

Singapore Exchange Securities Trading Limited  
Listings Disciplinary Proceeding No: SGX-LDC-2022-004

**IN THE MATTER OF A DISCIPLINARY PROCEEDING  
UNDER THE SGX-ST LISTING MANUAL CATALIST RULES**

**BETWEEN**

**SINGAPORE EXCHANGE SECURITIES TRADING LIMITED**

**(the “Exchange”)**

**AND**

**Y VENTURES GROUP LTD.  
LOW YIK JIN  
LOW YIK SEN  
EDWARD TIONG YUNG SUH  
WONG SOK MEI  
NG TIONG GEE  
TWOON WAI MUN BENJAMIN  
CHIN NGAI SUNG**

**(collectively, the “Relevant Persons”)**

**GROUND OF DECISION**

22 September 2023

***This document constitutes the written grounds of decision of the SGX Listings Disciplinary Committee as required under Catalist Rule 317(1), and is prepared for the Exchange and the Relevant Persons who are parties to SGX-LDC-2022-004 (the “Parties”).***

***This document is confidential and meant to be read by the parties and their legal representatives only, until such time as these grounds of decision are published by the Singapore Exchange Securities Trading Limited pursuant to Catalist Rule 318(1).***

## **I. CHARGES BROUGHT BY THE EXCHANGE**

1. The Singapore Exchange Securities Trading Limited (the “**Exchange**”) brought charges against:

- (a) Y Ventures Group Ltd. (the “**Company**”, and together with its subsidiaries, the “**Group**”);
- (b) The board of directors of the Company at the material time (the “**Board**”):
  - (i) Mr Low Yik Jin, Chief Executive Officer and Executive Director (the “**CEO**”);
  - (ii) Mr Low Yik Sen, Managing Director;<sup>1</sup>
  - (iii) Mr Edward Tiong Yung Suh, Lead Independent Director;
  - (iv) Ms Wong Sok Mei, Former Independent Director;<sup>2</sup>
  - (v) Mr Ng Tiong Gee, Independent Director; and
  - (vi) Mr Tsoon Wai Mun Benjamin, former Non-Executive Director;<sup>3</sup> and
- (c) the former chief financial officer Chin Ngai Sung (the “**Former CFO**”, or “**Chin**”)<sup>4</sup>  
(collectively, the “**Relevant Persons**”)

for contraventions of the Catalist Rules, primarily in relation to its unaudited financial statements for the half year ended 30 June 2018 (the “**Original HY2018 Results**”) released on 14 August 2018 (the “**Original HY2018 Results Announcement**”), which contained material errors and/or omissions (the “**Misstatements**”) that led to the

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<sup>1</sup> Mr. Low Yik Sen was re-designated to Executive Chairman and Director on 8 August 2022.

<sup>2</sup> Ms. Wong Sok Mei resigned as an independent director of the Company on 31 May 2019.

<sup>3</sup> Mr. Tsoon Wai Mun Benjamin resigned as a non-executive director of the Company on 1 March 2019.

<sup>4</sup> Chin was appointed as the Company’s chief financial officer (the “CFO”) on 1 March 2016, and resigned from this position on 1 September 2018.

subsequent restatement of the said financial statements (the “**Restated HY2018 Results**”).

2. The Company was charged as follows:

<b>Charge</b>	<b>Relevant Rule</b>	<b>Short Description</b>
1st Charge	Catalist Rule 703(4)(a), read with paragraph 27(a) of Appendix 7A	Breached Catalist Rule 703(4)(a), read with paragraph 27(a) of Appendix 7A, by releasing the Original HY2018 Results Announcement which contained the Misstatements, and was thus inaccurate and non-factual.
2nd Charge	Catalist Rule 703(1)(a)	Breached Catalist Rule 703(1)(a) by failing to promptly disclose, on or around 7 January 2019, that its Original HY2018 Results were false and misleading, a piece of material information known to the Company which was necessary to avoid the establishment of a false market in the Company’s securities.
3rd Charge	Catalist Rule 719(1)	Breached Catalist Rule 719(1) by failing to have a robust and effective system of internal controls, addressing financial, operational and compliance risks.

3. Having regard to Catalist Rule 302(6)<sup>5</sup>, the Board was charged for causing the Company to be in breach of the Catalist Rules as follows:

<b>Charge</b>	<b>Relevant Rule</b>	<b>Short Description</b>
1st Charge	Catalist Rule 703(1)(a)	Caused the Company to breach Catalist Rule 703(1)(a) by failing to promptly disclose, on or around 7 January 2019, that its Original HY2018 Results were false and misleading, a piece of material information known to the Company which was necessary to avoid the establishment of a false market in the Company’s securities.
2nd Charge	Catalist Rule 719(1)	Caused the Company to breach Catalist Rule 719(1) by failing to have a robust and effective system of internal controls, addressing financial, operational and compliance risks.

4. Having regard to Catalist Rule 302(5)<sup>6</sup> and 302(6), the Former CFO was charged for causing the Company to be in breach of the Catalist Rules as follows:

<sup>5</sup> Catalist Rule 302(6) states that the directors and executive officers of an issuer are deemed to have contravened a Relevant Rule when they have caused the issuer to omit to do an act which resulted in a breach of a Relevant Rule, where “Relevant Rule” is defined under Catalist Rule 301 as the relevant provision(s) in the Exchange’s Catalist Rules.

<sup>6</sup> Catalist Rule 302(5) provides that the directors and executive officers of an issuer are deemed to have contravened a Relevant Rule when they have caused the issuer to commit an act in breach of a Relevant Rule

Charge	Relevant Rule	Short Description
1st Charge	Catalist Rule 703(4)(a), read with paragraph 27(a) of Appendix 7A	Caused the Company to breach Catalist Rule 703(4)(a), read with paragraph 27(a) of Appendix 7A, by releasing the Original HY2018 Results Announcement which contained the Misstatements, and was thus inaccurate and nonfactual.
2nd Charge	Catalist Rule 719(1)	Caused the Company to breach Catalist Rule 719(1) by failing to have a robust and effective system of internal controls, addressing financial, operational and compliance risks.

