

Astaka Holdings Limited

Independent Fact-Finding Report

**Strictly private & confidential**

3 April 2020



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## Defined Terms

The following defined terms are used in this report:

<b>Defined Terms</b>	<b>Description</b>
2012 Code	Code of Corporate Governance 2012
2018 Code	Code of Corporate Governance 2018
AC	Audit Committee
Accounting Standards	Means the accounting standards made or formulated by the Accounting Standards Council under Part III of the Accounting Standards Act 2007 and applicable to companies and to foreign companies in respect of their operations in Singapore for the purposes of the Companies Act
AHL	Astaka Holdings Limited
APL	Astaka Padu Limited
APSB/ Astaka	Astaka Padu Sdn Bhd
BLR	Maybank Base Lending Rate
Board	Board of Directors
BPSB	Bukit Pelali Properties Sdn Bhd
Companies Act	Companies Act (Cap. 50) of Singapore
CSCE	China State Construction Engineering (M) Sdn Bhd
Due Date	30 June 2017, being the date that APSB, BPSB and SSSB agreed to pay the Principal Sum to CSCE under the Loan Agreement
EOT	Extension of Time to complete the construction project
FY	Financial Year ended 30 June
LAD	Liquidated Ascertained Damages, payable to the purchasers
LD	Liquidated Damages, payable by the CSCE at rate of RM 200,000 per day of delay
Listing Rules	Section B of the listing manual of the SGX-ST dealing with the rules of the Catalist board of the SGX-ST, as amended, modified or supplemented from time to time
LOA	Letter of Award issued by APSB to CSCE dated 18 December 2014
Loan Agreement	Loan agreement dated 12 April 2017 which was signed between APSB, BPSB, SSSB and CSCE
LOD#1	First letter of demand dated 2 October 2018 received from CSCE's solicitor
LOD#2	Second letter of demand dated 1 February 2019 received from CSCE's solicitor
LOD#3	Third letter of demand dated 11 July 2019 received from CSCE's solicitor
Management	Collectively the CEO, COO, and CFO
SFA	Securities and Futures Act (Cap. 289) of Singapore

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<b>Defined Terms</b>	<b>Description</b>
SGX-ST	Singapore Exchange Securities Trading Limited
SOPs	Standard Operating Procedures
SSSB	Saling Syabas Sdn Bhd

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## List of personnel mentioned in this report

The following is the list of personnel mentioned in this report:

<b>Name</b>	<b>Designation</b>
Dato' Zamani Bin Kasim ("Dato'")	Executive Director and Chief Executive Officer ("CEO")
Lee Shih Yi ("Lee")	Chief Financial Officer ("CFO")
Daeng Hamizah Binti Abd Aziz ("Hamizah")	Chief Operating Officer ("COO")
Lee Li Teng ("LT")	Current APSP Accountant
Goh Kah Ling ("KL")	Former Accountant (10 January 2018 to 19 January 2019)
Jaclyn Khung ("JK")	Former Finance Manager (11 March 2018 to 2 March 2019)

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## Appendices

The following is the list of appendices referred to in this report:

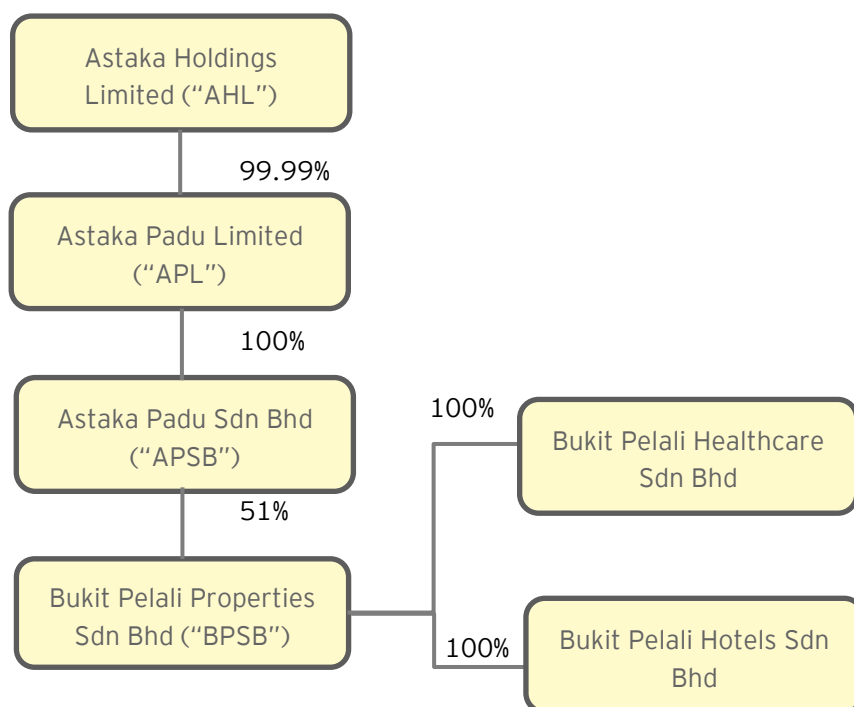
<b>Appendix</b>	<b>Description</b>
Appendix 1	List of former employees involved in the Matter whom we were unable to speak to
Appendix 2	Detailed timeline of events
Appendix 3	List of payments made to CSCE and re-allocation of certificates
Appendix 4	Chronology of Certificate of EOT issued by Architect
Appendix 5	List of potential breaches of the SGX Listing Manual
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Appendix 7	Extract of the existing SOPs indicating limits of authority
Appendix 8	List of management reports recommended by the Corporate Governance Guides

## 1. Executive Summary

This Executive Summary should be read in context of the entire report, its exhibits and appendices. It does not stand alone, but rather provides a summary of the findings in this Report.

### Background

Astaka Holdings Limited (“AHL”) is a company listed on the Catalist board of the Singapore Exchange on 23 January 2009. The Group structure is depicted below:



China State Construction Engineering (M) Sdn Bhd (“CSCE”) was engaged by Astaka Padu Sdn Bhd (“APSB”), a wholly-owned indirect subsidiary of AHL, as the main contractor to

carry out construction works for the development of the Astaka Project in 2014 ("The Astaka Project").

On 12 April 2017, APSB, BPSB and SSSB entered into a loan agreement with CSCE in respect of the sum of RM 46,532,461.19, being the amount that APSB owed as at 28 February 2017 to CSCE for of progress claims issued by CSCE to APSB as follows:

Certificate #	Principal Sum (RM)	Due Date for payment of progress claims	Total amount owed as at 28 February 2017 (RM)
Certificate #21	11,978,147.44	5 January 2017	11,978,147.44
Certificate #22	17,126,917.89	29 January 2017	17,126,917.89
Certificate #23	17,427,395.86	2 March 2017	17,427,395.86
<b>Total Amount</b>	<b>46,532,461.19</b>	<b>N/A</b>	<b>46,532,461.19</b>

The CEO of APSB had proposed to CSCE to treat the amounts owed as a loan that CSCE had extended to APSB, which APSB was to repay on 30 June 2017 ("Due Date"). CSCE agreed and APSB, BPSB and SSSB entered into a loan agreement dated 12 April 2017 ("Loan Agreement") with CSCE<sup>1</sup>. The obligation to repay lay principally on APSB.

It was noted that the Loan Agreement was not recorded in APSB's books and was not disclosed in APSB and AHL's financial statements for FY2017 (which were issued on 28 September 2017) or FY2018, even though the sum under the Loan Agreement would have been regarded as material. The Outstanding Amount was instead recorded as Trade Payables. Additionally, the changes in liabilities arising from financing activities, i.e. conversion of trade payables of RM 46,532,461.19 to loan, was not reflected in the APSB's books.

Under the terms of the Loan Agreement, the Principal Sum of RM 46,532,461.19 was to be repaid by APSB by the Due Date, failing which late payment interest charge of 8.5% per annum would be imposed on the Principal Sum.

On 30 June 2017, APSB failed to make payment of the Principal Sum.

In the meantime, CSCE continued to issue progress payment claims of RM 385,977,172.06 amount (certificate no.24 to 43). Late payment of these progress payment claims attracted interest at the rate of Maybank Base Lending Rate ("BLR")<sup>2</sup> + 1% per annum.

<sup>1</sup> As the loan was secured against land parcels located in Bukit Pelali owned by Bukit Pelali Properties Sdn Bhd ("BPSB"), a joint venture of APSB, BPSB signed off the loan agreement as well as the owner of the land parcels to agree with the use of the land parcels as collateral.

<sup>2</sup> In 2017, Maybank BLR was at 6.65% (source: <http://baserate.my/history.htm>)



APSB received three letters of demand from CSCE's solicitors for the recovery of the Principal Sum, late payment interest and other outstanding payments in relation to certified progress claims, totaling RM125,347,302.61<sup>3</sup>. Out of which RM46,532,461.19 was the loan, and the remaining amount of RM 78,814,841.42 was the overdue payments for other certified progress claims.

The letters also indicated that APSB was required to make payment of interests of 8.5% for the Loan and 7.9%<sup>4</sup> for overdue payment of other certified progress claims as per the Contract. These letters of demand were received on 2 October 2018, 1 February 2019, and 11 July 2019.

It was noted that the interest payable on the Principal Sum had not been recorded or accrued in APSB's books for FY18. It was also noted that APSB and AHL did not disclose the receipt of the three letters of demand to AHL Board.

EY was appointed on 16 October 2019 to perform an independent fact-finding exercise into the circumstances surrounding:

- (i) Omission to record the interest expense payable in respect of the loan to CSCE ("Omission"); and
- (ii) Non-disclosure of Letters of Demand to the AHL Board. (collectively, the "Matter")

## Summary of our work procedures

EY commenced work on 23 October 2019 and completed its fieldwork on 7 November 2019. Subsequent to the fieldwork review, we have received further information and performed further clarifications over phone calls and emails till 3 January 2020.

Broadly, the scope of our work included the following:

- Obtain an understanding of the circumstances upon which the Loan Agreement had been entered into between CSCE and APSB
- Conduct fact - finding interviews with relevant employees who agreed to be interviewed, in respect of the Matter
- Review documents and email correspondences that had been made available to us by the Chief Financial Officer ("CFO") and APSB Accountant.
- Establish a timeline of events based on the information gathered from the preceding work steps.

### *Internal controls with respect to certain processes*

- Understand the processes surrounding, a) entering into a loan; b) financial statements preparation and reporting and c) matters to be reported to the Board of Directors. This was done through interviews with various personnel, as well as making observations and review of management reports and other documents

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<sup>3</sup> The recovery amount is based on LOD#3. LOD#1 indicated recovery of loan principal of RM 46,532,461.19 and interest amount of RM 4,944,074.00 and LOD#2 indicated recovery of RM 113,541,215.79 (being the loan principal, accrued interest and other certified progress claims)

<sup>4</sup> Based on Maybank BLR of 6.90% + 1%

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- Obtain and analyse financial data to identify whether there are other instances of interest payable that had not been recorded on a timely basis in the management accounts.
  - Identify internal control weaknesses related to the processes under review and the specific transactions
  - Highlight potential breaches of the SGX Listing Manual rules based on the language of the Listing Manual<sup>5</sup>.
  - Propose remedial actions and recommend areas of improvement in respect to the Company's internal controls, processes and corporate governance practices.

Our report was prepared based on information provided to us by AHL and APSB. We have in the course of our work conducted several discussions and interviews with persons who were made available to us. The personnel whom we had interviewed were given an opportunity to review extract of our draft report that cited our interviews with them. This process is known as the Maxwellization process<sup>6</sup>.

## 1.1 General limiting conditions and constraints

- 1.1.1 This report has been prepared based on the data and documentation received from the Chief Financial Officer ("CFO") and APSB Accountant, interviews and discussions conducted with relevant personnel as well as publicly available information. Subsequent to fieldwork, we have conducted interviews with 2 former employees and CSCE. Based on information gathered, we have performed further clarifications with the CFO and obtained documentation for analysis and verification.
- 1.1.2 The scope of work set out in this report was tailored to meet the specific requirements of the engagement and does not amount to an audit conducted in accordance with generally accepted auditing standards, the objective of which is to express an opinion regarding the financial statements taken as a whole.
- 1.1.3 The scope of work set out in this report does not amount to an internal audit and shall not be relied upon as the primary basis for assessing in the adequacy of the system of internal controls.
- 1.1.4 Unless expressly stated, the information contained in this report has not been subject to detailed verification procedures. No representation is made by EY as to the accuracy of such information and nothing contained in this report is or shall be construed as a representation of the future.
- 1.1.5 All assumptions made for the purpose of this engagement are based on information and representations provided by the Group and persons in connection with the assessment. We do not give any representation, warranty, indemnity or undertaking expressly or impliedly as to the accuracy or completeness of such information provided to and used by us in our assignment. We did not perform further work done to assess the completeness and

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<sup>5</sup> Please note that the view is provided from a layman's perspective and should not be considered as legal advice.

<sup>6</sup> The Maxwellization process was conducted with the Dato' Zamani Bin Kasim (CEO), Daeng Hamizah Binti Abd Aziz (COO), Lee shih Yi (CFO), Goh Kah Ling (former Accountant left in January 2019), Jaclyn Khung (former Finance Manager left in March 2019)

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accuracy of the information as provided by the Group and persons in connection with the assessment.

- 1.1.6 We wish to highlight that the individuals we interviewed were not under oath. Hence, judgement would need to be exercised as to the credibility of their views and recollections.
- 1.1.7 Any report issued by EY should not be used for any other purpose other than that agreed in our letter of engagement with AHL without our prior written consent. In the event that we provide written approval to AHL to use any of our reports for purposes other than that stated in our letter of engagement, we will need to approve the form and context of such a report to be released. In addition, we shall require an appropriate indemnity from AHL absolving EY from any liability or consequence arising from the release of such report for purposes other than that specified above.
- 1.1.8 Neither the whole nor part of our report, nor any reference thereto, may be circulated nor published in any way whatsoever, nor used for any other purpose than that agreed in our Engagement letter and specified in the report without our prior written consent pertaining to the form and context in which it appears. This report should not be used by and/or disclosed to third parties. No reliance should be placed by third parties on the report for any purposes whatsoever and EY shall not be responsible to third parties who have acted on the information contained therein.
- 1.1.9 We reserve the right (but we are not under any obligation) to review, alter and amend our report in the light of any matters not previously brought to our attention or as a result of new developments, which may or may not materially affect our opinion both prior to and subsequent to the date of this report.
- 1.1.10 No reliance should be placed on preliminary draft and/or draft reports issued by us for discussion purposes and EY shall not be responsible to any parties who have placed reliance on such preliminary draft and/or draft reports.
- 1.1.11 In light of the foregoing and the limitations set out in Section 1.2 below, our findings and observations should not be taken as exhaustive.

## **1.2 Specific limiting conditions and constraints**

- 1.2.1 Our work is limited to the operations of APSB.
- 1.2.2 We did not perform any computer forensic procedures. Should we have done so, information relevant to our work may have come to light and may have had an impact on this report.
- 1.2.3 We have only spoken to 2 former employees and CSCE whom we think are relevant to our work. We did not speak to other former employees and/ or third parties. Should we have done so, information relevant to our work may have come to light and may have had an impact on this report. Please refer to Appendix 1 on the list of former employees who were involved in the Matter and we were unable to speak to.

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- 1.2.4 We relied on the **unaudited** (*bold for emphasis*) APSB's management accounts for FY 2019 and FY 2020 that was provided to us on 23 October 2019, in performing our work.
- 1.2.5 We have relied on publicly available information in performing our work including the audited financial statement for FY2017 and FY2018.
- 1.2.6 Any observations highlighted in this report in relation to potential or possible breaches of the SGX Listing Manual or other rules are not comprehensive and should not be considered as legal advice. Any assessment of whether there has in fact been a breach would require a separate independent professional and legal review and advice.

There might be some events or developments on the Matter after the SGX announcement was made on 5 September 2019. For avoidance of doubt, we did not cover the events after 5 September 2019.

As there was limited documentation available for review since the date of the receipt of the third letter of demand on 11 July 2019 ("LOD#3") to the date of announcement on 5 September 2019, we have made some reference from the announcements in the SGXNET to establish the timeline of events up to 5 September 2019 for this review.

### 1.3 Summary of findings/ observations

- 1.3.1 Key findings and observations identified are summarized in this section. Details of the key findings and observations are provided in Section 3 of the report.

#### a) Circumstances surrounding the entry into the Loan Agreement

- 1.3.2 The CEO informed us that he had proposed the Loan Agreement as APSB was unable to make payments for progress payment claims under certificate no. 21 to 23 due to cash flow issues.

According to the agreement signed with CSCE during the appointment in year 2014, late payment of any progress payment claim attracted interest at the rate of Maybank Base Lending Rate ("BLR")<sup>7</sup> + 1% per annum. With the conversion of the outstanding trade payable to a loan agreement, the late payment would be subjected to interest charge of 8.5% per annum on the outstanding Loan amount calculated from the expiry of the Due Date in accordance to the loan agreement.

Based on publicly available records, the parent company of CSCE is China State Construction Engineering Corporation Limited and there is no indication of common directors between APSB, BPSB, SSSB, AHL and CSCE as well as CSCE's parent company.

An APSB Board of Directors' resolution dated 3 April 2017 had been passed by circular, approving the Loan Agreement. The Directors' resolution had been signed by two APSB Directors (the "Resolution").

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<sup>7</sup> In 2017, Maybank BLR was at 6.65% (source: <http://baserate.my/history.htm>)

**b) Circumstances surrounding the payments to CSCE and late interest charged**

Subsequent to the Loan Agreement dated 12 April 2017 being signed by two APSB Directors, we noted that APSB had made payments of RM 34,820,968.26 to CSCE from 3 May 2017 to 13 July 2017 and APSB Former Accountant and Former Finance Manager had written to CSCE during the payment period<sup>8</sup>, informing CSCE that these payments were for CSCE progress payment claims under certificate no. 24 onwards, which had been outstanding since 6 March 2017<sup>9</sup>. Total payments made to CSCE since inception of loan agreement on 12 April 2017 till 30 June 2018 was approximately RM 238,070,412.51<sup>10</sup> for partial loan repayment as well as other certificates. Out of the total sum, RM 24,012,545.04 which were paid after the due date (approximately 10% of total payments) was allocated to the loan repayment. This resulted in the loan principal not fully paid as at 30 June 2018. The loan outstanding balance was RM 22,519,916.15 (48% of total loan amount) as at 30 June 2018.

