MOORE

MOORE STEPHENS LLP
CHARTERED ACCOUNTANTS OF SINGAPORE

UNIVERSAL RESOURCE AND SERVICES LIMITED

SPECIAL AUDIT REPORT

DATED 18 MAY 2020

List of Abbreviations

Abbreviations		Description
Agri Bank #317	:	中国农业银行天津油田支行 (Agricultural Bank of China - Tianjin You Tian Branch) Account no. 140201040012317.
Agri Bank #715	:	中国农业银行天津大港支行 (Agricultural Bank of China - Tianjin Dagang Branch) Account no. 140001040027715.
AR2013	:	The Company's annual report for the financial year ended 31 December 2013.
AR2014	:	The Company's annual report for the financial year ended 31 December 2014.
AR2015	:	The Company's annual report for the financial year ended 31 December 2015.
Audit Committee	:	The audit committee of the Company at the relevant time.
Bank of China #837	:	中国银行天津河西支行 (Bank of China - Tianjin Hexi Branch) Account no. 277868586837.
Bank of Tianjin #519	:	天津银行大港支行 (Bank of Tianjin - Dagang Branch) Account no. 105201201090062519. This is also the 基本户 (basic bank account) of SKY Tianjin.
Beijing Luhai	:	北京陆海环球石油技术服务有限公司 (Luhai Global Petroleum Technology Development (Beijing) Co., Ltd), the vendor for the proposed property acquisition in Beijing in September 2012 which was subsequently terminated.
Board	:	Board of directors of the Company at the relevant time.
Bohai #198	:	渤海银行天津西青支行 (China Bohai Bank - Tianjin Xiqing Branch) Account no. 2000421306000198.
Botenaer	:	天津波特耐尔石油工程有限公司 (Tianjin Botenaer Petroleum Engineering Co., Ltd), a customer of the Group for the equipment leasing business. Botenaer remains as a live company as of the date of this report.
CA	:	Singapore Companies Act (Cap. 50, Rev Ed 2006)

Calgary	:	Calgary Petroleum Co., Limited, the vendor for the HKNW Acquisition. The director and shareholder of Calgary, i.e. 于孝民 (Yu Xiaomin) is also listed as a 监事 (Supervisor) of Xin Gao Di. Mr Yu Xiaomin ceased to be a director of Calgary on 8 August 2016 and was replaced by a 严翠花 (Yan Cuihua). Calgary has been dissolved by deregistration on 2 March 2018.
Chuang Jie	:	天津市创捷投资有限公司 (Tianjin City Chuang Jie Investments Co., Ltd).
CITIC #465	:	中信银行股份有限公司天津大港支行 (China CITIC Bank - Tianjin Dagang Branch) Account no. 7233610182600006465.
Company	:	Universal Resource and Services Limited.
Company Maintained Bank Statements	:	The bank statements extracted from the Company Records.
Company Records	:	The Company's books and records and the backup files from the Company's server that were maintained/kept in Singapore.
DM	:	The second-hand drilling machine acquired by the Group as announced on 31 August 2015.
DM Acquisition	:	The acquisition of the second-hand drilling machine as announced by the Company on 31 August 2015.
Dongying Pan Feng	:	东营攀峰石油装备有限公司 (Dongying Panfeng Petroleum Equipment Co., Ltd), announced by the Company in June 2014 as the vendor of the 75 sets of MWD. Dongying Pan Feng has been deregistered as of the date of this report.
Dongying Ying Ming	:	东营应明投资咨询有限公司 (Dongying Ying Ming Investments Consulting Co., Limited). Dongying Ying Ming was wholly-owned by Mr Yu Xiaomin and was the designated recipient for RMB271,220,000 (equivalent to the first payment of US$43,550,000) in relation to the HKNW Acquisition. Dongying Ying Ming has been deregistered as of the date of this report.
FD	:	Fixed deposit.
FKT	:	Foo Kon Tan LLP, the external auditors of the Company from FY2011.
FKT Listing	:	The list of bank accounts of the Group from FY2011 to FY2015 provided by the Company to FKT.
FY2011	:	Financial year ended 31 December 2011.
FY2012	:	Financial year ended 31 December 2012.

FY2013	:	Financial year ended 31 December 2013.
FY2014	:	Financial year ended 31 December 2014.
FY2015	:	Financial year ended 31 December 2015.
FY2016	:	Financial year ended 31 December 2016.
FY2017	:	Financial year ended 31 December 2017.
Ganghua	:	天津市港华石油工程技术服务有限公司 (Tianjin Ganghua Petroleum Technology Service Co., Ltd), a former 95% owned subsidiary of the Company which was disposed of on 16 November 2015 to China Coastal Shipping (HK) Limited, a Hong Kong registered entity which was unrelated to the Company. The remaining 5% minority interest was held by Mr Liu Qing Zeng, the former Chief Executive Officer and substantial shareholder of the Company.
Group	:	The Company and its subsidiaries at the relevant time.
Hebei Daofu	:	河北道福石油勘探技术开发有限公司 (Hebei Daofu Petroleum Exploration Technology Development Co., Ltd.), announced by the Company in June 2014 as a new customer for the leasing of the MWD. Hebei Daofu has been deregistered as of the date of this report.
Heng Jiu Shun	:	恒久顺（天津）商贸有限公司 (Heng Jiu Shun (Tianjin) Trading Co. Limited).
HKNW	:	Hongkong New Wing Energy Development Company Limited. Calgary ceased to be a director of HKNW on 27 April 2016 and was replaced by a 邢金山 (Xing Jinshan). Mr Xing Jinshan was also listed as the production manager of SKY Tianjin based on the Company Records. HKNW has been dissolved by deregistration on 8 September 2017.
HKNW Acquisition	:	The proposed acquisition of 57.64% of HKNW as announced by the Company on 12 January 2015.
Independent Working Committee	:	The committee comprising of the Company's Independent Directors, Mr David Chin Yew Choong and Mr Chow Wai San.
Listing Manual	:	The listing manual of the SGX-ST.
LOE	:	The letter of engagement of Moore Stephens dated 20 October 2017.
Maxwellisation	:	A process that allows individuals who are criticised in an official report to read relevant sections of the draft report and have a fair opportunity to correct or contradict the relevant criticisms before a final report is published.

Moore Stephens or "We"	:	Moore Stephens LLP.
MOU	:	The non-binding memorandum of understanding entered into between the Company and Calgary on 11 November 2013 in relation to the HKNW Acquisition.
MWD	:	Measuring While Drilling Equipment.
MWD Acquisition	:	The acquisition and leasing of MWD as announced by the Company on 20 June 2014.
Official Listing	:	已开立其他银行账户清单 (Official List of Bank Accounts) extracted from the system of 中国人民银行 (The People's Bank of China).
Panjin Han Yu	:	盘锦市兴隆台区翰宇石油技术开发有限公司 (Panjin City Xinglongtai District Han Yu Petroleum Technology Development Co., Limited), announced by the Company on 31 August 2015 as the potential customer for the leasing of the DM. Panjin Han Yu has since changed its name to 盘锦德发石油技术有限公司 and remains as a live company as of the date of this report.
Panjin Teng Yuan	:	盘锦腾远石油设备有限公司 (Panjin Teng Yuan Petroleum Equipment Co., Limited), announced by the Company on 31 August 2015 as the vendor of the DM. Panjin Teng Yuan remains as a live company as of the date of this report.
Ping An #1008	:	平安银行股份有限公司天津大港支行 (Ping An Bank - Dagang Branch) Account no. 11014622481008.
Ping An #8006		平安银行股份有限公司天津大港支行 (Ping An Bank - Dagang Branch) Account no. 12014506318006.
PRC	:	People's Republic of China.
PRC Subsidiaries	:	Companies incorporated in the PRC which were subsidiaries of the Company during the relevant time including 斯凯石油技术开发（天津）有限公司 (SKY Petroleum Technology Development (Tianjin) Co., Ltd), 温岭市兴海海运有限公司 (Wenling Xinghai Ocean Shipping Co., Ltd), 松原天缘石油钻采技术服务有限公司 (Song Yuan Tian Yuan Oil Exploration Technology Service Co. Ltd), 任丘市凯源石油技术开发有限公司 (Renqiu Kai Yuan Petroleum Technology Service Co., Ltd), 天津市大港圣康石油技术开发有限公司 (Tianjin Dagang Shengkang Petroleum Development Co., Ltd) and 天津市港华石油工程技术服务有限公司 (Tianjin Ganghua Petroleum Technology Service Co., Ltd).