## II. RESOLUTION AGREEMENT

5. In the course of the proceedings, the Exchange and the Relevant Persons agreed on the terms for disposing of the disciplinary actions by means of “no contest”.
6. On 5 July 2023, a resolution agreement signed by the Parties (“**Resolution Agreement**”) was submitted to the LDC for the LDC’s approval.
7. The Resolution Agreement stated that:
  - (a) the Company accepted liability for the 1<sup>st</sup> and 2<sup>nd</sup> charges, and consented for the LDC to take into consideration the 3<sup>rd</sup> charge against it for the purposes of determining the sanctions;
  - (b) the Board accepted liability for the 1<sup>st</sup> charge against them, and consented for the LDC to take into consideration the 2<sup>nd</sup> charge against them for the purposes of determining the sanctions; and
  - (c) the Former CFO accepted liability for the 1<sup>st</sup> charge against him, and consented for the LDC to take into consideration the 2<sup>nd</sup> charge against him for the purposes of determining the sanctions.
8. The Resolution Agreement also set out the relevant facts, the Exchange’s regulatory concerns and the proposed sanctions which the Parties had agreed on.

## III. RELEVANT FACTS

### *Background*

9. In July 2017, the Company was listed on the Catalist Board of the Exchange (the “**Listing**”). The principal activity of the Company is that of investment holding, and its core business during the relevant period was that of a data analytics driven, ecommerce retailer and distributor specialising in online retail data analytics, marketing, distribution and sale of a wide range of merchandises, under third party brands and the Group’s private label.

10. During the relevant period, the Company's sponsor was RHT Capital Pte. Ltd. (the "**Sponsor**"), and the registered professional in charge of the Company was Mr. Leong Weng Tuck.

*Key events relating to the Charges*

11. On 14 August 2018, the Company released the Original HY2018 Results Announcement. The Original HY2018 Results set out the Group's profit of US\$143,330 for the period. The announcement also contained the following assurances:

- (a) a statement on the Group's expected profitability as follows:

*"Barring any unforeseen circumstances, **the Group expects to remain profitable in FY2018.**" [Emphasis added.]*

And,

- (b) a negative confirmation from the Board as follows:

*"We Low Yik Sen and Low Yik Jin, being two Directors of the Company, do hereby confirm on behalf of the Board of Directors of the Company (the "Board") that, **to the best of our knowledge, nothing has come to the attention of the Board which may render the unaudited financial statements for the half year ended 30 June 2018 to be false or misleading in any material aspect.**" [Emphasis added.]*

12. On 31 August 2018, the Company concurrently announced on SGXNET the cessation of Chin as its CFO, and the appointment of Mr. Joshua Huang Thien En ("**Huang**") as its new CFO.
13. On 9 November 2018, Huang submitted the second draft of the consolidation worksheet for the nine-month period ending 30 September 2018 prepared by the Finance team (which showed a revised loss of approximately US\$1.73 million) to the CEO.
14. On 15 November 2018, Huang informed the CEO about possible errors in the Original HY2018 Results based on the third draft of the consolidation worksheet for the nine-month period ending 30 September 2018 prepared by the Finance team (which showed a revised loss of approximately US\$2.08 million).
15. Around mid-November 2018, each of the members of the Board was made aware of the possible errors in the Original HY2018 Results Announcement.
16. On 16 November 2018, Huang verbally discussed with the external auditors about possible errors in the Original HY2018 Results during an audit planning meeting at the Company's office.

17. On 19 November 2018, Huang verbally informed the former Audit Committee (“AC”) Chairman<sup>7</sup> about the possible errors in the Original HY2018 Results.
18. On 20 November 2018, Huang verbally informed the Sponsor and the Company’s lawyers about the possible errors. Huang also started to investigate the possible errors, including developing an in-house computerised Inventory Management System (“IMS”) for books, checking through the transactions, and preparing an official announcement.
19. On 21 November 2018, the Sponsor emailed the Company a precedent announcement in respect of the restatement of the HY2018 financials for the Company’s reference.
20. On 22 November 2018, the Company’s lawyers emailed the Company proposed wordings for the cover announcement on the restatement of the HY2018 financials for the Company’s consideration.
21. On 28 November 2018, Huang and the Assistant Finance Manager met with the former AC Chairman, to discuss the restatement of the HY2018 accounts.
22. On 27 December 2018, Huang and the Assistant Finance Manager met with the Former CFO to understand the transactions leading to the Misstatements. In the intervening time, the Company generated the inventory balances and also sought clarifications with a vendor on the inventory purchased and delivered.
23. On 3 January 2019, Huang, the Assistant Finance Manager and the former AC Chairman met with the Former CFO to discuss the nature of the Misstatements.
24. On 4 January 2019, a final draft of the restated HY2018 consolidated worksheet was prepared by the Assistant Finance Manager. On the same day, Huang emailed the Sponsor and the Company’s lawyers a draft announcement in respect of the restatement of the financial results, and stated that “[s]ince the last draft we have finalized the adjustments and cleared with our external auditors.”
25. On 7 January 2019, the draft Restated HY2018 Results, along with ancillary documents, were circulated to the Board. The draft Restated HY2018 Results announcement stated, *inter alia*, as follows:
  2. The Board wishes to announce that there were certain administrative inadvertences in the recording of the accounting entries that resulted in the following in the [Original] HY2018 Results:
    - (a) US\$1,453,873 being erroneously recorded as “Inventories”;
    - (b) US\$20,453 being erroneously recorded as “Property, plant and equipment”;
    - (c) US\$172,238 being erroneously recorded as “Trade and other receivables”; and

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<sup>7</sup> Ms. Wong Sok Mei was the AC Chairman at the relevant time.

(d) US\$196,869 being erroneously recorded as “Administrative expenses”.

3. Consequently, the financial impact of these administrative inadvertences resulted in, *inter alia*, the overstatement of “Inventory”, “Property, plant and equipment” and “Revenue” as well as the understatement of “Trade and other receivables”, “Cost of sales” and “Administrative expenses” as at 30 June 2018. As a result, **there was an overstatement of approximately US\$1,303,463 in the profit and loss position of the Group for HY2018 due specifically to these administrative inadvertences.**

[Emphasis added.]