Period of payments	Amount allocated to Certificate no. 21, 22, 23 <sup>11</sup>	Amount allocated to Certificate no. 24 onwards <sup>12</sup>
1 May 2017 to 13 July 2017	No payment made	RM 34,820,968.26
14 July 2017 to 30 June 2018	RM 24,012,545.04	RM 214,057,867.47
<b>Outstanding as at 30 June 2018</b>	<b>RM 22,519,916.15</b>	

1.3.3 CSCE did not acknowledge the emails that had been sent to them and the CFO was unable to recall the reason why APSB would pay the progress payment claims under certificate no. 24 to 26 before paying down the Principal Sum.<sup>13</sup> She added that there was a general understanding with the Finance Staff that payments were to be allocated to the oldest certificates first, i.e. certificate no. 21 to 23. She also mentioned that the recording of payment allocation was performed by the Senior Accounts Executive.

1.3.4 We were informed by KL, who was APSB's accountant from 10 January 2018 to 19 January 2019<sup>14</sup> that all payment instructions were received from the CFO, including which

<sup>8</sup> We have reviewed few emails sent to CSCE in 2018 to inform the payments for CSCE progress payment claims under certificate no.24 onwards

<sup>9</sup> This is based on GL entry from CSS accounting system.

<sup>10</sup> This was based on CSCE payment records as at 30 June 2018 as provided by Management. The total sum included RM 2,026,780.75 of journal adjustment transactions with "JV" reference. We did not verify whether the initial payments were made during the highlighted period. In addition, total transactions of RM 1,336,233.46 were not dated but recorded in between of the highlighted period, and this balance was not included in the total sum.

<sup>11</sup> Certificate no.21, 22, 23 attracted late payment interest of 8.5% after due date of payment. Although the payments were recorded by APSB to offset certificate 21, 22, 23 since 14 July 2017, these were re-allocated to other certificates when the Former Accountant performed CSCE reconciliation on 29 August 2018. This was due to that CSCE did not offset the payments against certificate 21, 22, 23 and allocated the payments to certificates (no. 32 to 37)

<sup>12</sup> Certificate no. 24 onwards attracted late payment interest of BLR (refers to footnote 8) + 1%

<sup>13</sup> According to the follow-up clarification call with the CFO on 8 November 2019

<sup>14</sup> Telephone call on 15 November 2019

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certificates to pay and the payment amount. Subsequently, she would update the payment details into the CSCE reconciliation worksheet<sup>15</sup> and inform the Senior Accounts Executive to prepare payments.

- 1.3.5 As AP SB was unable to make any payment by the Due Date, the outstanding loan amount was subjected to late payment interest charge on daily basis computed from the Due Date until the date of full repayment of the Loan. As at 30 June 2018, the late payment interest charge was RM 3.955million.<sup>16</sup>

**c) Disclosure of the Loan Agreement and late interest charged**

- 1.3.6 The Loan Agreement and the conversion of the trade payables into a loan had not been recorded in AP SB's books for FY2017 and had not been disclosed in AP SB and AHL's financial statements for FY2017 and FY2018. The late interest charged of RM 3.955 million was not recorded in AP SB's books for FY2018 and was not disclosed in AP SB and AHL's financial statements for FY 2018.
- 1.3.7 The CFO was involved in the discussion as well as had custody of the Loan Agreement but she could not recall if she had informed the finance team of AP SB.
- 1.3.8 From our interview with the former Finance Manager, JK (Finance Manager from 11 March 2018 to 2 March 2019) and former Accountant, KL, both highlighted to us that they were only aware of the Loan Agreement and late interest component after the AP SB's statutory auditor raised queries about the Loan Agreement to them sometime during the period of June to July 2018. We understand that the Resolution was kept by the Company Secretary and that it had been provided to the external auditors in the course of their audit.
- 1.3.9 JK further commented that when she asked the CFO about the Loan Agreement, the CFO shared with her that since the Company had good relationship with CSCE, the Management would be able to handle the matter with CSCE directly. Therefore, no action was taken by JK towards the loan agreement or late interest component.
- 1.3.10 It was shared by the statutory auditor that its audit team based in Johor Bahru, Malaysia, had made enquiries with JK and KL on the validity of Loan Agreement with CSCE during the course of audit for the financial year ended 30 June 2018 (sometime between June to July 2018). Both of them were not aware of the Loan Agreement and its status. Subsequently, the team met up with the CFO to enquire on the validity of Loan Agreement with CSCE. According to the statutory auditor, the CFO had informed the team that the Loan Agreement with CSCE had been voided.

The statutory auditor also informed us that at the audit closing meeting at Astaka office on 2 August 2018, which was attended by the CFO and the representatives from both statutory audit teams based in the Singapore office and the Johor Bahru office, the audit

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<sup>15</sup> CSCE reconciliation worksheet was an Excel document maintained manually by the Finance team to record the details of the payment allocation to respective certificate claims. The worksheet was used to monitor the outstanding balances due to CSCE, certificate claims yet to be paid as well as facilitate the reconciliation with CSCE.

<sup>16</sup> This was based on full loan principal being outstanding after reversal of loan repayment being made on or before 29 August 2018 as described in Paragraph 1.3.12

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team raised the concern on the validity of the Loan Agreement again. According to the statutory auditor, the CFO represented again that the Loan Agreement had been voided and also confirmed during the meeting that there was no litigation or claim against the Group and the Company.

The statutory auditor further explained to us that the audit team took the view that the outstanding amount relating to the certificate no. 21 to 23 of RM46.5 million was partially repaid as at 30 June 2018, considering that there was substantial payment to CSCE during the financial year ended 30 June 2018, which the payments during the year were more than the amount owing to CSCE as at 30 June 2017.

- 1.3.11 When we spoke with the CFO on 19 November 2018, the CFO was unable to recall that there was a discussion on CSCE loan agreement with the statutory auditor during the statutory audit period for financial year ended 30 June 2018.

Subsequently on 30 December 2019, the CFO informed us that the statutory audit team based in Johor Bahru office had been provided with information on the amount owing to CSCE as at 30 June 2018 via an email dated 15 July 2018. The worksheet reflected an outstanding amount to CSCE of RM22,519,916.15 for certificate no. 22 and 23. The CFO said that there was no basis for the statutory auditor to state that she had represented that the Loan Agreement had been voided.

We were unable to ascertain if the discussion on validity of loan agreement on 2 August 2018 had taken place as mentioned in 1.3.10 as the discussion between the statutory auditor and the CFO was not documented.

- 1.3.12 During the course of our work, we noted a CSCE reconciliation worksheet was prepared by the Company manually to record the payments to CSCE. Our review of the worksheet dated 31 July 2018 and 29 August 2018 noted that the loan repayments made to CSCE from 14 July 2017 to 9 August 2018 had been reversed between 10 and 29 August 2018. This resulted in the entire loan principal to remain outstanding as at 29 August 2018. As such, late payment interest of 8.5% per annum should have accrued until 29 August 2018 and the amount would have been RM 4,594,602.47.
- 1.3.13 The Former Accountant, KL, mentioned that she was instructed by the CFO to reallocate the payments in the CSCE reconciliation worksheet in order to align with CSCE's records where the loan under payment certificates 21, 22 and 23 remained unpaid. This was concurred by the CFO during our interviews with her.
- 1.3.14 The fact that the loan agreement remained unpaid and the late payment interest charge to be accrued, was not communicated to the statutory auditor by the CFO after the reallocation, and before the finalization and issuance of audited financial statement for FY2018 on 25 September 2018. The CFO explained that this may have been due to the busy period in finalising the year end full results and annual report as well as other

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additional non-finance job scope which "caused the action to approach the statutory auditor to slip off her mind"<sup>17</sup>.

- 1.3.15 Three LODs were received from solicitor of CSCE on 2 October 2018, 1 February 2019 and 11 July 2019 respectively. In all LODs received, the late interest payment on outstanding Loan balance were demanded by CSCE. The Management, including the CFO were aware of the letters.
- 1.3.16 As set out in Paragraph 1.3.15, the CFO was made aware at various points in time of the late interest remained due and that it would continue to accrue until the date of full repayment. However, the interest payable for the overdue sum of the Loan Agreement was not accrued timely in the accounting records when legal obligation arose after failure to repay loan principal by the Due Date. The statutory auditor was not informed about the outstanding loan as well as the late interest due.

The CFO shared with us in the clarification email on 13 December 2019<sup>18</sup> that she took the view at that time which (i) the LODs were "procedural"<sup>19</sup> by CSCE and CSCE has been giving its full support despite the significant amount owing to CSCE; (ii) it was possible that she was of the view at that time the balance was trade in nature and would be negotiated in final accounts (which was common for construction industry); (iii) the differences in the finance interest (8.5% p.a.) and late payment interest (BLR+1% = approximately 7.9% p.a.) were not material.

- 1.3.17 It was noted from correspondences that APSB acknowledged the interest payable pursuant to the Loan Agreement. In a letter from APSB to CSCE dated 28 January 2018, the letter stated that APSB would bear the interest of 8.5% per annum on the outstanding loan of RM 46.532 million. In a letter issued by APSB's solicitor to CSCE dated 20 February 2019, APSB acknowledged that the interest payable pursuant to the loan agreement from 1 July 2017 to 31 January 2019 was RM 6,262,493.74.
- 1.3.18 Although APSB acknowledged the interest payable on 20 February 2019, the statutory auditor was not informed of the interest payable until 28 August 2019. We understand that the statutory auditor only received the interest expense calculation from Management on

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<sup>17</sup> We have requested clarification interview to be conducted on 11 December 2019, but email clarification was preferred by the CFO as she explained that she was on busy schedule. As the clarification did not proceed with the mode as requested by EY via interviews, we updated our report factually that the replies are received via email.

<sup>18</sup> We have requested clarification interview to be conducted on 11 December 2019, but email clarification was preferred by the CFO as she explained that she was on busy schedule. As the clarification did not proceed with the mode as requested by EY via interviews, we updated our report factually that the replies are received via email.

<sup>19</sup> It was explained by the Management as part of CSCE's internal procedure.



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28 August 2019 and was informed by Management of the Loan Agreement on 29 August 2019<sup>20</sup>.

- 1.3.19 On 29 August 2019, full year results for FY2019 were announced, which included a prior year adjustment on the under-recognition of interest expense of RM 3.955 million for the year ended 30 June 2018.

**d) Circumstances surrounding the Letters of Demand**

- 1.3.20 With reference to the correspondences between APSB and CSCE<sup>21</sup> for the period from 28 January to 30 April 2018 as provided by the CFO, APSB had discussions with CSCE representatives on the proposed payment schedule for the outstanding balances. APSB had committed to make payment of RM 25 million in February 2018 and RM 71.7 million from June 2018 to September 2018. In the correspondences, APSB had also agreed with the request from CSCE to have the Extension of Time ("EOT") for The Astaka Project until 31 May 2018 with waiver of penalty for Liquidated Damages ("LD") in view that CSCE would sustain its own cashflow to allow APSB to delay the payment of the certificate claims.

- 1.3.21 APSB failed to make the committed payments in February 2018 and September 2018. Only RM 13,099,631.10 (52.4% of committed payment) was paid to CSCE in February 2018 and RM 48,915,686.17<sup>22</sup> (68.2% of committed payment) was paid to CSCE from June to September 2018.

- 1.3.22 The first Letter of Demand ("LOD#1") was received on 2 October 2018 from the CSCE's solicitor. The LOD#1 indicated that APSB had not repaid the Loan (RM46,532,461.19) since 30 June 2017, and the late payment interest calculated from due date until 30 September 2018 was RM4,944,074. This was a day after the Certificate of Practical Completion<sup>23</sup> was issued to CSCE on 1 October 2018<sup>24</sup>.

- 1.3.23 The CEO explained that he was aware that the letter of demand would be issued by CSCE before receiving it. The CEO, COO and CFO commented that they believed that the LOD was issued by CSCE to demonstrate the loan enforcement actions to the CSCE Head Office in China. Nonetheless, according to COO, the CEO had met the CSCE representatives to explain the APSB's marketing and financing efforts. There was no formal written communication/ reply from the Company to CSCE regarding the LOD#1.

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<sup>20</sup> The source of the information was the Announcement made by the Company via SGX Net dated 10 September 2019.

<sup>21</sup> The review was conducted based on the information that we received from the Management. We did not perform any computer forensic procedures. Therefore, we were unable to ensure the completeness of the information/ correspondences as provided by Management.

<sup>22</sup> The total payment was based on GL records which also include payment made to nominated subcontractor/ domestic subcontractor but offsetting CSCE's certificate claims. We did not verify the payments made in the bank statement.

<sup>23</sup> CPC is a certificate issued to the contractor when the works under the contract have reached the stage of completion described in the general conditions of contract

<sup>24</sup> The certificate was issued on 1 October 2018 which certified that the works were practically completed on 19 September 2018

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The receipt of LOD#1 was not reported to the AHL Board because the letter was assessed by Management to be "immaterial".

- 1.3.24 The second Letter of Demand ("LOD#2") was received on 1 February 2019. The letter indicated that the late payment interest from 1 July 2017 to 31 January 2019 was RM 6,262,500 and the outstanding amount was RM 107,278,715.79 as of 31 January 2019 (which included the outstanding amount for other certified progress claim on top of the Loan). APSB was required to pay total outstanding amount of RM 113,541,215.79 within 60 days from the date of the letter, failing which CSCE would have to commence legal proceedings for the recovery of the same without further reference.
- 1.3.25 In our interviews with the CEO, COO, and CFO, all of them confirmed that they were aware of LOD#2 sent by CSCE. The COO shared that there was discussion among the CEO, CFO and COO about bringing up the matter to the AHL Board after receiving LOD#2, but that ultimately the CEO had decided not to, as there were ongoing negotiations and APSB had maintained good relationship with CSCE. Therefore, the CEO felt that it was not a material matter and there was no need to inform the AHL Board.
- 1.3.26 After receipt of LOD#2, there were further negotiations between Management and CSCE on the owing amount indicated in the LOD#2. On 19 March 2019, APSB wrote to CSCE to indicate three proposals for amicable solutions. CSCE accepted one of the proposals with certain conditions, including granting of EOT till 19 September 2018 and RM 7 million to be paid to CSCE by the end of April 2019.
- 1.3.27 In total, the EOT granted to CSCE with waiver of LD amounted to RM 63.8 million from 5 November 2017 till 19 September 2018. Amongst the EOT granted, the EOT of 39 days from 11 August 2018 till 19 September 2019 was not supported with a relevant Architect's certificate.

Although one of EOTs dated 14 May 2018 had been supported by an Architect's certificate, we noted an email dated 12 May 2018 from GDP Architect ("Architect") to CEO and COO mentioning that the EOT for 110 days up to 31 May 2018 was issued as instructed by APSB even if the Architect had assessed that CSCE was not entitled to EOT till 31 May 2018 (This EOT was requested by CSCE as part of the discussion on proposed payment schedule as indicated in Paragraph 1.3.20).

The above matters were not brought up to the attention of the AHL Board.

Due to the delays in completion of the project, Liquidated Ascertained Damages ("LAD") to purchasers, amounting to RM10,524,334 was incurred by APSB.

- 1.3.28 The CEO explained that the EOT and waiver of LD to CSCE were not raised to the AHL Board because the waiver of LD was granted out of commercial reasons and goodwill. He took the view that this was an "ordinary course of business" and not material matter, The CEO added that if he were to claim liquidated damages from CSCE, CSCE might take legal action over the loan amount due from APSB.

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- 1.3.29 On 11 July 2019, the third Letter of Demand ("LOD#3") was received after the Company failed to make RM 7 million payment committed in April 2019.
- 1.3.30 The CEO, COO and CFO believed that issuance of the LOD was part of CSCE's internal process as an update to CSCE's Head Office. The COO further shared that there were ongoing negotiations and APSB had been in good relationship with CSCE. Hence the letters were assessed by Management to be "immaterial" and not reported to the AHL Board.

In the CFO's Maxwellisation reply on 24 November 2019 and CEO's Maxwellisation reply on 26 November 2019, they added that amounts owed by APSB to CSCE under the Loan Agreement had been secured against the land parcels located in Bukit Pelali, Pengerang and APSB had assets in the form of its unsold units in the Astaka Project (worth approximately RM 400 millions), which together would have been sufficient to cover the outstanding amounts owed to CSCE. Hence, the receipt of LODs were assessed by Management to be 'immaterial' and not reported to the AHL Board.

Consequently, the CEO disclosed to AC that there were no LODs received in respect of the amount owing by APSB to CSCE even when the AC sought confirmation from Management if any LOD was received, during the AC meeting on 27 August 2019<sup>25</sup>.

- 1.3.31 There was no documentation to demonstrate the transparency on how the materiality was being assessed by the Management. There was no established list of matters to be brought up for the Board's attention and authority limits endorsed by the AHL Board on the matters to be escalated for AHL Board's decision.
- 1.3.32 The receipt of three LODs were only made known to the entire Board (not including the CEO) on 3 September 2019 after the AC Chairman seek reconfirmation from the CEO and CFO as to whether the Company/ Group received any letters of demand.

Announcement of the LODs was made by the Company on 5 September 2019.

- 1.3.33 Please refer to Appendix 5 for a summary of potential breaches of the SGX Listing Manual rules based on the language of the Listing Manual.

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<sup>25</sup> The source of the information was the Announcement published by the Company via SGX Net on 11 September 2019.

## 2. Background and Methodology

### 2.1 Background

- 2.1.1 APSB appointed CSCE as the main contractor to carry out construction works for the development of The Astaka Project in year 2014. A letter of award dated 18 December 2014 ("Letter of Award") and construction agreement dated 2 August 2015 (together with the Letter of Award, the "Contract") were entered by APSB and CSCE. According to the Contract, CSCE was required to deliver the project by 4 November 2017. The liquidated damages ("LD") was RM 200,000 per day of delay.
- 2.1.2 On 12 April 2017, APSB, BPSB and SSSB entered into a loan agreement with CSCE in respect of the sum of RM 46,532,461.19, being the amount that APSB owed as at 28 February 2017 to CSCE for of progress claims issued by CSCE to APSB as follows:

Certificate #	Principal Sum (RM)	Due Date for payment of progress claims	Total amount owed as at 28 February 2017 (RM)
Certificate #21	11,978,147.44	5 January 2017	11,978,147.44
Certificate #22	17,126,917.89	29 January 2017	17,126,917.89
Certificate #23	17,427,395.86	2 March 2017	17,427,395.86
<b>Total Amount</b>	<b>46,532,461.19</b>	<b>N/A</b>	<b>46,532,461.19</b>

The CEO of APSB had proposed to CSCE to treat the amounts owed as a loan that CSCE had extended to APSB, which APSB was to repay on 30 June 2017 ("Due Date"). CSCE agreed and APSB, BPSB and SSSB entered into a loan agreement dated 12 April 2017 ("Loan Agreement") with CSCE<sup>26</sup>. The obligation to repay lay principally on APSB.

