# DATAPULSE TECHNOLOGY LIMITED
# (THE "COMPANY")

# INTERNAL CONTROLS REVIEW

# EXECUTIVE SUMMARY

**LEE & LEE**
**ADVOCATES & SOLICITORS**
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**16 September 2018**

1. **DEFINITIONS**

1.1 In this report ("**Report**"), unless the context requires otherwise, the following terms shall have the meanings ascribed to them as follows:

**PERSONS**

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| **"KSA"** | : | Kee Swee Ann; |
| **"LBT"** | : | Low Beng Tin; |
| **"NBY"** | : | Ng Boon Yew; |
| **"NCC"** | : | Ng Cheow Chye; |
| **"RT"** | : | Rainer Teo Jia Kai; |
| **"SG"** | : | Guok Chin Huat Samuel; |
| **"TN"** | : | Thomas Ng Der Sian; |
| **"Wayco"** | : | Wayco Manufacturing (M) Sdn Bhd; |
| **"WT"** | : | Teng Wai Leung Wilson; and |
| **"Vendor"** | : | Way Company Pte. Ltd.. |

**GENERAL**

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| **"ACRA"** | : | The Accounting and Corporate Regulatory Authority of Singapore; |
| **"Announcement"** | : | An announcement released on the SGXNET by the Company; |
| **"AC"** | : | The Audit Committee of the Company from time to time; |
| **"Board"** | : | The Board of Directors of the Company from time to time; |
| **"Code"** | : | Singapore Code of Corporate Governance, as amended or modified from time to time; |
| **"Companies Act" or "Act"** | : | The Companies Act (Chapter 50) of Singapore, as amended or modified from time to time; |
| **"Company"** | : | Datapulse Technology Limited; |
| **"Directors"** | : | Directors of the Company as appointed from time to time; |
| **"Group"** | : | The Company and its subsidiaries, Datapulse Pte. Ltd. (formerly known as Alchymie Investment Pte. Ltd.) and Datapulse Investment Pte Ltd (formerly known as Datapulse Marketing Pte Ltd) (each, a **"Group Company"**, and collectively, **"Group Companies"**); |
| **"Interested Person Transactions" or "IPT"** | : | Interested person transactions as defined in Chapter 9 of the Listing Manual; |
| **"Listing Manual"** | : | The Mainboard listing manual of the SGX-ST as amended or modified from time to time; |

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| **"M&A Projects"** | : | The merger, acquisition and disposal projects of the Company during the Review Period; |
| **"Management"** | : | The management of the Company from time to time; |
| **"NC"** | : | The Nominating Committee of the Company from time to time; |
| **"RC"** | : | The Remuneration Committee of the Company from time to time; |
| **"Review Period"** | : | The period falling between 23 November 2000 and on or before 11 April 2018; |
| **"Shareholders"** | : | The members of the Company from time to time; |
| **"A$"** | : | The lawful currency of Australia; and |
| **"S$"** | : | The lawful currency of Singapore. |

## 2. TERMS OF REFERENCE

2.1 The Singapore Exchange Securities Trading Limited ("**SGX-ST**") had on 23 February 2018 issued a notice of compliance ("**Notice of Compliance**") to the Company and required the Company to engage an independent professional firm to conduct a review of the Company's internal controls and corporate governance practices which would cover the following:-

(a) Determine the facts and circumstances surrounding the new Board's approval for the acquisition of Wayco (the "**Wayco Acquisition**");

(b) Review the adequacy of the Company's internal policies, processes and procedures relating to the evaluation and approval of mergers and acquisitions, and conflicts of interest;

(c) Review the Company's processes relating to board appointment and nomination by shareholders; and

(d) Make recommendations on improvements to internal controls and corporate governance practices.

2.2 As announced by the Company on 11 March 2018, pursuant to the Notice of Compliance, the terms of reference of the internal controls review (the "**Internal Controls Review**") are as follows:-

(a) to determine the facts and circumstance surrounding the Board's approval for Wayco Acquisition;

(b) to review the adequacy of the Company's internal policies, processes and procedures relating to the evaluation and approval of mergers and acquisitions, and conflicts of interest since 23 November 2000 (being the date on which the Company was transferred to the Main Board of the SGX-ST from The Stock Exchange of Singapore Dealing and Automated Quotation System) (the "**Mainboard Listing Date**");

(c) to review the Company's processes relating to the change(s) of the Board, including appointment and nomination of Directors by shareholders, since the Mainboard Listing Date; and

(d) to make recommendations on improvements to internal controls and corporate governance practices.

2.3 The Company also announced on 11 March 2018 that:-

(a) apart from the Wayco Acquisition, the Company has in recent years undertaken other acquisitions and disposals, and the Board is therefore of the view that the review of the Company's internal policies, processes and procedures relating to the evaluation and approval of mergers and acquisitions and conflicts of interest should commence from the Mainboard Listing Date, in order to arrive at more holistic recommendations on improvements to internal controls and corporate governance practices; and

(b) the Board is of the view that expanding the scope of the Internal Controls Review to include the review of Company's processes relating to terminations, resignation and removal of directors, in addition to the appointments and nominations of directors, will allow for a more holistic recommendations on improvements to internal controls and corporate governance practices.

## 3. SOURCES OF INFORMATION

3.1 In connection with the Internal Controls Review conducted by us, the Company has provided us with, *inter alia*, the resolutions and minute books of meetings of Shareholders, Board, AC, NC, RC and the board papers, memorandums and attachments that were circulated during such meetings, statutory registers, relevant correspondence between Management and the Board, and relevant agreements and Announcements in relation to the completed M&A Projects listed in paragraph 6.1.3 of this Report and the Wayco Acquisition (if available) ("**Documents**"). Save for such Documents, we have not reviewed or examined any other records or documents whether public or otherwise and/or any other agreements entered into by the Group.

3.2 During the course of the Internal Controls Review conducted by us, we have been requested by the Company to liaise with Altum Law Corporation, the Company's former Chief Executive Officer ("**CEO**"), Wilson Teng, the Company's Chief Financial Officer ("**CFO**"), Michael Lee Kam Seng, and/or their assistants and authorised personnel, and have, where appropriate, relied on verbal responses given by these individuals in response to some of our queries on the Documents or in the course of our Internal Controls Review.

## 4. DISCLAIMERS AND LIMITATIONS

4.1 This Report is intended by Lee & Lee for, and only for, the benefit of the Board, the AC and for no other person. The purpose of the Report is to conduct the Internal Controls Review and for no other purposes. Our Report relates solely to those matters in existence during the Review Period. Our Report is prepared based on our Internal Controls Review, which is limited to a review only on the basis of the Singapore Code of Corporate Governance 2012, the Singapore Companies Act, and the Listing Manual of the SGX-ST, as enforced and applied as at 11 April 2018, being the date of our engagement.

