

# **SPECIAL AUDITOR'S REPORT TO SINGAPORE EXCHANGE REGULATION PTE LTD AND THE AUDIT COMMITTEE ON CAMSING HEALTHCARE LIMITED**

**In Connection with Notice of Compliance Dated 29 March 2019 from  
Singapore Exchange Regulation Pte Ltd**

**1 September 2020**

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**Business Advisors to Growing Businesses**

## SPECIAL AUDITOR'S REPORT ON CAMSING HEALTHCARE LIMITED EXECUTIVE SUMMARY

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### GLOSSARY TERMS AND ABBREVIATIONS

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

<b>Term</b>	<b>Definition</b>
AC	Audit Committee
BOC	Bank of China Ltd
CCG	Code of Corporate Governance (2 May 2012)
CEO	Chief Executive Officer
China / PRC	The People's Republic of China
Companies Act	Companies Act, Cap 50
COO	Chief Operating Officer
Former IDs	Lau Chin Hock Kenneth Raphael, Ong Wei Jin, and Maurice Tan Huck Liang
FRS	Singapore Financial Reporting Standards
FY	Financial year / period ended 31 January
GST	Goods and Services Tax
HK / Hong Kong	Hong Kong SAR
HKD	Hong Kong dollars
ID	Independent director
IPT	Interested person transactions
Maybank	Malayan Banking Berhad
RMB	Chinese renminbi
Report	This report dated 1 September 2020
RSM	RSM Corporate Advisory Pte Ltd
RPT	Related-party transactions
Rulebook / Listing Rules	SGX Mainboard listing rules
S\$ / SGD	Singapore dollars
SGX RegCo	Singapore Exchange Regulation Pte Ltd
SGX	Singapore Exchange Securities Trading Limited

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Term	Definition
UOB	United Overseas Bank Limited Co.
US\$ / USD	United States dollars
Westpac	Westpac Banking Corporation
YC Chee	Chee Yoh Chuang, Executive Director of RSM

### CHL Group and Parent Companies

Camsing Fuzhou	Camsing Healthcare (Fuzhou) Medical Instrument Co., Ltd 承兴健康(福州)医疗器械有限公司
Camsing M'sia	Camsing Healthcare Sdn Bhd
CEH	Creative Elite Holdings Ltd
CHL / Company	Camsing Healthcare Limited (f.k.a Jacks International Limited up to 28-Mar-16)
Group	CHL and subsidiaries
JIL	Jacks International Limited (former name of CHL up to 28-Mar-16)
Jacks Overseas	Jacks Overseas Limited
Johan Holdings	Johan Holdings Berhad
Nature's Farm	Nature's Farm Pte Ltd
NF Shanghai	Nature's Farm (Shanghai) Co., Ltd
Nutra-Source	Nutra-Source Pte Ltd
William Jacks	William Jacks & Company (Singapore) Pte Ltd
Wismer Automation	Wismer Automation (Singapore) Pte Ltd
WJ Australia	William Jacks (Australia) Pty Ltd

### Other Corporate Entities

Beijing Zhongxin	Beijing Zhongxin Baokang Science & Trade Co., Ltd 北京中兴保康科贸有限公司
Camsing International	Camsing International Holding Limited 承興國際控股有限公司
Camsing International Group	Camsing International and its subsidiaries
Camsing Yifang	Camsing Yifang Medical Instrument (Suzhou) Co., Ltd 承兴益方医疗器械（苏州）有限公司
Camsing Global	承兴国际

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Term	Definition
	Camsing Global is a loosely termed group of companies founded by Lo Ching, which includes the three listed companies, Camsing International, Boxin Holdings, and CHL.
Caring Global	Caring Global Health Management (Beijing) Co., Ltd 康仪环球健康管理(北京)有限公司 (f.k.a 北京高博明科贸有限公司)
Deloitte	Deloitte & Touche LLP
Fuzhou Zhongxin	Fuzhou Zhongxin Baokang Trading Co., Ltd 福州中兴保康贸易有限公司
Global Biotech	Global Biotech Medical Inc., Limited 香港高博明有限公司
I-Nitra	I-Nitra Consulting Limited 南望顧問有限公司 (f.k.a Million View Industries Limited 萬宏實業有限公司)
Boxin Holdings	Jiangsu Boxin Investing & Holdings Co., Ltd 江苏博信投资控股股份有限公司 (f.k.a Guandong Boxin Investing & Holdings Co., Ltd 广东博信投资控股股份有限公司)
Noah	Noah Holdings Ltd
Noble Circle	Noble Circle Investments Limited
Prolife	Prolife Foods Ltd
Shanghai Mellowines	Shanghai Mellowines Industrial Development Co. Ltd
Somelive	Somelive International Limited 尚裏英國際有限公司

### Individuals

#### (i) Current Employees of the Group

Chen Yuan	Director of Nature's Farm
Hua Min <sup>1</sup>	Hua Min (华民), CEO of Nature's Farm
Huang Wenjin	Huang Wenjin (黄文进), vice chairman and general manager of Camsing Fuzhou
Jane Zhao	Senior purchasing executive of Nature's Farm

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<sup>1</sup> The Group announced on 30 October 2019 that all administrative and executive duties and powers of Hua Min as CEO of the Group's subsidiary, Nature's Farm, and its related subsidiaries, would be suspended with immediate effect until further notice.

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Term	Definition
Jennifer Wang <sup>2</sup>	Wang Yu (王玉), Jennifer, COO of Nature's Farm
Lee Ren Kiat <sup>3</sup>	Finance & admin manager of Nature's Farm
Liu Hui	Liu Hui (刘晖), executive director of CHL
Lo Ching	Lo Ching (罗静), executive chairman of CHL
Xu Huaxiu	Director of WJ Australia
Wang Jianpeng	Wang Jianpeng (王剑鹏), operations director of Camsing Fuzhou

### **(ii) Former Employees of the Group**

Albert To	Albert To Seah Chain, former finance & admin Manager of Nature's Farm
Chang Chor Hwa	Former COO of Nature's Farm
Datin Tan	Puan Sri Datin Tan Swee Bee, former non-independent and non-executive director of JIL
Datok Tan	Tan Sri Dato' Tan Kay Hock, former chairman / non-independent and non-executive Director of JIL
James Koh	James Koh Chuan Lim, former non-independent and non-executive director of JIL
Jaginder	Jaginder Singh Pasricha, former director of WJ Australia
Kenneth Lau	Lau Chin Hock Kenneth Raphael, former independent director of CHL
Ma Lin	Former director of Nature's Farm and William Jacks
Maurice Tan	Maurice Tan Huck Liang, former independent director of CHL
Ng Yew Soon	Former director of WJ Australia
Ong Wei Jin	Former independent director of CHL
Patricia Tien	Patricia Tien Seok Wah, former general manager of Nature's Farm
Peter Tam	Peter Tam Kui Pui, former company secretary of JIL
Phoon Kong Foo	Former finance & admin Manager of Nature's Farm

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<sup>2</sup> According to the termination letter addressed to Jennifer Wang, her role as COO of Nature's Farm was terminated effectively on 14 August 2019. In addition, she had also resigned as director of Nature's Farm with effect from 15 November 2019.

