



Grant Thornton

## Maldives Asset Recovery

State Trade Organisation Public Limited Company

Loan Facility Report

Private and Confidential - in anticipation of legal proceedings

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## **1 Introduction**

1.1 Grant Thornton UK LLP were requested to undertake an asset tracing exercise on behalf of the Government of the Republic of the Maldives ("the government") under an engagement letter dated 23 March 2010 and revised on 8 July 2010.

1.2 We have obtained the Auditor General's report for 2007 into the activities of the State Trading Organisation Public Limited Company (STO). This report reviews the issues raised and the recommendations proposed in the Auditor General's report and assesses these claims with reference to the backing documentation available.

## **2 History of the Republic of the Maldives**

2.1 I set out briefly below the political history of the Maldives in order to provide some background knowledge of the Maldives during the period when Gayoom was in power.

2.2 The country's current political system was established in November 1968 when it was proclaimed The Republic of Maldives Islands. It was renamed The Republic of Maldives in April 1969.

2.3 The Maldives' first President, Amir Nasir, remained in office until November 1978, when Gayoom, who was at the time the Minister of Transport, assumed the presidency. President Nasir abolished the role of Prime Minister in 1975 leaving only the Presidency.

2.4 Mr Gayoom was elected with 92.96% of the votes as the new President of the Maldives. He was last re-elected to a sixth five-year term in October 2003 with 90.28% of the vote; he was the sole candidate, having been chosen by the Majlis.

2.5 The People's Majlis, (the Parliament), consists of 50 members of whom eight members are appointed by the President, two members are elected from the capital, Malé, and two members from each of the 20 Atoll constituencies.

2.6 The speaker of the Majlis – who is not a member – is appointed by the President. A deputy speaker is also appointed by the President from among the members. These appointments gave the President considerable power to influence the conduct of the Parliament.

2.7 Although the Maldives did not have a party system, a 1998 constitution gave citizens the right to contest the vote for the presidency in parliament. Before then it had been a criminal offence to offer oneself as a candidate.

2.8 During his Presidency, Gayoom was also the Defence Minister, Finance Minister and Chief Justice of Maldives (among others), but following international pressure and media attention stepped down from these additional positions in 2004.

2.9 The October 2008 Maldivian presidential election was the first presidential election Maumoon Abdul Gayoom allowed to be contested. Standing as the DRP candidate, Gayoom lost in the election's second round, in which he received 45.75% of the vote against 54.25% for his opponents, President-elect Nasheed succeeded Gayoom as President on November 11, 2008.

2.10 According to an Amnesty International report, in 2003 "there were severe restrictions on freedom of the press, and political parties were unable to function."

2.11 Their report introduction stated that "This report provides information on arbitrary detention of government critics and their continued imprisonment before and after convictions in grossly unfair trials. It also highlights a pattern of torture and ill-treatment, and serious flaws in the criminal justice system. In the past decade, dozens of people – including politicians, journalists and others protesting government policies – have been detained arbitrarily in defiance of their fundamental rights to freedom of expression and assembly. Several prisoners of conscience have been tried and convicted by the Criminal Court without having access to a lawyer, or to an independent and impartial appeal mechanism. Their cases highlight the failure of the government to address fundamental flaws in the criminal justice system resulting in arbitrary detention, grossly unfair trials and long term imprisonment of government critics."

### **3 The State Trading Organisation Public Limited Company (STO)**

3.1 The State Trading Organisation Public Limited Company (STO) was established in 1964 and its main task is importing and trading goods. The government owns 92.29% and 7.71% is held by the general public.

3.2 The STO specialises in the import of staple foods, fuel, lubricants and construction materials. Its main aim is to supply these goods at a reasonable price to the public. The majority of the STO's activities is the supply and sale of petroleum and aviation fuel.

### **4 Influential Persons within the STO**

4.1 The following individuals were directly appointed by Gayoom and held significant strategic and influential positions within the organisation.