4.2 We do not accept or assume responsibility for our work, and this Report thereof, to anyone except the AC. Our work is not to be relied on by any other party or for any other purpose, and we accept no liability or responsibility in respect of any losses suffered by the use of, or reliance on, this Report by an unintended recipient or for an unintended purpose.

4.3 Our work was not planned or conducted in contemplation of reliance by any third party. Therefore, items of possible interest to a third party may not be specifically addressed and matters may exist that may be assessed differently by a third party.

4.4 The Internal Controls Review is limited to reviewing the adequacy of the Company's internal policies, processes and procedures, does not cover any commercial, financial or tax review, and does not go into any analysis on the sufficiency and computation of any financial information or thresholds or the merits of the commercial and financial aspects of any M&A Projects, and a full and more comprehensive inquiry would require an accounting or financial advisory firm to review the M&A Projects and provide their findings and analysis from a financial advisory perspective. Without limiting the generality of the foregoing, we have not examined

and do not comment on any of the accounts, business reports and any other financial information provided by the Group.

4.5 The verification of accuracy and/or authenticity of the information and documents provided to us in the course of our work is outside the scope of our Internal Controls Review. In making the findings and recommendations in this Report, we have assumed the accuracy of information given to us by the Company (including without limitation, members of the Board and Management) and have not performed any verification of that information except to the extent specified in this Report. We have also assumed that all the documents provided to us as originals are authentic, that copies provided to us conform to the originals and that all signatures on the documents have been properly affixed. We do not assume any responsibility and make no representations with respect to the accuracy or completeness of any information provided to us by the Company (including without limitation, members of the Board and Management). We have also relied on representations made by the Company's Legal Advisors, Altum Law Corporation, in relation to the completeness of the documents provided to us. We have also assumed that all the necessary corporate secretarial filings made with ACRA have been filed promptly, accurately and correctly, and in line with the relevant rules and regulations.

4.6 In respect of the Wayco Acquisition, we have conducted relevant interviews and have relied on the information and Documents provided to us in the course of our work in determining the facts and circumstances surrounding the new Board's approval for the Wayco Acquisition. However, save for the Wayco Acquisition, our work does not include any review of any of the facts or circumstances surrounding any of the other M&A Projects.

4.7 We are not and were not involved in any aspect of the discussions and/or negotiations pertaining to any M&A Project, nor were we involved in the deliberations leading up to the decisions by the Board and Management in connection with any M&A Project. Our work also does not cover any of the Company's investments in quoted securities and any aborted M&A Projects.

4.8 It is not within the terms of our engagement to express an opinion on the rationale for, legal, strategic, financial and commercial merits and/or risks, and structure of any transactions (including but not limited to acquisitions or disposals) undertaken by the Group, and accordingly this Report does not purport to contain all the information that may be necessary or desirable to fully evaluate the rationale for, legal, strategic, financial and commercial or investment merits and/or risks of any transactions undertaken by the Group. The assessment of the legal, strategic, financial, commercial and investment merits and/or risks of any transactions undertaken by the Group is solely the responsibility of the Board and Management.

4.9 Our terms of reference do not require us to provide advice on legal, regulatory, accounting, property or taxation matters and, where specialist advice has been obtained by the Group and made available to us, we have considered, and where appropriate, relied upon such advice.

4.10 Our work is not of the same nature as rendering a legal opinion, and does not constitute a legal opinion. We are not, therefore, issuing a legal opinion. Instead, our work is in the nature of a review of the information provided to us, including discussions with the Board and Management.

4.11 This Report refers to statements of opinion by members of the Board and Management on matters and/or persons, provided through requests for further information or interviews. Where we have included in this Report observations or comments on any person, we have not had the opportunity to put such observations and comments to them in draft, and to give them an opportunity to respond to such draft observations or comments prior to the submission of this Report. The reader of this Report is reminded that statements of opinion are inherently subjective, and no assurance can be given that such statements of opinion will prove to be correct. For the avoidance of doubt, such statements of opinion represent the views of the respective statement-makers, and do not represent the views of Lee & Lee. Consequently, our findings and recommendations are based on the information made available to us to-date and subject to these limitations.

## 5. METHODOLOGY

5.1 In designing the methodology for the Internal Controls Review, we referenced an ideal system of internal controls processes and procedures for the evaluation and approval of mergers, acquisitions and conflicts of interest, and for the nomination, appointment, resignations, termination or removal of directors.

5.2 This ideal system is based on current standards, practices, rules, regulations and market expectations of internal controls processes and procedures.

5.3 In carrying out the Internal Controls Review, we have benchmarked the Company's processes and procedures against current standards, practices, rules and market expectations of internal controls processes and procedures.

5.4 It should be borne in mind that we have looked at the Company's transactions and directorships that span a period of more than 17 years and during this period of time, standards, practices, rules, regulations and market expectations in the areas of internal controls processes and procedures may have over time changed and become more stringent.

5.5 This Report does not cover financial or tax reviews, and does not go into an analysis on the computation of any financial information or thresholds or the merits of the commercial and financial aspects of the transactions and that the full inquiry would require an accounting or financial advisory firm to review the past transactions and provide their findings and analysis from a financial perspective.

5.6 M&A Projects

In conducting our Internal Controls Review, we considered whether the Company had taken, *inter alia*, the following material steps in evaluating and approving an M&A Project:

(a) was a board paper or information memorandum setting out information, particulars, rationale and basis for recommendation of the M&A Projects circulated among the Directors or were there detailed discussions at a meeting of the Board wherein the proposed M&A Project was approved;

(b) did the AC and/or the Board consider the implications of Chapter 9 (Interested Person Transactions) of the Listing Manual to determine if, *inter alia*, Shareholders' approval is required for the proposed M&A Project and were there any conflicts of interest declared, or a negative confirmation provided that no Director or controlling Shareholder had any interests in the proposed M&A Project and in the event of a conflict being stated by a Director, did such Director abstain from voting;

(c) did the AC and/or the Board consider the implications of Chapter 10 (Acquisitions and Realisations) of the Listing Manual on the proposed M&A Project to determine if, *inter alia*, Shareholders' approval is required; and

(d) ensure proper resolutions were passed to approve the proposed M&A Project.

