



Boustead Heavy Industries Corporation Berhad (11106-V)
(A Member of Boustead Group)

22 Ogos 2022

SEKRETARIAT

Jawatankuasa Kira-kira Wang Negara (PAC)
Pejabat Jawatankuasa Kira-kira Wang Negara
Parlimen Malaysia, Jalan Parlimen
50680 KUALA LUMPUR

Tuan/Puan,

MENYAHKLASIFIKASI LAPORAN PENGAUDITAN AUDIT FORENSIK BERKAITAN REVIEW OF THE LCS PROGRAMME

Dengan hormatnya saya merujuk kepada perkara di atas.

2. Selaras dengan keputusan Jemaah Menteri pada 17 Ogos 2022, Laporan Pengauditan Audit Forensik projek Littoral Combat Ship (LCS) telah dipersetujui secara prinsip untuk dinyahklasifikasikan.
3. Sehubungan dengan itu, Lembaga Pengarah Boustead Heavy Industries Corporation Berhad (BHIC) hari ini telah bersetuju dan seterusnya membuat ketetapan agar dinyahklasifikasikan laporan tersebut untuk diakses oleh pihak awam.
4. Dengan keputusan dan ketetapan seperti yang dinyatakan, berikut dikemukakan Laporan Audit Forensik "Review of the LCS Programme" oleh Alliance IFA (M) Sdn Bhd yang dimiliki oleh BHIC.
5. Untuk makluman Tuan/Puan, laporan yang dikemukakan ini hanya mengenai audit forensik LCS sahaja. Perkara ini disebabkan kerana ia merupakan laporan audit forensik dalaman syarikat dan turut merangkumi maklumat dalaman BHIC yang lain.

Kerjasama daripada pihak Tuan/Puan amatlah dihargai dan didahului dengan ucapan terima kasih.

Yang benar,

DR. SALIHIN BIN ABANG
Pengerusi Jawatankuasa Audit
Boustead Heavy Industries Corporation

alliance
I F A

Review of LCS

Programme

For:

The Board of Directors of BHIC
(Not to be circulated)

Alliance IFA (M) Sdn Bhd
July 2020

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In compiling this report, we have relied on oral and documentary representations made to us by people associated with issues relating to our review. We were unable to assess the veracity of these representations.

We have attempted to include all information relevant to the specific transactions. However, it is possible that documents and information exist which were not made available to us or which we were unable to locate or access. Should additional information become available to us after the date of this report, we reserve the right to revise our report and conclusion.

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1. ABBREVIATIONS

- | | | |
|-------------------|---|---|
| 1. Abd Malik | : | Abd Malik bin A Rahman |
| 2. Abd Latiff | : | Abdul Latiff bin Ahmad |
| 3. AIFA | : | Alliance IFA (M) Sdn. Bhd. |
| 4. AMLA | : | Anti-Money Laundering Act |
| 5. AM | : | Capt. Anuar Murad |
| 6. Azhar | : | Capt. Azhar Jumaat |
| 7. Azian | : | Azian binti Abdul Aziz |
| 8. Azimuth | : | Azimuth Shipping Corporation |
| 9. BDNC | : | Boustead DCNS Naval Corporation Sdn. Bhd. |
| 10. BHIC | : | Boustead Heavy Industries Corporation Bhd. |
| 11. BHICDT | : | BHIC Defence Technologies Sdn. Bhd. |
| 12. BIT | : | Boustead Integrated Technology Centre |
| 13. BNS | : | Boustead Naval Shipyard Sdn. Bhd. |
| 14. BOD | : | Board of Directors |
| 15. BPS | : | Boustead Penang Shipyard Sdn. Bhd. |
| 16. BVSB | : | Bureau Veritas (M) Sdn. Bhd. |
| 17. CAD | : | Contraves Advanced Devices Sdn. Bhd. |
| 18. Carolina | : | Carolina Moriff |
| 19. CDR | : | Critical Design Review |
| 20. CED | : | Contraves Electrodynamics Sdn. Bhd. |
| 21. Centraalstaal | : | Centraalstaal BV |
| 22. CFO | : | Chief Financial Officer |
| 23. CICS-CESM | : | Combined Integrated Communication System and
Communications Electronic Support |
| 24. CIO | : | Chief Integrity Officer |
| 25. CMS | : | Combat Management System |
| 26. CSE | : | Combat System Engineering |
| 27. CSEI | : | Combat System Equipment Integration |

28. CSI	:	Combat System Integration
29. CSTC	:	Combat System Training Centre
30. DCR	:	Directors' Circular Resolution
31. DCNS	:	DCNS SA / Naval Group
32. ED	:	Executive Director
33. EUR	:	Euro
34. Exco	:	Executive Committee
35. FCS	:	Fire Control Radar and Electro-Optic Tracking System
36. GBP	:	Great Britain Pound
37. GOM	:	Government of Malaysia
38. Gordon	:	Gordon Hargreave
39. GSCM	:	Group Supply Chain Management
40. IHC	:	IHC Metalix BV
41. IPMS	:	Integrated Platform Management System
42. Jalil	:	Abdul Jalil Abidin
43. JSD	:	JSD Corporation Pte. Ltd.
44. JV	:	Joint Venture
45. Khalid	:	Khalid Mohd
46. LCS	:	Littoral Combat Ship
47. LCSSC	:	LCS Steering Committee
48. LOA	:	Letter of Award
49. Low	:	Low Koh Koon
50. Luitjen	:	Luitjen Rolf Ennenga
51. MCG	:	Medium Calibre Gun
52. MD	:	Managing Director
53. MINDEF	:	Ministry of Defence, Malaysia
54. MIP	:	Malaysian Industry Participation
55. Mohamad	:	Mohamad Mustafa
56. MSR	:	Main Surveillance Radar
57. MTC	:	Mill Test Certificate
58. MTU	:	MTU Services (M) Sdn. Bhd.

59. Nordin	:	Ahmad Nordin bin Mohammad
60. OEM	:	Original Equipment Manufacturer
61. Peramjeet	:	Peramjeet Singh
62. PD	:	Programme Director
63. PDE	:	Propulsion Diesel Engines System
64. PDR	:	Preliminary Design Review
65. PGS	:	Power Generation System
66. PMA	:	Programme Management Assistance
67. PMO	:	Program Management Organization
68. PO	:	Purchase Order
69. PSI	:	Propulsion System Integration
70. Puti	:	Puti Mazura Mashudi
71. RAD	:	Rheinmetall Air Defence AG
72. RDG	:	Rheinmetall Defence Group
73. RDI	:	RD Investment AG
74. R-ESM	:	Radar Electronic Support Measure
75. RFQ	:	Request for Quotation
76. RM	:	Ringgit Malaysia
77. RMN	:	Royal Malaysian Navy
78. RTS	:	Real Time Simulators
79. SAL	:	Sousmarin Armada Limited
80. SAM-VLS	:	Surface to Air Missile - Vertical Launching System
81. SCG	:	Small Calibre Gun
82. SEK	:	Swedish Krona
83. SGPV	:	Second Generation Patrol Vessels
84. SHL	:	Setaria Holdings Limited
85. SIF	:	Shore Integration Facility
86. Siti Naim	:	Siti Naim binti Jamaluddin
87. SLY	:	Supply Link Y System
		
89. SOPP	:	Standard Operating Policies and Procedures

90. SWIF	:	Software Integration Facility
91. Syed	:	Syed Saadun Tarek Wafa
92. Sylvia	:	Sylvia Sinniah
93. TSLW	:	YBhg. Tan Sri Dato' Che Lodin bin Wok Kamaruddin
94. TAS	:	Towed Array Sonar
95. Thierry	:	Thierry Barrier
96. TLS	:	Torpedo Launching System
97. TOR	:	Terms of Reference
98. TPS	:	Technical Procurement Specification
99. TSARN	:	Laksamana Madya (Retd) Tan Sri Dato' Seri Ahmad Ramli bin Haji Mohd Nor
100. Tan Sri Ramlan	:	YBhg. Tan Sri Ramlan bin Mohamad Ali
101. Viktoria	:	Viktoria Barrier
102. VO	:	Variation Order
103. Zainab	:	Zainab binti Mohd. Salleh
104. Zallily	:	Zallily Mohamed Zaman Khan

2. BACKGROUND

2.1. Brief Introduction



- 2.1.1. On 16th December 2011, the Ministry of Defence, Malaysia (MINDEF) issued a Letter of Award (LOA) to Boustead Naval Shipyard Sdn. Bhd. (BNS) for the supply of six Second Generation Patrol Vessels (SGPV)-Littoral Combat Ships (LCS) at a total value of RM9 billion. It was stated that the exact price of the contract would be based on the price negotiation between MINDEF and BNS, and the contract would be signed accordingly.
- 2.1.2. The final contract was only signed on 17th July 2014, which was approximately 2.5 years after the signing of the LOA at a contract price of RM9 billion.
- 2.1.3. During this period, the price was being negotiated with the Government of Malaysia (GOM)/MINDEF as other technical specifications and Original Equipment Manufacturers (OEM) were being finalized. Major decisions pertaining to the LCS had not crystalized at the time when the LOA was being issued by MINDEF in favor of BNS.
- 2.1.4. Unfortunately, the project was delayed and apparently Boustead Heavy Industries Corporation Bhd. (BHIC) realized that the amount spent did not result in the corresponding progress of the project. It was also alleged that the reasons for over-expenditure were Irregularities in the technical specifications, non-compliance and modifications.
- 2.1.5. Similarly, BHIC suspected serious irregularities in the procurement process of various spare parts by Boustead Penang Shipyard Sdn. Bhd. (BPS). This contract was awarded by Boustead DCNS Naval Corporation Sdn. Bhd. (BDNC) [REDACTED]. [REDACTED] Most of the procurements were made through Alizes Marine, but there were few accounts in the name of Alizes Marine. These were created to impersonate Alizes Marine France, so that payment could be channeled to third party.

2.1.6. After receiving several complaints from ex-employees, associated contractors and OEM suppliers, the new management of BHIC decided to get the entire transactions thoroughly investigated by an independent forensic accountant. The Board of Directors (BOD) of BHIC finally engaged Alliance IFA (M) Sdn. Bhd. (AIFA) with a mandate to examine relevant documents, various agreements and the reasons for the cost overrun during the execution of the LCS Programme and the supply of spare parts by BPS to BDNC [REDACTED]


2.2. Mandate

2.2.1. The salient features of our mandate are mentioned below:

- a) To identify major questionable transactions related to the BHIC finance function initiated by the Managing Director (MD) and/or the Head of Corporate Services Division, especially those highlighted in the Special Group Internal Audit Report pertaining to BNS mentioned below starting from 2011 to 2014;
- b) A detailed analysis to confirm whether norms essential for proper governance and transparency were followed. If not, then to identify all such significant transactions.
- c) A detailed analysis of the procurement cycle;
- d) To confirm whether the LCS Programme comprising the Head of the Project team, the Head of Procurement and the Head of Design and Engineering had confirmed and provided their services as a team during procurement.
- e) To determine that all the invoices by the service provider/s were duly verified and submitted for approval by the Executive Committee (Exco) or LCS Steering Committee (LCSSC) as per the norms of Standard Operating Policies and Procedures (SOPP).
- f) To examine advances taken by senior executives, accounting treatment for such advances and the required supporting documents to confirm the validity and accuracy of such payments.

- g) A review of various documents gathered as evidence and to identify the acting mind/s, if any, whose decision had side-stepped norms of governance that are expected to be followed by a man of diligence.
- h) A review and analysis of the entire flow of documents which resulted in a decision to avail certain services that had significant financial implications.
- i) An analysis of cost overrun on projects, delay and recovery of Liquidated Assessed Damages (LAD) where applicable.
- j) All other analysis, necessary to indicate the possibilities of any wrongdoings based on the hypothesis developed during our investigation of the LCS Programme 

- k) To identify weaknesses in the current contracts and make recommendations to strengthen them, so it may be used for future contracts. This includes determining the reason/s that resulted in the delay in the LCS Programme.

2.3. Limitations

- 2.3.1. This report is for the BOD of BHIC and/or its Exco members to monitor the progress of this assignment. The findings shall not be circulated or used for any legal/other purposes.
- 2.3.2. We had requested for the following documents from the management of BHIC, but were unable to get the documents listed below till the date of this report:
 - a) A complete set of LCSSC minutes held during 2012 to 2014 including presentations made to the members for their discussion and deliberation;

 - c) Board papers presented to the Board of BPS' and BNS' during their meetings held from 2009 to 2014;

- d) Directors' Circular Resolution (DCR) and relevant explanatory notes attached with the BOD meetings of BPS and BNS from 2009 to 2014;
- e) The minutes of meeting papers for Contraves Advanced Devices Sdn. Bhd. (CAD), Contraves Electrodynamics Sdn. Bhd. (CED) from the period 2010 to 2014 (CED is also represented by one of the directors of BHIC);
- f) An official letter of reprimand by the Audit Committee Chairman addressed to Laksamana Madya (Retd) Tan Sri Dato' Seri Ahmad Ramli bin Haji Mohd Nor (TSARN).
- g) Details of all the payments made during 2010 to 2013 listed as 'Technical Evaluation Services' by BNS for SGPV.
- h) All the quotations provided by OEMs which became the basis for issuing LOAs and Variation Orders (VO) related to the LCS Programme.
- i) Sub-contracts issued by CAD/CED to various OEMs for the supply of components related to the LCS Programme and verification of payments made by CAD/CED to OEMs;
- j) General ledgers of BHIC from 2010 to 2014;
- k) A complete set of minutes of the Audit Committee from 2010 to 2014;
- l) A complete set of BHIC Finance Committee minutes from 2014 to 2015;

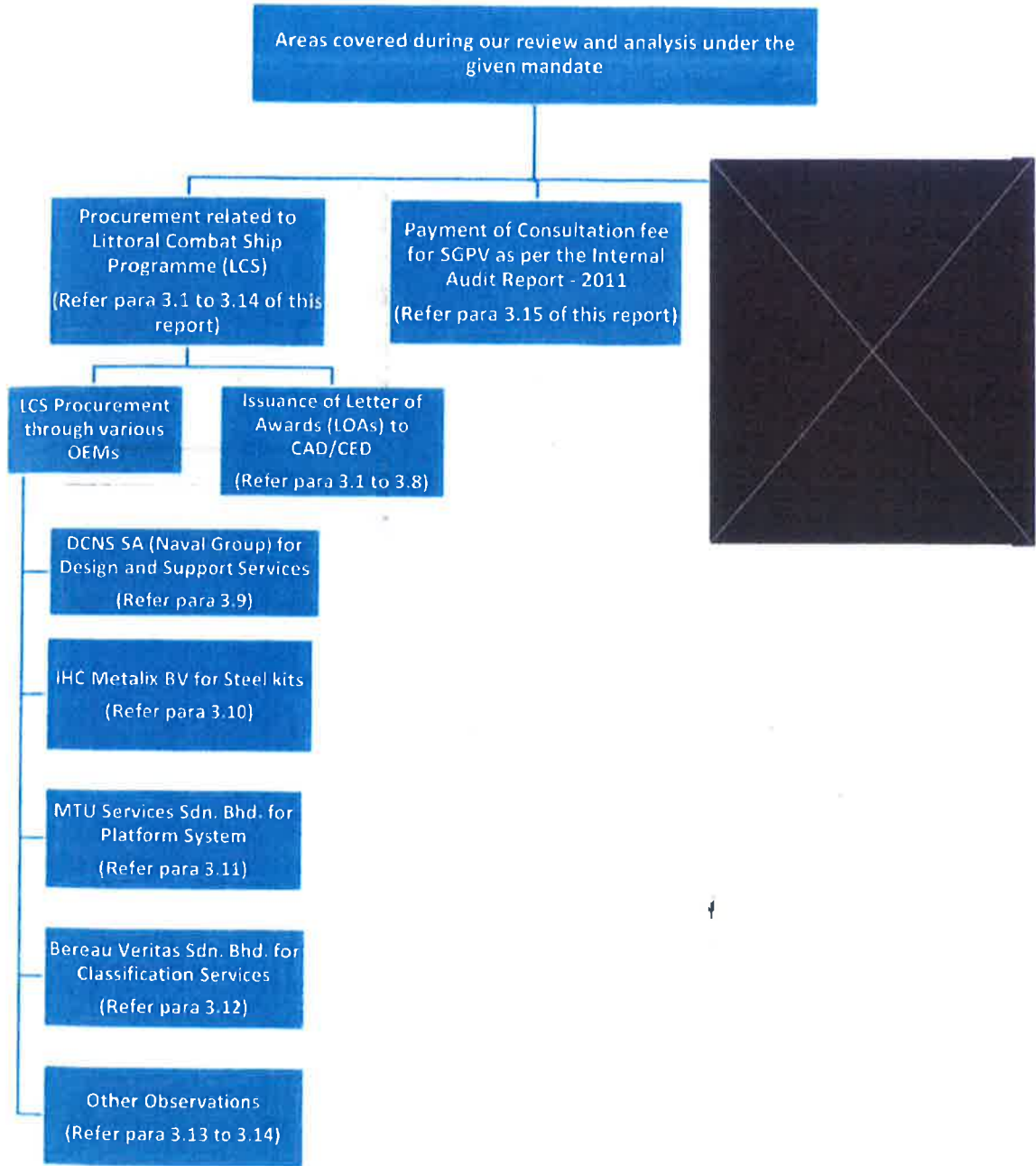
2.3.3. Even after the submission of this report, it will not meet the true requirements of a forensic report because our engagement is restricted till Financial Year 2014 (FY2014). We noted that the cascading effect of the decisions made, and payments released would have had its impact on transactions till 2018. It was not possible to draw a valid conclusion to meet the standard of any forensic report to be accepted by the Court by partially considering selected years and not going through the entire period covered by

the apparent irregularities. However, there were certain transactions which allowed us to reach a conclusion based on evidence directly linked to the irregularities.

- 2.3.4. We are still waiting to seek an appointment to interview the key personnel who played a significant role in the LCS  mentioned in the following paragraphs.

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2.4. Classification of Major Areas Covered during review



2.5. List of LOAs covered during this review

Table 1

Sl. No.	Date of LOA	Component	Vendor/OEM	Value of the LOA	Value (RM)
1	09-04-12	Combat Management System (CMS) Engineering (CSE), Integration (CSI & CSEI) and Support and Boustead Integrated Technology (BIT) Centre	CED	RM 1,203,000,000	1,203,000,000.00
2	09-04-12	CMS Integration and related services	CED	RM 287,000,000	287,000,000.00
3	09-04-12	Fire Control Radar and Electro-Optic Tracking System (FCS)	CED	RM 347,000,000	347,000,000.00
4	02-10-12	Combined Integrated Communication System and Communications Electronic Support (CICS-CESM)	CAD	RM 203,796,392.58	203,796,392.58
5	14-03-13	Medium Calibre Gun (MCG)	CAD	SEK 375,000,000	180,000,000.00
6	22-04-13	Towed Array Sonar (TAS)	CAD	EURO 69,070,505	297,693,876.55
7	22-04-13	Main Surveillance Radar (MSR)	CAD	EURO 54,278,631	233,940,899.61
8	30-05-13	Small Calibre Gun (SCG)	CAD	GBP 17,290,916	79,884,031.92
9	11-11-13	Torpedo Launching System (TLS)	CAD	GBP 21,423,000	110,114,220.00
10	13-08-14	Supply Link Y System (SLY)	CAD	EUR 4,863,920	20,623,020.80
11	17-09-14	Radar Electronic Support Measure (R-ESM)	CAD	EUR 16,957,500	70,373,625.00
12	11-11-14	Surface to Air Missile (SAM-VLS)	CAD	EUR 63,078,474	263,037,236.58
13	20-03-12	Design and related services	DCNS SA/ Naval Group (DCNS)	EURO 62,800,000	252,456,000.00
14	17-12-12	Programme Management Assistance (PMA)	DCNS	EURO 37,500,000	150,000,000.00
15	17-12-12	Complementary services for detailed design and support	DCNS	EURO 118,900,000	475,600,000.00
16	11-06-12	Power Generation system (PGS)	MTU Services (M) Sdn. Bhd. (MTU)	RM 109,193,661	109,193,661.00
17	11-06-12	Propulsion Diesel Engines System (PDE)	MTU	RM 476,925,941	476,925,941.00

18	10-04-13	Integrated Platform Management System (IPMS)	MTU	RM 106,000,000	106,000,000.00
19	27-05-13	Propulsion System Integration Services (PSI)	MTU	RM 21,436,800	21,436,800.00
20	13-02-14	Classification services (CS)	Bureau Veritas Sdn. Bhd. (BVSB)	RM 9,120,000	9,120,000.00
21	09-09-14	Supply of Hull Construction steel kits and related services (Steel kits)	IHC Metalix BV (IHC)	EUR 17,000,000	70,550,000.00
TOTAL VALUE OF THE LOAs INCLUDING VOs (RM)					4,967,745,705.04

Note: Payments amounting to RM2 billion (40%) were made by BNS till FY2014 for the above-mentioned LOAs including VOs.

