

Singapore Exchange Securities Trading Limited  
Listings Disciplinary Proceeding No: SGX-LDC-2023-003

**IN THE MATTER OF A DISCIPLINARY PROCEEDING  
UNDER THE SGX-ST LISTING MANUAL MAINBOARD RULES**

**BETWEEN**

**SINGAPORE EXCHANGE SECURITIES TRADING LIMITED**

**(the “Exchange”)**

**AND**

**WU XINHUA**

**(the “Relevant Person”)**

**GROUND OF DECISION**

11 April 2024

***This document constitutes the written grounds of decision of the SGX Listings Disciplinary Committee as required under Mainboard Rule 1417(1), and is prepared for the Exchange and the Relevant Person who are parties to SGX-LDC-2023-003.***

***This document is confidential and meant to be read by the parties and their legal representatives only, until such time as these grounds of decision are published by the Singapore Exchange Securities Trading Limited pursuant to Mainboard Rule 1418(1).***

## **I. CHARGES BROUGHT BY THE EXCHANGE**

1. The Singapore Exchange Securities Trading Limited (the “**Exchange**”) brought five charges (the “**Charges**”) against Wu Xinhua (“**WXH**”), the former Executive Chairman and Chief Executive Officer (“**CEO**”) of Raffles Infrastructure Holdings Limited, a company listed on the Mainboard of the SGX-ST (the “**Company**”, and together with its subsidiaries, the “**Group**”) for, breaching the following rules:

<b>Charge</b>	<b>Relevant Rule</b>	<b>Short Description</b>
1 <sup>st</sup> Charge	Mainboard Rule 703(4), read with paragraph 25(a) of Appendix 7.1 and Mainboard Rule 1402(5) <sup>1</sup>	Caused the Company to breach Mainboard Rule 703(4), read with paragraph 25(a) of Appendix 7.1, by disclosing bank balances in the Company’s SGXNET announcements and annual reports, which were non-factual, false and misleading.
2 <sup>nd</sup> Charge	Mainboard Rule 703(4), read with paragraph 25(a) of Appendix 7.1 and Mainboard Rule 1402(5)	Caused the Company to breach Mainboard Rule 703(4), read with paragraph 25(a) of Appendix 7.1, by disclosing in the Company’s SGXNET announcements that the Company had received Claims <sup>2</sup> from the Claimants <sup>3</sup> and made the Purported Compensation <sup>4</sup> , which were non-factual, false and misleading.
3 <sup>rd</sup> Charge	Mainboard Rule 703(4), read with paragraph 25(a) of Appendix 7.1	Caused the Company to breach Mainboard Rule 703(4), read with paragraph 25(a) of Appendix 7.1, by disclosing in the Company’s SGXNET announcements that the Company had a fixed deposit account purportedly held with Agricultural

<sup>1</sup> Mainboard Rule 1402(5) states that a Relevant Person is deemed to have contravened a Relevant Rule when a Relevant Person has caused another Relevant Person to commit an act in breach of a Relevant Rule.

<sup>2</sup> As defined in paragraph 10 below.

<sup>3</sup> As defined in paragraph 10 below.

<sup>4</sup> As defined in paragraph 11 below.

	and Mainboard Rule 1402(5)	Bank of China, which was non-factual, false and misleading.
4 <sup>th</sup> Charge	Mainboard Rule 719(1), read with Mainboard Rule 1402(5)	Caused the Company to breach Mainboard Rule 719(1) by failing to have a robust and effective system of internal controls, addressing financial, operational and compliance risks.
5 <sup>th</sup> Charge	Mainboard Rule 720(1), read with Mainboard Rule 210(5)(b)	Failed to demonstrate the character and integrity expected of a director of a listed issuer.

## II. THE LDC PROCEEDINGS

2. In accordance with the Mainboard Rules on proceedings before the LDC, the Exchange issued a Notice of Charges to WXH, following which the secretariat to the LDC issued directions for the submission of responses to the charges. The communications were served on WXH at his last known address (“**Delivery Address**”) in the People’s Republic of China (“**PRC**”), and WXH had confirmed the Delivery Address over the phone to the Exchange.
3. WXH did not respond to the communications. The Exchange subsequently applied to the LDC for the hearing to proceed by way of written representations.
4. The LDC was satisfied that the communications relating to these LDC proceedings had been successfully served on WXH in accordance with the rules governing LDC proceedings. As such, the LDC directed via a Notice of Hearing issued to all parties that the hearing would proceed by way of written representations and parties were invited to file further representations for the LDC’s consideration. The Notice of Hearing, directions and the documents stated at paragraph 5 below were similarly sent to WXH’s Delivery Address. The matter proceeded accordingly pursuant to Mainboard Rules 1415(4)<sup>5</sup> and 1415(5)<sup>6</sup>.

<sup>5</sup> Mainboard Rule 1415(4) states that where a party does not respond to a relevant direction issued under Rule 1415(1), the party is deemed to have no objection to the relevant direction, and the Disciplinary Committee may proceed as it deems fit.

<sup>6</sup> Mainboard Rule 1415(5) states that where a party does not indicate that the party is intending to attend the hearing, the party is deemed to have no intention of attending the hearing and the hearing can proceed in the absence of that party.

5. The following written representations (“**Written Representations**”) were submitted to the LDC for consideration:
  - (a) Notices of Charges against WXH issued by the Exchange;
  - (b) Report to the LDC containing the relevant facts and the Exchange’s case against WXH, filed by the Exchange; and
  - (c) Further Representations on the proposed sanctions to be imposed on WXH, filed by the Exchange.