5.7 Directors

In conducting our Internal Controls Review, we considered whether the Company had taken, *inter alia*, the following material steps in the appointment, resignation, termination or removal of Directors:

(a) did the NC consider the curriculum vitae of the proposed new Director, interview the proposed new Director and deliberate on certain key matters in respect of the proposed appointment, including the qualifications of the proposed new Director, whether the proposed new Director had any experience in the Company's field of business, and whether the proposed new Director has held directorships in other listed companies;

(b) did the proposed new Director execute the necessary documentation prior to or upon his/her appointment, including, Declaration of Independence Form (if the proposed new Director is to be appointed as an independent Director) and declaration of interests under Section 156 of the Companies Act;

(c) in the case of an executive directorship, did the Company provide a service agreement to the proposed new Director, and whether or not the RC had approved the proposed executive Director's remuneration;

(d) in the case of a non-executive Director, did the Company provide a letter of appointment to the proposed new Director, setting out the obligations and commitments of the new Director;

(e) did the Board consider the NC's/RC's recommendations in deciding whether to approve the appointment/remuneration of the proposed new Director;

(f) if a Director had resigned, did the Board discuss and note such resignation, and whether such discussions also included the reconstitution of the various board committees in light of the Director's resignation; and

(g) in respect of a resignation, whether the Announcement stated that there were any unresolved differences in opinion on material matters, including matters which would have a material impact on the group or its financial reporting, any matters in relation to the cessation that needs to be brought to the attention of the shareholders of the listed issuer and/or any other relevant information to be provided to shareholders of the listed issuer.

## 6. SUMMARY OF KEY FINDINGS

### 6.1 M&A Projects

6.1.1 We observe that during the Review Period, excluding the Wayco Acquisition, the Company undertook eight completed M&A Projects, one aborted M&A Project and a series of equity increases in its former subsidiary, Datapulse Technology (Taiwan) Inc. ("**DTTW**"). DTTW was held through another existing subsidiary of the Company called Datapulse Marketing Pte Ltd (whose name was subsequently changed to Datapulse Investment Pte Ltd).

6.1.2 Of the eight completed M&A Projects, the disposal in respect of 15A Tai Seng Drive Singapore 535225 was approved by Shareholders on 28 September 2017. The aborted M&A Project was in respect of the proposed acquisition of 5 Toa Payoh West Singapore 318877. As for DTTW, it was already established by the Company as a subsidiary prior to the Review Period and the incremental equity increases were undertaken when DTTW remained as a subsidiary, as part of the ordinary course of business of the Company and were supported by approvals from the Board of the Company.

6.1.3 In respect of the eight completed M&A Projects, they comprise:

(a) the acquisition of interests in Elchemi Education Pte Ltd ("**EEPL**"), a subsidiary of the Company, which the Board approved on 26 February 2003;

(b) the disposal of EEPL, which was approved on 20 February 2004 by the board of another subsidiary of the Company, which directly held the investment;

(c) the acquisition of interests in Raffles Campus Pte Ltd ("**RFC**"), which the Board approved on 17 and 22 December 2003;

(d) the disposal of interests in RFC, which the Board approved on 13 February 2006;

(e) the acquisition of interests in Goldprime Realty Pte. Ltd. ("**Goldprime**"), which the Board approved on 16 October 2015;

(f) the disposal of interests in Goldprime, which the Board approved on 2 December 2016;

(g) the disposal of interests in One Global Inc. ("**OGI**"), a wholly owned subsidiary of the Company, which the Board approved on 10 March 2016 and 7 July 2016; and

(h) the disposal of 15A Tai Seng Drive Singapore 535225, which the Board first approved on 26 July 2017.

6.1.4 All the completed M&A Projects were supported by approvals from the Board of the Company, save for the disposal of EEPL, which was supported by approval from the board of another subsidiary of the Company, which directly held the investment.

6.1.5 In a few of the M&A Projects, we were unable to sight any express discussions in either the minutes of meeting ("**Minutes**"), resolutions or Announcements considering the implications of Chapter 9 (Interested Person Transactions) and Chapter 10 (Acquisitions and Realisations) of the Listing Manual on the proposed M&A Project. However, this should not be taken as an indication of a breach of the relevant listing rules in the Listing Manual, and as our Report does not cover or go into any analysis on the computation of any financial information or thresholds, we are unable to independently verify if there has been such a breach.

6.1.6 In the course of our Internal Controls Review, we note that the Company has a Treasury Policy and a Cash Management Policy.

The Treasury Policy, dated 15 December 2006, sets out the guidelines applicable to the Company in the management of its treasury activities. In particular, it states that the maximum investable amount in equities shall be capped at S$10 million, and that any single investment made in a quoted or unquoted company shall not result in the Company holding 20% or more voting rights of the investee company. It also states the guidelines for investing in equities.

The Cash Management Policy, dated 10 March 2008, sets out the guidelines applicable to the Company in the management of its cash holdings. For example, it is stated that the maximum investable amount (i.e. at cost) in Singapore government securities shall be capped at S$4.0 million (which is approximately 10% of the Company's cash holdings as at 31 July 2007 per the latest audited accounts).

Although we have sighted the Treasury Policy and the Cash Management Policy, we were not able to ascertain if the Company had applied these policies when evaluating and approving the M&A Projects, as the approving resolutions do not make specific reference to these policies.

6.1.7 In respect of EEPL, we note that an information memorandum containing information on, *inter alia*, the business of the target, revenue models, present and future programme offerings, cost considerations, project plans, success factors and proposed investment structure, was circulated to the Board when seeking approval for the acquisition of EEPL.

We however did not observe any board paper or information memorandum being circulated when EEPL was disposed about a year later. We also did not observe any express discussions on the applicability of Chapters 9 or 10 of the Listing Manual in respect of the acquisition or disposal of EEPL. We however note that at the point of disposal, EEPL was already a subsidiary of the Company and that in the Company's financial results announcement of 11 March 2004, it was stated that EEPL was sold for $192,600 and that none of the Directors and controlling Shareholders had any interest in the transaction.

6.1.8 In respect of RFC, we note that in seeking approval for the acquisition of interests in RFC comprising convertible preference shares, discussions were held by the AC and the Board. Although we did not sight any formal and separate board paper or information memorandum in relation to the same, we sighted discussions on the same in the relevant Minutes of the AC Meetings. In particular, the AC noted that the RFC acquisition would constitute an IPT as it

noted that Ng Boon Yew ("**NBY**"), then an independent Director of the Company, had interests in RFC. The Board and the AC concluded that the Company need not make an announcement nor obtain Shareholders' approval as the RFC acquisition amounted to less than 3% of the Group's latest audited net tangible assets although the Company would have to disclose the IPT in its annual report. Other than NBY, the AC noted that the other Directors and substantial Shareholders of the Company had no interest directly or indirectly in the RFC acquisition. The AC's discussion covered, *inter alia*, RFC's vision and strategy, operational status and financial projections. We note that NBY abstained from voting on the resolutions to approve the RFC acquisition.

Approximately two years later, the Board approved the disposal of all of the Company's interests in RFC, which comprised convertible preference shares. In seeking the Board's approval, we did not sight any information memorandum to the Board discussing the proposed disposal and we did not observe any express discussions on the applicability of Chapters 9 or 10 of the Listing Manual on the said disposal. We finally note that NBY abstained from voting on the resolutions to approve the disposal.

