1 On 8 January 2015, OGL entered into a subscription agreement with 8 lenders for the issuance of unsecured loan notes of S$ 5,500,000, convertible to new ordinary shares in the capital of OGL.

1.3.2 On 24 February 2015, OGL announced on SGXNET that the subscription and issuance of the S$ 5,500,000 CLNs were completed on that day (the "**2015 CLN Completion Announcement**").

1.3.3 However, our review shows that S$ 1,250,000 (representing 23%) out of the aggregate subscription amount of S$ 5,500,000 had not been received from three noteholders at that point in time, as follows:

S/N	Noteholder	Value of CLNs subscribed (S$)	Amount outstanding as at 24 February 2015 (S$)
1	Lim Soon Heng	500,000	500,000
2	Lim Soon Huat	500,000	500,000
3	Vincent Pang Kay Joo	250,000	250,000
	Total	**1,250,000**	**1,250,000**

1.3.4 The release of the 2015 CLN Completion Announcement was authorised and approved by the Group's former Chief Executive Officer and Executive Director, Lee Wan Sing, despite his knowledge that payments had not been received from all the noteholders yet. His decision to go ahead with the announcement was motivated by "commercial" reasons – he asserted that had the announcement been delayed or had the Company announced a delay in issuance, it would have created suspicion and concerns from the Noteholders and it would have been problematic for the Company. We found this explanation difficult to understand or accept.

1.3.5 Based on the above, it is clear that Lee Wan Sing had intentionally caused the release of the 2015 CLN Completion Announcement to mislead the public even though he was aware that the said announcement was factually incorrect and the subscription of the CLNs had not been completed. This is likely to be in breach of Rule 703 (4) of the Catalist Rules which requires OGL to observe the Corporate Disclosure Policy set out in Appendix 7A of the Catalist Rules. Specifically, item 27 of Part IX of Appendix 7A states that the content of an announcement must be factual, clear and succinct. The statements contained in the 2015 CLN Completion Announcement were clearly not factual. There is also a concern whether provisions in other legislation (including but not limited to the SFA) have been breached.

1.3.6 Other major findings from our review which raise serious concerns include the following:

i) The payment of S$ 500,000 made by one noteholder, Lim Soon Huat, in cash is untraceable. The Company had issued two letters to Lim Soon Huat on 10 and 21 November 2014 which were signed by Lee Wan Sing and Lee Ong respectively to acknowledge the receipt of the cash payments for the subscription of the CLNs from Lim Soon Huat. However, the cash payments of S$ 500,000 were not recorded in OGL's accounting records and cannot be traced to the bank statements.

We were informed by Lee Wan Sing that the cash was kept in the safe in his office for a period of approximately eight months as it would have been difficult to deposit such a large sum of cash into the Company's bank account. Subsequently, when a separate CLN which was issued in 2012 came to maturity sometime around end-July 2015, he sought the assistance of a former non-executive director of OGL, Richard Ong Wee Chuan ("**Richard Ong**") to make payment to an individual using the cash received from Lim Soon Huat, as further elaborated below.

This matter is related to the CLNs issued in 2012 where a noteholder named Ng Leng Huat had subscribed for S$ 1,000,000 in CLNs. Based on our discussion with Richard Ong and Ng Leng Huat, we understand that Ng Leng Huat had requested the assistance of Richard Ong to sell a portion of the CLNs held by him. Richard Ong eventually found an individual, the details of which he was unable to reveal to us ("**Unnamed Noteholder**"), to purchase S$ 500,000 of Ng Leng Huat's CLNs. The Company was not formally notified of the sale and transfer of the CLNs to the Unnamed Noteholder and as such, at the maturity of the 2012 CLNs, the Company redeemed the full amount of S$ 1,000,000 from Ng Leng Huat, which included the portion that he sold to the Unnamed Noteholder. Ng Leng Huat subsequently returned the sums of S$ 500,000 plus S$ 20,000 of interest to the Company as he knew he was not entitled to the sums. At this point, we find it curious that Ng Leng Huat would return the sums of S$ 500,000 and S$ 20,000 to the Company and not arrange for the payments to be made to the Unnamed Noteholder through Richard Ong.

Following the above, Lee Wan Sing informed that he had sought the assistance of Richard Ong to make the redemption payment to the Unnamed Noteholder by using the cash received from Lim Soon Huat some eight months earlier.

