

Raffles Infrastructure Holdings Limited
Interim Report On Independent Review
13 August 2019

2 Executive summary

2.1 Introduction

- 2.1.1 On 12 December 2017, China Fibretech Ltd (the "Company" and, collectively with its subsidiaries, the "Group") appointed KPMG Forensic, a division of KPMG Services Pte. Ltd. ("KPMG"), to conduct an independent review of the Group (the "Independent Review"). The findings arising from the Independent Review will be reported to the Company's Audit Committee ("AC") and Singapore Exchange Securities Trading Limited (the "Exchange").
- 2.1.2 The Independent Review has been carried out in accordance with the terms of our engagement letter dated 12 December 2017 (the "Engagement Letter").
- 2.1.3 On 25 November 2015 and 26 November 2015, the Company announced that its wholly owned subsidiary, Shishi Sinwa Knitting and Dyeing Co., Ltd (石狮市新华针织漂染有限公司, "Shishi Sinwa"), had received notices from three customers, 石狮市爱利奴服饰有限公司 ("Ai Li Nu"), 晋江市滨浪制衣织造有限公司 ("Bin Lang") and 石狮市金太屋纺织服饰有限公司 ("Jin Tai Wu" and, collectively, the "Claimants"), alleging that substantial damages and financial losses had been sustained because of quality issues in products purchased from Shishi Sinwa. Subsequently, on 19 July 2016, the Company announced that further notices from the Claimants requested total compensation of RMB 466 million (the "Purported Compensation") to be paid by 31 July 2016.
- 2.1.4 On 29 September 2016, the Company announced that the Purported Compensation had been paid on 28 September 2016 and that the Company was notified of the payment in an email from Zhang Dufang ("Mr Zhang"), the finance manager of Shishi Sinwa.

2.2 Objective and scope of work

- 2.2.1 The objective of our Independent Review is to assist the Company in reviewing the transactions with and Purported Compensation paid to the Claimants.
- 2.2.2 We have conducted our Independent Review, to the extent possible, by examination of the Group's accounting books and records, external source documents and interviews of individuals appearing to us to have information necessary to explain the operations of the Group. This information from the Group was checked using publicly available information, where such information was available.

2.3 Limitations and restrictions on the use of our Report

- 2.3.1 This interim report (our "Report") is prepared solely for the use of Raffles Infrastructure Holdings Limited (f.k.a China Fibretech Ltd) and the Exchange under the terms of our Engagement Letter, and should not be used, quoted, referred to or relied upon, in whole or in part, without KPMG's prior written permission, by any third party or for any other purposes. We do not assume responsibility for loss and expressly disclaim any liability to any party whatsoever, however arising, from the use of this Report other than for the purposes as set out above.



- 2.3.2 The Company and/or Exchange may decide to publish certain portions or the whole of our Report. Such decision is to be made by the Company and/or the Exchange. We have the right to review all materials proposed to be published, and the right to require that the Report be published in full as a condition to our consent of the publication of our Report.
- 2.3.3 This Report does not constitute an audit, a review, or an assurance engagement in accordance with Singapore Standards on Auditing, Singapore Standards on Review Engagements or Singapore Standards on Assurance Engagement.
- 2.3.4 The observations in this Report are based on the documents made available to us for review. Except where expressly stated, these documents have not been independently verified, and reliance has been placed on the integrity, accuracy and completeness of the information therein.
- 2.3.5 The observations set out in this Report are based on our understanding of the relevant law, regulations and guidelines applicable at the time of the engagement and are not legal advice.

2.4 Summary of activities undertaken

- 2.4.1 Our fieldwork was conducted in Shishi, Fujian province, People's Republic of China and at Shishi Sinwa's premises at Shishi City, Wubao Industrial Zone (石狮市伍堡污染工业區) during the following periods:
- 22 October 2018 to 23 October 2018; and
 - 14 January 2019 to 16 January 2019.
- 2.4.2 Prior to the commencement of fieldwork, we requested information and documents (the "Supporting Documents") for our review. The Supporting Documents include Shishi Sinwa's full accounting books and records, source documents which substantiate the recorded transactions, the accounting system used in the maintenance of Shishi Sinwa's accounting books and records and computers assigned to employees of Shishi Sinwa. During our fieldwork, we interviewed individuals appearing to us to have information necessary to explain the operations of the Group. Representatives of the Company and its external legal counsel facilitated our requests for information and fieldwork.