#### **Ilyas Ibrahim**

4.2 Ilyas Ibrahim is the brother in law of Gayoom. His sister Nasreena was the First Lady and wife of the ex-President.

4.3 Ilyas Ibrahim was placed in various positions by Gayoom, most notably Managing Director of the State Trading Organisation ("STO") from 1978 to 1990, as well as holding positions in government simultaneously namely Trade Minister and Deputy Defence Minister.

4.4 Mr Ibrahim fled the country in 1990 due to what was seen as an attempted coup organised by Ilyas Ibrahim from Sri Lanka, however was returned back into the country and was pardoned in 1997.

### **Abdulla Yameen**

4.5 Abdulla Yameen is the younger half brother of Gayoom and was given the Chair of the STO position and the Trade Ministry in 1990 following the removal of Ilyas Ibrahim. Mr Yameen was also the Minister of Tourism and of Civil Aviation.

4.6 Abdulla Yameen stepped down from the position of STO Chairman in 2005/06. However evidence has been found within STO Singapore (Exhibit 12 – source STO Singapore Hard-drive, copied in 2009) of debit notes being created from STO Singapore to STO for payments made on account of Mr Yameen.

4.7 These debit notes were created as a result of receiving funds from Mr Yameen to STO's head office which were then transferred to STO Singapore's bank accounts. This was to provide funding for the living expenses of his son and daughter, both studying in Singapore. Their living expenses were distributed by Mr Munez the MD of STO Singapore.

4.8 These correspond with a document received from STO Head Office where payments were seen being deposited by Yameen into STO's bank accounts via cheque.

4.9 Despite stepping down from his role as Chairman in 2006, he was still using nationally owned institutions (STO) and their company bank accounts to transfer personal funds to members of his family up until late September 2008.

4.10 It should be noted that this continued up until very shortly before the elections took place that resulted in a change in government, removing his brother Gayoom from the Presidency.

### **Mohamed Maniku**

4.11 Mohamed Maniku was made Managing Director of STO in 1993 as a replacement for Ilyas Ibrahim.

4.12 Mohamed Maniku served as MD until 2008 until he was appointed Ambassador to Washington.

4.13 Due to this longevity as MD of STO it could be concluded that he had significant influence within the organization.

### **5 Auditor General's Report for 2007 on the STO (the Report)**

5.1 A report was submitted by the Auditor General to the STO, the President and the People's Majlis which presented its findings on the audit of the STO which was mandated under the Audit Act 4/2007.

5.2 The Report is an internal audit report which contains a performance and governance audit on the activities of the STO. The report systematically runs through all areas of the STO and raises recommendations on future improvements to management and the development of the STO.

5.3 Our report will focus upon the issues raised in the STO Audit Report regarding imports, the purchase of a tea plantation in Sri Lanka and the issuing of loan facilities and any subsequent loss suffered by the STO and the Government as a result. These are covered in sections 6, 7 and 8 respectively.

5.4 For completeness, we set out the other points raised within the STO Audit Report and have summarised these below:

#### **Damaged Goods**

- Some imported goods including construction materials and staple food received are less than the quantity paid for or damaged. The excess payments have been calculated to be in the region of MRF14m. No action has been taken to retrieve these amounts.
- Cement and river sand received from MME in 2006/07 were for approximately MRF 6m less than the amounts stated on the invoices.

#### **Issues re medical purchases**

- Goods purchased via ADK, Shadow Medical Maldives Pvt Limited and Center Enterprise were at a significant overvalue.
- Report suggests certain employees have a vested interest in these transactions.

#### **Working arrangements of the Company's personnel**

- Employees have been found to have an interest in suppliers and customers by working for both parties. Conflict of interest issues are raised.

#### **Issues re sale of Vakarufalhi**

- Athama Palace had an agreement with STO to develop the island and had invested money in carrying this out. There was some element of pressure to sell the island from the government despite independent solicitors report to STO advising otherwise.
- The resort was allegedly sold at a substantial loss to the Police Commissioner, who had been in the position from 1978 to 2008, the same period of time as the former President.
- \$4m was due to be paid to STO by Athama Palace in year 1. No evidence of this payment was found.