26. As at 7 January 2019, the Company was still in the process of confirming and verifying the information in the draft Restated HY2018 Results and/or the draft announcement. On 15 January 2019, the AC and the Board held meetings to discuss and approve the draft Restated HY2018 Results. Based on the minutes of the AC meeting on 15 January 2019, certain further actions were required to be taken by the CFO, as follows:
- (a) to seek further clarification from Baker Tilly TFW LLP (“**Baker**”)<sup>8</sup> on why the overstatement of inventory was not picked up in their audit process for the financial years ended 31 December 2014 (“**FY2014**”), 31 December 2015 (“**FY2015**”), 31 December 2016 (“**FY2016**”) and 31 December 2017 (“**FY2017**”);
  - (b) to check on the findings of the Group’s inventory management by PricewaterhouseCoopers Risk Services Pte Ltd (“**PwC**”),<sup>9</sup> who conducted the internal controls review of the Group in 2017, for the purposes of the Listing, and to seek clarification from PwC, if necessary; and
  - (c) to determine whether there were any material errors in the Group’s financial statements for FY2014 to FY2016 set out in the Company’s offer document dated 30 June 2017, and its financial statements for FY2017 in its Annual Report 2017.
27. On 20 January 2019, following several rounds of correspondence with Huang, the Company obtained clearance from the Sponsor for the draft Restated HY2018 Results announcement, subject to the Board’s approval. Amongst others, corrections had to be made to the draft Restated HY2018 Results which were circulated on 7 January 2019 (as annotated in underline below):

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<sup>8</sup> In conjunction with the Listing, the Company had engaged Baker as its auditors to prepare the financial statements for FY2014, FY2015, and FY2016.

<sup>9</sup> As part of the Listing, the Company had engaged PwC to conduct a limited scope internal controls review of the Group.

Item	Original HY2018 Results	Draft Restated HY2018 Results (7 January 2019)	Restated HY2018 Results (20 January 2019)
Trade and other payables	(US\$1,558,193)	(US\$1,558,193)	(US\$1,557,828)
Currency translation adjustments	(US\$323)	(US\$323)	<u>US\$1,052</u>
Issuance of shares pursuant to the Restructuring Exercise (Share capital)	US\$2,234,228	US\$2,234,227	US\$2,234,228

28. In the time leading up to the release of the announcement, given the errors in the Original HY2018 Results, the Company was mindful of ensuring that there were no mistakes in the Restated HY2018 Results and the draft announcement.<sup>10</sup>
29. On 21 January 2019, the Board approved the draft Restated HY2018 Results announcement, and the Company subsequently released the Restated HY2018 Results announcement on SGXNET (the “**21 January 2019 Announcement**”) on the same day. The 21 January 2019 Announcement set out the Group’s loss of US\$1,160,133 for the period (at paragraphs 2 to 6) and contained a ‘profit warning’ passage (at paragraphs 7 to 8) explaining that the Company was expecting to report a net loss for the financial year ended 31 December 2018 (“**FY2018**”) and the reasons for the loss:
1. *The Board of Directors (the “**Board**”) of Y Ventures Group Ltd. (the “**Company**” and together with its subsidiaries, the “**Group**”) refers to the Group’s unaudited financial statements announcement for the half year ended 30 June 2018 (“**HY2018**”), which was released by the Company on 14 August 2018 (“**HY2018 Results**”).*
  2. *The Board wishes to announce that there were certain administrative inadvertences in the recording of the accounting entries that resulted in the following in the [Original] HY2018 Results:*
    - (a) *US\$1,453,873 being erroneously recorded as “Inventories”;*
    - (b) *US\$20,453 being erroneously recorded as “Property, plant and equipment”;*
    - (c) *US\$172,238 being erroneously recorded as “Trade and other receivables”;*

*and*

<sup>10</sup> Based on the Company’s representations, the Company had also sought to comply with paragraph 27 of Appendix 7A of the Catalist Rules in seeking to ensure that the announcement would “contain sufficient quantitative information to allow investors to evaluate its relative importance to the activities of the issuer” and be “balanced and fair”. Further, as the announcement was intended to correct the Misstatements, the Company was also mindful that the restatement should not be “false and misleading” and would be “factual, clear and succinct”.

- (d) US\$196,869 being erroneously recorded as “Administrative expenses”.
3. Consequently, the financial impact of these administrative inadvertences resulted in, *inter alia*, the overstatement of “Inventory”, “Property, plant and equipment” and “Revenue” as well as the understatement of “Trade and other receivables”, “Cost of sales” and “Administrative expenses” as at 30 June 2018. As a result, there was an overstatement of approximately US\$1,303,463 in the profit and loss position of the Group for HY2018 due specifically to these administrative inadvertences.
  4. Such administrative inadvertences were caused by certain lapses and were discovered by the Company’s management during the preparations for the full year statutory audit. The Company has since promptly notified its external auditors.
  5. The Board wishes to announce that the restated HY2018 Results, which contain the necessary adjustments, have been released today. Details of the key line items in the Consolidated Statement of Comprehensive Income and Statement of Financial Position that have been materially affected and have been adjusted as well as the explanations for the variances are set out below:

**(a) Consolidated Statement of Comprehensive Income**

- (i) A decrease in “Revenue” by approximately US\$138,521;
- (ii) An increase in “Cost of Sales” by approximately US\$968,073; and
- (iii) An increase in “Administrative expenses” by approximately US\$196,869.

The net effect results in “Profit/(loss) for the period” being approximately (US\$1,160,133).

**(b) Consolidated Statement of Financial Position**

- (iv) A decrease in “Inventories” by approximately US\$1,453,873;
- (v) A decrease in “Property, plant and equipment” by approximately US\$20,453; and
- (vi) An increase in “Trade and other receivables” by approximately US\$172,238.

Consequential amendments to the “Consolidated Statements of Cash Flows”, “Consolidated Statements of Changes in Equity” and “Notes to the Accounts” have also been made to reflect the above adjustments. Please refer to the attached restated HY2018 Results released today for the full set of restated results announcement which will supersede the previous version released on 14 August 2018.