<sup>3</sup> The Group announced on 11 November 2019 that Lee Ren Kiat had resigned as finance and admin manager of Nature's Farm.

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Term	Definition
Stephen Lim	Lim Say Kian, Stephen, former CEO of CHL
Simon Low	Simon Low Kean Jin, former regional director of William Jacks, Nature's Farm, and Nutra-Source
Tracey Ang	Tracey Ang Hwee Sing, former finance & admin Manager of Nature's Farm
Zhong Wen Qing	Former CEO of JIL

### **(iii) Others**

Han Bicheng	Han Bicheng (韩璧丞), CEO of Brainco Inc.
Jasmine Jin	Purchasing manager of Global Biotech
Jiang Shao Yang	Jiang Shao Yang(姜绍阳), CFO of Boxin Holding
Jia Lian Feng	Jia Lian Feng (贾连锋), husband of Jennifer Wang, supervisor and shareholder of Caring Global
Leung Yiu Cho	Leung Yiu Cho (a.k.a. Joe Leong), sole director and shareholder of I-Nitra
Li Bing	Li Bing (李兵), executive director and shareholder of Caring Global
Li Lizhen	Li Lizhen (李麗珍), Sole director and shareholder of Global Biotech
Monica	Monica, Yu Lu Yao (于璐瑶), business supervisor of Caring Global
Siong Teck Lee	Authorised signatory of WJ Australia's Westpac account
Teh Yong Fah	Group Secretary of Johan Holdings
Zhang Li	Zhang Li (张利), employee of Caring Global and supervisor of Camsing Yifang
Zhang Meng	Director of market development of Caring Global

## **1 EXECUTIVE SUMMARY**

### **1.1 Introduction**

1.1.1 Camsing Healthcare Limited ("**CHL**" or the "**Company**") formally known as Jacks International Limited, was incorporated in Singapore on 19 December 1979 and is listed on the Mainboard of the Singapore Exchange Securities Trading Limited ("**SGX**"). The principal activities of the Company, together with its subsidiaries (collectively, the "**Group**") are the distribution and retailing of health supplements and foods in Singapore and China. Nature's Farm Pte Ltd ("**Nature's Farm**") is the Company's operating subsidiary.

1.1.2 The Group's executive chairman and controlling shareholder, Lo Ching, was appointed on 19 November 2015 and has deemed interest in 83.36% of the shares of the Company. She was also the controlling shareholder of Camsing International Holding Limited ("**Camsing International**") (listed in Hong Kong)<sup>4</sup> and Jiangsu Boxin Investing & Holdings Co., Ltd ("**Boxin Holdings**") (listed in Shanghai).

1.1.3 In March 2019, the Company's auditors, Deloitte, raised concerns over various audit matters (the "**Audit Matters**") that were highlighted to the Company during the course of the audit for the financial year ended 31 January ("**FY**") 2019. The concerns included:-

- a. Whether the parties in certain distribution agreements and consignment agreements are related parties, and whether the Group retained the risks and rewards embodied in the products that were sold under the distribution agreements and were later returned as consignment stocks;
- b. Whether the parties involved in a purchase agreement are related parties;
- c. Uncertainty over the recoverability of licence fee income in FY2018, and the reversal of the licence fee income in FY2019; and

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<sup>4</sup> According to the interim report of Camsing International for the six months ended 31 December 2018, Lo Ching had deemed interest in 64.87% of its shares. On 4 September 2019, Camsing International announced that Lo Ching's interest in its shares had been reduced to 28.1% as at 19 July 2019.

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- d. Uncertainty over whether the Group is able to continue as a going concern given that bank covenants have been breached.
- 1.1.4 There were also concerns as to whether a subsidiary, Camsing Healthcare (Fuzhou) Medical Instrument Co., Ltd ("**Camsing Fuzhou**") had purchased goods from and / or made loans to related parties.
- 1.1.5 On 20 March 2019, shortly after Deloitte raised the audit matters, the three independent directors ("**IDs**") of the Company resigned.
- 1.1.6 Pursuant to a Notice of Compliance dated 29 March 2019 issued by the Singapore Exchange Regulation Pte Ltd ("**SGX RegCo**") to the Company (the "**Notice**"), SGX RegCo required the Company to appoint a special auditor, whose findings would be reported directly to SGX RegCo and the Company's Audit Committee ("**AC**"). RSM Corporate Advisory Pte Ltd ("**RSM**") was appointed on 23 April 2019 as Special Auditor to investigate into the Audit Matters and other concerns raised by SGX RegCo and the Company's external auditors.

### Subsequent Events

- 1.1.7 On 20 June 2019, the chairman, Lo Ching, was taken into criminal custody in China. Shortly after, on 25 June 2019, Jiang Shao Yang<sup>5</sup> was also taken into criminal custody. This was followed by allegations of fraud surfaced at Camsing International. There was no indication that the Group was involved in these allegations. We understand from the management that Lo Ching remains in custody as at the date of our report.
- 1.1.8 On 19 August 2019, Lo Ching was suspended as the chairman and executive of the Group until further notice.

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<sup>5</sup> Jiang Shao Yang was the sole bank signatory of CHL's bank account with MBB, and known to be the CFO of Camsing Global and / or Boxin Holding. On 18 July 2019, Boxin Holdings announced that Jiang Shao Yang resigned as a board member, finance controller, and audit committee member, citing personal reasons.