However, Richard Ong denied ever receiving the cash payment of S$ 500,000 from Lee Wan Sing. In fact, according to him, the redemption payment for the Unnamed Noteholder continued to be owed by the Company. For this reason, in order to guarantee the payment of S$ 500,000 from the Company to the Unnamed Noteholder who was looking towards Richard Ong to fulfil the payment obligation, a loan agreement for the same amount was entered into between Richard Ong and the Company (signed by Lee Wan Sing and witnessed by Lee Ong) on 1 August 2015 (the "**Richard Ong Loan Agreement**"). We find this explanation difficult to understand or accept. This also appears to be a sham transaction as no actual loan was given to the Company.

The discrepancies between the accounts of events given by Lee Wan Sing and Richard Ong above have led us to doubt the credibility of both their accounts;

ii) The Company carried out early redemptions of the CLNs from Lim Soon Heng and Vincent Pang Kay Joo in November 2015 without proper Board approval. In both cases, the cheque payments for the redemption to the respective noteholders were cleared even before the Company received the initial subscription payments from the two noteholders. In Vincent Pang Kay Joo's case, the subscription payment was only received some four months later;

iii) The unauthorised redemption of Lim Soon Heng's CLNs was regularised via an offset arrangement with Lim Soon Heng where the subscription amount owed by Lim Soon Heng for the CLNs of S$ 500,000 was set off against the amount owed by the Company to him and his spouse, Tang Nancy for the acquisition of the shares in Wan Dormitory Pte Ltd of S$ 560,000; and

iv) As for Vincent Pang Kay Joo, the unauthorised redemption has not been regularised and the payment of S$ 250,000 for his subscription to the CLNs is still outstanding as at the date of this report.

1.3.7 The Company should seek legal advice on further actions that can/should be taken to trace and recover the cash payment of S$ 500,000 received from Lim Soon Huat, the outstanding amount from Vincent Pang Kay Joo and the veracity of the Richard Ong Loan Agreement.

1.3.8 We also noted various errors made in the accounting entries and records of the Company, some of which would have an impact on the FY2015 financial statements.

1.4 Share placement in 2015

1.4.1 On 14 July 2015, OGL announced that it entered into a Placement Agreement with two placees for the issuance of 50,000,000 new ordinary shares in the capital of the Company at an issue price of S$ 0.10 per share for an aggregate consideration of S$ 5,000,000.

1.4.2 On 13 August 2015, OGL announced on SGXNET that it completed the issuance and allotment of the placement shares, and that following the completion of the placement, *"the Company's issued and paid up share capital has increased from 387,730,870 Shares to 437,730,870 Shares"* (the **"2015 Share Placement Completion Announcement"**).

1.4.3 However, based on our review, we note that only one placee had paid up while the other placee, Ong Boon Kiat, who subscribed for 15,000,000 shares amounting to S$ 1,500,00, had not paid up when the 2015 Share Placement Completion Announcement was made.

1.4.4 Documents show that Lee Ong had signed off and approved the release of the announcement, notwithstanding that he was aware that payment was still outstanding from one placee. Lee Wan Sing admitted that he was also aware of the situation but did not stop the announcement due to what he termed as "commercial reasons" of not wanting to alarm the shareholders of the Company.

1.4.5 Based on the above, our view is that both Lee WS and Lee Ong were directly and principally involved in and/or deliberately caused the release of the 2015 Share Placement Completion Announcement to mislead the public even though they were aware that the said announcement was factually incorrect and the share placement had not been completed. This is likely to be in breach of Rule 703 (4) of the Catalist Rules which requires OGL to observe the Corporate Disclosure Policy set out in Appendix 7A of the Catalist Rules. Specifically, item 27 of Part IX of Appendix 7A states that the content of an announcement must be factual, clear and succinct. The statements contained in the 2015 Share Placement Completion Announcement were clearly not factual. There is also a concern whether provisions in other legislation (including but not limited to the SFA) have been breached.

1.4.6 We also note that the shares were allotted to both placees with the knowledge of Lee Ong and Lee Wan Sing even when one placee had not paid for the shares.

1.4.7 Taking aside the issue of allotment of shares to placees who had not made full payment (which is, in itself a major concern), the Company's apparent lack of any effort to demand payment may amount to a breach of Section 76 of the Companies Act (Cap. 50) which prohibits against the giving of financial assistance by a company to any person for the purpose of or in connection with the acquisition of shares in the company.