We were referred by the Company's Legal Advisors, Altum Law Corporation, to Appendix A to the Presentation at the SIAS Dialogue released on SGXNET on 27 March 2018, which stated that "*On or around 22 November 2005, Raffles Campus undertook a further issuance ("**Further Share Issuance**") of 104,600,000 new preference shares at the price of S$0.01 per preference share, of which Mr Ng Boon Yew subscribed 100,000,000 of the new preference shares issued while the Company did not subscribe for any*".

In respect of the abovementioned Further Share Issuance, we did not sight any discussions on the Further Share Issuance in the Minutes or written resolutions of the Board or the AC that have been provided to us. We have sought clarification on this from the Company and have been informed that the current Management and Directors of the Company are not aware of any discussions of the then board of directors, audit committee or management in relation to the Further Share Issuance.

6.1.9 In respect of Goldprime, which was a joint venture investment together with Lian Beng Group Ltd to participate in the property development business in Australia by which the Company would acquire a 20% stake in Goldprime, we note that brief details on the investment were circulated to the Board prior to approval being obtained to acquire an interest in Goldprime. The brief details covered Goldprime's plan to acquire property in Melbourne for A$24.35 million for redevelopment, Goldprime's immediate cash requirements of which the Company's cash contribution pro-rated to reflect its 20% stake in Goldprime would be A$2.9 million and the Company's understanding to also provide a corporate guarantee in such amount to reflect its 20% stake in Goldprime, set-up and structuring costs. Although we did not observe any express discussions on the applicability of Chapters 9 or 10 of the Listing Manual on the said acquisition, we note that it was disclosed in the Announcement regarding the transaction dated 19 October 2015 that the transaction did not amount to a discloseable transaction for the purposes of Chapter 10 of the Listing Manual and that none of the Directors or controlling Shareholders of the Company had any interest, direct or indirect, in the transaction, save for their shareholdings in the Company.

In the month following the acquisition, we note from the Company's financial results Announcement of 23 November 2015 that in November 2015, a portion of the proceeds raised from the issuance of shares to Lian Beng Group Ltd in FY2015, amounting to approximately S$2.82 million had been remitted to the Group's associate, Goldprime, and that the funds were intended to be used for a property development project in Australia. We further note that in the next month, the Company provided a corporate guarantee in favour of United Overseas Bank Limited, Sydney Branch, in respect of the existing bank loan facility granted by United Overseas Bank Limited, Sydney Branch to Lian Beng (St Kilda) Pty Ltd. We sighted Board approval for the provision of the corporate guarantee but we did not sight any Board approval for the abovementioned loan of approximately S$2.82 million from the Group to Goldprime. We also did not sight any formal board paper or discussions on the provision of the loan or the corporate guarantee. We however note that the Board approval for the Goldprime acquisition was given by the Board with knowledge of the immediate cash requirements and undertaking to provide

a corporate guarantee in respect of the joint venture and the intention to purchase the Melbourne property for redevelopment. We further note that it was previously disclosed by the Company that the use of the placement proceeds raised from the issuance of shares to Lian Beng Group Ltd would be used by the Company for property related businesses.

Approximately a year after the acquisition of the interests in Goldprime, the Board approved the disposal of all of the Company's interests in Goldprime. The resolutions of the Board noted that as none of the relative figures computed under Rule 1006 of the Listing Manual exceeds 5%, the disposal was a non-discloseable transaction under Chapter 10 of the Listing Manual and did not require Shareholders' approval. We did not sight any information memorandum circulated to the Board discussing the proposed disposal although we note from the Company's circular to Shareholders dated 26 March 2018, it was stated on page 25 that the Company decided not to participate in the property development project in Australia.

We also did not observe any express discussions on the applicability of Chapter 9 of the Listing Manual on the said disposal although we note that it was announced by KSH Holdings Limited that the purchaser was a wholly-owned subsidiary of KSH Holdings Limited, and that in the Announcement of the Company regarding the disposal of Goldprime dated 2 December 2016, it was disclosed that none of the Directors or controlling Shareholders of the Company had any interest, direct or indirect, in the disposal, other than through their respective shareholdings in the Company (if any). We were also informed during our interviews with Management that during the period of investment in Goldprime, both joint venture partners to Goldprime, namely Lian Beng Group Ltd and the Group, provided loans and corporate guarantees that were proportionate to and reflected their shareholding interests in Goldprime.

We received the following queries from the SGX-ST on 1 June 2018 in relation to the Goldprime Acquisition:

(a) the Company's reasons for not disclosing Goldprime's A$24.35 million investment in its Announcement on 19 October 2015;

(b) the date on which the Company extended the shareholder loan to Goldprime and its reasons for doing so; and

(c) the Company's reasons for only announcing the shareholder loan on 10 March 2016 instead of November 2015.

We have sought clarification on the above from the Company, and have been informed that:

(i) in respect of query (a), the current Management does not have the requested information;

(ii) in respect of query (b), the shareholder loan was extended on 18 November 2015 in fulfilment of the Company's obligations as the 20% shareholder of Goldprime. The loan was structured as such, as Goldprime did not wish to increase its share capital for its operations; and

(iii) in respect of query (c), the Company referred to the shareholder loan in its Announcement dated 10 March 2016 for the purpose of the Company's balance sheet analysis. As the shareholder loan was extended on 18 November 2015, it was not relevant to the analysis of the financial results of the Company for the quarter of 1 August 2015 to 31 October 2015.

As mentioned above, we note that the Company's financial results Announcement of 23 November 2015 stated, *inter alia*, that a portion of the proceeds raised from the issuance of shares to Lian Beng in FY2015, amounting to approximately S$2.82 million had been remitted to the Group's associate, Goldprime. We have been informed by the Company that the figure of S$2.82 million refers to the shareholder loan remitted on 18 November 2015. We note from the Announcement dated 21 September 2017 that the shareholders' loan was fully repaid.

6.1.10 In respect of the disposal of interests in OGI, we note from various Board and AC discussions that in view of the increasingly challenging operating environment that DTTW was operating in, OGI was established as part of the restructuring plan to address the situation. OGI subsequently bought the land and building held by DTTW. In the Company's FY2011 annual report, it was stated that the Company has discontinued the business of DTTW; that the Group's total investment in Taiwan included land and building held by OGI; that the book value of the land and building was $6.5 million as at 31 July 2011; and that it was the intention of the Group to dispose the land and building at an appropriate time.