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1.1.9 On 30 August 2019, a subsidiary of the Company, William Jacks & Company (Singapore) Pte Ltd ("**Williams Jacks**"), received a letter of demand dated 27 August 2019 from United Overseas Bank Limited Co. ("**UOB**"), demanding the immediate repayment of the total outstanding sum of S\$2,205,341.77, together with further interest accruing from 23 August 2019, arising from facilities granted to Nature's Farm.

### Approach and Basis of Information

1.1.10 In carrying out our investigation, we have strictly maintained direct communication with SGX RegCo, as required by them, including providing a draft version of this Report to them before delivering the signed Report.

1.1.11 Our findings in this Report are based on documents and information from various sources, including those provided by the Group and publicly available information.

1.1.12 We have carried out interviews with the following individuals:-

S/N	Name	Designation	Period of appointment
1	Ong Wei Jin	Former ID	19-Nov-15 to 20-Mar-19
2	Kenneth Lau	Former ID	19-Nov-15 to 20-Mar-19
3	Maurice Tan	Former ID	19-Nov-15 to 20-Mar-19
4	Jennifer Wang <sup>6</sup>	Director / COO of Nature's Farm	10-Apr-17 / 8-May-17 to 15-Nov-19
5	Hua Min <sup>7</sup>	CEO of Nature's Farm	1-Jun-18 to present
6	Liu Hui	CHL director	19-Nov-15 to present

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<sup>6</sup> According to a letter addressed to Jennifer Wang, her role as COO of Nature's Farm was terminated effectively on 14 August 2019. She subsequently resigned as director of Nature's Farm with effect from 15 November 2019.

<sup>7</sup> The Group announced on 30 October 2019 that all administrative and executive duties and powers of Hua Min as CEO of the Group's subsidiary, Nature's Farm, and its related subsidiaries, would be suspended with immediate effect until further notice.

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- 1.1.13 The former CEO, Stephen Lim, was contacted but declined to be interviewed. We also attempted to reach out to the former finance manager, Tracey Ang, for an interview but the Company advised that they were unable to provide her contact details to us and we were informed through the Company that she declined to be interviewed.
- 1.1.14 As mentioned in **paragraph 1.1.7** above, Lo Ching and Jiang Shao Yang were taken into criminal custody in China. We understand from the Company that both were still being held in custody at the date of our enquiry and could not be contacted for an interview.
- 1.1.15 In the course of our work, we have also made enquiries with the finance team, human resource executive, and senior purchasing executive based in Singapore, as well as the operations director of Camsing Fuzhou based in Fuzhou, China.

### Limitations and Restrictions

- 1.1.16 We have, where practicable, taken steps to obtain information that is complete. We have also relied on representations from the Group, including that of its Board members, that the information provided is accurate, full, and complete. We do not warrant, whether expressly or impliedly, the accuracy, veracity and / or completeness of such facts and information provided to us and relied upon in this Report.
- 1.1.17 In the course of our review, we have also conducted searches on companies and / or individuals using public databases that were available. We have not independently verified the completeness or accuracy of the information obtained as a result of these searches and are therefore unable to confirm the accuracy, completeness and reliability of the same.
- 1.1.18 No reliance should be placed by any third party on the Report for any purpose whatsoever. We accept no responsibility for the consequences of disclosure of this Report to any third party notwithstanding that we may have consented to such disclosure. This Report may contain price-sensitive information relating to the Company whose shares are listed on SGX. We hereby expressly disclaim and take

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no responsibility, directly or indirectly, for any and all liabilities of any nature whatsoever in the event that this Report is disclosed to any party / parties, whether directly, indirectly, intentionally or otherwise.

- 1.1.19 The scope of our work is different from that of a full scope audit or an audit under the Companies Act (Cap. 50) or in accordance with generally accepted auditing practices, and it does not constitute an audit. We report factual findings from our work. In this regard, we do not express an audit opinion in this Report.
- 1.1.20 For the avoidance of doubt, the statements, opinions and information contained in this Report are current as at the date of the Report, unless otherwise specified. We reserve the right (but we are not under any obligation whatsoever) to review, alter, supplement and / or amend the Report in the light of any additional information and / or matters made known to us and / or brought to our attention as a result of new developments and / or disclosures made known to us subsequent to the date of this Report.
- 1.1.21 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 Consignment Stocks Received by Nature's Farm in FY19**

- 1.2.1 In FY17 and FY18, Global Biotech Medical Inc., Limited ("**Global Biotech**") was the exclusive distributor of the "Nature's Farm" brand of health supplements in Hong Kong and China, and Nature's Farm's largest wholesale customer. The distribution agreement with Global Biotech was signed by Hua Min purportedly on behalf of Global Biotech and dated 1 February 2016, which was before its date of incorporation on 30 May 2016. Hua Min was appointed CEO of Nature's Farm in June 2018. Prior to that, it does not appear that he was employed by Global Biotech as it was not listed in his past working experience from 2006 to 2017. CHL stated in a letter to Deloitte dated 18 March 2019 that "*Hua Min was never an employee of Global Biotech. He was*

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*merely assisting Global Biotech in securing the distribution right of Nature's Farm products".* Hua Min also confirmed that he merely had business dealings with Global Biotech during his previous employment with a State-Owned Enterprise in China.

- 1.2.2 While the Company stated in the same letter dated 18 March 2019 to Deloitte that Global Biotech was not an interested person or related party in any transactions with Nature's Farm, and had no connection with the executive chairman of the group, Lo Ching, there was circumstantial evidence that suggested otherwise. Refer to **section 1.10** for more information.
- 1.2.3 In FY19, Nature's Farm entered into a consignment agreement with I-Nitra Consulting Limited ("**I-Nitra**"), under which about S\$4.35 million (calculated at the selling price to Global Biotech) of the stocks representing 46.5% of Nature's Farm's total sales of S\$9.36 million to Global Biotech in FY17 and FY18, were consigned to Nature's Farm. A commission of 60% on the gross consignment sales would be earned by Nature's Farm. Separately, in February 2020, Nature's Farm repurchased health supplements from Global Biotech at a cost of US\$34,671 (S\$47,432). These products were received by Nature's Farm in March 2020 and have expiry dates in October 2020 and January 2021. They were originally sold to Global Biotech in January 2018 for a sum of US\$935,784 (S\$1,225,877). We understand that Global Biotech offered to sell these products to Nature's Farm at a significant discount to offset its debt due to Nature's Farm. In total, the consigned goods from I-Nitra and repurchased products from Global Biotech represented 59.6% of Nature's Farm's total sales of S\$9.36 million to Global Biotech in FY17 and FY18.
- 1.2.4 We understand that I-Nitra was Global Biotech's distributor for its products in Hong Kong and China market. Nature's Farm agreed to the consignment arrangement with I-Nitra after I-Nitra had difficulty selling the products and approached Nature's Farm for help. According to Hua Min and Jennifer Wang, I-Nitra had obtained the consignment stocks from Global Biotech.
- 1.2.5 Key information found from our searches on Global Biotech and I-Nitra on 22 May 2019 is summarized below:-