6. The Company’s Audit Committee and Board have observed that there were certain inadequacies in the Company’s internal controls which had led to the lapses in recording of transactions. The Company has put in place the following to strengthen internal controls to mitigate the risk of such erroneous recording/omissions from recurring in the future:

- (a) *Strengthened the Finance and Accounting department by increasing the head count and expertise of the team;*
  - (b) *Developed its proprietary inventory management module to track sales and cost of goods sold on the various online market places more accurately, to address the administrative inadvertences highlighted above; and*
  - (c) *Proposed the internal auditors of the Company to review processes impacted by the control lapses as part of the internal audit scope for FY2019, to ascertain the adequacy of the new internal controls effected.*
7. *Following a preliminary review of the Group's unaudited financial results for the full year ended 31 December 2018 ("FY2018"), the Group is expecting to report a net loss for FY2018. The net loss is mainly attributable to a drop in profit margin, increase in selling and administrative expenses and higher staff cost. Factors which impacted the Group in FY2018 include the surging trend of manufacturers of fast-moving consumer goods going direct to consumers by selling their manufactured products online and adverse impact due to the trade war. In addition, there was an overall increase in the cost of operation of the Group in FY2018 due to, inter alia, the Group's expansion of online sales to South East Asia markets and partnerships with new suppliers, whose brands and products are established in their respective markets.*
8. *The Company is still in the process of finalizing the financial results of the Group for FY2018. Further details of the Group's financial performance will be disclosed in due course.*
9. *In the meantime, the Board wishes to advise shareholders of the Company and investors to exercise caution when dealing in the shares of the Company. Persons in doubt as to the action they should take should consult their stockbroker, bank manager, solicitor, accountant or other professional advisers.*
30. Following the release of the 21 January 2019 Announcement (which was released after market hours on 21 January 2019 (Monday)), the Company's share price fell progressively from S\$0.200 (the closing price on 21 January 2019) to S\$0.120 (the closing price on 25 January 2019 (Friday)),<sup>11</sup> and further to S\$0.080 (closing price on 30 January 2019).<sup>12</sup> There were no other announcements released by the Company in the month of January 2019.
31. The closing price of the Company's shares on 7 January 2019 was S\$0.215, approximately 7.5% higher than on 21 January 2019. Between 8 January 2019 and 21 January 2019, an aggregate of 195,500 shares were traded by market participants who would have been unaware of the Misstatements and the Company's true state of affairs.
32. On 12 March 2019, Deloitte & Touche Enterprise Risk Services Pte Ltd ("**Deloitte**") was appointed by the Company to perform certain Agreed Upon Procedures in response to queries raised by the Exchange in relation to the Restated HY2018

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<sup>11</sup> The fall in share price from 21 January 2019 to 25 January 2019 was approximately 40.0%. The trading volume also increased by approximately 16.2 times, from 36,000 to 619,300 shares.

<sup>12</sup> The fall in share price from 21 January 2019 to 30 January 2019 was approximately 60.0%. The trading volume also increased by approximately 29.7 times, from 36,000 to 1,104,100 shares.

Results. In this connection, Deloitte produced their report on their findings on 16 March 2021 (the “**DT Report**”). The DT Report noted the following:

- (a) The Misstatements were as follows:
  - (i) inventory balance was overstated, resulting in an overstatement of the Group’s profit by US\$683,454;
  - (ii) no provision was made for slow-moving inventory, resulting in an overstatement of the Group’s profit by US\$48,240;
  - (iii) payments for inventory were wrongly classified as advances to suppliers, resulting in an overstatement of the Group’s profit by US\$175,800;
  - (iv) errors were made in inter-company payments and balances, resulting in an overstatement of the Group’s profit by US\$396,858; and
  - (v) advance payments to suppliers were wrongly recorded as inventories / fixed assets, resulting in an understatement of the Group’s profit by US\$889.
  
- (b) The causes of the Misstatements were as follows:
  - (i) Ineffective monitoring of inventory balances
    - (A) There were errors in the inventory quantities and unit costs notwithstanding the Group’s inventory reconciliation procedures, which included a review of the inventory cost journal at month end by the Former CFO.
    - (B) Errors in inventory quantities: The inventory balance as at 30 June 2018 was calculated wrongly due to an error in the Excel formulas, which resulted in certain units of inventory retrieved from Amazon’s records being double counted. In addition, the inventory from one of the Amazon warehouses in Canada was omitted from the inventory balance.

(C) Errors in inventory costs:

- (I) There were instances where the unit costs of several inventories entered into the Excel spreadsheets did not tally with the prices stated in the supplier invoices. These errors in turn affected the calculation of inventory value and the cost of goods sold.
- (II) The Group also did not maintain stock ageing reports and monitor inventory ageing to make provisions for slow-moving inventory as prescribed by its own Standard Operating Procedures (“SOPs”). In relation to the Group’s subsidiary in Taiwan, there were no provisions made for slow-moving inventory.
- (III) Notwithstanding that the Former CFO had reviewed the journal entry that recorded the cost of goods sold (which was derived from the inventory balance), he did not detect the above errors. These errors ought to have been detected during the review process.

(ii) Weaknesses in the procurement and payment process

- (A) The SOPs relating to advance payments were not adhered to. The Company made three advance payments totalling MYR2,641,008 to AchieveNet Sdn Bhd (“AchieveNet”) for data mining rig equipment and inventory between January and March 2018 without an approved purchase order and vendor proforma invoice. The payments were made solely based on quotations with no invoices or other documents provided by AchieveNet. The purchases were inaccurately recorded as inventory and fixed assets as at 30 June 2018 even though the delivery orders showed that the goods were delivered between July and December 2018.

(iii) Inadequate review of accounting entries

- (A) The Group's accounting system allowed journal entries to be posted without independent review. Moreover, the process to review and approve the journal entries before posting was not documented. Whilst the Former CFO or Assistant Accounts Manager claimed to have reviewed the manual journal entries before they were posted onto the accounting system, there were instances where there was no evidence of such review.
- (B) Separately, there were no formalised SOPs to require an independent party (i.e. the CFO) to review manual journal entries that had been posted onto the accounting system. This practice was previously recommended by PwC,<sup>13</sup> and was indicated as fully implemented by PwC in its follow up review dated April 2017. However, there were various instances with no evidence of review.

(iv) Inadequate review of the financial closing and reporting process

- (A) The Group did not have a formal documented process on financial closing and reporting, particularly on month-end closing cut-off and the preparation of consolidation worksheet. Whilst Deloitte's understanding was that the consolidation worksheet was reviewed by the Former CFO, Deloitte found no supporting documentation on such reviews being performed in the consolidation process, and noted errors in the inter-company transactions and balances that should have been detected during the Former CFO's review.
- (B) Separately, the Group did not perform any verification work as part of its month-end closing cut-off procedures to ascertain if the inventory had been received as at the financial year end. As

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<sup>13</sup> As part of the Listing, the Company had engaged PwC to conduct a limited scope internal controls review of the Group, and PwC had issued their report on 23 January 2017 (the "**PWC Report**").

a result, the Group was unable to satisfy the statutory auditors that certain inventory had been received by the Group as at the financial year ended 31 December 2017. This in turn led to an audit adjustment being passed in the audited financial statements for the financial year ended 31 December 2017. The audit adjustment was subsequently reversed in the Restated HY2018 Results when the Group later uncovered that the inventory had been received prior to 31 December 2017.