1.4.8 In addition, other major findings from our review which raise serious concerns include the following:

i) The placee with the outstanding payment, Ong Boon Kiat, did not intend to subscribe to the share placement but agreed to "lend his name" at the request of Lee Wan Sing, who initially found an investor whose identity cannot be revealed to subscribe for the shares. The investor subsequently reneged on the subscription;

ii) Lee Wan Sing eventually found three other investors, being Tan Meng Seng, Bok Sang Kuan and Aseanzon (S) Pte Ltd, to take up the shares subscribed under Ong Boon Kiat's name. As the shares had already been issued to Ong

Boon Kiat at that point, Lee Wan Sing instructed for a British Virgin Islands ("**BVI**") company bearing a similar name to OGL to be incorporated so that the shares held by Ong Boon Kiat could be transferred to the BVI company and thereafter to the said three investors. This was apparently done to mislead the three investors as he had represented to them that they were subscribing to shares issued by the Company. The name of the BVI company was OGL Limited; and

iii) The three investors mentioned above subsequently made payments for the shares to the Company in 2015 and 2016.

1.4.9 The Company had recognised the increase in share capital for the entire share placement amount of S$ 5,000,000 in FY 2015 notwithstanding that the payment of S$ 750,000 was still outstanding. As a result, our view is that the receivables and share capital of the Company as at 31 December 2015 had been overstated by S$ 750,000. There were also other errors made in the accounting entries mainly with respect to classifications of the entries.

1.5 Transactions with GL Engineering

1.5.1 GL Engineering is a Singapore-incorporated company involved in the provision of scaffolding works and general construction involving scaffold system for construction projects. Chan Geok Leng ("**Allan Chan**") is the sole director and shareholder of GL Engineering. As at 31 August 2015, Allan Chan held about 3.4% of equity stake in OGL. We note that as at 8 November 2016, he was no longer listed as one of the Company's shareholders.

1.5.2 Lee Wan Sing informed that he was acquainted with Allan Chan in 2014 from a course that they attended together and that OGL was considering the acquisition of GL Engineering at one point in time. Our review also shows that the employees of OGL were performing some work for GL Engineering. Given the above, there appears to be a close relationship between OGL and GL Engineering which raises the question on whether the transactions with GL Engineering, as further elaborated below, were entered into on arm's length basis.

1.5.3 Between January 2015 and March 2016, OGL entered into several transactions with GL Engineering for three types of products:

i) Purchase of 7,500 GI Pipes for S$ 150,000. A total of 2,500 GI Pipes were subsequently sold back to GL Engineering for S$ 42,500, at a loss of S$7,500 (all figures inclusive of GST); and

ii) Purchase of 861 pieces of used sheet piles and 350 pieces of FSP Type 3A piles for a total purchase price of S$ 500,000. A total of 254 pieces of used sheet piles and all FSP Type 3A piles amounted to S$ 250,000 were subsequently returned.

1.5.4 The transactions with GL Engineering were handled and entered into on behalf of the Company by Lee Wan Sing for the steel trading business operated in Singapore. We were informed by the Independent Directors that these transactions were never approved by the Board and that the Board had requested Lee Wan Sing and Lee Ong to submit a business plan for its consideration and approval. Lee Wan Sing's explanation was that he considered these purchases to be within the scope and an extension of the product range of the steel trading business and as such did not require specific Board approval. He also felt that the value of the purchases was also immaterial compared to the Company's turnover to necessitate a Board approval. Our view is that Lee Wan Sing or Lee Ong should have at least discussed the matter further with the Board, even if Board approval may not have been required since the Board had asked for a business proposal to be prepared.

1.5.5 According to Lee Wan Sing, GL Engineering had a number of GI Pipes and sheet piles after it completed several major projects and at the same time there was a construction boom in Johor Bahru. His intention was to seize the opportunity to earn profits by purchasing the items from GL Engineering and re-selling them in Johor Bahru.

GI Pipes

1.5.6 The Company did not take delivery of any of the stocks above notwithstanding that the Company had issued a goods received note for the receipt of the GI Pipes.