Renqiu #127	:	任丘市农村信用合作联社长洋淀分社 (Renqiu City Rural Credit Union - Chang Yang Dian Branch) Account no. 288050122000010127. Renqiu #127 was the new bank account set up under Renqiu Kai Yuan to hold the funds held by the PRC Subsidiaries which were in excess of the Group's estimated operating expenses.
Renqiu City Rural Credit Union	:	任丘市农村信用合作联社长洋淀分社 (Renqiu City Rural Credit Union - Chang Yang Dian Branch).
Renqiu Kai Yuan	:	任丘市凯源石油技术开发有限公司 (Renqiu Kai Yuan Petroleum Technology Service Co., Ltd), an existing subsidiary of the Company incorporated on 9 October 2015 to operate a new bank account to hold the funds held by the PRC Subsidiaries which were in excess of the Group's estimated operating expenses.
RMB	:	Renminbi, being the currency of PRC.
Rong Ze	:	融泽（天津）实业有限公司 (Rong Ze (Tianjin) Industrial Co. Limited).
S$	:	Singapore dollars, being the currency of Singapore.
SA Extracted Bank Statements	:	The bank statements extracted by Moore Stephens from the respective banks in PRC for SKY Tianjin and Renqiu Kai Yuan.
SFA	:	Securities and Futures Act (Cap. 289, Rev Ed 2006)
SGX-ST	:	Singapore Exchange Securities Trading Limited.
Shengkang	:	天津市大港圣康石油技术开发有限公司 (Tianjin Dagang Shengkang Petroleum Development Co., Ltd), a former 95% owned subsidiary of the Company which was disposed of on 16 November 2015 to China Coastal Shipping (HK) Limited, a Hong Kong registered entity which was unrelated to the Company. The remaining 5% minority interest was held by Mr Liu Qing Zeng, the former Chief Executive Officer and substantial shareholder of the Company.
Sike	:	陕西思科石油工程技术服务有限公司 (Shanxi Sike Petroleum Engineering Technology Services Co., Ltd), the purchaser for the ZJ40 drilling equipment disposed of by SKY Tianjin in September 2013.

Sinotech	:	SinoTech Energy Limited. Sinotech was listed in the US stock exchange in November 2010. The share of Sinotech was suspended in October 2011 and eventually delisted in January 2012. The shareholders of Sinotech filed a lawsuit against Sinotech and its executives in 2011 and reached a settlement sum of US$20 million. Based on a press release, the U.S. Securities and Exchange Commission charged Sinotech and two senior officers involved in a scheme to intentionally mislead investors about the value of its assets and its use of US$120 million in IPO proceeds and additionally charged Mr Liu Qing Zeng involved in a separate US$40 million theft from Sinotech. Mr Liu Qing Zeng was the Chairman and a major shareholder of Sinotech.
SKY Tianjin	:	斯凯石油技术开发（天津）有限公司 (SKY Petroleum Technology Development (Tianjin) Co., Ltd), an existing wholly-owned subsidiary of the Company incorporated since 2006.
Tian Xi	:	松原天羲港石油开发有限公司 (Song Yuan Tian Xi Harbor Oil Exploration Co., Ltd), a former 76% indirectly owned subsidiary of the Company held by Shengkang which has been disposed of in July 2010 to Panjin Teng Yuan, which was the vendor of the DM.
Tian Yuan	:	松原天缘石油钻采技术服务有限公司 (Song Yuan Tian Yuan Oil Exploration Technology Service Co. Ltd), a former wholly-owned subsidiary of the Company which was deregistered on 22 September 2015.
US$	:	United State dollars, being the currency of the United States of America.
Xi Jing	:	玺景（天津）实业有限公司 (Xi Jing (Tianjin) Industrial Co. Limited).
Xin Gao Di	:	天津新高地科技发展有限公司 (Tianjin New Highland Science and Technology Development Co., Ltd), a subsidiary of Sinotech. Mr Yu Xiaomin, a shareholder of Calgary, is also listed as a 监事 (Supervisor) of Xin Gao Di. Based on the extracted business profile, Xin Gao Di still remain as a live company as of the date of this report.
Xinghai	:	温岭市兴海海运有限公司 (Wenling Xinghai Ocean Shipping Co., Ltd), a former 46.55% indirectly owned subsidiary of the Company which was disposed of on 28 June 2013 back to 张赫 (Zhang He), who is also a substantial shareholder of the Company. Prior to the disposal, Shengkang held 49% interests in Xinghai. The remaining 41% and 10% interests in Xinghai were held by Zhang He and 俞汝同 (Yu Ru Tong) respectively.

1. Executive Summary

1.1 Background

1.1.1 Moore Stephens was engaged in February 2017 to verify and confirm the cash balances of the Company's PRC Subsidiaries and found discrepancies between the cash and bank balance reported in the management accounts and the actual bank balance in the bank accounts of the PRC Subsidiaries.

1.1.2 In view of the discrepancies, Moore Stephens was appointed as the Special Auditors to perform a review of the affairs of the Group, which amongst others, includes the following key scope of work:

(a) Investigate the irregularities in the cash and bank balances reported by Moore Stephens and also investigate the credit and debit entries in the bank accounts of the Group's PRC Subsidiaries; and

(b) Identify and investigate any other questionable matters and transactions other than those mentioned in (a) above, including without limitation the MWD Acquisition, the HKNW Acquisition and the DM Acquisition.

1.1.3 Our findings are based on documents and information relevant to the scope of work that are made available to us as of the date of this report which amongst others, include the following:

(a) The Company Records;

(b) The Company's secretarial records maintained by DrewCorp Services Pte Ltd;

(c) The FKT Listing;

(d) The Official Listing; and

(e) The SA Extracted Bank Statements.

1.1.4 We have not been provided and have not been able to obtain any books and records or information from the PRC Subsidiaries and the limited information pertaining to the PRC Subsidiaries were extracted from the Company Records maintained in Singapore. Based on our interview with Ms Wu Chun Lan, the books and records of the PRC Subsidiaries cannot be located after the sudden disappearance of the two former key finance personnel based in the PRC, Ms Li Xiaoyun and Mr Guo Zengsheng in February 2017. We have also not been able to extract copies of the bank statements for those bank accounts that were maintained by the PRC Subsidiaries that were disposed or deregistered prior to our appointment.

Findings

1.2 Discrepancies between the FKT Listing and Official Listing

1.2.1 We have requested for a list of bank accounts from FY2011 to FY2015 from FKT and have also extracted the Official Listing for SKY Tianjin and Renqiu Kai Yuan from the system of The People's Bank of China. During our interview with Mr Li Chak Fu, the former Chief Financial Officer of the Company, he mentioned that he was not aware that the Official Listing can be extracted from the system of the People's Bank of China. The procedures which Mr Li Chak Fu had carried out in relation to the bank accounts / bank statements in the PRC includes the following:

(a) Enquiries with the local finance and accounting department;

(b) Routine bank reconciliations and movement analysis of financial statements / bank statements;

(c) Obtain copies of bank statements from the local finance and accounting department; and

(d) Sample checking of the physical original copies of bank statements during his visitation to PRC.

1.2.2 As for the other PRC Subsidiaries which were previously owned by the Company between FY2011 to FY2015, we are unable to extract a similar Official Listing due to the lack of authority to do so as these PRC Subsidiaries have been either disposed of or deregistered prior to our appointment.

1.2.3 Based on the Official Listing, we visited the branches of the respective banks in the PRC to extract the bank statements for the relevant period for SKY Tianjin and Renqiu Kai Yuan.

1.2.4 We note that three bank accounts of SKY Tianjin listed in the Official Listing were not included in the FKT Listing, i.e. Agri Bank #317, Agri Bank #715 and CITIC #465. It was also confirmed by FKT that these three bank accounts were not disclosed by the Company to FKT during the course of their audit for the relevant financial years. Mr Li Chak Fu had during his interview (conducted through email correspondences as requested by Mr Li Chak Fu) confirmed that he did sight the bank statements of Agri Bank #317 and visited the particular branch located in Dagang oil field (天津油田支行) with the former auditors of the Company, i.e. Ernst & Young LLP sometimes in 2010 or 2011. We note that Ernst & Young LLP ceased to be the auditors of the Company subsequent to FY2010 and Agri Bank #317 was closed on 29 September 2011.

1.2.5 Based on our work done, it is apparent that the Company Maintained Bank Statements are "statements" that were separately maintained by the Company and certain receipts and payments were deliberately omitted from the Company Maintained Bank Statements.

1.3 The MWD Acquisition

1.3.1 According to the announcement made by the Company on 20 June 2014, SKY Tianjin entered into a sale and purchase contract with Dongying Pan Feng for the purchase of 75 sets of MWD for an aggregate purchase price of RMB232.5 million and has also entered into two new lease agreements with Hebei Daofu and Botenaer to lease out all the new MWD.

1.3.2 Based on the extracted business profiles, we note that Dongying Pan Feng and Hebei Daofu have been deregistered.

1.3.3 As of the date of this report, except for the 2 sets of MWD recovered from Hebei Daofu, we understand from the Board that SKY Tianjin was unable to recover the remaining equipment leased to Hebei Daofu and Botenaer and the unpaid receivables. Based on the AR2015, a full allowance for impairment was made for the remaining equipment and the unpaid receivables.

1.3.4 We have identified from the Company Records the sale and purchase contract (**Appendix A**), the lease agreements (**Appendix B**), documents in relation to the delivery of the MWD from Dongying Pan Feng (**Appendix C**) and the subsequent acceptance of the MWD by Hebei Daofu and Botenaer (**Appendix D**), key notes for the meeting with Dongying Pan Feng and Hebei Daofu conducted by the then Independent Directors of the Company (**Appendix E**) and the minutes of board meeting dated 6 August 2014 which recorded that Mr Li Chak Fu informed the Board that the purchase of the MWD and new leases were completed (**Appendix F**). We also note from the Company Maintained Bank Statements the following payments that were purportedly made from SKY Tianjin's Bohai #198 in June 2014 in relation to the MWD Acquisition with a handwritten remark stating that the two purported payments were for "payment of drilling rigs".