2.6. Summary of Our Observations

The summary provided in the following paragraphs should be read along-with detailed findings in Section 3 & 4 which are an integral part of this report. It is also necessary to have a complete understanding of the issues involved.

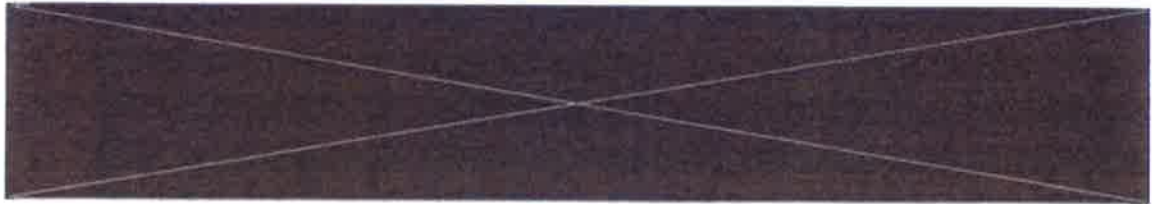
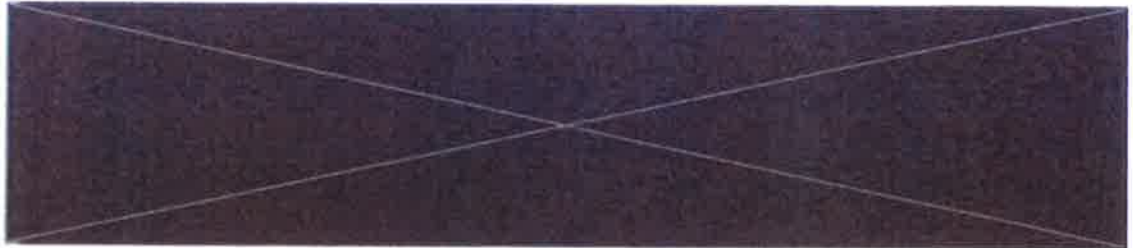
- 2.6.1. The Terms of Reference (TOR) of the LCSSC appeared lopsided as the members of the committee were to be selected by the MD of BHIC without the consultation of the BOD, where the MD would be the Chairman. This provided the MD with absolute control and resulted in a lack of independence amongst other members of the committee. As a result, the members became redundant and failed to discharge their function for which they were selected in the LCSSC.
- 2.6.2. The then Programme Director (PD) of LCS, Capt. Anuar Murad (AM), took advantage of the situation and with the blessings of the then, MD Laksamana Madya (Retd) Tan Sri Dato' Seri Ahmad Ramli bin Haji Mohd Nor (TSARN), acted arbitrarily while making decisions pertaining to various LOAs and VOs. The Committee members also failed to raise any objections with the way decisions were being made by the management about the selection of various vendors for the LCS Programme.
- 2.6.3. In most of the cases, LOAs were issued to CAD/CED without being first presented to the LCSSC for their approval. The BOD had also given sweeping authority to TSARN to

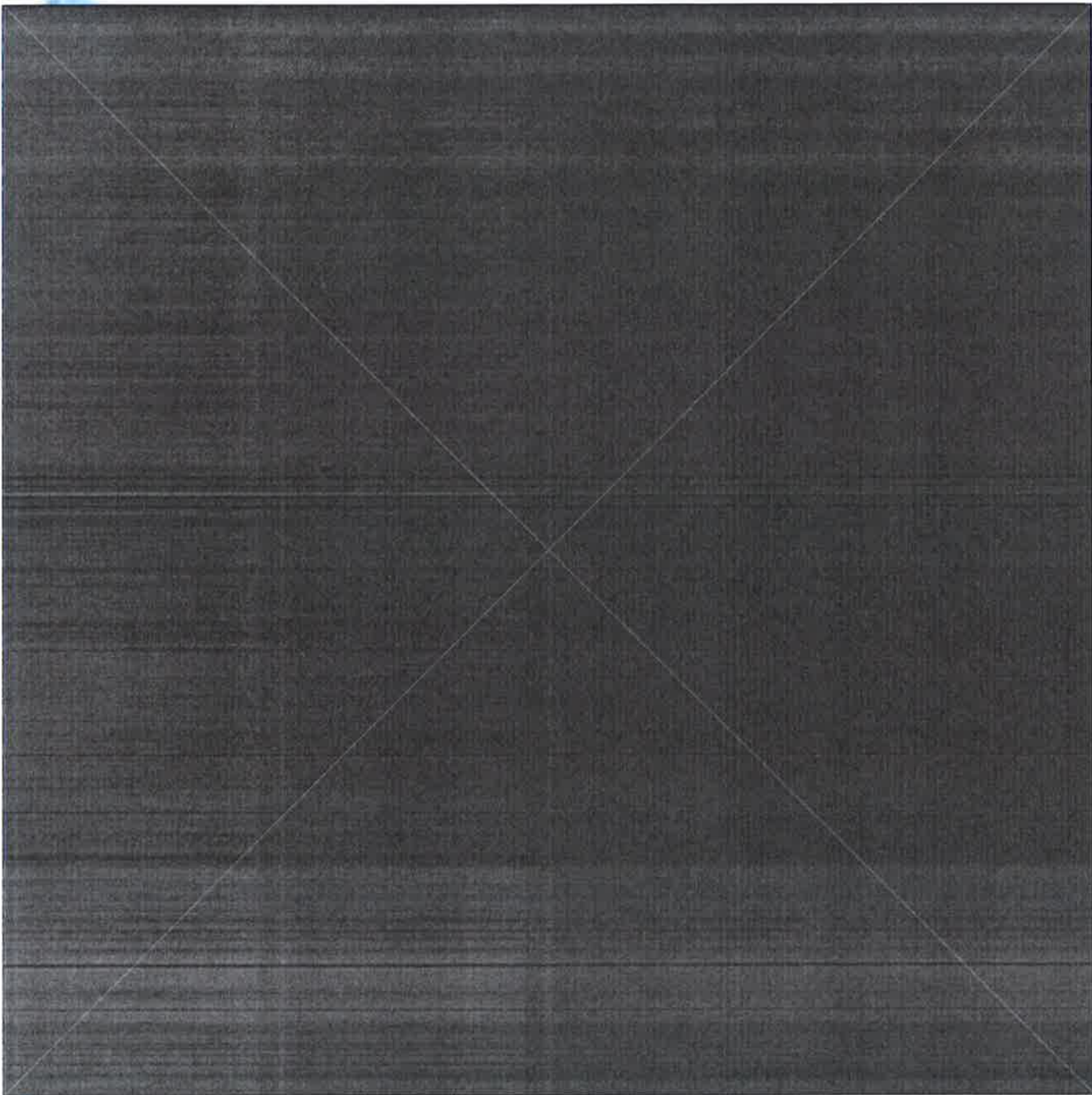
- negotiate the terms and execute various contracts with CAD without seeking their approval.
- 2.6.4. Major decisions were taken through DCR without convening a Board meeting which further reduced the transparency and opportunity to discuss in detail and to go through certain vital documents before approving the resolution. The board ignored the advice of the Ex-Chief of Navy who raised objections at the Board meeting on the selection of DCNS for Design and support contract.
- 2.6.5. The organization structure for the LCS Programme was not approved by the appropriate authority (BOD) till 2015.
- 2.6.6. The terms of most of the LOAs and VOs were not in the best interest of the company and were more favorable to CAD/CED.
- 2.6.7. The evidence of irregularities and lack of proper governance were gathered as early as 2010, confirming that vendors were determined, even before the issuance of LOA, by the GOM in favor of BNS.
- 2.6.8. It appeared that the scope of LOA for developing a Boustead Integrated Technology Centre (BIT Centre) at RM305 million was already incorporated in the original LOA issued in favor of CAD (LOA re-assigned to CED), but a supplemental agreement was issued for RM305 million based on a changed nomenclature and it could not be confirmed, based on evidence, that it was necessary. CED had also never made any written requests for a supplemental agreement which was signed solely by AM without involving the Technical and Commercial team of BNS.
- 2.6.9. As per the supplemental LOA, the ownership of BIT Centre vested with CED despite BNS making payment to CED for its development which appeared against the fundamental interest of the company and against common business prudence.
- 2.6.10. Despite the recommendation of the commercial and technical team, based on a proper evaluation, to award the contract for Hull Construction Steel kits to Centraalstaal BV (Centraalstaal), AM issued the LOA to IHC Metalix BV (IHC) by asking them to reduce

their bid by EUR700,0000 to match it with Centraalstaal, which was the lowest and technically superior. This was followed by the issuance of two additional VOs, in favor of IHC in the name of Mill Certificate and Material Tracing Documents, which by right, should have been part of the original agreed sum.

- 2.6.11. Despite various red flags raised by ex-officers and associates of the company about the irregularities in the execution of the LCS Programme, no corrective measures were taken either by the management or the Chairman of the Board of BHIC to stop the abuse of power.
- 2.6.12. A payment of RM23.37 million involving a few companies for providing technical evaluation services related to SGPV appeared as fake services. Invoices for such non-existing services were used as a mode to siphon out the funds, as these companies had provided false addresses on their invoices and the payment was diverted elsewhere. One of such companies belonged to the same person who was also involved in Alizes Marine. The entire money released for Alizes Marine was suspected to be received by a company registered in Labuan.
- 2.6.13. A special internal audit report finding signified serious irregularities, deceptive practices and personal gains at the expense of BHIC.
- 2.6.14. The vendors for providing consultancy services were shortlisted without following the guidelines of SOPP on tender bidding and selection. The payments were also not approved by the Procurement team and the BOD of BNS.







2.6.22. Potential losses to BHIC due to mismanagement and irregularities

Table 2

Sr. No.	Description	Report Reference	Amount Involved (RM)
1.	Loss due to alleged dummy payments for Technical Services to 3 companies related to SGPV during 2011-12	Refer Para 3.16	23,368,861
2.	Overlapping LOA issued in favor of CED in 2012 for BIT Centre despite being part of the original LOA for RM898 million (Note: Expert Opinion needed)	Refer Para 3.5	305,000,000
3.	Double Claims for same services with different nomenclature related to Service Costs and Combat System Integration also confirmed by Capt. Azhar Jumaat (Note: Expert Opinion required)	Refer Para 3.5	537,000,000
4.	Potential loss sustained due to additional VOs issued in favor of IHC Metalix BV for Mill Certificate during 2017, despite its cost being part of the original Request for Quotation (RFQ) [EUR219,560 + EUR750,000 = EUR969,560]	Refer Para 3.10	4,583,823
5.	Potential loss sustained due to change in currency from Ringgit to Euro for LOAs issued in favor of CAD for Main Surveillance Radar and Towed Array Sonar during 2013	Refer Para 3.7	13,487,820
6.	Potential loss to BPS due to Re-order of 23 non-delivered items by Alizes Marine under PO.211 [EUR1.9 million – EUR300,000 = EUR1.6 million]	Refer Para 3.16.9.9	6,784,000
TOTAL (RM)			890,224,604

Note: As per the table above, RM890 million is the total value committed by BNS and BPS.

3. DETAILED OBSERVATIONS

3.1. Involvement of Contraves Advanced Devices Sdn. Bhd. (CAD)

3.1.1. During our review of BHIC's Board minutes dated 28th April 2010, the Board approved an acquisition of a majority stake of 51% in CAD through BHIC Defence Technologies Sdn. Bhd. (BHICDT) for an estimated value of RM25.50 million. It was explained to the Board that the rationale for the said acquisition was to allow BHIC to have a controlling interest in CAD, which would provide a platform to collaborate with Rheinmetall Air Defence AG (RAD). As per the Board paper, it was recommended that the management control of CAD should remain with RAD as they had internal expertise to run this business. It is difficult to find a justification for such a logic because expertise was needed for the LCS Programme, but not for the management.

[Exhibit Page 1-19]

3.1.2. Despite having a controlling stake, the Board, led by their Ex-Chairman YBhg. Tan Sri Dato' Che Lodin bin Wok Kamaruddin (TSLW), agreed to the recommendation which seriously jeopardized the interest of BHIC and BNS in the hands of CAD. This decision made it difficult to have any access to the details of operation of CAD's business and to conduct an internal audit. This was necessary to provide an assurance that the affairs of the company were being handled following the norms of corporate governance and authorities given were not being abused for personal gain.

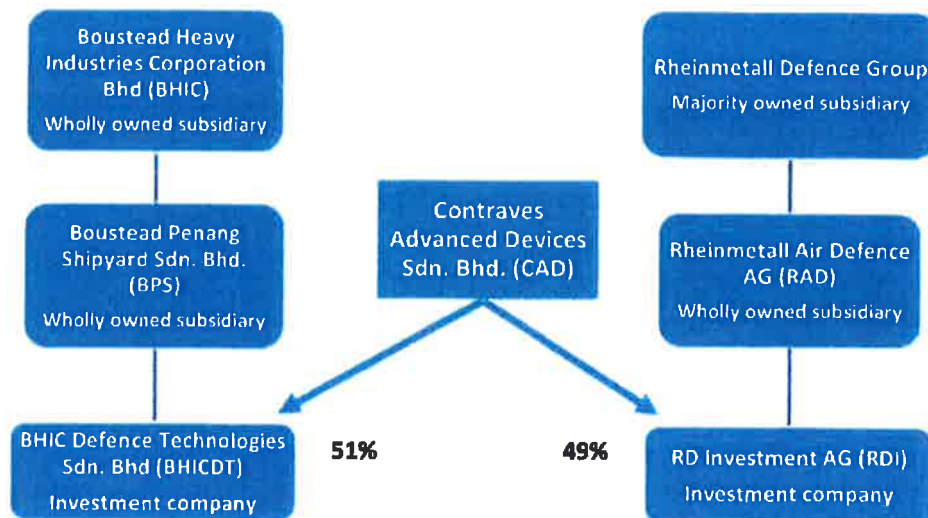
[Exhibit Page 1-9]

3.1.3. On 7th June 2010, RAD entered into a share sale agreement for the sale of 51% shares in CAD consisting of 2,550,000 shares to BHICDT at RM25.90 million. On 13th August 2010, a shareholding agreement was signed between both the parties, where it was agreed that the executive positions of CEO and CFO would be selected by RAD, subject to BHICDT's approval.

[Exhibit Page 20-82]

3.1.4. The share sale agreement signed between BHICDT and RAD was subsequently changed and the shareholding of RAD was transferred to RD Investment AG (RDI) on 5th November 2012. This change of shareholding from RAD to RDI came into effect on 23rd September 2013.

[Exhibit Page 150]



Note: Further development and changes in the shareholding has not been reviewed because the mandate was restricted until the end of 2014. However, till to-date of this report we were unable to access any of the documents pertaining to procurement of material by CAD on behalf of BNS.

3.2. Free-Hand given to RAD for Banking Arrangement of CAD

3.2.1. As per the CAD meeting dated 29th March 2011, a proposed banking mandate approved by the Board was drafted in such a manner that the authorized signatories' representing RAD had full authority to transact any business without any limit. It was abnormal to note that the approval was given at a meeting in which AM and Siti Naim binti Jamaluddin (Siti Naim – Ex Head of Group Legal at BHIC) were also present.

[Exhibit Page 171-173]

- 3.2.2. As per the said mandate, any amount greater than RM200,000 could be approved jointly with the signatures of any of the two authorized signatories from Group A. Furthermore, any two authorized signatories from any group (Group A and/or B) can jointly sign unlimited bank transfers of funds to the inter-bank accounts and intra-bank accounts of the company. The representatives under Group A and B are provided below:

[Exhibit Page 172-173]

Table 3

Group Segmentation as on 29th March 2011	
Group A	Group B
Ee Teck Chee Peramjeet Singh (Peramjeet) Siti Naim Binti Jamaluddin (Siti Naim) Luitjen Rolf Ennenga (Luitjen) Gordon Hargreave (Gordon)	Low Boon Ching Low Swee Ling

[Exhibit Page 172-173]

- 3.2.3. The above mandate indicated that persons representing RAD in Group A (i.e. Luitjen and Gordon) could jointly approve the payments without any involvement of persons representing BHIC. This gave an absolute authority to RAD to handle the finances of CAD despite BHIC holding 51% shares. Without having access to CAD/CED's bank statements and books of accounts, it is difficult to comment on the use of funds received from BHIC under the LCS Programme.

?

[Exhibit Page 172]

- 3.2.4. A similar trend was maintained with a variation in the threshold amount, which was increased from RM200,000 to RM500,000 in CAD's Board meeting held on 10th October 2013. However, two compulsory signatories from Group A had full authority to transact business of any value through various banks.

[Exhibit Page 181-183]

Table 4

Group Segmentation as on 10 th October 2013		
Group A	Group B (CAD's bank accounts in Melaka)	Group B (CAD's bank accounts in Lumut Perak)
TSARN AM Frank Theodor Hoffmann Gordon Hargreave	Low Boon Ching Cheok Swee Seng Sylvia Sinniah	Low Boon Ching Joe Stanislas Fernandez Sylvia Sinniah

[Exhibit Page 181-182]

3.2.5. It was noted that Nordin (Ex-CFO of BHIC) was present at this meeting as an alternate director to AM who also did not raise any objection for such an arrangement where the representative of BHIC group in CAD's Board virtually had no control over banking affairs. The above arrangement logically did not need the signature of any persons representing the interest of BHIC. In absence of any of the banking records of CAD/CED, it is not possible to make a conclusion of the consequences of such an arrangement.

[Exhibit Page 175]

3.3. Review of Composition of LCS Steering Committee (LCSSC)

3.3.1. The objective of the LCSSC was to provide strategic direction and leadership for the successful construction of LCS by fulfilling the contractual obligations towards the Royal Malaysian Navy (RMN) and GOM/MINDEF.

[Exhibit Page 188]

3.3.2. As provided in the TOR of the LCSSC dated 10th November 2017 (provided to us by the management of BNS), the members of the LCSSC would be appointed by the MD himself who would also Chair the meetings (Ex-MD TSARN), without obtaining approval of the Board members. The following members would form the committee:

- a) Managing Director of BHIC as the Chairman;
- b) Director of Operations, BNS;
- c) Chief Financial Officer, BHIC;
- d) LCS Programme Director; and
- e) Any other individual, as nominated by the MD.

[Exhibit Page 188]

3.3.3. The TOR dated 10th November 2017¹ provide the core responsibilities of the committee as listed below:

- a) Provide guidance and feedback to resolve various issues related to LCS;
- b) Assist the PD with all the support necessary to complete the project;
- c) Approve variations to the LCS Programme under a collective LCSSC's limit of authority;
- d) Assist management to ensure that during the decision-making process, the potential impact on operating costs is being considered.

[Exhibit Page 189]

3.3.4. We noted that such an empowerment appeared against the basic norms of governance. The MD of BHIC should not have been given such significant power to select all the members of the Committee as it would severely affect the independence of these members, especially when the selector remained as the Chairman for most of the time. Possibilities are high in this situation for the members to act as subservient rather than an independent individual person.

3.3.5. It appeared that the then PD of LCS (AM) took advantage of the situation with the support of his superior (TSARN) by taking arbitrary decisions, disregarding the norms of governance while issuing various LOAs and VOs.

¹We were not provided with any earlier copy of the TOR and hence we assume this was the only document available to BHIC.

- 3.3.6. Evidence suggested that AM neither allowed the Technical team nor the Commercial team to play their due role to evaluate various technical and financial aspects of a LOA/VO. During our interview with Khalid Mohd (Khalid) and Puti Mazura Mashudi (Puti) [Ex-members of the Technical and Commercial team], they stated that they were not involved in evaluating the LOAs issued to CAD/CED for major components of the LCS. As a result, the price charged by CAD/CED was never cross verified to assess the quantum of margins made by them.
- 3.3.7. During a discussion with YBhg. Tan Sri Ramlan bin Mohamad Ali (Tan Sri Ramlan), ex-member of the LCSSC, he highlighted that the composition of the evaluation team was determined by AM. In our opinion, this reduced the independence during evaluation of various proposals.

[Annexure Page 20-23]

- 3.3.8. Even the Ex-Group Legal Head was not involved in reviewing and highlighting weaknesses and legal flaws during the issuance of various LOAs. As a result, BHIC was put in a difficult situation to negotiate the terms in their favor.
- 3.3.9. Tan Sri Ramlan stated that, despite the advancement of the LCS Programme, the frequency of the meetings of the LCSSC became fewer over the years because AM was not comfortable with the way LCSSC members were raising queries on the decisions taken by him. He also informed that it had become a norm that whenever the protector of AM i.e. TSARN was not present in the meeting, the scheduled date of the meeting would be postponed, despite the fact that Tan Sri Ramlan had offered to Chair the relevant meetings, so that the postponement could be avoided, but AM did not agree with it.