- 2.1.3 The request of entering into a loan agreement was brought up to the APSB Board for approval on 3 April 2017. A directors' resolution in writing was signed by the APSB Board to resolve that (i) the Company was authorised to enter into a loan agreement with CSCE, SSSB, and Bukit Pelali Properties Sdn Bhd ("BPSB") and to comply with the terms and conditions as may be stipulated in the said Loan Agreement; (ii) full authority would be given to the CEO and Daing Abd Rahim Bin Daing A Rahman (the Director of APSB), to execute the agreement and all relevant documents on behalf of the Company; and (iii) authority given for the use of the common seal of the Company to affix onto all relevant

<sup>26</sup> As the loan was secured against land parcels located in Bukit Pelali owned by Bukit Pelali Properties Sdn Bhd ("BPSB"), a joint venture of APSB, BPSB signed off the loan agreement as well as the owner of the land parcels to agree with the use of the land parcels as collateral.

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documents in relation thereto in accordance with the Articles of Association of the Company.

The APSB Board include the following directors:

- (i) Dato' Zamani Bin Kasim (CEO)
- (ii) ABD Aziz Bin Daing Rahman
- (iii) Daing ABD Rahim Bin Daing A Rahman

The Loan was secured against land parcels located in Bukit Pelali owned by SSSB. SSSB has granted a power of attorney in favour of BPSB in respect of the development of the land parcels. BPSB is a joint venture of APSB and SSSB. The CEO held 5% shareholding in SSSB and Dato' Daing A Malek Bin Daing A Rahman (controlling shareholder of AHL) owned 95% of SSSB.

According to Rule 904 (3) of the Listing Rules, "financial assistance" includes (a) the lending or borrowing of money, the guaranteeing or providing security for a debt incurred or the indemnifying of a guarantor for guaranteeing or providing security; and (b) the forgiving of a debt, the releasing of or neglect in enforcing an obligation of another, or the assuming of the obligations of another. With reference to the definition of "financial assistance", provision of security by SSSB to APSB may deem to be an interested person transaction (IPT).

Based on the representation from Management, there were no fees paid or payable to SSSB for the provision of the security arrangement.

- 2.1.4 Based on the loan agreement, CSCE agreed to grant an interest-free loan up to 30 June 2017 to APSB equivalent to the sums owing by APSB for certificate claim no. 21 to 23 (total sum of RM46,532,461.19) to CSCE (the "Loan") subjected to the terms and conditions of the Loan Agreement. In consideration of the Loan granted by CSCE to APSB, APSB agreed to repay the Loan to CSCE on or before 30 June 2017 ("Due Date") or upon receipt of written demand from CSCE at any time after the date of agreement, whichever was earlier. In the event that APSB was unable to repay the Loan on the repayment date indicated in the Loan Agreement, CSCE would upon receipt of APSB's written request, grant APSB a final extension of time until 30 September 2017 to repay the Loan. This was provided that late interest shall be charged at the rate of 8.5% per annum on the outstanding Loan amount calculated from the expiry of the Due Date (or such period as stated in the written demand) until the date of full repayment of the Loan.

The CEO shared that the Loan Agreement was vetted by both the APSB and CSCE's solicitors, Lim Soh & Goonting and Jal & Lim respectively.

The entering of the Loan Agreement was not reported to AHL Board. It was noted that the Loan Agreement was not recorded in APSB's books and was not disclosed in APSB and AHL's financial statements for FY2017 (which were issued on 28 September 2017) or FY2018, even though the sum under the Loan Agreement would have been regarded as material. The Outstanding Amount was instead recorded as Trade Payables. Additionally, the changes in liabilities arising from financing activities, i.e. conversion of trade payables of RM 46,532,461.19 to loan, was not reflected in the APSB's books.

2.1.5 On 30 June 2017, APSB failed to make payment of the Principal Sum. There was no written request issued by the APSB to CSCE to ask for extension of time to repay the Loan. The outstanding loan amount was hence subjected to late payment interest charge effective from the Due Date. In the meantime, CSCE continued to issue progress payment claims of RM 385,977,172.06 amount (certificate no.24 to 43). Late payment of these progress payment claims attracted interest at the rate of Maybank Base Lending Rate ("BLR")<sup>27</sup> + 1% per annum.

2.1.6 On 9 January 2018, the CEO, CFO and COO met with CSCE representatives to discuss the payment schedule. According to letter issued by APSB<sup>28</sup> to CSCE on 28 January 2018, APSB agreed to make payment of RM 25 million to CSCE in February 2018 and acknowledged that APSB would bear the 8.5% late payment interest charges. In view that CSCE would sustain its own cashflow to allow APSB to delay the payment of the certificate claims till the completion of the Astaka Project, APSB also agreed with the request from CSCE to have the Extension of Time ("EOT") for Astaka Project until 31 May 2018 with waiver of penalty for LD.

On 18 April 2018, CSCE sent a letter stating that only RM 13,099,631.10 was received out of the RM 25 million agreed by APSB.

2.1.7 On 30 April 2018, APSB sent a letter on the proposed payment schedules for outstanding amount of RM 71.7 million (equivalent to outstanding balances as at 30 April 2018, up to certificate claim no. 36) to CSCE:

Proposed Payment Date	Proposed Payment Amount
June 2018	RM 7.0 million
July 2018	RM 7.0 million
August 2018	RM 40.0 million
September 2018	RM 17.7 million

Per the GL records, only 48,915,686.17<sup>29</sup> was paid to CSCE from June 2018 to September 2018, which fell short of the committed RM 71.7 million.

2.1.8 The loan outstanding amount as at 30 June 2018 was RM 22,519,916.15. The corresponding late payment interest charge was not accrued.

2.1.9 Our further review of CSCE reconciliation worksheet dated 29 August 2018<sup>30</sup> noted that the payments made to the certificate no. 21 to 23 from 18 July 2017 to 9 August 2018

<sup>27</sup> In 2017, Maybank BLR was at 6.65% (source: <http://baserate.my/history.htm>)

<sup>28</sup> The letter was signed off by CEO

<sup>29</sup> The total payment was based on GL records which also include payment made to nominated subcontractor/ domestic subcontractor but offsetting CSCE's certificate claims. We did not verify the payments made in the bank statement.

<sup>30</sup> The CSCE reconciliation worksheet dated 29 August 2018 did not have the details on date of payment. We relied on the 'Payment listing as at Dec 18' Excel to establish the dates of payments and reversals

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with total amount of RM 46,532,461.19 were re-allocated to offset against certificate no. 32 to 37 from 10 to 29 August 2018.

This resulted in the entire loan principal to remain outstanding, and late payment interest of 8.5% per annum to be accrued.

2.1.10 The fact that the loan agreement remained unpaid and the late payment interest charge to be accrued was not communicated to the statutory auditor by the CFO after the reallocation, and before the finalization and issuance of audited financial statement for FY2018 on 25 September 2018.

2.1.11 On 2 October 2018, the CSCE's solicitor issued a Letter of Demand (the "LOD#1") to the AP SB's solicitor, M/S Lim Soh & Goonting. The LOD indicated that AP SB had not repaid the Loan (RM46,532,461.19) since 30 June 2017, and the late payment interest calculated from due date until 30 September 2018 was RM4,944, 074. The LOD#1 was forwarded to CEO, COO and CFO via email and to CEO via mail.

The CEO explained that he was aware a letter of demand would be issued by CSCE before receiving it. The CEO, COO and CFO commented that they believed that the LOD was issued by CSCE to demonstrate the loan enforcement actions to the CSCE Head Office in China. Nonetheless, according to COO, the CEO had met the CSCE representatives to explain the AP SB's marketing and financing efforts.

The receipt of LOD#1 was not reported to the AHL Board.

2.1.12 On 1 February 2019, the CSCE's solicitor issued another Letter of Demand (the "LOD#2") with attention to "the Director" by hand to AP SB's office. The LOD#2 indicated that the late payment interest which accrued from 1 July 2017 to 31 January 2019 was RM 6,262,500 and the aforesaid late payment interest would continue to accrue until the date of full repayment. Additionally, the total outstanding amount owing by AP SB to CSCE was RM107,278,715.79. The CSCE's solicitor was instructed to demand RM11,541,215.79 to be paid within 60 days from the date hereof failing which CSCE would have to commence legal proceeding for the recovery of the same without further reference.

The CEO explained that he was aware of the LOD#2 before CSCE issued the letter with the same reason as the LOD#1.

The CFO explained that the total amount as highlighted in the LOD#2 included overdue payment for other certified progress claims.

The receipt of LOD#2 was not reported to the AHL Board.

2.1.13 The CEO, COO and CFO met with CSCE representatives on 12 March 2019 to discuss the outstanding amount and repayment term. On 10 April 2019, CSCE sent a reply letter to AP SB. In the letter, CSCE agreed to AP SB's proposal to assist AP SB to collect monies on behalf from China buyers to net off the owing sum subject to the following:

- EOT to be granted till 19 September 2018
- All final accounts to be settled before 30 April 2019
- RM 7 million to be paid to CSCE and RM 6 million to be paid to CSCE's subcontractors by the end of April 2019

- The prolongation claim made by CSCE to cover some loss and expenses to be reconsidered

2.1.14 During the Board meeting on 13 May 2019, the Board was notified on the outstanding trade payables due to CSCE. The Board was also informed that the Management would assess and accrue the interest amount (if required) in respect thereof.

The attendees of the Board meeting included all members of the Board, the COO, the CFO and the former Sponsor, PPCF.

2.1.15 On 11 July 2019, the CSCE's solicitor sent a third Letter of Demand (the "LOD#3") to APSB by courier to APSB's office and email to the CEO, CFO and COO after APSB missed a payment in April 2019.

In the letter, the APSB was required to make payments for total outstanding of RM125,347,302.61, which RM46,532,461.19 was the loan and the remaining amount of RM 78,814,841.42 was the overdue payments for other certified progress claims. The letter also indicated that APSB was required to make payment of interests as per the following:

- 8.5% for the Loan; and
- 6.9% of Maybank Base Lending Rate plus 1% for overdue payment of other certified progress claims as per the Contract.

The receipt of LOD#3 was not reported to the AHL Board.

2.1.16 The AC sought confirmation from Management whether the Company/ Group had received any legal letter of demand during the AC meeting on 27 August 2019. The CEO did not disclose to the AC about the LODs received from CSCE<sup>31</sup>.

2.1.17 The statutory auditor received the interest expense calculation from management on 28 August 2019 and was informed by management of the validity of the loan agreement on 29 August 2019<sup>32</sup>. On 29 August 2019, full yearly result for financial year ended 2019 was made which included the prior year adjustment on the under-recognition of interest expense of RM 3.955 million for the year ended 30 June 2018.

2.1.18 On 3 September 2019, the AC Chairman seek reconfirmation from the CFO as to whether the Company/ Group received any letter of demands and the CEO disclosed that there were three LOD received by APSB from CSCE.

2.1.19 The Company released an SGX announcement on the three LODs and the need for prior year adjustment to the financial results on 5 September 2019. The AC had decided to appoint independent reviewer to look into the Matter as well.

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<sup>31</sup> The source of the information was the Announcement made by the Company via SGX Net dated 11 September 2019.

<sup>32</sup> The source of the information is from Announcement made by the Company via SGX Net dated 10 September 2019.



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## 2.2 Methodology

2.2.1 The scope of EY's fieldwork covers the period from 1 October 2018 to 5 September 2019 and where it relates to the Matter was from the date of letter of award issued to the CSCE on 18 December 2014 to the date of announcement was made on 5 September 2019.

2.2.2 The scope of our work and our procedures included the following:

- Obtain an understanding of the circumstances upon which the Loan Agreement had been entered into between CSCE and APSB
- Conduct fact - finding interviews with relevant employees who agreed to be interviewed, in respect of the Matter
- Review documents and email correspondences that had been made available to us by the Chief Financial Officer ("CFO") and APSB Accountant.
- Establish a timeline of events based on preceding work steps. We have established a timeline of events based on verification of the relevant documents and interviews in relation to the Matter. Please refer to Appendix 2 for more details.

### *Internal controls with respect to certain processes*

- Understand the control procedures of the following processes, i.e. a) entering into a loan; b) financial statements preparation and reporting and c) matters to be reported to the Board of Directors. We have performed interviews and process walkthroughs with the CFO and the APSB Accountant for above processes to identify any control gaps that could have led to the omission or any improvement areas in the processes reviewed. We have also performed sample checks of transactions to assess the effectiveness of controls.
- Verify completeness and accuracy of loan interest payable and late payment interest payable recorded in the management accounts.
  - a) For accrual of loan interest, we have obtained Trial Balance as at 30 September 2019 in Excel softcopy from the APSB Accountant and enquired with the APSB Accountant and the CFO on the nature of GL accounts to identify existing loan arrangements. We have reviewed loan agreements pertaining to the balances identified to check any potential interest payable but not accrued under the loan arrangement.
  - b) For accrual of late payment interest, we have obtained the Accounts Payable Aging as at 30 September 2019 in Excel softcopy from the APSB Accountant and selected 10 samples of long outstanding payables aged above 150 days. We enquired with the CFO if there were any verbal or written chasers, correspondences on repayment arrangement or letters of demand received. We have verified written correspondences and obtained invoices and contracts pertaining to these creditors to assess if there were payment interest terms indicating certainty of liabilities for which the corresponding late payment interest had not been accrued. We were informed that both Trial Balance and Accounts Payable Aging provided for our review were generated from the CSS accounting system.
- Based on the work performed and to the extent possible, highlight potential breaches of the SGX Listing Manual rules based on the language of the Listing

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Manual<sup>33</sup>. Any observations highlighted in this report in relation to potential or possible breaches of the SGX Listing Manual or other rules are not comprehensive and should not be considered as legal advice. Any assessment of whether there has in fact been a breach would require a separate independent professional and legal review and advice.

- Propose remedial actions and recommend areas of improvement in respect to the Company's internal controls, processes and corporate governance practices. Throughout the course of review, we have identified some improvement areas related to the Matter and other improvement areas not related to the Matter which we have reported separately in Appendix 6.

2.2.3 In the course of our work, we provided status update to various parties including the Board members<sup>34</sup>, the Sponsor of AHL, and the CFO.

2.2.4 Our report was prepared based on information provided to us by AHL and APSB. We have in the course of our work conducted several discussions and interviews with persons who were made available to us. The current and former employees who we interviewed were given an opportunity to review extract of our draft report that cite our interviews with them. This process is known as the Maxwellization process.

2.2.5 We have performed the Maxwellisation process with the following individual:

- CEO (we sent extract of our draft report for review on 24 November 2019 and 19 December 2019. We received the replies on 26 November 2019 and 22 December 2019 respectively)
- CFO (we sent extract of our draft report for review on 24 November 2019, 19 December 2019, and 23 December 2019. We received the replies on 24 November 2019, 26 November 2019<sup>35</sup>, 22 December 2019, and 23 December 2019 respectively)
- COO (we sent extract of our draft report for review on 24 November 2019 and 19 December 2019. We received the replies on 26 November 2019 and 22 December 2019 respectively)
- Former Accountant, KL (we sent extract of our draft report for review on 24 November 2019 and 19 December 2019. We received the replies on 26 November 2019 and 24 December 2019 respectively)
- Former Finance Manager, JK (we sent extract of our draft report for review on 26 November 2019 and 19 December 2019. We received the replies on 26 November 2019 and 24 December 2019 respectively)

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<sup>33</sup> Please note that the view is provided from a layman's perspective and should not be considered as legal advice.

<sup>34</sup> Board members included Mr. Neo Gim Kiong, Dato' Zamani Bin Kasim, Mr. Khong Chung Lun, Mr. Lee Gee Aik, Mr. San Meng Chee, Dato' Sri Mohd Mokhtar Bin Mohd Shariff, Mr. Lai Kuan Loong, Victor

<sup>35</sup> Reply to Maxwellisation letter dated 24 November 2019

### 3. Detailed findings and observations

#### 3.1 Circumstances surrounding the omission to record the interest expense payable (“Omission”)

##### a) Circumstances surrounding the entry into the Loan Agreement

- 3.1.1 The CEO informed us that he had proposed the Loan Agreement as APSB was unable to make payments for progress payment claims under certificate no. 21 to 23 due to cash flow issues.

According to the agreement signed with CSCE during the appointment in year 2014, late payment of any progress payment claim attracted interest at the rate of Maybank Base Lending Rate (“BLR”)<sup>36</sup> + 1% per annum. With the conversion of the outstanding trade payable to a loan agreement, the late payment would be subjected to interest charge of 8.5% per annum on the outstanding Loan amount calculated from the expiry of the Due Date in accordance to the loan agreement.

Based on publicly available records, the parent company of CSCE is China State Construction Engineering Corporation Limited and there is no indication of common directors between APSB, BPSB, SSSB, AHL and CSCE as well as CSCE’s parent company.

An APSB Board of Directors’ resolution dated 3 April 2017 had been passed by circular, approving the Loan Agreement. The Directors’ resolution had been signed by two APSB Directors (the “Resolution”).

- 3.1.2 The loan agreement entered with CSCE was required to be repaid on or before Due Date on 30 June 2017 or upon APSB’s receipt of written demand from CSCE. By the Due Date of 30 June 2017, the outstanding Loan amount was not repaid and was subjected to late payment interest charge.

- 3.1.3 Rule 703 of the Listing Rules requires an issuer to 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. Appendix 7A of the Listing Rules clarifies that material information includes information known to the issuer concerning, *inter alia*, the issuer’s financial condition and prospects. In addition, it is stated that the borrowing of a significant amount of funds is an event that is likely to require immediate disclosure. It is the responsibility of each issuer to disclose material information in its possession as required by the listing rules.

It was the judgement of the Board to decide whether the borrowing amount under the Loan Agreement was deemed to be significant. Having regard to the fact that the Board took the view to announce the late interest charged on 5 September 2019 and prior year adjustment on the under-recognition of interest expense of RM3.955 million for the year ended 30 June 2018 was made by the statutory auditor after being informed by management of the validity of the Loan Agreement, suggests that the borrowing amount

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<sup>36</sup> In 2017, Maybank BLR was at 6.65% (source: <http://baserate.my/history.htm>)

under the Loan Agreement was significant and entry into the Loan Agreement would have amounted to borrowing of a significant amount of funds, and would likely have required immediate disclosure under the Listing Rules. Failure to announce could lead to a potential breach of Rule 703.