### **6 Issues regarding Imports**

6.1 The claims made by the Auditor General's Report are as follows:

- i. Most food imports are purchased from an Indian company called M.M Export (MME) without obtaining competitive rates from other companies. Occasionally prices were sought from Royal Agency in Sri Lanka and then allegedly MME would put in a lower offer

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- ii. The alleged potential overpay by buying goods from MME was RF22million due to alternative bids not being sought. From 2008 onwards bids were sought and MME prices were reduced
  - iii. During 2006 and 2007, STO paid RF501million for purchases. Of that, MRF431m was paid into MME's account and RF70million was paid to an agent of MME in the Maldives. This person has been identified as Farhath Jaleel, the half brother of the STO MD's wife Aminath Jaleel.
  - iv. Payments were made to suppliers for goods which were never received i.e. rock boulders were purchased from MME (in addition to food purchased above) in 2006 and 2007 for MRF6million and not received.

6.2A review of the supporting documentation supplied with the internal audit and through our own additional investigations we report the following findings:

- i. We have reviewed a large amount of documents that relate to the importing of goods by the STO. There are various reports which detail the amounts of sugar, rice, flour etc that have been imported in 2006/07. These documents show that MME are by far and away the largest supplier to the STO.
- ii. Additionally there are tender documents that show MME and other suppliers submitting quotes for the sale of staple foods. The tender documents reviewed show MME submitting lower prices and winning the tender.
- iii. Despite these documents and the circumstantial evidence that surround the claims we have not found any paperwork that definitively shows that MME was being favoured over other suppliers.
- iv. With regards to the agent Mr Jaleel that received the RF70million. This does raise conflict of interest issues and will need to be investigated further to understand the reasons for the payment.

## **7 Issues regarding the purchase of a Tea Plant in Sri Lanka**

7.1 The claims made by the Auditor General's Report are as follows:

- i. A tea plantation was purchased in Sri Lanka from Abdulla Yameen's sisters husband for US\$612,332 and over the 4.5 years the plantation was owned a further US\$1.1m was spent on the project.
- ii. The plantation was then sold for \$500k in 2007 to a the original owner.

7.2A review of the supporting documentation supplied with the internal audit and through our own additional investigations we report the following findings:

- i. Letters and documents have been reviewed that confirm the purchase of the Tea Plantation. The costs for the purchase and development agree to the figures used in the report. The 4.5 year loss of \$463,028 has been agreed to a document of unknown origin but which was included within the STO audit files (Exhibit 13).
- ii. Minutes of the meeting date 3 October 2007 of the STO show that the shares in ST Lanka (Private) Limited, the owners of the Tea Plantation, were sold to Mr Mohammed Manik (Exhibit 13).
- iii. Mr Manik is Abdulla Yameen's sisters husband which raises issues of transactions being sold at undervalue to connected parties.

### **8 Issues Raised Regarding the Loan Facilities Granted by STO**

8.1 The Auditor General's report contends that loans were issued to three private companies and that these loans should not have been granted as the STO is not a financial institution.

8.2 We have also been provided with the President's Commission report No 2010/RC/03 which also investigated the claims and contends that the loans were made on an interest free basis using a foreign exchange mechanism.

8.3 The President's Commission was originally created in late 2008 in order to assist in the investigations of corruption and abuse of position within the Maldives Government.

8.4 The three companies named in the Report are Sun Investments Pvt Ltd, Emerald Resort Pvt Ltd and Yacht Tours Pvt Ltd.

8.5 The following sections will analyse the claims made by the report and will independently review the supporting documentation obtained from the Auditor General's office and any other source material that is available in order to verify or disprove any claims made in the STO Audit Report.