2.5 Fieldwork in October 2018 and January 2019

- 2.5.1 On the Company's instruction and confirmation that the Supporting Documents were available, we commenced our fieldwork on 22 October 2018 (the "First Onsite Review").
- 2.5.2 At 8:45 am on 22 October 2018, we were informed by Mr Zhang, that Wu Xinhua ("Mr Wu"), the Legal Representative⁵ of Shishi Sinwa, was not contactable and requested the KPMG team (the "Review Team") to remain at their hotel. Nonetheless, we requested

⁵ A Legal Representative is the individual who serves as the legal embodiment of the company's interests for purposes of the Chinese government. His or her name appears on the company's business license and, under People's Republic of China law, the Legal Representative is responsible for that company and all of its operations.

from Mr Zhang to facilitate a visit by the Review Team to the office and factory of Shishi Sinwa.

- 2.5.3 At the premises of Shishi Sinwa, Mr Zhang represented to the Review Team that:
- He was the personal assistant of Mr Wu;
 - He had received neither instructions nor information from Mr Wu for the preparation of the Supporting Documents; and
 - The accounting books and records of Shishi Sinwa were not available at Shishi Sinwa's premises because the preparation and maintenance of accounting books and records had always been outsourced to an external contractor (the "External Accountant"), whose identity and business premises were unknown to him.
- 2.5.4 At 8:30 am on the next day, Mr Zhang informed the Review Team that Mr Wu would not be contactable over the next few days and could not meet the Review Team.
- 2.5.5 Accordingly, the First Onsite Review was suspended on 25 October 2018 by the Review Team as the Supporting Documents were not available and there was no immediate certainty that Mr Wu would facilitate the Independent Review. The cooperation of Mr Wu, in his capacity as Shishi Sinwa's Legal Representative, was critical for the Independent Review as many of our procedures required his express authorisation. For example, banks normally require authorisation from an entity's Legal Representative and/or the production of the Legal Representative's stamp prior to allowing access to that entity's banking records. In the absence of Mr Wu's cooperation, we were unable to perform review procedures such as obtaining Shishi Sinwa bank statements directly from the banks.
- 2.5.6 The Review Team re-commenced fieldwork on 14 January 2019 (the "Second Onsite Review") at the Company's instruction. Following the abortive First Onsite Review, the Company appointed Dentons China as its external legal counsel to facilitate our fieldwork and requests for information during the Second Onsite Review.
- 2.5.7 The Review Team met Mr Wu briefly on 14 January 2019, during which he agreed to facilitate the provision of certain information. With the assistance of Mr Wu and his representatives, the Review Team obtained the following information directly from the relevant banks:
- A listing⁶ of all bank accounts operated by Shishi Sinwa from Fujian Shishi Rural Commercial Bank Co., Ltd. (福建石狮农村商业银行股份有限公司); and
 - Bank statements of certain bank accounts operated by Shishi Sinwa from 1 September 2013 to 14 January 2019 (the "Verified Bank Statements") from the following banks:
 - Fujian Shishi Rural Commercial Bank Co., Ltd. (福建石狮农村商业银行股份有限公司);

⁶ We directly obtained a list of all Renminbi bank accounts operated by Shishi Sinwa from Fujian Shishi Rural Commercial Bank Co., Ltd. by using its basic bank account.

- Agricultural Bank of China (中国农业银行股份有限公司石狮鸿山支行); and
- Bank of Quanzhou (泉州银行石狮凤里支行).