### III. RELEVANT FACTS

#### *The Company and WXH*

6. The Company was incorporated in Bermuda on 12 July 2007. It was previously known as China Fibretech Ltd and was listed on the Mainboard of the Exchange on 30 June 2008. Based in Shishi City in the Fujian Province of the PRC, the Group at the material time was principally engaged in the provision of dyeing and post-processing treatment services for cotton, polyester and mixed knitted fabrics, and had only one operating subsidiary, Shishi Sinwa Knitting and Dyeing Co. Ltd (“**Shishi Sinwa**”). The Company changed its name to Raffles Infrastructure Holdings Limited on 24 September 2018, and is now an investment holding company principally engaged in the investment and management of infrastructure projects in Asia.
7. WXH is the founder of the Group and was the majority shareholder at the material time. As at 18 March 2015, WXH owned 50.38% of the issued shares of the Company through his wholly-owned vehicle, Wellgain International Holdings Limited. His shareholdings had reduced to 13.31% as at 22 September 2022. At the material time, WXH was the Executive Chairman and Chief Executive Officer (“**CEO**”) of the Group as well as the legal representative of the Shishi Sinwa.
8. At the material time, WXH was a director of the Company in the following capacities:

<b>Name</b>	<b>Designation</b>	<b>Date of appointment</b>	<b>Date of cessation</b>
WXH	Executive Chairman & CEO	27 July 2007	23 October 2017
	Non-Independent Non-Executive Director	24 October 2017	29 March 2019

9. At the material time, apart from WXH, the Company's board of directors (the "**Board**") and key management also comprised the following individuals:

Name	Designation	Date of appointment	Date of cessation
Gao Yan	Executive Director & Chief Operating Officer	25 March 2008	8 May 2015
Wu Dezhi ("Wu DZ")	Executive Director	27 July 2007	15 June 2009
	Non-Independent Non-Executive Director	16 June 2009	23 October 2017
Lim Yoke Hean	Lead Independent Director & Audit Committee ("AC") Chairman	30 July 2012	27 January 2016
Low Wai Cheong ("Low")	Independent Director & AC member	4 May 2011	28 November 2017
Lin Qingguo	Non-Independent Non-Executive Director & AC member	25 March 2008	1 July 2015
Mak Chi Shing ("Mak") <sup>7</sup>	Senior Finance Manager	4 April 2014	8 June 2017

#### *Key events relating to the Charges*

10. The Company's securities were suspended from trading on 30 November 2015 due to uncertainties surrounding unverified claims (the "**Claims**") from three customers, (a) 石狮市爱利奴服饰有限公司 ("**Ai Li Nu**"), (b) 晋江市滨浪制衣织造有限公司 ("**Bin Lang**") and (c) 石狮市金太屋纺织服饰有限公司 ("**Jin Tai Wu**" and collectively, the "**Claimants**") against Shishi Sinwa. The Claimants purportedly alleged that they had suffered substantial damages and financial losses due to the products processed by Shishi Sinwa. It was claimed that the products did not meet the specified requirements which resulted in the de-colouring in their end-products.
11. On 29 September 2016, the Company announced that the Claims were paid on 28 September 2016 (the "**Purported Compensation**") by WXH and Wu DZ, without the approval from Low<sup>8</sup> nor knowledge of Low and the senior finance manager. The

<sup>7</sup> Mak's role was essentially to perform the consolidation and regulatory reporting of the Group's financial statements. At the material time, he was based in Singapore and had no control over the finance operations in the PRC.

<sup>8</sup> Since 28 January 2016, there were only three members on the Board, namely WXH, Wu DZ and Low.

Purported Compensation amounted to RMB 466,047,380<sup>9</sup> arising from sales amounting to RMB20,303,140.12. The unauthorised payments purportedly wiped out all of the Company's cash balances and affected the Company's ability to operate as a going concern.

12. The Purported Compensation was made despite the Company disclosing in various SGXNET announcements that the management would:
- (a) engage a reputable law firm to handle the Claims;
  - (b) report to the Board on the status and development of the Claims; and
  - (c) not admit liability nor agree to any form of compensation before consulting and seeking the Board's approval.
13. On 26 October 2017, the Exchange brought charges against the Company, WXH and Wu DZ before the LDC, for various contraventions under the Listing Manual ("**Previous Charges**"). The Previous Charges are summarised as follows<sup>10</sup>:

Charge	Relevant Rule	Parties	Description
1 <sup>st</sup> Charge	Mainboard Rule 704(8)	Company, WXH	Failed to maintain a minimum number of Audit Committee members
2 <sup>nd</sup> Charge	Mainboard Rule 221, read with Mainboard Rule 720(1)	Company, WXH	Failed to maintain two independent directors resident in Singapore
3 <sup>rd</sup> Charge	Mainboard Rule 719(1)	Company, WXH	Failed to have in place a robust and effective system of internal controls
4 <sup>th</sup> Charge	Mainboard Rule 707(1)	Company, WXH	Failed to hold annual general meeting (" <b>AGM</b> ") for the financial year ended 31 December 2015 (" <b>FY2015</b> ")
5 <sup>th</sup> Charge	Mainboard Rule 707(2)	Company, WXH	Failed to issue annual report for FY2015
6 <sup>th</sup> Charge	Mainboard Rule 704(5)(b)	Company, WXH	Failed to immediately announce the auditors' qualification on the FY2015 financial statements

<sup>9</sup> Pursuant to the Exchange's queries, the Company provided in its announcement dated 22 November 2016, a breakdown of the amounts paid to the Claimants, i.e. the total net amount paid was RMB 465,998,097.20 where the total compensation claimed was RMB 466,047,380.00, adding interest expenses of RMB 4,427,450.12 and less trade receivables of RMB 4,476,732.92.

<sup>10</sup> The relevant Mainboard Rules in the 1st to 6th charges against WXH are read with Mainboard Rule 1402(6), which provides that the directors and executive officers of an issuer are deemed to have contravened a Relevant Rule when they have caused the issuer to omit to do an act which resulted in a breach of a Relevant Rule.