[Annexure Page 20-23]

- 3.3.10. During our review of the LCSSC's minutes, it appeared that the committee did not discharge its responsibilities by analyzing and discussing in detail various components of the project. Various matters related to the issuance of LOAs were simply informed by

AM, and as a result, these procurement related decisions were made without any discussion, deliberations and queries which had a significant bearing on the overall cost of the project.

[Exhibit Page 238, 246, 249, 252 and 256]

3.3.11. Based on the information gathered during our discussion with Khairil Amizi (Secretary of LCSSC), he informed that there was only a single meeting held by the LCSSC during 2012 dated 16th August 2012. His statement did not appear correct as the document for the meeting was revealed as "No. 04/2012" indicating that there were 3 other meetings (1/2012, 2/2012 and 3/2012) held by the LCSSC and subsequent meetings held after August 2012 for which documents were not made available to us.

[Exhibit Page 191-197]

3.3.12. A review of various LCSSC minutes revealed that the Committee became redundant as AM used to inform them about various essential decisions only after they were taken by him. This fact was also confirmed by Tan Sri Ramlan during our discussion with him. Similar observations were made during our review of Exco and Group Core Committee meetings of BHIC where AM simply informed them about the issuance of LOAs without any discussions or deliberations. **[Refer Annexure Page 20-23]**

[Exhibit Page 206, 223, 252 and 256]

3.3.13. We noted that at least 10 LOAs issued in favor of CAD/CED were not presented to the LCSSC for their approval. This might be due to the fact that the Board of BNS had delegated sweeping authority to TSARN to negotiate the terms and execute various contracts with CAD without taking any approval from the Board of BNS before signing the LOAs/VOs. **[Refer Para 3.5 to 3.8 of this report]**

[Exhibit Page 2619-2625]

3.3.14. We noted that the organization structure, SOPP and the Budget for the LCS Programme were neither approved by the LCSSC nor by the Board of BNS which was a major lapse

in terms of governance. There was a lack of variance analysis to measure the actual cost incurred against the budgeted cost. This probably resulted in financial mismanagement at the onset of the project. AM issued a majority of the LOAs without the involvement of the Technical and Commercial team. These observations were also confirmed by the group internal auditor in their report prepared during the period 2013 to 2016. Repeated observations by the internal auditor failed to raise the alarm either at TSLW's office or at TSARN's office.

[Exhibit Page 315 and 380]

3.4. Delegation of Authority to the MD and Misuse of Power

3.4.1. On 27th February 2012, the management prepared a DCR for the Board to approve the appointment of CAD for SGPV programme as follows:

- a) As a lead contractor to procure, engineer and integrate the FCS as part of the SGPV project in partnership with Rheinmetall;
- b) To integrate major combat system equipment for the SGPV programme.

[Exhibit Page 2619-2625]

3.4.2. The Board approved the above DCR by authorizing TSARN to negotiate the terms and conditions of any arrangement between BNS and CAD and to execute, sign and deliver all the documents and agreements with CAD.

[Exhibit Page 2639-2640]

3.4.3. During our review, we noted that the following matters were not provided in the DCR for deliberation among Board members:

- a) The purpose and necessity for the involvement of CAD as BNS could have directly negotiated with the OEMs instead of going through CAD. This arrangement would have saved the markup which CAD charged over and above the negotiated price with the OEMs;

- b) The quantum and the nature of the LOAs which would be issued to CAD including their terms and conditions of the LOA/s;
- c) Details of works and deliverables, including milestone payments;
- d) Effect on the overall group's profitability in terms of dollar by involving CAD;
- e) The basis of deriving the total value of LOA for CMS and BIT Centre which was RM898 million and RM305 million respectively was not known and was not examined by the Technical and Commercial team. It also appeared that such documents providing details for these LOAs were not explained either to the LCSSC or Board of BNS.

[Exhibit Page 2619-2625]

3.4.4. The sweeping authority to TSARN to execute and sign all the agreements/LOAs with CAD significantly diluted the effectiveness of the BOD and the LCSSC. As a basic norm of governance, the negotiations with CAD should have been done by the technical and commercial team members. Subsequently, it should have been presented for approval by the Board/LCSSC before the execution of LOAs. Upon finalization of the negotiation, the Board should have approved it, either through a circular resolution or through a regular meeting. Not following the norms became a precedence and numerous LOAs were signed without prior approval of the BOD/LCSSC.

3.4.5. Legally, the DCR was valid as it was signed by all the directors. However, as a matter of good governance, any resolution should have been approved by the DCR only when the BOD agreed with finalized technical and commercial terms. After that, the Board could have nominated any specific director/s to sign the agreement. But we noted that this time-tested practice was absent.

[Exhibit Page 2469-2470]

3.4.6. Members of the BOD who approved the above DCR are mentioned below:

Table 5

Sr. No.	Name of the Director	Designation
1	Tan Sri Dato' Che Lodin bin Wok Kamaruddin	Chairman
2	Laksamana Madya (Retd) Tan Sri Dato' Seri Ahmad Ramli bin Haji Mohd Nor	Managing Director and the Chairman of Steering Committee
3	Laksamana Tan Sri Dato' Sri Abdul Aziz bin Hj Jaafar	Board Member and the then Chief of Navy, RMN
4	Datuk Azzat bin Kamaludin	Board Member and a Member of Law firm, M/s Azzat & Izzat
5	Ahmad Rahimi bin Abd Samad	Board Member

[Exhibit Page 2626]

3.4.7. We noted 12 LOAs worth RM3.30 billion were issued to CAD/CED, which was approximately 37% of the total contract value of RM9 billion. During our review of the BOD minutes, it was noted that the Ex-Chief of the Navy had expressed his concerns about over-reliance on CAD/CED for LCS Programme. He also advised the company to take the necessary precautions to minimize such an exposure by having the involvement of others. However, no corrective actions were taken, and the matter was never raised again.

[Exhibit Page 299]

3.4.8. An analysis of the back-to-back LOA arrangement between BNS and CAD/CED revealed that CAD/CED had charged a mark-up of approximately RM180 million for 10 LOAs excluding 2 LOAs issued to CAD for CMS and BIT Centre which are reviewed separately in Para 3.5 below.

Table 6

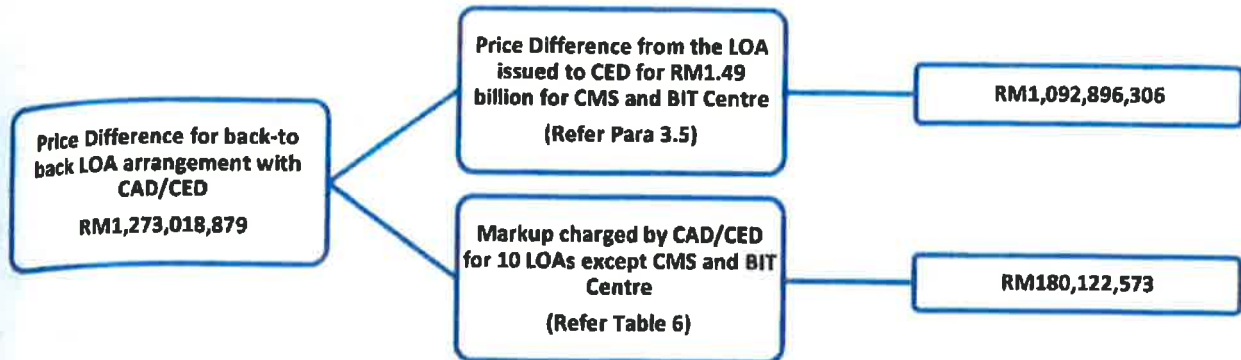
Sr. No.	Component/Equipment	LOA to CAD/CED (RM)	LOA to OEM (RM)	Mark-up Charged (RM)	Exhibit Reference
1.	Combined Integrated Communication System (CICS-CESM)	203,796,392.58	169,445,619.40	34,350,773.18	759-766 808-815
2.	Medium Calibre Gun (MCG)	180,000,000.00	175,585,027.20	4,414,972.80	682-687 739-747
3.	Main Surveillance Radar (MSR) [Refer Note 1]	234,024,597.26	179,550,000.00	54,474,597.26	840-844 2616-2618
4.	Towed Array Sonar (TAS)	297,800,383.27	278,277,626.65	19,522,756.62	998-1002 916-924
5.	Small Calibre Gun (SCG)	79,884,031.92	75,889,829.40	3,994,202.52	1040-1045 1011-1018
6.	Torpedo Launching System (TLS)	110,114,220.00	105,378,000.00	4,736,220.00	1099-1104 1078-1085
7.	Supply Link Y System (SLY)	20,609,426.14	18,788,311.33	1,821,114.82	1153-1159 1126-1133
8.	Radar Electronic Support Measure (R-ESM)	70,409,456.20	67,364,460.10	3,044,996.10	1183-1189 1169-1178
9.	Surface to Air Missile (SAM-VLS)	263,111,290.71	257,031,256.24	6,080,034.47	1271-1277 1221-1229
10.	Fire Control System (FCS) [Refer Note 1]	347,000,000.00	299,317,094.28	47,682,905.72	612-628 112-140
TOTAL (RM)		1,806,749,798.08	1,626,627,224.60	180,122,573.49	-

Note 1: Despite our request to the management of BHIC, we could not get copies of the LOAs issued by CAD/CED for Main Surveillance Radar (MSR) and Fire Control System (FCS). Therefore, we have considered the value based on the Commercial report prepared by the Commercial Team of BNS and quotations received from the respective OEM in our calculations provided above.

Note 2: We have considered the exchange rates of the LOAs issued in foreign currency i.e. Euro, GBP and SEK to Ringgit based on the average monthly rates prevailing at the time of issuance of the respective LOAs.

3.4.9. The price difference between the LOAs to CED v/s CED to DCNS for CMS, CSE, CSEI and BIT Centre was to the tune of RM1.09 billion approximately. However, it is difficult to ascertain the actual markup charged by CAD/CED as some part of the scope was executed by CAD. For which, a technical expert's opinion is needed.

[Exhibit Page 417-423, 477-493 & 2418-2421]



3.4.10. The involvement of CAD/CED resulted in an additional cost of RM180 million approximately as provided in the Table 6 above. It appeared that CAD/CED were involved for the placement of orders to hide the actual cost, which was paid by CAD/CED to secure various components for this Programme. We also could not find the justification of a separate company CED to be used for procurement under LCS Programme. In the absence of access to the documents of CAD/CED, we could not work out the expenses which has been incurred by them and the actual cost of various components procured by them.

3.4.11. As mentioned earlier, primary evidence suggested that CAD/CED were used as a vehicle to minimize the transparency and to avoid scrutiny of the Procurement team, LCSSC and the Internal Audit of BHIC. This might be the possible reason for handing-over the entire management control in the hands of RAD, which made BNS completely helpless. This observation was based on the review of the provisions of shareholders' agreement signed between BHICDT and RAD.

3.4.12. During our discussion with Capt. Azhar Jumaat (Azhar), he stated that the core competence of CAD's Joint Venture (JV) partner RAD was to develop the Fire Control System (FCS) for which the LOA was issued to RAD through CED for RM347 million. However, it was not logical for BNS to rely on CAD/CED for developing/procuring other components especially CMS and BIT Centre. It appeared as a one-sided arrangement

which clearly benefitted RAD in terms of technological know-how in the area where they did not possess any expertise. It appeared that the management allowed RAD to develop themselves at the expense of BHIC by compromising its own profit.

[Annexure Page 31-44]

3.4.13. Hence, RAD was benefited twice i.e. once by having access to the technology and another by sharing the profit with BHICDT through CAD/CED. The way CAD placed embargo for an access to its books of accounts gives more rise to suspicion. As per our opinion, BHIC should have developed its wholly owned subsidiary, especially for Defense related contracts instead of relying on CAD/CED.

3.5. Anomalies noted in LOA for CMS, CSEI and BIT Centre issued to CAD/CED for RM 1.49billion

3.5.1. On 9th April 2012, BNS issued two different LOAs relating to the Combat Management System (CMS) to CAD for RM898 million and RM287 million with reference no. BNS/DSD/SGPV/CS/LOA/CMS/0412-(1) and BNS/DSD/SGPV/CS/LOA/CMS/0412-(2) respectively. The scope of these LOAs is provided below:

- a) Combat Management System (CMS),
 - b) Combat System Integration (CSI),
 - c) Combat System Equipment Integration (CSEI),
 - d) Software Integration Facility (SWIF),
 - e) Shore Integration Facility (SIF),
 - f) Combat System Integration (CSI) Support and
 - g) Combat System Training Centre (CSTC).
- }

LOA of RM287 million
- }

LOA of RM898 million

[Exhibit Page 417-423 & 477-486]

3.5.2. Both the LOAs provided reference to three documents including a quotation from DCNS which appeared essential and was the basis for awarding the LOAs. These documents are referred below:

- a) DCNS Quotation 10/DCI/ASI/0097 dated 23rd December 2010;
- b) Letter of Intent ref. no. BNS/SGPV/LOI/1011 – dated 21st October 2011;
- c) DCNS Quotation 11/DCI/ASI/0029 dated 4th April 2011.

[Exhibit Page 417 & 477]

3.5.3. It is unusual to have a DCNS quotation dated 23rd December 2010 even before the LOA was signed by BNS with the GOM/MINDEF. This indicated that the deal was pre-determined between the vendor and certain vested persons at BHIC/BNS who were at the helm of the decision-making process. The history of DCNS and its unethical practices to bribe Malaysians during the deal is well documented which were filed in the Court by the investigative agencies at France after conducting searches at DCNS & Thales office. Refer Annexure Page 4 to 19 for a brief summary.

3.5.4. We could not get any document confirming the process on price negotiations, evaluations and recommendations before a final decision was made during the issuance of the LOA for RM898 million to CAD. All the members of the Commercial and Technical team had confirmed a total lack of their involvement and knowledge of the matter.

3.5.5. The above 2 LOAs dated 9th April 2012 were re-assigned from CAD to CED and endorsed by TSARN on behalf of BNS on the same date i.e. 9th April 2012. We noted that the invoice for the mobilization fee of RM177.75 million (1st milestone) by CED was also raised on the same day. It was unusual that all such events happened on a single day involving only 2 executives (TSARN and AM), and if CED was the ultimate vendor, routing through CAD was abnormal. It indicated an attempt to further reduce the transparency.

[Exhibit Page 424-429, 442-443 and 494-499]

3.5.6. Instead of directly awarding the LOA to DCNS for CMS (SETIS), BNS issued the LOA to CAD as an intermediary at a total value of RM1.185 billion (RM898 million and RM287 million), which reflected approximately, a 3 fold increase against the value of the LOA issued by CED to DCNS at RM397 million approximately (EUR98.70 million).

[Exhibit Page 417-423, 477-493 & 2418-2421]

- 3.5.7. During the evaluation exercise of various OEMs for the CMS contract presented by AM to the LCSSC and the Board of BNS during 2011, DCNS had a superior ranking based on technical and MIP (Malaysian Industry Participation) parameters which was mainly based on the undertaking that the CMS system (SETIS) was a proven system.

[Exhibit Page 1282-1304]

- 3.5.8. However, during our review of the CAD meeting minutes dated 14th October 2014, we noted that the management of CAD was disappointed with DCNS on the progress of CMS as they believed that the system was under-developed, which was contrary to the undertaking provided by DCNS that CMS is an off-shelf and proven system. It was also stated that DCNS was attempting to step back from the CSE responsibility that had been fully sub-contracted to DCNS. The non-performance of DCNS and apparent unwillingness to meet its contractual obligations posed a significant risk to the LCS Programme.

[Exhibit Page 1305-1310]

- 3.5.9. During their meeting held on 15th October 2014, the Group Core Committee of BHIC also highlighted serious short comings in the execution of CMS LOA by DCNS, however we did not find any corrective actions taken by the management of BHIC till 2014.

[Exhibit Page 1311-1338]

- 3.5.10. During our review and discussion with Azhar, we noted that RM1.185 billion of LOA for CMS, several components amounting to RM537 million approximately appeared as a duplicate with different nomenclatures for the same component. One should note that the management of BNS agreed and issued LOAs which directly impacted the overall cost of the LCS Programme. The following is the detailed analysis of the individual components of the scope of the above LOAs:

Table 7

Sr. No.	LOA Reference	Detailed Cost Breakdown	Amount (RM)	Remarks
1.	LOA/CMS/0412-(2)	CMS, CSE and CSI [Exhibit Page 422]	287,000,000	LOA issued based on initial quotation from DCNS for EUR70 million
[A] - TOTAL (RM)			287,000,000	
2.	LOA/CMS/0412-(1) [Exhibit Page 483]	Service Costs	274,000,000	It should have been covered under "Project Management" and appeared as duplicate claim
3.		Project Management	84,000,000	
4.		CSEI	153,000,000	It appeared as duplicate claim as it was already covered under CSI scope in para (1) of this table above
5.		SIF Setup	82,000,000	
[B] - SUB-TOTAL (RM)			593,000,000	
6.	LOA/CMS/0412-(1) [Exhibit Page 483]	Combat System Training Centre	55,000,000	It is an asset investment, not contributing to LCS Programme's revenue
7.		To manage and operate CSTC	35,000,000	It is an asset investment, not contributing to LCS Programme's revenue
8.		SWIF acquisition	80,000,000	It appeared as an exorbitant cost considering the hardware is Commercial Off the Shelf (COTS) equipment
9.		To manage and operate SWIF	25,000,000	It appeared as an exorbitant cost
10.		RTS acquisition (Real Time Simulators)	80,000,000	It appeared as duplicate claim as it was already covered under SIF Setup scope in para (5) of this table above
11.		To manage and operate RTS	30,000,000	RTS is specifically for SIF equipment, therefore, it was already covered under SIF Setup scope in para (5) of this table above
[C] - SUB-TOTAL BIT CENTRE (RM)			305,000,000	RM537 million appeared as double claim by CAD/CED [* As confirmed by Capt. Azhar Jumaat, LCS Programme Director]
[B+C] TOTAL VALUE OF LOA (RM)			898,000,000	
[A+B+C] TOTAL VALUE OF BOTH THE LOAs FOR CMS (RM)			1,185,000,000	

[Refer Annexure Page 31-44]

3.5.11. Despite the cost of developing a BIT Centre which had already been incorporated in the above LOA, it was noted that within six months, a supplemental LOA was issued by BNS on 2nd October 2012 with reference no. BNS/DSD/SGPV/CS/ LOA/CMS/ 0412-(3) in favor of CED, valuing RM305 million. The scope of this VO was to develop a BIT Centre to de-risk the overall system engineering and integration activities. It was stated that the ownership of the BIT Centre would be vested with CED even though the entire cost of developing the BIT Centre would be borne by BNS. Due to these unusual provisions, the

entire BIT Centre became a contentious issue between the two parties (CAD & BHICDT), negatively impacting the LCS Programme. It is advised to seek an expert's opinion to confirm the duplicity of the order and the necessity of such a variation order.

[Exhibit Page 487-493]

- 3.5.12. Azhar concurred with our observation and stated that the ownership should be retained by BNS as it was paid for by them. He further opined that BIT Centre should be considered as an asset investment, rather than a cost to the LCS Programme as it would not contribute to the revenue of the project as a non-deliverable part under the LCS Programme. It was also noted that there was no budget for this expenditure. *

[Annexure Page 31-44]

- 3.5.13. Based on the information provided by the current/ex-officers including Azhar of BNS and documents reviewed, it appeared that the scope of work under supplemental LOA was already incorporated in the original LOA with reference no. BNS/DSD/SGPV/CS/LOA/CMS/0412-(1) for RM898 million issued in favor of CAD (Reassigned to CED).

[Exhibit Page 487-493]

- 3.5.14. As per the payment milestones, mobilization of 25% amounting to RM372.50 million was paid to CED for above 3 LOAs (RM287 million, RM898 million and RM305 million) without achieving any milestone or substantial progress. During our discussion, Azhar agreed and stated that the payment milestone of RM89.80 million for the implementation plan of BIT Centre was also not a tangible delivery and should not have been considered a milestone for payment purposes. This appeared as a clear indication of outflow of substantial sum without any basis, jeopardizing the financial interest of BNS /BHICDT.

[Exhibit Page 423 and 503]

- 3.5.15. During the review of the above LOAs, we noted the following anomalies:

- 3.5.15.1. It was unreasonable for BNS to accept an initial payment of 25% for the mobilization and issuance of the LOA to OEM without any tangible deliveries. Any issuance of the

LOA to OEM should have been considered as their internal arrangement rather than an activity for a payment milestone. As a result, the progress of work observed was far lower than the amount paid.

[Exhibit Page 486 and 493]

- 3.5.15.2. Keeping in view this mismatch, Azhar commented that the payment structure to CAD/CED was lopsided and resulted in a serious exposure to the LCS Programme. LOAs to CAD/CED were purposely structured to release a high upfront payment which does not commensurate with the overall progress of the project.

[Annexure Page 31-44]

- 3.5.15.3. It is apparent that the then PD (AM) sidelined the control mechanisms by not getting the following team members involved:

- i. The Technical team; and,
- ii. The Commercial Negotiation team.