- 2.5.8 A complete listing of a company's Renminbi-denominated bank accounts within the People's Republic of China can be obtained by a People's Bank of China ("PBOC") process using the company's basic Renminbi bank account⁷ (基本存款账户). Using this process, the Review Team obtained a complete listing of all Shishi Sinwa's Renminbi-denominated bank accounts through Fujian Shishi Rural Commercial Bank Co., Ltd. where Shishi Sinwa maintains its basic Renminbi bank account.
- 2.5.9 During the course of the Second Onsite Review, the Review Team requested through the Company's external legal counsel, Dentons China, for additional information, including bank statements prior to 1 September 2013, the outstanding Supporting Documents, and a formal interview with Mr Wu. Additionally, the Review Team did not have access to Shishi Sinwa's finance team, accounting books and records, the accounting systems used to maintain its accounting books and records and computers assigned to its employees. The Second Onsite Review was suspended on 16 January 2019 by the Review Team as the requests for additional information were declined by Mr Wu.
- 2.5.10 During our interviews with individuals⁸ formerly in-charge of the Group's financial reporting process ("Finance Heads") based in Singapore, we were informed that Mr Zhang was the finance manager in charge of the preparation and maintenance of Shishi Sinwa's accounting books and records and that he was assisted by a team of finance staff members. We were also informed that the Group's consolidated financial statements were prepared in Singapore based on Shishi Sinwa financial information (the "Shishi Sinwa Management Accounts") provided by Mr Zhang. This contradicts the representations⁹ Mr Zhang provided to the Review Team during the First Onsite Review that he was the personal assistant of Mr Wu and the accounting books and records of Shishi Sinwa were prepared and maintained by an external contractor.

2.6 Shishi Sinwa cash balances

- 2.6.1 The Review Team obtained the Shishi Sinwa Management Accounts and the Company's consolidation workings from Mr Leow¹⁰, Lead Independent Director of the Group. The Shishi Sinwa Management Accounts only contains summarized information on Shishi Sinwa's financial position and performance, without individual transaction details or supporting source documents. The cash balances recorded in the Shishi Sinwa Management Accounts and the Company's consolidation workings for the period from

⁷ A basic bank account is a company's first Renminbi-denominated bank account with a Chinese bank and is a necessary prerequisite to the opening of any subsequent Renminbi denominated bank accounts in the People's Republic of China.

⁸ Mak Chi Shing (Senior Finance Manager from 2014 to 2017, "Mr Mak"), Raphael Liew (Senior Finance Manager from 2012 to 2014, "Mr Liew") and Kek Poh Hean (Chief Financial Officer from 2008 to 2012, "Mr Kek").

⁹ Refer to Section 2.5.3 of this Report.

¹⁰ Mr Leow represented that the Shishi Sinwa Management Accounts were provided to him by Mr Mak, Former Senior Finance Manager of the Group. We subsequently confirmed these documents with Mr Mak.



September 2013 to December 2016 were consistent with those disclosed in the Group's quarterly results announcements and annual reports.

2.6.2 We compared the total month-end bank balances recorded in the Verified Bank Statements with the Shishi Sinwa Management Accounts from September 2013 to December 2016. Between September 2013 and August 2016, the Verified Bank Statements' month-end balances were significantly lower than those recorded in the Shishi Sinwa Management Accounts by an average of RMB 406,559,030. The discrepancies were largely eliminated after the Purported Compensation payments to the Claimants on 28 September 2016.

2.6.3 The aggregate month end cash balances of selected months are tabulated below to illustrate the extent of the discrepancies between the Verified Bank Statements and the Shishi Sinwa Management Accounts:

Month	Year	The Verified Bank Statements (RMB)	The Shishi Sinwa Management Accounts (RMB)	Discrepancy (RMB)
September	2013	30,534	443,751,694	(443,721,160)
December	2013	264,464	447,180,356	(446,915,892)
December	2014	97,494	455,956,395	(455,858,901)
December	2015	485,163	450,072,238	(449,587,075)
August	2016	604,350	450,306,861	(449,702,511)
September	2016	129,418	166,202	(36,784)
October	2016	176,290	179,420	(3,130)
November	2016	955,864	974,039	(18,175)
December	2016	619,031	621,477	(2,446)

2.6.4 A substantial portion of the discrepancies originated from the following two accounts:

- Bank account number 13540301040001660 at the Agricultural Bank of China (the "ABC Current Account"); and
- A fixed deposit account at the Agricultural Bank of China (the "ABC Fixed Deposit Account").