Date	**RMB**
19 June 2014	69,750,000
27 June 2014	162,750,000
	232,500,000

1.3.5 As stated in paragraph 1.1.4 above, due to the lack of books and records of the PRC Subsidiaries, we are unable to ascertain the person(s) who authorised the purported payments based on the Company Records maintained in Singapore. During our interview with Mr Li Chak Fu, he mentioned that the purported payments for the MWD Acquisition were initiated by the local finance and accounting department in the PRC and subsequently approved by the Board.

1.3.6 Notwithstanding the above, based on the SA Extracted Bank Statements of Bohai #198, we are unable to identify the above two payments. The bank balance of Bohai #198 as of 19 June 2014 was only approximately RMB21 million, which was the maximum balance that Bohai #198 had from 19 June 2014 to 27 June 2014.

1.3.7 In addition, based on the SA Extracted Bank Statements of the other bank accounts in the Official Listing, we did not identify any utilisation of funds for the payment of the consideration for the MWD Acquisition.

1.3.8 In this connection, it appears that the MWD Acquisition and the purported payment for the consideration of RMB232.5 million were fictitious and inappropriately accounted for in the consolidated financial statements of the Group.

1.4 The HKNW Acquisition

1.4.1 Based on the announcement made by the Company on 11 November 2013, a MOU was entered into between the Company and Calgary on the same date which granted an exclusivity period of 6 months for parties to negotiate on the HKNW Acquisition, which relates to a right to carry out petroleum operations in certain oil blocks in Menduwai, Indonesia. The exclusivity period was subsequently extended on 7 May 2014 and 10 November 2014 in light of the need of more time for the Company to conduct the due diligence review in relation to the HKNW Acquisition.

1.4.2 However, despite the second extension to the MOU on 10 November 2014 which granted the Company until 10 May 2015 to enter into a definitive agreement, the then Chief Executive Officer of the Company, 刘庆增 (Mr Liu Qing Zeng) had on 29 December 2014 entered into a conditional sale and purchase agreement with Calgary on behalf of SKY Tianjin for the HKNW Acquisition for a purchase consideration of US$49,990,000. Consequently, the first payment of US$43,550,000 (equivalent to RMB271,220,000) was purportedly paid by SKY Tianjin to Calgary on 30 December 2014 without the prior knowledge of the then Independent Directors of the Company.

1.4.3 We have identified from the Company Records the MOU (**Appendix G**), the subsequent supplement deeds for extension of the exclusivity period (**Appendix H**) and the conditional sale and purchase agreement signed by Mr Liu Qing Zeng on behalf of SKY Tianjin and 于孝民 (Mr Yu Xiaomin) on behalf of Calgary (**Appendix I**). We note from the company searches that a 于孝民 (same chinese character as Mr Yu Xiaomin who signed the conditional sale and purchase agreement on behalf of Calgary) is also listed as a 监事 (Supervisor) in Xin Gao Di, a subsidiary of Sinotech which Mr Liu Qing Zeng was the Chairman and major shareholder. We also note from the company search results of HKNW and Calgary that the two companies have been dissolved by deregistration on 8 September 2017 and 2 March 2018 respectively. Prior to HKNW's deregistration, a 邢金山 (Mr Xing Jinshan) was appointed as the director of HKNW on 27 April 2016. We note from the Company Records that a 邢金山 (same Chinese character as Mr Xing Jinshan who was appointed as the director of HKNW) was also listed as the production manager of SKY Tianjin[1]. We understand that Mr Xing Jinshan has ceased to be an employee of SKY Tianjin.

[1] We have not been provided and have not been able to obtain any books and records or information from the PRC Subsidiaries and the limited information pertaining to the PRC Subsidiaries were extracted from the Company Records maintained in Singapore. As such, we are unable to ascertain the period where 邢金山 was appointed as the production manager of SKY Tianjin.

1.4.4 In addition, we have also identified from the Company Records the following documents in relation to the purported payments made for the HKNW Acquisition:

(a) 付款通知书 (Payment notice) issued by Calgary to SKY Tianjin dated 30 December 2014 to instruct that the payments for the HKNW Acquisition be made to the following account:

Account name	: 东营应明投资咨询有限公司 (Dongying Ying Ming Investments Consulting Co., Limited)
Account number	: 18810154800000293
Bank	: 上海浦东发展银行东营分行 (Shanghai Pudong Development Bank – Dongying Branch)

(b) 资金支付申请单 (Payment application form) dated 30 December 2014 for the application of payment of RMB271,220,000 (equivalent to the first payment of US$43,550,000). Mr Liu Qing Zeng authorised the payment as we sighted his signature on the "总裁审批" (Approval by CEO) with a date on the bottom of the signature, i.e. 2014.12.29.

(c) 结算业务委托书 (Application for settlement form) No. 09330353 of Ping An Bank dated 30 December 2014 (without SKY Tianjin's seals) for the payment of RMB271,220,000 to be made from SKY Tianjin's Ping An #1008 to the account as stated in (a) above.

(d) Receipt dated 31 December 2014 which confirmed receipt of the payment of RMB271,220,000 from SKY Tianjin for "购买印尼油田区块预付款" (Prepayment for the purchase of Indonesia Oil Block). The said receipt was affixed with the company seal of Dongying Ying Ming.

1.4.5 Copies of the documents stated in (a) to (d) above are enclosed in **Appendix J** to **M**.

1.4.6 Based on the extracted business profile, we note that Dongying Ying Ming has been deregistered as of the date of this report.

1.4.7 Notwithstanding the above, based on the SA Extracted Bank Statements of Ping An #1008, we are unable to identify the payment of RMB271,220,000 purportedly made from Ping An #1008 on 30 December 2014. The bank balance in Ping An #1008 as of that date was only RMB3,301.77.

1.4.8 In addition, based on the SA Extracted Bank Statements of other bank accounts in the Official Listing, we did not identify any utilisation of funds for the payment of the consideration for the HKNW Acquisition.

1.4.9 In this connection, it appears that the HKNW Acquisition and the purported payment of RMB271,220,000 were fictitious and inappropriately accounted for in the consolidated financial statements of the Group.

1.5 The DM Acquisition

1.5.1 As announced by the Company on 31 August 2015, SKY Tianjin entered into a sale and purchase agreement with Panjin Teng Yuan for the DM Acquisition at a consideration of RMB47.025 million (before VAT) / RMB55 million (after VAT) and also a new equipment lease with Panjin Han Yu to lease out the DM for a period of two years. We note that both the sale and purchase agreement and the lease agreement were affixed with the legal representative seal of Ms Yu Chun Min, the legal representative of SKY Tianjin.

1.5.2 After several extensions given by the Company, Panjin Han Yu failed to take over the DM and eventually on 4 August 2016, it was announced by the Company that the DM lease agreement with Panjin Han Yu was terminated.

1.5.3 We have identified from the Company Records the board paper, due diligence check conducted on the vendor and customer for the DM Acquisition and the commissioning of a valuation report for the DM before the DM Acquisition was approved by the Board. We also note the emails from Mr Li Chak Fu to the directors of the Company enclosing documents in relation to the delivery of the DM from Panjin Teng Yuan to SKY Tianjin (including a 管理层报告 (management report) stating that the Company's personnel, i.e. Mr. Guo Zengsheng, Ms. Li Xiaoyun and Mr. Li Chak Fu attended the delivery process) and the application for settlement forms of Ping An Bank for the purported payments of the RMB55 million (**Appendix N**), and the Company Maintained Bank Statements of Ping An #1008 for September 2015 showing that the purported payments of RMB55 million being made from Ping An #1008 (**Appendix O**). We understand that FKT has sighted the DM during the course of their audit for FY2015. During the course of our investigation, we have requested to sight the DM and through the arrangement of Ms Wu Chun Lan, sighted certain equipment which we were advised relate to the DM.

1.5.4 During our interview with Mr Li Chak Fu, he mentioned that the management report as mentioned in paragraph 1.5.3 was in relation to a site visit where the DM was stored. He did sight the DM stored at the site, took pictures and reported the visit to the Board but did not perform any examination or test on the DM as he was not an expert of such equipment. In the Maxwellisation process of Mr Li Chak Fu, he could only recall the surname of the engineer from SKY Tianjin who was responsible for the inspection of the DM as Mr. Xing (邢). The Chinese character of the said surname mentioned by Mr. Li Chak Fu matches the one of Mr. Xing Jinshan mentioned at paragraph 1.4.3.

1.5.5 However, based on the SA Extracted Bank Statements of Ping An #1008, we note that the purported payments of RMB55 million were not made from Ping An #1008. As at the date of this report, we have not been able to contact Panjin Teng Yuan to inquire on the DM Acquisition.

1.5.6 In addition, based on the SA Extracted Bank Statements of other bank accounts in the Official Listing, we did not identify any utilisation of funds for the payment of the consideration for the DM Acquisition.

1.5.7 In this connection, it appears that the DM Acquisition and the purported payment for the consideration of RMB55 million were fictitious and inappropriately accounted for in the consolidated financial statements of the Group.