This raises a serious concern on the document which was falsely issued for the receipt of the stocks. As to the delivery of the stocks, Lee Wan Sing explained that OGL had not taken delivery from GL Engineering because the pipes needed to be stored in a dry location to prevent them from rusting and that OGL did not have a warehouse capable of storing the pipes under the required conditions. We find that the reason given by Lee WS is questionable as GI Pipes are used for construction scaffolding which, in itself, suggests that the pipes are meant to be exposed to, and expected to withstand, environmental elements. Even if OGL's warehouse was not suitable, the Company should have obtained confirmation from GL Engineering that it had possession of OGL's stocks as part of its internal control process.

1.5.7 Lee Wan Sing informed that the Company subsequently encountered some issues at the Malaysian Customs with respect to the product code declaration. As a result of this issue and to ease the cash flow situation, the Company then sold back 2,500 GI Pipes to GL Engineering at S$ 15.89 per pipe (before GST) against the original purchase price S$ 18.69 per pipe (before GST). In doing so, it made a loss of S$ 7,009.34 or S$ 2.80 per pipe (before GST), or S$ 7,500 or S$ 3 per pipe (after GST).

1.5.8 We also note based on the tax invoices issued by GL Engineering (for the 7,500 GI Pipes) and OGL (for the sale back of 2,500 GI Pipes) that transport costs had been factored into the invoiced amounts, notwithstanding that there were no movements of stocks. This raises the question whether these were *bona fide* transactions.

Used sheet piles and FSP Type 3A piles

1.5.9 The rationale for purchasing the used sheet piles and FSP Type 3A piles were the same as the GI Pipes. Lee Wan Sing informed that the piles were located at various project sites. As the sheet piles were large and heavy items, it would have been costly to transport them to OGL's warehouse and then once again to the buyer's premises upon sale. The cost of transporting the piles between the locations would have easily outstripped the profit OGL could earn from the trade.

1.5.10 Lee Wan Sing's explanation does not appear to be reasonable for these reasons:

i) if the used sheet piles were no longer in use after a construction project has been completed, they should not be left behind at the project sites; and

ii) if they were left at the project sites without the necessary safeguards, they could be easily removed by third parties, thereby causing a loss to the Company.

1.5.11 Out of the 861 pieces of used sheet piles purchased from GL Engineering, 254 pieces were subsequently returned. All of the FSP Type 3A piles were returned. According to Lee Wan Sing, the return of stocks was done to ease the cash flow situation of the Company and that the Company no longer wanted the stocks. GL Engineering subsequently refunded the Company for the return of stocks.

1.5.12 We understand that the steel trading division's business model was to engage in back-to-back sales as much as possible in order to keep stocks to a minimal level. It is unlikely that Lee Wan Sing had identified any ready buyers for the used sheet piles or FSP Type 3A piles since no action was taken to sell these items, which put the Company at risk of stocking up on inventory that could not be sold later on. Given the large quantum of the purchase, the inability to quickly monetize the stocks would only further exacerbate the tight cash flow situation of the Company.

1.5.13 Following the above, OGL still has ownership over 5,000 GI pipes (worth S$ 93,457.94 before GST based on purchase price) and 607 pieces of used sheet piles (worth S$ 233,465.39 before GST based on purchase price). The physical existence of these items has not been verified or confirmed as GL Engineering has not provided its confirmation to the auditors of the Company. The Company should obtain legal advice on further action to be taken in the event that GL Engineering refuses to confirm the existence of the remaining stocks.

1.5.14 Based on the events that transpired and Lee Wan Sing's explanations, it would seem that the decision to purchase the stocks (GI Pipes, used sheet piles, FSP Type 3A piles) were made hastily without properly or diligently researching into whether or not the stocks could be sold for a profit. Lee WS also admitted that he did not obtain other market quotes to check on the pricing of the stocks purchased from GL Engineering.

1.6 Purchase of IT equipment and PIC Claims

1.6.1 We have grave concerns on the PIC claims under the PIC Cash Payout Scheme made by OGL and OIG in YA 2015 relating to purchases made in 2014. Based on our review of the documents and physical stocktake of the IT equipment, we note the following:

i) Purchases made by OGL and OIG from one vendor, S.E.A. Sales & Services (S) Pte Ltd ("**S.E.A.SS**") have not been received to date and invoices purportedly issued in 2014 and 2015 were in fact issued in 2016 but back-dated to facilitate the claim for YA 2015.

ii) OGL had made claims using invoices issued and IT equipment belonging to OIG;

iii) Purchases made in 2015 by OGL were included in its PIC claims for 2014 (YA 2015);

iv) Original invoices / receipts for purchases made by OGL and OIG could not be located; and

v) OGL's purchases made, which were claimed by Lee Wan Sing and Lee Ong as reimbursements, could not be found in OGL's office.