- (C) The lack of SOPs on the financial closing and reporting process was not in accordance with the recommendation in the PwC Report, which states that the policies and procedures for key processes (whereby financial closing should be one such process) should be formalised.

#### IV. RELEVANT PROVISIONS OF THE CATALIST RULES

##### *Disclosure of information*

33. Catalist Rule 703(1) states:

*An issuer must announce any information known to the issuer concerning it or any of its subsidiaries or associated companies which: —*

- (a) *is necessary to avoid the establishment of a false market in the issuer's securities;*  
*or*  
(b) *would be likely to materially affect the price or value of its securities.*

34. Appendix 7A (Corporate Disclosure Policy) of the Catalist Rules provides at paragraph 4(a) that, *inter alia*, “[a] false market may exist if information is not made available that would, or would be likely to, influence persons who commonly invest in securities in deciding whether or not to subscribe for, or buy or sell the securities.”

35. Catalist Rule 703(4) states:

*In complying with the Exchange's disclosure requirements, an issuer must:*

- (a) *observe the Corporate Disclosure Policy set out in Appendix 7A, and*  
(b) *ensure that its directors and executive officers are familiar with the Exchange's*

*disclosure requirements and Corporate Disclosure Policy.*

36. Appendix 7A (Corporate Disclosure Policy) of the Catalist Rules provides at paragraph 27(a) that “[t]he content of a press release or other public announcement is as important as its timing ... Each announcement should be factual, clear and succinct”.

*Robust and effective system of internal controls*

37. Catalist Rule 719(1) states:

*An issuer should have a robust and effective system of internal controls, addressing financial, operational and compliance risks. The audit committee (or such other committee responsible) may commission an independent audit on internal controls for its assurance, or where it is not satisfied with the systems of internal control. In arriving at the decision, the audit committee should consider the recommendation of the continuing sponsor.*

*Responsibility to ensure compliance with the Listing Manual*

38. Under Catalist Rule 720(1), directors and executive officers of an issuer are required to provide personal undertakings that they shall, *inter alia*, use their best endeavours to comply with the requirements of the Exchange pursuant to or in connection with the Catalist Rules, and to procure that the issuer shall so comply.

39. Catalist Rule 302 states:

*For the purposes of [Chapter 3], a Relevant Person is deemed to have contravened a Relevant Rule when a Relevant Person has:*

...

*(5) caused another Relevant Person to commit an act in breach of a Relevant Rule;*

*(6) caused another Relevant Person to omit to do an act which resulted in a breach of a Relevant Rule;*

...

**V. CATALIST RULE BREACHES**

*Breach of Catalist Rule 703(4)(a), read with paragraph 27(a) of Appendix 7A, by releasing the Original HY2018 Results Announcement which contained the Misstatements, and was thus inaccurate and non-factual*

40. Regarding the facts relating to this charge, the LDC noted that:
- (a) The Company had released its Original HY2018 Results Announcement on SGXNET on 14 August 2018, which set out the Group's profit of US\$143,330 for the period.
  - (b) Pursuant to investigations conducted by Huang, who took over from Chin as the CFO shortly after the release of the Original HY2018 Results Announcement, it was discovered that the Original HY2018 Results contained the Misstatements, which resulted in the Group's profit and loss position in the Original HY2018 Results being overstated by US\$1,303,463 (i.e. from a net profit of US\$143,330 to a net loss of US\$1,160,133, a decrease of 909.4%).
  - (c) Based on the DT Report, Deloitte had discovered that the Misstatements could largely be attributed to the Finance team's non-compliance with the Group's SOPs implemented following PwC's review of the Group's internal controls prior to the Listing, including the following:
    - (i) There were errors in the recording of inventory quantities and unit costs, notwithstanding the Group's inventory reconciliation procedures. However, the errors were not detected by Chin even though Chin had purportedly reviewed the journal entry that recorded the cost of goods sold (which was derived from the inventory balance).
    - (ii) The Group did not maintain stock ageing reports nor monitor inventory ageing to make provisions for slow-moving inventory as prescribed by its own SOPs.
    - (iii) The SOPs relating to advance payments were not adhered to. In particular, the Company made advance payments to AchieveNet without an approved purchase order and vendor proforma invoice. The payments were made solely based on quotations with no invoices or other documents provided by AchieveNet. The purchases were also inaccurately recorded as inventory and fixed assets as at 30 June 2018 even though the delivery orders showed that the goods were delivered between July and December 2018.
    - (iv) While manual journal entries were to be reviewed by Chin or the Assistant Accounts Manager before they were posted onto the accounting system, Deloitte noted some instances where there was no evidence of review.
    - (v) There were no formalised SOPs to require an independent party (i.e. Chin) to review manual journal entries that had been posted onto the accounting system, and Deloitte noted various instances with no evidence of review.

- (vi) Deloitte found no supporting documentation that Chin had performed reviews of the consolidation worksheet as part of the consolidation process. Deloitte also noted errors in the inter-company transactions and balances that should have been detected by Chin during the review.
- (vii) There was no verification work performed as part of the Group's month-end closing cut-off procedures to ascertain if the inventory had been received as at the financial year end.
- (d) Pursuant to Catalist Rule 703(4)(a), read with paragraph 27(a) of Appendix 7A, the Original HY2018 Results Announcement is required to be, *inter alia*, factual. Given that the Original HY2018 Results Announcement contained the Misstatements, it was inaccurate and non-factual.
- (e) As the CFO at the material time, Chin was primarily responsible for, *inter alia*, all finance activities and accounting operations. Accordingly, Chin was responsible for ensuring that the Group complied with the relevant internal procedures relating to the finance and accounting functions. Nonetheless, as set out in paragraph 40(c) above, Chin had failed in this regard in multiple aspects, and these failures had directly caused the Misstatements to occur.