1.6 Review of receipts and payments in the SA Extracted Bank Statements – FY2013

1.6.1 Based on the SA Extracted Bank Statements, we note that there were significant receipts and payments in the bank accounts of SKY Tianjin that were not reflected in the Company Maintained Bank Statements.

1.6.2 We have, based on the SA Extracted Bank Statements, tabulated the actual receipts and payments in the bank accounts of SKY Tianjin for FY2013 as follows:

	RMB'million	RMB'million
Balance as at 1 January 2013 as per the SA Extracted Bank Statements		136
Receipts		
Proceeds from the disposal of Xinghai and Feng Chang and refund of deposit from the aborted property acquisition	283	
Proceeds from the lease agreements	83	
Undisclosed receipts from Agri Bank #715	271	
Undisclosed receipts from various parties	366	
		1,003
Payments		
Operating and tax related expenses	(7)	
Undisclosed payments to Botenaer	(281)	
Undisclosed payments to Xin Gao Di	(305)	
Payments to subsidiaries	(14)	
Undisclosed payments to various parties	(69)	
		(676)
Balance as at 31 December 2013 as per the SA Extracted Bank Statements		463

1.6.3 We note that SKY Tianjin's Bohai #198 has received net funds of approximately RMB271 million from Agri Bank #715, an account of which its existence was not disclosed to FKT for their audit purposes during FY2013. These net funds of approximately RMB271 million received in Agri Bank #715 were from various parties, including without limitation Dongying Panfeng (vendor of the MWD), Tian Xi (a former subsidiary of the Group which was disposed in July 2010 to Panjin Teng Yuan, the vendor of the DM), Xin Gao Di (a subsidiary of Sinotech) and Botenaer (customer of SKY Tianjin).

1.6.4 We also note that there were numerous receipts/payments from/to various parties that do not appear to have any known business dealings with SKY Tianjin during that relevant time. The receipts and payments of RMB366.35 million and RMB69.25 million respectively were not reflected in the Company Maintained Bank Statements. In particular, we note the following parties that have contributed to the RMB366.35 million of receipts:

Name	RMB'million	Remarks
Hebei Daofu	73.70	New customer for the leasing of MWD announced in June 2014.
Tian Xi	67.85	Former subsidiary of the Company disposed of in July 2010 to Panjin Teng Yuan, the vendor for the DM.
Beijing Luhai	27.80	Vendor for the aborted property acquisition in Beijing announced in September 2012. This amount is in addition to the deposit refunded for the aborted property acquisition.
Panjin Teng Yuan	20.00	Vendor for the DM announced in August 2015.
	189.35	

1.6.5 We further note from a litigation search conducted on Xinghai in the PRC that Beijing Luhai was named as a co-defendant along with Xin Gao Di and Xinghai in legal suits commenced by certain banks in the PRC in relation to dispute over guarantee contracts. Please refer to paragraph 1.7.15 below for more details.

1.6.6 In addition, we note that out of the total receipts of RMB366.35 million, approximately RMB207.85 million (including RMB67.85 million received from Tian Xi above) was deposited into Bohai #198 and Bank of China #837 just before the end of the financial year, i.e. on 30 and 31 December 2013.

1.6.7 We also note that total net payments of RMB281 million and RMB305 million were made to Botenaer and Xin Gao Di respectively, including an aggregate amount of RMB250.7 million paid immediately after the receipt of funds from the disposal of Xinghai and Feng Chang and the refund of deposit for the aborted property acquisition.

1.6.8 As we have not been provided and have not been able to obtain any books and records or information from the PRC Subsidiaries, we are unable to ascertain the purpose of the payments made to Botenaer and Xin Gao Di. Nevertheless, we note that Botenaer is the customer of the Group for the equipment leasing business and Xin Gao Di is a subsidiary of Sinotech and therefore the payments made to Botenaer and Xin Gao Di do not appear to have any commercial substance.

1.6.9 As at the date of this report, we have also not been able to obtain the assistance of Botenaer to inquire on their remittance of funds into Agri Bank #715 and the receipt of funds from SKY Tianjin.

1.6.10 In this regard, it appears that the funds utilised for the unexplained payments to various parties in FY2013, in particular Botenaer and Xin Gao Di, were reinstated with proceeds received from various parties (directly or indirectly through Agri Bank #715, a bank account not disclosed to FKT) so that the actual cash and bank balances do not differ between the accounting records and the bank statements as at 31 December 2013. Although we do not have the books and records of the PRC Subsidiaries to ascertain the nature of these payments, there appears to be no net financial impact based on the SA Extracted Bank Statements as the funds utilised for the unexplained payments were subsequently reinstated.

1.7 Review of receipts and payments in the SA Extracted Bank Statements – FY2014

1.7.1 Further review into the transactions in the bank accounts of SKY Tianjin in FY2014 shows that there are discrepancies between the SA Extracted Bank Statements and the Company Maintained Bank Statements.

1.7.2 We have, based on the SA Extracted Bank Statements, tabulated the actual receipts and payments in the bank accounts of SKY Tianjin for FY2014 as follows:

	RMB'million	RMB'million
Balance as at 1 January 2014 as per SA Extracted Bank Statements		463
Receipts		
Proceeds from the disposal of Xinghai and Feng Chang	57	
Proceeds from lease agreements	60	
Undisclosed receipts from Xin Gao Di	11	
Undisclosed receipts from various parties	13	
Undisclosed receipts from Agri Bank #715 and CITIC #465	75	
		216
Payments		
Operating and tax related expenses	(11)	
Undisclosed withdrawal of funds immediately after FY2013	(191)	
Undisclosed payments to Botenaer	(20)	
Undisclosed payments to various parties	(58)	
Undisclosed withdrawal of FD for repayment of Xinghai's loans	(309)	
		(589)
Balance as at 31 December 2014 as per SA Extracted Bank Statements		90

1.7.3 In the SA Extracted Bank Statements, we have identified net receipts of approximately RMB11 million from Xin Gao Di and net payments of approximately RMB20 million to Botenaer in FY2014 that were not reflected in the Company Maintained Bank Statements. SKY Tianjin also received approximately RMB75 million from Agri Bank #715 and CITIC #465, bank accounts which were not disclosed to FKT.

1.7.4 We further identified additional net receipts of approximately RMB13 million and net payments of approximately RMB58 million between SKY Tianjin and various parties in FY2014 which were not reflected in the Company Maintained Bank Statements. In particular, we note, including but not limited to, the following parties that have contributed/received funds to/from SKY Tianjin:

Name	Contributed funds to SKY Tianjin / (received funds from SKY Tianjin) RMB'million	Remarks
Sike	10.00	Purchaser of the ZJ40 drilling equipment disposed of by SKY Tianjin in September 2013
Panjin Teng Yuan	(25.00)	Vendor for the DM
Tian Xi	(11.60)	Former subsidiary of the Company disposed of in July 2010 to Panjin Teng Yuan, the vendor for the DM.

1.7.5 It was also noted from the SA Extracted Bank Statements that there were unexplained withdrawal of funds of RMB191 million from Bohai #198 and Bank of China #837 on 2 and 3 January 2014, i.e. immediately after the beginning of the financial year for FY2014. These payments were made to various parties, including inter alia Xinghai (a former subsidiary of the Company disposed in FY2013) as well as two parties who deposited funds into Bohai #198 and Bank of China #837 on 30 and 31 December 2013.

1.7.6 Based on our perusal of the Company Records, we have identified documents showing the purported FD placement by SKY Tianjin with Ping An Bank – Dagang Branch as follows:

(a) 3-month FD of RMB310 million purportedly placed in June 2014 (**Appendix P**); and

(b) 3-month FD of RMB90 million purportedly placed in November 2014 and purportedly renewed in February 2015 and May 2015. Subsequently in August 2015, only RMB30 million was purportedly renewed (**Appendix Q**).

1.7.7 Whilst we are able to identify the deductions of RMB310 million in June 2014 and RMB90 million in November 2014 from the SA Extracted Bank Statements of Ping An #1008, we could not identify the subsequent receipt in Ping An #1008 in September 2014 for the purported return of the principal sum of the FD of RMB310 million placed in June 2014, the receipt of RMB60 million in August 2015 and the receipt of the remaining RMB30 million in the subsequent months up to the closure of Ping #1008 on 17 December 2015.