2.6.5 The month-end bank balances of the ABC Current Account recorded in the Verified Bank Statements were significantly lower than the balances recorded in the Shishi Sinwa Management Accounts from September 2013 to August 2016. The month-end cash balances of the ABC Current Account of selected months are tabulated to illustrate the extent of the discrepancies:

Month	Year	The Verified Bank Statements (RMB)	The Shishi Sinwa Management Accounts (RMB)	Discrepancy (RMB)
September	2013	22,014	443,723,833	(443,701,819)
December	2013	236,221	447,151,113	(446,914,892)
December	2014	88,537	455,946,889	(455,858,352)
December	2015	358,653	249,950,310	(249,591,657)
August	2016	603,373	450,285,426	(449,682,053)

Month	Year	The Verified Bank Statements (RMB)	The Shishi Sinwa Management Accounts (RMB)	Discrepancy (RMB)
September	2016	124,856	124,856	-
October	2016	21,608	21,608	-
November	2016	705,198	705,198	-
December	2016	320,031	320,031	-

- 2.6.6 On 27 November 2014, the Securities Investors Association (Singapore) (“SIAS”) disclosed a summary of a meeting with Lim Yoke Hean (“Mr Lim”), former Independent Director of the Group, Mr Low, former Independent Director of the Group and Mr Mak regarding certain shareholders’ queries. The statement states, *inter alia*, that Mr Lim and Mr Low were “*pursuing with the management of the company to place the monies in fixed deposit.*”
- 2.6.7 The Shishi Sinwa Management Accounts and the Group’s quarterly results announcements and annual reports record that the ABC Fixed Deposit Account was held from March 2015 to May 2016. According to these documents, the ABC Fixed Deposit Account contained cash balances of RMB 100,000,000 during the period March 2015 to September 2015 and May 2016, and RMB 200,000,000 during the period October 2015 to April 2016. No other documentary evidence substantiating the existence of the ABC Fixed Deposit Account was available for review and the Review Team was unable to establish the existence of ABC Fixed Deposit Account. Had the ABC Fixed Deposit Account existed, it should have been included in the listing of Shishi Sinwa’s Renminbi-denominated bank accounts obtained using its basic Renminbi bank account maintained at Fujian Shishi Rural Commercial Bank Co., Ltd.
- 2.6.8 We recovered a copy of Shishi Sinwa’s December 2014 bank statement for account number 13540301040001660 with the Agricultural Bank of China from a Company computer assigned to Mr Mak. The recovered bank statement recorded daily balances that were significantly higher than the correspondence balances recorded in the Verified Bank Statements. The bank’s authorizing stamp on this statement also differs from those observed on the Verified Bank Statements obtained directly from the bank. We were informed by Mr Mak that this bank statement was provided by Mr Zhang.
- 2.6.9 The Company also provided the Review Team with a bank confirmation¹¹ from the Agricultural Bank of China confirming a cash balance of RMB 456,142,508 as of 31 October 2014 in the ABC Current Account. We were informed by Group’s former Independent Director, Low Wai Cheong (“Mr Low”) that the bank confirmation was obtained from the Group’s former external auditor. The authorizing stamp of this bank confirmation differs from that used by the bank at that point in time and the authorizing signature from the bank’s branch manager was also absent.
- 2.6.10 When compared with the Verified Bank Statements, the bank balances in the Group’s quarterly results announcements and annual reports were significantly inflated. If the balances in the Verified Bank Statements are correct, Shishi Sinwa would not have had

¹¹ The return address and contact person recorded on the bank confirmation is the Shanghai address and a member of staff of Mazars China, a global office of the Group’s former external auditors, Mazars LLP.

sufficient funds to make the Purported Compensation payments of RMB 466,047,038 on 28 September 2016.