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Description	Global Biotech	I-Nitra
Incorporation	30-May-2016 in Hong Kong	15-Jul-2014 in Hong Kong
Authorised capital	HKD 1,000,000	HKD 1
Name History	No changes noted.	Current name effective from 30-Jul-2015 f.k.a Million View Industries Limited (萬宏實業有限公司)
Shareholder	Li Lizhen (李麗珍) – 100%	Leung Yiu Cho – 100%
Director	Li Lizhen (李麗珍) (sole director)	Leung Yiu Cho
Registered office	Rm O, 15/F, International Ind Ctr, 2-8 kwei Tei St, Fotan, N.T.	Unit D, 16/F, Eton Building, 288 Des Voeux Road Central, Hong Kong

1.2.6 Based on our review of the relevant invoices and shipping documents, the products were being shipped to Global Biotech and subsequently returned to Nature's Farm by I-Nitra. We have traced the consignment stocks received from I-Nitra to the goods previously sold to Global Biotech by matching the expiry dates recorded in the packing lists of I-Nitra with those indicated in Nature's Farm's sales transaction listings relating to the consignment stocks, which show the item code and expiration date for each sale. The consigned products were subsequently sold by Nature's Farm to its retail and wholesale customers.

1.2.7 According to clause 1 of the consignment agreement, the consigned stocks "*remain the sole property of the consignor until sold.*" As such, Nature's Farm was accountable to I-Nitra for the consigned stocks. However, the conduct of Nature's Farm on the consigned stocks departed from the usual consignor-consignee relationship. I-Nitra was neither consulted nor kept apprised of changes in the consignment stock quantities arising from stock disposals and other adjustments. According to the Group, this was premised on their understanding that the consignment stocks have no value to I-Nitra other than what can be realised by Nature's Farm from the sales of the consignment stocks.

1.2.8 We did not find conclusive evidence of round-tripping, which occurs when, for example, an item is sold to another party to artificially inflate sales and routed back generating no or little economic benefit. Based on our review, the sales to Global Biotech which were collected in full produced a gross profit of S\$3.57 million. The

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risks and rewards embodied in the products were not retained by the Group when they were sold to Global Biotech in FY17 and FY18.

- 1.2.9 With regard to the accounting treatment for the consignment sales, we note that initially Nature's Farm wrongly recorded these transactions as sales of goods in FY19, based on the gross sale value (excluding GST) which would have distorted the revenue. Given the terms of the consignment agreement, Nature's Farm should instead record commission income based on 60% of the gross sale value. While adjusting journal entries were posted by Nature's Farm subsequently, we are not certain if the adjustments to cost of sales were complete and / or accurate due to the large volume of transactions involved.

### 1.3 Distribution of Honey Products

- 1.3.1 Nature's Farm entered into exclusive distribution agreements with Caring Global Health Management (Beijing) Co., Ltd ("**Caring Global**"), for the sale of "Haddrell's of Cambridge" brand of honey products in China, and with Global Biotech, for the sale of "Nature's Farm" brand of health supplements in Hong Kong and China. However, Nature's Farm sold both health supplements and honey products to Global Biotech in FY17 and FY18. It sold honey products to Caring Global only once in FY17.

#### Purchase of Honey in FY2019, Previously Sold to Global Biotech in FY2018

- 1.3.2 Between June 2017 and August 2017, Nature's Farm purchased honey products from Prolife Foods Limited ("**Prolife**"). In January 2018, Nature's Farm sold these honey products to Global Biotech. Thereafter, in or around July 2018, Nature's Farm purchased honey products from I-Nitra, which were formerly sold to Global Biotech. These transactions are summarized below:-

Date	Description	S\$	Original Currency
Jun / Aug-17	Purchase from Prolife	242,485.03	NZD238,724.64
Jan-18	Sale to Global Biotech	598,995.20	US\$457,248.24
Jul-18	Purchase from I-Nitra		

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<b>Date</b>	<b>Description</b>	<b>S\$</b>	<b>Original Currency</b>
	Based on selling price to Nature's Farm	228,256.09	US\$167,835.36
	(Based on original selling price to Global Biotech by Nature's Farm)	543,006.84	US\$414,509.04

The honey products purchased from I-Nitra represent 90.7% (S\$543,006.84 over S\$598,995.20) of the honey products that were sold to Global Biotech.

1.3.3 As noted in the table at **paragraph 1.3.2**, the purchase price of the honey products from I-Nitra represents 42.0% of the sale price of the same honey products sold to Global Biotech. The unit purchase price of these items from I-Nitra was slightly (5.9%) lower than the purchase cost of the same items and quantities from Prolife in June 2017 and August 2017.

1.3.4 Although the same honey products were re-purchased, we did not find conclusive evidence of round-tripping. The sales to Global Biotech were collected in full.

Sale of Honey Products in FY2017 with Marginal Profit

1.3.5 In September 2016, Nature's Farm sold Haddrell's honey products with a sale value of USD283,707.12 (S\$384,990.56) to a customer recorded in its books as "Global Biotech Medical (CN)", which we believe it refers to the company now known as Caring Global<sup>8</sup>. The items were purchased from Prolife at a cost of NZD372,654.24 (S\$370,306.52) through William Jacks, and shipped directly to the customer.

1.3.6 The gross profit margin ("**GPM**") for the Group in respect of this transaction was only 3.8%, whereas we note typically the Group had a GPM of 46.4% to 46.6% for sales of honey products based on transactions in FY2018 and FY2019.

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<sup>8</sup> At the time of the sale in September 2016, Caring Global was using its former name, 北京高博明科贸有限公司, which is similar to the name of Global Biotech in Chinese (i.e. 香港高博明有限公司). The delivery address was the business address of Caring Global at the time.

- 1.3.7 While it is not clear why the honey products were sold to Caring Global at low prices, we note that this was a one-off transaction.