We note that in 2014, it was minuted in a Board meeting that Management had evaluated various options for the disposal of the investment in Taiwan and had considered disposal by way of selling the entire share investment in OGI. In March 2016, it was minuted in the Board meeting that a board paper was prepared in relation to the proposed disposal of the Company's investment in Taiwan, which contained discussions on the valuation of the properties, comparison of recent transactions of properties in the area, financial effects and recommendations. We also sighted brief discussions on the selling price and how it was based on the valuation of the Taiwan properties. Finally in July 2016, the resolutions of the Board for the approval of the disposal of OGI noted that the transaction was not a major transaction and approval by Shareholders was not required, and that none of the Directors or controlling Shareholders of the Company had any interest, direct or indirect, in the proposed disposal, other than through their respective shareholdings in the Company. We further note that in the Announcement regarding the transaction, computations regarding the relative figures under Chapter 10 of the Listing Manual were provided and it was stated that none of the Directors or controlling Shareholders of the Company had any interest, direct or indirect, in the transaction, other than through their respective shareholdings in the Company (if any).

6.1.11 In respect of the disposal of 15A Tai Seng Drive Singapore 535225, we note that when Board approval was sought, a copy of the draft option to purchase, property valuation report and draft announcement was circulated to the Board. The resolutions approving the disposal recorded that the Directors had considered the rationale and information relating to the proposed disposal, and that each of the Directors had carefully considered each of the documents annexed to the resolutions and had disclosed all his interests in the subject of the resolutions. We further note that the Announcement released on 31 July 2017 in respect of the proposed disposal provided the rationale for the disposal, considered the application of Chapter 10 of the Listing Manual, concluded that Shareholders' approval was required for the disposal transaction, and disclosed that none of the Directors or controlling Shareholders of the Company had any interest, direct or indirect, in the proposed disposal, other than through their respective shareholdings in the Company (if any).

6.2 <u>The Wayco Acquisition</u>

6.2.1 In addition to reviewing the Documents provided to us by the Company, we have conducted interviews with the former CEO, Wilson Teng ("**WT**"); the CFO, Michael Lee Kam Seng; Low Beng Tin ("**LBT**"); Thomas Ng ("**TN**"); and Rainer Teo ("**RT**").

6.2.2 From reviewing the Documents and information told to us during the interviews, our material observations on the facts and circumstances surrounding the Wayco Acquisition are set out below.

6.2.3 Prior to 27 November 2017, Ng Cheow Chye ("**NCC**") introduced Ng Siew Hong ("**NSH**") and Ang Kong Meng ("**AKM**") to the CFO at the office of the Company and was informed by NCC that they were parties interested in acquiring NCC's shares in the Company.

6.2.4 On 27 November 2017, NSH had arranged for a casual and informal lunch meeting, which was attended by NCC, AKM, LBT, TN and Kee Swee Ann ("**KSA**"). RT did not attend this meeting. Prior to the meeting, LBT, TN and RT confirmed that they were not told by NSH that the Company should acquire Wayco.

6.2.5 At the meeting of 27 November 2017, we are told that NCC informed that he was stepping down and all the lunch participants informally studied the state of the business of the Company

and took the view that diversification into a new potential sector should be considered. AKM then introduced the Wayco business. As this was an informal meeting, no presentation or information memorandum on Wayco was prepared or circulated. At the conclusion of this meeting, no decision was made that the Company was to acquire Wayco as Wayco was only being presented as a possible option.

6.2.6 Between 27 November 2017 and 10 December 2017, we are informed that collectively RT, TN and LBT conducted fact finding on Wayco to determine if it was a profitable and functioning company, had informal reviews of the assets and liabilities of Wayco based on financial statements presented by AKM, paid informal visits to retailing points of Wayco products, and conducted informal searches on the background of AKM and market feedback. Both TN and RT also interviewed AKM to understand about the business model and competitive leverage that Wayco had and assessed that Wayco was backed by assets and did not have huge debts.

6.2.7 On 6 December 2017, an email was circulated by NSH to AKM, TN, RT and KSA, which enclosed the first draft of the sale and purchase agreement (the "**SPA**"), the audited reports of Wayco for the year 2016, management accounts of Wayco for the financial period from 1 January 2017 to 30 June 2017 and a list of trademarks owned by Wayco together with copies of the registration certificates for the trademarks, and requested that such documents be forwarded to the proposed Directors for consideration before the Board meeting tentatively set for 11 December 2017 (the "**6 December 2017 Email**").

6.2.8 The Wayco Acquisition was approved at a meeting of the Board on 11 December 2017. At this meeting, it was minuted that certain information relating to the Wayco Acquisition had been circulated to the Board earlier for their review and consideration. We have confirmed this information to be contained in the aforementioned 6 December 2017 Email.

6.2.9 We did not sight any other circulating board paper or information memorandum setting out information and particulars on the rationale and basis of recommendation for the Wayco Acquisition.

6.2.10 In considering the Chapter 9 (Interested Person Transactions or IPT) requirements, it was minuted that LBT queried if the Wayco Acquisition would be considered an IPT to which the then CEO, KSA, replied in the negative. We did not sight a detailed discussion or explanation on the basis for the then CEO's reply.

6.2.11 Save as minuted, we did not sight any discussion or recorded negative confirmation that none of the Directors and controlling Shareholders had any interest, direct or indirect, in the Wayco Acquisition. We however note that in section 7 of the Announcement dated 12 December 2017, it was stated that none of the Directors and substantial Shareholders had any interest, direct or indirect in the Wayco Acquisition, Wayco and/or the sale and purchase agreement dated 12 December 2017 for the Wayco Acquisition.

6.2.12 In respect of considering the Chapter 10 (Acquisitions and Realisations) requirements, we did not sight any Minutes or resolutions expressly stating that the AC or the Board had considered the implications of Chapter 10 of the Listing Manual. We however note that it was stated in the Announcement dated 12 December 2017, that the relative figures computed pursuant to Rule 1006 for the Wayco Acquisition amounted to less than 5%, and was a non-disclosable transaction under Chapter 10 of the Listing Manual.

6.2.13 We did not sight any discussion at this Board meeting of 11 December 2017 on the requirement to seek Shareholders' approval for the proposed diversification of the Company's core businesses to include, *inter alia*, manufacturing of hair care, cosmetics and other homecare chemical products, which is the business that Wayco is engaged in.

6.2.14 We note that the SPA dated 12 December 2017 contained the term that a condition precedent to the completion of the Wayco Acquisition was that the Company was satisfied with the results of such financial and legal due diligence investigations on Wayco as the Company considered necessary.

6.2.15 The next Board meeting was held on 13 December 2017, wherein it was minuted that the Vendor of Wayco, i.e. Way Company Pte. Ltd., had requested for completion of the Wayco Acquisition to proceed forthwith and that for the Company to accede to the Vendor's request, it may have to forgo conducting due diligence on Wayco before proceeding with completion.