1.7.8 Instead, we sighted the following receipts in the SA Extracted Bank Statements of Ping An #1008 for September 2014 which bear the description "质押款到期还贷款剩余款入结算户\转帐" (Refund of the balance of the pledged amount after loan repayment):

Date	RMB
11/09/2014	94,553.67
16/09/2014	93,912.00
17/09/2014	328,364.44
19/09/2014	156,520.00
29/09/2014	12,477.89
	685,828.00

1.7.9 Noting the discrepancies, we have written to Ping An Bank – Dagang Branch to seek further clarification. We were subsequently provided with the statement of Ping An #8006, which we understood to be the FD account of SKY Tianjin with Ping An Bank – Dagang Branch (**Appendix R**). Based on the said bank statements, we note the following receipts and payments in Ping An #8006:

(a) Period from June 2014 to September 2014

Date	Debit (RMB'million)	Credit (RMB'million)	Balance (RMB'million)
10/06/2014		60	60
16/06/2014		60	120
17/06/2014		80	200
19/06/2014		100	300
27/06/2014		10	310
11/09/2014	(60)		250
16/09/2014	(60)		190
17/09/2014	(80)		110
19/09/2014	(100)		10
29/09/2014	(10)		0

(b) Period from November 2014 to January 2015

Date	Debit (RMB'million)	Credit (RMB'million)	Balance (RMB'million)
26/11/2014		30	30
26/11/2014	(30)		0
26/11/2014		30	30
27/11/2014		30	60
28/11/2014		30	90
13/01/2015	(30)		60
13/01/2015	(30)		30
13/01/2015	(30)		0

1.7.10 We note that the receipts of RMB310 million in June 2014 and RMB90 million in November 2014 in Ping An #8006 correspond to the deductions of RMB310 million and RMB90 million in June 2014 and November 2014 respectively from Ping An #1008.

1.7.11 We were also provided with 8 copies of 质押担保合同 (Pledge and Security Agreement) entered into between SKY Tianjin (affixed with the legal representative seal of Mr Liu Qing Zeng) and Ping An Bank – Dagang Branch to provide security for loans taken by Xinghai. We note that 5 agreements were signed in June 2014 to pledge a total of RMB310 million of FD as security (**Appendix S**) and 3 agreements were signed in November 2014 to pledge a total of RMB90 million of FD as security (**Appendix T**).

1.7.12 In addition, we were also provided with 8 copies of 特种转帐借方传票 (Special Transfer Debit Slip) by Ping An Bank – Dagang Branch (5 slips amounting to RMB310 million in **Appendix U** and 3 slips amounting to RMB90 million in **Appendix V**) of which the dates and amounts correspond to the 5 withdrawals of RMB310 million in September 2014 and 3 withdrawals of RMB90 million in January 2015 from Ping An #8006. We note the remark of "存单质押还贷款" (Pledged deposit for loan repayment) on all 8 copies of the Special Transfer Debit Slip.

1.7.13 During our interview with Mr. Zhang He, the major shareholder of Xinghai in 2014, he mentioned that he was not aware of the aggregate loan amounts of RMB400 million that Xinghai took from Ping An Bank – Dagang Branch during 2014. Accordingly, he has no knowledge of SKY Tianjin providing security for the loans taken by Xinghai and the subsequent repayment of Xinghai's loans using the pledged security provided by SKY Tianjin.

1.7.14 In this regard, based on our examination, it would appear that the funds purportedly utilised for the MWD Acquisition and the HKNW Acquisition in FY2014 were not used for these transactions, but instead paid to various parties, including the repayment of Xinghai's loans.

1.7.15 Based on the extracted business profile, we note that Xinghai has been suspended from operation as of the date of this report. We further note from a litigation search conducted on Xinghai in the PRC that Xinghai was named as a co-defendant in 8 legal suits commenced by certain banks in the PRC in relation to dispute over financial loan contracts and guarantee contracts along with the following co-defendants:

Name	**Remarks**
Mr Liu Qing Zeng	The former Executive Director and Chief Executive Officer of the Company.
Xin Gao Di	A subsidiary of Sinotech.
Ganghua	Former subsidiary of the Company disposed of on 16 November 2015.
Shengkang	Former subsidiary of the Company disposed of on 16 November 2015.
Botenaer	A customer of the Group for the equipment leasing business.
Beijing Luhai	Vendor for the aborted property acquisition in Beijing announced in September 2012.
天津中金伟星机械有限责任公司 (Tianjin Zhongjin Weixing Machinery Co., Ltd)	-
薛兰 (Xue Lan)	-
信国强 (Xin Guoqiang)	-

1.7.16 In addition, we also note the following irregularities:

(a) Based on the announcements made by the Company, the sale and purchase agreements in connection with the sale of the Company's interest in Ganghua and Shengkang to China Coastal Shipping (HK) Limited were entered into on 21 October 2015 and subsequently completed on 16 November 2015. In this connection, we note an email dated 16 November 2015 from Mr Li Chak Fu to the Board informing them of the completion (**Appendix W**). However, the extracted business profiles of Ganghua and Shengkang state that the transfer of the Company's interest in the said two PRC Subsidiaries to China Coastal Shipping (HK) Limited took place on 17 April 2015, which was 6 months prior to the sale and purchase agreements dated 21 October 2015 as announced by the Company;

(b) Based on the extracted business profiles of Ganghua and Shengkang, the former Executive Director and Chief Operating Officer of the Company, 高郁林 (Mr Gao Yu Lin) remains as a 董事(director) of both Ganghua and Shengkang as of the date of this report; and

(c) The email address of 郭增胜 (Mr Guo Zengsheng), a key former finance personnel of the Group based in the PRC, appears in the extracted business profile of Botenaer as the company's email address.

1.7.17 In the Maxwellisation process of Mr Li Chak Fu, he informed that he has no knowledge and was neither involved nor aware of the transfer of the Company's interests in Ganghua and Shengkang to China Coastal Shipping (HK) Limited which took place on 17 April 2015.

1.7.18 In the Maxwellisation process of Mr Gao Yu Lin, he informed that he has no knowledge of the transfer of the Company's interest in Ganghua and Shengkang. Mr Gao Yu Lin mentioned that he has left the Company in October 2014 and the announcement on his resignation was made by the Company later on 29 December 2014. The said share transfer of Ganghua and Shengkang would have happened subsequent to his resignation. Mr Gao Yu Lin also mentioned that since 2009, he has informed Mr Liu Qing Zeng on his unwillingness to be a director of Ganghua and Shengkang and shortly after that, Mr Liu Qing Zeng informed Mr Gao Yu Lin that he was replaced by someone else as the director of Ganghua and Shengkang and that the new director will carry out the director's duties for Ganghua and Shengkang.

1.8 Review of receipts and payments in the SA Extracted Bank Statements – FY2015

1.8.1 We note from the Company Records and the emails from Mr Li Chak Fu to the Board that:

(a) On the collection of outstanding receivables, Mr Li Chak Fu mentioned in an email dated 2 July 2015 that he was informed by Ms Wu Chun Lan, the current Chief Executive Officer of the Company, that there would be further receipts in the next couple of days (**Appendix X**); and

(b) The bank balances of RMB47.6 million was purportedly transferred from Ping An #1008 to Renqiu #127 on 9 December 2015 and that confirmation was obtained by Mr Li Chak Fu at Renqiu City Rural Credit Union on the said receipt of RMB47.6 million in Renqiu #127 (**Appendix Y**).

1.8.2 In the Maxwellisation process of Ms Wu Chun Lan, she confirms on the statement made in paragraph 1.8.1 (a).

1.8.3 However, based on the SA Extracted Bank Statements in FY2015, we are unable to identify the above receipts and bank transfer, as well as the purported payments of RMB55 million for the DM Acquisition. As stated in paragraphs 1.7.9(b) and 1.7.12 above, the purported FD of RMB90 million placed with Ping An Bank – Dagang Branch as at 31 December 2014 were subsequently withdrawn on 13 January 2015. However, the RMB90 million has not been transferred into any other known bank accounts of SKY Tianjin listed in the Official Listing but appeared to have been utilised for repayment of Xinghai's loans. There were only minimal transactions in the bank accounts of SKY Tianjin and Renqiu Kai Yuan in FY2015. The bank balances as at 31 December 2015 in the bank accounts that were still maintained by SKY Tianjin and Renqiu Kai Yuan were as follows:

Name	Bank account	RMB
SKY Tianjin	Bank of Tianjin #519	13,757.83
SKY Tianjin	Agri Bank #715	3.03
SKY Tianjin	CITIC #465	-
Renqiu Kai Yuan	Renqiu #127	64.12
		13,824.98

1.9 Review of receipts and payments in the SA Extracted Bank Statements – FY2016 and FY2017

1.9.1 Based on the SA Extracted Bank Statements, there were insignificant transactions in the bank accounts of SKY Tianjin and Renqiu Kai Yuan in FY2016 and FY2017.

1.10 Summary of receipts and payments

1.10.1 In summary, we set out below our findings on the receipts and payments of SKY Tianjin from FY2013 to FY2015 based on the SA Extracted Bank Statements:

	RMB (million)	RMB (million)
Balance as at 1 January 2013 as per SA Extracted Bank Statements		**136**
1. Receipts and payments reflected in the Company Maintained Bank Statements		
Proceeds from the disposal of Xinghai and Feng Chang and refund of deposit from the aborted property acquisition	340	
Proceeds from lease agreements	143	
Operating and tax related expenses	(18)	
Net receipts		**465**
2. Receipts and payments not reflected in the Company Maintained Bank Statements		
Undisclosed receipts from Agri Bank #715 and CITIC #465	346	
Net undisclosed receipts from various parties	252	
Undisclosed withdrawals of FD for repayment of Xinghai's loans	(399)	
Net undisclosed payments to Xin Gao Di	(294)	
Net undisclosed payments to Botenaer	(301)	
Undisclosed withdrawal of funds immediately after FY2013	(191)	
Payments to subsidiaries	(14)	
Net payments		**(601)**
Balance as at 31 December 2015 as per SA Extracted Bank Statements		-

* A summary of the purported receipts and payments versus the actual receipts and payments is enclosed in **Appendix** Z.