Interested person transactions

- 2.6.11 The Verified Bank Statements also record a large number of deposits and withdrawals with Mr Wu and Wu Xin Da, the son of Mr Wu, summing to RMB 65,601,025 and RMB 68,561,787 respectively as tabulated below:

Name	Number of withdrawal transactions	Total withdrawal transactions (RMB)	Number of deposit transactions	Total deposit transactions (RMB)	Net inflow/ (outflow) (RMB)
Wu Xin Hua	40	(20,000,000)	8	34,115,000	14,115,000
Wu Xin Da	431	(48,561,787)	223	31,486,025	(17,075,762)
Sub Total	471	(68,561,787)	231	65,601,025	(2,960,762)
Total transactions recorded in Verified Bank Statements	3,391	(384,307,662)	1,973	384,011,261	(296,401)

- 2.6.12 Neither the Shishi Sinwa Management Accounts nor the Group's quarterly results announcements and annual reports reported these interested person transactions. The Review Team did not have access to Shishi Sinwa's accounting books and records nor other documents substantiating the transactions. As a result, it was not possible to establish the commercial substance, if any, of these transactions between the two individuals and Shishi Sinwa. If the withdrawals were not made for the purposes of the commercial activities of the Group, they may constitute improper payments.

2.7 The Claimants

- 2.7.1 The Review Team made unscheduled visits to the Claimants at their registered address in October 2018 and January 2019, without the prior knowledge of Shishi Sinwa local management. No *prima facie* indication that the Claimants' business operations were not authentic was observed.
- 2.7.2 During the Second Onsite Review, the Review Team interviewed the respective legal representatives of the Claimants. The legal representatives stated that their companies had neither requested nor received the Purported Compensation from Shishi Sinwa and provided signed confirmations to that effect. The Verified Bank Statements also record no payments to the bank accounts of the Claimants.
- 2.7.3 Various notifications of damages, compensation claim notices, settlement agreements and bank transfer receipts related to the Purported Compensation were recovered from the Company computer assigned to Mr Mak. These documents (the "Purported Compensation Documents") were inconsistent with other documentation reviewed as follows:



- The Claimants' authorizing stamps and signatures on the Purported Compensation Documents do not match those on the confirmation letters obtained directly from the Claimants by the Review Team; and
 - The bank's authorizing stamp on the Purported Compensation Documents is inconsistent with that used on bank confirmations obtained independently by the Review Team.
- 2.7.4 The Review Team also recovered emails from the same Company computer from an email account "*simwa@126.com*" to Mr Mak containing the Purported Compensation Documents. Mr Mak informed the Review Team that the Purported Compensation Documents were provided by Mr Zhang and the email account "*simwa@126.com*" was used by Mr Zhang.
- 2.7.5 The Purported Compensation Documents appear to have been created to substantiate the Purported Compensation payments. The Purported Compensation payments had the effect of eliminating the artificially inflated cash balances in the Shishi Sinwa Management Accounts described in Section 2.6 of this Report.
- 2.7.6 Taken together, this would appear to indicate that the Company's announcements on the Purported Compensation and its subsequent payments to the Claimants were factually inaccurate and, if taken at face value, would have the effect of misleading a reader of the announcements.

2.8 Disposal of land and property in 2014

- 2.8.1 The Company announced on 5 August 2014 that it had entered into a Sale and Purchase Agreement ("SPA") with Xiamen Shende Property Management Co., Ltd (厦门深德资产管理有限公司, "Xiamen Shende") for the disposal of property and land held by Shishi Sinwa for a consideration of RMB 48,689,000 (the "Property Disposal"). A deposit of RMB 8,689,000 due within three working days upon signing of the SPA on or before 6 August 2014, and the remaining RMB 40,000,000 due within 10 working days upon obtaining approval from shareholders on or before 29 September 2014.
- 2.8.2 On 9 October 2014, the Company further announced that RMB 40,000,000 of the sales proceeds had been received from Xiamen Shende following the shareholder's approval of the Property Disposal.
- 2.8.3 The Verified Bank Statements record three deposits totalling RMB 45,000,000 from Xiamen Shende in Shishi Sinwa's bank account with Agricultural Bank of China (Shishi Hongshan Branch) (中国农业银行股份有限公司石狮鸿山支行) between 3 January 2014 and 15 April 2014. Another RMB 3,689,000 was deposited in the same bank account by Xiamen Shende on 15 August 2014, bringing the total transfers from Xiamen Shende to RMB 48,689,000, the same sum as the consideration for the Property Disposal.
- 2.8.4 The deposits from Xiamen Shende summing to RMB 45,000,000 were therefore received prior to the Company's announcement and execution of the SPA on 5 August 2014. No other payments were recorded from Xiamen Shende in the Verified Bank Statements. If these payments were for the Property Disposal, the Company's disclosure on 5 August 2014 and 9 October 2014 was factually inaccurate and, if taken at face value, would have the effect of misleading a reader of the announcements.

