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## RESPONSE TO QUERIES FROM SGX-ST

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The Board of Directors (the “**Board**”) of Raffles Infrastructure Holdings Limited (the “**Company**”, together with its subsidiaries, referred to as the “**Group**”) would like to provide the following information in response to queries from the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) in respect of the announcements announced on 9 January 2019, 1 February 2019 and 14 February 2019.

### **Annual Report 2017 and Disclaimer of Opinion in audited results for FY2017 (announced 9 January 2019)**

#### **Query 1 of the SGX-ST:**

On 9 January 2019, the Company disclosed the Disclaimer of Opinion by the Independent Auditors on the Financial Statements for FY2017. It had announced that its annual report would be “despatched in due course”. Please disclose why Company has still not dispatched its annual report to shareholders and held its AGM. As the Company is in breach of Listing Rule 707 with respect to the FY2017 AGM and Annual Report, please explain why the Board of Directors has not proceeded to dispatch the Annual Report 2017 and hold its AGM for FY2017.

#### **Company Response:**

The current management has only in September of 2018 effectively been in charge of the Company and its affairs, and had held its Annual General Meeting (“**AGM**”) for the year ended 2016 on 23 September 2018, together with the transactions set out in the circular dated Circular dated 28 August 2018 and the Circular dated 14 September 2018. The Company understands that it is in breach of Rule 707, and will, in accordance with the laws of Bermuda, which allows the Company to hold its 2017 AGM by March 31 2019, be holding the 2017 AGM then.

#### **Query 2 of the SGX-ST:**

In the same announcement, the Company had stated that its independent auditors, RT LLP (the “**Auditors**”), had included a **disclaimer of opinion in their report dated 8 June 2018** for FY 2017 on Bank confirmation. The Auditors’ Report disclosed that bank borrowings of RMB4.4 million, RMB3.5 million and RMB 5 million granted to the Group had matured but the Auditors **not** been provided with “**any supporting documents with respect to the settlement of [bank] borrowings**” amounting to **RMB 4.4mil, RMB 3.5mil and RMB 5mil, which matured on 5 September 2018, 8 August 2018 and 22 March 2018**, respectively. Please disclose whether the Auditors had made any direct confirmations with the bank(s) whether these loans were repaid? If not, why is this not the normal audit procedure to ascertain the repayment with the bank(s)?

#### **Company Response:**

RT had not requested for direct confirmations with the bank(s) as to whether these loans were repaid. RT was unable to contact the China subsidiaries’ management during the period of the audit. RT was not provided with the details of the banks’ names and branches that had provided the loans to the subsidiaries.

Accordingly, RT could not send confirmations directly to the unknown banks, nor pay a visit to the banks to conduct an on-site bank confirmation. For your information, it is RT’s practice to perform on-

site visits to the banks in China to carry out the bank confirmations, so as to ensure the authenticity of the bank balances stated in the bank confirmations.

RT had requested to travel to the China subsidiaries to perform the field work, but no responses were received from the China subsidiaries' management. Despite multiple requests to access the accounting records of the China subsidiaries, the Singapore management was unable to obtain the consent of the China subsidiaries' management to allow RT to visit the subsidiaries' premises. The Singapore Board of Directors was of the view that they have lost the control over the China subsidiaries. Similarly, as per the SGX announcement published on 23 November 2018, KPMG Services Pte. Ltd. (KPMG) which was appointed on 12 December 2017 to conduct special audit works had faced the similar problem. On 21 October 2018, KPMG team had travelled to Quanzhou, China to commence the fieldwork for the special audit. However, KPMG team was not able to complete the tasks due to the lack of cooperation by the China subsidiary.

RT's specifically designed audit procedures designed to address bank balances and borrowing risk in China could not be performed due to the limitation of scope as mentioned in the above.

**Query 3 of the SGX-ST:**

The Auditors included a **disclaimer of opinion** on Investment in subsidiaries as they were "**unable to obtain the supporting documents to verify the effective shareholdings of the investment in subsidiaries**". Drawing attention to the prior year audit for FY 2016 also undertaken by RT LLP, why was this not a basis for disclaimer of opinion and why was this not raised as an issue in the audited accounts for FY2016? Had these documents been reviewed and verified in the FY 2016 accounts when the audit opinion was issued?