1.6.2 With respect to the purchase of IT equipment from S.E.A.SS, we note the following:

i) Lee Wan Sing made the decision to purchase the IT equipment from S.E.A.SS as a part of a major upgrade in 2016;

ii) S.E.A.SS informed us that the invoices issued to OGL and OIG were back-dated to 2014 and 2015 at the request of Lee Wan Sing to facilitate and maximise the unutilised PIC claims for those years; and

iii) Payments totalling S$ 145,040 had been made in full by OGL and OIG but most of the items purchased had not been delivered to the respective companies. Lee Wan Sing's instructions were for the items to be delivered only when the need arises.

1.6.3 Based on the above, the Company appears to be in breach of Section 37J of the Income Tax Act which states that it is an offence to give false material information or omits material information to the Comptroller for the PIC Cash Payout Scheme.

1.6.4 We further noted the following arising from our review and stocktake exercise which raise concerns:

i) Some IT equipment was purportedly sold to Patek Capital (Holdings) Pte Ltd ("**Patek Singapore**") on the grounds that they were missing. Payment was received by OGL. Patek Singapore is a company previously set up by Lee Wan Sing. This purported sale does not appear to be a *bona fide* transaction;

ii) Some of the items sold to Patek Singapore were still found in OGL's office premises;

iii) Some of the items sold to Patek Singapore were previously not reflected in OGL's fixed assets register;

iv) Some items in OGL's fixed assets register were not found in OGL's office premises; and

v) Some items found in OGL's office premises were not recorded in OGL's fixed assets register.

1.6.5 Our review also reveals that both OGL and OIG have poor management of their fixed assets. The fixed assets registers have not been diligently maintained and updated.

1.7 Review of OGL's transactions in excess of S$ 100,000 over the Relevant Period

1.7.1 Other than the observations and findings below, we did not discover any other major issue with the transactions above S$ 100,000 undertaken by the Company over the Relevant Period:

i) Supporting documents have not been properly kept and in some instances could not be located;

ii) There were discrepancies between the general ledger and the description and/or amounts stated in the supporting journal voucher;

iii) Recording of accounting entries were not accurate or appropriate;

iv) Receipts from sales made to certain customers were received from different parties; and

v) A loan agreement was entered into for the provision of a loan of S$ 1,000,000 from Ong Boon Kiat (a placee of the 2015 Share Placement and a noteholder of the 2015 CLNs) to OIG in 2014. This loan agreement was entered into to supersede an identical loan agreement between Ong Boon Kiat and OGL. However, we found that the loan was in fact disbursed by Ong Boon Kiat directly to OGL and OGL had used the funds for its operations. The loan was subsequently repaid by OGL directly to Ong Boon Kiat. Due to the way the loan was structured, the accounting records showed that OGL had taken the loan from OIG and the latter from Ong Boon Kiat. The reason for such an arrangement is not known but it had the effect of concealing or masking the actual lender for the loan given to OGL which raises a question on the intention to do so.

1.8 High-level review of OGL's general ledger over the Relevant Period

1.8.1 Other than the observations and findings below, we did not discover any other major issue from our high-level review of the Company's general ledger over the Relevant Period:

i) Monthly payments of S$ 1,500 were made to one Ong Swee Chew in 2015 (from January to December 2015, totalling S$ 18,000) for general consultancy services. There were no defined scope of services, clarity of work done or any contract signed between OGL and Ong Swee Chew for the services provided;

ii) A donation of S$ 32,895 appeared to have been made by OGL to Kolej Universiti Selatan, a Malaysian university on 4 November 2015 through OGL Steel (M) Sdn Bhd, one of OGL's subsidiaries. Although the payment voucher was issued to Teeni Enterprises Pte Ltd, the payment was in fact credited to OGL Steel (M) Sdn Bhd's bank account and the latter made an equivalent payment to the university on 20 November 2015. We note that Tay Yong Hua, a director of Teeni Enterprises Pte Ltd, is currently a shareholder of OGL and was one of the vendors of Wan Dormitory Pte Ltd whose shares were acquired by OGL in 2015. We further note from the university's website that Tan Meng Seng, one of the purchasers of the shares issued to Ong Boon Kiat for the 2015 Share Placement, is the Deputy Chairman of the university's Board of Directors. Whilst it is not uncommon for companies to make a donation for various causes, it is surprising that OGL would do so when it was facing tight cash flow situation which necessitated various fundraising exercises; and