1.10.2 In this connection, the closing bank balance of SKY Tianjin was reduced from RMB136 million as at 1 January 2013 to almost nil as at 31 December 2015. The funds purportedly utilised for the MWD Acquisition, the HKNW Acquisition and the DM Acquisition were not used for these transactions, but instead utilised in the manner set out above.

1.11 Conclusion

1.11.1 Based on our findings as stated in paragraph 1.3.8, 1.4.9 and 1.5.7, the financial impact on the AR2014 and AR2015 would be as follows:

	Balance sheet line item in AR2014/AR2015	(Overstated) / Understated RMB'million
FY 2014		
MWD Acquisition	Plant and equipment	(232.50)^
	Trade and other receivables (Various undisclosed parties)	232.50*
HKNW Acquisition	Trade and other receivables (First payment for proposed acquisition)	(271.22)
	Trade and other receivables (Various undisclosed parties)	271.22*
FY 2015		
DM Acquisition	Plant and equipment	(47.025)^
	Trade and other receivables (Xinghai)	47.025*
Discrepancy in cash and cash equivalent	Cash and cash equivalent	(43.00)
	Trade and other receivables (Xinghai)	43.00*

^ This represent the costs of MWD and DM (before the effect of depreciation / impairment). Based on the AR2015, the Company reported a net carrying amount of S$8,092,000 attributable to the DM and the 2 sets of MWD recovered from Hebei Daofu, and an allowance for impairment was made for the remaining costs of these equipment.
*** The recoverability of the trade and other receivables will be subject to the assessment of impairment.**

1.11.2 Based on our findings, it appears that the custodians of the legal representative seals and the finance seals (both of which are required for any bank payments), may have breached their undertaking to adhere to the Group's existing policies and procedures for the affixation of the respective seals. The custodians named for each seal at the relevant time periods are summarised as follows:

Period	Common Seal	Legal Representative Seals	Finance Seals
Prior to 9 July 2014 (Based on interview with Mr Li Chak Fu)	-	Mr Liu Qing Zeng	Ms Li Xiaoyun
9 July 2014 to 10 January 2015 (Based on a Seal Custodian List dated 9 July 2014)	Ms Wu Chun Lan	Ms Wu Chun Lan	Mr Gao Yu Lin
11 January 2015 to 29 January 2015 (Based on a Seal Custodian List dated 11 January 2015)	Ms Wu Chun Lan	Ms Wu Chun Lan	Mr Liu Aizhong

30 January 2015 to 27 April 2015 (Based on Company's announcement dated 30 January 2015)	-	Mr Liu Aizhong	Mr Li Chak Fu
27/28 April 2015 to 5 August 2016 (Based on interview with Mr Chow Wai San & Mr David Chin)	Mr Li Chak Fu	Mr Li Chak Fu	Mr Li Chak Fu
Subsequent to 5 August 2016 (After the resignation of Mr Li Chak Fu)	Drewcorp Services Pte Ltd	Drewcorp Services Pte Ltd	Drewcorp Services Pte Ltd

1.11.3 Based on the findings of FKT who were previously engaged on 12 January 2015 to perform a review on the HKNW Acquisition, we note the following:

(a) There was a Seal Custodian List of SKY Tianjin dated 9 July 2014;

(b) Based on the said Seal Custodian List, Ms Wu Chun Lan was the custodian of one common seal and three legal representative seals, and Mr Gao Yu Lin, the then Chief Operating Officer of the Company was the custodian of two finance seals until his resignation on 29 December 2014;

(c) It was reported that Ms Wu Chun Lan handed over the seals under her custody to the finance department when she was away from office in December 2014 for business trips;

(d) The sale and purchase agreement for the HKNW Acquisition was entered into by Mr Liu Qing Zeng without the formal approval of the Board, and without written approvals from Mr Li Chak Fu (Chief Financial Officer) and Ms Wu Chun Lan (Executive Director), in contravention of the Group Internal Rules and Regulations; and

(e) Based on FKT's review of the Group Internal Rules and Regulations, there were no stipulated policies and procedures on the management of the company seals although there was a Seal Custodian List which specifies the personnel responsible for the respective company seals.

1.11.4 However, based on our respective interviews with Ms Wu Chun Lan and Mr Gao Yu Lin, they claimed to not having custody of the seals of SKY Tianjin during FY2013 and FY2014. Based on our interview with Mr Li Chak Fu, his recollection was that Ms Wu Chun Lan and Mr Gao Yu Lin were the custodians for the legal representative seals and finance seals respectively pursuant to the auditor's recommendation. He also recollected that for the period prior to 9 July 2014, the legal representative seals were held by Mr Liu Qing Zeng and the finance seals were held by Ms Li Xiaoyun.

1.11.5 In the Maxwellisation process of Ms Wu Chun Lan, she confirms on the existence of the Seal Custodian List but highlighted that she was not in physical possession of the seals due to her frequent travelling schedule.

1.11.6 In the Maxwellisation process of Mr Gao Yu Lin, he reiterates that he was not in custody of any seals of SKY Tianjin.

1.11.7 The key finance personnel of the Group, in particular those that were in charge of the finance matters in the PRC Subsidiaries during the relevant time, may have information that may shed light on the discrepancies between the Company Maintained Bank Statements and the SA Extracted Bank Statements.

1.11.8 Our investigation had the following limitations:

(a) We are unable to contact certain key personnel of the Group to arrange for interviews, in particular the former Chief Executive Officer, Mr Liu Qing Zeng who stepped down as Executive Director and Chief Executive Officer on 27 April 2015, and the two key former finance personnel based in the PRC, Ms Li Xiaoyun and Mr Guo Zengsheng who were uncontactable since February 2017. Accordingly, we are unable to conduct the Maxwellisation process for these individuals; and

(b) The unavailability of the books and records of the PRC Subsidiaries. Based on our understanding from the interview with Ms Wu Chun Lan, the books and records of the PRC Subsidiaries cannot be located after the sudden disappearance of Ms Li Xiaoyun and Mr Guo Zengsheng in February 2017.

1.11.9 In the Maxwellisation process of Ms Wu Chun Lan, she confirms on the statement made in paragraph 1.11.8 (b).

1.11.10 Subject to the above limitations, we have the following observations:

(a) The legal representative of SKY Tianjin during the relevant time when the MWD Acquisition, the HKNW Acquisition and the making of undisclosed payments took place was the former Chief Executive Officer, Mr Liu Qing Zeng;

(b) Interviews with certain former/current directors and key management indicate that the former Chief Executive Officer, Mr Liu Qing Zeng was the main decision maker in the Group during the relevant time;

(c) The then Chief Executive Officer, Mr Liu Qing Zeng entered into the conditional sale and purchase agreement for the HKNW Acquisition without the prior knowledge of the then Independent Directors and Chief Financial Officer of the Company;

(d) The undisclosed Pledge and Security Agreements between SKY Tianjin and Ping An Bank – Dagang Branch to provide security for loans taken by Xinghai were affixed with the legal representative seal of Mr Liu Qing Zeng;

(e) The shareholder and director of Calgary is the Supervisor of Xin Gao Di, a subsidiary of Sinotech which the former Chief Executive Officer, Mr Liu Qing Zeng was the Chairman and major shareholder of;

(f) The unauthorised payments include payments made to Xin Gao Di, a subsidiary of Sinotech which the former Chief Executive Officer, Mr Liu Qing Zeng was the Chairman and major shareholder of;

(g) The Group did not have a robust and effective system of internal controls in respect of the custody and application of the seals as (a) the Group does not have a Seal Custodian List prior to 9 July 2014 (where we understand from Mr Li Chak Fu that the legal representative seals and the finance seals were held by Mr Liu Qing Zeng and Ms Li Xiaoyun respectively); and (b) the Seal Custodian List dated 9 July 2014 was not adhered to. There had been management override of controls, in particular on the findings of the undisclosed payments. It is unlikely that the undisclosed payments as summarised in paragraph 1.10.1 above were made without the knowledge and/or approval of the key personnel within the Group during the relevant time, in particular the former Chief Executive Officer, Mr Liu Qing Zeng;

(h) The finance seals, which is one of the two seals required for any bank payments should be in the custody of the finance department. In particular, Ms Li Xiaoyun, being the most senior finance personnel based in the PRC during the relevant time, would have dealt with the key stakeholders, including bankers, customers and suppliers of the Group's operation in the PRC. It is unusual for an individual in such a position to have no knowledge of the matters and discrepancies as stated in our findings above;

(i) The sudden disappearance of the two key former finance personnel based in the PRC, Ms Li Xiaoyun and Mr Guo Zengsheng in February 2017 together with the books and records of the PRC Subsidiaries appears to indicate that they may have some knowledge on the matters and discrepancies as stated in our report. In particular, Mr Guo Zengsheng was the individual who procured the bank confirmation in the 4th quarter of 2016 subsequent to the resignation of Mr Li Chak Fu and shortly after that, Mr Guo Zengsheng disappeared and became uncontactable in February 2017. In addition, the use of the email address of Mr Guo Zengsheng as the company's email address of Botenaer appears to indicate his involvement in the affairs of Botenaer.