#### **Loans to Sun Investments Pvt Ltd (SIP)**

8.6 The claims made by the Auditor General's Report are as follows:

- i. Between 2003 and 2005 STO granted loans to Sun Investments Pvt Ltd as a means to buy foreign currency.
- ii. Loans were granted in Maldivian Rufiyaa on the basis of loans being repaid in US dollars. These loans were given by keeping as security post dated cheques dated up to three months in advance. However most of these cheques according to the STO audit report were replaced by other post dated cheques just before they fell due and continued to be rolled over in this manner.
- iii. STO repeatedly granted loans to this party on this basis. As such STO's records show a total of MRF 112,731,250 or US\$ 8,775,000 granted to Sun Investments Pvt Ltd.

- iv. The loans were provided with no interest.

8.7A review of the supporting documentation supplied with the internal audit and through our own additional investigations we report the following findings:

- i. Mr Ahmed Siyam Mohamed is the Chairman, Managing Director and Shareholder of Sun Investments Pvt Ltd (SIP). He is also the shareholder and Managing Director of Sun Travel and Tours Pvt Ltd.
- ii. An signed agreement (**Exhibit 1**) has been reviewed which purportedly shows a foreign exchange facility that was set up to convert a maximum of \$750,000 in to Maldivian Rufiyaa (MRF).
- iii. The agreement was signed in June 2001 between Ahmed Siyam Mohamed for SIP and Mohamed Maniku, the Managing Director for STO.
- iv. The agreement is arranged so that SIP provides a 6 month post dated cheque for US\$. The cheque is not cashed but is replaced with another post dated cheque, however MRF is provided by the STO to SIP immediately.
- v. A "Date cheque register" report (**Exhibit 2**) which appears to have been produced by the accounts department of the STO shows a list of cheques that have been raised by SIP along the same lines as this agreement.
- vi. The cheques commence in 2003 so we cannot be sure that it relates to the same agreement. However, the system used is in accordance with the agreement. For example the first cheque has a receipt date of 23 September 2004 and a due date of 21 March 2005, which is approximately 6 months after.
- vii. An unusual aspect to this schedule is that when the deposit date is due a second cheque is reissued. This presumably extends the period for repayment for an additional 6 months.
- viii. This can be verified by numerous letters that are sent from SIP to Maniku at the STO which all state the following text, with different numbers substituted:

Letter dated 22 February 2004 (**Exhibit 3**):

"We would like you to exchange US\$75k into MRF. In this connection we would like to release post dated cheque #000513 given to be on 12/6/04 for US\$75,000 and we are given new cheque 002362 dated 21/2/04 for US\$75,000."

8.8 Reviewing this information alongside the "Date Cheque register" (**Exhibit 2**) schedule shows that the cheque#000513 was coming up for encashment on 12 June 2004. In submitting the new cheque#002362 the existing

cheque was effectively written off the schedule and the new cheque's encashment date was extended for a further 6 months.

8.9 The agreement appears to be in effect an interest free loan and as the cheques are continually being replaced by further post dated cheques the loan does not appear to be repaid.

8.10 The cheques on this schedule equate to MRF112,731,250, equivalent to US\$8,775,000. This exceeds the \$750,000 limit set on the original agreement and is in clear contravention of the original agreement.

8.11 The "Dated Cheque Register" schedule is dated 20 September 2008. The last cheque on the schedule is dated 23 September 2004. STO have confirmed that the amount of US\$8.8million was repaid by cheque advances by in 92 instalments between 4 November 2003 and 26 June 2005.

8.12 If the full amount of US\$8.8m was outstanding throughout that period then the estimated lost revenue to the STO of providing this loan on an interest free basis is:

US\$8.8m @ 8% interest over approx 1.5 years = c\$1m

Note: the actual amount would be slightly less than this if repayments are taken into account

8.13 It should be noted that the Auditor General highlighted that these transactions provided significant foreign exchange risk to the STO by holding these cheques for long periods of time.

8.14 We would agree with this statement, bearing in mind that although security was granted in the form of an option to purchase 10% of SIP shares per default, we have not seen any due diligence which was carried out to identify the asset position of SIP and therefore the value of this security.

