
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 queries from the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) in respect of the Company’s announcements dated 11 October 2019 pertaining to the Auditors’ Qualified Opinions and the Material Variances between Audited and Unaudited Financial Statements for financial period ended 30 June 2019 (“**FY2019**”).

A. AUDITORS’ COMMENTS ON ACCOUNTS

Regarding the non-consolidation of certain subsidiaries

QUERY 1

The auditors stated that they were "unable to perform any audit procedures to obtain sufficient appropriate audit evidence to satisfy themselves as to the basis for the deconsolidation... as well as the RMB 19 million net assets loss arising from the deconsolidation".

Query 1a:

To disclose when the Board of Directors (“**Board**”) will take action to regain control of the subsidiaries which are the subject of the deconsolidation.

RESPONSE:

The Board would like to provide some background to the difficulties around taking back control of the subsidiaries in question. Please read our response to Query 1b first.

Subject to our response below to Query 1b, the Company would like to say that applying to the British Virgin Islands (“**BVI**”) court for an order to declare that the Company has been the beneficial owner since its IPO is a process which the Company believes that with time and expense incurred, it will be able to be installed as the instructing client on the record of Vistra, the BVI agent, and thus remove Mr. Wu as director and legal representative of Shishi Simwa Knitting and Dyeing Co. Ltd.

However, the more critical issue is as Mr. Wu has not afforded any cooperation to the Company and the special auditors, and given that there is no visibility as to the financial records of Shishi Simwa Knitting and Dyeing Co. Ltd., it is very difficult to assess the legal and financial position Shishi Simwa Knitting and Dyeing Co. Ltd., is in. And in this connection, its legal liabilities.

As SGX-ST would know, in China, the legal representative is responsible for all legal and financial liabilities of the local Chinese company. The Company is doubtful if anyone would be willing to assume liabilities that are unknown and unquantifiable, even though the Company is acutely cognizant that the issue of the opening balance of its financial statements forms one of the primary bases of a qualified opinion by the Company’s auditor in its report for the financial period 1 January 2018 to 30 June 2019.

The inability by the Company to obtain clarity on the financial position of Shishi Simwa Knitting and Dyeing Co. Ltd., also leads on to the second issue of whether the de-consolidation of this indirect subsidiary was properly carried out, in the opinion of the auditors.

In sum, the Company is of the view that while it may be a matter of time and money in obtaining an order from the BVI court, this of itself does not solve the underlying problem as Simwa Holdings Ltd is but an intermediate holding company. The Company will have to take control of Shishi Simwa Knitting and Dyeing Co. Ltd, and this would entail appointing a new legal representative, which as explained above, is not a position that anyone would easily step up to. Further, it appears from the attempts by the special auditors to obtain information that there might well not be any better information that the Company could obtain even when it has finally wrestled control of Shishi Simwa Knitting and Dyeing Co. Ltd back from Mr. Wu.

The Company will seek the advice of its Chinese lawyers again on this matter to see if there is a work-around before proceeding to apply for an order of court in the BVI to start the process. The Company will keep the Exchange informed on the progress.

Query 1b

To disclose the steps taken by the Board to regain control over the assets of the Group.

RESPONSE:

Back in October 2018 when the special audit was still in its nascent stages, the Board was in contact with Mr. Wu and was in discussions with him on co-operating with the Company with a view to handing over the corporate books of Simwa Holdings Ltd and/or instructing Vistra that the Company should now be the instructing client on record.

At the same time, the Company had written to Vistra Singapore and Hong Kong to enlist their help to enable a change in the instructing client by asserting the Company has been the beneficial owner since the Company's IPO.

However, Vistra informed the Company that without a positive response from their client on record, they were not able to change the instructing client on record.

The Company's lawyer had advised, insofar as the issue of effecting a change of who the instructing client is on the record of Vistra, that it should retain BVI lawyers to make an application to the BVI court for an order declaring that the Company is the beneficial owner. With the court order, it will be able to effect a change in the instructing client to Vistra and, then, be able to effect changes to the directors of Simwa Holdings Ltd and consequently, the legal representative of Shishi Simwa Knitting and Dyeing Co. Ltd.

The Company has not been provided any financial, accounting, corporate or other records or information from Mr. Wu who remains the legal representative of Shishi Simwa Knitting and Dyeing Co. Ltd.

QUERY 2

There was an "unreconciled difference of RMB 2,036,000 from the ...loss on net assets arising from the deconsolidation which cannot be accounted for by management."

Query 2a

To disclose how the unreconciled difference of RMB 2,036,000 arose and why it was not accounted for by management.

RESPONSE:

The unreconciled difference arose because of the overstatement of *Trade and Other Payables* in the computation of the RMB19mil in December 2018. The Management has adjusted the expenses incurred during the period January to June 2018 which have already been accrued in the *Trade and Other Payables* as at 31 December 2017.