iii) OGL incurred an amount of S$ 10,596 for a congratulatory newspaper advertisement for Tan Choon Keat, one of the share placees for the 2013 Share Placement. Although there were at least 10 other third party companies and individuals who shared the congratulatory note, about 88% of the advertisement cost was borne by OGL. This expense also represents nearly 62% of OGL's total advertisement expense in FY 2015.

1.9 Other observations made from our review

1.9.1 Apart from the areas of review under the agreed scope of work, we also noted several matters which we consider important to highlight, as follows:

i) Poor book-keeping practices and inadequate review of work performed by staff resulted in erroneous accounting entries and descriptions, tardiness in updating and recording of accounting entries, discrepancies between general ledger and journal vouchers, missing and/or duplication of journal vouchers and poor filing / missing records, papers and supporting documents:

ii) Employees were performing work for five companies which were not part of the Group, including GL Engineering and companies previously related to Lee Wan Sing;

iii) Former and current employees of OGL were and are related to some of the five companies mentioned above as well as other companies in their capacities as directors, company secretary and shareholders;

iv) There is a serious lack of formalised policies and procedures in place. The Company's operations were largely carried out based on management instructions which were given verbally with no documentation;

v) Lack of defined scope of work for employees which caused an erosion of accountability of each staff for the work they performed, traceability of the work done and resulted in the lack of clarity over the status and progress of matters to be dealt with; and

vi) Some of the office equipment and assets found in OGL's office may not belong to OGL. There were no segregation and identification of office equipment owned by OGL.

1.10 Summary of issues / lapses and our recommendation

1.10.1 We have identified various issues which point towards the lack of effective internal controls, management's override of controls, and poor discharge of directors'

duties, which raise grave concerns on the corporate governance of the Company. We provide below a summary of the issues and / or lapses:

Compliance Matters

i) Allotment of shares without the receipt of payments from share placees for the 2013 Share Placement and 2015 Share Placement exercises and without any action to demand for outstanding payments may be viewed as providing financial assistance to share placees to acquire shares in OGL as the amounts were recorded as a receivable from the affected share placees;

ii) The making of false announcements on the completion of the 2013 Share Placement, 2015 CLNs and 2015 Share Placement. As payments had not been received in full when the completion announcements were made, the exercises cannot be treated as completed;

iii) The announcement that Ong Boon Kiat was one of the subscribers of the 2015 Share Placement when he was merely lending his name and not genuinely subscribing for the shares;

iv) The setting up of OGL Limited (BVI) to create a false impression to Tan Meng Seng, Bok Sang Kuan and Aseanzon (S) Pte Ltd that their purchases of the OBK Shares were shares issued directly by the Company to them. Subject to legal opinion, this act may be fraudulent;

v) Submission of inaccurate and/or false PIC claims using invoices which had been back-dated and for IT equipment which (i) had yet to be delivered, (ii) cannot be located, (iii) purchased in a different year and / or (iv) belonging to another entity;

Financial Systems and Reporting

vi) Poor book-keeping practices, lack of supervision and inadequate review of accounting records and entries which led to:

- Erroneous description of transactions;

- Erroneous recording of accounting entries in the wrong account code;
- Tardiness in updating and recording of accounting entries;
- Discrepancies between the general ledger and the journal vouchers;
- Missing or duplication of journal vouchers; and
- Records, papers and supporting documents not kept properly / missing

vii) Lack of capitalisation policy and poor maintenance of fixed assets register have led to assets of OGL and OIG not properly recognised and maintained;

viii) Misstatements of the financial statements for FY2013, FY2014 and FY2015 as a result of the poor book-keeping practices, including:

- The entire share placement amount of S$ 21,500,000 was recognised in the share capital of the Company in FY2013 when the amount of S$ 1,030,000 had not been received from some of the 2013 Share Placees as at 31 December 2013;

- The 2015 CLNs subscribed by Lim Soon Heng of S$ 500,000 was not recorded as liabilities of the Company for FY2015 (the CLN liabilities recorded in the Company's books were S$ 5,000,000 as opposed to the actual CLN issuance of S$ 5,500,000);

- The receipt of S$ 520,000 from Ng Leng Huat in FY 2015 had been erroneously recorded in such a manner that reduced the interest expense and receivables due to the Company; and

- The entire share placement amount of S$ 5,000,000 was recognised in the share capital of the Company in FY2015 when the amount of S$ 750,000 had not been received as at 31 December 2015.