**Company Response:**

Due to limitation of scope imposed by the Company, RT is unable to obtain the required information (including the Certificate of Incumbency of the China subsidiaries) necessary for RT to verify the effective shareholdings of the investment in subsidiaries.

Similarly, RT had not received the Certificate of Incumbency in FY 2016. Although this was not specifically highlighted in the FY2016 auditors' report, RT had highlighted this in the following paragraph which stated that certain audit procedures were unable to complete. As such, a disclaimer opinion was issued for FY 2016.

Paragraph 9 of FY2016 Auditors' Report:

*"Significant events during the financial year*

*We were unable to complete all our audit procedures for the significant events occurring during the financial year, which we considered necessary to satisfy ourselves on the significant matters occurring during the financial year with respect to items recorded or unrecorded as at 31 December 2016."*

**Query 4 of the SGX-ST:**

The Auditors were "**unable to complete** [emphasis added] **all [their] audit procedures for the legal action against the Group and the Company**".

- a. To disclose if the Auditors had noted any legal actions taken against the Company in their audit. Please elaborate on these legal actions noted.

- b. To elaborate why the Auditors were unable to complete their audit procedures for the legal action against the Group and the Company.

**Company Response:**

RT has noted that there are some contract disputes with the China Subsidiary of the Company (by doing Baidu search).

In view of the limitation of scope imposed by the management of the Company's China subsidiaries, RT was unable to determine whether there were any legal actions contemplated by authorities against the company, current shareholders and/or directors.

As such, RT was unable to complete all audit procedures to verify legal actions against the Group and the Company.

**Change in Financial year end to 30 June 2019 (announced 1 February 2019)**

**Query 5 of the SGX-ST:**

On 1 February 2019, the Company announced the change in its financial year end from 31 December 2018 to 30 June 2019. Please disclose the reason(s) why the Company decided belatedly only on 1 February 2019 to change its year end from 31 December 2018 to 30 June 2019 and therefore will hold its postponed AGM only on or before 30 October 2019.

**Company Response:**

In the announcement released by the Company on 1 February 2019, it explained that as the Company had effectively re-commenced operations since September of 2018, there would have had only been 3 months of operations to report on, which would not have been meaningful. The Company has changed its year end to 30 June so that by the time it holds its AGM on or before 30 October 2019, the reporting period would have been one full financial year.

**Latest Unaudited 2QFY2019 results (announced 14 February 2019)**

**Query 6 of the SGX-ST:**

On 14 February 2019, the Company had announced its unaudited "Q2 31 December2018" Results (the "**Announcement**"). Please clarify the period covered under the reference "1H 31 December2018" referred to in the Announcement. As this period should refer to the commencement date of current financial period of 18-months ending 30 June 2019, which is 1 January 2018, please disclose all the Financial Statements for the period 1 January 2018 to 31 December 2018 accordingly.

**Company Response:**

The Company will re-prepare and announce the financials from 1<sup>st</sup> January 2018 to 31<sup>st</sup> December 2018 accordingly.

**Query 7 of the SGX-ST:**

In "Q2 31December2018", the Company disclosed that it made a net profit of RMB 25.39mil. This was mainly attributed to the "one-time extraordinary gain" on acquisition of the BoDao infrastructure segment of RMB18.69 million. To provide for an understanding of this significant item in the Income

Statement and its impact on the financial statements of the Company, please elaborate on the following:

- a. The valuations used to calculate this extraordinary gain; to show quantifications and how the RMB 18.69mil gain was derived;
- b. Quantify the major assumptions used in the calculations of the extraordinary gain;
- c. Elaborate on what are the Company's obligations under the contract and under what circumstances could this gain be reversed/written back;
- d. Please disclose how much has been collected to-date by the Company from its investment in BoDao through dividends or sharing of profits so far;
- e. When does the Company expect the first payments from BoDao to be made to the Company and how much is expected to be received. Please quantify.