8.15 A letter (**Exhibit 4**) was examined from SIP to Abdullah Yamin Chariman of the STO. The letter was offering the sale of 66,666 shares in SIP for the exchange of \$1.6m dollars for MRF under the foreign currency exchange agreement for SIP .

8.16 We have not sighted any agreement that confirms this was completed, however this document does indicate that Yameen knew of the foreign exchange agreement.

#### **Loans to Emerald Resort Private Limited (ERP)**

8.17 The claims made by the Auditor General's report are as follows:

- i. Loans were granted to Emerald Resort Pvt Ltd in the same manner, totalling MRF 11,333,347 or US\$888,890.

8.18 On review of the backing documentation supplied alongside the internal audit and our own investigations we report the following findings:

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- i. An agreement (**Exhibit 5**) shows Mr Ahmed Siyam Mohamed of ERP and Mr Maniku of STO executing a foreign exchange facility for MRF12.75m to be transferred into US\$1m. The repayment period is spread over 24 months with a grace period of 6 months.
  - ii. This agreement also includes a lock in facility that ensures that ERP will exchange a minimum of US\$200,000 per month with the STO and at the prevailing bank rate between December 2003 and November 2008.
  - iii. There is a clause that any cheque not realised on the date it is presented incurs a charge of 0.15 percent per day and 10% of the share capital of ERP are mortgaged as security under this agreement.
  - iv. A "Date cheque register" (**Exhibit 6**) report which appears to have been produced by the Accounts department of the STO shows a list of cheques that have been raised by ERP along the same lines as this agreement.
  - v. The cheques on this schedule equate to MRF11,333,347 and agree with the Auditor General's findings.
  - vi. The "Date cheque register" (**Exhibit 6**) schedule is not fully completed so it is unclear to whether the post dated cheque system worked in the same way. However, the schedule does have columns titled "Re issue date" and "Re issue cheque number" in the same method as the SIP schedule.

8.19 We have received confirmation from the STO that the full RF12.75m loan was issued and was paid off in instalments between 4 January 2004 and 3 March 2005.

8.20 If the full amount of US\$1m was outstanding throughout that period then the estimated lost revenue to the STO of providing this loan on an interest free basis is:

US\$1m @ 8% interest over approx 1 years 2 months = c\$93k

Note: the actual amount would be slightly less than this if repayments are taken into account

8.21 From the documents we have reviewed there does not appear to have been any pre-agreement financial due diligence prior to agreement to determine value of ERP shares used for security.

8.22 We have not seen any evidence that shows the penalty clause was engaged during the life of the loan.

#### **Loans to Yacht Tours Private Limited (YTP)**

8.23 The claims made by the Auditor General's report and the Presidents commission report are as follows:

- i. Loans were granted to YTP in the same manner as SIP and ERP totalling MRF 10,178,248.
- ii. Loans of \$1.3million were given by the STO to YTP to purchase Olhuveli tourist resort.

8.24 On review of the backing documentation supplied alongside the internal audit and our own investigations we report the following findings:

- i. Partially completed "Date cheque register" (**Exhibit 7**) schedules do show activity in foreign exchange however the numbers quoted do not match the figures in the report. ie the schedule we have sighted shows payments received made to Yacht Tours of MRF5,737,500 equivalent to \$450,000.
- ii. STO have now confirmed that the full \$1.3m was loaned to YTP.