Operational Processes

ix) Absence of control and monitoring over the tracking and recordings of receipts from placees / noteholders for the fundraising exercises;

x) No formalised process for the requisition and purchase of IT equipment and selection of vendors;

xi) Lack of controls and the questionable handling of large amount of cash. Cash receipts from placees and noteholders were not handled in a proper manner including not having proper documentation to record the receipt and failure to deposit promptly or at all;

xii) Lack of defined staff work scope and clarity in areas of responsibilities which reduced the accountability of each staff for the work they performed, traceability of the work done and lack of clarity over the status and progress of matters to be dealt with;

xiii) Overall lack of policies and procedures in place to better manage workflow and risks as well as guidance to staff in performing their work;

Directors' (and Officers') Duties

xiv) Lee Wan Sing and/or Lee Ong had deliberately caused the inaccurate announcements on the completion of the 2013 Share Placement, 2015 CLNs and 2015 Share Placement to be released. Subject to legal opinion, these acts are possibly fraudulent;

xv) Lee Wan Sing and Lee Ong did not properly and adequately handle the cash of S$500,000 received from Lim Soon Huat for the 2015 CLNs which led to the sum being unaccounted for;

xvi) Lee Ong intentionally and Lee Wan Sing without reasonable diligence allowed Lim Soon Heng and Vincent Pang Kay Joo's CLNs to be redeemed without proper Board approval and before the noteholders made payments for the CLNs;

xvii) Lee Wan Sing, Lee Ong and Richard Ong caused OGL to inappropriately enter into the Richard Ong Loan Agreement purportedly for the guarantee of

a payment to an undisclosed party for the CLNs issued in 2012. No actual loan was given to the Company;

xviii) Lee Wan Sing informed and represented to the Board and the general public that Ong Boon Kiat was a share placee in the 2015 Share Placement exercise when he was aware that he was not a genuine placee. In fact, Lee Wan Sing was instrumental in seeking permission from Ong Boon Kiat to use his name;

xix) Lee Wan Sing failed to carry out sufficient due diligence and research into the trading of the GI Pipes, used sheet piles and FSP Type 3A piles, and obtaining competitive quotes before deciding to purchase the stocks from GL Engineering;

xx) Lee Wan Sing failed to secure and safeguard the Company's interests in the stocks purchased from GL Engineering by not taking delivery of the stocks. Even though the stocks were not delivered, a Goods Received Note was issued by OGL to confirm the receipt of the GI Pipes;

xxi) Lee Wan Sing instructed S.E.A.SS to back-date their invoices for the purpose of making PIC claims. Subject to legal opinion, this act was probably fraudulent;

xxii) Lee Wan Sing instructed and/or allowed full payment to be made by OGL and OIG to S.E.A.SS for the purchase of IT equipment but did not take delivery of the items;

xxiii) Lee Wan Sing (and possibly Lee Ong) instructed and/or allowed staff to carry out work for the benefit of other companies not related to OGL using OGL's resources. One of these companies include Patek which was previously related to Lee Wan Sing. We are not certain if other companies were also related to them;

xxiv) Lee Wan Sing and Lee Ong did not maintain an effective oversight of the work carried out by the staff by failing to review and check that the records were accurately and properly updated on a timely basis; and

xxv) Lee Wan Sing and Lee Ong had in many instances shown little or no regard towards the law, corporate governance, risk management as well as his fiduciary duties and obligations.