#### **1.4 Purchase of Brainco Devices**

- 1.4.1 Brainco Inc. ("**Brainco**") is an American technology company founded in 2015, by a team of scientists and engineers, and led by its CEO, Han Bicheng. Brainco's main product is a wearable headband (the "**Brainco Device**") that helps users improve their focus and concentration through neurofeedback training.
- 1.4.2 The Brainco Device was a new product that is distinct from the health food and supplements that have been traditionally sold by Nature's Farm. Nature's Farm entered into an undated agreement to purchase 5,000 units of Brainco Devices from Global Biotech with a total purchase price of HKD15.6 million (S\$2.8 million). Hua Min signed the agreement on behalf of Nature's Farm in his capacity as the CEO. No prior board approval was obtained despite the substantial sum involved. In this regard, we note that in practice, the Group does not appear to have clear policies and procedures in place in relation to the approval of significant transactions.
- 1.4.3 Hua Min claimed that he had already reported to the former independent directors ("**Former IDs**") on the direction of future business development and plans when he took office, and that the decision to sell this product had been discussed and approved by the "Group" beforehand, whereas he only facilitated the process subsequently by providing the requisite approvals. However, there were no documents evidencing this. There was also no evidence of any evaluation or feasibility study carried out in relation to the new product. According to the Former IDs, they were not informed of the purchase and only learned of it during the exit interview of the former finance manager, Albert To Seah Chain ("**Albert To**"), who joined the Group on 13 July 2018 and resigned on 10 December 2018.



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- 1.4.4 Full payment of the contract sum was made to Global Biotech on 15 October 2018, although the goods had not been received. 2,200 units were later received in January 2019. When the Former IDs learnt of the agreement, they raised their concerns to the management, which led to the terms being revised via a supplemental agreement dated 8 January 2019. The supplemental agreement was also signed by Hua Min.
- 1.4.5 The revisions include the downward revision of the unit cost from HKD3,120 to HKD2,400, and an increase in the quantity ordered, from 5,000 pieces to 6,500 pieces. Payment terms were also revised such that a non-refundable 10% deposit was to be paid instead of the full contract sum. Further, Nature's Farm could request to return any Brainco Devices that remained unsold after one year for a refund.
- 1.4.6 On 28 March 2019, Nature's Farm received a refund of 90% of the total contract sum (i.e. HKD14.04 million or S\$2.40 million) from Global Biotech.
- 1.4.7 At the time of our searches on 6 August 2019, Brainco Devices were listed on online shopping platforms such as JD.com and Tmall.com with a retail price of RMB 3,499 (S\$703). If the same pricing is adopted in Singapore, Nature's Farm would expect to make an estimated gross profit of S\$291 (41.4% GPM) for every unit sold, based on the lower revised price offered by Global Biotech.
- 1.4.8 When we made an enquiry on 30 March 2020, none of the 2,200 Brainco Devices had been sold. We were informed that the management had not formulated any sales or marketing plan for this product. Further, the mobile phone application to be used in conjunction with the Brainco Devices had not been customized for the Singapore market, which would severely limit its functionality.
- 1.4.9 We note that the risks and rewards attached to the Brainco Devices have not been transferred to Nature's Farm as the goods can be returned if they remain unsold after 1 year. In the event that the goods are returned to Global Biotech, however, the 10% would be forfeited unless parties agree to revise the terms of the supplemental agreement. Had the supplemental agreement not been effected, Nature's Farm would have to bear the risks on the full price of the goods, which could potentially lead to a loss of up to HKD15.6 million if no value can be realized from the Brainco devices.

**1.5 License Fees**

- 1.5.1 Pursuant to the distribution agreements with Nature's Farm, Global Biotech and Caring Global agreed to pay the fees stipulated in the agreements (i.e. the license fees) for the exclusive right to sell Nature's Farm's products. Nature's Farm also granted:-
- a. Global Biotech an exclusive license to use the trademark, "Nature's Farm" in Hong Kong and China; and
  - b. Caring Global an exclusive license to use the trademark "Haddrell's of Cambridge" in China.
- 1.5.2 As the "Haddrell's of Cambridge" trademark is registered and owned by Prolife Foods Ltd in New Zealand, it is not certain if Nature's Farm has the authority or permission to grant a sublicense to Caring Global. The management should seek the advice of legal professionals in this regard.
- 1.5.3 Leaving aside whether Nature's Farm is entitled to sub-license the trademark of "Haddrell's of Cambridge", the license fee income from Global Biotech and Caring Global in FY2017 (S\$852,000), and FY2018 (S\$414,000) were accrued in accordance with the terms of the relevant distribution agreements and recognized in accordance with the applicable accounting standard.
- 1.5.4 Whilst the recorded license fee income of S\$852,000 in FY17 has been collected in full, we understand that recoverability of the outstanding FY18 license fee of S\$368,759 (out of S\$414,000) is doubtful and a full provision would be made in FY19., As mentioned at **paragraph 1.2.3**, in February 2020, Nature's Farm repurchased health supplements from Global Biotech at a cost of US\$34,671 (S\$47,432). These products were originally sold to Global Biotech in January 2018 for a sum of US\$935,784 (S\$1,225,877). We understand that Global Biotech offered to sell these products to Nature's Farm at a significant discount to offset its debt due to Nature's Farm.

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- 1.5.5 In FY19, license fee income from Global Biotech and Caring Global was accrued on a monthly basis before being reversed in January 2019<sup>9</sup>. Meanwhile, sales to these companies stopped completely after FY18. According to the CEO, Hua Min, sales of Nature's Farm's products in Hong Kong and China were poor. Global Biotech and Caring Global were not charged license fees in FY19 as he felt doing so would strain the Group's business relationship with them, and there was a possibility they would refuse to pay.
- 1.5.6 As Caring Global failed to meet minimum purchase requirements, we note that the distribution agreement was not automatically renewed for FY19. Accordingly, no license fee would be payable by Caring Global for FY19<sup>10</sup>.
- 1.5.7 With regard to Global Biotech, we note that the distribution agreement would have been automatically renewed for 2 years (i.e. FY18 and FY19) after the minimum purchase requirement for FY17 was met. The license fee income of USD250,000 (S\$327,500) in FY19 should therefore be recognized by Nature's Farm according to the terms of the distribution agreement. Given that recoverability of the license fee is doubtful, a full provision should also be recorded.