6.2.16 We note that the following property valuation reports were received by the Company on 14 December 2017:-

(a) No. 11, Jalan Dewani 3, Kawasan Perindustrian, Dewani, 81100, Johor Bahru, Johor Darul Takzim ("**Wayco Property 1**");

(b) No. 12, Jalan Dewani 3, Kawasan Perindustrian Dewani, 81100, Johor Bahru, Johor Darul Takzim ("**Wayco Property 2**"); and

(c) No. 10, Jalan Peturi 7/11, Bandar Peturi, 47100 Puchong, Selangor Darul Ehsan ("**Wayco Property 3**").

In respect of Wayco Property 2, we note the following disclosures in the valuation report by Burgess Rawson (JH) Sdn Bhd:-

(i) Section 9 stated that "Presently, the Subject Property is occupied";

(ii) Section 16 stated that the valuer was of the opinion that the market value of Wayco Property 2, together with the site improvement and building erected thereon, in its existing condition, free from all encumbrances and with vacant possession is RM3,100,000; and

(iii) Appendix D1 attached photographs of Wayco Property 2, which showed the letters "RW" on the building of Wayco Property 2.

We also note that in Appendix D of the circular to Shareholders dated 26 March 2018, it was stated that the factory on Wayco Property 2 "was occupied at the time of the valuation", and that such valuation was conducted on 4 December 2017.

6.2.17 In the Minutes of Board meeting held on 13 December 2017, attended by all Directors, it was stated that *"After deliberations, the Board noted that given the 1QFY2018 results, it was in the interest of the Company to close the acquisition, and directed Management to inform the vendor that the Company was prepared to complete the acquisition without due diligence provided the vendor agrees to give an undertaking to buy back Wayco for the same consideration paid by the Company in the event that the Company discovers any material adverse irregularity or defect in Wayco after the acquisition ("**Buyback Undertaking**")*".

6.2.18 During our interviews, we were informed that the Board suggested the Buyback Undertaking in response to the Vendor's request for completion to proceed forthwith. The Board also requested for AKM to provide a personal guarantee for the Buyback Undertaking. AKM however refused to give the personal guarantee. The Board considered the risk of not completing a due diligence prior to completion of the acquisition and AKM refusing to give a personal guarantee, and reasoned that such risk was sufficiently managed as the Buyback Undertaking would oblige the Vendor to buy back Wayco, give sufficient opportunity and time to the Company to perform due diligence after completion of the Wayco Acquisition, and that up to 70% of the purchase price was backed by the value of the property assets of Wayco.

6.2.19 On 15 December 2017, the parties signed a supplemental agreement to the SPA, which contained the provisions of the Buyback Undertaking. The Wayco Acquisition was also completed on the same day.

6.2.20 We note that the Buyback Undertaking provided that the Vendor shall buy back 100% of Wayco at the same effective purchase consideration paid by the Company, within one year from the date of completion of the Wayco Acquisition, if the Company reasonably ascertains that there are any ***material adverse events*** or matters affecting or relating to the assets, liabilities and/or

business of Wayco to such a ***material extent*** which, if it had been known to the Company as at the date of the SPA, would have reasonably affected the Company's decision to enter into the SPA and complete the Wayco Acquisition.

6.2.21 We however note that under the supplemental agreement, there is no elaboration or definition of what constitutes "material adverse effect" and "material extent". As such, what could constitute as "material" is open to differing interpretations of degree.

6.2.22 We further note that although the SPA had contained a clause stating that it was a condition precedent to completion of the acquisition that the Company was satisfied with the results of such financial and legal due diligence investigations on Wayco as the Company considered necessary, we did not sight a similar provision as a condition subsequent in the supplemental agreement which would require the Vendor to undertake a buy back if the Company was not satisfied with the results of such financial and legal due diligence investigations conducted on Wayco subsequent to completion of the acquisition.

6.2.23 It was stated in the Announcement dated 15 December 2017 that although one of the conditions precedent in the SPA was in relation to Shareholders' approval, the Company did not intend to seek Shareholders' approval for the Wayco Acquisition although it would in due course seek Shareholders' approval for the proposed diversification of the Company's core businesses to include, *inter alia*, manufacturing of hair care, cosmetics and other homecare chemical products, which is the business that Wayco is engaged in.

6.2.24 Finally, during our interviews, we asked the Board on the rationale for coming to the conclusion that the Company needed to acquire a new company expeditiously. The Board responded that the Company faced the risk of being deemed a cash company under Rule 1018 of the Listing Manual as it would not have any operations once the disposal of 15A Tai Seng Drive Singapore 535225 was completed, and if it became a cash company, the Company's shares would run the risk of being suspended and the Company would be in a prejudicial and unfair bargaining position when it came to negotiations for any potential merger and acquisition projects ("**Potential M&A**") as the counterparty would take advantage of the time pressure faced by the Company to conclude a transaction and resume trading or face delisting subsequently.

6.2.25 We however note that the completion of the disposal of 15A Tai Seng Drive Singapore 535225 only took place on 31 January 2018 and that under Rule 1018, the SGX-ST will only remove an issuer from the list of issuers maintained by the SGX-ST if it does not comply with the requirements of Rule 1018(1) within 12 months and may allow continued trading in a cash company's securities on a case-by-case basis.

6.2.26 Pursuant thereto, the Board may have more effectively managed the competing risks between being deemed a cash company under the Listing Manual and forgoing pre-acquisition completion due diligence on Wayco by better appreciating the timeframe given under the Listing Manual, and attempting to enter into further negotiations with the Vendor to request for the Vendor to furnish more comprehensive pre-acquisition representations and warranties regarding the state of affairs and business of Wayco in place of forgoing full due diligence prior to completion, and enhancing the terms of the Buyback Undertaking to expressly cater for the buyback to occur due to unsatisfactory due diligence findings.

6.3 General Observations on Directors' Appointments, Nominations, Removals and Terminations

6.3.1 During the Review Period:

(a) seven Directors were appointed;

(b) 11 Directors resigned;

(c) one Director retired and did not seek re-election at the annual general meeting of the Company; and

(d) none of the Directors were removed or terminated.

6.3.2 We did not sight any other instances of written express nomination for directorship appointments from any Director or Shareholder of the Company or from any third party, save for KSA, LBT, RT and TN, who were nominated by NSH for appointment as Directors.

6.3.3 In respect of the appointment of Directors during the Review Period, we note that generally the Company's processes and procedures conform materially to the requisite rules and regulations, save that:

(a) we have observed that when a Director is appointed, we did not sight the issuance by the Company of a formal letter of appointment to new independent Directors, such document setting out the Director's duties and obligations upon his appointment;

(b) in the case of the appointment of KSA as an executive Director, we did not sight the resolutions of the RC/Board in relation to the review/approval of his remuneration or service agreement prior to his appointment;

(c) in the case of NBY, we did not sight his curriculum vitae, Form 45 (Consent to act as Directors) and the Announcement relating to his appointment as a Director of the Company;

(d) in the case of SG, we did not sight his Form 45 (Consent to act as Directors); and

(e) in the case of KSA, LBT, RT and TN:

(i) we note that their appointments were not considered by the NC, as the majority of the NC members (comprising all the independent Directors of the Company) had resigned the day prior to the appointment of KSA, LBT, RT and TN. Their appointments were instead considered and approved by the then remaining executive Directors of the Company (namely, NCC, SYF and NCL); and

(ii) we did not sight KSA's Notification of Director's Shareholding Form and declaration of interests under Sections 156 and 165 of the Companies Act.