1.10.2 Potential breaches arising from the issues highlighted above may include (but not necessarily limited to) the following:

i) ***Section 76 of the Companies Act*** prohibits the giving of financial assistance by a company to any person for the purpose of acquiring the shares in the company;

ii) ***Section 157 of the Companies Act*** requires a director to act honestly and use reasonable diligence in the discharge of his duties;

iii) ***Section 199 of the Companies Act*** requires every company to maintain proper accounting records and devise and maintain a system of internal accounting controls to safeguard against losses from unauthorised use / disposition and to ensure that transactions are properly authorised and recorded;

iv) ***Section 201 of the Companies Act*** requires every company to prepare financial statements to give a true and fair view of the financial position and performance of the company;

v) ***Section 401 (1) of the Companies Act*** states that it is an offence for every officer of the corporation who knowingly authorises, directs or consents to such advertising, circulation or publication of any statement of the amount of its capital which is misleading, or if the amount of paid-up capital or the amount of any charge on uncalled capital is not stated as prominently as the amount of subscribed capital is stated;

vi) ***Section 402 of the Companies Act*** states that an officer of a corporation who, with intent to deceive, makes or furnishes, or knowingly and wilfully authorises or permits the making or furnishing of, any false or misleading statement or report to a director, auditor, member, etc., relating to the affairs of the corporation, shall be guilty of an offence;

vii) ***Section 199 of the SFA*** prohibits the making of a statement or disseminate information that is materially false or misleading, to induce the subscription, purchase or sale of securities or have the effect of raising, lowering, maintaining or stabilising the market price of securities;

viii) ***Section 200 of the SFA*** prohibits any person to fraudulently induce another person to deal in securities by making or publishing any statement, promise or forecast that he knows or ought reasonably to have known to be misleading, false or deceptive, by any dishonest concealment of material facts, by the reckless making or publishing of any statement, promise or forecast that is misleading, false or deceptive, or by recording or storing in, or by means of, any mechanical, electronic or other device information that he knows to be false or misleading in a material particular;

ix) ***Section 201 of the SFA*** prohibits any person to employ any device, scheme or artifice to defraud, engage in any act, practice or course of business which operates as a fraud or deception, make any statement he knows to be materially false, and omit to state a material fact necessary in order to make the statements made not misleading, in connection with the subscription, purchase and sale of any securities;

x) ***Section 415 of the Penal Code*** states that it is an offence to fraudulently or dishonestly deceive any person to deliver any property to any person, or intentionally induces the person to do or omit to do anything which he would not do or omit to do if he were not deceived, and which act or omission causes or is likely to cause damage or harm to any person;

xi) ***Section 477A of the Penal Code*** which states that the wilful conduct of any clerk, officer or servant to destroy, alter, conceal, mutilate or falsify any book, electronic record, paper, writing, valuable security or account which

belongs to or is in the possession of his employer with intention to defraud shall be punishable;

xii) ***Rule 703 (4) of the Catalist Rules*** requires the observation of the Corporate Disclosure Policy set out in Appendix 7A of the Catalist Rules which stipulates that the contents of announcements must be factual, clear and succinct (Item 27);

xiii) ***Rule 705 (5) of the Catalist Rules*** requires directors to provide a confirmation that the interim financial statements as announced are not false or misleading;

xiv) ***Rule 719 (1) of the Catalist Rules*** states that an issuer should have a robust and effective system of internal controls, addressing financial, operational and compliance risks;

xv) ***Rule 745 of the Catalist Rules*** states that an issuer must ensure that its directors accept responsibility, collectively and individually for the issuer's compliance with the Catalist Rules;

xvi) ***Section 37J of the Income Tax Act*** provides that it is an offence to give false material information or omits material information to the Comptroller for the PIC Cash Payout scheme;

xvii) ***Common law fiduciary duties of a director*** including but not limited to:

- Act in good faith
- Act in the best interests of the company
- Act with reasonable care, skill and diligence
- Avoid conflicts of interest
- Exercise powers with proper purpose

xviii) ***Code of Corporate Governance*** issued by the Corporate Governance Committee dated 2 May 2012 (the **"Code"**) provides the guidelines on the maintenance of a sound system of risk management and internal controls to

safeguard shareholders' interests and company's assets. Although OGL did provide a disclosure on its compliance with the requirements of the Code in its Annual Report as required under ***Rule 710 of the Catalist Rules***, we note that the inadequacies of the internal controls were not identified nor disclosed in the Annual Report.

1.10.3 While we note that Lee Ong was not a director, he as the Group's Financial Controller was an officer of the Company and hence in our view, owed duties including fiduciary duties, to OGL and OIG. By way of some of his actions as highlighted in this report, he was likely to have breached those duties.

1.10.4 We have made 13 recommendations of remedial actions to be taken immediately to rectify the breaches and current situation.

Chee Yoh Chuang
Executive Director