- 3.5.15.4. As confirmed by Khalid (the then Head of Group Supply Chain and Commercial team) that as per the SOPP, a technical evaluation was required to shortlist amongst at least three suppliers/bidders. Once a technical evaluation is complete based on the set parameters, only then should it have been given to a commercial team for their evaluation. However, this procedure was never followed for issuing the LOAs to CAD/CED. In fact, none of the orders placed with CAD/CED went through the process of any technical and commercial evaluation.

- 3.5.15.5. BNS should have a formal contract with CAD/CED within 180 days from the signing of the said LOAs. Based on documents available with us and discussion with Tan Sri Ramlan, no contract was entered between both the parties till FY2014 and the validity was extended by issuing various amendments to the original LOAs.

[Exhibit Page 417-437 and 477-510]

- 3.5.15.6. As per the provision of the Companies Act, CAD is a subsidiary because BHICDT is holding 51% shares, however as per the Accounting Standards, any company where the control of management is not in the hands of the parent company, such company should not be treated as a subsidiary, since the management of CAD was independent of its parent company and the ultimate holding company. The internal auditor of BHIC could not conduct an audit of CAD and the group policies were also not being followed by CAD. Hence, CAD should not be considered as a subsidiary company.
- 3.5.15.7. In such a case as a policy of BHIC, while entering into an agreement and getting an advance, it should have provided a bank guarantee for an advance payment and a performance bond which were both missing in all the cases where an upfront payment was made to CAD/CED.
- 3.5.15.8. Azhar agreed with our observation and stated that it was a major oversight on the part of the previous management for not requesting a performance bond from CAD/CED. These all indicated intent of those who were at the helm of the LCS program. At least, the Ex-CFO (Nordin) should have objected to it.

[Annexure Page 31-44]

- 3.5.15.9. The agreed value of the said LOAs was in ringgits, however we noted a provision in Para 5 (d) to deal with foreign currency which was against the interest of BNS. This para stated that any difference on account of exchange rate fluctuation would be adjusted accordingly in the next application of payment. This provision is considered against the interest of BNS because any foreign currency fluctuation risks should have been taken care of by the vendor and not by BNS. It is an indication that the provisions of the LOAs were skewed in favor of CAD/CED. Similar comments were made by Azhar during our meeting with him.

[Exhibit Page 418 and 478]

3.5.15.10. The said LOAs were signed by TSARN on behalf of BNS and AM as a witness. It was noted that both were the directors of CAD and AM was also a director in CED at the time of signing these LOAs. This is against the basic norm of governance as there was an apparent conflict of interest. The provisions of the Companies Act strictly prohibits such practice especially when these subsidiaries are part of a public listed company. They should have refrained from signing the LOAs. During our meeting with Azhar and Puti (Head of Group Legal), they both confirmed it as a conflict of Interest issue.

[Exhibit Page 175, 419-420 and 479-480]

3.5.16. It is important to note that despite full knowledge of the situation where there was a limitation to control its own subsidiary due to certain provisions in the agreement, TSLW and TSARN did not take any action to reverse it by exerting their executive powers and allowed things to happen against the financial interest of the company.

3.5.17. A review of the group internal audit report dated 5th May 2016 indicated several lapses in the LOA for BIT Centre are summarized below:

3.5.17.1. The report highlighted concerns on a long-standing conversion of LOAs into contracts with the vendors. The report also mentioned that a long outstanding in finalizing the contracts may expose the agreement and impact the performance in case of any dispute between the parties. These LOAs were not complete in terms of contractual provisions which could be referred to in case of dispute among the parties.

[Exhibit Page 400]

3.5.17.2. An approval from the Board of BNS for BIT Centre was obtained as part of the CMS, and not as a separate investment of RM305 million. Further, the cost of this supplemental LOA was not budgeted for in the LCS Programme (Budget dated 31st December 2015).

[Exhibit Page 405]

3.5.17.3. Despite bearing the entire cost for the development of BIT Centre, BNS Personnel were only given limited access for the use of BIT Centre. Such restricted use to BNS Personnel may lead to a failure in achieving the desired technical ability for which the center was created.

[Exhibit Page 405-406]

3.5.17.4. The investment proposal as an evidence to a proper assessment and evaluation process performed prior to the investment was not available. Without such proposals, the investment must have lacked a proper assessment about its cost and benefits. This might have resulted in a higher cost than necessary.

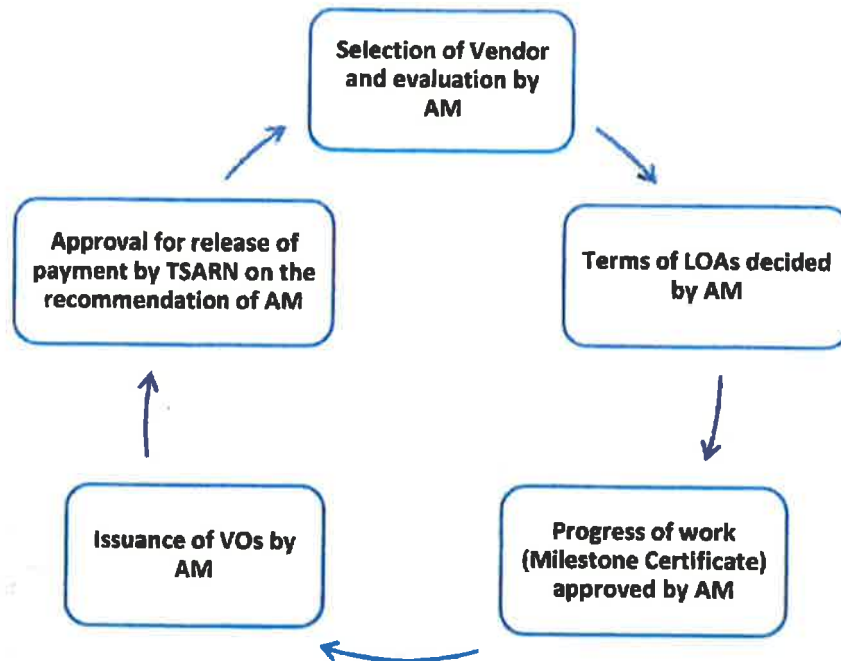
[Exhibit Page 406]

3.5.18. During the review of milestone payments made to CED for the above LOAs till FY2014, we noted that AM used to submit a recommendation letter with CED's invoices for payment based on the completion of milestones, requesting TSARN to approve the payment. However, we did not find any document attached with the invoices of CED to confirm the completion of work till that milestone. After taking over the position of Director of Defense, Azhar had rejected various payments which were requested by CAD/CED due to insufficient supporting documents.

[Exhibit Page 466, 562 and 594]

3.5.19. It was unusual to note that various LOAs & VOs to CAD/CED were issued with TSARN and AM's signature who approved the work description, progress[†] of work and payment request. This confirmed that various phases of the procurement through CAD, TSARN and AM were the only officers involved. As a result, both had complete control of most of the phases of the procurement cycle, a major sign in the lack of governance and autocratic mode of operation.

[Exhibit Page 419-420 and 479-480]

Typical Procurement Cycle involving CAD/CED**3.5.20. Anomalies pertaining to Combat System Training Centre (CSTC)**

3.5.20.1. During the review of LOA BNS/DSD/SGPV/CS/Loa/CMS/0412- (1), it was noted that part of the "Work and Deliverables" as per the Annexure A & B for CSTC was not considered in its true spirit. As per Annexure B, the cost breakdown included "CSTC Establishment" at RM55 million, whereas Combat System Training and to operate (which needed explanation by an expert) was for RM35 million. Further Sr No. 5 of Annexure A of "Work & Deliverables" explained what was required to be delivered under CSTC and is mentioned below:

- a) CSTC Infrastructure;
- b) CSTC Development & Implementation;
- c) CSTC Hardware & Software;
- d) CSTC Set To Work;

- e) CSTC Operation & Management which included Maintenance, Operation & Configuration.

[Exhibit Page 482]

- 3.5.20.2. This definition of deliverables clearly indicated that CSTC was to be established in Cyberjaya with basic and intermediate courses to be provided by the Centre. Since the Centre was paid for by BNS, logically like any other assets, the ownership should have been with BNS.

[Exhibit Page 488]

- 3.5.20.3. This was also clear from CAD's Board meeting minutes dated 10th October 2013 where Gordon informed the Board that the *"Company is developing its system integration capabilities, including a partnership with DCNS for the SGPV-LCS program"*. For this purpose, DCNS was involved in initial system integration training in France and would ultimately conclude on the job training for the integration of the SGPV-LCS SIF facility for the first two ships. After that, CAD would take full responsibility for the integration of the remaining four ships commencing in 2021. This statement was in line with the Work and Deliverables details as per Annexure A, Sr No. 2.²

[Exhibit Page 177]

- 3.5.20.4. Service Work and Deliverables as per Annexure A clearly defined CSEI, SWIF, SIF and CSI to be included in the entire value of RM 898 million. It was immaterial whether these details were not similar in terms of language as per the cost details provided in Annexure B. Absence of details also did not justify the issuance of another supplemental LOA in 2nd October 2012 for RM305 million, unless one can confirm the need for a separate deliverables for this additional LOA No. BNS/DSD/SGPV/CS/LOA/CMS/0412(3). **[Exhibit Page 481-482 and 491-492]**

² It is advisable to obtain an expert's opinion, as we are not the expert to analyse the technical issues. The current Programme Director Azhar Jumaat's interpretation is in line with our observations.

3.5.21. Anomalies in Payment Milestones

3.5.21.1. During our review of milestone payments to CED for above LOAs, we made the following observations:

Table 8: Payment Milestone for LOA of CMS to CED - RM287 million

Date of Payment	Description of payment	%	Amount (RM)	Observations
23/04/2012	Milestone 1- Mobilisation	15%	43,050,000	Payment of mobilization fee without any tangible deliverables
13/06/2012	Milestone 2-LOA issued to DCNS	10%	28,700,000	Payment of mobilization fee without any tangible deliverables
09/07/2013	Milestone 3- Preliminary Design Review (PDR)	10%	28,700,000	AM recommended to make payment based on completion of PDR, which was approved on the same day, however supporting documents not attached pertaining to completion of milestone.
	TOTAL	35%	100,450,000	Mobilization payment of RM71.75 million (approx. 70%) out of total payments done to CED till 2014 under CMS

[Exhibit Page 439-443, 466-469]

Table 9 : Consolidated LOA for RM1.203 billion to CED (RM898 million & RM305 million)

Date of Payment	Description of payment	%	Amount (RM)	Observations
23/04/2012	Milestone 1- Mobilisation	11.2%	134,700,000.00	Payment of mobilization fee without any tangible deliverables
13/06/2012	Milestone 2- BIT Centre Plan	7.5%	89,800,000.00	As per payment schedule, payment was to be made after 3 months of LOA, however paid within 2 months without providing any documents to confirm the completion of milestone. As per Azhar, BIT Centre plan was not a tangible delivery
16/11/2012	Milestone 3- Mobilisation against LOA Supplement	6.3%	76,250,000.00	Payment of mobilization fee without any tangible deliverables
14/02/2013	Milestone 4- Completion of BIT Centre Infrastructure	8%	96,240,000.00	Approval of payment from AM, TSARN and verification of Finance not attached.

28/05/2013	Milestone 5-SIF Design Approval	7.5%	90,225,000.00	AM informed that the progress has been verified and supported, however no supporting documents pertaining to completion of milestone were attached.
08/10/2014 & 20/11/2014	Milestone 8-Order Placement for SWIF Hardware	10%	120,300,000.00	Payment was made in 2 tranches of 50% each as per recommendation of AM which was approved on the same day. The communication between CED and DCNS revealed that there were discrepancies with respect to hardware delivery where certain equipment were found missing. However, we did not find any document to confirm the placement of order for procuring hardware for SWIF. [Note 1]
	TOTAL	50.5%	607,515,000	Mobilization payment of RM300 million (approx. 50%) out of total payments done to CED till 2014

[Exhibit Page 515-525, 561-598]

Note 1: We are not certain whether any such document was ever submitted by CED.

3.6. LOA issued to CAD/CED for Fire Control System at RM347 million

3.6.1. On 9th April 2012, BNS issued a LOA to CAD with reference no. BNS/DSD/SGPV/CS/LOA/FCS/0412-(1) for the provision of Fire Control Radar and Electro-Optic Tracking System (FCS) at an agreed value of RM347 million (CHF102.76 million). The LOA was issued based on the following documents as referred in the said LOA:

[Exhibit Page 612-619]

- a) Quotation from Rheinmetall no. GPN201004643-2 dated 25th February 2011;
- b) BNS/SGPV/LOI/1211-(3) dated 19th December 2011;
- c) Revised offer no. GPN201004643-3 dated 13th February 2012.

3.6.2. It is important to note that RAD's quotation dated 25th February 2011 was received even before the GOM/MINDEF signed the LOA with BNS. BNS signed the LOA with CAD before signing the contract with the MINDEF. This indicated an understanding well in advance with the vendor without official confirmation including absence of Request for Quotation (RFQ), price negotiations and technical evaluation.

[Exhibit Page 612]

- 3.6.3. During the BOD meeting dated 4th October 2012, AM informed the Board that BNS had issued a LOA to RAD for Fire Control System (FCS) which was misleading, as the said LOA was issued through CAD and not directly to RAD. AM also failed to inform the Board about the difference of RM47,682,905.72 between the price quoted by RAD and price agreed with CAD. **[Exhibit Page 612, 1371 and 2485-2514]**
- 3.6.4. The accuracy of information regarding LCS Programme was missing during briefing to the Board during the meeting. Instead of dealing with CAD, the management could have directly issued the LOA to RAD at a lower price as CAD charged a mark-up over the contract price negotiated between the technical team of BNS and respective OEMs. This allowed RAD to make double profit, one as a supplier and other as share of profit from CAD as a 49% JV partner. We could not find any valid reason to justify such a decision that proved detrimental to BNS and the LCS Programme. This resulted in direct cost escalation, ultimate loss of profit and cashflow crunch. The Audit Committee of BHIC also raised their concerns on potential reduction in gross margins from the LCS Programme due to higher cost of procurement through CAD/CED and OEMs.
- 3.6.5. At the time of issuance of the LOA, AM signed as a witness on behalf of BNS and signed on behalf of CED during re-assignment of LOA by CAD to CED. He was the person who recommended all the payments to CED for the approval by TSARN including milestones certificates which were acknowledged by him. This indicated that AM was acting on behalf of BNS and CAD/CED both at the same time which was in conflict and showed a serious lack of independence on the part of the decision maker. **[Exhibit Page 663]**
- 3.6.6. While reviewing the milestones achieved for recommended payments to CED for the said LOA till FY2014, we made the following observations:

Table 10

Date of Payment	Description of Payment	%	Amount (RM)	Observations
23/04/2012	Milestone 1- Mobilisation	15%	52,050,000	Payment of mobilization fee without any tangible deliverables.
17/05/2012	Milestone 2-LOA issued to RAD	10%	34,700,000	There should not have been any payment for this, as it was CED internal arrangement and if anything was required to be paid CAD should have made the payment not BNS.
13/03/2013	Milestone 3- Preliminary Design Review (PDR)	5%	17,350,000	AM recommended to make payment based on completion of PDR, however no supporting documents were attached pertaining to completion of milestone.
	TOTAL	30%	104,100,000	Mobilization payment of RM86.75 million (approx. 85%) out of total payments done to CED till 2014

[Exhibit Page 642-647, 651-652 and 676-678]

3.6.7. As a result, manipulated payment milestone (30%) was released without any tangible delivery.

3.7. Protecting the Interest of CAD at the cost of BNS

3.7.1. On 22nd April 2013, BNS issued LOAs to CAD for the procurement of Main Surveillance Radar (MSR) and Towed Array Sonar (TAS) with reference no. BNS/DSD/SGPV/CS/LOA/MSR/4560-(1) and BNS/DSD/SGPV/CS/LOA/TAS/4630-(1) at RM227.97 million and RM287.02 million respectively. We did not find any reference of quotations in the LOAs which might be the basis of deriving the value of each component.

[Exhibit Page 828-834 and 987-993]

3.7.2. On 19th July 2013, amendments to the original LOAs for MSR and TAS were issued in favor of CAD by incorporating a milestone of 10% for the issuance of LOA by CAD to respective OEM. It is important to note that the overall value of the LOA remained the same as the said milestone was incorporated by adjusting the percentages of already existing milestones. This resulted in higher advance payment as mobilization moved

upwards from 15% to 25% for CAD which did not commensurate with any deliverables for the progress of the LCS program. It's noted that there was no evidence of any such written request which could confirm that the request was made by CAD. An example of another failure to protect the interest of the company by incorporating such amendments in the existing LOAs which in turn impacted the cashflow of the company.

[Exhibit Page 836-839 and 994-997]

- 3.7.3. Due to the above amendment, the total mobilization (Milestone 1 and 2) increased by RM51,498,945 for both the LOAs as provided in the table below:

Table 11

Date	LOA Ref.	Milestone 1	%	Milestone 2	%	Mobilization (%)	Ref.	TOTAL MOBILIZATION (RM)
LOA for MSR								
22/04/2013	Original	Mobilization	15%	Critical Design Review (CDR)	10%	10%	A	34,195,538
19/07/2013	Amendment	Mobilization	15%	LOA to OEM	10%	25%	B	56,992,563
LOA for TAS								
22/04/2013	Original	Mobilization	15%	CDR	10%	10%	C	43,052,880
19/07/2013	Amendment	Mobilization	15%	LOA to OEM	10%	25%	D	71,754,800
TOTAL MOBILIZATION AS PER ORIGINAL LOAs FOR MSR AND TAS (RM)							E=A+C	77,248,418
TOTAL MOBILIZATION AS PER AMENDED LOAs FOR MSR AND TAS (RM)							F=B+D	128,747,363
NET INCREMENT UNDER MOBILIZATION (RM)							G=E+F	51,498,945

[Exhibit Page 834 and 844, 993 and 1002]

- 3.7.4. The minutes of CAD meeting dated 10th October 2013 revealed that CAD was expected to incur substantial loss due to foreign currency fluctuation as the ringgit was losing its ground against the Euro. In Para 6.2 of the said minutes captioned "Business Planning Figures 2013", Gordon reported profits up to the 3rd quarter of 2013 as RM23.28 million. He further stated that this figure was excluding Forex loss as there was a considerable risk due to ongoing weakness of Ringgit against Euro. The company should have therefore, hedged to minimize the loss. However, he mentioned that they were unable

to do so because of overdue down payment. This was as an internal management issue to be tackled through strategic decisions necessary to protect the earnings of CAD.

[Exhibit Page 179]

- 3.7.5. However, the Chairman TSARN immediately acknowledged the concerns expressed by Gordon and proposed for a change in currency from RM to EUR for LOAs pertaining to MSR and TAS to provide necessary support. This was an unexpected move since his decision was in conflict as he was also expected to take care of the larger interest of BHIC group, which he was representing on the CAD Board.

[Exhibit Page 179]

- 3.7.6. It was expected that the Chairman would suggest measures to minimize the loss due to currency fluctuation rather than pushing the burden on BNS without informing and seeking approval of the Board of BNS. As good governance, he should have refrained from any such assurance and comments. This move gives the impression that TSARN was more inclined to safeguard the interest of CAD rather than BNS.
- 3.7.7. The above incident took place even though the Audit Committee was seriously concerned about the Forex losses that they could foresee and raised the issue during the Board meeting of BHIC dated 14th May 2013, which was prior to the said BOD meeting of CAD. As a result of his detrimental decision, it was noted that the currency of the said LOAs was changed from Ringgit to Euro without any written request from CAD and discussion in the BOD meeting of BNS. An amendment was signed between CAD and BNS on 1st November 2013 which resulted in a net loss of RM13,487,820 on that day based on the difference in currency rates. This was an additional liability on account of increased ringgit value of the said procurements.

[Exhibit Page 840-844 and 974-978 and 1344]

- 3.7.8. The following calculation reflects the loss incurred directly to BNS due to TSARN's unilateral decision without the approval from the Board of BNS or BHIC:

Table 12

Date	Description	Note	LOA for MSR	LOA for TAS
22/04/2013	Original Value of LOA (RM)	A	227,970,252	287,019,200
01/11/2013	Value of Amended LOA for currency change (RM to EUR)	B	54,278,631	68,337,905 [Note 2]
	Conversion Rate (EUR-RM)	C=A/B	4.20	4.20
November 2013	Average Rate of EUR-RM during November 2013	D	4.31	4.31
	Loss due to Conversion	E=C-D	0.11/RM	0.11/RM
	TOTAL LOSS (RM)	B*E	5,970,650	7,517,170
TOTAL LOSS TO BNS DUE TO CURRENCY CONVERSION (RM)				13,487,820

[Exhibit Page 828-832, 840-844 and 974-978 and 987-991]

Note 1: We have considered the exchanges from Euro to ringgit based on the average monthly rate at the time of issuance of respective LOAs.