7 <sup>th</sup> Charge	Mainboard Rule 210(5)(b), read with Mainboard Rule 720(1)	WXH, Wu DZ	Failed to possess the character and integrity expected of a director of a listed issuer
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14. The matter was initially adjourned to 8 February 2018 for further sentencing submissions by the Exchange.
15. On 12 December 2017, the Company appointed KPMG Services Pte. Ltd. (“**KPMG**”) to conduct an independent review of the Company and its subsidiaries (the “**Independent Review**”). Since December 2017, the Company had been working towards a trading resumption prior to the Independent Review, as it intended to conduct a placement to a PRC state-owned enterprise and the places required certainty of trading before they could invest in the Company. The placement proceeds would be used to pay for the Independent Review and for the Company to diversify into a new business with entities it had signed the memorandums of understanding with.
16. In late January 2018, a newly constituted Board<sup>11</sup> submitted a trading resumption proposal to the Exchange. In light of the new corporate developments, the Exchange sought a further adjournment of the LDC hearing in order to review the Company’s proposal. On 5 February 2018, the LDC granted the Exchange’s application for an adjournment of the hearing until further notice.
17. On 23 February 2018, the Exchange granted the Company’s application for trading resumption subject to the satisfaction of, amongst others, the following conditions:
  - (a) the Company would take all necessary measures / steps to allow KPMG unfettered access to the Company in their conduct of the Independent Review. The scope of the Independent Review was for the period from 1 January 2014 to 30 September 2016, centred on the review of the Claims and the Purported Compensation; and
  - (b) the Company would take corrective and enforcement actions on the findings in the Independent Review report.
18. On 13 August 2019, KPMG submitted the report of the Independent Review (the “**Independent Review Report**”) to the Company and the Exchange. On the same day, the Company released the executive summary of the Independent Review Report via SGXNET.

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<sup>11</sup> WXH was re-designated as a Non-Executive and Non-Independent Director of the Company while WDZ resigned from the Board.

19. KPMG reported the following findings:
- (a) the cash balances recorded in the Group's consolidated financial statements in Singapore based on financial information provided by Shishi Sinwa (the "**Shishi Sinwa Management Accounts**") were significantly and artificially inflated;
  - (b) a fixed deposit purportedly held with the Agricultural Bank of China did not exist;
  - (c) the Claims did not exist and the Purported Compensation was not made;
  - (d) there were undisclosed interested person transactions; and
  - (e) the Company made erroneous announcements on the disposal of land and property in 2014.
20. KPMG also highlighted that it had to suspend its onsite review twice<sup>12</sup> due to the lack of cooperation from WXH and Shishi Sinwa's local management in the PRC. Specifically, KPMG's 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 the computers assigned to its employees. WXH had further denied KPMG's requests for additional information and a formal interview to provide explanation for KPMG's observations.
21. In the previous disciplinary proceedings before the LDC in October 2017, the case was centred on the Claims by the Claimants which led to the Purported Compensation at the behest of WXH and Wu DZ, who had approved the payment without the approval of the Board. In light of KPMG's findings in the Independent Review Report, the Exchange notes that the facts supporting the key charge relating to the Company's and WXH's failure to put in place a robust and effective system of internal controls to prevent the unauthorised payment of the Claims are no longer substantiated insofar as the Purported Compensation was found to not have been made. Further, there are far more egregious breaches of the Mainboard Rules than the charges previously brought against the Company, WXH and Wu DZ.
22. As such, on 24 May 2023, the Exchange, pursuant to Mainboard Rule 1416(4), withdrew the Previous Charges by providing the LDC, WXH and Wu DZ with notices of discontinuance. Concurrently, the Exchange issued the current Charges.

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<sup>12</sup> The first onsite review was suspended on 25 October 2018 while the second onsite review was suspended on 16 January 2019.



#### IV. RELEVANT PROVISIONS OF THE MAINBOARD RULES

##### *Disclosure of information*

23. Mainboard Rule 703(4) states:

*“In complying with the Exchange's disclosure requirements, an issuer must:*

- (a) observe the Corporate Disclosure Policy set out in Appendix 7.1 of the Manual, and*
- (b) ensure that its directors and executive officers are familiar with the Exchange's disclosure requirements and Corporate Disclosure Policy.*

24. Paragraph 25(a) of Appendix 7.1 (Corporate Disclosure Policy) provides that:

*“[t]he content of a press release or other public announcement is as important as its timing ... Each announcement should be factual, clear and succinct.”*

[Emphasis added.]

##### *Robust and effective internal controls*

25. Mainboard Rule 719(1)<sup>13</sup> states:

*“An issuer should have a robust and effective system of internal controls, addressing financial, operational and compliance risks. The audit committee (or such other committee responsible) may commission an independent audit on internal controls for its assurance, or where it is not satisfied with the systems of internal controls.”*

[Emphasis added.]

##### *Character and integrity of directors*

26. Under Mainboard Rule 720(1)<sup>14</sup>, directors and executive officers of an issuer are required to provide personal undertakings that they shall, inter alia, use their best endeavours to comply with the requirements of the Exchange pursuant to or in connection with the Listing Manual, and to procure that the issuer shall so comply. In addition, Mainboard Rule 720(1) provides that Mainboard Rule 210(5) shall be complied with on a continuing basis.

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<sup>13</sup> Version effective from 29 September 2011 to 31 December 2018.

<sup>14</sup> Version effective from 7 October 2015 to 31 December 2018.

27. Mainboard Rule 210(5)(b)<sup>15</sup> states:

*“The character and integrity of the directors, management and controlling shareholders of the issuer will be a relevant factor for consideration. In considering whether the directors, management and controlling shareholders have the character and integrity expected of a listed issuer, the Exchange will take into account the disclosure made in compliance with Rule 246(5)(a).”*

28. Mainboard Rule 103(5) provides that the directors of an issuer shall act in the interests of shareholders as a whole, particularly where a director or substantial shareholder has a material interest in a transaction entered into by the issuer.