6.3.4 In the case of the resignation of Directors, the resignation of each Director was announced and the Announcements stated that there was:

(a) no unresolved differences in opinion on material matters between himself/herself and the board of Directors, including matters which would have a material impact on the group or its financial reporting;

(b) no matters in relation to the cessation that needs to be brought to the attention of the shareholders of the listed issuer; and

(c) no other relevant information to be provided to shareholders of the listed issuer.

## 7. RECOMMENDATIONS

### 7.1 M&A Projects

7.1.1 As mentioned above, in the course of our Internal Controls Review, we noted that the Company has a Treasury Policy and a Cash Management Policy. However, we were not able to ascertain if the Company had applied these policies when evaluating and approving the M&A Projects, as the approving resolutions do not make specific reference to these policies.

7.1.2 Save for the above, we did not sight any established written policies or guidelines for evaluating potential acquisitions and disposals in M&A Projects. Nonetheless, we have observed that generally, for most of the completed M&A Projects, the Company has applied some processes and procedures in evaluating potential M&A Projects and we did not observe any systemic or consistent failure to apply such processes or procedures.

7.1.3 For example, Board approvals are obtained before a transaction is undertaken, the applicability of the requirements of Chapters 9 (Interested Person Transactions) and 10 (Acquisitions and Realisations) of the Listing Manual in respect of the proposed transaction were generally addressed in either discussions during meetings or briefly noted in the resolutions or Announcements. Board papers or informal discussions amongst the Directors were also circulated or conducted in respect of the evaluation or the acquisition of interests in EEPL, RFC and Goldprime and in the disposal of OGI.

7.1.4 Although board papers or informal discussions were circulated or conducted in respect of the evaluation of potential M&A Projects, as there were no established written policies or guidelines for evaluating potential acquisitions and disposals, we note that the evaluations that were carried out by the Board and/or the AC were not carried out on a consistent and uniform basis, i.e. some evaluations were conducted on a more thorough and robust manner than others.

7.1.5 We have also observed that due to the absence of established written policies or guidelines, it was the personal commercial experience of each individual Board member that was relied upon in making judgement calls in the evaluation process and as each Board member's experience differed, this resulted in an uneven application of the informal evaluation process.

7.1.6 Pursuant thereto, we recommend that the Company establish written policies and guidelines to guide both the Board and Management in the process for the evaluation and approval of Potential M&A. Such policies and guidelines can be encapsulated in an evaluation checklist for Management to ensure the even and consistent application of the policies and guidelines when evaluating Potential M&A for recommendation to the Board. For example, the checklist should prescribe steps that include requiring, *inter alia*: (1) a board paper on the Potential M&A to be circulated prior to the meeting in order to allow the Directors sufficient time to understand the rationale and basis for such proposal, (2) discussions on the applicability and impact of the laws, regulations and Listing Manual on the Potential M&A, (3) complete and appropriate due diligence to be conducted as part of the evaluation and pre-completion process to the Potential M&A, and (4) the Company to seek proper and appropriate legal, tax and financial advice and due diligence prior to undertaking the Potential M&A. The due diligence to be conducted should include, *inter alia*, a review of the following matters and issues:-

(a) the corporate information of the target company, including its corporate structure;

(b) key risk areas identified by the management of the target company;

(c) the existing contracts of the target company, including but not limited to customer contracts, loan agreements, guarantees, indemnities, insurance contracts, employment agreements, distribution agreements and agency agreements;

(d) the major assets of the target company;

(e) the intellectual property and information technology of the target company, including but not limited to the details of registered intellectual property rights, brand names, licences of such rights, and agreements for the disclosure of confidential information;

(f) compliance with laws, orders, rulings and regulations and details of any actual or potential disputes or claims against the target company;

(g) the organisation chart of the target company and details of all employees, including but not limited to recent salary awards and increases, pensions and particulars of trade union contracts and labour disputes;

(h) the financial information of the target company, including but not limited to the audited and management accounts, details of audits conducted, financial track record, profitability, cash balances, property plant and equipment, related party transactions and receivables; and

(i) tax matters including but not limited to tax compliance, tax liabilities, tax reserves, tax relief and tax indemnities.

7.1.7 On the matter of IPTs, we wish to highlight that under Rule 902 of the Listing Manual, in applying the rules regarding IPTs, regard must be given to the economic and commercial substance of the IPT, instead of legal form and technicality. As such, we would recommend institutionalising the management of potential conflict of interests in the Potential M&A evaluation process by requiring Directors and Management to formally disclose their interests and potential conflicts for each and every Potential M&A undertaken to determine or to facilitate the determination of whether there are conflicts of interests involving Directors in relation to any of the Potential M&A.

7.1.8 As mentioned above, written policies and guidelines should be established to ensure the even and consistent application of such policies and guidelines when evaluating Potential M&A. In situations where, in the Board's and Management's judgement, the risks to be undertaken in the Potential M&A can be satisfactorily managed without requiring the full and rigid adherence to the written policies and guidelines, the Board may deviate from any provision of the written policies and guidelines provided that the Company explicitly disclose the deviation together with an appropriate explanation for such deviation:

(a) to Shareholders in the relevant announcement to be released on SGXNET and in the Minutes of Board and AC meetings approving the Potential M&A, in the case of Potential M&A for which announcement(s) are required to be released on SGXNET; or

(b) in the Minutes of Board and AC meetings approving the Potential M&A, in the case of Potential M&A for which announcements are not required to be released on SGXNET.

7.1.9 The explanations of the deviations from the written policies and guidelines should be comprehensive and meaningful, and should include: (a) identifying the provision(s) of the policies and guidelines from which it has deviated; (b) the reason(s) for such deviation(s); (c) demonstrating how the Company's approach to evaluating and undertaking the particular Potential M&A is still consistent with the aim and philosophy of the policies and guidelines notwithstanding such deviation(s); and (d) the step(s) taken by the Board and Management to address any risks (including but not limited to any risk that the Group may fail to comply with the Code, the Companies Act, the Listing Manual and/or any other law or regulation) arising from such deviations.