Note 2: While calculating the forex loss due to the conversion of LOA for TAS, we have excluded the value of Bathythermograph of EUR732,600 [EUR69,070,505 - EUR732,600] as it was added separately, not being part of the original LOA.

- 3.7.9. The action to change the value of LOA expressed in Ringgit to Euro should have been taken only after getting it confirmed from the GOM (Principal) with whom BNS had a commitment to deliver the LCS on time while making a profit for themselves. It is also noted that there was no provision in the budget for any Forex loss on account of currency fluctuation.
- 3.7.10. During our review, in a letter dated 26th February 2014 written by GOM to BNS, we noted that GOM had rejected BNS' application to bear any loss due to currency fluctuation or to incorporate a dual currency clause in the LCS contract. The said letter mentioned that BNS's request was not aligned to Circular no. 5/2007 as it involved a local company dealing in ringgits. After this letter, AM and TSARN should have instructed CAD to convert

all the LOAs in ringgits as CAD was a Malaysian company. However, both failed to protect the interest of BNS.

[Exhibit Page 1339-1340]

3.7.11. **Anomalies detected in the Payment Milestones for the said LOAs**

3.7.11.1. We also reviewed the documents for various payments made to CAD based on payment milestones till FY2014 for the said LOAs (MSR and TAS) and made the following observations:

Table 13: Review of Payment documents for MSR

Date of Payment	Description of Payment	%	Amount (RM)	Observations
22/10/2013	Milestone 1- Mobilisation	15%	34,195,538.00	Payment of mobilization fee without any tangible deliverables
20/02/2014	Milestone 2-LOA accepted by Thales	10%	24,479,662.13	Issuance of LOA to OEM was considered a payment milestone based on an amendment dated 19/07/2013 which does not commensurate with any deliverables
14/04/2014	Shortfall for milestone 1	-	838,721.84	Payment of additional mobilization due to currency conversion dated 01/11/2013 from RM to EURO.
11/12/2014	Milestone 3- Critical Design Review (CDR)	10%	22,758,486.77	AM recommended making a payment based on completion of CDR, which was approved on the same day by TSARN. However, no supporting documents were attached pertaining to completion of milestone.
	TOTAL	35%	82,272,408.74	Mobilization payment of RM59.51 million (approx. 72%) out of the total payments done to CAD till FY2014

[Exhibit Page 864-866, 871-878 and 880-882]

Note 1: The ringgit value of each payment milestone is taken from the general ledgers of BNS provided to us by the management.

Table 14: Review of Payment documents for TAS

Date of Payment	Description of Payment	%	Amount (RM)	Observations
22-10-13	Milestone-1- Mobilisation	15%	43,052,880.00	Payment of mobilization fee without any tangible deliverables
20-02-14	Milestone 2-LOA accepted by Thales	10%	31,150,795.50	Issuance of LOA to OEM was considered a payment milestone based on an amendment dated 19/07/2013 which does not commensurate with any deliverables
14-04-14	Mobilization shortfall for milestone - 1	-	1,549,978.49	Payment of additional mobilization due to currency conversion dated 1/11/2013 from RM to EURO
11-12-14	Milestone 3- Critical Design Review (CDR)	6.50%	18,824,370.46	Approval of payment from AM and TSARN was done on a same date. Partial payment for CDR was released, however no documents were attached pertaining to the completion of milestone.
TOTAL (RM)		31.50%	94,578,024.45	Mobilization payment of RM75.75 million (approx. 80%) out of the total payments done to CAD till FY2014

[Exhibit Page 939-948 and 960-968]

Note 1: The ringgit value of each payment milestone is taken from the general ledgers of BNS provided to us by the management.

3.8. Other Observations related to LOAs issued to CAD/CED

3.8.1. During our review of LOAs made available to us, we made the following common observations for all the LOAs issued to CAD/CED and various other OEMs as mentioned below:

3.8.1.1. Most of the LOAs were issued before the signing of a contract between BNS and GOM/MINDEF which appeared abnormal as several variables pertaining to the contracts had not materialized since negotiation and discussion on technical issues were ongoing during this period. The signing of LOA without being certain about the exact requirement proved expensive and fatal to monitor progress milestone. This also resulted in issuance of VOs because of subsequent changes and resulted in additional costs, for example;

- a) A VO of EUR732,600 issued in favor of CAD for Bathythermograph in November 2013 as part of TAS LOA;
- b) A VO of SEK10.60 million issued in favor of CAD for an amendment in the master implementation schedule of MCG LOA.

3.8.1.2. As per the conditions of the LOAs, BNS did not sign a formal contract with CAD/CED within the stipulated time provided in the respective LOAs signed with them.

3.8.1.3. We noted numerous discrepancies in the delivery schedule of LOAs issued to CAD/CED with respect to the Technical Procurement Specification (TPS) agreed between both the parties.

3.8.1.4. There were multiple amendments in various LOA's due to extension of validity, pending negotiation and finalization of Issues in TPS including VOs and the terms and conditions. This indicated that there were disputes regarding scope of work, since the onset of the project.

3.8.1.5. The Internal Audit Report dated 5th May 2016 highlighted several weaknesses in preparation of LOAs because they were not vetted by the Group Legal Department of BNS before it was Issued to the suppliers. During our review of BHIC Board meeting dated 14th May 2013, TSARN stated that all the LCS contracts were reviewed by competent external lawyers, however, we did not find any report/document to confirm that external lawyers were engaged by the management of BNS. It was unusual to note that despite having internal legal department, TSARN chose to engage external lawyers to review the contracts. **[Exhibit Page 398 and 1358]**

3.8.1.6. A letter was written by Khalid addressed directly to AM on 16th May 2012, which highlighted various irregularities their team had noticed while going through a draft letter of award with ref. GLD/BNS/SGPVLCS/COM/0512 (01) which was sent to the team for their review. Despite Khalid's letter, no corrective measures were taken.

[Exhibit Page 2456-2458]

3.8.1.7. The letter clearly mentioned that the LOAs should not be issued without a directors' resolution from the Board of BNS. It also mentioned that the core management meeting of 9th April 2012 had directed that any payment made in advance of actual progress must be backed by a corresponding advance payment guarantee (except for BHIC group companies).

[Exhibit Page 2456-2458]

3.8.1.8. A special Group Internal Audit report in 2011 had mentioned in detail with evidence about the lack of governance, irregularities of a serious nature and involvement of senior officers. However, the management failed to reply to the letter issued by the Audit Committee Chairman. We have yet to sight the letter issued by the Chairman reprimanding TSARN as it was missing. For details, please refer to the special group audit report in Para 3.16 of this report.

3.8.2. During our review of payment milestones till FY2014 for the LOAs issued to CAD/CED other than discussed separately in this report (Para 3.5 to 3.7) we made the following observations:

3.8.2.1. We noted that mobilization amounting to RM153 million approximately was paid for 7 LOAs (Refer table below) issued in favor of CAD without any tangible deliveries.

Table 15

Sr. No.	Component	Value of the LOA (RM)	Mobilization (RM)	Mobilization (%)
1.	Combine Integrated Communication System (CICS-CESM)	203,796,392.00	61,138,917.74	30%
2.	Medium Calibre Gun (MCG)	180,000,000.00	26,578,125.00	15%
3.	Small Calibre Gun (SCG)	79,884,031.92	12,835,909.51	15%
4.	Torpedo Launching System (TLS)	110,114,220.00	11,734,234.02	10%
5.	Supply Link Y System (SLY)	20,609,426.14	3,046,540.61	15%
6.	Radar Electronic Support Measure (R-ESM)	70,409,456.20	10,855,937.14	15%
7.	Surface to Air Missile (SAM-VLS)	263,111,290.71	26,887,197.84	10%
TOTAL (RM)		927,924,816.97	153,076,861.86	16.50%

[Exhibit Page 680-681, 758, 915, 1077, 1125, 1168 and 1220]

Note 1: We have considered the exchanges from Euro, GBP and SEK to ringgit based on the average monthly rate at the time of issuance of respective LOAs.

Note 2: In case of LOAs issued in foreign currency, the ringgit value is taken from the general ledgers of BNS provided to us by the management.

3.8.2.2. During our review of the payment plan attached with the LOA issued to CAD for SLY, we noted that certain milestones were not included such as a milestone for the completion of Factory Acceptance Test (FAT) for LCS 1 to 3 was considered, but it was excluded for LCS 4 to 6. This clearly indicated that LOAs were drafted vaguely without the involvement of technical team at BNS.

[Exhibit Page 1159]

3.8.2.3. The payments to CAD/CED were done based on the recommendation of AM who mentioned that he had verified the progress of work against the respective milestone and requested TSARN to release the payment. However, we did not find any document attached with his recommendation to confirm that the milestone was completed. For example, a payment of milestone for placing of an order with the OEM was released to CAD, but the copy of invoice/purchase order was not attached.

[Annexure Page 24-27]

BHIC

3.9. Suspicious Role of DCNS in the LCS Programme

- 3.9.1. On 20th March 2012, BNS issued a LOA to DCNS for the provision of GOWIND Design and support services at EUR58.90 million based on the evaluation conducted by AM and team. Within 9 months, an amendment to the original LOA by revising the value of the LOA to EUR 62.80 million was issued on 17th December 2012 where the scope of the original LOA was changed completely. This fact reflected that the initial scoping was vague and weak.

[Exhibit Page 1383-1389 and 2675-2681]

- 3.9.2. During our discussion with Tan Sri Ramlan, he mentioned that the then PD of LCS (AM) had inadequate expertise of designing a warship, its related costs and associated risks. The design contract with DCNS was poorly negotiated with common sense lapses. DCNS then took advantage of these lapses and capitalized on the resulting situation. Following are the LOAs and VOs issued to DCNS for the LCS Program until FY2014:

[Annexure Page 20-23]

Table 16

Date	Component	LOA Ref No.	Value (EURO)	Value (RM)
20-03-12	Design and related services including a VO of EUR3.90 million	BNS/DSD/SGPV/DESIGN /LOA/PSY/0312-(1)	EUR62,800,000	252,456,000.00
17-12-12	Program Management Assistance	BNS/DSD/SGPV/DESIGN /LOA/PMA/0312-(3)	EUR37,500,000	150,000,000.00
17-12-12	Complementary services for detailed design and support	BNS/DSD/SGPV/DESIGN /LOA/COMPSVC/0312-(4)	EUR118,900,000	475,600,000.00
TOTAL			EUR219,200,000	RM878,056,000

[Exhibit 1383-1389, 1444-1447, 1490-1493 and 2675-2681]

- 3.9.3. We noted that DCNS was paid a mobilization of approximately RM90 million (10%) for above mentioned LOAs without furnishing advance payment guarantee or performance

guarantee. Based on documents provided to us, we noted that the kick-off meeting was not held between the representatives of DCNS and BNS.

[Exhibit Page 1382, 1443 and 1489]

- 3.9.4. During our review of the payment milestones, we did not find any supporting evidence to confirm that a milestone was achieved for which the payment is being released as per the recommendation of AM and approval of TSARN.

[Exhibit Page 1454-1467]

- 3.9.5. One of the letters written by Khalid addressed to TSARN as the head of Group Supply Chain and commercial team along-with the representative of the Group Legal department raised red flags, but still it did not result in any corrective action.

[Exhibit Page 1396-1401]

- 3.9.6. Letter in reference to BNS/SGPV/LCS/DCNS/1212 (01) was written on 8th January 2013 pertaining to LOAs issued in favor of DCNS, addressed to TSARN and copied to AM and the Commercial team members. This letter clearly conveyed that the presence of the team during the commercial negotiation seemed redundant and was frustrating, annoying and insulting. It is important to note that the fundamental purpose of having a commercial team was to have proper control and transparency during procurement process.



[Exhibit Page 1396-1401]

- 3.9.7. The offer made by DCNS for Design, engineering and support was technical in nature. As a result, without proper understanding and detailed discussion amongst DCNS and Technical & Commercial team, it was not possible to understand the various components of design, its relative cost and appropriate milestones. It appeared that the technical and commercial team were not provided with the necessary exposure along-with DCNS for them to evaluate the wisdom of cost associated with each component. This was likely the reason for their frustration and ineffectiveness. During the interview, it became clear

that they were not given a free hand to ask the necessary questions to remove their doubts and understand the reasons for various components and the cost attached to it.

- 3.9.8. The commercial team was not privy to DCNS' commercial offer made in December 2010 and March 2012, which was repeatedly mentioned, and they were also not given any opportunity to thoroughly understand the offer made by DCNS in December 2010. (Despite repeated requests, the current CFO has also failed to provide us with a copy of these letters).

[Exhibit Page 1396-1401]

- 3.9.9. It is important to note that DCNS is virtually involved in all the aspects of LCS   even when CAD was given the LOA for CMS, CAD placed all the responsibilities on DCNS for Combat System Engineering and Integration for the first 2 LCS. Gordon expressed his disappointment with the progress on development of CMS in CAD's Board meeting dated 14th October 2014 that because of their association with BNS, he was unable to enforce timely delivery by DCNS as per their commitments.

[Exhibit Page 1403]

- 3.9.10. The above incident reflected the problem being faced both by CAD and BNS due to the involvement of DCNS into various aspects of the LCS Programme including the acquisition of two Scorpene Submarines which attracted a high-level controversy and was put under investigation by the French authorities.

[Refer Annexure Page 4-19]

- 3.9.11. Azhar had also made a very clear remark in his letter addressed to the BOD of BNS dated 20th May 2019 that DCNS' original total contract for Design, Engineering and Support was vague and weak in terms of scoping, but it was accepted. Similarly, the Procurement team was also misled due to vague scoping and during the meeting, DCNS was arrogant because they were not transparent in terms of their scope of work, technical specifications, various components and deliverables. This resulted in numerous VOs issued till FY2018 amounting to EUR67 million as referred in the said letter by Azhar.

[Exhibit Page 1413]

3.9.12. It is important to mention that any comments on DCNS' scope of work, deliverables, extension and issuance of numerous VOs would need an expert's opinion as it is technical in nature and we are not the experts of technical areas. Furthermore, the involvement of DCNS actively continued beyond 2014 and conclusion drawn based on observations made till 2014 would not be appropriate. As a result, we have restricted our findings and comments unless we review the entire deliverables, payments and understand the reason for such an exceptional delay and interview concerned officials. This review needs to be done in totality and not in partiality to remain objective and independent.

3.9.13. Review of LOA issued in favor of DCNS for Complementary Services

3.9.13.1. DCNS submitted a quotation on 17th December 2012 and BNS issued the LOA Ref. No. BNS/DSD/SGPV/DESIGN /LOA/COMP SVC/0312-(4) for Complementary Services on the same day for EUR118.90 million which signified that BNS did not review the technical and commercial aspects of the said quotation from DCNS. It also reflected that the BOD/LCSSC was ignored for the necessary approval based on relevant queries.

[Exhibit Page 1444-1447]

3.9.13.2. This exercise was done in a hurry without detailed study, examination of every module of the offer, comparisons existing market price, technical advantage, terms and conditions for obtaining such services and requisite experience. It was noted that neither TSARN nor AM had any experience in ship building and yet, proper evaluation by respective committees was missing.

3.9.13.3. During our review, we noted certain discrepancies between the scope of work as provided in the TPS and the LOAs i.e. the Integration Validation Qualification (IVQ) activities were part of the TPS, but not included in the scope of the said LOA.

[Exhibit Page 2519-2530]

3.9.13.4. As per the Project Management Plan framework, DCNS was required to conduct contract management meetings every 6 months. However, we noted that contract

management meeting was considered as separate milestones No. 3 and 7 in the scope of the said LOA valuing EUR16.02 million (RM67.86 million approximately) which was paid by BNS on the recommendation of AM.

[Exhibit Page 2519-2530]

- 3.9.13.5. AM instructed to release the payment of 7th milestone to DCNS even though he clearly stated in his recommendation letter that there were technical problems and glitches in the activities conducted by DCNS under this LOAs. This indicated that payments were released despite unsatisfactory deliverables from DCNS.

[Exhibit Page 1469]

3.9.14. Review of LOA issued in favor of DCNS for PMA

- 3.9.14.1. On 17th December 2012, BNS issued a LOA No. BNS/DSD/SGPV/DESIGN /LOA/PMA/0312-(3) to DCNS for Program Management Assistance (PMA). The main objective was to setup a Program Management Organization (PMO) to ensure the execution and co-ordination of various tasks. It was stated that the PMO would conduct process meetings every three months, however, we did not find any document to confirm that the meetings were held regularly by DCNS.

[Exhibit Page 1505-1508]

- 3.9.14.2. It was unusual to note that a contingency for risk management to the tune of EUR9.58 million was part of the scope of work for this LOA. As per common practice, a contingency is considered in the event of any variation order to be issued due to change of scope. However, in this case it was considered as a part of the total value of the LOA which was paid in full by BNS on the recommendation of AM.

[Exhibit Page 2410]

- 3.9.14.3. The payment of this LOA amounting to EUR37.5 million was made in full by BNS. As per the detailed scope of work, DCNS would transfer to BNS Know-how related to PMA however, the group internal auditor had repeatedly highlighted in their report

that BNS was lacking capable personnel to enable transfer of know-how from DCNS. Despite this fact, BNS continuously released milestone payments to DCNS based on the recommendation of AM. Evidence suggested that AM had accepted the fact that the roles of PMA under this LOA was bloated and ineffective.

[Exhibit Page 272 and 1421-1422]

3.9.14.4. We also noted that supporting documents for completion of milestones such as attendance sheet of the Personnel deployed by DCNS, activity and progress report were not attached with the invoice issued by DCNS. These documents have not been examined by us as it involves a period beyond 2014.

3.9.15. Certain Facts Indicating Unethical Means Adopted by DCNS

[Refer Annexure Page 4 to 19]

- 3.9.15.1. These are related to procurement of two Submarines by GOM which indicated the possibility of their involvement in the wrong doings related to LCS.
- 3.9.15.2. The following details are based on facts gathered through various sources indicated the network created by DCNS to bribe individuals to fulfil their objective to obtain the business. Submarine Scorpene deal with GOM was not an exception and came into limelight.
- 3.9.15.3. Some of the official documents obtained were from the Directorate-General of the French National Police and the Judicial Police Directorate's anti-organized and financial crimes unit. These documents were obtained from those who are following this case currently in hibernation. These documents were presented to a French anti-corruption court in May and June of 2011. The two-decade campaign by the French state-owned defense manufacturer DCN and its subsidiaries to sell Scorpene submarines to the Malaysian Ministry of Defense was ultimately successful but by developing an understanding to bribe certain persons in Malaysia.

- 3.9.15.4. Together, they present a damning indictment of Malaysian officials whose goal was to steer a EUR114.96 million payment through a private company called Perimekar Sdn Bhd, wholly owned by Abdul Razak Baginda. Razak Baginda was then the head of a Malaysian think tank called Malaysian Strategic Research, which related to the United Malays National Organization, the country's biggest political party.
- 3.9.15.5. The payment appears to have been in violation of the OECD Convention on Bribery, which France ratified on June 30, 2000. On Sep. 29, 2000, according to document D00015, DCNI, a DCN subsidiary, "took corrective actions" after France joined the bribery convention.
- 3.9.15.6. Contracts concluded after that date were to be routed to Eurolux and Gifen, companies held by Jean-Marie Boivin, DCN's former finance chief, and headquartered in Luxembourg and Malta respectively. Boivin is being investigated for having played a central role in the "corrective actions," with what were described as "outlandish commissions" traveling through the welter of companies that he established in tax havens around the world. Among the documents is one that showed Boivin had paid to send the money to Razak Baginda, the person representing politicians.
- 3.9.15.7. In March 2012, French authorities appointed a pair of examining magistrates to investigate the case. In 2016, Razak and Baginda were named by the magistrates as likely bribe recipients and the focus of the investigation. Baginda was placed under formal investigation in August 2017. Former Thales International Asia head Bernard Baiocco and former president of DCNS International Dominique Castellan are also under formal investigation for paying out the bribes.

3.10. LOA in favour of IHC Metalix BV and their selection process

- 3.10.1. One of the major components of LCS Program was to procure Hull Construction Steel kits. To secure hull construction kits, BNS invited tenders and finally two suppliers were shortlisted. Based on documents made available for our review, the following chronology

of events prima facie highlighted various irregularities which needed further analysis beyond 2014 to ascertain payment based on VOs which appeared unnecessary:

[Exhibit Page 1569]

- 3.10.1.1. The commercial team comprising Abdul Jalil Abidin (Jalil) of DSDD, Puti of Group Legal department, Mohd Aazi Abdul Razak and Mohd Atafizullah Ahmad of Group Supply Chain along with Khalid and Mohamad Mustafa (Mohamad) from Finance department were there to evaluate commercial aspects related to bids submitted by the vendors. The technical team representative was also present during the meeting to clarify the TPS.