For completeness, it should be noted that section 203(1) of the SFA provides that a listed entity must not intentionally, recklessly or negligently fail to notify the approved exchange of such information as is required to be disclosed by the approved exchange under the listing rules or any other requirement of the approved exchange, if the listed entity is required by the approved exchange under the listing rules or any other requirement of the approved exchange to notify the approved exchange of information on specified events or matters as they occur or arise for the purpose of the approved exchange making that information available to an organised market operated by the approved exchange.

**b) Circumstances surrounding the payments to CSCE and late interest charged**

3.1.4 Subsequent to the Loan Agreement dated 12 April 2017 being signed by two AP SB Directors, we noted that AP SB had made payments of RM 34,820,968.26 to CSCE from 3 May 2017 to 13 July 2017. AP SB Former Accountant and Former Finance Manager had written to CSCE during the payment period<sup>37</sup> for CSCE progress payment claims under certificate no. 24 onwards, which had been outstanding since 6 March 2017<sup>38</sup>. Total payments made to CSCE since inception of loan agreement on 12 April 2017 till 30 June 2018 was approximately RM 238,070,412.51<sup>39</sup> for partial loan repayment as well as other certificates. Out of the total sum, RM 24,012,545.04 which were paid after the due date (approximately 10% of total payments) was allocated to the loan repayment. This resulted in the loan principal not fully paid as at 30 June 2018. The loan outstanding balance was RM 22,519,916.15 (48% of total loan amount) as at 30 June 2018.

Period of payments	Amount allocated to Certificate no. 21, 22, 23 <sup>40</sup>	Amount allocated to Certificate no. 24 onwards <sup>41</sup>
1 May 2017 to 13 July 2017	No payment made	RM 34,820,968.26
14 July 2017 to 30 June 2018	RM 24,012,545.04	RM 214,057,867.47
<b>Outstanding as at 30 June 2018</b>	<b>RM 22,519,916.15</b>	

<sup>37</sup> We have reviewed few emails sent to CSCE in 2018 to inform the payments for CSCE progress payment claims under certificate no.24 onwards

<sup>38</sup> This is based on GL entry from CSS accounting system.

<sup>39</sup> This was based on CSCE payment records as at 30 June 2018 as provided by Management. The total sum included RM 2,026,780.75 of journal adjustment transactions with "JV" reference. We did not verify whether the initial payments were made during the highlighted period. In addition, total transactions of RM 1,336,233.46 were not dated but recorded in between of the highlighted period, and this balance was not included in the total sum.

<sup>40</sup>

Certificate no.21, 22, 23 attracted late payment interest of 8.5% after due date of payment. Although the payments were recorded by AP SB to offset certificate 21, 22, 23 since 14 July 2017, these were re-allocated to other certificates when the Former Accountant performed CSCE reconciliation on 29 August 2018. CSCE did not offset the payments against certificate 21, 22, 23 and allocated the payments to later certificates (no. 32 to 37)

<sup>41</sup> Certificate no. 24 onwards attracted late payment interest of BLR (refers to footnote 8) + 1%

- 3.1.5 CSCE did not acknowledge the emails that had been sent to them.
- 3.1.6 We seek queries from CFO on the reason why APSB would pay the progress payment claims under certificate no. 24 to 26 before paying down the Principal Sum. According to the follow-up clarification call with the CFO on 8 November 2019, the CFO was unable to recall the reason for such payment arrangement. She added that there should be a general understanding with the Finance Staff that payments were to be allocated to the oldest certificates first, i.e. certificate no. 21 to 23. She also mentioned that the recording of payment allocation was performed by the Senior Accounts Executive.
- 3.1.7 We were informed by KL, who was APSB's accountant from 10 January 2018 to 19 January 2019 that all payment instructions were received from the CFO, including which certificates to pay and the payment amount. Subsequently, she would update the payment details into the CSCE reconciliation worksheet<sup>42</sup> and inform the Senior Accounts Executive to prepare payments.
- 3.1.8 In the CFO's Maxwellisation reply on 24 November 2019, the CFO then added that *"after discussion with CEO and COO on the payments allocation i.e. the amount, I will forward to my Accountant/Senior Accounts to allocate the payments or sometimes I will advise which to allocate based on the payment allocation discussion with CEO and COO and then the Senior Accounts Executive will issue the cheques."*

We were unable to confirm whether the CFO had given instruction on the payment allocation regarding the payment arrangement as mentioned in 3.1.5 due to lack of adequate documentation.

- 3.1.9 As APSB was unable to make payments by the Due Date, the outstanding Loan amount was subjected to late payment interest charge on daily basis computed from the Due Date until the date of full repayment of the Loan. As at 30 June 2018, the late payment interest charge was RM 3.955million<sup>43</sup>

**c) Disclosure of the Loan Agreement and late interest charged**

- 3.1.10 The Loan Agreement and the conversion of the trade payables into a loan had not been recorded in APSB's books for FY2017 and had not been disclosed in APSB and AHL's financial statements for FY2017 and FY2018. The late interest charged of RM 3.955 million was not recorded in APSB's books for FY2018 and was not disclosed in APSB and AHL's financial statements for FY 2018.
- 3.1.11 Rule 705 of the Listing Rules requires an issuer to announce its financial statements and Appendix 7C sets out the information required including, *inter alia*, (a) interest on borrowings, if significant and (b) in relation to the aggregate amount of the group's borrowings, the amount repayable in one year or less, or on demand, amount repayable

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<sup>42</sup> CSCE reconciliation worksheet was an Excel document maintained manually by the Finance team to record the details of the payment allocation to respective certificate claims. The worksheet was used to monitor the outstanding balances due to CSCE, certificate claims yet to be paid as well as facilitate the reconciliation with CSCE.

<sup>43</sup> This was based on full loan principal being outstanding after reversal of loan repayment being made on or before 29 August 2018 as described in Paragraph 3.1.19

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after one year, whether the amounts are secured or unsecured, and details of any collaterals.

It was the judgement of the Board to decide whether the interest in relation to the Loan Agreement was significant. Having regard to the fact that the Board took the view to announce the late interest charged on 5 September 2019 and prior year adjustment on the under-recognition of interest expense of RM3.955 million for the year ended 30 June 2018 was made by the statutory auditor after being informed by management of the validity of the Loan Agreement, suggests that the interest in relation to the Loan Agreement was significant, and should have been included in the financial statements results announcement for FY2018. Non-disclosure could have led to a potential breach of Rule 705 and Appendix 7C.

In respect of the Loan Agreement, as the amount repayable, whether the loan is secured or unsecured, and details of any collaterals were not disclosed in AHL's financial statements for FY2017 and FY2018, Rule 705 and Appendix 7C may not have been fully complied with, potentially breaching Rule 705 and Appendix 7C.

- 3.1.12 Rule 719(1) of the Listing Rules (as at the material time) requires an issuer to have a robust and effective system of internal controls addressing financial, operational and compliance. If non-disclosure of Loan Agreement and late interest charged in the financial statements for FY2017 and FY2018 occurred as a result of the issuer not having a robust and effective system of internal controls, Rule 719(1) may not have been fully complied with, potentially breaching Rule 719(1).
- 3.1.13 The CFO was involved in the discussion as well as had custody of the Loan Agreement but she could not recall if she had informed the finance team of APSB.
- 3.1.14 From our interview with the former Finance Manager, JK (Finance Manager from 11 March 2018 to 2 March 2019) and former Accountant, KL, both highlighted to us that they were only aware of the Loan Agreement and late interest component after the APSB's statutory auditor raised queries to them about the Loan Agreement. JK was unable to recall the exact period when the statutory auditor queried her while KL shared that it was in June or July 2018. We understand that the Resolution was kept by the Company Secretary and that it had been provided to the external auditors in the course of their audit.
- 3.1.15 JK further commented that when she asked the CFO about the Loan Agreement, the CFO shared with her that since the Company had good relationship with CSCE, the Management would be able to handle the matter with CSCE directly. Therefore, no action was taken by JK towards the loan agreement or late interest component.
- 3.1.16 The statutory auditor shared that its audit team based in Johor Bahru, Malaysia, had made enquiries with JK and KL on the validity of Loan Agreement with CSCE during the course of audit for the financial year ended 30 June 2018 (sometime between June to July 2018). Both of them were not aware of the Loan Agreement and its status. Subsequently, the team met up with the CFO to enquire on the validity of Loan Agreement with CSCE. According to the statutory auditor, the CFO had informed the team that the Loan Agreement with CSCE has been voided.

The statutory auditor also informed us that at the audit closing meeting at Astaka office on 2 August 2018, which was attended by the CFO and the representatives from both statutory audit teams based in the Singapore office and the Malaysia office, the audit team raised the concern on the validity of the Loan Agreement again. According to the statutory auditor, the CFO represented again that the Loan Agreement had been voided and also confirmed during the meeting that there was no litigation or claim against the Group and the Company.

The statutory auditor further explained to us that the audit team took the view that the outstanding amount relating to the certificate no. 21 to 23 of RM46.5 million was partially repaid as at 30 June 2018, considering that there was substantial payment to CSCE during the financial year ended 30 June 2018, which the payments during the year were more than the amount owing to CSCE as at 30 June 2017.

- 3.1.17 When we spoke with the CFO on 19 November 2019, the CFO was unable to recall that there was a discussion on CSCE loan agreement with the statutory auditor during the statutory audit period for financial year ended 30 June 2018.

Subsequently on 30 December 2019, the CFO informed us that the statutory audit team based in Johor Bahru office had been provided with the APSB's board resolution of the loan agreement by the APSB's Company Secretary on 12 June 2017, and information on the amount owing to CSCE as at 30 June 2018 via an email dated 15 July 2018. The worksheet reflected an outstanding amount to CSCE of RM22,519,916.15 for certificate no. 22 and 23. Additionally, the audit closing meeting agenda emailed by the statutory audit team based in Johor Bahru office to the CFO, JK, and KL on 31 July 2018 had no agenda item to discuss outstanding loan from CSCE. Therefore, the CFO said that there was no basis for the statutory auditor to state that she had represented that the Loan Agreement had been voided.

We were unable to ascertain if the discussion on validity of loan agreement on 2 August 2018 had taken place as mentioned in 1.3.10 as the discussion between the statutory auditor and the CFO was not documented.

- 3.1.18 According to the CFO's reply on EY's email clarification<sup>44</sup> and follow-up clarification call on 13 December 2019, she agreed that the loan has not been fully paid off as at 30 June 2018 as per payment records and she further explained that the loan could have slipped off her mind during the period with her heavy workload.
- 3.1.19 In the course of our work, we noted a CSCE reconciliation worksheet prepared by the Company manually to record the payments to CSCE. Our review of the worksheet dated 29 August 2018 noted that the loan repayments made to CSCE from 14 July 2017 to 9 August 2018 had been reversed between 10 and 29 August 2018. i.e. payments allocated to the certificate no. 21 to 23 with total amount of RM 46,532,461.19 were re-allocated to offset against certificate no. 32 to 37. This resulted in the entire loan principal to remain outstanding as at 29 August 2018. As such, late payment interest of 8.5% per annum

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<sup>44</sup> We have requested clarification interview to be conducted on 11 December 2019, but email clarification was preferred by the CFO as she explained that she was on busy schedule. As the clarification did not proceed with the mode as requested by EY via interviews, we updated our report factually that the replies are received via email.

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should have accrued until 29 August 2018 and the amount would have been RM 4,594,602.47. Please refer to Appendix 3 for details on the re-allocation.

3.1.20 The reversal could be deduced to be made between 10 August 2018 and 28 August 2018<sup>45</sup> based on the records on the prior month's reconciliation worksheet and late interest payment worksheet in July 2018.

3.1.21 The Former Accountant, KL, mentioned that she was instructed by the CFO to reallocate the payments in the CSCE reconciliation worksheet in order to align with CSCE's records where the loan under payment certificates 21, 22 and 23 remained unpaid. This was concurred by the CFO during our interviews with her.

The CFO explained that the reallocation of payments was performed to align the accounting books of APSB with CSCE after she was informed by CSCE that the payments received from APSB was used to offset against approved progress claims other than certificates no. 21, 22 and 23.

According to the email clarification from the CFO dated 30 December 2019, She further shared that there was discussion and consent from Management to CSCE that APSB would (1) reallocate the payments towards amounts due under subsequent project certificates, and (2) make interest payments on the outstanding loan amount.

Due to the re-allocation, the entire loan principal remained unpaid as at 29 August 2019, and late payment interest of 8.5% per annum was to be accounted for based on the total outstanding loan amount.

3.1.22 The CFO did not inform the Statutory Auditor on the outstanding loan and interest payable resulting from the re-allocation prior to the issuance of the FY 2018 financial statements on 25 September 2018.

3.1.23 The fact that the loan agreement remained unpaid and the late payment interest charge to be accrued, was not communicated to the statutory auditor by the CFO after the reallocation, and before the finalization and issuance of audited financial statement for FY2018 on 25 September 2018. According to the CFO's reply on EY's email clarification on 13 December 2019<sup>46</sup>, the CFO explained that this may have been due to the busy period in finalising the year end full results and annual report as well as other additional

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<sup>45</sup> The reversal was not indicated in the CSCE reconciliation worksheet as at 31 July 2018, and based on the CSCE reconciliation worksheet as at 29 August 2018, payments amounting to RM 46,532,461.19 was allocated to offset certificates no. 21 to 23 from 8 March 2017 to 9 August 2018, and there was no outstanding balance under certificate 21 to 23 as at 9 August 2018.

<sup>46</sup> We have requested clarification interview to be conducted on 11 December 2019, but email clarification was preferred by the CFO. As the clarification did not proceed with the mode as requested by EY via interviews, we updated our report factually that the replies are received via email.



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non-finance job scope which “caused the action to approach the statutory auditor to slip off her mind”<sup>47</sup>

3.1.24 Three LODs were received from solicitor of CSCE on 2 October 2018, 1 February 2019 and 11 July 2019 respectively. In all LODs received, the late interest payment on outstanding Loan balance were demanded by CSCE. The Management, including the CFO was aware of the letters.

3.1.25 On 2 October 2018 (around a week after FY 2018 financial statements was issued), management received the first Letter of Demand (“LOD#1”).

The LOD#1 indicated that APSB had not repaid the RM 46,532,461.19 loan since 30 June 2017 and requested for the late interest payment of RM 4,944,074 calculated from due date until 30 September 2018. The Letter added that the aforesaid late payment interest shall continue to accrue until the date of full repayment of the loan.

3.1.26 On 1 February 2019, Management received the second Letter of Demand (“LOD#2”).

The LOD#2 indicated that the late payment interest from the loan agreement which accrued from 1 July 2017 to 31 January 2019 shall be RM 6,262,500 and the aforesaid late payment interest shall continue to accrue until the date of full repayment.

3.1.27 On 11 July 2019, management received the third Letter of Demand (“LOD#3”).

The LOD#3 indicated that RM 46,532,461.19 under the loan agreement remained outstanding and made a claim on the interest due under the loan agreement calculated from 1 July 2018 till the date of payment.

3.1.28 As set out in Paragraph 3.1.22 to 3.1.25, the CFO was made aware at various points in time of the late interest remained due and that it would continue to accrue until the date of full repayment. However, the interest payable for the overdue sum of the Loan Agreement was not accrued timely in the accounting records when legal obligation arose after failure to repay loan principal by the Due Date. The statutory auditor was not informed about the outstanding loan as well as the late interest due.

The CFO shared with us in the clarification email on 13 December 2019<sup>48</sup> that she took the view at that time which (i) the LODs were “procedural”<sup>49</sup> by CSCE and CSCE has been giving its full support despite the significant amount owing to CSCE; (ii) it was possible that she was of the view at that time the balance was trade in nature and would be negotiated in final accounts (which was common for construction industry); (iii) the differences in the

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<sup>47</sup> We have requested clarification interview to be conducted on 11 December 2019, but email clarification was preferred by the CFO as she explained that she was on busy schedule. As the clarification did not proceed with the mode as requested by EY via interviews, we updated our report factually that the replies are received via email.

<sup>48</sup> We have requested clarification interview to be conducted on 11 December 2019, but email clarification was preferred by the CFO as she explained that she was on busy schedule. As the clarification did not proceed with the mode as requested by EY via interviews, we updated our report factually that the replies are received via email.

<sup>49</sup> It was explained by the Management as part of CSCE’s internal procedure.

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finance interest (8.5% p.a.) and late payment interest (BLR+1% = approximately 7.9%pa) were not material.

- 3.1.29 It was noted from correspondences that APSB acknowledged the interest payable pursuant to the Loan Agreement. In a letter from APSB to CSCE dated 28 January 2018, the letter stated that APSB would bear the interest of 8.5% per annum on the outstanding loan of RM 46.532 million. In a letter issued by APSB's solicitor to CSCE dated 20 February 2019, APSB acknowledged that the interest payable pursuant to the loan agreement from 1 July 2017 to 31 January 2019 was RM 6,262,493.74.
- 3.1.30 Although APSB acknowledged the interest payable on 20 February 2019, the statutory auditor was not informed of the interest payable until 28 August 2019. We understand that the statutory auditor only received the interest expense calculation from Management on 28 August 2019 and was informed by Management of the Loan Agreement on 29 August 2019<sup>50</sup>.
- 3.1.31 On 29 August 2019, full year results for FY2019 were announced, which included a prior year adjustment on the under-recognition of interest expense of RM 3.955 million for the year ended 30 June 2018.

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<sup>50</sup> The source of the information was the Announcement made by the Company via SGX Net dated 10 September 2019.

## 3.2 Circumstances surrounding the non-disclosure of Letters of Demand

### Events leading to receipt of LODs

- 3.2.1 With reference to the correspondences between APSB and CSCE<sup>51</sup> for the period from 28 January to 30 April 2018 as provided by the CFO, APSB had discussions with CSCE representatives on the proposed payment schedule for the outstanding balances. APSB had committed to make payment of RM 25 million in February 2018 and RM 71.7 million from June 2018 to September 2018. In the correspondences, APSB had also agreed with the request from CSCE to have the Extension of Time ("EOT") for The Astaka Project until 31 May 2018 with waiver of penalty for Liquidated Damages ("LD") in view that CSCE would sustain its own cashflow to allow APSB to delay the payment of the certificate claims.