**Company Response:**

- a. BoDao pre-acquisition reserves per its unaudited financials as at 31 December 2018 to be RMB130.6 million. The Company invested RMB100.0 million, which translated to be 90.9%. Using this percentage on the pre-acquisition reserves, will give us RMB118.69 million. After deduct our cost of investment, this gives us an extraordinary income RMB18.69 million.
- b. Assumptions made is that all its assets, construction in progress and payables are correctly stated as at 31<sup>st</sup> December 2018
- c. The Company will be engaging an independent valuer to determine the appropriateness on this valuation method. In the event of should our estimates deem to be to aggressive, we will adjust accordingly per valuer valuation to do Purchase Proce Allocation ("PPA").
- d. No collection at this point of writing.
- e. First payment expected to be collected not later than 30<sup>th</sup> Jun 2019.

**Query 8 of the SGX-ST:**

In addition, the Company stated that it managed to acquire the BoDao infrastructure segment "below the fair value" of BoDao's reserves. Please disclose and quantify the following, to enable investors to assess the reasonableness of the fair value gain attributable to the acquisition, given that the acquisition had a significant impact on the Company's income statement and statement of financial position:

- a. Please quantify the reserves of BoDao;
- b. To disclose when was the last audit conducted on BoDao's accounts and what was the "fair value" of Bo Dao's reserves based on the audited numbers.
- c. Elaborate on the nature of these reserves which the Company acquired "below the fair value";
- d. How the "fair value" of BoDao's reserves was determined. Disclose the methodology and basis for the calculation;
- e. Who calculated the fair value since an independent valuer has not yet been appointed; and
- f. What were the major assumptions used to calculate the fair value. Please quantify.

**Company Response:**

- a. BoDao balance sheet (pre-acquisition) comprises of Fixed Asset –RMB0.2million, Current asset- Construction in Progress – RMB160.6 million; other receivables RMB125.2 million and Cash equivalents –RMB0.1million. The liabilities comprised on other payables RMB155.5 million.

- b. Bodao was incorporated in FY2017. We are still waiting for its FY17 and FY18 accounts to be audited.
- c. The Company believe the book value stated as at 31<sup>st</sup> December 2018 to be prudent to be considered as fair value.
- d. The Company will be engaging an independent valuer to determine the appropriateness on this valuation method. In the event of should our estimates deem to be too aggressive, we will adjust accordingly per valuer valuation to do Purchase Price Allocation ("PPA").
- e. Assumptions made is that all its assets, construction in progress and payables are correctly stated as at 31<sup>st</sup> December 2018.

**Query 9 of the SGX-ST:**

In "Q2 31December2018", the Company incurred "general and admin expenses" of RMB 2.86mil, as compared to RMB 1.2mil in the comparative period in FY 2017. Please provide a breakdown on the "general and admin expenses" over the comparative period **and** explain the material items.

**Company Response:**

Below is the breakdown

General and Admin expenses	3 month ended	
	31st Dec 18	31st Dec 17
	<b>RMB</b>	<b>RMB</b>
Director Fees	350,000	451,400
Audit fees	62,500	62,500
SGX	234,242	87,500
Salary	394,605	447,763
Office	103,035	110,688
Property tax	-	40,469
Rental	138,472	-
KPMG	840,000	-
Financial PR	76,219	-
Corporate Secretarial	438,377	-
Legal and professional fees	231,914	-
<b>Total</b>	<b>2,869,364</b>	<b>1,200,320</b>

The reason for such a significant changes in general and admin expenses was attributed with related special audit fees incurred for professionals engaged. This could be evidence with KPMG, Corporate Secretarial fees (engagement of Beemont, Conyers), Legal advisors (Dentons, ShookLin & Bok). In addition, the fees payable to financial advisor Financial PR and relevant listing fees, SGX and CDP have result the surge in this cost.

**Query 10 of the SGX-ST:**

The Company recorded 'other expenses' of RMB 14.3mil in "1H31Dec2018".