- 2.8.5 Furthermore, the deposits from Xiamen Shende were followed by repayments of Shishi Sinwa's corporate loan with Agricultural Bank of China and payments to Mr Wu and two other individuals. The withdrawals paid to Mr Wu and the two individuals amounted to RMB 28,420,000 and were made in multiple tranches, each not exceeding RMB 500,000 as tabulated below:

Date	Withdrawals from Shishi Sinwa (RMB)	Counterparty	Counterparty bank	Bank account number	Other observations
23 to 27 January 2014	20,000,000	Mr Wu	Shishi Hongshan Branch, Fujian Province 福建省石狮鸿山支行	622846068000146715	The withdrawals during this period were made via 40 separate transfers of RMB 500,000.
15 April 2014	5,000,000	Individual 1	Fujian Shishi Lingxiu Branch 福建省石狮灵秀支行	6228480688183394172	The withdrawals were made via 10 separate transfers of RMB 500,000.
18 August 2014	3,420,000	Individual 2	Fujian Shishi Haofu Sub-branch 福建省石狮豪富支行	6228480682230398211	The withdrawals were made via 7 separate transfers not exceeding RMB 500,000.
Total	28,420,000				

- 2.8.6 We were unable to establish the identity of the two individuals or their relationship with Mr Wu, Shishi Sinwa or the Group. The Review Team did not have access to Shishi Sinwa's accounting books and records nor supporting documents substantiating the transactions. As a result, it was not possible to establish the commercial substance, if any, of the transactions with these individuals or rationale for the multiple payment tranches. If the withdrawals were not made for the purposes of the commercial activities of the Group, they may constitute improper payments.

2.9 Potential breaches in the listing rules

- 2.9.1 The factually inaccurate disclosures¹² by the Company and non-disclosure¹³ of Interested Person Transactions¹⁴ ("IPT") may be in breach of the following rules stipulated in the SGX-ST Listing Manual (the "Listing Rules"):

— *"An issuer must announce any information known to the issuer concerning it or any of its subsidiaries or associated companies which is necessary to avoid the establishment of a false market in the issuer's securities."* – **Listing Rules 703(1)(a)**

¹² Refer to Sections 2.6.9, 2.7.6 and 2.8.4 of this Report.

¹³ Refer to Sections 2.6.11 and 2.8.5 of this Report

¹⁴ As defined under SGX-ST Listing Manual Chapter 9 Section 904(4).



- *“An issuer must make an immediate announcement of any interested person transaction of a value equal to, or more than, 3% of the group's latest audited net tangible assets.” – Listing Rules 905(1)*
- *“If the aggregate value of all transactions entered into with the same interested person during the same financial year amounts to 3% or more of the group's latest audited net tangible assets, the issuer must make an immediate announcement of the latest transaction and all future transactions entered into with that same interested person during that financial year.” – Listing Rules 905(2)*
- *“An issuer must disclose the aggregate value of interested person transactions entered into during the financial year under review in its annual report.” – Listing Rules 907*
- *“An issuer must obtain shareholder approval for any interested person transaction of a value equal to, or more than:— of a value equal to, or more than:*
 - (a) 5% of the group's latest audited net tangible assets; or*
 - (b) 5% of the group's latest audited net tangible assets, when aggregated with other transactions entered into with the same interested person during the same financial year. However, a transaction which has been approved by shareholders, or is the subject of aggregation with another transaction that has been approved by shareholders, need not be included in any subsequent aggregation.” – Listing Rules 906(1)*

2.10 Limitations of our observations

- 2.10.1 As at the date of this Report, the Review Team had not been provided with the majority of the Supporting Documents requested for the Independent Review. In particular, the Review Team had not been provided access to Shishi Sinwa's accounting books and records, substantiating documents, the accounting systems used to maintain its accounts, and computers assigned to its employees. Mr Wu has denied requests for additional information and a formal interview to provide him with the opportunity to explain our observations.