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<sup>9</sup> License fee income amounting to S\$360,250 was accrued for first 11 months in FY2019 before it was reversed in January 2019. Due to the reversal, no license fee income was recorded in the financial statements of Nature's Farm for FY2019.

<sup>10</sup> Based on Nature's Farm's accounting records, license fee income from Caring Global was accrued monthly from February 2018 to December 2018, before being reversed in January 2019. During the first 6 months of FY2019 from 1 February 2018 to 31 July 2018, the accrued license fee income from Caring Global of S\$32,750 was included in the Group's announcement of financial results for the half year ended 31 July 2018.

**1.6 Purchases by Camsing Fuzhou from a Related Party**

- 1.6.1 Camsing Healthcare (Fuzhou) Medical Instrument Co., Ltd ("**Camsing Fuzhou**") was incorporated on 4 December 2017 in Fuzhou, China. Pursuant to a joint venture agreement dated 30 November 2017, CHL holds 51% of the equity interest in Camsing Fuzhou through Nature's Farm. The remaining 49% is held by a third-party joint venture partner, Fuzhou Zhongxin Baokang Trading Co., Ltd ("**Fuzhou Zhongxin**").
- 1.6.2 In FY19, Camsing Fuzhou purchased medical supplies worth RMB4.05 million from Beijing Zhongxin Baokang Science & Trade Co., Ltd ("**Beijing Zhongxin**"), which were then supplied to hospitals. The purchases from Beijing Zhongxin represented 92.2% of Camsing Fuzhou's total purchases for FY19.
- 1.6.3 Beijing Zhongxin was a related party as Huang Wenjin was the controlling shareholder of both Beijing Zhongxin and Fuzhou Zhongxin. Based on searches carried out in May 2019, he held 90% and 93.9% equity interests in Beijing Zhongxin and Fuzhou Zhongxin, respectively. He was also the general manager of Camsing Fuzhou until he was removed from his post by its board of directors in November 2018.
- 1.6.4 Camsing Fuzhou did not have any policies or processes in place for the selection and approval of new vendors, including a process to manage / address any actual or perceived conflict of interest.
- 1.6.5 According to the CEO, Hua Min, Beijing Zhongxin was recommended to him by Mr Wang Xue You, director of 陕西裕泽毅医疗科技有限公司 ("**Shanxi Yuze**"). No other vendors were considered at the time as Beijing Zhongxin held the exclusive rights to distribute these types of medical supplies.
- 1.6.6 There was a clear conflict of interest as Huang Wenjin, being the legal representative of Beijing Zhongxin, authorized the contracts on behalf of the vendor, and at the same time approved the contracts on behalf of Camsing Fuzhou. While Hua Min was the chairman of Camsing Fuzhou, he claimed to have little oversight of the purchase

contracts with Beijing Zhongxin, which further reduces any checks and balances that were in place.

1.6.7 Hua Min further stated that as the chairman, he performed a monitoring role on behalf of the shareholders. In principle, he respected the views of the general manager when it came to operational matters. He added that the agreements had also been reviewed by the risk management, operations and legal departments. He also claimed that the profit derived by Camsing Fuzhou from the sales of these medical supplies was higher than the industry average. However, no information or documents were provided to substantiate this.

1.6.8 As Huang Wenjin did not have any interest in or influence over CHL, nor was he a key management personnel of the Group, for the Group's reporting purposes, we are of the view that the purchases from Beijing Zhongxin in FY19 need not be regarded as related party transactions. In addition, as Huang Wenjin was neither a director, CEO or controlling shareholder of CHL, nor an associate of a director, CEO or controlling shareholder of CHL, purchases from Beijing Zhongxin would not be considered as IPTs.

1.6.9 Based on our review, we have not seen any evidence to suggest that the purchases made by Camsing Fuzhou from Beijing Zhongxin were not bona fide.

## **1.7 Loans by Camsing Fuzhou to Caring Global**

1.7.1 In December 2018 and January 2019, Camsing Fuzhou extended loans amounting to RMB500,000 to Caring Global, bearing interest at the rate of 12% per annum. In February and March 2019, there were further loans of RMB550,000 and RMB20,000 being lent out respectively.

1.7.2 Based on our searches, Hua Min was the legal representative of Camsing Yifang, a wholly-owned subsidiary of Caring Global, until 1 April 2019. Hua Min was likely to have significant influence over Caring Global due to his close association with the management / shareholders of Caring Global. However, we could not find conclusive direct evidence indicating that he had control or joint control over Caring Global or

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the Group. As such, Caring Global does not meet the definition of a related party as prescribed by FRS 24 by virtue of the connection between Hua Min and Caring Global.

1.7.3 Hua Min further claimed that he did not know much about the loans, and that as the chairman of Camsing Fuzhou, he respected the general manager's decisions regarding operational matters.

1.7.4 The outstanding loans amounted to RMB 318,779 as at 29 February 2020. The management expects to recover the sum in full.

### 1.8 Ability of the Group to Continue as a Going Concern

1.8.1 Nature's Farm and William Jacks breached the covenants of their banking facilities with UOB respectively in FY18 and FY19. The outstanding loans amounted to S\$3.4 million as at 31 January 2019:-

Subsidiary	Outstanding Loans as at FY19 (S\$'000)
Nature's Farm	2,200
William Jacks	1,200
Total	3,400

1.8.2 The terms of Nature's Farm's banking facilities were revised in March 2019 following negotiations with UOB, while those of William Jacks were still pending.

1.8.3 In August 2019, UOB recalled the banking facilities extended to Nature's Farm. Nature's Farm defaulted on the payment, and a letter of demand dated 27 August 2019 was sent to the corporate guarantor, Williams Jacks, demanding the immediate repayment of the total outstanding sum of S\$2,205,341.77, together with further interest.

1.8.4 Unless the Group is able to secure UOB's agreement to restructure the outstanding loan and / or procure fresh injection of funds, the ability of the Group to continue as a going concern may be doubtful.