- a. Please provide a breakdown of these 'other expenses';
- b. In the Company's 9 months' results ended 30 Sep 2018 announced on 14 December 2018, 'other operating expenses' amounted to RMB 16.5 mil. Please explain why this amount has reduced to RMB 14.8 mil in "1H31Dec2018" when the amount attributable to "Q2 31 December 2018" is NIL.
- c. In addition, if the Board of Directors is unable to access the financial statements of Sinwa as disclosed, please explain why the amount has been amended. On what basis were the amendments valued;
- d. What is the amount "RMB 16.5mil" and the amount "RMB 14.3mil" based on respectively?

**Company Response:**

- a. Other expenses comprises are impairment arising from Fabrics Operations units. Group total equity of RMB16.5million as at 31<sup>st</sup> December 2017. See point 16 for workings.
- b. The amount was reduced by RMB2.2million as there are expenses incurred by Sinwa Fabrics operations but not accounted in earlier results announcement. Please refer to point 16 for more information.
- c. The Board relied on the results announced on 01HFY18, whereby the Fabrics operation had incurred expenses incurred during this period.
- d. Please refer to point a and b.

**Query 11 of the SGX-ST:**

In the Statement of Financial Position, the Group reported "Construction in Progress" of RMB 285.6mil as at 31 December 2018. Please provide a discussion on the respective projects in progress and the status of these projects to-date to enable investors to have a better understanding of the Company's business and operational performance.

**Company Response:**

The project belongs to the province government, 四川省兴文县财政局. The Company has confirmed most of these projects are progressing towards completing and will be handing over to the above client in FY2019. The management has just confirmed with the subsidiary that they have included RMB70.0 million interco transaction into construction in progress. Excluding this interco amount, construction in progress will be RMB215.6 million.

**Query 12 of the SGX-ST:**

The Group reported "Trade receivables" of RMB 33.8 mil as at 31 December 2018.

- a. Please elaborate on why all of the Company's revenue of RMB33.8 million in "1H 31 December" has not been collected to date;
- b. Please disclose the agreed payment terms of the contracts for the RMB33.8 million revenue recorded;
- c. When will the customers be paying up for the abovementioned outstanding debts/items.

**Company Response:**

- a. The credit terms given to the end client is based on 10 years upon project acceptance with annual collection of 10% plus given an interest 8.8% per annum for this credit term on amount outstanding.
- b. Please refer to point a. above
- c. Please refer to point a. above

**Query 13 of the SGX-ST:**

In the Statement of Financial Position as at 31 December 2018, "trade payables" amounted to RMB 176.48mil. Please provide:

- a. A breakdown of these items and explain the substantial amount outstanding as at 31 December 2018;
- b. For each type of "trade payables" above, disclose the nature of the amounts outstanding which had resulted in each of the abovementioned significant items;
- c. Provide the aging schedule in bands of 3 months (with upper limit of the longest due debt specified in bands of 3 months).

**Company Response:**

The Group has mainly 1 subcontractor, namely, 宜宾建功路桥有限公司 which is also the minority shareholder of BoDao. The amount mentioned was attributed to them.

Amount payable to them will be upon collection from our client, which is 四川省兴文县财政局.

**Query 14 of the SGX-ST:**

In the Statement of Financial Position as at 31 December 2018, "accrued liabilities and other payables" amounted to RMB 76.8mil. Please provide:

- a. A breakdown of these items and explain the substantial amount outstanding as at 31 December 2018;
- b. For each type of "accrued liabilities" and "other payables" above, disclose the nature of the amounts outstanding which had resulted in each of the abovementioned significant items;
- c. Provide the aging schedule in bands of 3 months (with upper limit of the longest due debt specified in bands of 3 months).