#### **Purchase of Olhuveli Island resort**

- i. YTP wanted to purchase the Olhuveli resort which was under the control of ERP, a 100% subsidiary of Mitsui Construction. A letter dated 23 July 2000 (**Exhibit 8**) shows YTP writing to Mr Maniku at the STO requesting \$1.3m to help fund the purchase of a resort.
- ii. The letter estimates that if the acquisition is successful YTP will be able to exchange \$3.5m a year with the STO going forward.
- iii. A foreign exchange loan agreement dated 14 March 2001 has been obtained that shows the STO issuing a loan for US\$1.3m which was to be repaid in MRF. This money was then used by YTP to purchase ERP for \$1.8m and thus gain control over Olhuveli (**Exhibit 10**).
- iv. YTP was owned by Abdullah Jabir at the time.
- v. Abdullah Jabir and Abdullah Yameen (the chairman of STO) were joint shareholders in Sunset Marina Maldives Pvt Ltd. Thus it can be proved that they shared a business interests whilst this transaction was authorised (see **Appendix 1** –Organisational charts).
- vi. The Memorandum of Association of Sunset Marina Maldives Pvt Ltd (**Exhibit 11**) shows Jabir holding 60% of the shareholding and Yameen holding 20%.

- vii. The loan was repaid in 2008, seven years after the loan was initially taken out. No evidence has been provided that shows that any interest was paid on this loan and STO have confirmed this.

8.25 This agreement would therefore appear to be in effect an interest free loan to a private individual for the purchase of a holiday resort to a connected party of Yameen the Chairman of the STO.

8.26 It is clear that there are conflict of interest issues with this transaction bearing in mind that the Chairman of the STO and the shareholder of ERP and YTP are joint shareholders in a business entity, and can therefore clearly be considered as related parties. As the transactions are subject to influence and may not be at arms length.

8.27 If the amount of US\$1.3million has been outstanding for the full seven years then the lost revenue to the STO of providing this loan on an interest free basis is estimated at:

US\$1,300,000 @ 8% simple interest over 7 years = £728,000

8.28 Following this transaction YTP sold ERP to "Sun Travels" in apparent contravention of the agreement between STO and YTP.

## **9 Further Findings**

9.1 During Mr Ibrahims time at the STO we discovered that he was a director of a UK company incorporated on 7 August 1986. His registered address was "c/o the ministry of foreign affairs, Maldives".

9.2 The other two directors are both registered as Indian with addresses in Dubai.

9.3 This company in its financial statements (obtained from Companies House) stated that they had been awarded the operating lease of the duty free complex in the Maldives by the STO on 7 August 1987 on a rolling three year basis which was renewed in 1990.

9.4 Further information has come to light informing us that the duty free complex was indeed leased to a UK company, but it was provided with only one of the directors name's being given. i.e. Ilyas was not declared as one of the directors. Documentation has been received confirming this from the Maldives.

9.5 This evidence suggests that Mr Ibrahim had leased the contract to his own company situated in the UK, a clear breach of fiduciary duty by not declaring his own business interest in leasing the duty free complex.

## **10 Conclusions**

10.1 A number of issues raised in the Audit Report were reviewed and the following conclusions made.

### **Imports and the Tea Plantation**

10.2 Both of these areas raise serious concerns over conflict of interest issues in dealing with related parties. Further investigations should be undertaken to understand the reasoning behind the transactions and the relationships between the parties involved.

### **Loan Facilities granted by the STO**

10.3 The transactions in section 8 cover two aspects 1) Foreign exchange agreements and 2) Loan facilities.

10.4 It is our understanding after reviewing the audit report that buying foreign currency with interest free loans and through private deals is a violation of the Foreign Exchange Regulation of the Central Bank, Maldives Monetary Authority.

10.5 As such, the STO was not permitted to act as a financial institution and enter in to such agreements.

10.6 These are also clear conflict of interest issues that arise due to related parties entering into financial transactions with each other and the STO.

10.7 Further more, the loans were provided with no interest period and were allowed to continue with no proper demand for payment when any of the repayment dates fell due.

10.8 According to the President's Commission report no. 2010/RC/03, under clause 12 of the Articles of Association of the STO the Chairman is defined as the "person who provides direction to the Managing Director and the Board of Directors in the management of the Company under the advise of the President".

10.9 Based on the arrangements in place for the management of STO it is our understanding that the STO's Chairman and Board member Abdulla Yameen was the highest authority in the management of affairs of the company and would have been informed of any extra ordinary transactions, as well as any potential risks and/or defaults that would place the STO at any financial or regulatory risk.