## **1.9 Signatories of Bank Accounts**

- 1.9.1 The Group's records of authorized signatories of bank accounts were poorly maintained and contained incomplete and / or outdated information. We observed that neither the Group nor their corporate secretarial agent had a complete record of the board resolutions relating to the approval of bank signatories. Discrepancies were noted between the Group's records and those provided by the banks. Former employees remained as authorized signatories despite having left the Group. For two bank accounts held by Nature's Farm and Jacks Overseas Limited ("**Jacks Overseas**"), there were effectively no authorized signatories remaining as all were former employees.
- 1.9.2 We also noted that Jiang Shao Yang was ( and still is ) the sole authorized signatory of CHL's accounts with Maybank although he was neither an employee nor an officer of the Group<sup>11</sup>. Separately, we could not determine if one of the authorized signatories of a bank account held by William Jacks (Australia) Pty Ltd ("**WJ Australia**"), an individual by the name of "Siong Teck Lee" (or "Lee Siong Teck"), was a former employee as the Group could not provide any information on his identity.
- 1.9.3 The Group was unable to provide details of the authorized signatories (if any) of bank account(s) of Nature's Farm (Shanghai) Co., Ltd ("**NF Shanghai**"), which had a cash & bank balance of RMB2,476 as at 31 January 2019 based on its unaudited balance sheet. As at the date of our searches on 30 May 2019, the legal representative was the former CEO, Stephen Lim.
- 1.9.4 Whilst no unauthorized withdrawals by the resigned employees or unknown individuals were noted in the course of our review of CHL and its subsidiaries for the period from FY2017 to FY2019, we noted that on 15 October 2018, CHL made a payment of HKD15.6 million (S\$2.80 million) to Global Biotech via telegraphic transfer

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<sup>11</sup> Jiang Shao Yang was the sole bank signatory of CHL's bank account with Maybank, and known to be the CFO of Camsing Global and / or Boxin Holding. On 5 July 2019, Boxing Holdings announced that Lo Ching and Jiang Shao Yang were taken into criminal custody by the Yangpu Branch of the Shanghai Public Security Bureau in China on 20 June 2019 and 25 June 2019 respectively. On 18 July 2019, Boxin Holdings announced that Jiang Shao Yang resigned as a board member, finance controller, and audit committee member, citing personal reasons.

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in relation to the purchase of Brainco Devices. The payment was approved by Jiang Shao Yang, the CFO of Boxin Holdings, who was neither an employee nor an officer of the Group.

1.9.5 Immediate steps should be taken to regularise the bank account signatories.

### 1.10 Alleged Related Party Transactions (“RPTs”) / Interested Person Transactions (“IPTs”)

1.10.1 The parties involved in transactions with the Group and are suspected of being related to the Group, are as follows<sup>12</sup>:-

- a. Caring Global Health Management (Beijing) Co., Ltd (“**Caring Global**”);
- b. Global Biotech Medical Inc., Limited (“**Global Biotech**”); and
- c. I-Nitra Consulting Limited (“**I-Nitra**”).

1.10.2 While we could not find conclusive direct evidence that the transactions with Global Biotech, Caring Global, and I-Nitra constituted interested persons and / or related parties transactions, the following circumstantial evidence suggests that:-

- a. Global Biotech and Caring Global were connected;
- b. Hua Min and Caring Global were connected;
- c. Caring Global was in turn connected to Camsing International, which was under the control of Lo Ching; and
- d. Jennifer Wang and Caring Global were connected.

Summary of Circumstantial Evidence
<p><b><u>Relating to the Connection Between Global Biotech and Caring Global</u></b></p> <ol style="list-style-type: none"><li>a. On 18 March 2019, the Company informed Deloitte that it was agreed in February 2016 that Global Biotech would be Nature’s Farm’s distributor in Hong Kong, notwithstanding that Global Biotech was not incorporated until May 2016;</li></ol>

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<sup>12</sup> Beijing Zhongxin is not included here as it has been identified as a related party to Camsing Fuzhou. Transactions with Beijing Zhongxin are addressed at **section 1.6** above.



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<b>Summary of Circumstantial Evidence</b>
<ul style="list-style-type: none"><li>b. Li Bing, Caring Global's major shareholder, was allegedly involved in the negotiations leading to the distribution agreement with Global Biotech, whereas Li Lizhen, the registered shareholder and director of Global Biotech does not appear to have been involved;</li><li>c. Li Bing allegedly had custody of Global Biotech's company stamp and had affixed the stamp on the distribution agreement;</li><li>d. Hua Min was requested by Li Bing to sign the distribution agreement on Global Biotech's behalf;</li><li>e. Caring Global's former name in Chinese closely resembles Global Biotech's name in Chinese;</li><li>f. the Group liaised with Caring Global's employees for matters relating to Global Biotech;</li><li>g. Caring Global's website:-<ul style="list-style-type: none"><li>i. Claimed they were a distributor of NF's brand of products although the distributor was Global Biotech;</li><li>ii. Had links to NF supplements that would have been sold by Nature's Farm to Global Biotech instead of Caring Global;</li><li>iii. The links included an online store on Tmall.com, which was operated by Global Biotech;</li><li>iv. Claimed they were an exclusive agent for Brainco Devices although according to Hua Min and Liu Hui, Global Biotech was the exclusive distributor for Asia Pacific.</li></ul></li></ul>
<p><b><u>Relating to the Connection Between Caring Global and the Group</u></b></p> <ul style="list-style-type: none"><li>a. Hua Min, Nature's Farm CEO and a key management personnel of the Group, has an email account with Caring Global, <a href="mailto:huamin@caringglobal.cn">huamin@caringglobal.cn</a>;</li><li>b. Hua Min was the legal representative of Camsing Yifang (a 100% owned subsidiary of Caring Global) until 1-Apr-19;</li><li>c. The husband of Jennifer Wang, Nature's Farm's COO and KMP of the Group, is listed as Caring Global's 30% shareholder and supervisor (監事).</li></ul>
<p><b><u>Relating to the Connection Between Caring Global and Lo Ching</u></b></p> <ul style="list-style-type: none"><li>a. Credit report of Caring Global for 2016 to 2018 obtained from the National Enterprise Credit Information Publicity System stated that the company's email address was <a href="mailto:lijingjing@camsing.com">lijingjing@camsing.com</a>, which has the same domain name as Camsing International. Lo Ching was the controlling shareholder of Camsing</li></ul>

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Summary of Circumstantial Evidence
International. Email addresses used by Lo Ching, Liu Hui, and Chen Yuan also have the same domain name.