**Company Response:**

- a. The Company will like to clarify of the RMB76.8 million in accrued liabilities and other payables, there is an interco transaction amounting to RMB 70.0 million. The said corresponding amount was recorded in Trade and other receivables.

b and c. Below is the list of accrued liabilities with aging schedule



Accrued Liabilities and other payables	RMB'000	Past due -RMB'000				
		3months	6months	9months	12months	>12 months
Director Fees	3,007	350	400	550	550	1,157
SGX,CDP	876	-	325	-	-	551
Auditors	500	-	500	-	-	-
Payroll related	704	704	-	-	-	-
Legal and Professional	739	739	-	-	-	-
AGM related fees	36	36	-	-	-	-
Penalty and Fines	266	266	-	-	-	-
Corporate Secretarial	506	506	-	-	-	-
Office Expenses, Rental, Phone	199	199	-	-	-	-
<b>Total</b>	<b>6,833</b>	<b>2,800</b>	<b>1,225</b>	<b>550</b>	<b>550</b>	<b>1,708</b>

**Query 15 of the SGX-ST:**

On page 3 of the Announcement, the Board disclosed that it had deemed it appropriate to “deconsolidate” its subsidiary, Sinwa Knitting & Dyeing Ltd given the loss of control and non-clarity on these Fabrics operations. Please disclose:

- The date the Board deconsolidated the accounts of Sinwa and whether Sinwa was already deconsolidated in FY2017;
- The Board’s justifications on why it was necessary to deconsolidate the Fabrics operations subsidiaries;
- To disclose who is in control of Sinwa, the Company’s wholly owned subsidiary;
- Whether the Board will take legal actions to sue the legal representative for the loss in control as the subsidiary belongs to the Company and its shareholders as a whole and not the legal representative. To disclose the enforcements actions taken against the legal representative by the Board; and
- Why the Company is not changing the legal representative to take control of the subsidiaries in the Fabrics operations.

**Company Response:**

- The Company only start deconsolidated on 3QFY2018, which is from 01<sup>st</sup> July 2018. This was prior to release Company 3QFY2018 results after the Board is unable to get any update on the Fabrics operations during special audit in October 2018.
- With no visibility on the state on the Fabrics operations and no accounting records were given, the Board deem it is necessary to deconsolidate the results.
- Per record, currently Mr. Wu Xinhua is still the legal representative.
- The Board will decide with the conclusion of special audit report and will discuss with China legal to advise on the recourse against the legal representative.
- The Company spoke to Company Secretary for Sinwa, which is incorporated in British Virgin Islands (“BVI”). The latter mentioned they will only work under the instruction of current legal representative for any changes to Fabrics Operations.



**Query 16 of the SGX-ST:**

On 31 December 2018, the Group recorded a substantial “impairment” of RMB 16.5mil. Please provide a breakdown of these impaired assets and quantify them.

**Company Response:**

<b>Fabric Operations</b>	
<b>Fixed Asset</b>	<b>RMB'000</b>
Plant, Property Equipment	24,518
Land Used Right	2,244
	<b>26,762</b>
<b>Current Asset</b>	
Inventories	566
Trade receivables	6,507
Other receivables	4,560
Cash and Bank Balances	112
	<b>11,745</b>
<b>Current Liabilities</b>	
Trade payables	855
Accrued liabilities	8,230
Bank loan	12,900
	<b>21,985</b>
<b>Net Current Asset/(Liabilities)</b>	<b>(10,240)</b>
<b>Other expenses impairment</b>	<b>16,522</b>
<b>Adjustment</b>	
Expenses incurred for 1H2018	(2,231)
<b>Impairment announced on 14th Feb</b>	<b>14,291</b>
<b>Actual expenses incurred -RMB2.05M</b>	<b>181</b>
<b>Excluding Holding loss</b>	<b>4,587</b>
<b>Revised impairment expenses</b>	<b>19,059</b>

**Query 17 of the SGX-ST:**

Please elaborate on why the Company's cash flow from operating expenses generated a **negative operational cash flow of RMB 35.7 mil in “2018 31 December”**. Please disclose whether this period covers the period from 1 January 2018 to 31 December 2018 or from 1 October 2018 to 31 December 2018.

**Company Response:**

The negative cashflow was attributed mainly with working in progress not yet translated to be revenue and collections remain undue. This was partially offset with accounts payables that we have withhold. This was mainly for the period from 01<sup>st</sup> July 2018 to 31<sup>st</sup> December 2018.