Please refer to paragraphs 3.2.2 to 3.2.4 for details on the correspondences between APSB and CSCE in discussing the proposed payment schedule on the outstanding balances.

- 3.2.2 In letter dated 28 January 2018 from the CEO to CSCE titled "Recap of Discussions on 9th January 2018", the CEO promised payment of RM 25 million to CSCE in February 2018 and EOT extension till 31 May 2018.

*In the letter, the CEO wrote, "Astaka Padu Sdn. Bhd. ("Astaka") is to make payment of RM 25 million to China State Construction Engineering (M) Sdn. Bhd. ("CSCE") in Feb 2018. CSCE is to request from their HQ to approve funding to CSCE in order to finish the Astaka towers till completion March 2018. EOT till 31 May 2018 to be approved and LAD to be waived by Astaka, in view if CSCE to assist the funding of its own portion in the certificate claims till completing the Astaka towers..."*

- 3.2.3 CSCE responded to the above with letter dated 18 April 2018 titled "Payment Schedule and EOT Approval" to request APSB to expedite the EOT approval. The letter was addressed to the CEO/ COO and cc-ed Dato' Daing A Malek Bin Daing A Rahman (the controlling shareholder of AHL) and the CFO.

*In the letter, CSCE wrote, "Astaka Padu committed to make payment of RM 25 million to us (CSCEM) in February 2018, but currently we only received RM 13,099,631.10 from you. Without the said payment, we are facing tight funding. However, as per discussed we will assist the funding of own portion in certificate claim till completion of works... Due to the above, we hope that your company could provide the payment plan for us, so that we could organize our company cash flow. And as per agreed by your company regarding the EOT approval, we wish that your company could expedite to assist coordinate with consultant GDP to provide us the latest EOT. Your urgent attention and prompt reply are very much appreciated".* The letter was signed off by the Deputy General Manager of CSCE, Yang Hong Wei.

- 3.2.4 In the correspondence letter titled "Proposed Payment Schedule" dated 30 April 2018 from the CEO to CSCE (Mr. Wang/ Mr. Yang/ Mr. Tang), the CEO wrote, "... we proposed to

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<sup>51</sup> The review was conducted based on the information that we received from the Management. We did not perform any computer forensic procedures. Therefore, we were unable to ensure the completeness of the information/ correspondences as provided by Management.

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*make the outstanding as at 30.4.2018 (up to claim no. 36) payment as follows: June 18 RM 7.0 million; July 18 RM 7.0 million; Aug 18 RM 40.0 million; Sep 18 RM 17.7 million. We appreciate your kind understanding on the matter and assisting us in this critical time. We look forward for your favorable agreement from your side on the proposal we discussed."*

- 3.2.5 AP SB failed to make the committed payments in February 2018 and September 2018. Only RM 13,099,631.10 (52.4% of committed payment) was paid to CSCE in February 2018 and RM 48,915,686.17<sup>52</sup> (68.2% of committed payment) was paid to CSCE from June to September 2018.
- 3.2.6 Rule 703 of the Listing Rules requires an issuer to 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. Appendix 7A states that occurrence of an event of default under debt or other securities or financing or sale agreements are events that are likely to require immediate disclosure. It is the responsibility of each issuer to disclose material information in its possession as required by the listing rules.

As AP SB was unable to make any of the committed payments in February 2018 and September 2019, this may amount to an event of default under debt or other securities or financing or sale agreements and would likely have required immediate disclosure under the Listing Rules. Failure to announce could lead to a potential breach of Rule 703.

For completeness, it should be noted that section 203(1) of the SFA provides that a listed entity must not intentionally, recklessly or negligently fail to notify the approved exchange of such information as is required to be disclosed by the approved exchange under the listing rules or any other requirement of the approved exchange, if the listed entity is required by the approved exchange under the listing rules or any other requirement of the approved exchange to notify the approved exchange of information on specified events or matters as they occur or arise for the purpose of the approved exchange making that information available to an organized market operated by the approved exchange.

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<sup>52</sup> The total payments were based on GL records which also include payments made to nominated subcontractor/ domestic subcontractor but offsetting CSCE's certificate claims. We did not verify the payments made in the bank statement.

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Receipt of first letter of demand (LOD#1) dated 2 October 2018

- 3.2.7 The first Letter of Demand was received on 2 October 2018 (“LOD#1”) from the CSCE’s solicitor one day after the Certificate of Practical Completion<sup>53</sup> was issued to CSCE on 1 October 2018<sup>54</sup>.
- 3.2.8 The LOD#1 indicated that APSB had not repaid the Loan since 30 June 2017, and the late payment interest calculated from due date until 30 September 2018 was RM4,944, 074.
- APSB has not repaid RM 46,532,461.19 since 30 June 2017. The letter stated, “According to clause 3.2 of the Loan agreement, in the event Astaka is unable to repay before the due date, Astaka shall pay interest at the rate of 8.5% per annum on the outstanding loan on daily basis calculated from the expiry of the due date until the date of full repayment of the loan. The late payment interest calculated from due date until 30 September 2018 is RM 4,944,074 and the aforesaid late payment interest shall continue to accrue until the date of full repayment of the loan.”
- 3.2.9 The CEO explained that he was aware that the letter of demand would be issued by CSCE before receiving it. The CEO, COO and CFO commented that they believed that the LOD was issued by CSCE to demonstrate the loan enforcement actions to the CSCE Head Office in China. Nonetheless, according to COO, the CEO had met the CSCE representatives to explain the APSB’s marketing and financing efforts. There was no formal written communication/ reply from the Company to CSCE regarding the LOD#1.
- 3.2.10 The receipt of LOD#1 was not reported to the AHL Board because the letter was assessed by Management to be “immaterial”.
- 3.2.11 Rule 719(1) of the Listing Rules (as at the material time) requires an issuer to have a robust and effective system of internal controls addressing financial, operational and compliance. If failure to notify the Board of receipt of LOD on 2 October 2018 occurred as a result of the issuer not having a robust and effective system of internal controls, Rule 719(1) may not have been fully complied with, potentially breaching Rule 719(1).

Guideline 6.1 of the 2012 Code (as at the material time) obliges management to supply the Board with complete, adequate information in a timely manner. Guideline 6.1 also provides that directors are entitled to request from management and should be provided with such additional information as needed to make informed decisions, and that management shall provide the same in a timely manner. If failure to notify the Board of receipt of LOD on 2 October 2018 is viewed as not providing the Board with complete, adequate information in a timely manner and/or failure by management to provide the Board with information as requested by the Board, the 2012 Code may not have been fully complied with.

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<sup>53</sup> CPC is a certificate issued to the contractor when the works under the contract have reached the stage of completion described in the general conditions of contract

<sup>54</sup> The certificate was issued on 1 October 2018 which certified that the works were practically completed on 19 September 2018

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Receipt of second letter of demand (LOD#2) dated 1 February 2019

- 3.2.12 The second Letter of Demand ("LOD#2") was received on 1 February 2019, delivered by hand from CSCE's Solicitor (JAL & LIM) to AP SB's office address and attention to "the Director".
- 3.2.13 LOD#2 indicated the late payment interest from 1 July 2017 to 31 January 2019 was RM 6,262,500 and the outstanding amount was RM 107,278,715.79 as of 31 January 2019 (which included the outstanding amount for other certified progress claim on top of the Loan). AP SB was required to pay total outstanding amount of RM 113,541,215.79 within 60 days from the date of the letter, failing which CSCE would have to commence legal proceedings for the recovery of the same without further reference.

*The letter stated "Pursuant to clause 3.2 of the loan agreement, the late payment interest which accrued from 1.7.2017 to 31.1.2019 shall be RM 6,262,500 and the aforesaid late payment interest shall continue to accrue until the date of full repayment. The outstanding amount of RM 107,278,715.79 is due and owing by AP SB. The CSCE's solicitor is instructed to demand RM 113,541,215.79 to be paid within 60 days from the date hereof failing which CSCE would have to commence legal proceedings for the recovery of the same without further reference."*

- 3.2.14 In our interviews with the CEO, COO, and CFO, all of them confirmed that they were aware of LOD#2 sent by CSCE. The COO shared that there was discussion among the CEO, CFO and COO about bringing up the matter to the AHL Board after receiving LOD#2, but that ultimately the CEO had decided not to, as there were ongoing negotiations and AP SB had maintained good relationship with CSCE. Therefore, the CEO felt that it was not a material matter and there was no need to inform the AHL Board.

The CEO said that he was informed by CSCE before the LOD#2 was issued and believed that LOD#2 was issued for the same reason that CSCE needed to inform its headquarters in China that actions had been taken for the loan.

- 3.2.15 Rule 719(1) of the Listing Rules (as at the material time) requires an issuer to have adequate and effective systems of internal controls (including financial, operational, compliance and information technology controls) and risk management systems. If failure to notify the Board of receipt of LOD on 1 February 2019 arose as a result of the issuer not having adequate and effective systems of internal controls, Rule 719(1) may not have been fully complied with, potentially breaching Rule 719(1).

Rule 710 of the Listing Rules requires an issuer to comply with the principles of the 2018 Code. Provision 1.6 of the 2018 Code requires management to provide directors with complete, adequate and timely information on an on-going basis to enable directors to make informed decisions and discharge their duties and responsibilities. If failure to notify the Board of receipt of LOD on 1 February 2019 amounted to incomplete, inadequate and untimely disclosure of information to directors as required by the 2018 Code, Rule 710 may not have been fully complied with, potentially breaching Rule 710.

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Response to LOD#2 and granting of Extension of Time to CSCE

3.2.16 After receipt of LOD#2, there were further negotiations between the Management and CSCE on the owing amount indicated in the LOD#2. On 20 February 2019, APSB proposed to offset the balance against some completed parcel of properties in the Astaka project at RM 1,100 square feet but was not responded by CSCE. On 19 March 2019, APSB wrote to CSCE to indicate three proposals for amicable solutions. CSCE accepted one of the proposals to sell properties in China<sup>55</sup> with certain conditions, including granting of EOT till 19 September 2018 and RM 7 million to be paid to CSCE by the end of April 2019.

Please refer to paragraphs 3.2.17 to 3.2.18 for details on the correspondences between APSB and CSCE.

3.2.17 In the correspondence letter dated 18 March 2019 from the CEO to CSCE (Mr. Wang), the CEO proposed three proposals for an amicable solution:

- (a) plan to go to China to sell remaining unsold units in the Astaka project and seek CSCE's assistance to allow buyers to money in CSCE's bank account in China. The collections will be used to offset the owing amount to CSCE;
- (b) asset contra of the unsold units in The Astaka to offset the owing amount at a discounted price of RM 1,100 per square foot (currently selling at RM 1,350 per square foot);
- (c) joint venture in developing the land which has projected gross development value of RM 3 billion, the amount owing can be converted into equity.

3.2.18 In response to the letter, CSCE responded with a letter dated 10 April 2019 addressed to the CEO and agreed to proposal (a). In the same letter, CSCE indicated proposal terms and conditions for APSB's consideration and for the amicable solution:

- (a) EOT to be granted till 19 September 2018;
- (b) to settle all the final account before 30 April 2019;
- (c) to pay RM 7 million for CSCEM and RM 6 million for those NSC/ DSC by this month; (d) reconsidering the prolongation claim to cover some of CSCE's loss and expenses.

3.2.19 There was no further reply to the latest letter from CSCE dated 10 April 2019.

3.2.20 In total, the EOT granted to CSCE with waiver of LD amounted to RM 63.8 million from 5 November 2017 till 19 September 2018. Amongst the EOT granted, the EOT of 39 days from 11 August 2018 till 19 September 2019 was not supported with a relevant Architect's certificate. Please refer to Appendix 4 for chronology of EOT.

Although one of EOTs dated 14 May 2018 had been supported by an Architect's certificate, we noted an email dated 12 May 2018 from GDP Architect ("Architect") to CEO and COO mentioning that the EOT for 110 days up to 31 May 2018 was issued as instructed by APSB even if the Architect had assessed that CSCE was not entitled to EOT till 31 May

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<sup>55</sup> The plan to sell remaining unsold units of the Astaka project in China was carried out but none of the units was sold

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2018 (This EOT was requested by CSCE as part of the discussion on proposed payment schedule as indicated in Paragraph 3.2.16).

Please refer to Paragraph 3.2.21 and 3.3.22 for correspondences between APSB and the Architect.

- 3.2.21 Based on the email correspondence dated 3 May 2018 at 8:01pm from COO to GDP personnel called Nadia, COO wrote, "*Dear Nadia, As discussed just now, APSB management has agreed to grant EOT to CSCE up to 31 May 2018. Would appreciate if GDP can issue ASAP as this is required for the CSCE CIDB renewal of which now only pending the latest EOT cert*".
- 3.2.22 A personnel from the Architect (Nadia) replied to the COO's email on 12 May 2018 at 11:16am and copying, among others, the CEO. Nadia wrote, "*Hi Ms. Hamizah, we wish to record your decision based on the discussion with us dated 8 May 2018 that you have agreed to release the Certificate of EOT no. 07 to CSCE for the EOT until 31 May 2018... if [the Architect is] in the opinion that CSCE is not entitled to have EOT until 31 May 2018; APSB has agreed to allow EOT to CSCE until 31 May 2018 only. Hope the above clarified (sic) and we shall prepare the EOT certification for our principal's signature*". EOT of 110 days until 31 May 2018 was subsequently granted in Certificate of Time No. 07 on 14 May 2018.

The above matters were not brought up to the attention of the Board.

Due to the delays in completion of the project, Liquidated Ascertained Damages ("LAD") to purchasers, amounting to RM10,524,334 was incurred by APSB.

- 3.2.23 The CEO explained that the EOT and waiver of LD to CSCE were not raised to the AHL Board because the waiver of LD was granted out of commercial reasons and goodwill. He took the view that this was an "ordinary course of business" and not material matter, The CEO added that if he were to claim liquidated damages from CSCE, CSCE might take legal action over the loan amount due from APSB.
- 3.2.24 Rule 703 of the Listing Rules requires an issuer to 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. Appendix 7A of the Listing Rules clarifies that material information includes information known to the issuer concerning, *inter alia*, the issuer's financial condition and prospects. It is the responsibility of each issuer to disclose material information in its possession as required by the listing rules.

It was the judgement of the Board to decide whether EOT granted to CSCE with waiver of LD amounting to RM 63.8 million from 5 November 2017 to 19 September 2018, and LAD of RM 10,524,334 incurred by APSB, amounted to material information concerning the issuer's financial condition and prospects. If the Board concluded that the foregoing was material, these would likely have required disclosure under the Listing Rules. Failure to announce could lead to a potential breach of Rule 703.



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For completeness, it should be noted that section 203(1) of the SFA provides that a listed entity must not intentionally, recklessly or negligently fail to notify the approved exchange of such information as is required to be disclosed by the approved exchange under the listing rules or any other requirement of the approved exchange, if the listed entity is required by the approved exchange under the listing rules or any other requirement of the approved exchange to notify the approved exchange of information on specified events or matters as they occur or arise for the purpose of the approved exchange making that information available to an organised market operated by the approved exchange.

- 3.2.25 Rule 719(1) of the Listing Rules (as at the material time) requires an issuer to have a robust and effective system of internal controls addressing financial, operational and compliance. If failure to seek Board's approval for EOT granted to CSCE with waiver of LD amounting to RM 63.8 million from 5 November 2017 to 19 September 2018 occurred as a result of the issuer not having a robust and effective system of internal controls, Rule 719(1) may not have been fully complied with, potentially breaching Rule 719(1).

Receipt of third letter of demand (LOD#3) dated 11 July 2019

- 3.2.26 The third Letter of Demand ("LOD#3") was received on 11 July 2019 by courier from CSCE's solicitor (Raja, Darryl & Loh) in the APSB's office address and by email, attention to the COO, CEO, and CFO.

The receipt of LOD#3 was after failure of making RM 7 million payment by April 2019 which was one of the terms negotiated with CSCE after receipt of LOD#2.

- 3.2.27 The letter indicated a payment claim against APSB for the sum of RM 125,347,302.61 and interest thereon.

The letter stated, *"In relation to the interest rate, clause 3.2 of the loan agreement of RM 46.532m provides that APSB shall pay CSCE at the rate of 8.5% per annum on the outstanding loan on a daily basis from the expiry of the due date until the date of full repayment; and outstanding of RM 78,814,841.42 based on conditions of contract provides that APSB shall pay CSCE interest at the rate of 6.9% (Maybank Base Lending Rate) plus 1% in respect of any amounts due under any certificate after period of honoring certificates which is 30 days."*

- 3.2.28 The CEO, COO and CFO believed that issuance of the LOD was part of CSCE's internal process as an update to CSCE's Head Office. The COO further shared that there were ongoing negotiations and APSB had been in good relationship with CSCE. Hence the letters were assessed by Management to be "immaterial" and not reported to the AHL Board.

In the CFO's Maxwellisation reply on 24 November 2019 and CEO's Maxwellisation reply on 26 November 2019, they added that amounts owed by APSB to CSCE under the Loan Agreement had been secured against the land parcels located in Bukit Pelali, Pengerang and APSB had assets in the form of its unsold units in the Astaka Project (worth approximately RM 400 millions), which together would have been sufficient to cover the

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outstanding amounts owed to CSCE. Hence, the receipt of LODs were assessed by Management to be 'immaterial' and not reported to the AHL Board.

Consequently, the CEO disclosed to AC that there were no LODs received in respect of the amount owing by APSB to CSCE even when the AC sought confirmation from Management if any LOD was received, during the AC meeting on 27 August 2019<sup>56</sup>.

- 3.2.29 Rule 719(1) of the Listing Rules (as at the material time) requires an issuer to have adequate and effective systems of internal controls (including financial, operational, compliance and information technology controls) and risk management systems. If failure to notify the Board of receipt of LOD on 11 July 2019 arose as a result of the issuer not having adequate and effective systems of internal controls, Rule 719(1) may not have been fully complied with, potentially breaching Rule 719(1).

Rule 710 of the Listing Rules requires an issuer to comply with the principles of the 2018 Code. Provision 1.6 of the 2018 Code requires management to provide directors with complete, adequate and timely information on an on-going basis to enable directors to make informed decisions and discharge their duties and responsibilities. If failure to notify the Board of receipt of LOD on 11 July 2019 amounted to incomplete, inadequate and untimely disclosure of information to directors as required by the 2018 Code, Rule 710 may not have been fully complied with, potentially breaching Rule 710.