41. As such, the LDC finds that:

- (a) the Company had breached Catalist Rule 703(4)(a), read with paragraph 27(a) of Appendix 7A, by releasing the Original HY2018 Results Announcement which contained the Misstatements, and was thus inaccurate and non-factual; and
- (b) pursuant to Catalist Rule 302(5), Chin had breached Catalist Rule 703(4)(a), read with paragraph 27(a) of the Corporate Disclosure Policy, by causing the Company to release the Original HY2018 Results Announcement which contained the Misstatements, and was thus inaccurate and non-factual.

*Breach of Catalist Rule 703(1)(a) by failing to promptly disclose, on or around 7 January 2019, that its Original HY2018 Results were false and misleading, a piece of material information known to the Company which was necessary to avoid the establishment of a false market in the Company's securities*

42. Regarding the facts relating to this charge, the LDC noted that:

- (a) On 7 January 2019, the draft Restated HY2018 Results, along with ancillary documents, were circulated to the Board. As stated above at paragraph 15, by the time of circulation, each of the members of the Board would have been aware of possible administrative inadvertences relating to the Original HY2018 Results Announcement from around mid-November 2018. In particular, the draft Restated HY2018 Results set out the significant impact of the

Misstatements, which was an overstatement of approximately US\$1,303,463 in the profit and loss position of the Group, resulting in the Group's loss position of US\$1,160,133 for HY2018 (instead of a US\$143,330 profit as disclosed in the Original HY2018 Results, a decrease of 909.4%).

- (b) Given the magnitude of the errors in the Original HY2018 Results, and the false impression of the market that the Group was profit-making (as created by the Original HY2018 Results), the Company and the Board were obliged to react with utmost urgency to take immediate steps to issue a clarification announcement, especially in light of its assurances set out in the Original HY2018 Results Announcement (see paragraph 11).
- (c) At this point, the Company and the Board had been aware of such possible errors in the Original HY2018 Results, and also knew that the Finance team had been verifying such errors and working on the restatement of the HY2018 accounts for some time since mid-November 2018. Given this passage of time, all parties involved would thus have been able to place reasonable reliance on the draft figures circulated on 7 January 2019 to know affirmatively that (i) the previously announced Original HY2018 Results were false and misleading; and (ii) a profit, instead of a significant loss, had been wrongly reported in the said results.
- (d) Nonetheless, the Board only discussed the issue during a pre-scheduled Board meeting held one week later on 15 January 2019, with the Restated HY2018 Results eventually announced only another week later on 21 January 2019.
- (e) As a result, a false market was potentially created (between 8 January 2019 and 21 January 2019) as the market was trading on a completely opposite understanding of the true state of affairs of the Company – a state of affairs which materially and adversely affected the Company's value and prospects – circumstances already known to the Company and the Board.
- (f) While the Board had been put on notice of the potential Misstatements as early as mid- November 2018 and had received the draft Restated HY2018 Results on 7 January 2019, they had failed to procure the Company to release an appropriate announcement to disclose the same.

43. As such, the LDC finds that:

- (a) the Company had breached Catalist Rule 703(1)(a) by failing to promptly disclose, on or around 7 January 2019, that its Original HY2018 Results were false and misleading, a piece of material information known to the Company which was necessary to avoid the establishment of a false market in the Company's securities; and
- (b) pursuant to Catalist Rule 302(6), the Board had breached Catalist Rule 703(1)(a) by causing the Company to fail to promptly disclose, on or around 7

January 2019, that its Original HY2018 Results were false and misleading, a piece of material information known to the Company which was necessary to avoid the establishment of a false market in the Company's securities.

*Breach of Catalist Rule 719(1) by failing to have a robust and effective system of internal controls, addressing financial, operational and compliance risks*

44. Regarding the facts relating to this charge, the LDC noted that:

- (a) The breach of Catalist Rule 719(1) comprised two aspects:
  - (i) The failure to ensure that the Company's internal controls were adhered to at all times, with the lapses resulting in the Misstatements; and
  - (ii) The failure to ensure that the Company's internal controls were adequately reviewed on an ongoing basis, and were still fit for purpose by design and working effectively, which allowed the Misstatements to occur and remain undetected (until investigations by Huang).

Failure to ensure that the internal controls were applied and adhered to at all times

- (b) As set out in paragraphs 32(b) and 40(c) above, Deloitte had discovered that the Misstatements could largely be attributed to the Finance team's non-compliance with the Group's internal controls.
- (c) Chin, as the CFO at the material time, had a concomitant duty to ensure, and provide assurance to the Board, on the adequacy and effectiveness of the Company's risk management and internal control systems, pursuant to Provision 9.2(b) of the Code of Corporate Governance 2018.<sup>14</sup> He was responsible for ensuring that the Group complied with the relevant internal procedures relating to the finance and accounting functions, to provide reasonable assurance for the reliability of the Group's financial information. However, Chin had caused the lapses in the Company's existing internal control systems (as set out in paragraph 40(c) above), which resulted in the Company's breach of Catalist Rule 719(1).

Failure to ensure that the internal controls were adequately reviewed on an ongoing basis, and were still fit for purpose by design and working effectively

- (d) In conjunction with the Listing, the Company had engaged Baker as its auditors to prepare the Group's financial statements for FY2014, FY2015, and FY2016.

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<sup>14</sup> Provision 9.2(b) of the Code of Corporate Governance (6 August 2018) provides, *inter alia*, that the board of directors requires and discloses in the company's annual report that it has received assurance from the CEO and other key management personnel who are responsible, regarding the adequacy and effectiveness of the company's risk management and internal control systems.

Pursuant to Baker's review of the Group's financial statements during the Listing process, Baker had noted the inherent limitations of using manual Excel spreadsheets to manage inventory records, and highlighted to the Company the importance of having an IMS.