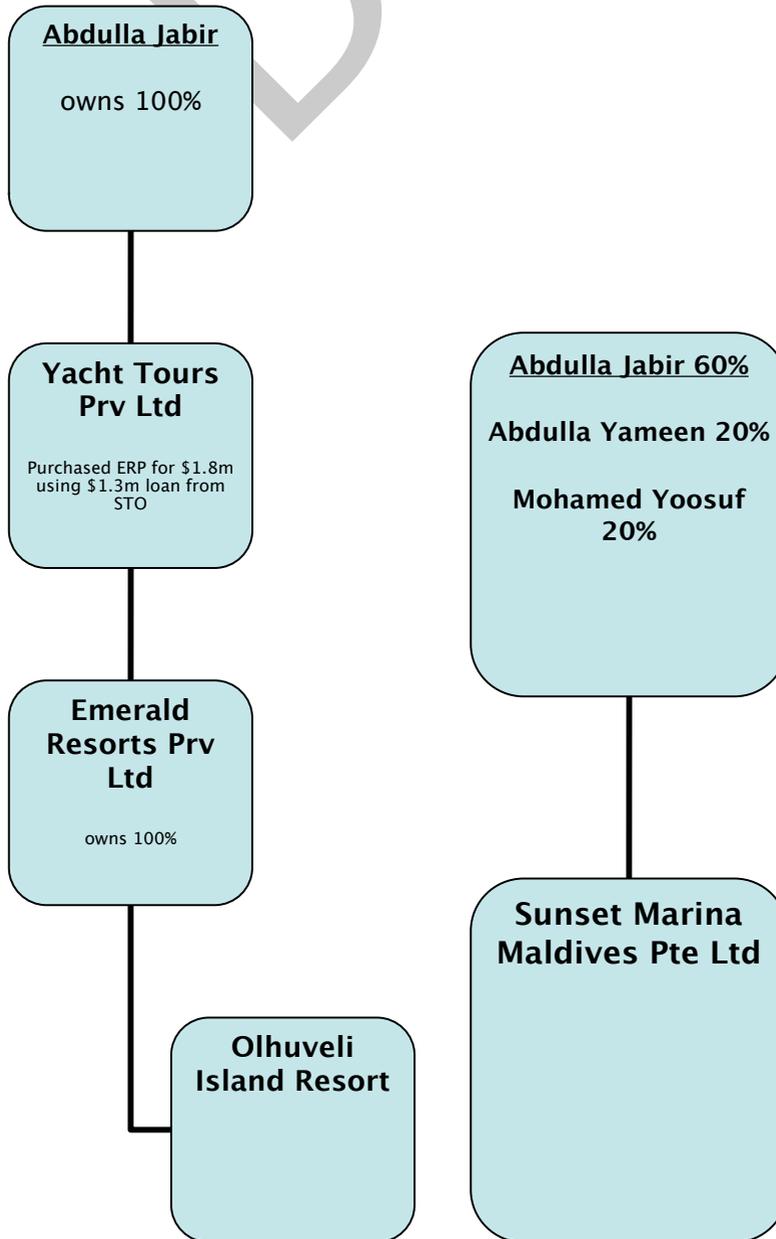
10.10 Whilst Mr Maniku was Managing Director and signed these agreements for the STO, the Chairman takes the ultimate responsibility of the management of the company.

10.11 Disregarding the risks caused by entering in foreign exchange agreements, the lost revenue to the STO in providing these interest free loans separately were SIP US\$ 1m, YTP US\$ 728k and ERP US\$ 93k, which totals US\$ 1.8m.

10.12 These figures are estimated at present using average weighted interest of 8% at simple interest calculations, however they do demonstrate the potential lost revenue that has been forfeited by the STO in providing loans to these private companies.

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**Appendix 1 - Organisational chart**



**Ahmed Siyam Mohamed**

Chairman and MD

**Sun Investments  
Pvt Limited**

**Exhibits**

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