7.2 <u>Directors' Appointments, Nominations, Resignations, etc./IPT Policy</u>

7.2.1 To enhance compliance with the Code and adherence to the terms of reference of the NC in relation to the appointment process of Directors, we recommend that the Company establish written policies to be complied with when appointing or re-appointing Directors. Such written policies should be in line with material guidelines and provisions in the Code and the terms of reference of the NC. The written policies should also be accompanied by a checklist designed

to institutionalise such material guidelines and provisions. The checklist should be filled up as part of the appointment and re-appointment process in order to demonstrate compliance and adherence to the material guidelines and provisions of the Code and the terms of reference of the NC and may prescribe such steps in the appointment and re-appointment process, including but not limited to, ascertaining whether the proposed Director's curriculum vitae has been submitted for the consideration of the NC and Board; whether the NC has interviewed the proposed Director to determine his suitability to become a Director of the Company and whether he possesses core competencies or industry knowledge which may be useful or suitable to the operation of the Company's business.

7.2.2 Where the appointment and re-appointment of independent Directors are concerned, the checklist may prescribe that when the NC assesses the independence of a potential independent Director, such assessment should consider in substance whether there are any circumstances or relationships that may affect the Director's actual and perceived independence and if he has any conflicts of interests or associations that would prevent his exercise of independent judgement. As a good practice, the NC should also consider factors other than those set out in the Code in determining the independence status of a Director as the factors set out in the Code are not exhaustive. Such additional factors to be considered could include determining whether or not the Director is in receipt of any gift or financial assistance from the Company or its major Shareholders and whether or not the Director has close personal friendships or current or past business dealings with major Shareholders, executive Directors or other key executives which could interfere, or be reasonably perceived to interfere, with the exercise of the Director's independent business judgement.

7.2.3 Should the NC not be able to assess the appointment or re-appointment of the Director for recommendation to the Board or the independence of a potential independent Director, the Directors of the Board shall still comply with and adhere to the written policies in respect of appointing or re-appointing Directors and the checklist should be filled up as part of such process in order to demonstrate compliance and adherence to the material guidelines and provisions of the Code and the terms of reference of the NC.

7.2.4 We believe that the preparation and issuance of a formal letter of appointment is critical when a Director is newly appointed as it sets out the director's duties and obligations upon his appointment and his agreement to the Company to be bound by such duties and obligations, which typically include, *inter alia*, the requirement to comply with the Listing Manual and the Code, the requirement to keep the Board advised on an ongoing basis of any interests that conflict with, or could reasonably be perceived to interfere materially with, the exercise of the Director's unfettered and independent judgement, etc. We however did not sight the issuance by the Company of such formal letters of appointment when independent Directors were appointed to the Board of the Company.

7.2.5 We would therefore recommend that such formal letters of appointment be issued to all the independent Directors for their execution and confirmation. In addition, we recommend that detailed briefings on director's duties and obligations, in the context of a listed company, be conducted immediately. In particular, we recommend that the briefing focus on the Director's obligations of disclosure under the Companies Act, which require a Director who is directly or indirectly interested in a transaction or proposed transaction with the Company to declare the nature of his/her interest at a meeting of the Directors, such declaration to be made as soon as practicable after the relevant facts have come to the conflicted Director's knowledge.

7.2.6 We note that in the appointment of the Directors on 11 December 2017, the Directors were required to make disclosure of their interest in transactions, property, offices, current directorships in other entities, etc. in accordance with Section 156 of the Companies Act. We would also recommend that the Company ensure that such declarations of interest are at least updated annually thereafter and that the information required to be disclosed include (i) details of any directorship/sole proprietorship/partnership/other business interests of the Director in any entity; and (ii) details of any shareholdings where 5% or more of the total number of voting shares are held by the Director in any business or corporation in Singapore or elsewhere.

7.2.7 In addition, we recommend that the Company consolidate the Director's declarations of interests into a conflicts of interests database ("**COI Database**") that is easily accessible by Management for the purposes of tracking conflicts of interests, especially in the cases of Potential M&A.

7.2.8 In companion with the COI Database, the Company should also formalise an internal IPT Policy and institute the following key controls:

(a) the CFO maintains and updates the COI Database, which is assessable by designated Management staff who are responsible for checking against the COI Database in deciding whether any Potential M&A can be entered into. In setting up and maintaining the COI Database, the CFO should also extend the requirement to controlling Shareholders of the Company to make relevant declarations of interests to the Company;

(b) the designated Management staff are tasked to be responsible for ensuring that the financial procedures and approval limits for IPTs are adhered to before entering into contracts with any third parties, including any interested persons. The CFO and/or CEO should also ensure that the prices and terms of the contracts are fair and reasonable or on normal commercial terms, and are not prejudicial to the interests of minority shareholders of the Company;

(c) clear procedures should be instituted to identify, disclose and deal with any potential conflicts of interests or IPTs as soon as possible and not when the Potential M&A is at an advanced stage and this should remain as a continuing obligation of all Directors and Management to be aware of any potential conflicts of interests or IPTs that may arise as the Potential M&A runs its course; and

(d) the CFO shall review the IPT procedures and guidelines annually to ensure that the processes and safeguards are adequate and appropriate.

7.3 <u>General</u>

7.3.1 As at 11 April 2018, being the date of our engagement, the Board had four Directors, of which only one Director had prior experience being a director of a company listed on the SGX-ST. Under these circumstances, we would recommend that the Company improve the overall expertise of the Board in the areas of corporate governance and compliance with the Companies Act, the Code and the Listing Manual. The Company should therefore work towards instilling a Board culture which recognises not only the importance of growing the Company and improving its performance by ensuring that the Company's resources are used efficiently and productively, but also the equal importance of conformance to rules and regulations to safeguard Shareholders' and other stakeholders' interests.

7.3.2 We recommend that the Company also establish a Board Risk Committee ("**BRC**") to assist the Board to provide primary governance and oversight of risks in the Company by operating a risk management framework which identifies the nature of strategic, financial, operational, compliance and/or IT risks to oversee, develop risk management and internal control systems and review the adequacy and effectiveness of risk management and internal control systems. In terms of function, the BRC should be separate from the AC, as a separate BRC can give a more holistic view of the key risks, risk management and internal control systems and more time can be allocated to a focused overseeing of the risk management and internal control systems, instead of assigning these tasks to two or more fragmented committees. Training is essential to ensure that BRC members have the relevant experience, knowledge and skills which would enable the BRC to effectively discharge its duties. As such, upon joining the BRC, a Director should undergo a thorough orientation programme to familiarise himself with the roles, responsibilities and authority of the BRC as set out in the terms of reference as well as the risk governance, risk strategy and policy, risk management framework, internal control system and approaches of the Company. The Company should also consider holding in-depth training sessions on risk governance, enterprise risk management, internal controls, crisis management, as well as specific tailored training sessions for individuals, if required.

7.3.3 The Company may finally wish to consider enriching the Board's expertise by appointing director(s) who have legal and/or compliance expertise and who have strong experience in undertaking merger and acquisition projects for companies listed on the SGX-ST.

**- End of Report -**