## V. MAINBOARD RULE BREACHES

*1<sup>st</sup> Charge concerning Mainboard Rule 703(4), read with paragraph 25(a) of Appendix 7.1 and Mainboard Rule 1402(5) – Causing the Company to disclose bank balances in the Company’s SGXNET announcements and annual reports, which were non-factual, false and misleading*

29. Regarding the facts relating to this charge, the LDC noted that:

- (a) during the Independent Review, KPMG obtained the following information directly from the relevant banks:
  - (i) listing of all bank accounts operated by Shishi Sinwa<sup>16</sup>; and
  - (ii) bank statements of certain bank accounts operated by Shishi Sinwa from 1 September 2013 to 14 January 2019 from (a) Fujian Shishi Rural Commercial Bank Co., Ltd., (b) Agricultural Bank of China (Shishi Hongshan Branch), and (b) Bank of Quanzhou (Shishi Fengli Branch) (collectively, the **“Verified Bank Statements”**);
- (b) KPMG also obtained, from the Company, the Shishi Sinwa Management Accounts<sup>17</sup> as well as the Company’s consolidation workings. KPMG noted that the cash balances recorded in the Shishi Sinwa Management Accounts and the Company’s consolidated workings for the period from September 2013 to December 2016 were consistent with those disclosed in the Group’s quarterly results announcements and annual reports;

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<sup>15</sup> Version effective from 19 January 2015 to 25 June 2018.

<sup>16</sup> According to KPMG, a complete listing of a company’s Renminbi-denominated bank accounts within the PRC may be obtained using the company’s basic Renminbi bank account (which is a company’s first Renminbi-denominated bank account with a Chinese bank and is a necessary pre-requisite to the opening of any subsequent Renminbi denominated bank accounts in the PRC). Using this process, KPMG obtained a complete listing of all of Shishi Sinwa’s Renminbi-denominated bank accounts through Fujian Shishi Rural Commercial Bank Co Ltd where Shishi Sinwa maintains its basic Renminbi bank account.

<sup>17</sup> According to KPMG, the Shishi Sinwa Management Accounts only contain summarised information on Shishi Sinwa’s financial position and performance, without individual transaction details or supporting source documents. KPMG also noted that the cash balances recorded in the Shishi Sinwa Management Accounts appear to have been relied upon, without any adjustments, in the preparation of the Group’s consolidated financial information.

- (c) based on KPMG's review of the Verified Bank Statements and the Shishi Sinwa Management Accounts, the cash balances recorded in the Shishi Sinwa Management Accounts were significantly and artificially inflated;
- (i) KPMG's comparison of the total month-end bank balances recorded in the Verified Bank Statements with the Shishi Sinwa Management Accounts from September 2013 to December 2016 showed that 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;
- (ii) the aggregate month-end cash balances of selected months, tabulated below, illustrated 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 (Shortfall)	% of Net Asset Value	% of Market Capitalisation
Dec	2013	264,464	447,180,356	(446,915,892)	92% (485,706,000)	673% (66,425,339)
Dec	2014	97,494	455,956,395	(455,858,901)	93% (487,743,000)	570% (79,928,324)
Dec	2015	485,163	450,072,238	(449,587,075)	92% (489,244,000)	107% (42,054,698)
Sep	2016	129,418	166,202	(36,784)	0.001% (21,488,000)	0.0008% (44,725,490)
Dec	2016	619,031	621,477	(2,444)	0.0001% (19,659,000)	0.00005% (44,725,490)

- (iii) based on KPMG's interviews with the former finance managers of the Company, the discrepancies observed in the Shishi Sinwa Management Accounts appear to have originated from Shishi Sinwa's local management in the PRC. The finance operations of Shishi Sinwa in the PRC were run by the local finance manager, Zhang Dufang, who was in charge of the preparation and maintenance of Shishi Sinwa's accounting books and records. Notably, Zhang Dufang reported directly to WXH, instead of Mak, the Senior Finance Manager based in Singapore;
- (iv) as seen from the table, and as noted by KPMG, the discrepancies were substantially removed after the Purported Compensation was purported made on 28 September 2016;
- (d) KPMG's investigations showed that the supporting documents such as the Shishi Sinwa's bank statements, bank confirmations and internet banking facilities had been fabricated or deployed to artificially substantiate the inflated bank balances;
- (i) the bank statements which were obtained from the Company recorded daily balances that were significantly higher than the corresponding balances recorded in the Verified Bank Statements obtained by KPMG directly from the banks. It had also been observed that the authorising stamps on both sets of documents were different;

- (ii) when compared with the Verified Bank Statements, the cash balances in the Shishi Sinwa Management Accounts and, consequently, the Group's quarterly results announcements and annual reports were significantly and artificially inflated;
- (iii) KPMG noted that if the balances in the Verified Bank Statements were accurate, Shishi Sinwa would not have had sufficient funds to make the Purported Compensation payment of RMB 466,047,038 on 28 September 2016;
- (e) from the foregoing, it was clear that the cash balances were artificially inflated and supported by fabricated documents. This resulted in the Company disclosing the following non-factual, false and misleading information in its quarterly results announcements and annual reports:

S/N	Announcements and reports	Contents
1.	The Company's 3Q2015 results announced on 4 November 2015	Cash and bank balances as at 30 September 2015 was stated as RMB 449,116,000.
2.	The Company's FY2015 results announced on 19 July 2016	Cash and bank balances as at 31 December 2015 was stated as RMB 450,127,000.
3.	The Company's 1Q2016 results announced on 19 July 2016	Cash and bank balances as at 31 March 2016 was stated as RMB 451,366,000.
4.	The Company's 2Q2016 results announced on 15 August 2016	Cash and bank balances as at 30 June 2016 was stated as RMB 450,267,000.
5.	The Company's Annual Report for FY2015 ("AR2015") announced on 13 November 2017	Cash and bank balances as at 31 December 2015 was stated as RMB 450,127,000.
6.	The Company's announcement dated 27 November 2017	In response to the Exchange's queries on AR2015, the Company represented as follows:  <i>"a. Mr. Wu Xinhua confirmed and give assurance that the financial records have been properly maintained and the financial statements give a true and fair view of the Company's operations and</i>

		<p><i>finances; and the Company's risk management and internal controls are effective.</i></p> <p><i>b. The Directors felt that the consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company give a true and fair view in view of the situation of the financial state of affairs of the Company based on the records kept by management notwithstanding the uncertainties over the legitimacy of the compensation claim and the bank balances.”</i></p>
7.	The Company's Annual Report for FY2016 announced on 28 August 2018	Comparative figure for cash and bank balances in FY2015 was stated as RMB 450,127,000.