Query 2b

To disclose and explain the formula used by management in computing the losses arising from the deconsolidation of approximately RMB 19 million.

RESPONSE:

Below is the computation of the deconsolidation of approximately RMB 19 million. The *Net Assets* are based on the audited Statement of Financial Position as at 31 December 2017.

	RMB'000
Non-current assets	
Plant, Property, Equipment	24,518
Land used rights	2,244
	<u>26,762</u>
Current Assets	
Inventories	566
Trade and other receivables	11,067
Cash and bank balances	112
	<u>11,745</u>
Current Liabilities	
Trade and other payables	9,085
Bank loan	12,900
	<u>21,985</u>
Net Current Assets	<u>16,522</u>
Adjustments	
Expenses incurred 1H2018	(2,050)
Excluding Holding loss	4,587
Net assets de-recognised	<u><u>19,059</u></u>

Regarding the management determination of functional currency

QUERY 3

To justify whether the Board and management had approved budgets. If so, please provide details and explain how internal controls (including financial, operational, compliance and information technology controls) and risk management systems are adequate and effective.

RESPONSE:

The Board and management had approved the budgets for the infrastructure project in China i.e. the construction of the rural roads Xingwen County.

The Board is given unrestricted access to the Management's records and files. Approval by the Audit Committee ("AC") must be obtained for any payment exceeding SGD \$20,000. Our internal audit function is outsourced to Assenture Advisory Pte Ltd who reports to the AC on internal control matters and to the Chief Executive Officer on administrative matters. Assenture Advisory Pte Ltd reviews the adequacy and effectiveness of the Group's material internal controls on an annual basis. Based on the work performed by the internal auditors, the Management with the concurrence of AC, is of the opinion that the internal controls and risk management systems are adequate and effective.

QUERY 4

To justify why management had based its sales price on a SGD cost structure of the services provided when its business operations are in the PRC and sales are denominated in RMB.

RESPONSE:

The Company has completed a placement in SGD in September 2018 and the expenses incurred by the Company and its Singapore subsidiary were recorded in SGD for internal evaluation. However, the Company wishes to clarify that the Cost of Sales has always been recorded in RMB as per source documents. And to be consistent with our core business activities in China, all expenses recorded in SGD were translated to RMB for Group reporting. This is consistent with our core business activities that are recorded in RMB.

QUERY 5

To explain why the auditors were not provided with corroborative audit evidence as well as minutes of management meetings to determine if management's discussion on issues relating to sales are carried out with SGD in mind.

RESPONSE:

The Company would like to confirm that all sales were recorded in RMB, in line with the currency reflected in the source documents that were provided to the auditors as evidence. The discussion on Sales being translated to SGD, was for Company's internal performance assessment purposes against our placement raised in SGD.

B. MATERIAL VARIANCES BETWEEN THE UNAUDITED AND AUDITED FINANCIAL STATEMENTS IN FY2019

QUERY 6

At Note 1, the Company disclosed that revenue and Non-Current Receivables decreased by RMB19.8 million due to the adjustments made to the agreed amount of consideration.

Query 6a

To elaborate on the reasons for the adjustments to the consideration.

RESPONSE:

The Company has non-current receivables due from the provincial government authority of China for the construction of 220 kilometres of rural roads in Xingwen County. The receivables were initially recognised at fair value and subsequently measured at amortised cost using the effective interest method less impairment. As there is a significant financing component, in determining the transaction price, the subsidiary had adjusted the agreed amount of consideration for the effects of the time value of money. In applying for the discount factor to the non-current trade receivables, the Company has considered that the most appropriate discount rate is the China Government Bond Yield with 1,2,3,5,7 and 10 maturity years. The initial recognition of non-current receivables was RMB172.3 million and as a result of the discounting, the Company has adjusted non-current receivables by RMB19.8 million to RMB152.5 million to reflect the effects of the time value of money.

Query 6b

Please also explain when were the agreements amended and whether it was previously announced on SGXNET.

RESPONSE:

There is no amendment to the agreements signed and as such no announcement was made on the SGXNET. The adjustments to the agreed amount was to reflect the effects of the time value of money. During the year, the Company recognised revenue of RMB208.9 million upon satisfaction of the performance obligations in accordance with adoption of SFR(I) 15. However, the consideration for this completion of performance obligation is to be paid over 10 years, therefore, to reflect the effects of the time value of money, the Company has adjusted the revenue by RMB19.8 million to RMB189.1 million.

QUERY 7

At Note 3, the Company stated it had made adjustments of RMB103.2 million in the Current Trade and Other Receivables and trade and other payables due to double taken up of the accounting entries in the entity level.

Query 7a

Please provide details of this "double taken up of the accounting entries in the entity level".

RESPONSE:

During the course of audit, auditors found out that a double entry has been passed in the receivables and payables accounts. This was due to human error and company will take steps to prevent the same error from recurring. No impact on the Group NAV as it effected only the balance sheet items.