- (e) Since the Listing in July 2017, the Company and the Board had anticipated its inventory balance to increase,<sup>15</sup> and such growth did in fact take place. The Group's inventory balance post-Listing increased as follows:
  - (i) From US\$2,631,667 on 31 December 2016 to US\$6,060,250 on 31 December 2017 (an increase of 130.3%), accounting for approximately 61.8% of the Group's total current assets as at 31 December 2017; and
  - (ii) Further to US\$9,312,820 on 31 December 2018 (an increase of 253.9%), accounting for approximately 70.0% of the Group's total current assets as at 31 December 2018.
- (f) Given that inventory management was core to the Company's business, in the absence of establishing a proper IMS from the Listing (as recommended by Baker), it was all the more critical that attention be paid to reviewing the Group's inventory management and procurement processes more regularly, given that these processes at the material time were all manual.
- (g) Following the Listing in July 2017, Crowe Horwath First Trust Risk Advisory Pte Ltd ("**Crowe**") was appointed as the Company's internal auditors. However, the Board did not require the internal controls relating to the Company's inventory management to be included in Crowe's scope of review for FY2017 and FY2018.
- (h) In addition to Deloitte's findings as set out in paragraph 40(c) above, Deloitte had noted that while the Group's inventory balance had increased by 254% since the Listing, it had continued to rely on its temporary measure of monitoring inventory ageing using Excel spreadsheets. In this regard, Deloitte noted that the increase in inventory balance possibly increased the magnitude of the Misstatements, and allowed the risk of errors to remain.
- (i) As a result, while the Company had initially addressed Baker's concerns by putting in place a process to ensure that the inventory ageing was monitored

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<sup>15</sup> As disclosed in the Company's offer document dated 30 June 2017:

(a) the Trend Information section stated, *inter alia*, "**our revenue is expected to increase due to the expansion of our product range, product mix and addition of new third party brands to our existing portfolio of third party brands, as well as the expansion of geographical market and online platform coverage for the sale of existing products on online marketplaces**" [emphasis added].

(b) the Group's cost of sales (which comprised primarily of its inventory expense) had been increasing, from approximately US\$3.8 million in FY2014, to approximately US\$6.8 million in FY2016 (it increased by 19.0% from FY2014 to FY2015, and by 48.9% from FY2015 to FY2016). Based on the Group's Annual Report 2017, this further increased by 21.5% from FY2016 to FY2017 (approximately US\$8.3 million).

using Excel spreadsheets, as they continued to source for a suitable IMS,<sup>16</sup> the Company failed to ensure that the compensating controls put in place continued to be robust, or were enhanced to keep up with the growth in the Group's inventory balance post-Listing, causing considerable stress on the Group's internal control systems and the human errors.

- (j) As regards the Board, Crowe's proposed scope of review for FY2017 and FY2018, which was approved by the Board, did not include a review of inventory management. The Board had thus failed to consider and ensure the inclusion of such review. This had allowed the Misstatements to occur and remain undetected (until investigations by Huang), which directly compromised the integrity of the Group's financial statements and the corresponding announcement relating to the Group's financial performance (i.e. the Original HY2018 Results Announcement).

45. As such, the LDC finds that:

- (a) the Company had breached Catalist Rule 719(1) for failing to have a robust and effective system of internal controls, addressing financial, operational and compliance risks; and
- (b) pursuant to Catalist Rule 302(6), the Board and Chin had breached Catalist Rule 719(1) by causing the Company to fail to have a robust and effective system of internal controls, addressing financial, operational and compliance risks.

## **VI. THE EXCHANGE'S REGULATORY CONCERNS**

46. The LDC noted the Exchange's regulatory concerns which are set out in this section.

### *Regarding the Company*

47. The market relies on the accuracy and reliability of an issuer's disclosures to make investment decisions, particularly disclosures on its financial information. In this regard, it is paramount for issuers to ensure that all its disclosures are complete and accurate in all material respects, and not misleading. In the event where errors in disclosures are discovered, issuers need to react with utmost urgency in taking the necessary steps, such as issuing a holding announcement to clarify the error or requesting a trading halt, to avoid the establishment of a false market in its securities.

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<sup>16</sup> The Company had, since around 2017, obtained quotations from third-party vendors to meet the Company's inventory management needs while the compensating controls were implemented. However, the solutions proposed by the vendors were unable to meet the following needs of the Group: (i) handling various currencies and conversions, (ii) linking with multiple e-commerce platforms, (iii) having a strong inventory module that incorporates a first-in-first-out inventory method catering to the book-publishing business segment and also non-book items, and which can reconcile the cost of goods sold at an individual SKU level, and (iv) customisation for tailoring to the Group's needs (at reasonable cost).

48. The erroneous disclosure of the Group's profit in the Original HY2018 Results was significant for the following reasons:
- (a) Firstly, the profit of US\$143,330 reported in the Original HY2018 Results was an overstatement of US\$1,303,463, a variance of approximately 909.4% from the actual number.
  - (b) Secondly, the Company had been reporting losses since the Listing in July 2017.<sup>17</sup>
    - (i) In this regard, the profit of US\$143,330 that was reported in the Original HY2018 Results, coupled with the statement of the Group's expected profitability for FY2018, would objectively have been critical information that the market relied on to make investment decisions, particularly in influencing investors to purchase the Company's securities.
    - (ii) In this context, the fact that such information was false and misleading would have been highly price and trade sensitive – particularly where the inaccuracy meant that the Company was in fact recording significant losses instead of the purported profits.
49. There was also significant market impact arising from the eventual release of the 21 January 2019 Announcement. Following the release of the said announcement (which was released after market hours on 21 January 2019), the Company's share price fell progressively from S\$0.200 (the closing price on 21 January 2019) to S\$0.120 (the closing price on 25 January 2019), and further to S\$0.080 (closing price on 30 January 2019).
- (iii) The fall in share price from 21 January 2019 to 25 January 2019 was approximately 40.0%. The trading volume also increased by approximately 16.2 times, from 36,000 to 619,300 shares.
  - (iv) The fall in share price from 21 January 2019 to 30 January 2019 was approximately 60.0%. The trading volume also increased by approximately 29.7 times, from 36,000 to 1,104,100 shares.

There were no other announcements released by the Company in the month of January 2019. Accordingly, the market had reacted adversely to the 21 January 2019 Announcement, which pertained to the Misstatements and its impact, as well as a profit warning of the full-year results. The increased trading volume following the release of the 21 January 2019 Announcement suggests heightened trading interest in the Company's securities following the disclosure.

50. For completeness, the closing price of the Company's shares on 7 January 2019 was S\$0.215, approximately 7.5% higher than on 21 January 2019. Between 8 January

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<sup>17</sup> Losses of US\$129,232 were reported for HY2017 in August 2017, and this continued with reported losses of US\$908,751 for FY2017 in April 2018.

2019 and 21 January 2019, an aggregate of 195,500 shares were traded by market participants who had no inkling of the Misstatements and the Company's true state of affairs.