30. The LDC considered the following submissions that the Exchange made regarding this charge, namely:

- (a) pursuant to Mainboard Rule 703(4)(a), read with paragraph 25(a) of Appendix 7.1, all SGXNET announcements are required to be, *inter alia*, factual. Given that the announcements and annual reports referred to in paragraph 29(l) above contained artificially inflated bank balances, they were non-factual, false and misleading. Accordingly, the Company had breached Listing Rule 703(4)(a), read with paragraph 25(a) of Appendix 7.1;
- (b) at the material time, WXH was the Executive Chairman, CEO and majority shareholder of the Company. With the consecutive resignations of Gao Yan and Lin Qingguo, respectively in May and July 2015, WXH and Wu DZ were the only directors based in the PRC, overseeing the Group's operations. WXH was also the only executive director on the Board. With the further resignation of Lim Yoke Hean on 27 January 2016, the Board was eventually left with three members, namely WXH, Wu DZ and Independent Director, Low. Given the absence of an appropriate balance of power or capacity for independent decision-making by the Board, WXH essentially operated as the *de facto* controlling mind and decision maker of the Group;
- (c) as WXH was also the legal representative of the Shishi Sinwa, he had full control over the management of Shishi Sinwa, including its finance operations. Specifically, while the common seal (公章), legal seal (法人章) and finance seal (财务章) of Shishi Sinwa were purportedly each held by Zhang Zhenglong,

Manager for Human Resources and Administration, Wu Xinda (WXH's son), Deputy General Manager for Administration and Zhang Dufang, Finance Manager, respectively, all of them reported to WXH. Accordingly, WXH likely had power and control over these seals and had unfettered access to them;

- (d) in light of the foregoing, it would be inconceivable that the scheme involving Shishi Sinwa's artificially inflated bank balances for a period of at least three years<sup>18</sup> could take place without WXH's direct involvement. In fact, all of the Company's announcements and annual reports referred to in paragraph 29(l) were signed off and/or approved by WXH. This points to the conclusion that WXH had orchestrated the entire scheme to artificially inflate the Company's bank balances and subsequently "normalise" it through the Claims and Purported Compensation (the "**Scheme**");
  - (e) it is evident that WXH was behind the entire Scheme from the beginning. Given that the Group's bank balances were artificially inflated by an average amount of RMB 406,559,030, which were non-existent, it is clear that the Claims and Purported Compensation were contrived to revert the bank balances back to its true state. Notably, WXH had signed off on the Directors' Statement of the Company's AR2015, which referred to the Claims and Purported Compensation, which were also non-existent;
  - (f) the Company had lodged a police report on 13 September 2019, stating that "*[t]he Company believes that WXH and [Wu DZ] had fabricated the claims to mislead shareholders as to the true balance standing in the bank accounts of Shishi Sinwa*"; and
  - (g) pursuant to the personal undertakings provided to the Exchange under Mainboard Rule 720(1) by WXH as a director, he was required to use his best endeavours to (a) comply with the requirements of the Exchange pursuant to or in connection with the Listing Manual, and (b) procure that the Company shall so comply.
31. Having considered the relevant facts and the Exchange's submissions stated above, the LDC finds that pursuant to Mainboard Rule 1402(5), WXH had breached Mainboard Rule 703(4), read with paragraph 25(a) of Appendix 7.1, for causing the Company to disclose bank balances in the Company's SGXNET announcements and annual reports, which were non-factual, false and misleading.

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<sup>18</sup> KPMG was only able to obtain from the Company bank statements for the period from 1 September 2013 onwards. KPMG's request to the Company for bank statements prior to 1 September 2013 was declined by WXH. See paragraph 3.2.4 of the Independent Review Report.

2<sup>nd</sup> Charge concerning Mainboard 703(4), read with paragraph 25(a) of Appendix 7.1 and Mainboard Rule 1402(5) – *Causing the Company to disclose in the Company’s SGXNET announcements that the Company had received Claims from the Claimants and made the Purported Compensation, which were non-factual, false and misleading*

32. Regarding the facts relating to this charge, the LDC noted that:

- (a) KPMG reported that each of the respective legal representatives of the Claimants stated that the Claimants had neither requested for any compensation nor received the Purported Compensation from Shishi Sinwa, and provided signed confirmations to that effect. The Verified Bank Statements also did not record any payments to the bank accounts of the Claimants;
- (b) KPMG’s review of various notifications of damages, compensation claim notices, settlement agreements and bank transfer receipts related to the Purported Compensation recovered from a computer belonging to the Company also revealed the following inconsistencies:
  - (i) the Claimants’ authorising stamps and signatures on the Purported Compensation documents do not match those on the confirmation letters obtained directly from the Claimants; and
  - (ii) the bank’s authorising stamp on the Purported Compensation documents was inconsistent with that used on the bank confirmations obtained independently from the bank by KPMG;
- (c) KPMG was of the view that the Purported Compensation documents had been created to falsely substantiate the Purported Compensation payments. The Purported Compensation had the effect of eliminating the artificially inflated cash balances in the Shishi Sinwa Management Accounts;
- (d) from the foregoing, it was clear that the Company’s receipt of the Claims from the Claimants and payment of Purported Compensation were contrived. This resulted in the Company disclosing the following non-factual, false and misleading information in the Company’s SGXNET announcements as follows:

S/N	Announcements and reports	Contents
1.	The Company’s announcement dated 30 November 2015	The Company announced that Shishi Sinwa “has received notices from three customers on 25 November 2015 and 26 November 2015 alleging that they have suffered substantial damages and financial losses due to the products processed by the Company’s subsidiary not meeting the specified requirements, resulting in de-colouring in their end-products. It is noted that the said notices

		<i>have not quantified the alleged losses incurred.”</i>
2.	The Company's announcement dated 8 April 2016	The Company announced that it “ <i>had met up with the Claimants once in early Dec 2015</i> ” and the management was “ <i>still in the midst of conducting internal investigation</i> ” and would “ <i>report to the Board on the status and development of their investigation and seek the Board's approval before taking further action.</i> ”
3.	The Company's announcement dated 19 July 2016	The Company announced that it “ <i>had received further notices from three customers on 18 July 2016... in which the total compensation amount is RMB 466,047,380.00... Each of the Claimants have requested the Company to settle the compensation claims by 31 July 2016</i> ” and the management would “ <i>be engaging a reputable law firm to handle the claim... and [would] not admit liability nor agree to any form of compensation before consulting and seeking the Board's approval.</i> ”
4.	The Company's FY2015 results announced on 19 July 2016	The Company announced that “[ <i>t</i> ] <i>rade receivables are within the credit term of 60 days as at 31 December 2015 except for trade receivables from three claimants in relation to the claims by customers as announced on 30 November 2015.</i> ”
5.	The Company's 1Q2016 results announced on 19 July 2016	The Company announced that “[ <i>t</i> ] <i>rade receivables are within the credit term of 60 days as at 31 March 2016 except for trade receivables from three claimants in relation to the claims by customers as announced on 30 November 2015.</i> ”
6.	The Company's announcement dated 21 July 2016	In response to the Exchange's queries on the Claims, the Company provided details about the Claimants and referred to the information set out in its announcements dated 30 November 2015 and 19 July 2016 respectively.



7.	The Company's announcement dated 22 July 2016	In response to the Exchange's queries on the FY2015 results, the Company provided details about the sales to, and trade receivables from, the Claimants and stated that " <i>[s]ince the notification of alleged claims from these customers on 25 November 2015 and 26 November 2015, these 3 customers have refused to make any payments of the outstanding receivables owing to Shishi Simwa. All trade receivables are within the credit term of 60 days as at 31 December 2015 except for trade receivables from three claimants in relation to the alleged claims from three claimants as announced on 30 November 2015.</i> "
8.	The Company's announcement dated 26 July 2016	In response to the Exchange's queries on why the management was of the view that no provision was required for the trade receivables from the Claimants as stated in the 1Q2016 results, the Company stated that the " <i>provision of doubtful debts amounting to RMB4,477,000 was recorded in the financial year ended 31 December 2015 ("FY2015") for trade receivables owing by three claimants in relation to the claims by customers as announced on 30 November 2015.</i> "
9.	The Company's announcement dated 5 August 2016	The Company provided an update on the Claims that " <i>no payment [was] made to the Claimants</i> " and the management would " <i>not admit liability nor agree to any form of compensation before consulting and seeking the Board's approval.</i> "
10.	The Company's 2Q2016 results announced on 15 August 2016	The Company announced that " <i>[t]rade receivables are within the credit term of 60 days as at 30 June 2016 except for trade receivables from three claimants in relation to the claims by customers as announced on 30 November 2015.</i> "
11.	The Company's announcement dated 19 August 2016	In response to the Exchange's queries on why the management was of the view that no provision was required for the trade receivables from the Claimants as stated

		in the 2Q2016 results, the Company stated that the <i>“provision of doubtful debts amounting to RMB4,477,000 was recorded in the financial year ended 31 December 2015 (“FY2015”) for trade receivables owing by three claimants in relation to the claims by customers as announced on 30 November 2015.”</i>
12.	The Company’s announcement dated 27 September 2016	The Company announced that it <i>“had received further notices from three customers on 26 September 2016. It is noted that each of the Claimants have requested the Company to settle the compensation claims by 28 September 2016... If compensation payment is not made by 28 September 2016, the Company shall pay the alleged economic loss incurred by the Claimants and interest expenses on outstanding amounts owing to the Claimants.”</i>
13.	The Company’s announcement dated 29 September 2016	The Company announced that <i>“the payment of compensation has been made to the Claimants on 28 September 2016 afternoon... the said payment was approved by [WXH] and the non-executive and non-independent director, [Wu DZ] in order to avoid further compensation and interest claimed by the Claimants.”</i>
14.	The Company’s announcement dated 4 October 2016	In response to the Exchange’s queries on the Company’s announcement dated 29 September 2016, in particular, on what WXH had done to safeguard the interests of the Company, the Company stated that it had performed <i>“1) Internal investigation conducted by both the Company and the Claimants; 2) Quality testing on samples of required colour conducted by independent third parties ...; 3) Appointment of an independent audit firm; and 4) Consulting with several independent reputable law firms.”</i>
15.	The Company’s announcement on profit guidance on the	The Company announced that the <i>“unaudited financial results of the Group for 3Q2016 and 9M2016 are expected to</i>