- 3.2.30 There was no documentation to demonstrate the transparency on how the materiality was being assessed by the Management. There was no established list of matters to be brought up for the Board's attention and authority limits endorsed by the AHL Board on the matters to be escalated for AHL Board's decision.

- 3.2.31 The receipt of three LODs were only made known to the entire Board (not including the CEO) on 3 September 2019 after the AC Chairman seek reconfirmation from the CEO and CFO as to whether the Company/ Group received any letters of demand.

Announcement of the LODs was made by the Company on 5 September 2019.

- 3.2.32 Based on response to SGX queries on 11 September 2019, the CEO did not disclose to the AC that the LOD had been received in respect of the amount owing by APSB to CSCE during the AC meeting on 27 August 2019 meeting when the AC sought confirmation from Management if any legal LOD was received. The receipt of three LODs were only made known to the entire Board (not including the CEO) on 3 September 2019 after the AC Chairman seek reconfirmation from the CEO and CFO as to whether the Company/ Group received any letters of demand.

- 3.2.33 Rule 703 of the Listing Rules requires an issuer to 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. Appendix 7A states that: (i) significant litigation, and (ii) a significant dispute or disputes with sub-contractors, customers or suppliers, or with any parties, are events that are likely to require immediate

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<sup>56</sup> The source of the information was the Announcement published by the Company via SGX Net on 11 September 2019.

disclosure. It is the responsibility of each issuer to disclose material information in its possession as required by the listing rules.

It was the judgement of the Board to decide whether the receipt of any of the LODs on 2 October 2018, 1 February 2019 and 11 July 2019 was material and amounted to an occurrence of a significant litigation or significant dispute. Having regard to the fact that the Board took the view to announce the LODs on 5 September 2019 suggest that the receipt of the LODs were material and would likely have required immediate disclosure under the Listing Rules. AHL only made an announcement of the LODs on 5 September 2019. Failure to make a timely announcement could amount to a potential breach of Rule 703.

For completeness, it should be noted that section 203(1) of the SFA provides that a listed entity must not intentionally, recklessly or negligently fail to notify the approved exchange of such information as is required to be disclosed by the approved exchange under the listing rules or any other requirement of the approved exchange, if the listed entity is required by the approved exchange under the listing rules or any other requirement of the approved exchange to notify the approved exchange of information on specified events or matters as they occur or arise for the purpose of the approved exchange making that information available to an organised market operated by the approved exchange.

### 3.3 Other observations/ weakness in internal controls

#### (i) Matters other than non-disclosure of the LODs not brought up to the attention of the AHL Board

3.3.1 Aside from the circumstances surrounding the Matter, we had come across during the course of our work that some of the matters (not exhaustive) were made and executed at the APSB Board/ Management (referring to the CEO, CFO, and COO) level, and were not brought up for the attention of the AHL Board to assist the Board in fulfilling its responsibilities to ensure long-term success of the company:

- Difficulties in getting financial support from financial institutions which may result in potential “going concern” issue
- Conversion of trade payables to loan and signing of loan agreement

We set out our key observations (including non-disclosure of LODs) in the subsequent paragraphs.

3.3.2 The difficulties in getting financial support from financial institutions due to slow moving property market in Malaysia, led to the decision from Management to convert the outstanding trade payables into loan agreement as shared by the COO. Such arrangement was assessed by the Management to be an “ordinary course of business” and the CEO was of the view that he was able to resolve the matters within his ability and control, hence it was not raised to the AHL board for attention. The loan agreement was signed by the CEO and Daing Abd Rahim Bin Daing A Rahman (the Director of APSB) on behalf of APSB.

3.3.3 Rule 703 of the Listing Rules requires an issuer to 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)

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would be likely to materially affect the price or value of its securities. Appendix 7A of the Listing Rules clarifies that material information includes information known to the issuer concerning, *inter alia*, the issuer's financial condition and prospects. In addition, it is stated that the borrowing of a significant amount of funds is an event that is likely to require immediate disclosure. It is the responsibility of each issuer to disclose material information in its possession as required by the listing rules.

If difficulties in getting financial support from financial institutions and/or conversion of the outstanding trade payables into loan agreement should be viewed as material information known to the issuer concerning the issuer's financial conditions and prospects and/or the borrowing of a significant amount of funds, these would likely have required immediate disclosure under the Listing Rules. Failure to announce could lead to a potential breach of Rule 703.

For completeness, it should be noted that section 203(1) of the SFA provides that a listed entity must not intentionally, recklessly or negligently fail to notify the approved exchange of such information as is required to be disclosed by the approved exchange under the listing rules or any other requirement of the approved exchange, if the listed entity is required by the approved exchange under the listing rules or any other requirement of the approved exchange to notify the approved exchange of information on specified events or matters as they occur or arise for the purpose of the approved exchange making that information available to an organised market operated by the approved exchange.

3.3.4 It was further noted that the loan agreement was entered into between APSB, CSCE, SSSB and BPSB, and the loan was secured against land parcels owned by SSSB. SSSB is 100% owned by the CEO and Dato' Daing A Malek Bin Daing A Rahman, the controlling shareholder of AHL, in the proportions of 5% and 95% respectively.

3.3.5 The decision to enter into loan agreement was brought up to the APSB Board for approval via Director Resolution on 3 April 2017. However, the decision was not brought up for the attention of the AHL Board, especially since the loan was secured against land parcels of interested person.

Rule 1204(8) of the Listing Rules requires the annual report of an issuer to contain, amongst others, particulars of material contracts of the issuer and its subsidiaries involving the interests of the chief executive officer, each director or controlling shareholder. It was noted that AHL's annual report for the financial year ended 30 June 2017 did not contain such disclosure of the security but it contained a negative statement that there were no material contracts entered into by the Company or its subsidiaries that involved the interests of the Directors, CEO or controlling shareholders. The negative statement was concluded by the Board of Directors under the circumstances that the independent directors were unaware of the loan agreement and security granted by SSSB. If the security granted by SSSB in connection with the loan was material, it should have been disclosed in the annual report of AHL. Failure to disclose could lead to a potential breach of Rule 1204(8).

3.3.6 According to the AHL's Policies & Operating Procedures ("SOP") for Bank and Cash Management, the Board's approval was required for any bank facility/ loan arrangement.

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However, there was no definition of the 'Board' as subsidiary's Board or the holding company's Board

Management has taken the interpretation of the "Board" as APSB's Board instead of the AHL Board. The loan signatories were authorised by the APSB Board via the Directors' resolution dated 3 April 2017, which granted the CEO and Daing Abd Rahim Bin Daing A Rahman (the Director of APSB) the authority to accept and execute the loan agreement on behalf of the Company.

*(ii) No documentation to support how the loan interest rate was derived*

3.3.7 There was no documentation to substantiate how the late payment loan interest rate of 8.5% was derived for the outstanding Loan amount to demonstrate transparency of the decision made.

3.3.8 The CFO explained that 8.5% per annum was determined by the CEO partly taking reference from the interest rate of 7.65% of RM 22,519,916.15 from the late interest clause stipulated in the CSCE main contractor master contract. Furthermore, the CFO clarified that the overdraft or other short-term loans in the market in year 2017 was around 8% to 10% per annum, depending on the financial standing of the companies in her Maxwellisation reply.

3.3.9 At present, there was no requirement in the SOPs to document how interest rates were to be derived for loans to be taken up with third parties.

*(iii) Payment schedule for long-outstanding trade payables not established and no requirement to escalate significant long outstanding for further assessment*

3.3.10 Our review of the weekly AP aging reporting process noted that the potential late payment interest charges to be charged by the vendor for any delay in payment in accordance to the vendor agreement, were not monitored and incorporated into the AP aging review for payment decision making.

3.3.11 The CFO explained that the decision of payment arrangement, i.e. who to pay and amount to be paid, was made via a discussion among the CFO, COO and CEO. The decision was communicated by the CFO to the Finance Officer for execution.

3.3.12 However, there was no evidence that basis/ justification for non-payment of long aged payables was communicated to the Finance Officer and documented to demonstrate the transparency of process.

3.3.13 There was no documentation on the follow-up actions taken on long-outstanding trade payables as well, such as establishing a payment schedule for long-outstanding trade payables to minimize late interest payment.

3.3.14 There was no threshold established for outstanding payables (in terms of value and age of payables) that needed to be escalated to the AHL Board for attention.

3.3.15 Please refer to Appendix 6 for list of internal controls observations and recommendations.

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**Appendix 1 - List of former employees involved in the Matter whom we were unable to speak to**

<i>S/N</i>	<i>Name of former employee</i>	<i>Designation</i>	<i>Period of employment at APSB</i>
<i>1</i>	<i>Chan Fan Wei</i>	<i>Finance Manager</i>	<i>15 February 2017 to 19 February 2018</i>

## Appendix 2 - Detailed timeline of events

Date	Events
18-12-14 and 02-08-15	Letter of award dated 18 December 2014 and construction agreement dated 2 August 2015 was signed between APSB and CSCE to appoint CSCE as the main contractor for the Astaka @ 1 Bukit Senyum project. Per the agreement, CSCE was required to deliver the project by 4 November 2017. The liquidated damages was RM 200,000 per day of delay.
04-12-16 to 28-02-17	Progress claim for certificate no. 21 to 23 was received between 5 December 2016 and 2 February 2017. The outstanding amount owing to CSCE for certificate claim no. 21, 22, 23 was RM 46,532,461.19.
03-04-17	<p>Directors' resolution in writing was signed by the APSB Board to resolve that:</p> <ul style="list-style-type: none"> <li>• The company was authorised to enter into loan agreement with CSCE and SSSB and BPSB and to comply with the terms and conditions as may stipulated in the said loan agreement.</li> <li>• Full authority was given to the Dato' Zamani Bin Kasim (the CEO) and Daing Abd Rahim Bin Daing A Rahman (the Director of APSB) to accept and execute the agreement and all relevant docs on behalf of the company.</li> <li>• Authority given for the use of the common seal of the company to affix onto all relevant docs in relation thereto</li> </ul> <p><i>The amount of loan agreement was not indicated, the CFO explained that the draft agreement was attached to the directors' resolution for signing which indicated the loan amount</i></p>
12-04-17	<p>The loan agreement was signed between APSB and CSCE to grant an interest-free loan up to 30 June 2017 of RM 46,532,461.19 equivalent to the outstanding amount under certificate 21, 22, 23, to facilitate the smooth continuation of the Astaka @ 1 Bukit Senyum projects. The loan was required to be repaid on or before 30 June 2017 ("due date") or upon APSB's receipt of written demand from CSCE at any time after the date of loan agreement, whichever is earlier.</p> <p>In the event that APSB was unable to repay the Loan on such repayment date, CSCE would upon receipt of APSB's written request grant APSB a final extension of time until 30 September 2017 ("Extended Due Date") to repay the Loan, provided that late interest would be charged at the rate of 8.5% per annum on the outstanding Loan calculated on a daily basis from the expiry of the Due Date (or such period as stated in the written demand) until the date of full repayment of the Loan.</p> <p>The loan agreement was signed on behalf of APSB by the CEO and one of the APSB's Director, Daing Abd Rahim Daing A Rahman. The CEO was also one of the contract signatories for the same agreement on behalf of SSSB and BPSB by virtue of his appointment as the Executive Director for both companies.</p>
30-06-17	As of due date, the loan had not been repaid and APSB did not make a formal request to CSCE for a final extension to 30 September 2017

<b>Date</b>	<b>Events</b>
18-07-17 to 09-08-18	Various payments to CSCE were made for certificates no. 21, 22, and 23 amongst other certificate claims.
09-01-18	APSB management met with CSCE personnel to discuss the amount owing to CSCE and the proposal for the repayment sum, structure and timeline
28-01-18	<p>APSB sent a letter to CSCE to recap discussion held on 9 January 2018.</p> <ul style="list-style-type: none"> <li>• APSB was to make payment of RM 25 million to CSCE in Feb 18</li> <li>• CSCE was to request for approval from their Headquarters in China of the funding so that CSCE could finish the Astaka towers till completion in March 2018</li> <li>• EOT till 31 May 2018 was to be approved and LAD to be waived by APSB, in view of CSCE to assist the funding of its own portion of the certification claims till completion of the Astaka towers</li> <li>• APSB would bear the interest of 8.5% p.a. of the RM 46.532 million</li> <li>• APSB promised that payments for all overdue would not be a problem as collection of 15% (~RM 119 million) upon key handovers to purchasers and government grant of RM 85 million were expected in June 2018.</li> </ul> <p>The letter was signed by the CEO.</p>
18-04-18	<p>CSCE sent response letter to APSB on payment schedule and EOT approval</p> <ul style="list-style-type: none"> <li>• CSCE had only received RM 13,099,631.10 from APSB and was facing tight funding, but would assist in funding their own portion of the certification claims till completion</li> <li>• CSCE records indicated outstanding payment of RM 102,827,644.23.</li> <li>• APSB to provide payment plan for CSCE to organise their cash flow</li> <li>• APSB to expedite and coordinate with GDP Architect to provide EOT as previously agreed by APSB.</li> </ul>
30-04-18	<p>APSB sent a letter on proposed payment schedule to CSCE</p> <ul style="list-style-type: none"> <li>• As at up to claim no. 36, the amount owing to CSCE amounted to RM 85,336,524.37, of which CSCE's portion was RM 71,745,232.85 and the remainder was due to CSCE's sub-contractors.</li> <li>• APSB reiterated on expected receipts of RM 119 million from handover of keys in end May 2018, and RM 85 million of government grant in August 2018 (within 2 months of completion and submission in June 2018).</li> <li>• The proposed payment was as follows:  June 18 - RM 7 million; July 18 - RM 7 million;  Aug 18 - RM 40 million; Sep 18 - RM 17 million</li> </ul> <p>The letter was signed by the CEO.</p>
26-06-18	The Astaka Project received Certificate of Compliance and Completion which was issued by the project architect after obtaining all clearances from the relevant local authorities
30-06-18	The loan was not fully paid off per APSB records, with outstanding amount of RM 22,519,916.15 (48% of total loan amount, RM46,532,461.19) as at 30 June 2018
09-08-18	The loan balance was fully settled on 9 August 2018 in accordance to the CSCE reconciliation worksheet.
10-08-18	The payments made to the certificate no. 21 to 23 from 18 July 2017 to 9



<b>Date</b>	<b>Events</b>
to 29-08-18	August 2018 with total amount of RM 46,532,461.19 were re-allocated to offset against certificate no. 32 to 37. The re-allocation resulted into the entire loan principal became outstanding and late interest payment need to be accounted.
29-08-18 to 24-09-18	The company did not highlight to the statutory auditor on the re-allocation of payment which resulted the loan principal became outstanding
25-09-18	The financial statement for year ended 30 June 2018 was finalised
01-10-18	Certificate of Practical Completion ("CPC") on the Astaka Project was issued to CSCE to certify that the works were practically completed on 19 September 2018
02-10-18	<p>CSCE's solicitor sent a Letter of Demand to APSB ("LOD#1") for the outstanding amount under the Loan agreement. The letter was sent by hand and addressed to M/s Lim Soh &amp; Goonting (APSB's solicitor).</p> <p>The letter indicated that APSB had not repaid RM 46,532,461.19 since 30 June 2017. The late payment interest calculated from due date until 30 September 2018 was RM 4,944,074 and the aforesaid late payment interest would continue to accrue until the date of full repayment of the loan.</p>
01-02-19	<p>CSCE's solicitor sent a second Letter of Demand ("LOD#2") to APSB for the outstanding amount under the loan agreement and interest thereon. The letter was sent by hand to APSB's office address and attention to "the Director".</p> <p>The CSCE's solicitor was instructed to demand RM 113,541,215.79 to be paid within 60 days from the date hereof failing which CSCE would have to commence legal proceedings for the recovery of the same without further reference.</p>
20-02-19	<p>APSB's solicitor responded to LOD#2 and disputed the total sum due and payable that was stated in LOD#2:</p> <ul style="list-style-type: none"> <li>• RM 103,045,117.45 being outstanding amount due</li> <li>• RM 6,262,493.74 being interest payable from 1 July 2017 to 31 January 2019 under loan agreement</li> <li>• APSB proposed to offset the amount against some properties in Astaka project</li> </ul>
12-03-19	APSB management met with CSCE personnel to discuss the response sent by APSB's solicitor in respect of LOD#2
18-03-19	<p>APSB sent a letter to CSCE to re-cap the matters discussed during the meetup and proposed to have a discussion with CSCE's Headquarters in China on 12 March 2019 to negotiate amount owing.</p> <p>APSB proposed the following:</p> <p>(i) to get assistance from CSCE in China to use their China bank account to collect the payment from APSB China buyers (if there are any buyers from APSB's China roadshow sales and marketing event for the Astaka Project) to offset the amounts owing to CSCE;</p> <p>(ii) as an alternative option, for APSB to repay the amount owing by way of</p>

<b>Date</b>	<b>Events</b>
	<p>a joint venture between CSCE and APSB on its Phase 3 development at One Bukit Senyum (with such land valued at RM570M) and whereby the amount owing could be converted into equity to be issued to CSCE; and/or (iii) as per the proposal letter dated 20.02.2019 from APSB, to contra the amount owing from APSB to CSCE with units in the Astaka Project at a discounted price of RM1,000.00 per foot (average selling market price being RM1350 per foot)</p>
10-04-19	<p>CSCE sent a reply letter to APSB. In the letter, CSCE agreed to APSB's proposal to assist APSB to collect monies on behalf from China buyers.</p> <p>CSCE agreed to an amicable solution subject to:</p> <ul style="list-style-type: none"> <li>• EOT to be granted till 19 September 2018</li> <li>• Final accounts to be settled before 30 April 2019</li> <li>• RM 7 million to be paid to CSCE and RM 6 million to be paid to CSCE's subcontractors by the end of April 2019</li> <li>• The prolongation claim made by CSCE against APSB for the additional costs it had incurred as a result of delay to be reconsidered.</li> </ul>
13-05-19	<p>Board meeting was held and attended by all member of the Board, COO, CFO, PPCF (the former sponsor). In the meeting, the Board was informed on the outstanding payment due to the main contractor for The Astaka project and Management would assess and accrue the interest amount (if required) in respect thereof.</p>
11-07-19	<p>CSCE's solicitor sent a third Letter of Demand to APSB ("LOD#3") for the outstanding amount under the loan agreement and interest thereon. The letter was sent by courier to APSB's office and email to the CEO, COO, and CFO. The letter indicated a payment claim against APSB for the sum of RM 125,347,302.61 and interest thereon.</p>
27-08-19	<p>Company's AC and Board meeting the financial year ended 30 June 2019 ("FY2019") was held. In the meeting, the AC raised questions as to whether the Company and Group had received any letters of demand from contractors or suppliers. The CEO replied that there was a letter from a supplier (which was not CSCE) chasing for payment of RM1.8 million which the Group would be arranging for payment soon.</p>
28-08-19	<p>The statutory auditor had received the interest expense calculation from management.</p>
29-08-19	<p>The statutory auditor was informed by management of the validity of the loan agreement. On the same day, full yearly result for financial year ended 2019 was made which included the prior year adjustment on the under-recognition of interest expense of RM 3.955 million for the year ended 30 June 2018.</p>
02-09-19	<p>The Company requested for a trading halt.</p>
03-09-19	<p>The AC met E&amp;Y to finalise their proposed scope of work for the independent review and conveyed the Board's intention to appoint E&amp;Y to conduct the independent review.</p> <p>Following the meeting with EY, the AC deliberated and decided to seek</p>