[Exhibit Page 1569]

- 3.10.1.2. On 4th July 2014, the commercial and technical team had jointly interacted with one of the bidders (IHC) regarding technical specification and price offered by them. The other shortlisted vendor was Centraalstaal. The team noted that the final price offered by IHC was higher by EUR600,000 as evidenced from an email written by Mohamad to AM on 14th July 2014. Therefore, the team recommended Centraalstaal as a just and fair selection and informed their decision to the then MD and CFO.

[Exhibit Page 1569 and 1752]

- 3.10.1.3. On 14th July 2014, AM replied to Mohamad along with others which stated that Mohamad would be obliged as he had reported the matter to the then MD (TSARN) and CFO (Nordin). He assured that he would make the comparison on an apple-to-apple basis before his final say.

[Exhibit Page 1752]

- 3.10.1.4. However, the team again invited Centraalstaal on 22nd July 2014 for a 2nd round of commercial negotiation as mentioned by Khalid during our meeting and the price was further reduced by EUR100,000 as the final agreed value.

[Exhibit Page 1569]

- 3.10.1.5. On the same day, an official memo addressed to AM with a copy to TSARN was sent duly signed by Khalid and Mohamad. This memo clearly recommended Centraalstaal to be chosen as a preferred supplier as the other contender IHC was significantly higher by EUR700,000. This recommendation did not result in an intimation to Centraalstaal and the award was not issued in favor of them.

[Exhibit Page 1569-1570]

- 3.10.1.6. On 4th September 2014, Centraalstaal wrote a letter addressed to TSARN pertaining to Hull construction Steel kits contract. It mentioned that the company had committed to a very competitive commercial offer following some tough negotiations. They also mentioned that they had been previously involved with Malaysian Patrol Vessels project and were confident to work as LCS vessel designers.

[Exhibit Page 1579]

- 3.10.1.7. On 23rd July 2014, AM replied to Mohamad at 5.23 PM, and noted his recommendations but put it on hold. In the same letter, he gave instructions to Jalil to ask from IHC whether they could further reduce their last offered price to match the final agreed price with Centraalstaal.

[Exhibit Page 1571]

- 3.10.1.8. The instructions by AM were against ethics for Khalid and to express his frustration, Khalid emailed Puti on 23rd July 2014 at 5.38 PM stating that he felt guilty as this was unethical and not right to ask IHC to match their final offered price with that of Centraalstaal.

[Exhibit Page 1571]

- 3.10.2. Because of his protest, AM removed Khalid as the head of Group Supply Chain and commercial team. Khalid confirmed that after this letter, he did not know what happened

to the LCS Program as he was totally cut off and was never invited for any commercial meeting.

- 3.10.3. During the review of the limited documents made available to us pertaining to LOA issued in favor of IHC for the purchase of six hull construction steel kits, we noted the following anomalies as signs of irregularities and preferential treatment to one over the others:

[Exhibit Page 1631-1636]

- 3.10.3.1. On 9th September 2014, BNS signed the LOA in favor of IHC, whereas the copy of the contract remained unsigned. Hence, vital elements of a contract remained ineffective.

[Exhibit Page 1631-1636]

- 3.10.3.2. One of the documents attached with the documents titled, "Price offer Steel building kit..... program", started from Page 1 to 6. The GM, Salesperson and Cluster Director had signed the sixth page dated 25th April 2014. However, the first page of this letter addressed to AM was dated 4th June 2014. This reflected that the senior management had decided before MINDEF issued the contract in favor of BNS. Furthermore, the discrepancy in the date reflected insertion of certain documents on two different dates to hide irregularities. This needs an explanation from the concerned officers including AM.

[Exhibit Page 1613-1618]

- 3.10.3.3. In case of any quality issue or manufacturing defects, the missing signature on the following essential documents on behalf of IHC may make these documents invalid. All these documents were blank. We could not find a copy of signed documents as mentioned below:

[Exhibit Page 1619-1627]

- i. Schedule 3A & 3B: Parent Company guarantee;
- ii. Schedule 4: Advance payment guarantee;

- iii. Schedule 5: Statement of progress;
- iv. Schedule 6: Certificate of origin;
- v. Schedule 7: Certificate of compliance.

3.10.3.4. During our interview with Khalid, he confirmed that Centraalstaal had provided a technically and financially superior offer/bid (we are still waiting for the bid submitted and the evaluation by the technical and commercial team). The commercial team had recommended Centraalstaal, but to their utter surprise, BNS issued the LOA in favor of IHC after asking them to reduce their bid by EUR700,000 to match the bid of Centraalstaal. This reduction was found to be compensated through a LOA as mentioned in the following paragraphs.

3.10.3.5. We noted that the order was processed in favor of IHC by AM and his superior, TSARN without getting it approved from the BOD. This was also not approved by the LCSSC specifically constituted for the LCS Programme.

3.10.3.6. Review of documents have confirmed procedural anomalies. The signed LOA contained a manual handwritten note in Annexure A which contained contract price breakdown and stated that, *"The price breakdown will be changed in accordance with IHC email dated 16th September 2014 based on discussion during KOM at 7th October 2014"*. This unusual practice reinforced the arbitrary and unilateral decision-making style sidelining all control mechanisms.

[Exhibit Page 1635]

3.10.3.7. The amendment in the quoted price of IHC should have been officially documented and not through a handwritten amendment. Contracts of this magnitude when altered with reference to a telephonic conversation and a one-to-one meeting rather than through formal demonstrative documents, created a serious threat to its validity in case of any dispute. A signed amendment to the contract mentioning all necessary facts in a clear and identifiable manner is warranted.

- 3.10.3.8. Documents gathered in relation to VOs issued subsequently confirmed anomalies pertaining to IHC's Steel Kit contract. Letters sent by Centraalstaal dated 4th September 2014 and 3rd October 2014 both addressed to TSLW mentioned irregularities in the above tender process but were ignored. It also stated that their negotiated price was compromised by being leaked to their competitors, which was highly unethical and against the Competition Act.

[Exhibit Page 1578-1579]

- 3.10.3.9. The letter further mentioned that Centraalstaal had an excellent track record in providing ship construction kits for Navies and commercial vessels for over 40 years. Their services include supply of Steel kits to RMN for the PV project. TSLW could have investigated these allegations/complaints to stop such unethical practices.

[Exhibit Page 1578-1579]

- 3.10.3.10. Earlier letter by Centraalstaal dated 4th September 2014 had mentioned the possibilities of wrongdoing on account of exceptional delay in having any feedback from BNS even after agreeing for a final negotiated price. They addressed it to the Group MD TSARN, but evidence did not suggest any action was taken by TSARN to expedite the matter or to enquire about the alleged delay in communication with Centraalstaal. His action would have prevented any wrongdoing by AM.

[Exhibit Page 1578-1579]

- 3.10.3.11. On the contrary, TSLW signed the LOA in favor of IHC on 9th September 2014 just after five days of the said letter and the mobilization fee of 10% amounting to EUR1.7 million (RM7.06 million approximately) was released to IHC on 14th November 2014.

[Exhibit Page 1630-1636]

3.10.4. **Variation Order to IHC for Mill Certificate/Tracing of material**

3.10.4.1. During our review, it was noted that BNS had issued a variation order in favor of IHC on 6th April 2017 with reference no. VO/17/237 for EUR219,560.00 and VO/17/238 for EUR935,900 for material traceability and Mill Certificate respectively.

[Exhibit Page 1666-1669]

3.10.4.2. Based on an expert's opinion, we understand that it is impossible to organize the nesting of the product once production has started as one will not get the right kind of information. As a general practice in Navy projects, the manufacturer always invites representatives of customer (e.g. someone from Navy) to make sure that the administration of the product is correct. Unfortunately, we did not find any evidence to confirm that BNS had arranged such surveyors.

3.10.4.3. It is understood from our discussion with the expert that a Mill Test Certificate (MTC) or Mill Test Report (MTR) is issued by a manufacturer to certify the chemical and mechanical features of a product and its compliance to the applicable norms and technical specification. Typically, MTC confirms to the EN10204 standard and are related to steel products. Such certificates (EN10204 3.1) are an integral part of the product which provides the following information:

- i. Manufacturer name
- ii. Product name and dimensions
- iii. Quantity covered by the certificate (Tone/No of items as the case maybe)
- iv. Heat number and batch number
- v. Final test results
- vi. Material grade and applicable specification
- vii. Results of additional test such as hardness, impact test, magnetic particles, metal graphic results etc.

3.10.4.4. Two RFQs were issued for the supply of steel kits with an invitation for the LCS project was on 4th Jan 2012 and 7th April 2014. Annexure B provided the scope of



supply of materials according to the rules of BVS. The purpose of this was to confirm that correct grade of steel would be used. This indicated that the participants of the tender were needed to deliver the certificates, which was a normal standard procedure within shipbuilding process. Annex B clearly mentioned in Para 2.2 that the supplier would comply with BV NR and the following standards wherever applicable.

- NF EN
- ISO
- BS EN

[Exhibit Page 1574-1577 and 1638]

3.10.4.5. It further explained in Para 3.0 that the scope of work shall be complementary to the supply of complete hull construction steel kit including full package services consisting of (c) production of full construction steel and (d) quality control.

[Exhibit Page 1638]

3.10.4.6. The above explanation about the requirement of RFQ obligated the selected supplier to provide all such details. This would only be possible if it is delivered along with a Mill Certificate. The reason for the issuance of VOs was stated as *"To comply to BV requirements in coherence with BNS' main contract with the Government of Malaysia initially removed in negotiation."* This fact appeared as an after-thought process because we did not find any document suggesting that BNS had agreed to waive this condition. Moreover, if there was a specific waiver for this implied/expressed condition, it should have been conveyed to Centraalstaal for an accurate assessment, before any negotiation for a final price.

3.10.4.7. Our correspondence with Centraalstaal confirmed that the final price negotiated and agreed upon was with an underlying condition of submission of a Mill Certificate along with the steel kit. Hence, there was no need to pay extra through a VO.

[Exhibit Page 1663]

- 3.10.4.8. We also noted that there was no correspondence available between BNS and IHC suggesting that they had requested for additional charges if they would be required to provide Mill Certificates. It appeared that the issuance of VO for the supply of Technical Procurement Specification/Mill Certificate/traceability of material was issued with an intention to incur additional cost by BNS for reasons best known to AM.
- 3.10.4.9. We further noted that there was no such request in writing from the IHC Metalix BV to have extra payment for them to supply Mill Certificate/traceability of material. Even if IHC had sent it, it would violate the terms of LOA which was issued based on the offer made by IHC by accepting the terms as mentioned in Annex B. (Referred as above)
- 3.10.4.10. We noted that a VO issued with Ref VO/17/238 dated 6th April 2017 mentioned that the cost of one such certificate would be EUR127,400 for LCS 1 whereas for LCS 2 to LCS 6, such certificates would cost EUR161,700 each. This was against basic business prudence and commercial service. Later, the management revised the VO No. VO/17/238 Rev 01 on 30th July 2018 to reduce the price of LCS 2 – LCS 6 to EUR124,520 per vessel from EUR161,700. These errors and subsequent correction after more than a year, highlighted the irregularities prevalent during this period.

[Exhibit Page 1668-1671]

- 3.10.4.11. We also noted that to provide traceability procedures and mill certificates to link the structural material, a VO for EUR935,900 was not enough. AM issued one more VO with Ref VO/17/237 on the same date i.e. 6th April 2017 for EUR219,560 with EUR30,285 for LCS 1 and EUR189,275 for LCS 2 to LCS 6 each at EUR37,855. It is once again illogical to pay more for subsequent units especially when the quantity was being increased. The purpose was also not clear from the VO.

[Exhibit Page 1666-1667]

- 3.10.4.12. The initials of AM on Annexure B of the RFQ and all related documents confirmed that he was aware of the commitments the vendors would make by accepting the said terms and conditions. His sole signature authorizing two referred VOs were in excess of the agreed price indicating his direct involvement.

[Exhibit Page 1637-1649 and 1666-1669]

- 3.10.4.13. The possibility cannot be denied that these undesirable VOs were issued in favor of IHC to compensate them for their reduction that IHC had offered to get the award in their favor and for undue enrichment.

3.11. Anomalies noted from LOAs issued to MTU Services (M) Sdn. Bhd.

- 3.11.1. During our review of four LOAs (Refer Table 17 below) issued in favor of MTU, we noted that various quotations were provided as reference, which were the backbone of these LOAs. However, they were not available for our review. The then CFO of BHIC, also failed to raise any objection on account of lapses in following laid down procedures.
- 3.11.2. We noted that mobilization of RM176,245,420.50 which represented 25% of the total value of 4 LOAs issued in favor of MTU without any tangible deliveries:

Table 17

Sr. No.	Date	Component	Value (RM)	Mobilization (RM)	Mobilization (%)
1.	11/06/2012	Power Generation system (PGS)	109,193,661	27,298,415.25	25%
2.	11/06/2012	Propulsion Diesel Engines System (PDE)	476,925,941	119,231,485.25	25%
3.	10/04/2013	Integrated Platform Management System (IPMS)	106,000,000	26,500,000.00	25%
4.	27/05/2013	Propulsion System Integration Services (PSI)	21,436,800	3,215,520.00	15%
TOTAL (RM)			713,556,402	176,245,420.50	25%

[Exhibit Page 1694-1721]

- 3.11.3. As per the provisions of the LOA for Power Generation system (PGS), a corporate guarantee was required to be furnished by MTU, however, we could not find any document confirming that the said corporate guarantee was provided by MTU.

[Exhibit Page 1694-1698]

- 3.11.4. We noted a recommendation letter written by AM attached with the payment for Milestone No. 2 "Placement of Order" amounting to RM10.6 million related to LOA for IPMS issued in favor of MTU. It was mentioned by AM that, *"To claim 2nd milestone as if to split in such a way just not to set precedent on mobilization payment"*. This comment clearly indicated that placement of order was not a tangible delivery and should not have been considered as a payment milestone at all.

[Exhibit Page 1711]

- 3.11.5. During our review, we noted that LOAs for Power Generation System, Propulsion Diesel Engines System and Integrated Platform Management System (Sl. No. 1 to 3 of the Table 17 above) were issued in favor of MTU without the approval from the Board of BNS in violation to BHIC Policy manual dated 30th June 2012, which provided that any award of contract more than RM5 million would require Board's approval.

[Exhibit Page 1733]

- 3.11.6. We also noted that the LOA for Propulsion System Integration Services (Sl. No. 4 in the Table 17 above), which was issued in favor of MTU was approved by the Board through a DCR dated 30th May 2013 i.e. 3 days after the issuance of LOA. This fact indicated that the approval from the Board was a mere formality and was carried out without discussion and deliberations.

[Exhibit Page 270, 1717-1721]

- 3.11.7. During our review of a milestone certificate dated 12th February 2014 issued by MTU for completion of PDR amounting to RM3.22 million, we noted that the MTU acknowledged that there were certain matters related to PDR still pending and would be completed in

due course. However, AM advised the release of said payment to MTU stating that the PDR was satisfactorily completed. This indicated that money was being released to the vendors even though the milestones were not completed in full. [Refer Annexure 28-30 for detailed observations from review of payment milestones]

[Exhibit Page 1722]

3.12. Anomalies in LOA issued to Bureau Veritas (M) Sdn Bhd (BVSB)

3.12.1. During our review of the LOA issued to BVSB for the classification of services, we made the following observations:

- a) A copy of the agreement was attached with the LOA with the following short comings:
 - i. It was not dated;
 - ii. There were no signatures of any of the representatives of BNS.

[Exhibit Page 2432]

- b) The value of this LOA was RM9.12 million, however it did not have a comprehensive detail of the work for which they needed to issue the certificates.

[Exhibit Page 2430]

- c) All schedules 1 to 5 were blank and were not initialed by BVSB to acknowledge its existence as part of the agreement.

[Exhibit Page 2446-2453]

- d) The LOA did not provide any details to work-out the basis for the determined fee.

- e) There was no descriptive information about the work and its related certification cost.

- f) Annexure B attached with the LOA appeared vague about the payment milestone which might have created confusion while verifying the work for the related payment. Our review needs to go beyond 2014 to reach to any valid conclusion.

[Exhibit Page 2431]

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3.12.2. We noted that the payment of Milestone 1 for mobilization would be done after conducting a Kickoff meeting between the officers of BNS and BVSB. However, the payment of the said mobilization amounting to RM456,000 was made to BVSB on 19th August 2014, but we did not find any document attached with this payment to confirm that a kickoff meeting was held between both the parties.

[Exhibit Page 1756-1757]

3.13. Early Signs of Variation Orders to be Issued

3.13.1. During our review, it was noted that the number of OEMs that awarded the LOAs through CAD/CED, were not ready to accept the terms and conditions incorporated in their respective LOAs. This was an indication that if issues were not resolved then, it may end up in the issuance of VOs to meet OEMs contentions.

[Exhibit Page 1092-1096, 1193-1198]

3.13.2. The above fact was specified from the recommendation letter written by AM for the release of payments as per the payment milestones, including mobilization. However, we did not find any discussion regarding this matter in any of the BOD minutes or LCSSC minutes. This signified that the issue was not brought to the attention of the Board.

[Exhibit Page 1092-1096, 1193-1198]

3.13.3. We also noted that CAD never officially intimated about the possibilities of the VOs required to be issued due to the lack of clarity about the scope of work.

3.13.4. As mentioned earlier, the scoping of the LOAs were weak, vague and non-comprehensive. Even after realizing such possibilities, AM did not take steps to replace all these LOAs with formal contracts having necessary clauses needed to avoid disputes and clarity about deliverables. [Refer para 3.9.11 of this report]

3.13.5. Based on the minutes of a contractual management meeting dated 25th June 2013 held between the representatives of BNS and DCNS, it was noted that discussions were already in place for the issuance of VOs to DCNS. This again indicated that the LOAs

signed with DCNS were not carefully drafted to cover all necessary aspects related to its execution. This resulted in the issuance of multiple VOs to DCNS to the tune of RM318.73 million as provided in the table below:

[Exhibit Page 1460]

Table 18

Sr. No.	Description	Amount (EUR)	Amount (RM)
1	VO to PMA	(2,951,280.00)	(14,018,580.00)
2	License Agreement	10,000,000.00	47,500,000.00
3	VO to Design Authority and Support (PSY2)	(26,513,642.00)	(125,939,799.50)
4	PSIM Structure and IPT (PSY3)	28,870,080.00	137,132,880.00
5	VO PSY1, NSM and CMS	25,108,400.00	119,264,900.00
6	Technical Assistance and Technical Support (TA & TS)	21,086,442.00	100,160,599.50
7	Additional VO to PSY1, PSY2, CDR CMS	11,500,000.00	54,625,000.00
TOTAL		67,100,000	318,725,000

[Exhibit Page 1403]

3.13.6. Based on the documents available, BNS entered in a global settlement with DCNS in 2015 where it was agreed that the ceiling price of the services offered by DCNS would be fixed at EUR375 million. However, it was noted that the settlement was lop-sided as DCNS gained a lot of advantage due to persistent problems between BNS and RMN. As our mandate is restricted till 2014, we have not analyzed the aspects of this agreement.

[Exhibit Page 2641-2650]

3.14. Some of the Major Red Flags Ignored

3.14.1. Investigation by Chief Integrity Officer (CIO) against Capt. Anuar Murad

3.14.1.1. Retrieval of the documents from the hard disk attached with the laptop of the Head of Integrity of BHIC, Encik Low Koh Koon (Low), confirmed that an investigation took place against AM somewhere in October 2018.

[Exhibit Page 1768-1775]

3.14.1.2. The seven-page document titled "*Investigation against Captain (Rtd) Anuar bin Murad*" mentioned in one of the conclusions that AM, being one of the two directors

of CED, had abused his position and power vested upon him in awarding LCS contracts to CAD/CED. Low suggested that AM's criminal wrongdoings required an investigation by the MACC for proper action against the suspect.

[Exhibit Page 1768-1775]

- 3.14.1.3. This report further mentioned in para 2.11 that Low was suspicious over the payment of a RM305 million contract to CAD as the ownership of property was given to CAD by a Deed of Assignment without the BOD/LCSSC's approval. It is further mentioned that Low had raised this matter with TSARN, and he was told that it was a pre-arrangement set by the MINDEF while awarding the contract of LCS to BNS.

[Exhibit Page 1769]

- 3.14.1.4. During our review and analysis, we did not find any document confirming TSARN's statement on the above matter. Since this investigation against AM was after 2014, we did not review the investigative findings in detail. However, this report reconfirmed our initial stage findings which is based on documents generated till 2014.

3.14.2. Complaint made by OEM Supplier/Contractor of BNS

- 3.14.2.1. During the review, we interviewed three people who are no longer serving BHIC/BNS and three current employees. We also interviewed one of the owners of Tellus Asia Sdn. Bhd, Syed Saadun Tarek Wafa (Syed) who was involved in various projects as an external supplier/JV partner.