51. In light of the above, there was potentially harm caused to the market where minority shareholders and investors may have incurred losses while trading in the Company's securities based on the initial inaccurate information disclosed by the Company (i.e. the Original HY2018 Results), and continued trading on false expectations due to the Company's subsequent failure to provide a timely update (i.e. failure to immediately inform the market of the inaccuracies of the Original HY2018 Results). Apart from the potential tangible financial harm, there was undoubtedly also harm to the public's confidence in the integrity of the market and the regulatory framework, where investors may feel that they could no longer trust the accuracy of information disclosed by listed issuers.

#### *Regarding the Board*

52. Where material information is surfaced, such as information that significantly and adversely affects the issuer's value and prospects, as in the present case, issuers and their board of directors must take things seriously and react with utmost urgency to ensure that the matter is swiftly investigated, and the market is informed without delay. The fault of the Board in the present case lay not in a failure to make disclosure, but in a failure instead to make such disclosure in a prompt and timely manner, resulting in the market trading on a misinformed basis and with false expectations. Issuers and their board of directors cannot take a laissez-faire approach in complying with the Catalist Rules, and must prioritise the interests of the investing public in receiving timely, accurate, and truthful information, to uphold the integrity and trust in our disclosure-based regime.
53. While the Exchange noted that this was not a case where the Company and the Board did not announce the Restated HY2018 Results, given the magnitude of the errors in the Original HY2018 Results, and the false impression of the market that the Group was profit-making (as created by the Original HY2018 Results), the crux of the issue lay in the urgency and immediacy of the necessary announcement. The Board was therefore expected to react with utmost urgency to take immediate steps to issue an announcement.
54. If the Company and the Board had taken the view that it was not in a position to issue a full and detailed announcement as at 7 January 2019, the release of a holding announcement, on or around 7 January 2019, would have been required to forewarn the market, when the Board was in possession of the draft Restated HY2018 Results, and fully aware that the Company's previously announced Original HY2018 Results were false and misleading. In addition to the aforementioned material information, such a holding announcement should set out the reasons why a fuller announcement could not be made and include an expected timeline for further updates and details to be provided. Alternatively, the Company and the Board should have requested a trading

halt if it was not prepared to make such a holding announcement, to avoid the establishment of a false market.

55. In this case, the Board's conduct was not acceptable for the following reasons:
- (a) Having been made aware of potential inaccuracies in the Company's Original HY2018 Results in mid-November 2018, it took more than two months for the Company to clarify the situation and disclose the information only in end-January 2019. During this time, there was no urgency from the Board to get to the bottom of the issue, and disclose the material information as soon as practicable.
  - (b) Upon receiving the draft Restated HY2018 Results on 7 January 2019, setting out the significant impact of the Misstatements, which was an overstatement of approximately US\$1,303,463 in the profit and loss position of the Group, resulting in the Group's loss position of US\$1,160,133 for HY2018 (instead of a US\$143,330 profit as disclosed in the Original HY2018 Results), the Board waited an entire week (without a single enquiry in the meantime) to discuss the matter at their pre-scheduled Board meeting on 15 January 2019, rather than calling for an immediate, ad hoc, discussion on or around 7 January 2019 to address the matter. There was also no evidence of further pressure exerted by the Board in releasing the information quickly after the Board meeting on 15 January 2019, as the announcement was being tidied up for release yet another week later on 21 January 2019.
  - (c) The critical information to be disclosed to the market, i.e. the fact that the Original HY2018 Results were false and misleading, was abundantly clear and sufficient on or around 7 January 2019. While additional verification checks on the exact figures would have been prudent, they were not required for the Company and the Board to be apprised of the big picture reality that the Original HY2018 Results were false and misleading and to disclose the same, at least, by way of a holding announcement if a full announcement could not have been made.
56. Essentially, a false market was potentially created (between 8 January 2019 and 21 January 2019) as the market was trading on a completely opposite understanding of the true state of affairs of the Company – a state of affairs which materially and adversely affected the Company's value and prospects – circumstances already known to the Company and the Board, which required immediate action. During the ten days of delay, investors who purchased shares in the Company were denied material information about it, and thereby potentially bought shares at prices higher than would likely to have otherwise been the case.<sup>18</sup>

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<sup>18</sup> As mentioned in paragraph 50 above, the closing price of the Company's shares on 7 January 2019 was S\$0.215, approximately 7.5% higher than on 21 January 2019, and an aggregate of 195,500 shares were traded between 8 January 2019 and 21 January 2019.

*Regarding the Former CFO*

57. As the CFO, Chin was responsible for ensuring that the Group complied with the relevant internal procedures relating to the finance and accounting functions. However, Chin had failed in this regard in multiple aspects, and these failures had directly caused the Misstatements to occur.
58. As set out in paragraph 48 above, the magnitude of the errors in the interim financial statements prepared under Chin's charge were significant, as the US\$143,330 reported in the Original HY2018 Results was an overstatement of US\$1,303,463, a variance of approximately 909.4% from the actual number. Such an error made in the preparation of an issuer's financial statements is plainly beyond what is expected of a reasonable CFO. In addition, the errors were caused by the Finance team's non-compliance with the Group's internal controls, under Chin's purview.
59. In light of the above, Chin's breaches additionally warrant the imposition of a restrictive covenant to make clear the gravity of the offending conduct, and to deter others from like behaviour, in order to provide assurance to the investing public that serious breaches of the Catalist Rules will be met with appropriate and robust regulatory action.

**VII. SANCTIONS IMPOSED BY THE LDC ON THE RELEVANT PERSONS**

60. The LDC has considered the facts disclosed in the Resolution Agreement and the Exchange's regulatory concerns. Having noted in particular that the Company has put in place measures to strengthen its internal controls to mitigate the risk of similar errors and omissions recurring in the future<sup>19</sup>, the LDC has unanimously decided to impose the following sanctions on the Relevant Persons:

*The Company*

- (a) a public reprimand is issued to the Company;

*The Board*

- (b) a public reprimand is issued to each member of the Board;

*The Former CFO*

- (c) a public reprimand is issued to the Former CFO; and
- (d) the Former CFO shall provide a signed written undertaking to the Exchange not to seek any directorship on the board of directors, or role as a key executive officer (as defined in the SGX listing rules), of issuers whose securities are

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<sup>19</sup> Paragraph 6 of the 21 January 2019 Announcement, reproduced at paragraph 29 of this Grounds of Decision.

listed on the SGX Mainboard or Catalist for a period of two years from the date of these grounds of decision.

END