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<b>Date</b>	<b>Events</b>
	<p>confirmation again from the CFO as to whether the Group/ Company had received any letters of demand from CSCE as a subsequent event in anticipation of the lifting of the trading halt.</p> <p>The CEO advised the AC Chairman that there were Letters of Demand received by APSB dated 2 October 2018, 1 February 2019 and 11 July 2019.</p>
05-09-19	<p>The Company released an SGX announcement on the Letters of Demand, the need for the prior year adjustment and the intention to appoint E&amp;Y as an independent reviewer to undertake a review of the matters that may have given rise to the oversight.</p>

**Appendix 3 - List of payments made to CSCE and re-allocation of certificates**

<b>Certificate</b>	<b>Date of payment</b>	<b>Payment Voucher</b>	<b>Description</b>	<b>Amount (RM)</b>	<b>Sum of payments (RM)</b>
<b>C21</b>	Prior to loan agreement	PV005469	MBB431111	4,700,000.00	16,576,042.34
		PV005464	RHB498431	1,376,042.34	
		PV005468	MBB431110	5,500,000.00	
		PV005585	MBB440178	1,500,000.00	
		PV005712	MBB440222	3,500,000.00	
	28-Dec-17	PV007481	MBB496498	400,000.00	11,978,147.44
	18-Jan-18	PV007574	MBB496533	500,000.00	
	5-Feb-18	PV007995	CMTF-I(7)	7,000,000.00	
	5-Feb-18	PV007995	CMTF-I(7)	1,279,608.36	
	20-Mar-18	PV008033	CMTF-I(7)	2,798,539.08	
	10 to 29 Aug 18	Transfer to C32		(7,041,685.22)	(11,978,147.44)
	10 to 29 Aug 18	Transfer to C33		(4,936,462.22)	
<b>Outstanding for C21</b>					<b>11,978,147.44</b>
<b>C22</b>	18-Jul-17	PV006452	MBB043937	816,088.95	17,126,917.89
	5-Feb-18	PV007995	CMTF-I(7)	5,720,391.64	
	20-Mar-18	PV008033	CMTF-I(7)	3,301,092.02	
	6-May-18	PV008376	MBB 527616	1,000,000.00	
	3-Jul-18	PV008686	MBB 529420	800,000.00	
	12-Jul-18	PV008799	MBB 529507	2,000,000.00	
	29-Jul-18	PV008914	MBB 543190	3,000,000.00	
	9-Aug-18	PV009060	MBB 543302	489,345.28	
	10 to 29 Aug 18	Transfer to C33		(9,325,093.35)	(17,126,917.89)
	10 to 29 Aug 18	Transfer to C34		(6,424,553.52)	
	10 to 29 Aug 18	Transfer to C35		(1,377,271.02)	
	10 to 29 Aug 18				
<b>Outstanding for C22</b>					<b>17,126,917.89</b>
<b>C23</b>	8-Mar-17	PV005675	MBB440215	1,196,824.99	17,427,395.86
	7-Aug-18	PV009035	MBB 543276	500,000.00	
	9-Aug-18	PV009060	MBB 543302	9,584,932.93	
	9-Aug-18	PV009060	MBB 543302	6,145,637.94	
	10 to 29 Aug 18	Transfer to C35		(11,831,468.83)	(17,427,395.86)
	10 to 29 Aug 18	Transfer to C37		(1,836,827.79)	
	10 to 29 Aug 18	Transfer to C36		(3,759,099.24)	
<b>Outstanding for C23</b>					<b>17,126,917.89</b>
<b>Total outstanding</b>					<b>46,532,461.19</b>

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**Appendix 4 - Chronology of Certificate of EOT issued by Architect**

<b><i>Architect's Certification of EOT</i></b>			
<b><i>Reference</i></b>	<b><i>Date</i></b>	<b><i>Extension (days)</i></b>	<b><i>New completion date</i></b>
1	7-Apr-16	5	9-Nov-17
2	9-Nov-16	3	12-Nov-17
3	8-May-17	23	5-Dec-17
4	19-May-17	1	6-Dec-17
5	22-Jun-17	1	7-Dec-17
6	1-Nov-17	65	10-Feb-18
7	14-May-18	110	31-May-18
8	21-May-18	3	3-Jun-18
9	28-Sep-18	46	19-Jul-18
10	9-Nov-18	23	11-Aug-18
<b><i>Total</i></b>		<b>280</b>	

Appendix 5 - List of potential breaches of the SGX Listing Manual

<b>Relevant Paragraph</b>	<b>Matter</b>	<b>Potential breach of the SGX listing Manual</b>
3.1.3	Failure to announce entry into loan agreement	<p>Rule 703 of the Listing Rules requires an issuer to 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. Appendix 7A of the Listing Rules clarifies that material information includes information known to the issuer concerning, <i>inter alia</i>, the issuer's financial condition and prospects. In addition, it is stated that the borrowing of a significant amount of funds is an event that is likely to require immediate disclosure. It is the responsibility of each issuer to disclose material information in its possession as required by the listing rules.</p> <p>It was the judgement of the Board to decide whether the borrowing amount under the Loan Agreement was deemed to be significant. Having regard to the fact that the Board took the view to announce the late interest charged on 5 September 2019 and prior year adjustment on the under-recognition of interest expense of RM3.955 million for the year ended 30 June 2018 was made by the statutory auditor after being informed by management of the validity of the Loan Agreement, suggests that the borrowing amount under the Loan Agreement was significant and entry into the Loan Agreement would have amounted to borrowing of a significant amount of funds, and would likely have required immediate disclosure under the Listing Rules. Failure to announce could lead to a potential breach of Rule 703.</p> <p>For completeness, it should be noted that section 203(1) of the SFA provides that a listed entity must not intentionally, recklessly or negligently fail to notify the approved exchange of such information as is required to be disclosed by the approved exchange under the listing rules or any other requirement of the approved exchange, if the listed entity is required by the approved exchange under the listing rules or any other requirement of the approved exchange to notify the approved exchange of information on specified events or matters as they occur or arise for the purpose of the approved exchange making that information available to an organised market operated by the approved exchange.</p>
3.1.11	Failure to announce the interest relation to the loan agreement in AHL's financial statements for FY2017 and FY2018	<p>Rule 705 of the Listing Rules requires an issuer to announce its financial statements and Appendix 7C sets out the information required including, <i>inter alia</i>, (a) interest on borrowings, if significant and (b) in relation to the aggregate amount of the group's borrowings, the amount repayable in one year or less, or on demand, amount repayable after one year, whether the amounts are secured or unsecured, and details of any collaterals.</p> <p>It was the judgement of the Board to decide whether the interest in relation to the Loan Agreement was significant. Having regard to the fact that the Board took the view to announce the late interest charged on 5 September 2019 and prior year adjustment</p>

<b>Relevant Paragraph</b>	<b>Matter</b>	<b>Potential breach of the SGX listing Manual</b>
		<p>on the under-recognition of interest expense of RM3.955 million for the year ended 30 June 2018 was made by the statutory auditor after being informed by management of the validity of the Loan Agreement, suggests that the interest in relation to the Loan Agreement was significant, and should have been included in the financial statements results announcement for FY2018. Non-disclosure could have led to a potential breach of Rule 705 and Appendix 7C.</p> <p>In respect of the Loan Agreement, as the amount repayable, whether the loan is secured or unsecured, and details of any collaterals were not disclosed in AHL's financial statements for FY2017 and FY2018, Rule 705 and Appendix 7C may not have been fully complied with, potentially breaching Rule 705 and Appendix 7C.</p>
3.1.12	Non-disclosure of loan agreement and late interest charged in the financial statements for FY2017 and FY2018	Rule 719(1) of the Listing Rules (as at the material time) requires an issuer to have a robust and effective system of internal controls addressing financial, operational and compliance. If non-disclosure of Loan Agreement and late interest charged in the financial statements for FY2017 and FY2018 occurred as a result of the issuer not having a robust and effective system of internal controls, Rule 719(1) may not have been fully complied with, potentially breaching Rule 719(1).
3.2.6	Failure to announce the inability to make any of the committed payments in February 2018 and September 2019	<p>Rule 703 of the Listing Rules requires an issuer to 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. Appendix 7A states that occurrence of an event of default under debt or other securities or financing or sale agreements are events that are likely to require immediate disclosure. It is the responsibility of each issuer to disclose material information in its possession as required by the listing rules.</p> <p>As APSB was unable to make any of the committed payments in February 2018 and September 2019, this may amount to an event of default under debt or other securities or financing or sale agreements, and would likely have required immediate disclosure under the Listing Rules. Failure to announce could lead to a potential breach of Rule 703.</p> <p>For completeness, it should be noted that section 203(1) of the SFA provides that a listed entity must not intentionally, recklessly or negligently fail to notify the approved exchange of such information as is required to be disclosed by the approved exchange under the listing rules or any other requirement of the approved exchange, if the listed entity is required by the approved exchange under the listing rules or any other requirement of the approved exchange to notify the approved exchange of</p>

<b>Relevant Paragraph</b>	<b>Matter</b>	<b>Potential breach of the SGX listing Manual</b>
		information on specified events or matters as they occur or arise for the purpose of the approved exchange making that information available to an organized market operated by the approved exchange.
3.2.11	Failure to notify the Board of receipt of LOD on 2 October 2018	<p>Rule 719(1) of the Listing Rules (as at the material time) requires an issuer to have a robust and effective system of internal controls addressing financial, operational and compliance. If failure to notify the Board of receipt of LOD on 2 October 2018 occurred as a result of the issuer not having a robust and effective system of internal controls, Rule 719(1) may not have been fully complied with, potentially breaching Rule 719(1).</p> <p>Guideline 6.1 of the 2012 Code (as at the material time) obliges management to supply the Board with complete, adequate information in a timely manner. Guideline 6.1 also provides that directors are entitled to request from management and should be provided with such additional information as needed to make informed decisions, and that management shall provide the same in a timely manner. If failure to notify the Board of receipt of LOD on 2 October 2018 is viewed as not providing the Board with complete, adequate information in a timely manner and/or failure by management to provide the Board with information as requested by the Board, the 2012 Code may not have been fully complied with.</p>
3.2.15	Failure to notify the Board of receipt of LOD on 1 February 2019	<p>Rule 719(1) of the Listing Rules (as at the material time) requires an issuer to have adequate and effective systems of internal controls (including financial, operational, compliance and information technology controls) and risk management systems. If failure to notify the Board of receipt of LOD on 1 February 2019 arose as a result of the issuer not having adequate and effective systems of internal controls, Rule 719(1) may not have been fully complied with, potentially breaching Rule 719(1).</p> <p>Rule 710 of the Listing Rules requires an issuer to comply with the principles of the 2018 Code. Provision 1.6 of the 2018 Code requires management to provide directors with complete, adequate and timely information on an on-going basis to enable directors to make informed decisions and discharge their duties and responsibilities. If failure to notify the Board of receipt of LOD on 1 February 2019 amounted to incomplete, inadequate and untimely disclosure of information to directors as required by the 2018 Code, Rule 710 may not have been fully complied with, potentially breaching Rule 710.</p>
3.2.24	Failure to announce EOT with waiver of Liquidated Damages and LAD incurred by APSB	Rule 703 of the Listing Rules requires an issuer to 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. Appendix 7A of the Listing Rules clarifies that material information includes information known to the issuer concerning,



Relevant Paragraph	Matter	Potential breach of the SGX listing Manual
		<p><i>inter alia</i>, the issuer's financial condition and prospects. It is the responsibility of each issuer to disclose material information in its possession as required by the listing rules.</p> <p>It was the judgement of the Board to decide whether EOT granted to CSCE with waiver of LD amounting to RM 63.8 million from 5 November 2017 to 19 September 2018, and LAD of RM 10,524,334 incurred by APSB, amounted to material information concerning the issuer's financial condition and prospects. If the Board concluded that the foregoing was material, these would likely have required disclosure under the Listing Rules. Failure to announce could lead to a potential breach of Rule 703.</p> <p>For completeness, it should be noted that section 203(1) of the SFA provides that a listed entity must not intentionally, recklessly or negligently fail to notify the approved exchange of such information as is required to be disclosed by the approved exchange under the listing rules or any other requirement of the approved exchange, if the listed entity is required by the approved exchange under the listing rules or any other requirement of the approved exchange to notify the approved exchange of information on specified events or matters as they occur or arise for the purpose of the approved exchange making that information available to an organised market operated by the approved exchange.</p>
3.2.25	Failure to seek Board's approval for EOT granted to CSCE with waiver of LD	Rule 719(1) of the Listing Rules (as at the material time) requires an issuer to have a robust and effective system of internal controls addressing financial, operational and compliance. If failure to seek Board's approval for EOT granted to CSCE with waiver of LD amounting to RM 63.8 million from 5 November 2017 to 19 September 2018 occurred as a result of the issuer not having a robust and effective system of internal controls, Rule 719(1) may not have been fully complied with, potentially breaching Rule 719(1).
3.2.29	Failure to notify the Board of receipt of LOD on 11 July 2019	<p>Rule 719(1) of the Listing Rules (as at the material time) requires an issuer to have adequate and effective systems of internal controls (including financial, operational, compliance and information technology controls) and risk management systems. If failure to notify the Board of receipt of LOD on 11 July 2019 arose as a result of the issuer not having adequate and effective systems of internal controls, Rule 719(1) may not have been fully complied with, potentially breaching Rule 719(1).</p> <p>Rule 710 of the Listing Rules requires an issuer to comply with the principles of the 2018 Code. Provision 1.6 of the 2018 Code requires management to provide directors with complete, adequate and timely information on an on-going basis to enable directors to make informed decisions and discharge their duties and responsibilities. If failure to notify the Board of receipt of LOD on 11 July 2019 amounted to incomplete, inadequate and untimely disclosure of information to directors as required by the</p>

<b>Relevant Paragraph</b>	<b>Matter</b>	<b>Potential breach of the SGX listing Manual</b>
		2018 Code, Rule 710 may not have been fully complied with, potentially breaching Rule 710.
3.2.33	Failure to make timely announcement receipt of LODs on 2 October 2018, 1 February 2019 and 11 July 2019	<p>Rule 703 of the Listing Rules requires an issuer to 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. Appendix 7A states that: (i) significant litigation, and (ii) a significant dispute or disputes with sub-contractors, customers or suppliers, or with any parties, are events that are likely to require immediate disclosure. It is the responsibility of each issuer to disclose material information in its possession as required by the listing rules.</p> <p>It was the judgement of the Board to decide whether the receipt of any of the LODs on 2 October 2018, 1 February 2019 and 11 July 2019 was material and amounted to an occurrence of a significant litigation or significant dispute. Having regard to the fact that the Board took the view to announce the LODs on 5 September 2019 suggest that the receipt of the LODs were material, and would likely have required immediate disclosure under the Listing Rules. AHL only made an announcement of the LODs on 5 September 2019. Failure to make a timely announcement could amount to a potential breach of Rule 703.</p> <p>For completeness, it should be noted that section 203(1) of the SFA provides that a listed entity must not intentionally, recklessly or negligently fail to notify the approved exchange of such information as is required to be disclosed by the approved exchange under the listing rules or any other requirement of the approved exchange, if the listed entity is required by the approved exchange under the listing rules or any other requirement of the approved exchange to notify the approved exchange of information on specified events or matters as they occur or arise for the purpose of the approved exchange making that information available to an organised market operated by the approved exchange.</p>
3.3.3	Failure to announce difficulties in getting financial support from financial institutions and/ or conversion of outstanding trade payables	Rule 703 of the Listing Rules requires an issuer to 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. Appendix 7A of the Listing Rules clarifies that material information includes information known to the issuer concerning, <i>inter alia</i> , the issuer's financial condition and prospects. In addition, it is stated that the borrowing of a significant amount of funds is an event that is likely to require immediate disclosure. It is the responsibility of each issuer to disclose material information in its possession as required by the listing rules.