**Query 18 of the SGX-ST:**

In relation to the negative operational cash flow of RMB 35.7 mil generated in “2018 31 December” please disclose:

- a. Whether the new business operations of the Company will be able to generate positive cash flow and if so, how will the Company be able to turn around the negative cash flow situation;
- b. To disclose the instalment/payment and credit terms of the Company's projects and credit terms for the projects relating to the revenue of RMB33.8 million revenue;
- c. To disclose the instalment/payment and credit terms of the other projects which has not yet started to contribute to revenue as at 31 December 2018; and
- d. Whether the Company has experienced any issue in collecting its debts due from its customers.

**Company Response:**

- a. The Company confirmed the new business operations will be able to generate positive cash as these project is profitable when the end client has inked contract their guarantee on our principal investment plus 8.8% investment per annum for next 10 years based on principal reduction method.
- b. Credit term agreed will be 10 years, with progressive payment of 10% on the outstanding amount per annum plus 8.8% interest on reducing balance.
- c. All project will be based 10 years credit terms with payable at 10% each year in addition with 8.8% interest charge on outstanding payment.
- d. The Company did not foresee any collection issue given the end client is the Provincial Government where the funds allocated for this project has already been budgeted and approved.

**Query 19 of the SGX-ST:**

On page 9 of the Announcement, it was reported that the Group "registered revenue of RMB 33.8 mil for its infrastructure segment in "1H 31 December 2018", with gross profit of RMB 12.7 mil "after [the Company's] client accepted 2 parcels (total 26 parcels) of the project being completed". To enable investors to have a better understanding of the Company's operations:

- a. Please elaborate on the status of these projects to-date; and
- b. Explain what are the stages/events when revenue is recognized for each of these projects.

**Company Response:**

- a. The Balance of these projects is still in progress and some have been completed but pending client acceptance.
- b. Revenue is only recognised when end client gave acceptance notice by stamping project acceptance.

**Query 20 of the SGX-ST:**

We note that the Company had utilized placement proceeds of S\$7.2 mil. In relation to this, please disclose:

- a. "Project Investment": S\$6 mil: to provide a specific details of how these funds in project investment had been utilized and to which projects; and
- b. "Working Capital purposes": S\$1.2mil: to disclose specifically to what payments of working capital has this amount been deployed.

**Company Response:**

- a. The Company invested S\$6.0 million, which is RMB30.0million to acquire BoDao, which the latter has secured a project total worth of RMB550.0million. The funds injected will be utilised to pay off the project contractors as and when project is accepted by the end client.
- b. Below is the breakdown of S\$1.2million working capital usage
  - i. Payroll and Staff related (incl. Director Fees) – S\$0.2 millions
  - ii Operating Expenses (incl. Rental, Stationery, Entertainments, Listing Fees) – S\$0.3million
  - iii. Professional Fees (incl. Legal, Audit, Corporate Secretary Services etc) S\$0.7 million

**Query 21 of the SGX-ST:**

Please explain the statement: “the Directors would like to “disclaim their opinion to the figures arising from its subsidiary (Sinwa Knitting & Dyeing Co Ltd) book and the consolidation may render the unaudited financial information of the Company or the audited consolidated financial information of the Group for the second quarter and half year ended 31 December 2018 to be false or misleading in any material respect.”

- a. Does the Board of Directors believe that deconsolidating the results of Sinwa will render the financial statements false and misleading? If so, please consolidate;
- b. If the Board is of the view that deconsolidating does not render the financial statements to false and misleading, please explain the disclaimer of opinion. If the Board is of the view that its treatment of deconsolidating does not render the financial statements to be false and misleading, please re-state the Board’s position accordingly pursuant to the Listing Rule 705(5) confirmation without the disclaimer.

**Company response:**

The Company would like to clarify the deconsolidation the results of Sinwa will render a true and correct picture of the Group financials since the Company has lost its control over this subsidiaries. The Directors confirmed that, to the best of their knowledge, nothing has come to the attention of the Board of Directors of the Company which may render the unaudited financial information of the Company or the unaudited consolidation financial information of the Group for 4Q or 12 months ending 31<sup>st</sup> December 2018 to be false and misleading.

By Order of the Board  
Choo Han Kiat, Eric  
Executive Director and Chief Executive Officer  
26 February 2019