- 1.10.3 Jennifer Wang objected strongly against the suggestion or indication of any connection between her and Caring Global, and indicated that there was insufficient evidence for such a conclusion. She also denied any knowledge of her husband being a shareholder and supervisor of Caring Global, and confirmed that she and her husband did not own any equity interests in any company. We are unable to confirm with certainty that Jennifer's husband was indeed a shareholder of Caring Global.
- 1.10.4 Hua Min indicated that he had no knowledge on the connection between Global Biotech, Caring Global and the Group. He added that he had little knowledge on Caring Global and was not informed by Jennifer Wang that her husband was a shareholder of Caring Global.

### Profitability of Transactions Between the Group and Global Biotech / Caring Global

- 1.10.5 The gross profit from sales to Global Biotech was generally higher than those of other wholesales customers and in some cases, retail customers. While the gross profit margin of 3.8% (to the Group) on the sale of honey products to Caring Global in FY17 was low, it was a one-off transaction and the transaction value was only S\$384,991. In comparison, the total sales to Global Biotech in FY17 and FY18 amounted to S\$9.36 million. In aggregate, we note that the Group profited from the sales to Global Biotech and Caring Global.

## 1.11 Internal Control Lapses and Other Potential Breaches

- 1.11.1 In the course of our investigation, we noted the following lapses / potential breaches:-

Description
<u>Non-compliance with Listing Rule 719</u>

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Description
<p>Rule 719 - An issuer should have adequate and effective systems of internal controls (including financial, operational, compliance and information technology controls) and risk management systems</p>
<p>Internal Control Lapses - Nature's Farm</p> <ul style="list-style-type: none"><li>• No evaluation and selection process applied to the appointment of Global Biotech and Caring Global as exclusive distributors.</li><li>• No process in place to evaluate and approve new wholesale customers, including Global Biotech and Caring Global. Customer information was not properly recorded and maintained. A customer was recorded in Nature's Farm's books as "Global Biotech Medical (CN)", which was confused with another customer recorded as "Global Biotech Medical (HK)". In both cases, the records did not reflect the actual full names of the companies.</li><li>• No policies and procedures relating to the approval of significant transactions, such as the purchase of Brainco Devices from Global Biotech (also non-compliant with guideline 1.5 of the CCG)</li><li>• Internal reviews / approvals of agreement not documented. In FY2020, Nature's Farm entered into an agreement with Somelive International Limited for the provision of brand strategy and media advertising services, allegedly with the approval of CHL's executive directors. However, the approvals were not documented.</li></ul>
<p>Internal Control Lapses - Camsing Fuzhou</p> <ul style="list-style-type: none"><li>• No formal process in place to evaluate and select new vendors such as Beijing Zhongxin.</li><li>• Internal reviews / approvals of purchase contracts with Beijing Zhongxin are not documented. No policy to address conflicts of interest.</li><li>• Internal reviews / approvals of payments made to Beijing Zhongxin for the purchase of goods were not documented. Only one bank signatory.</li><li>• Internal reviews / approvals of agreements for loans made to Caring Global were not documented</li></ul>
<p>Internal Control Lapses - CHL Group</p> <ul style="list-style-type: none"><li>• Incomplete / outdated records of authorized bank signatories for CHL's Maybank accounts and Camsing Fuzhou's BOC accounts</li><li>• Only one bank signatory for CHL's Maybank accounts and Camsing Fuzhou's BOC accounts.</li><li>• Jiang Shao Yang was an authorised bank signatory of CHL even though he was neither an employee nor an officer of the Group</li><li>• Resigned employees not removed from list of authorized bank signatories</li><li>• Insufficient controls / process in place to identify RPTs and IPTs</li></ul>

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Description
Potential Non-compliance with Companies Act Provisions – Nature's Farm <sup>13</sup> <ul style="list-style-type: none"><li>• Failure by a director to declare / give notice of interest in transactions with Nature's Farm, pursuant to S156 of the Companies Act (subject to whether Jennifer Wang's husband was indeed the shareholder of Caring Global)</li></ul>
Non-compliance with FRS 24 and Section 201(2) & 201(5) of Companies Act <sup>14</sup> <ul style="list-style-type: none"><li>• FRS 24 – disclosure of related party transactions</li><li>• Section 201(2) &amp; 201(5) – compliance of financial statements with the requirements of the Accounting Standards</li></ul>

1.11.2 No unusual payments were noted in the course of our review of CHL and its subsidiaries for the period from FY2017 to FY2019 except as indicated in this Report.

1.11.3 Pursuant to Rule 719 of the Listing Rules, the Company "should have adequate and effective systems of internal controls (including financial, operational, compliance and information technology controls) and risk management systems." Principle 11 of the CCG states that the board is responsible for the governance of risk and should ensure that the management maintains a sound system of risk management and internal controls to safeguard shareholders' interests and the company's assets. Guideline 12.4 of the CCG states that the duties of the Audit Committee ("**AC**") include reviewing and reporting to the board the adequacy and effectiveness of the company's internal controls, and also reviewing the effectiveness of the company's internal audit function.

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<sup>13</sup> As a director of Nature's Farm, Jennifer Wang is required to declare her interest in Caring Global, or send a written notice to Nature's Farm with details on her interest in Nature's Farm's transactions with Caring Global. During the period, from the date of her appointment as a director on 10-Apr-2017 to 31-Jan-19, license fee income of S\$69,000 was billed to Caring Global. We note, however, that she denied any knowledge of her husband being a shareholder and supervisor of Caring Global, and confirmed that she and her husband do not own any equity interests in any company.

<sup>14</sup> We noted transactions with related parties in FY17 and FY18 that were not disclosed in the Group's annual reports. In FY18, Nature's Farm paid for travelling expenses amounting to S\$14,802 on behalf of Camsing Global, which were recovered in full in the same FY. According to Camsing Global's website, Lo Ching is their founder, CEO, and chairman. In FY17, Nature's Farm paid for expenses amounting to S\$23,289 on behalf of Noble Circle, which were recovered in full in the same FY. Lo Ching, the executive chairman and controlling shareholder of CHL, is also a shareholder of Noble Circle.

1.11.4 The Former IDs had assessed the internal audit function as being adequate and effective. They indicated that in respect of the internal control lapses, the responsibilities lie with the management (and not the Former IDs). Nevertheless, in view of the numerous internal control lapses and compliance issues that surfaced during our review, we recommend that the board and AC re-assess the adequacy and effectiveness of the internal audit function, and consider the need to entrust the internal audit function to external professionals.