1.11.11 We have consulted the solicitors appointed by the Company, i.e. Drew & Napier LLC and we note the following breaches:

Relevant provision of the statute / regulation	**Summary**
CA: Sections 157, 201 and 401 SFA: Sections 199 and 328	The discrepancies between the FKT Listing and the Official Listing may result in contraventions of Sections 201[2] and 401[3] of the CA and Sections 199[4] and 328[5] of the SFA. Any director of the Company who has knowledge of the failure to include the three bank accounts of SKY Tianjin on the Official Listing in the FKT Listing and failed to rectify the same may have contravened Section 157[6] of the CA.
CA: Sections 157, 201 and 401 SFA: Sections 199 and 328 Listing Manual: Rules 703(4) read with paragraph 25 of Appendix 7.1 and 705(5)	In relation to the MWD Acquisition, HKNW Acquisition and DM Acquisition, the SA Extracted Bank Statements do not reflect the payments purportedly made to Dongying Pan Feng, Calgary and Panjin Teng Yuan respectively. Accordingly the Group's consolidated financial statements (which included these acquisitions) that were laid at the Company's Annual General Meetings and that were announced on SGX-Net, and the results announcements for the relevant period may not be prepared properly and may be regarded as false and misleading. This may result in contraventions of Sections 201 and 401 of the CA, Sections 199 and 328 of the SFA, and Rules 703(4) read with paragraph 25 of Appendix 7.1[7] and 705(5)[8] of the Listing Manual.

[2] Section 201 of the CA provides that every company that is a parent company should prepare consolidated financial statements which complies with the requirements of the prescribed accounting standards that gives a true and fair view of the financial position and financial performance of the group and lay such consolidated financial statements at the company's annual general meeting.

[3] Section 401 of the CA provides that every person in any return, report, certificate, balance sheet, financial statements or other documents wilfully makes or authorises the making of a statement which is false or misleading or wilfully omits or authorises the omission of anything without which the document is misleading, commits an offence.

[4] Section 199 of the SFA provides that a person is prohibited from making or disseminating false or misleading information and statements which are likely to induce the sale or purchase of securities or which are likely to affect the market price of those securities, if he does not care whether the statement or information is true or false or if he knows or ought reasonably to have known that the statement or information is false or misleading.

[5] Section 328 of the SFA provides that any officer, auditor, employee or agent of any relevant person who (i) wilfully makes, or causes to be made a false entry in any book, or in any report, slip, document or statement of the business, affairs, transactions, conditions or assets of that relevant person, (ii) wilfully omits to make, or causes to be omitted, an entry in any book, or in any report, slip, document or statement of the business, affairs, transactions, conditions or assets of that relevant person or (iii) wilfully alters, extracts, conceals or destroys, or causes to be altered, extracted, concealed or destroyed, an entry in any book, or in any report, slip, document or statement of the business, affairs, transactions, conditions or assets of that relevant person, shall be guilty of falsification of records.

[6] Section 157 of the CA provides that a director shall at all times act honestly and use reasonable diligence in the discharge of the duties of his office.

[7] Rules 703(4) of the Listing Manual provides that in complying with the Exchange's disclosure requirements, an issuer must: (a) observe the Corporate Disclosure Policy set out in Appendix 7.1 of the Manual, and (b) ensure that its directors and executive officers are familiar with the Exchange's disclosure requirements and Corporate Disclosure Policy. Paragraph 25 of Appendix 7.1 provides that the contents of announcements must be factual, clear and succinct.

[8] Rule 705(5) of the Listing Manual provides that in the case of an announcement of interim financial statements, an issuer's directors must provide a confirmation that, to the best of their knowledge, nothing has come to the attention of the board of directors, which may render the interim financial statements to be false or misleading in any material aspect. In order to make this confirmation, directors would not be expected to commission an audit of these financial statements. The confirmation may be signed by 2 directors on behalf of the board of directors. In this regard, the board of directors of the Company may be in breach of Rule 705(5) when they provided the confirmation that the financial statements are not false and misleading.

	Any director of the Company who is complicit in the contravention may also have contravened Section 157 of the CA.
CA: Sections 157, 201 and 401 SFA: Sections 199 and 328 Listing Manual: Rules 703(4) read with paragraph 25 of Appendix 7.1 and 705(5)	A review of the SA Extracted Bank Statements for FY2013, FY2014 and FY2015 reveal significant receipts and payments in the bank accounts of SKY Tianjin which were not reflected in the Company Maintained Bank Statements. It appears that these receipts and payments have been excluded in the Group's consolidated financial statements as the Company Maintained Bank Statements were used in the preparation of the consolidation of the Group's financial position and financial performance. In this regard, the Group's consolidated financial statements that were laid at the Company's annual general meetings and that were announced on SGX-Net, and the results announcements for the relevant period may not be prepared properly and therefore may be false and misleading. This may result in contraventions of Sections 201 and 401 of the CA, Section 199 and 328 of the SFA, and Rules 703(4) read with paragraph 25 of Appendix 7.1 and 705(5) of the Listing Manual. Any director of the Company who is complicit in the contravention may also have contravened Section 157 of the CA.
CA: Sections 157, 201 and 401 SFA: Sections 199 and 328 Listing Manual: Rules 703(4) read with paragraph 25 of Appendix 7.1 and 705(5)	The pledging of the FD in Ping An Bank – Dagang Branch of RMB310 million in June 2014 and RMB90 million in January 2015, and the subsequent utilisation of these FD for the repayment of the loans of the Company's former subsidiary, Xinghai were not disclosed in the Group's consolidated financial statements. Accordingly, the Group's consolidated financial statements that were laid at the Company's annual general meetings and that were announced on SGX-Net, and the results announcements for the relevant period may not be prepared properly and therefore may be false and misleading. This may result in contraventions of Sections 201 and 401 of the CA, Section 199 and 328 of the SFA, and Rules 703(4) read with paragraph 25 of Appendix 7.1 and 705(5) of the Listing Manual. Any director of the Company who is complicit in the contravention may also have contravened Section 157 of the CA.

1.11.12 In addition, the possible breach with regard to the failure in the system of internal controls of the Company is as follows:

Relevant provision of the statute / regulation	**Summary**
Listing Manual: Rule 719[9]	The Group did not have a robust and effective system of internal controls in respect of the custody and application of the seals as (a) the Group does not have a Seal Custodian List prior to 9 July 2014 (where we understand from Mr Li Chak Fu that the legal representative seals and the finance seals were held by Mr Liu Qing Zeng and Ms Li Xiaoyun respectively); and (b) the policies and procedures relating to the Seal Custodian List dated 9 July 2014 was not adhered to. Certain individuals who are entrusted with the custody of the legal representative seals and the finance seals (both of which are required for any bank payments) may have breached their undertaking to adhere to the policies and procedures for the affixation of the respective seals.

1.11.13 Based on our work done, we note there had been management override of controls in respect of the custody and application of the seals and in particular the undisclosed payments. Whilst there were proper procedures in place to ensure the control and custody of seals evidenced by the existence of a Seal Custodian List, we note from our respective interviews with Ms Wu Chun Lan and Mr Gao Yu Lin that they claimed to not having custody of the seals of SKY Tianjin during FY2013 and FY2014 (refer to paragraph 1.11.5 and 1.11.6 for the respective Maxwellisation responses of Ms Wu Chun Lan and Mr Gao Yu Lin). In our view, it is unlikely that the undisclosed payments as summarised in paragraph 1.10.1 above were made without the knowledge and/or approval of the key personnel within the Group during the relevant time, in particular the former Chief Executive Officer, Mr Liu Qing Zeng.

1.11.14 In this regard, based on our findings, in particular the observations as stated in paragraph 1.11.10 (a) to (g) and the possible breaches as stated in paragraph 1.11.11, it is not unreasonable to surmise that Mr Liu Qing Zeng is culpable for the matters and discrepancies, and has possibly breached the relevant CA and SFA provisions as stated in our report. In this respect, Mr Liu Qing Zeng may not have discharged his duties as a director of a listed company pursuant to Rule 720(4)[10] of the Listing Manual. The above is subject to the limitations stated in paragraph 1.11.8. We are unable to conduct the Maxwellisation process with Mr Liu Qing Zeng who is uncontactable as of the date of this report.

[9] Rule 719 of the Listing Manual provides that: (1) an issuer should have adequate and effective systems of internal controls (including financial, operational, compliance and information technology controls) and risk management systems. The audit committee may commission an independent audit on internal controls and risk management. (2) If the audit committee of an issuer becomes aware of any suspected fraud or irregularity, or suspected infringement of any Singapore laws or regulations of the Exchange or any other regulatory authority in Singapore, which has or is likely to have a material impact on the issuer's operating results or financial position, the audit committee must discuss such matter with the external auditor and, at an appropriate time, report the matter to the board. (3) 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.

[10] Rule 720(4) of the Listing Manual (deleted on 7 October 2015) provides that where the Exchange is of the opinion that a director or key executive officer of an issuer has: (a) wilfully contravened or wilfully caused the issuer to breach the Listing rules; or (b) wilfully contravened any relevant laws, rules and regulations; or (c) refused to extend cooperation to the Exchange or other regulatory agencies in an investigation of wrongdoing related to the issuer such that doubts are cast on the directors' ability to discharge their duties as director, the Exchange may take the necessary actions including but not limited to: (i) Publishing the names of the individual directors or key executive officers with relevant information about the contravention or failure to extend cooperation ; and (ii) Objecting to appointments of the individual directors or key executive officers to the board of directors of other issues.

