

## RESPONSE TO QUERIES FROM SGX-ST

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 the queries from the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) in respect of the Company’s HY2020 financial statements filed on 14 February 2020 and response to SGX Queries on 25 February 2020 and 2 March 2020.

### **QUERY 1**

We refer to the Company’s SGXNet announcement on 2 March 2020 titled “Response to SGX Queries”. We noted in the Company’s response to Query 1 that “The Company did not accrue for interest income from 25 June to 31 December 2019 as it has not received the confirmation slip.” Please disclose:

(i) why the Company has not received its bank statement from China Construction Bank (“CCB”) for so many months since July 2019;

#### **RESPONSE:**

Company received monthly bank statements from the respective bank. The bank statement will not show the interest earned. A separate bank confirmation slip for the interest will only be provided upon maturity of the fixed deposit, i.e. 25 March 2020.

(ii) which branch of CCB is the deposit held and the amount of cash deposited in this account for which “The Company did not accrue for interest income from 25 June to 31 December 2019”; and

#### **RESPONSE:**

Company has placed RMB95 million in fixed deposit with CCB, Chengdu Railway Branch.

(iii) which are the banks where the Company’s material cash balance of RMB 100.2 million is held.

#### **RESPONSE:**

The material cash balance of RMB100.2 million is held with China Construction Bank.

### **QUERY 2**

In response to query 2 the Company disclosed details, tabulated below for easy reference:

(i) The construction work is required to be wholly (100%) completed by June 2020 for the total 26 parcels. On the other hand, the payment obligation of the customer under the contract would amount to only 15% of the contract value under the payment schedule by end 2020. The remaining 85% of the contract value will be paid over the next 9 instalments until calendar year 2029, which is 9 years after all the work has been completed under the contract. Please elaborate how this deferred payment schedule is in the best interest of the Company;

#### **RESPONSE:**

**Table 1**

|                     | Expected Completion Date |        |        |        |        |        |        |        |        |
|---------------------|--------------------------|--------|--------|--------|--------|--------|--------|--------|--------|
|                     | May 18                   | Jul 18 | May 19 | Jul 19 | Aug 19 | Dec 19 | Apr 20 | May 20 | Jun 20 |
| No. of road parcels | 2                        | 2      | 1      | 1      | 2      | 2      | 4      | 3      | 9      |

Table 2

| Completed<br>Project Amount | Amount<br>outstanding | RMB million     |        |        |
|-----------------------------|-----------------------|-----------------|--------|--------|
|                             |                       | Amount received |        |        |
|                             |                       | Jan 19          | Sep 19 | Jan 20 |
| 274.2                       | 1.8                   | 12.6            | 5.7    | 21.2   |

| RMB million              |      |      |      |      |      |      |      |      |
|--------------------------|------|------|------|------|------|------|------|------|
| Payment Schedule (Year ) |      |      |      |      |      |      |      |      |
| 2021                     | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
| 27.4                     | 27.4 | 27.4 | 27.4 | 27.4 | 27.4 | 27.4 | 27.4 | 13.5 |

This is a build-operate-transfer (BOT) rural road project awarded by the Yibin Municipal People's Government. The Company believes that with the one belt one road development initiative progressing rapidly in Asia, there will be huge opportunities in the field of infrastructure investment in the region. All the rationale, structure and risk of our investment have been approved by shareholders in an extraordinary general meeting as detailed in our circular dated 28 August 2018 ("2018 Circular"). For more information of the project, please refer to section 5.1.1 of the 2018 Circular.

(ii) Please show the calculations how the 8.8% interest per annum will charged and paid under the payment schedule set out in Table 2 above. Would the 8.8% interest be applied on top of the payment schedule above? Would the invoice for a lump sum of RMB 27.4 million be rendered upfront on 1 Jan of each year after 2020? What is the credit period granted for the customer to pay up once the invoice of Rmb 27.4 million is rendered? Please elaborate how the 8.8% interest p.a. will be calculated under such circumstances;

#### RESPONSE:

The 8.8% per annum is not an interest but a fixed return formula specified in the PPP contract. The project return of 8.8% per annum is calculated based on the remaining receivable of each road parcel on the anniversary date of acceptance, payable over 10 years. For example:

##### Project 1 - Acceptance date Jan 2020

| Project amount | RMB X              |                        |
|----------------|--------------------|------------------------|
| Invoice date   | Return (i)         | Construction Cost (ii) |
| Jan-20         | RMB X * 8.8%       | X/10                   |
| Jan-21         | (RMB X/10*9)* 8.8% | X/10                   |
| Jan-22         | (RMB X/10*8)* 8.8% | X/10                   |
| ↓              |                    |                        |
| Jan-28         | (RMB X/10*2)* 8.8% | X/10                   |
| Jan-29         | (RMB X/10*1)* 8.8% | X/10                   |
| Total          | <b>R</b>           | <b>X</b>               |

The Company will recognise the return of 8.8% p.a. (R) upon acceptance of the road parcels. The Company will issue the 1<sup>st</sup> invoice on the acceptance date of the relevant road parcel by the customer (i.e. Provincial Government), together with the 1<sup>st</sup> payment of the construction cost (i + ii). The subsequent invoices will be issue on the next anniversary date of the acceptance date.

The 8.8% p.a. return is excluded in the payment schedule above. The amount of RMB27.4 million will be invoice on the anniversary of the acceptance date of each relevant road parcel together with the 8.8% p.a. return. The credit term is 90 days upon receipt of the invoice as specified in the PPP contract.