	Company's 3Q2016 results announced on 14 November 2016	<i>report a significant loss before taxation... mainly due to the payment of compensation has been made to the Claimants on 28 September 2016 afternoon as announced on 29 September 2016."</i>
16.	The Company's 3Q2016 results announced on 16 November 2016	The Company announced that:  <i>"Compensation claim totalling of RMB470.4 million was paid to the three claimants on 28 September 2016 in relation to the claims by customers as announced on 29 September 2016"; and</i>  <i>"Cash and bank balances decreased by 99.9% from RMB450.1 million as at 31 December 2015 to RMB0.2 million as at 30 September 2016. The decrease was mainly attributable to the followings: Compensation claim totalling of RMB470.4 million was paid to the three claimants on 28 September 2016 in relation to the claims by customers as announced on 29 September 2016..."</i>
17.	The Company's announcement dated 22 November 2016	In response to the Exchange's queries on the Company's 3Q2016 results, the Company provided a breakdown of the amounts paid to the Claimants (i.e. the total net amount paid was RMB 465,998,097.20 where the total compensation claimed was RMB 466,047,380.00, adding interest expenses of RMB 4,427,450.12 and less trade receivables of RMB 4,476,732.92).
18	The Company's FY2016 results announced on 28 February 2017	The Company announced that:  <i>"The decrease in other operating expenses by 99.5% from RMB471.5 million in FY2015 to RMB2.2 million in FY2016 was attributed by the followings: - Provision of compensation claim totalling of RMB470.4 million was made in FY2015 as a result of the compensation claim paid to the three claimants on 28 September</i>

		<p>2016 in relation to the claims by customers as announced on 29 September 2016 while offsetting the impact of;...” and</p> <p>“Accrued liabilities and other payables decreased by 98.6% from RMB476.7 million as at 31 December 2015 to RMB6.8 million as at 31 December 2016. The decrease was mainly attributable to the compensation claim totalling of RMB470.4 million was paid to the three claimants on 28 September 2016 in relation to the claims by customers as announced on 29 September 2016.”</p>
19.	The Company's AR2015 announced on 13 November 2017	<p>The Company announced:</p> <p>Business Review</p> <p>“Included in Current liabilities was a provision for compensation to claims made by 3 customers amounting to RMB470.5 million in FY2015 [FY2014: Nil.]”</p> <p>Notes to the Financial Statements</p> <p>“3.2 Key sources of estimation uncertainty</p> <p>[v] Provision for compensation claims</p> <p>The Group made provision for compensation claims amounting to RMB470,457,000 as at 31 December 2015. The estimates provision for compensation claims was based on the demand notice received from the claimants and testing on products processed by the Company and was estimated based on the cost of the finished products for the customers...</p> <p>15. Investment in subsidiaries</p> <p>...Allowances for impairment loss was made in respect of three customers which filed notices of claims and requested compensation against the Company. As the subsidiaries of the Company were in a</p>

		<p><i>negative net tangible assets position due to the provision of compensation claim of approximately RMB470,457,000 recorded in the financial year ended 31 December 2016 as disclosed in Note 32(a), management has impaired the entire balance of investment in subsidiaries.</i></p> <p><i>[Note: The above passage is repeated in "16. Amount due from/[to] a subsidiary"]</i></p> <p><i>24. Trade and other payables</i></p> <p><i>Arising from these payments, the Group has provided a provision for compensation claims amounting to RMB470,475,000 as at 31 December 2015. The estimates provision for compensation claims was based on the demand notice received from the claimants and testing on products processed by the Company.</i></p> <p><i>32. Events occurring after the reporting period</i></p> <p><i>[a] Payment of compensation claims</i></p> <p><i>... [Shishi Sinwa] has received notices from three customers on 25 November 2015 and 26 November 2015 alleging that they have suffered substantial losses due to the products processed by the Company's subsidiary not meeting the specific requirements, resulting in de-colouring in their end products... the Company had received further notices from three customers on 26 September 2016. It is noted that each of the Claimants have requested the Company to settle the compensation claims by 28 September 2016... On 29 September 2016, the Group paid a total compensation amount of RMB465,998,097 after netting off against the trade receivables amounting to RMB4,476,733 to the Claimants..."</i></p>
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20.	The Company's announcement dated 27 November 2017	<p>In response to the Exchange's queries on the Company's AR2015, the Company responded as follows:</p> <p><i>"a. Mr. Wu Xinhua confirmed and give assurance that the financial records have been properly maintained and the financial statements give a true and fair view of the Company's operations and finances; and the Company's risk management and internal controls are effective.</i></p> <p><i>b. The Directors felt that the consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company give a true and fair view in view of the situation of the financial state of affairs of the Company based on the records kept by management notwithstanding the uncertainties over the legitimacy of the compensation claim and the bank balances."</i></p>
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33. The LDC considered the following submissions that the Exchange made regarding this charge:
- (a) pursuant to Mainboard Rule 703(4)(a), read with paragraph 25(a) of Appendix 7.1, all SGXNET announcements are required to be, *inter alia*, factual. By disclosing that the Company had received the Claims from the Claimants and made the Purported Compensation when these were not true, the SGXNET announcements and annual reports referred to in paragraph 32(e) above were therefore non-factual, false and misleading. Accordingly, the Company had breached Listing Rule 703(4), read with paragraph 25(a) of Appendix 7.1; and
  - (b) WXH was one of the approvers of the Purported Compensation, and had knowledge of and/or was involved in the matters surrounding the Claims and Purported Compensation. In particular, all of the Company's announcements and annual reports referred to in paragraph 32(e) above were signed off and/or approved by WXH. Undeniably, WXH's actions directly caused the Company to disclose information on the Claims and Purported Compensation, which was non-factual, false and misleading, in its SGXNET announcements and reports; and
  - (c) pursuant to the personal undertakings provided to the Exchange under Mainboard Rule 720(1) by WXH as a director, he was required to use his best

endeavours to (a) comply with the requirements of the Exchange pursuant to or in connection with the Listing Manual, and (b) procure that the Company shall so comply.

34. Having considered the relevant facts and the Exchange's submissions, the LDC finds that pursuant to Mainboard Rule 1402(5), WXH had breached Mainboard Rule 703(4), read with paragraph 25(a) of Appendix 7.1, for causing the Company to disclose in the Company's SGXNET announcements that the Company had received Claims from the Claimants and made the Purported Compensation, which were non-factual, false and misleading.