1.11.15 In addition, based on our observations as stated in paragraph 1.11.10 (h) and (i), there are reasonable grounds to suspect that Ms Li Xiaoyun and Mr Guo Zengsheng are complicit in the matters and discrepancies as stated in our report until their sudden disappearance in February 2017. We are unable to conduct the Maxwellisation process with Ms Li Xiaoyun and Mr Guo Zengsheng who are uncontactable as of the date of this report.

1.11.16 Based on our findings, we have not found any evidence to conclusively prove that Mr Li Chak Fu is complicit in the matters and discrepancies as stated in our report. However, we note that Mr Li Chak Fu was the Chief Financial Officer of the Company when the MWD Acquisition, HKNW Acquisition and DM Acquisition took place and that he was also involved in procuring bank confirmation in the PRC, including the transfer of RMB47.6 million from Ping An #1008 to Renqiu #127 on 9 December 2015 as stated in paragraph 1.8.1 above. During our interview with Mr Li Chak Fu, we understand the following:

(a) The finance and accounting department in the PRC was headed by Ms Li Xiaoyun, who reported to the local executive directors. Mr Li Chak Fu was based in Singapore and was not involved in the detailed operations of the PRC Subsidiaries.

(b) The payments for the PRC Subsidiaries did not require the approval of Mr Li Chak Fu. He only performed monthly reviews based on the information provided by the local accounting team.

(c) Mr Li Chak Fu performed monthly reviews and reconciliation on the reporting packages provided by the local accounting and finance department. The monthly checking of PRC Subsidiaries bank statements and receipt advices/settlements evidences were performed through scanned copies provided by Ms Li Xiaoyun. Subsequent sample check against the physical original copies were done only when Mr Li Chak Fu visited the office of the PRC Subsidiaries which we understood to be around 4 times each year.

(d) The finance seals of a key subsidiary of the Group, i.e. SKY Tianjin were initially held by Ms Li Xiaoyun, and subsequently by Mr Gao Yu Lin sometimes in 2013. As the then Chief Financial Officer, Mr Li Chak Fu only took over the custody of the finance seals after the occurrence of the purported payment of RMB271,220,000 for the HKNW Acquisition made on 30 December 2014.

1.11.17 In this regard, it appears that Mr Li Chak Fu was not intimately involved in the Group's operation of the accounting and finance department in the PRC. Therefore, there are questions whether he has exercised his duties of employment as the Chief Financial Officer of the Company sufficiently given the occurrence of the following incidents during his period of employment:

(a) The discrepancies in the bank balances of the PRC Subsidiaries;

(b) The existence of undisclosed bank accounts of the PRC Subsidiaries;

(c) Purported payments for the MWD Acquisition, HKNW Acquisition and DM Acquisition; and

(d) The undisclosed transfer of the Company's interest in Ganghua and Shengkang which took place on 17 April 2015.

1.11.18 In the Maxwellisation process of Mr Li Chak Fu, his response to each of the statements made from paragraph 1.11.17 (a) to (d) are as follows:

(a) He has performed all necessary procedures, i.e. sample checks to the original documents and obtain bank confirmations directly from the banks.

(b) He was not aware of any undisclosed bank accounts and did not see any discrepancies between the bank records and accounting records. He further mentioned that the internal and external auditors were also not aware of the undisclosed bank accounts during their course of work.

(c) For the MWD Acquisition and DM Acquisition, the payments were approved by the Board with proper due diligence and he did not withhold any information. For the HKNW Acquisition, the payment was made by Mr Liu Qing Zeng without the approval of the Board and his knowledge.

(d) He was only told and provided documents showing that the transaction were executed, and reiterates that he did not have any involvement in the process of identifying and negotiating with China Coastal Shipping (HK) Limited. He further mentioned that he was only told to take care of the accounting treatments and to the best of his recollection, the value of the Company's interests in Ganghua and Shengkang were not material and significant.

1.11.19 We have also not found any evidence to conclusively prove that Ms Wu Chun Lan is complicit in the matters and discrepancies as stated in our report. However, there are questions whether she has exercised her duties of employment as the Executive Director and consequently the Chief Executive Officer of the Company sufficiently given the occurrence of the following incidents during her period of employment:

(a) The discrepancies in the bank balances of the PRC Subsidiaries;

(b) The existence of undisclosed bank accounts of the PRC Subsidiaries;

(c) The purported collection of outstanding receivables in FY2015 from the customers which she has liaised with;

(d) The purported payment of RMB55 million for the DM Acquisition;

(e) The undisclosed transfer of the Company's interest in Ganghua and Shengkang which took place on 17 April 2015; and

(f) The failure to ensure proper custody of the common seal and legal representative seals of SKY Tianjin which she was named as the custodian based on the Seal Custodian List dated 9 July 2014.

1.11.20 In the Maxwellisation process of Ms Wu Chun Lan, her response to each of the statements made from paragraph 1.11.19 (a) to (f) are as follows:

(a) She has exercised her duties as the Chief Executive Officer by periodically reviews the financial report of the Group and act according to the decision made by the Board. Ms Wu Chun Lan also mentioned that bank balances were consistent based on the bank statements and the financial report that she has previously reviewed and it would be unreasonable for Chief Executive Officer to cover the duty of procuring bank confirmation. In addition, there were no discrepancies raised by the external auditors throughout the audit performed on the Group.

(b) She should not be held responsible for the undisclosed bank accounts of the PRC Subsidiaries that were opened before her appointment as the Chief Executive Officer of the Company. She reiterates that she is not in charge of the finance matters of the Group. In addition, the external auditors has also not found out the undisclosed bank accounts throughout the audit performed on the Group.

(c) She confirms to have liaised with the customers to collect the outstanding receivables in FY2015 and subsequently received notification from the finance department that payments for the outstanding receivables were received from these customers.

(d) The discussion on the DM Acquisition initiated before Mr Liu Qing Zeng relinquished his position in the Company. When she took over as the Chief Executive Officer of the Company, the DM Acquisition proceeded after the Board's approval. The delivery process of the equipment in the DM Acquisition were observed by the external auditors and the then Chief Financial Officer of the Company. Thereafter, Ms Wu Chun Lan informed the finance department to make payment for the DM Acquisition. The payment process was handled by the finance department without her participation.

(e) Ms Wu Chun Lan mentions that she has no knowledge of the transfer of the Company's interest in Ganghua and Shengkang which occurred on 17 April 2015 before her appointment as the Chief Executive Office of the Company. The said 2 PRC Subsidiaries were dormant for quite sometimes and decision for the disposal was made by the Board. The share transfer procedures were then carried out by the relevant employees and announcement was made accordingly.

(f) Although she was named as the custodian in the Seal Custodian List, she was not in physical possession of the seals due to her frequent travelling schedule.

1.11.21 Similarly, we have not found any evidence to conclusively prove that Mr Gao Yu Lin is complicit in the matters and discrepancies as stated in our report. However, there are questions whether he has duly discharged his duties as the Executive Director of the Company given the occurrence of the following incidents during his period of appointment:

(a) The discrepancies in the bank balances of the PRC Subsidiaries;

(b) The existence of undisclosed bank accounts of the PRC Subsidiaries; and

(c) The failure to ensure proper custody of the finance seals of SKY Tianjin which he was named as the custodian based on the Seal Custodian List dated 9 July 2014.

1.11.22 In the Maxwellisation process of Mr Gao Yu Lin, he mentioned that due to Mr Liu Qing Zeng's control of the Group's affairs, he was unable to duly discharge his duties as the Executive Director and Chief Operating Officer. In this regard, he has no knowledge on the discrepancies in the bank balances of the PRC Subsidiaries, the existence of undisclosed bank accounts of the PRC Subsidiaries and the control and usage of the seals.

1.11.23 The Company Records maintained in Singapore are currently stored in a rented warehouse. We suggest that the current access to the Company Records should continue to be authorised by the Independent Working Committee till its dissolution.

1.11.24 We also suggest that during this interim period (from the date of this report till the dissolution of the Independent Working Committee), the Group should continue to ensure any appointment of the custodians of the company seals should be subject to a due diligence check and duly approved by the Independent Working Committee. No individual should be holding on to more than one seal of the same entity and it cannot be transferred to other person without the approval of the Independent Working Committee. The approval by the Independent Working Committee should be obtained before the application of seals on any documents.

1.11.25 We would like to repeat that as stated at paragraph 1.11.8 above, despite attempts to do so, we were unable to contact certain key personnel of the Group for the purposes of preparing this report. Similarly, we were also unable to obtain responses from these key personnel, if any, in relation to the findings of this report, prior to its publication. If any person wishes to respond to the findings of this report, they should contact our Mr Neo Keng Jin, Partner of Moore Stephens at 6221 3771 or neo-kj@moorestephens.com.sg.

Yours faithfully

Moore Stephens LLP

Moore Stephens LLP
18 May 2020