Query 7b

Please disclose who prepared these accounts and how did the Company ended up with double counting of accounting entries.

RESPONSE:

The accounts have been prepared by the Company's finance team. Please refer to response to Query 7a on the explanation of the double counting of accounting entries.

Query 7c

To explain why was the Audit Committee and Board not aware of the issue noting the significant amount of RMB103.2 million which amounted to 51.9% of the Group's NAV at RMB198.97 million.

RESPONSE:

Accounts were reviewed by a qualified Financial Controller ("FC") in our operating subsidiary. AC and Board rely on the FC to manage day to day maintenance of accounts. There was no impact on the Group NAV as the error was in balance sheet items.

QUERY 8

In Note 5, the Company had a reclassification of Share Capital to Treasury Shares, Reserves and Accumulated Losses due to corporate exercises on 28 September 2018. To elaborate on how a placement of shares which resulted in increased share capital of RMB 137.9 million and share premium of RMB 13.2 million has to be classified to Treasury shares.

RESPONSE:

There were two corporate exercises on 28 September 2018, namely, the share capital reduction and share placement. The share capital reduction resulted in a decreased in share capital of RMB81. 5 million and treasury shares of RMB11 million. There is no classification to Treasury shares as a result of share placement.

QUERY 9

In Note 6, material variances in cash flows from operating activities and financing activities were mainly due to reclassification of "Other Payable to amounts due to corporate Shareholder by a subsidiary and Directors; change in receivables and payables".

Query 9a

Please disclose the names of the "Corporate Shareholder", the "subsidiary" and "Directors" referred to.

RESPONSE:

The "Corporate Shareholder" refers to 宜宾建功路桥有限公司, the minority shareholder of Bo Dao Road Construction Co., Ltd. ("Bo Dao"), and the "Subsidiary" refers to Bo Dao. The "Directors" refer to Board of directors of the company.

Query 9b

To provide breakdown of effects for each of the changes in receivables and payables.

RESPONSE:

It is a reclassification of the amounts due to corporate Shareholder by a subsidiary and Directors from Changes in working capital to Financing activities.

	Audited RMB'000	Unaudited RMB'000	Variances RMB'000
Operating cash flows before changes in working capital and extraordinary income	36,737	75,220	38,483
<u>Changes in working capital</u>			
Contract receivables	(88,329)	(194,737)	(106,408)
Trade and other receivables	(169,902)	(194,886)	(24,984)
Trade and other payables	22,816	269,818	247,002
<u>Cash flows from financing activities</u>			
Deconsolidation of previous subsidiary	-	(1,187)	(1,187)
Amount due to directors	858	-	(858)
Amount due to shareholder	152,052	-	(152,052)

Query 9c

Elaborate on reasons how the net cash outflow from operating activities of RMB154 million were due to reclassification of amounts due to Corporate Shareholder and changes in receivables.

RESPONSE:

In the Unaudited Financial Statements, the Amount due to Directors of RMB1 million and Amount due to Corporate Shareholders of RMB152 million were included under “Changes in Trade and Other Payables”. Please refer to response to Query 9b for the breakdown.

Query 9d

To disclose nature of transaction for the (i) amounts due to corporate Shareholder by a subsidiary and Director and (ii) changes in each of the receivables and payables reported.

RESPONSE:

- (i) The amount due to Corporate Shareholder by a Subsidiary relates to the shareholder loan from 宜宾建功路桥有限公司, a minority shareholder of Bo Dao. This amount is unsecured, interest-free and repayable on demand and the purpose is for the infrastructure project in Xingwen County. As of today, the Company did not has any bank borrowings.
The amounts due to directors were mainly attributable to director fees incurred in FY2019 but paid after 30 June 2019.
- (ii) The changes in receivables were mainly due to i) the adjustments made to the non-current receivables for the effects of time value of money as explained in the response in Query 6 and ii) the double taken up of the accounting entries in receivables as explained in the response in Query 7.
The changes in payables was mainly due to i) the double taken up of the accounting entries in payables as explained in the response in Query 7 ii) reclassification of the amount due to corporate Shareholder by a subsidiary and Director to Financing activities.

QUERY 10

In note 8, the Company recognized an impairment loss of RMB0.5 million for investment in subsidiaries.

Query 10a

Please disclose the name(s) of these subsidiaries and the amount of impairment loss attributable to each of these subsidiaries.

RESPONSE:

The Company has recognised an impairment loss of RMB0.5 million was mainly attributable to investment in Raffles Infrastructure Investments (Singapore) Pte Ltd (“RII”).

Query 10b

To disclose the reasons for management’s decision to impair the investments.

RESPONSE:

The investment cost in RII is RMB0.5 million. The impairment arise due to assets lower than liabilities and there is no recurring net economic inflow to this subsidiary since RII is a cost centre.

By Order of the Board

Choo Han Kiat, Eric

Executive Director and Chief Executive Officer

29 October 2019