(iii) We note that 100% of the costs of works under the contract will be expended by the Company by June 2020 but 85% of the contract value will be deferred. Please elaborate how is it in the interest of the Company to finance 100% of the construction costs on behalf of the customer without certainty of collection for the following 9 years. Please quantify how much has been the cost of construction has been incurred to-date and quantify the expected amount of construction costs to be incurred until completion. Please explain how the Company has financed such construction costs and further construction costs to be incurred.

**RESPONSE:**

Please refer to response 2(i) on the rationale for the investment in the project as well as the 2018 Circular. The project is valued at approximately RMB550 million and involves the construction of 220 kilometers of rural roads. For the 10 completed road parcels, the total construction costs are approximately RMB274.2 million and expected amount of construction costs to be incurred until completion are approximately RMB275.8 million. The Company has financed such construction costs through internal generated funds and loan from Bo Dao's shareholder Yibin H&B. ("Yibin"). Yibin is a shareholder of Bo Dao and also the main contractor for the project. Company is currently considering other source of financing such as borrowings from financial institution as stated in the circular dated 28 August 2018.

(iv) Please explain the rationale why the Company has staggered collection of its revenue over 10 years when the construction works will be fully completed in 2 years. Please explain the Board's view and basis why this staggering of the revenue collection over the next 9 years after the construction of a project has been completed is in the best interest of the Company.

**RESPONSE:**

The arrangement is based on the PPP contract signed in 2018, which we have provided the rationale in the 2018 Circular.

(v) What are the safeguards put in place by the Board to ensure that the customer has the ability to pay and will fully pay for the construction of the project over 9 years once they have taken full delivery of the project. Will the company have a legal and registered lien over the project prior to the full payment under the contract?

**RESPONSE:**

There is no legal or registered lien over the project, as this is a PPP rural road contract. The project is registered in the PPP database of the Sichuan providential government, where the payment is budgeted to be paid to us in accordance to our agreement signed.

For every road parcel completed and delivered, the Company will get the customer (i.e. Provincial Government) to officially acknowledge such completion and delivery. In respect of safeguards, at the time when this project was under consideration by the Company, the Board evaluated that the sovereign default risk of the Yibin Municipal People's Government to be low, given that it is a PPP project and also part of China's larger one belt and road project.

For further details, please refer to the 2018 Circular.

**QUERY 3**

The Company responded that it had received the following amounts under the contract to-date:

| Month | Payment Received | Jan-20 | Feb-20 | Mar-20             | Total Amount received |
|-------|------------------|--------|--------|--------------------|-----------------------|
| 12.6  | 5.7              | 21.2   | 39.5   | Amount still owing |                       |
| 1.8   | 1.85             | 7      | 41.3   |                    |                       |

(i) The Company responded to Query 4 that "For the 10 completed road parcels, the total return based on 8.8% per annum amounted to RMB135.2 million. Up to January 2020, Company has received S\$18.4 million." Please quantify what is the base for calculating the 8.8% interest payable and show how the \$18.4 million interest is arrived at, based on the 8.8% interest p.a. Please show your calculations taking into account the schedule set out in Table 2 above; and

**RESPONSE:**

The 8.8% p.a. is not an interest but a fixed return specified in the PPP contract awarded by the Yibin Municipal People's Government. The 8.8% p.a. return payable for the completed parcel is based on the acceptance date by the customer (i.e. Provincial Government) and computed as per the formula set out in our response in 2(ii). The client accepted up to-date 2, 3 and 5 road parcels in 2018, 2019 and 2020, respectively.

| Year                      | 2018 | 2019 | 2020 | Total |
|---------------------------|------|------|------|-------|
| No. of road parcels       | 2    | 3    | 5    | 10    |
| 8.8% Return (RMB'million) | 12.7 | 57.1 | 65.4 | 135.2 |

(ii) Please confirm if the RMB\$18.4 million interest referred to in (i) above has been received in cash and if this amount is received in addition to the RMB39.5 million received by the Company as at March 2020.

**RESPONSE:**

The company has received the RMB18.4 million in cash and this is in addition to the RMB39.5 million received by the Company.

**QUERY 4**

The Company disclosed the aging of contract assets amounting to RMB 140.1 million in response to Query 5, of which RMB 89.9 million 4-6 months old. Please reconcile this RMB 140.1 million to the schedule in Table 2 above.

**RESPONSE:**

The contract assets amounting to RMB140.1 million as at 31 Dec 2019 includes customer's acceptance of road parcel of RMB134.6 million in Jan 2020. The Company will recognise the revenue of RMB134.6 million and transferred the amount from contract assets to trade receivables in Jan 2020. The balance of RMB5.5 million in contract assets relates to a road parcel that is under construction.

**QUERY 5**

Based on the construction progress (set out in Table 1) and the contract value of RMB294 million set out in Table 2 above, please reconcile this to the amount recognized as contract asset worth RMB140 million (47% of total contract value) recorded in the Company's book as at 31 December 2019.

**RESPONSE:**

The contract assets of RMB140 million relates to 5 road parcels expected completion date in Jul 19, Aug 19 and Dec 19 and 1 road parcel in May 20 in Table 1.

The completed project value of RMB294 million in Table 2 includes RMB134.6 million road parcels that are accepted by the customer in Jan 2020.

**By Order of the Board**

**Eric Choo Han Kiat**

**Executive Director and Chief Executive Officer**

11 March 2020