- 3.14.2.2. A long-standing business associate of BHIC, Syed had written a letter addressed to TSLW on 1st June 2016, which highlighted several irregularities, but unfortunately necessary actions were not taken. The following is a summary of some of the red flags raised in his letter:

[Exhibit Page 1786-1788]

- a) Para 1 of the letter mentioned that lucrative equipment contracts were diverted away from BHIC/BNS towards CAD, despite having the capability to undertake this task on its own. It is true that 51% equity was held by BHICDT, even then, to lose 49% of the expected profit was not justified especially since BNS had the expertise and experience in ship building.

[Exhibit Page 1787]

- b) It also mentioned that CAD intended to novate certain contracts to a new entity which would change CAD's equity structure and would be detrimental to BHIC/BNS because of its diluted controlling interest. Despite this letter, BHIC/BNS did not interfere with AM's decision and allowed him to carry out this structural change which had the potential to cripple BNS in terms of control over the JV company.

[Exhibit Page 1787]

- c) The letter also mentioned that CAD had guaranteed no spin-off for local opportunities in maintenance and support, but contrary to it, all such work was given to overseas entities. This was against one of the basic objectives of having a LCS Program in Malaysia.

[Exhibit Page 1787]

- d) Gordon elevated his secretary Sylvia to his position as the CEO of CAD before moving to Singapore but maintained his access to the entire operations of CAD through Sylvia. This raised serious doubts about CAD's intention to run the company by a well experienced technical person. This jeopardized the future of the company where BNS had a significant financial risk.

[Exhibit Page 1787]

- e) TSLW was well-expected to discuss all these matters with the BOD/LCSSC for necessary actions and to determine the strategy to have a control over CAD, but unfortunately the said letter was put in cold storage.

3.15. Analysis and Verification of Findings of Special Audit Report

3.15.1. The Group Internal Auditor of Boustead Holdings Bhd. Zalily Mohamed Zaman Khan (Zalily) had submitted a Special Internal Audit Report for BHIC somewhere during 2011. This report had highlighted certain questionable transactions pertaining to BHIC's Group Finance function involving the Ex-MD (TSARN) and/or the Head of Corporate Service Division. Part of this report was made available to us by one of the contractors, Syed Tarik Wafa, to our office, before we were given the mandate to review the financial transactions and its implications to the BOD of BHIC. It is noted that such a report was missing from the official records of BHIC.

[Exhibit Page 1797-1829]

3.15.2. Based on the copy of the internal audit report, the following issues have emerged and appeared accurate in the cases we managed to verify. Some of the vouchers were not provided by the person-in-charge of BHIC as he was unable to locate them, such as vouchers for advance payments to the Ex-MD of BHIC.

[Exhibit Page 1797-1829]

3.15.3. Based on the documents and analysis of the ledger of BHIC, the following is the summary of payments made to three companies in the name of "Technical Evaluation" for BNS' SGPV:

[Exhibit Page 1800]

Table 19

Sr. No.	Payee	Address as per the Invoice	No. of Payments	Total (RM)
1.	Setaria Holdings Limited (SHL)	Levels 20 & 21, Bastion Tower, 5 Place Du Champ de Mars, Brussels	10	13,749,920.00
2.	Sousmarin Armada Limited (SAL)	Square Eduoard VII, Level 2 & 3, 17 Square Eduoard VII, Paris 75009 France	4	8,262,285.00
3.	JSD Corporation Pte. Limited (JSD)	491 River Valle Road #14-02 Valley Point Tower Singapore 248373	2	1,360,656.00
TOTAL (RM)			16	23,372,861.00

3.15.4. During our review of the supporting documents provided to us, we made the following observations:

3.15.4.1. Payments were only supported by a single invoice without any evidence to confirm that the technical services related to PV were provided to BNS.

[Exhibit Page 1800-1801]

3.15.4.2. It was confirmed that such significant transactions related to technical evaluation services were not approved by the Procurement team and their engagement appeared arbitrary i.e. without the approval of the Technical Committee. Furthermore, the BOD had neither approved their engagement, nor had it authorized by anyone to negotiate the fee quoted by such a provider of the services.

[Exhibit Page 1801]

3.15.4.3. Based on our discussion with current/ex-officers including Puti, Siti Naim and Khalid, we noted they were not involved in these transactions and all the payments were approved and processed by Peramjeet and TSARN only. We also noted that a single payment of RM1.593 million to SHL was processed on the instructions of Peramjeet and Daniel Ebinesan. The following are details of all such payments processed by these officers:

[Exhibit Page 1885-1890]

Table 20

S. No	PV Date	PV No.	Supplier	Amount Paid (RM)	PV Approval (Sign)	Payment Instructions to the Bank (Sign 1)	Payment Instructions to the Bank (Sign 2)
1	10/28/2010	111/10	Sousmarin Armada Limited	2,152,000	Peramjeet	Peramjeet	TSARN
2	11/22/2010	116/11	Sousmarin Armada Limited	2,141,000	Peramjeet	Peramjeet	TSARN
3	1/10/2011	15/1	Setaria Holdings Limited	2,382,000	Peramjeet	Peramjeet	TSARN
4	3/8/2011	37/3	Setaria Holdings Limited	1,593,000	Peramjeet	Peramjeet	Daniel Ebinesan
5	3/25/2011	114/3	Setaria Holdings Limited	1,506,750	Peramjeet	Peramjeet	TSARN
6	2/10/2011	43/2	Setaria Holdings Limited	835,400	Peramjeet	Peramjeet	TSARN
7	2/18/2011	65/2	Setaria Holdings Limited	622,500	Peramjeet	Peramjeet	TSARN
8	2/28/2011	74/2	Setaria Holdings Limited	420,800	Peramjeet	Peramjeet	TSARN
9	3/2/2011	4/3	Setaria Holdings Limited	1,678,400	Peramjeet	Peramjeet	TSARN
10	4/19/2011	93/4	JSD Corporation Pte. Ltd.	799,570	Peramjeet	Peramjeet	TSARN
11	5/4/2011	1/5	JSD Corporation Pte. Ltd.	561,086	Peramjeet	Peramjeet	TSARN
TOTAL (RM)				14,692,506			

[Exhibit Page 1806 and 1830-1897]

3.15.4.4. As per the internal audit report, the invoice issued by SHL for commercial negotiation amounting to RM3.7 million (EUR905,000) approximately, was not submitted for an approval by the Board and the payment was released to those who appeared as intermediaries in Singapore.

[Exhibit Page 1801-1802]

- 3.15.4.5. JSD was also paid for providing technical consulting services even though they were not experienced in this field, as they were involved in the trading and renting of aircraft without crew. This was confirmed through our ACRA Singapore search result.

[Exhibit Page 1764-1767 and 1804]

- 3.15.4.6. It is important to mention that although invoices were raised in EUR currency, payments were released in Singapore which was abnormal and against the norms. Since Sousmarin Armada Sdn. Bhd. is a company registered in Malaysia, having its office in Kuala Lumpur, the logic behind payments in a different country indicated the deception and collusion with the company's officers. Same pattern and modus operandi were used in the case of payments to Alizes Marine's claims. Our investigation has confirmed that SAL was owned by the same person who impersonated Alizes Marine France by having a company named Alizes Marine Ltd. Labuan to get the funds diverted through Singapore.

[Exhibit Page 1776-1781, 1802-1803 and 1830-1897]

- 3.15.4.7. Out of the total payment of RM23.37 million, we could not review the supporting documents for payments amounting to RM8.6 million, as the concerned person at BNS was unable to locate them. The following are the details of such payments:

Table 21

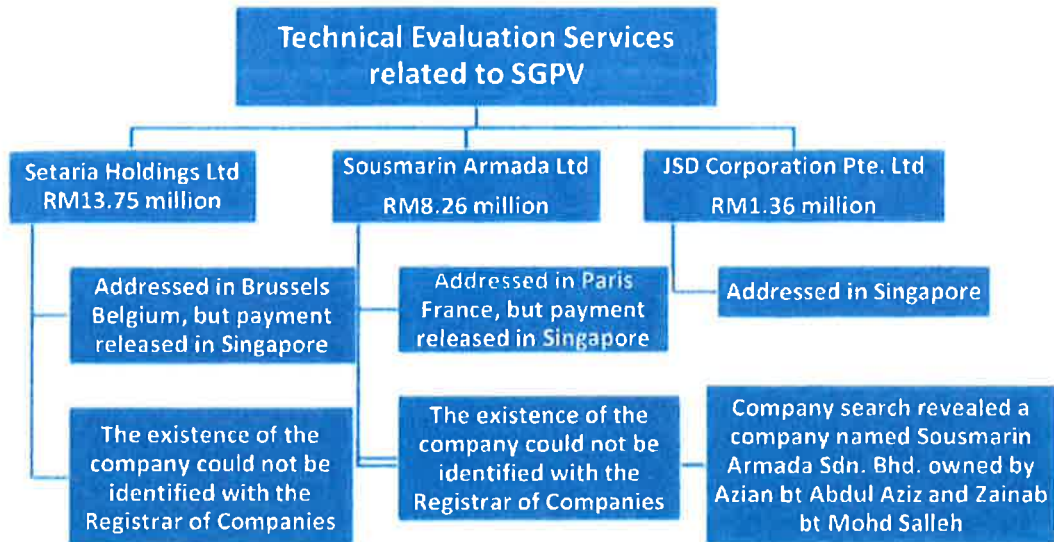
S. No.	PV Date	PV No.	Supplier	Description	Amount (EUR)	Amount (RM)
1	7/26/2010	109/7	Setaria Holdings Limited	NGPV	905,000	3,747,080.00
2	1/25/2011	2/1	Setaria Holdings Limited	SGPV	50,000	205,050
3	1/31/2011	89/1	Setaria Holdings Limited	SGPV	182,000	758,940
4	11/1/2010	13/11	Sousmarin Armada Limited	SGPV	435,000	1,889,205
5	-	-	Sousmarin Armada Limited	SGPV	486,000	2,080,080
TOTAL					2,058,000	8,676,355

- 3.15.4.8. A payment of RM1.2 million was made to Azimuth Shipping Corporation (Azimuth) against a purchase order addressed in Kuala Lumpur, but the payment was released in USD to Azimuth in Singapore. Similar anomalies were noted pertaining to payments made to Prestigio International. These deceptive payments and related documents are missing from the accounting records.

[Exhibit Page 1812-1815]

- 3.15.4.9. During our telephone conversation with Peramjeet who appeared to be the main person behind the above-mentioned dubious transactions, he conveyed in anger that everything was done with the consent and approval of TSARN as seen from the documents. These monies were not for him but to pay under-table money to all those who had accepted millions of haircuts against their claim. He informed that these liabilities were created during the Amin Shah Regime. Peramjeet's recorded statement confirmed the involvement of TSARN since the beginning. Peramjeet was also confirmed to be the person behind Alizes Marine France as he had issued multiple POs in favor of Alizes Marine France even though, it was not registered in France as a company.
- 3.15.4.10. Our lead team member tried to establish contact with Ex-Chief Internal Auditor Zalily who is currently working with Felda Global Ventures Bhd. on our request to seek an appointment with her, she asked us to officially write to her through BHIC. However, upon sending the official letter by the CEO of BHIC Sharifuddin Bin Md. Zaini Al-Manaf (Sharifuddin), she informed that she could not meet us and discuss the matter without any valid reason. The management of BHIC may request the CEO of FGV to seek her co-operation as she is a potential witness and had knowledge of the wrongdoing which was reported in the special group internal audit report.

3.15.5. Observations from Company Search



[Exhibit Page 1764-1767 and 1778]


- 3.15.5.1. Our company search has also confirmed that there was no such company registered in the name of SHL and SAL in Brussels and France respectively.
- 3.15.5.2. French registered companies do not use the word "Limited". Furthermore, any private company registered in Belgium will have SPRL at the end of its name. SPRL stands for Private Limited Company and in Belgium, the acronym stands for Societe' Privee a' Responsibilite' Limitee'.
- 3.15.5.3. Our search of this address has confirmed that "Level 20 & 21 Bastion Tower" is a place owned by a company which provides a virtual package at EUR239 per month where one can use "Level 20 & 21 Bastion Tower", as a business address with a local telephone number, where one's telephone call would be answered by a

dedicated bilingual receptionist on behalf of the company who has paid the rental. Similarly, the French address of SAL appeared fake based on our search.

[Exhibit Page 1800]

3.15.5.4. It is important to mention that these three companies were used as a vehicle to siphon out millions of ringgits (more than RM23 million) and one of them had an identical name and was registered in Malaysia as Sousmarin Armada Sdn. Bhd. which was dissolved somewhere in 2012. One of the directors was Zainab binti Mohd. Salleh (Zainab), the same person involved with Alizes Marine, Alizes Marine Limited Malta and Alizes Marine Labuan.

[Exhibit Page 1778 and 1782]

3.15.5.5. As per company search, Zainab is also the shareholder and director of Sousmarin Armada Sdn. Bhd. Two more companies which were involved  identified as below:

- a) Azimuth Shipping Corporation;
- b) Prestigio International - for Material Purchase.

[Exhibit Page 1778]

3.15.5.6. Azian binti Abdul Aziz (Azian) is common in Sousmarin Armada Sdn. Bhd. The residential address of Azian and Zainab is next to each other.

Zainab's Address:



Azian's Address:



[Exhibit Page 1778]

3.15.6. Both the addresses provided as per the invoices of SHL and SAL are confirmed to be misleading as there is no such company registered and the invoices did not provide any contact details of the company.

[Exhibit Page 1802]

3.15.7. It is surprising to note that despite raising issues reflecting severe irregularities and wrongdoings, sidelining necessary system controls in place, the management did not take any action. Possibilities of the Involvement of senior officers and executives cannot be denied especially when the MD had withdrawn cash advances to the tune of RM255,880 in the name of business trips and entertainment during 2011. We could not manage to review the relevant documents for such advances as we are still waiting for their availability to reach to a conclusion.

[Exhibit Page 1808-1811]

3.16.1. BHIC and DCNS formed a JV company BDNC somewhere in 2009 for ship maintenance and allied services.

3.16.3. The office of DCNS issued a letter on 9th September 2011 addressed as "To whom it may concern" rather than addressing it to the MD or Chairman of BPS. Despite the fact that there is a joint venture between BPS and DCNS to provide various services, including the

supply of spare parts

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

3.16.8. **Anomalies in the Selection of Alizes Marine**

3.16.8.1. Alizes Marine was incorporated only on 13th July 2011 i.e. less than two months before the date of the letter issued by DCNS, hence Alizes Marine had no track record.

[Exhibit Page 1906-1908 and 1941]

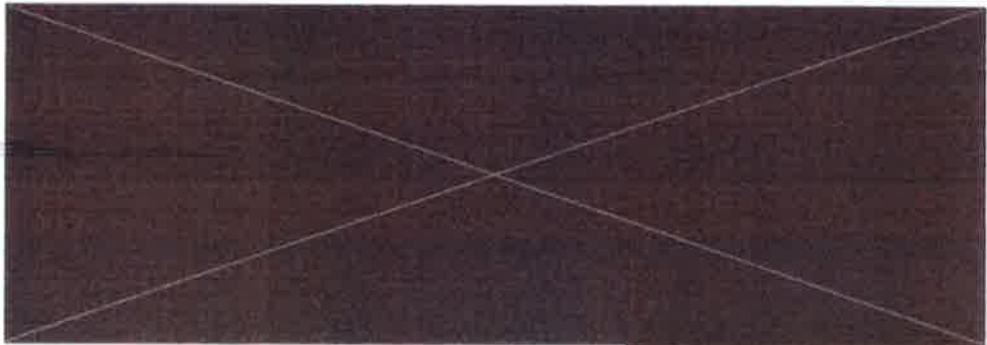
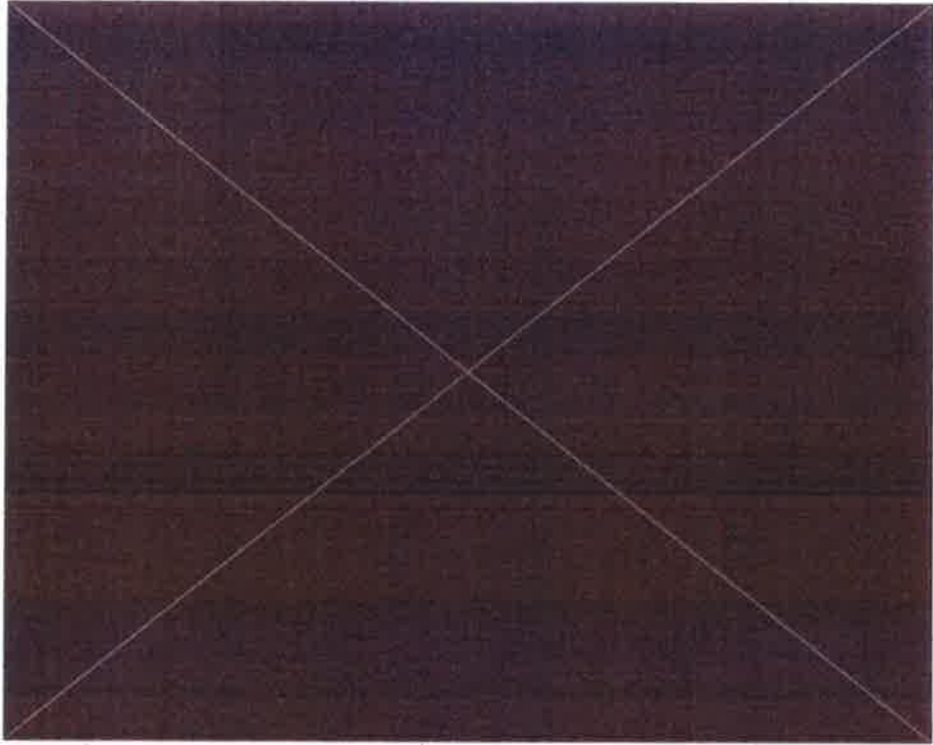
3.16.8.2. Alizes Marine's nature of business was wholesale trade (B2B) of various industrial supplies and equipment. It was not related to defence equipment, [REDACTED] hence they had no desired experience.

[Exhibit Page 1941]

3.16.8.3. During 2011 till 2014, BPS issued 53 purchase orders (POs) in favor of Alizes Marine France amounting to EUR50 million approximately (RM210 million) for the procurement of spare parts [REDACTED]. However, the payments amounting to EUR43,690,857.88 (2011 to 2015) were made in the name of Alizes Marine Limited having a bank account in Singapore. BNS made these payments based on instructions given by Alizes Marine France as stated on the face of the invoices raised by them.