<b>Relevant Paragraph</b>	<b>Matter</b>	<b>Potential breach of the SGX listing Manual</b>
	into loan agreement	<p>If difficulties in getting financial support from financial institutions and/or conversion of the outstanding trade payables into loan agreement should be viewed as material information known to the issuer concerning the issuer's financial conditions and prospects and/or the borrowing of a significant amount of funds, these would likely have required immediate disclosure under the Listing Rules. Failure to announce could lead to a potential breach of Rule 703.</p> <p>For completeness, it should be noted that section 203(1) of the SFA provides that a listed entity must not intentionally, recklessly or negligently fail to notify the approved exchange of such information as is required to be disclosed by the approved exchange under the listing rules or any other requirement of the approved exchange, if the listed entity is required by the approved exchange under the listing rules or any other requirement of the approved exchange to notify the approved exchange of information on specified events or matters as they occur or arise for the purpose of the approved exchange making that information available to an organised market operated by the approved exchange.</p>
3.3.5	Failure to disclose security granted by SSSB in connection with the loan in AHL's annual report.	<p>Rule 1204(8) of the Listing Rules requires the annual report of an issuer to contain, amongst others, particulars of material contracts of the issuer and its subsidiaries involving the interests of the chief executive officer, each director or controlling shareholder. It was noted that AHL's annual report for the financial year ended 30 June 2017 did not contain such disclosure of the security but it contained a negative statement that there were no material contracts entered into by the Company or its subsidiaries that involved the interests of the Directors, CEO or controlling shareholders. The negative statement was concluded by the Board of Directors under the circumstances that the independent directors were unaware of the loan agreement and security granted by SSSB. If the security granted by SSSB in connection with the loan was material, it should have been disclosed in the annual report of AHL. Failure to disclose could lead to a potential breach of Rule 1204(8).</p>

Appendix 6 - Internal controls observations and recommendations for consideration

Observations	Risk/Implication	Recommendation
<b>1. Matters to be reported to the Board of Directors</b>		
<b>1.1 Matters reserved for Board's decision and approval should be established</b>		
<p>a. <u>No established list of matters to be reported for listco Board's decision</u>            There was no established list of matters to be reported for the AHL Board of Directors ("listco Board")'s approval or decision, which included the list of management reporting and the Limits of Authority that set out the transaction thresholds and approving requirement for financial and operational matters such as investment, bank and cash management, incurrence of operating and capital expenditure etc.</p> <p>The existing limits of authority for key decisions defined in the existing SOPs were not summarized and submitted for the listco Board's approval. Please refer to Appendix 7 for extract of the existing SOPs indicating limits of authority.</p> <p>b. <u>Definition of "Board" not indicated in the SOP</u>            We were informed by the CFO that the approval required from the "Board" indicated in the SOP refers to the APSB Board instead of the AHL Board. However, the definition of the Board was not defined in the SOP. On whether matters would be submitted by Management for AHL Board's decision, the CFO explained that management would assess based on materiality of the matter/ transaction. However, the materiality was not defined in writing.</p> <p>According to the Code of Corporate Governance 2018 Section 1.3, "The Board decides on matters that require its approval and</p>	<p>The interest of minority shareholders will not be safeguarded due to lack of AHL Board oversight on matters that require Board's approval or decision.</p>	<p>The company should establish and formalise guidelines setting forth the matters reserved for the AHL Board's decision and clear directions to Management on matters that must be approved by the AHL Board, which includes the Limits of Authority.</p> <p>In addition, the definition of the "Board" and in the SOP and materiality of matter/ transaction to be reported to the AHL Board should be clearly defined for clarity.</p>

Observations	Risk/Implication	Recommendation
<b>1. Matters to be reported to the Board of Directors</b>		
<p><i>clearly communicates this to Management in writing. Matters requiring board approval are disclosed in the company's annual report."</i></p> <p>Please refer to Appendix 8 for the list management reports to be provided to the Board as recommended by the Corporate Governance Guides published by the Singapore Institute of Directors.</p>		

Observations	Risk/Implication	Recommendation																
<b>2. Loan Arrangement and Management</b>																		
<b>2.1 Comparison of loan interest rate or justification to assess the reasonableness of the interest rate should be performed and documented</b>																		
<p>There was no practice or requirement to compare interest rate offered by multiple facility providers or to document assessment of the reasonableness of the loan interest rate offered by the lenders to support the decision of entering into new loan arrangement with the selected facility provider.</p> <p>From our review of one new bank facility entered during the period of review, we noted that there was no evidence of comparative quotation obtained to assess the competitiveness of the interest rate and loan terms offered by the selected facility provider.</p> <table border="1"> <thead> <tr> <th>Facility provider</th> <th>Description</th> <th>Interest rate</th> <th>Date of loan agreement</th> </tr> </thead> <tbody> <tr> <td>RHB Bank</td> <td>Overdraft of RM 17,000,000</td> <td>7.85% per annum  (1% per annum above bank's base lending rate of 6.85%)</td> <td>15 March 2019</td> </tr> </tbody> </table> <p>In addition, the documentation to justify how the interest rate was assessed to be reasonable was not documented for the loan agreement entered between APSB and CSCE on 12 April 2017.</p> <table border="1"> <thead> <tr> <th>Lender</th> <th>Description</th> <th>Interest rate</th> <th>Date of loan agreement</th> </tr> </thead> <tbody> <tr> <td>China State Construction Engineering (M) Sdn SHD</td> <td>Loan of RM 46,532,461.19</td> <td>8.5% per annum</td> <td>12 April 2017</td> </tr> </tbody> </table>	Facility provider	Description	Interest rate	Date of loan agreement	RHB Bank	Overdraft of RM 17,000,000	7.85% per annum  (1% per annum above bank's base lending rate of 6.85%)	15 March 2019	Lender	Description	Interest rate	Date of loan agreement	China State Construction Engineering (M) Sdn SHD	Loan of RM 46,532,461.19	8.5% per annum	12 April 2017	<p>Lack of transparency to demonstrate the decision made and how interest rates was assessed to be reasonable.</p> <p>Interest rate entered that are not the most competitive leading to higher interest expense incurred</p>	<p>When possible, quotations from multiple facility providers should be obtained for comparison to assess the most competitive interest rate and terms offered prior into entering into loan arrangement. If the comparative quotation can't be obtained due to certain reason, justification in assessing the reasonableness of loan interest rate should be documented for transparency.</p> <p>The SOP should be updated to include the above requirements.</p>
Facility provider	Description	Interest rate	Date of loan agreement															
RHB Bank	Overdraft of RM 17,000,000	7.85% per annum  (1% per annum above bank's base lending rate of 6.85%)	15 March 2019															
Lender	Description	Interest rate	Date of loan agreement															
China State Construction Engineering (M) Sdn SHD	Loan of RM 46,532,461.19	8.5% per annum	12 April 2017															

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Observations	Risk/Implication	Recommendation
<b>2. Loan Arrangement and Management</b>		
We understand from the CFO that the interest rates were assessed as reasonable based on verbal discussion with CEO on the loan terms and conditions and management's experience on prevailing rates for similar loan / banking facilities.		

Observations	Risk/Implication	Recommendation								
<b>3. Financial Preparation and Reporting</b>										
<b>3.1 Payment schedule for long outstanding trade payables should be established</b>										
<p>a. <u>Lack of documentation in the weekly AP aging review to facilitate transparency of payment decision making</u>                      Our review of weekly AP aging reporting noted that potential late payment interest charges for any delay in payment and justification/ basis for non-payment of long aged payables were not incorporated in the AP aging review for payment decision making. In addition, the review did not include documentation of follow-up actions taken on long outstanding payables, such as establishing a payment schedule for long outstanding payables.</p> <p>The CFO explained that the decisions of payment arrangement, i.e. who to pay and amount to be paid, were based on discussions among the CFO, COO and CEO, and the decision were communicated by the CFO to the Finance Officer for execution.</p> <p>From our review of long-outstanding payables over 150 days from 10 vendors, we noted the following 2 vendors who had expressed their intention to potentially impose late interest charges on the outstanding trade payables:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">S/N</th> <th style="text-align: left;">Debtor</th> <th style="text-align: center;">Outstanding amount as at 30 September 2019</th> <th style="text-align: left;">Indication of potential late interest charges by vendor</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">1</td> <td>GDP Architects Malaysia</td> <td style="text-align: right;">RM 6,525,314.98 (approximately SGD 2,175,104.99)</td> <td>Letter dated 8 August 2019 from debtor indicating if balance due is not paid in full within 2019, the debtor reserves the right to claim the full extend allowed in their appointment of the actual final contract sum <i>with interest</i>.</td> </tr> </tbody> </table>	S/N	Debtor	Outstanding amount as at 30 September 2019	Indication of potential late interest charges by vendor	1	GDP Architects Malaysia	RM 6,525,314.98 (approximately SGD 2,175,104.99)	Letter dated 8 August 2019 from debtor indicating if balance due is not paid in full within 2019, the debtor reserves the right to claim the full extend allowed in their appointment of the actual final contract sum <i>with interest</i> .	<p>Lack of monitoring/ prioritising of due payment and justification for non-payment of long aged payables may lead to late interest charges imposed by the vendors or potential legal action.</p>	<p>The AP aging reporting should be enhanced to include documentation of the followings:</p> <ul style="list-style-type: none"> <li>• Potential late payment interest charges by vendor for delay in payment</li> <li>• Justification/ basis for non-payment of long aged payables</li> <li>• Follow-up actions taken on long outstanding trade payables (e.g. establishing payment schedule for long outstanding trade payables)</li> </ul> <p>In addition, threshold for outstanding payables (in terms of value and age of payables) that needed to be escalated to the AHL Board for attention should be established.</p> <p>The above requirement should be documented in the SOPs for consistency of future practice.</p>
S/N	Debtor	Outstanding amount as at 30 September 2019	Indication of potential late interest charges by vendor							
1	GDP Architects Malaysia	RM 6,525,314.98 (approximately SGD 2,175,104.99)	Letter dated 8 August 2019 from debtor indicating if balance due is not paid in full within 2019, the debtor reserves the right to claim the full extend allowed in their appointment of the actual final contract sum <i>with interest</i> .							



Observations				Risk/Implication	Recommendation																		
<b>3. Financial Preparation and Reporting</b>																							
2	Aliran Asia Sdn Bhd	RM 3,239,552.72 (approximately SGD 1,079,850.91)	Indicate on invoices that payment terms is cash on demand ("COD") and that the debtor reserves the <b><i>right to charge interest</i></b> on all overdue amounts.																				
<p>The CFO explained that there were verbal discussions with COO and CEO on the proposed payment plan, but the settlement plans has not been finalized or communicated to the vendors as at November 2019.</p> <p>b. <u>No requirement to escalate significant long outstanding trade payables to the Board for further assessment</u>                      There was no threshold established for outstanding payables (in terms of value and age of payables) that needed to be escalated to the AHL Board for attention.</p> <p>Please refer to the table below for details of top five long-outstanding AP as at 30 September 2019.</p> <table border="1"> <thead> <tr> <th>S/N</th> <th>Account</th> <th>&lt; 30 days (Current) (RM)</th> <th>&gt; 30 to 150 days (RM)</th> <th>&gt;150 days (RM)</th> <th>Total (RM)</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>2110106 China State Construction Engineering (M) Sdn Bhd</td> <td>-</td> <td>-</td> <td>98,817,673</td> <td>98,817,673/ SGD 32,939,224</td> </tr> <tr> <td>2</td> <td>2110203 GDP Architects Malaysia</td> <td>-</td> <td>-</td> <td>6,525,314</td> <td>6,525,314/ SGD 2,175,104</td> </tr> </tbody> </table>						S/N	Account	< 30 days (Current) (RM)	> 30 to 150 days (RM)	>150 days (RM)	Total (RM)	1	2110106 China State Construction Engineering (M) Sdn Bhd	-	-	98,817,673	98,817,673/ SGD 32,939,224	2	2110203 GDP Architects Malaysia	-	-	6,525,314	6,525,314/ SGD 2,175,104
S/N	Account	< 30 days (Current) (RM)	> 30 to 150 days (RM)	>150 days (RM)	Total (RM)																		
1	2110106 China State Construction Engineering (M) Sdn Bhd	-	-	98,817,673	98,817,673/ SGD 32,939,224																		
2	2110203 GDP Architects Malaysia	-	-	6,525,314	6,525,314/ SGD 2,175,104																		

Observations						Risk/Implication	Recommendation
<b>3. Financial Preparation and Reporting</b>							
3	2110111 Aliran Asia Sdn Bhd	-	3,218,627	20,925	3,239,552/ SGD 1,106,013		
4	2110101 JBB Builders (M) Sdn Bhd	-	993,800	177,243	1,171,043/ SGD 390,347		
5	2110204 SMA Bersekutu Sdn Bhd	79,571	78,970	337,186.49	495,727/ SGD 165,242		
<p>As at 30 September 2019, AP amounting to RM 171,335,467.95 (approximately SGD 57,111,822.65) was aged over 150 days.</p>							

Observations	Risk/ Implication	Recommendation
<b>4. Overall Control Environment</b>		
<b>4.1 Audit trail of system administrator activities should be generated under the witness of an independent personnel and reviewed periodically</b>		
<p>From our review of system access rights from CSS Accounting system, we noted the following weaknesses:</p> <p>a. <u>Monthly review of audit trail report not performed consistently</u>            The monthly review of audit trail report of system administrator activities had not been conducted since March 2019.</p> <p>The CFO explained that the audit trail report was not generated for her review after the resignation of the former Finance Manager who was in-charge of this task.</p> <p>b. <u>Audit trail report for the system administrator activities not generated under witness of independent personnel prior to submission for review</u>            The audit trail report for the system administrator activities was generated by one of the system administrators in editable Excel format, of which the transactions were prone to amendment. There was no independent personnel to witness the generation of the report from the system to check that no amendments were made to the report prior to submission for the CFO's review.</p> <p>As at 5 November 2019, the system administrator accounts in the CSS Accounting system were held by the Accountant and the Assistant Accountant.</p>	<p>Unauthorised or erroneous transactions would not be detected on a timely basis.</p>	<p>Audit trail report of the system administrator should be generated under the witness of the CFO/ independent personnel for the CFO's review on a monthly basis.</p> <p>Evidence of ensuring the integrity of the audit trail report by the witness should be documented (e.g. sign-off on the audit trail report/ email acknowledgement).</p>

**Appendix 7: Extract of the existing SOPs indicating limits of authority**

S/N	SOP Title	Areas	Limits of Authority per SOP
1	AHL Bank and Cash Management	Opening and closing of bank account	Board of Directors
		Bank signatories	Board of Directors
		Approval of bank facilities	Board of Directors
		Signing / acceptance of bank facilities	Authorised signatories per Director's resolution
		All payments including drawdown of the facilities	Authorised signatories per Director's resolution
2	AHL Construction and Development	Investment Recommendation Report	CEO
		Business Development Plan and Feasibility Study	CEO
		Shortlisting of Main Contractor shall be approved by the CEO.	CEO
		Tender Award to Main Contactor	CEO
		Main Contractor's Progress Claim	CEO
		Variation Order and Extension of Time	CEO
		Post Mortem Report	CEO
3	AHL Fixed Asset Management	Fixed asset acquisition a. Up to RM 10,000 b. RM 10,000 to RM 100,000 c. More than \$M 100,000	a. HOD + CFO + COO b. CEO + CFO + COO c. CEO + CFO + COO + Board of Directors
		Fixed asset transfers (any amount)	HOD + CFO + COO
		Fixed asset write-offs / disposal (any amount)	CEO + CFO + COO + Board of Directors
4	AHL HR and Payroll	Manpower budget	CEO + Board of Directors
		Recruitment a. Manpower Requisition Form (budgeted) b. Manpower Requisition Form (non-budgeted) c. Hiring Advertisement d. Proposed Salary e. Letter of Appointment f. IT Service Request Form	a. HOD / COO and CFO (if requestor is HOD) b. CEO c. Hiring HOD d. CEO e. CEO f. HR Assistant Manager
		Resignation/ Termination a. Acknowledgement of Resignation Notice b. Acceptance of Resignation Letter c. Salary Increment Notification	a. HOD b. CEO c. CEO d. CEO e. CEO

S/N	SOP Title	Areas	Limits of Authority per SOP
		d. Management Paper for Counteroffer e. Termination Letter	
		Payroll a. Payroll Detailed Listing and Payroll Reconciliation b. Payroll Summary and Pay Slip Excel Spreadsheet c. Online Banking Platform	a. HR Assistant Manager and CEO b. HR Assistant Manager c. COO and CEO
		Salary Scale	COO and CEO
		Leave Card	Immediate Supervisor and HOD
		Overtime Claim Forms	HOD
		Traveling Expense Claim Form a. Employee b. HOD c. CFO / COO	a. HOD b. CFO and COO c. CEO
		Training Requisition Form	HOD and COO /CFO/ GM
5	AHL Procurement Payable and Payments	Purchase Requisition Form (PR) and Purchase Order (PO) a. Up to RM 10,000 b. More than RM 10,000	a. HOD + CFO + COO b. CEO + CFO + COO
		Contract signatory (any amount)	CEO + Board of Directors
		Payments	Authorised signatories per Director's resolution
6	AHL Revenue Receivable and Collections	Pricing of development shall be approved by CEO.	CEO
		Bad debts to be written off shall be approved by	CEO + CFO + COO + GM.
		All credit notes (any amount)	CFO
7	AHL Sales, Marketing and Project Launching	Cash flow Forecasting and Budgeting (Sales and Marketing)	CEO
		Management Paper on the setting of selling price, proposed Astaka Staff Sales Incentive Programs and project launch	CEO
		Management Paper on the appointment of sales agencies, lawyers, financiers and creative marketing agency	CEO
		Renewal of service agreement with the existing agents	CEO
		Entering into SPA with purchasers	CEO
		Cancellation request from purchasers	CEO
		Refund to purchaser following the cancellation	CEO
		Sales commission payable to internal employees and external sales agents	CEO

## Appendix 8: List of management reports recommended by the Corporate Governance Guides

S/N	List of management reports typically provided to the board and Board committees of a listed company		
	Reports	Frequency	Recipient
1	Key Risk Indicators (KRI) dashboards	Perpetual	Board
2	Production dashboard	Perpetual	Board
3	Annual report	Annual	Board (through AC)
4	Full year financial statements	Annual	Board (through AC)
5	Corporate Governance report	Annual	Board (through NC)
6	Audit Management Letter	Annual	AC
7	CEO Appraisal	Annual	NED Sub-group (through NC)
8	Director Appraisals	Annual	Board (through NC)
9	Annual Remuneration Report	Annual	Board (through RC)
10	List of Performing Bonuses and Long-Term Incentive Awards	Annual	RC
11	Annual Employee Survey Report	Annual	Board
12	Board Evaluation Report	Annual	Board (through NC)
13	Sustainability Report	Annual	Board (through AC)
14	Shortlist of M&A targets	Semi-Annual	Board (through Exco)
15	BU Performance Report	Semi-Annual	Board (through Exco)
16	Country Performance Report	Semi-Annual	Board (through Exco)
17	Related Party report	Semi-Annual	AC
18	Whistleblowing Status Report	Semi-Annual	AC
19	Summary of Legal and Regulatory Development	Semi-Annual	Board
20	Quarterly Financial Statements and Budget Analysis	Quarterly	Board (through AC)
21	Treasury Report	Quarterly	AC
22	Competitor Analysis Report	Quarterly	Board
23	Monthly Financial Highlights	Monthly	Board
24	Country Due Diligence Report	Adhoc	Board

S/N	List of management reports typically provided to the board and Board committees of a listed company		
	Reports	Frequency	Recipient
25	Supplier Due Diligence Report (>\$1m annual value)	Adhoc	Board (through Exco)
26	M&A / JV Partner Financial Due Diligence Report	Adhoc	Board (through Exco)
27	M&A / JV Partner Legal Due Diligence Report	Adhoc	Board (through Exco)
28	Ad hoc Legal Updates	Adhoc	Board
29	Ad hoc Risk Updates	Adhoc	BRC
30	Ad hoc Safety Updates	Adhoc	BRC
31	Internal Audit Reports	Per IA audit plan	AC

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