Table 22

Year	No. of POs issued	Value of POs Issued to Alizes Marine France (RM)	Payment Released to Alizes Marine Ltd (RM)
2011	19	151,376,499.36	79,702,191.64
2012	12	43,221,980.84	40,995,729.62
2013	17	12,686,933.19	32,358,754.36
2014	5	2,772,579.36	25,292,544.43
2015	-	-	7,171,850.08
TOTAL	53	210,057,992.75	185,521,070.13



[REDACTED]

[REDACTED]

[REDACTED]

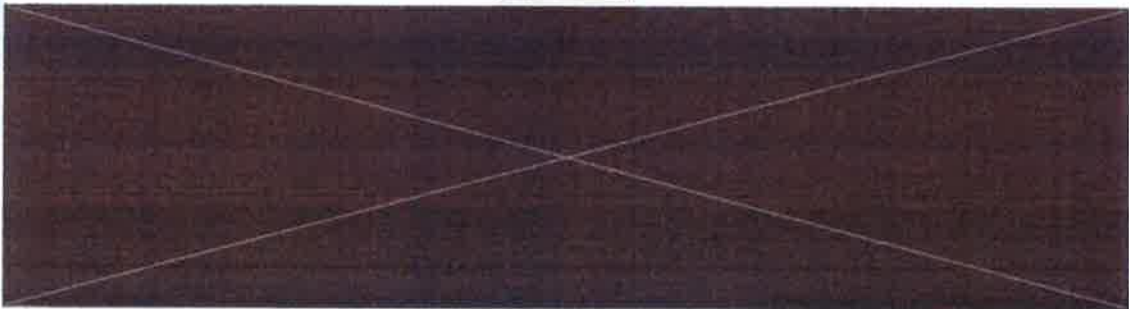
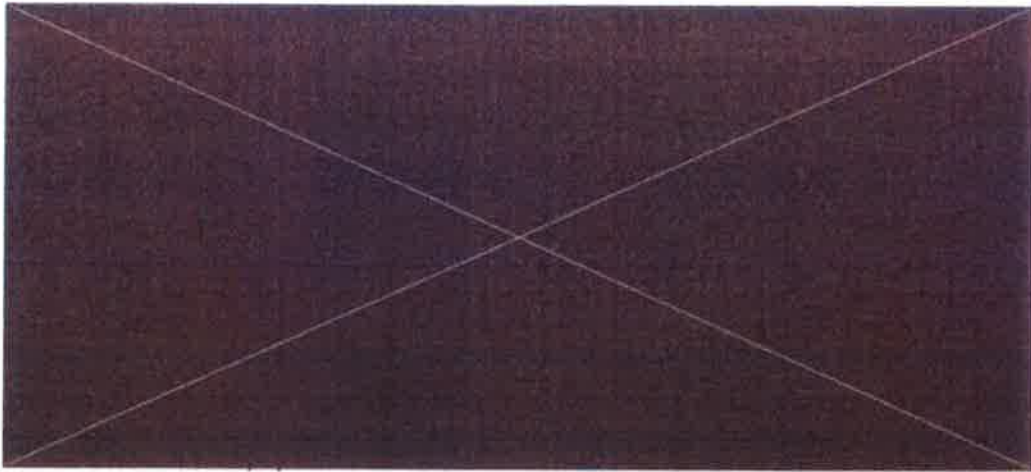
[REDACTED]

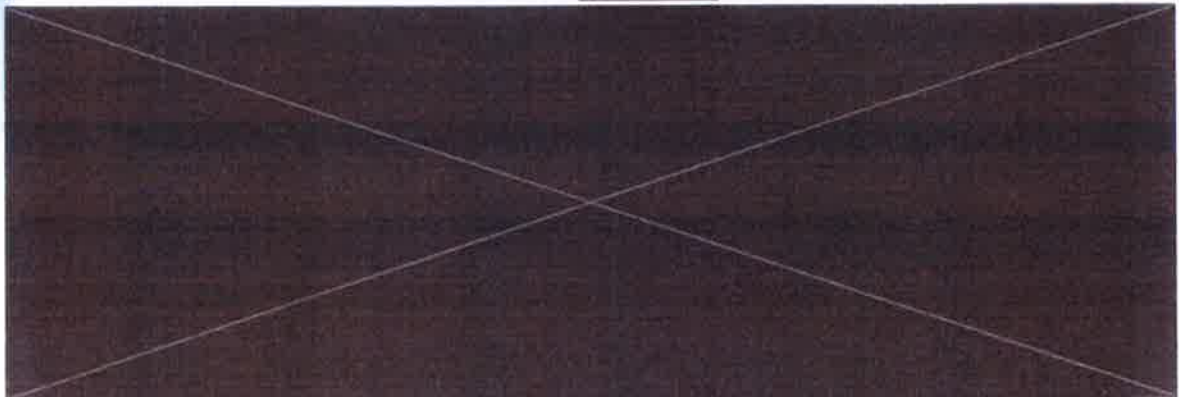
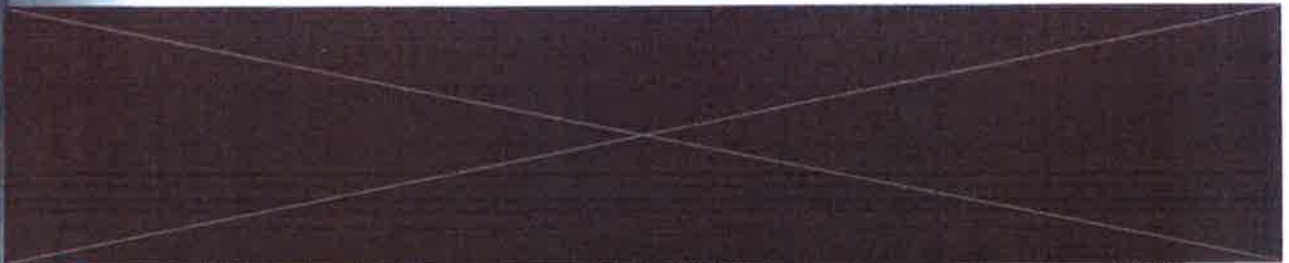
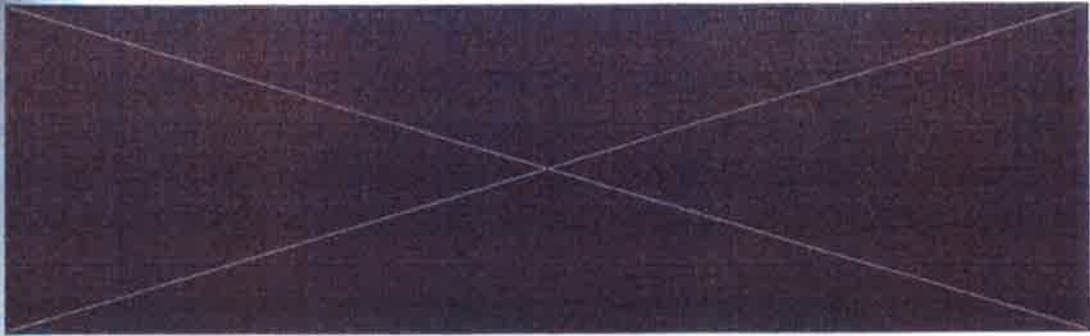
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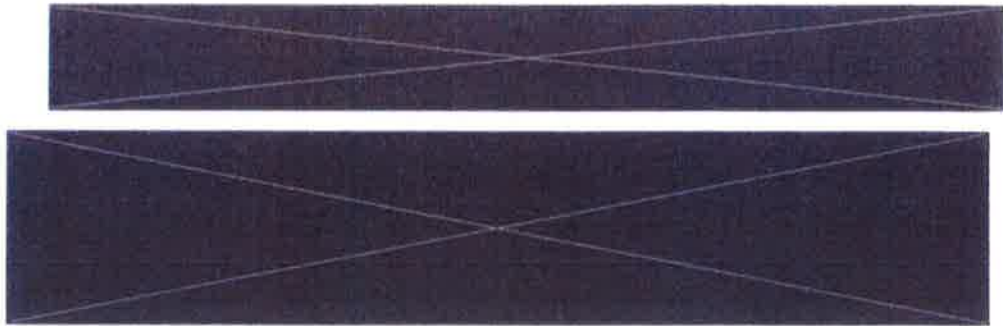
[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]



3.16.12. Some Facts behind Alizes Marine Ltd.

3.16.12.1. A company search has confirmed that Alizes Marine Ltd was registered with the same name at two places:

- a) Alizes Marine Limited at Labuan (Offshore)
- b) Alizes Marine Limited at Malta (Offshore)

[Exhibit Page 1784, 1794-1796]

3.16.12.2. Alizes Marine Labuan was registered on 18th February 2011 and it was struck off somewhere during 2019 and does not exist as on the date of this report. Alizes Marine Malta was registered on 18th April 2011 and went in liquidation on 4th February 2014.

[Exhibit Page 1784, 1794-1796]

3.16.12.3. It is important to mention that in both the cases, Zainab appeared to be a common link involved in dubious transactions as provided below:

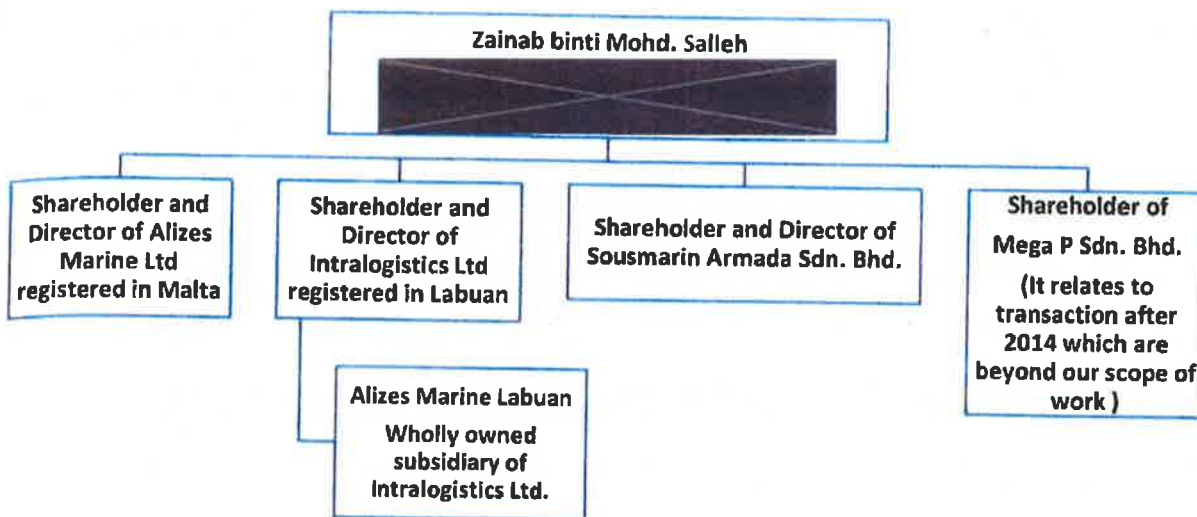
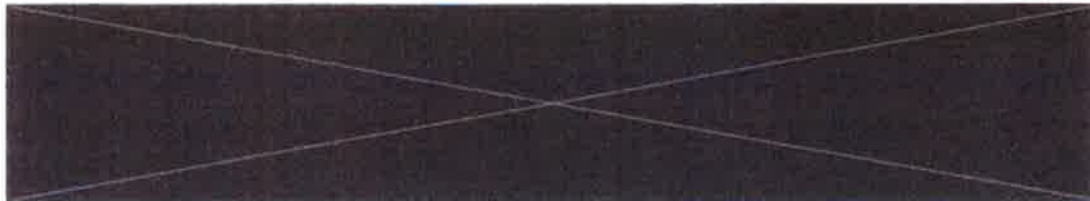
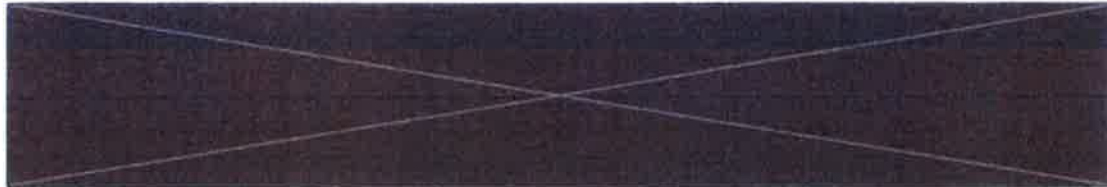


Table 28

Sr. No.	Name of the Company	Name of the Person	Shareholder & Director	Number of shares held
1.	Alizes Marine Ltd, Malta	Zainab binti Mohd Salleh [Redacted]	✓	1
2.	Intralogistics Ltd (Holding company of Alizes Marine Ltd, Labuan)	Zainab binti Mohd Salleh [Redacted]	✓	10,000
3.	Sousmarin Armada Sdn Bhd.	Zainab binti Mohd Salleh [Redacted]	✓	40,000
4.	Mega P Sdn. Bhd.	Zainab binti Mohd Salleh [Redacted]	✓	245,000

[Exhibit Page 141-147, 1782, 1778, 1795, and 2402-2403]





Thierry was holding one share, which he transferred to Abdul Latiff bin Ahmad (Abd Latiff). It is noted that Abd Latiff is the spouse of Zainab.

[Exhibit Page 2400-2408]

3.16.13.3. Thierry resigned as a director on 21st July 2017 and Abd Latiff was appointed as a director on 23rd October 2015. After his appointment, the paid-up capital was increased to RM350,002 represented by 350,002 shares, out of which 245,000 shares were held by Zainab who is behind Alizes Marine Ltd and the balance by Abd Latiff.

[Exhibit Page 2406-2408]

3.16.13.4. Therefore, Thierry and his company would not be able to deny their role in this conspiracy of Ameris group and Zainab. It is also to be noted that Mega P Sdn. Bhd. is the company involved in supplying Chilean workers for millions of ringgits for [REDACTED] projects, and payments were released to them. Since this activity took place after 2014, we need to seek the mandate to further analyze the possible links.

3.17. Important Elements indicating Purposeful Mismanagement

3.17.1. Modus Operandi

3.17.1.1. During our review, certain specific methods of operation were noticed which are commonly found in various cases of manipulation based on our experience. Some of the apparent modus operandi are mentioned in the following paragraphs:

- a) The TOR of the LCSSC appeared lopsided as the members of the Committee were selected by the then MD of BHIC without the consultation of the BOD, whereby the MD would be the Chairman which was against the basic norms of governance. This provided absolute control and resulted in a lack of independence amongst its members. As a result, the members became redundant and failed to discharge their function for which they were selected in the Committee.
- b) The LOAs and VOs were issued arbitrarily by the Ex-PD and the then MD without seeking necessary approval from the LCSSC, EXCO and Core Group Management Committee. It is common to notice that the suspects did not provide the necessary briefing and detailed workings for review by the BOD and members of the LCSSC.
- c) Major decisions were taken through DCR without prior discussion and deliberation during a properly convened Board meeting in order to reduce the transparency and opportunity to go through certain vital documents before approving the resolution.

- d) It appeared that the involvement of CAD through a JV agreement as an intermediary was without proper planning, study and evaluation of its economic advantage in an orderly manner for the purpose of minimizing transparency and secrecy of various deals related to the procurement for LCS Programme.
- e) The terms of the shareholders agreement between RAD and BHICDT was drafted in such a manner that BHIC/BHICDT lost its access to their books of accounts and banking records despite being majority stake holders. Certain clauses were put in the agreement to virtually paralyze the access of various corporate information by BNS or BHICDT. Till to-date it is almost impossible to have access to any documents pertaining to procurement, Board meetings, vendor selection process and financial data.
- f) To reduce the access to banking transactions, even the mandate given to CAD's bank accounts were drafted in such a manner that two of the signatories representing RAD could transact any kind of banking transaction without the involvement of other signatories representing BHICDT/BHIC. The level of influence appeared so high that even the Ex-CFO of BHIC group who was present at the meeting as an alternate director did not object to the language of the mandate while passing the resolution.



- h) The advances released to CAD/CED without asking for an advance payment guarantee on the pretext that it was Group Company despite knowing the fact that without having any management control, the JV Company (CAD) cannot be treated as a subsidiary despite having majority shares. As a result, RM1.02 billion were released as advances (Mobilization) to avoid BHIC's laid down

procedures and the vendor/s escaped without providing an advance payment guarantee. In order to avoid attention, the suspect changed the definition of the milestones which resulted in payment without any deliverables.

- i) By changing the definitions of components on a few occasions, the scope of work was increased to find an opportunity for issuing VOs which resulted in a double payment for similar services and equipment. Similarly, VOs were issued at its own without any written request from the vendor and without any sign to show that the conditions were subsequently altered/changed which were mentioned in the RFQs.
- j) The clauses of LOAs were poorly drafted and the scoping was vague and weak which resulted in the subsequent issuance of VOs. The terms of most of the LOAs and VOs were put in such a manner that it did not serve the best interest of the company and were more favorable to CAD/CED and OEM vendors.
- k) None of the LOAs were converted into valid contracts necessary to protect the interest of the company by inserting desired details which were essential to avoid future disputes.

3.17.2. **Manifest Intent**

- 3.17.2.1. An apparent conflict of interest on at least three occasions where LOAs and VOs were issued in favor of CAD/CED by the PD and MD on behalf of BNS at a time when they were representing the Board as a director of CAD.
- 3.17.2.2. VOs were issued without official request from the vendors and before an evaluation by the commercial and technical team.
- 3.17.2.3. Acceptance of exchange losses by converting the currency of LOAs from RM to EURO against the interest of the company. Such favor was done without any written request from CAD/CED and at a time when Board members were raising the issue of FOREX loss.

- 3.17.2.4. The same person who played a major role in the issuance of LOAs without the involvement of the technical and financial team and without the approval of the BOD prior to the issuance of LOAs, was the person who verified the authenticity of the work done as per the payment milestones. He is the one who alone put the recommendation for the payment to his superior without involving any other person, as if BNS was a two-man company. This kind of arrangement and concentration of all related activities to one person certainly indicated the manifest intent of the person. It is noted that this whole procurement cycle was commonly repeated where one person controlled various phases of the cycle for various procurements.
- 3.17.2.5. Despite various red flags raised by ex-officers, business associates, vendors, CIO and group internal auditor through her report about several irregularities and wrongdoings, no corrective measures were taken either by the management or by the Chairman of the Board to confirm such allegations and abuse of power.
- 3.17.2.6. The SOPP for operations of the LCS Programme were not formalized, Limit of Authority was not defined for a long period of time resulting in inconsistent, incomplete and inaccurate processing of transactions.
- 3.17.2.7. The budget for the LCS Programme was not approved so it could not be used as an official benchmark to determine the project's performance and profitability. No proper variance analysis was done for necessary cost control and to identify the negative variance to keep the project on track and achieve the desired milestone.
- 3.17.2.8. The organization structure for the LCS Programme had not been approved to keep various officers in the dark about their authority and responsibilities and to understand the exact role of the head of the program.
- 3.17.2.9. There were multiple vacant positions pending to be filled which were necessary to provide support to the management for the LCS Programme. These positions were important positions having significant roles in the LCS Programme. The shortage of manpower resulted in hindering the LCS Programme from performing its business

operations effectively and efficiently and allowed the heads to run the Programme the way they saw fit.

- 3.17.2.10. A lack of detailed procurement planning and involvement of various subordinates to play their distinct role in order to avoid the monopoly of decision and to avoid duplication of purchase was commonly observed. The chaotic situation allowed the perpetrators to achieve their goal.
- 3.17.2.11. The LOAs drafted were weak as they were not sent to the Group Legal Department for vetting and several of them were not reviewed by the technical team. This provided the scope for numerous variation orders as and when it was decided by one single person who used this authority more for personal reasons than for commercial and technical reasons.

3.17.3. **An Attempt to Cover up**

- 3.17.3.1. The first sign of a cover up appeared from the shareholders agreement where all the powers were vested with CAD even though BHICDT was the majority shareholder. The provision was drafted in such a manner that BHIC could not get any access to any of the information pertaining to procurement on behalf of BNS, financial matters, utilization of generated funds and banking information.



- 3.17.3.3. Numerous VOs were issued without following SOPP and without examining in detail its validity by the designated team (technical, commercial and procurement team).
- 3.17.3.4. Taking away the official laptop provided to the Ex-PD along with him while leaving the office was most suspicious. Destruction of numerous electronic evidences,

documents by the ex-directors including Ex-Head of Supply Chain (Carolina) who were managing the LCS Programme [REDACTED] on behalf of PMO was an indication of a cover-up. The current lack of cooperation and hesitation to come forward by a few of the subordinates might be further indication of an attempted cover-up.

- 3.17.3.5. CAD/CED was involved as an intermediary to compromise the transparency and add an additional layer. The terms of most of the LOAs and VOs issued to CAD/CED were not in the best interest of the BHIC/BNS and were more favorable to them.
- 3.17.3.6. The involvement of a few companies for providing technical evaluation services related to SGPV and to provide false addresses and different bank accounts is the sign of suppression of identity of the beneficiary for the diverted fund.
- 3.17.3.7. The approval for such transactions, authorization for the payment and instruction to the bank for the release of fund to an address other than the address of the company by the same person without any approval from the Procurement team and Technical Committee was also purposeful to cover up such transactions. It is important to note that the BOD had neither approved such consultant's engagement nor had authorized anyone to negotiate the fee charged by such a provider of the consulting services.



- 3.17.3.9. Major decisions were taken through DCR without convening a Board meeting which further reduced the transparency and opportunity to discuss in detail and to examine certain vital documents which were essential before approving the said resolution.

- 3.17.3.10. The clauses of LOA were poorly drafted, and scoping was vague and weak. The terms of most of the LOAs and VOs were not in the best interest of the company and were more favorable to CAD/CED, thus limiting the exposure of the perpetrators.
- 3.17.3.11. Despite various red flags raised by the ex-officers, associates, CIO and special group internal audit report highlighting irregularities and wrongdoings, no corrective measures were taken either by the management or by the Chairman of the Board. Such failure to stop the abuse of power was a clear act of cover-up by the then MD and his immediate subordinates.
- 3.17.3.12. There were multiple vacant positions pending which needed to be filled according to the organization structure, in order to support the management of the project. The positions were important positions having significant roles in the LCS Programme. This appeared purposeful so that less people were involved, and less paper trail was created.

4. CONCLUSION

- 4.1. Our work at this point is based on the mandate from the Financial Year 2011 to 2014. Review and analysis of related documents and history of transactions have indicated irregularities, deception, and mismanagement involving senior officers and a few subordinates who blindly followed the instructions rather than raising the alarm. A conclusive report is difficult to prepare keeping in view the limitations of the period as per the mandate.
- 4.2. As mentioned in our report, most of the LOAs and purchase orders were issued during this period, but execution cascaded till FY2018. Unless these transactions and related activities are examined in detail, possibilities are high that some of the convincing facts may left behind and may pose a serious threat in establishing the crime against the suspects.
- 4.3. It is essential to mention that a blockade by CAD which did not allow us to review various documents was serious especially when evidence and documents indicated that CAD was used as a conduit for most of the wrongdoings.
- 4.4. In order to draw to an independent valid conclusion, any restrictions on financial transactions of CAD, its banking records and procurement process have to be removed through means available to the BOD of BHIC .This will also facilitate to assess the damages, suspects have inflicted including BHICDT's JV partner RAD, holding 49% shares of CAD through its subsidiary.