*3<sup>rd</sup> Charge concerning Mainboard 703(4), read with paragraph 25(a) of Appendix 7.1 and Mainboard Rule 1402(5) – Causing the Company to disclose in the Company's SGXNET announcements that the Company had a fixed deposit account purportedly held with Agricultural Bank of China, which was non-factual, false and misleading*

35. Regarding the facts relating to this charge, the LDC noted that:
- (a) during the course of KPMG's review, it was noted that the Shishi Sinwa Management Accounts, the Group's quarterly results announcements and the annual reports recorded that a fixed deposit account was held with the Agricultural Bank of China (the "**ABC Fixed Deposit Account**") 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 from March 2015 to September 2015 and May 2016, and RMB 200,000,000 during the period from October 2015 to April 2016;
  - (b) the Group's annual reports for 2015 and 2016 also stated that RMB 200,000,000 was held as a fixed deposit as at 31 December 2015, and that the interest income arising from such fixed deposit of RMB 2,936,000 and RMB 1,919,000 were recognised in each respective year;
  - (c) KPMG was unable to identify any documentary evidence substantiating the existence of the ABC Fixed Deposit Account. The ABC Fixed Deposit Account was not 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. In this regard, there was no documentary evidence that the ABC Fixed Deposit Account ever existed;

- (d) from the foregoing, it was clear that the Company's claims to its holding of the ABC Fixed Deposit Account were untrue. This resulted in the Company disclosing the following non-factual, false and misleading disclosures on the ABC Fixed Deposit Account in the Company's SGXNET announcements dealing with its quarterly results announcements and annual reports:

S/N	Announcements and reports	Contents
1.	The Company's 1Q2015 results announced on 30 April 2015	The Company announced under the section, Review of Financial Position, that <i>"[d]uring the 1Q2015, the Group has placed RMB100 million as a 3-month fixed deposit with interest rate of 2.35% per annum on 31 March 2015."</i>
2.	The Company's 2Q2015 results announced on 3 August 2015	The Company announced under the section, Review of Financial Position:  "Other income  <i>Decrease in other income by 16.5% from RMB1.7 million in 1H2014 to RMB1.4 million in 1H2015 was mainly due to followings:</i>  - ...  <i>- offset against the increase in interest income of RMB0.6 million as a result of fixed deposits amounting to RMB100 million being placed on 31 March 2015."</i>
3.	The Company's 3Q2015 results announced on 4 November 2015	The Company announced under the section, Review of Financial Position:  <i>"Cash and bank balances decreased by 1.5% from RMB456.1 million as at 31 December 2014 to RMB449.1 million as at 30 September 2015. The decrease was mainly attributable to cash used in investing activities. On 30 September 2015, the Group rolled over RMB100 million earlied [sic] placed on fixed deposit for another 3-month at an interest rate of 1.6% per annum, and on 30 October 2015, the Group has placed an additional RMB100 million on</i>



		a 3-month fixed deposit with interest rate of 1.35% per annum.”
4.	The Company's FY2015 results announced on 19 July 2016	<p>The Company announced:</p> <p><b><u>“Review of Financial Performance</u></b></p> <p><b>Other income</b></p> <p><i>Other income decreased by 91.3% from RMB34.9 million in FY2014 to RMB3.0 million in FY2015 mainly due to gain from disposal of Xiamen's land and properties amounting to RMB32.5 million recorded in Q42014 while offset against the impact of increase in interest income due to fixed deposits totalling of RMB200 million being placed in FY2015.”</i></p> <p>...</p> <p><b><u>Review of Financial Position:</u></b></p> <p><i>...Cash and bank balances decreased from RMB456.1 million as at 31 December 2014 to RMB450.1 million as at 31 December 2015. The decrease was mainly attributable to cash used in investing activities. On 31 December 2015 and 1 February 2016, the Group rolled over fixed deposits totalling of RMB200 million with RMB100 million each for another 3-month at an interest rate of 1.35% per annum.”</i></p>
5.	The Company's 1Q2016 results announced on 19 July 2016	<p>The Company announced under the section, Review of Financial Position:</p> <p><i>“Cash and bank balances increased by 0.3% from RMB450.1 million as at 31 December 2015 to RMB451.4 million as at 31 March 2016. The increase was mainly attributable to cash generated from its operating activities. On 1 February 2016 and 31 March 2016, the Group rolled over fixed deposits totalling of RMB200 million with RMB100 million each for another 3-month at an interest rate of 1.35% per annum.”</i></p>

6.	The Company's 2Q2016 results announced on 15 August 2016	<p>The Company announced under the section, Review of Financial Position:</p> <p><i>“Cash and bank balances increased by 0.03% from RMB450.1 million as at 31 December 2015 to RMB450.3 million as at 30 June 2016. The slight increase was mainly attributable to cash generated from its operating activities. The fixed deposits totalling of RMB200 million with RMB100 million each was matured on 1 May 2016 and 30 June 2016 and no rollover of fixed deposits has been made subsequently.”</i></p>
7.	The Company's AR2015 announced on 13 November 2017	<p>The Company announced the following:</p> <p>Business Review</p> <p>“Other Income</p> <p><i>Other income decreased by 91.3% from RMB34.9 million in FY2014 to RMB3.0 million in FY2015 mainly due to gain from disposal of Xiamen's land and properties amounting to RMB32.5 million recorded in Q42014 while offset against the impact of increase in interest income due to fixed deposits totalling of RMB200 million being placed in FY2015.</i></p> <p>...</p> <p><i>Review of Financial Position</i></p> <p>...</p> <p><i>Cash and bank balances decreased from RMB456.1 million as at 31 December 2014 to RMB450.1 million as at 31 December 2015. The decrease was mainly attributable to cash used in investing activities. On 31 December 2015 and 1 February 2016, the Group rolled over fixed deposits totalling of RMB200 million with RMB100 million each for another 3-month at an interest rate of 1.35% per annum.”</i></p>

8.	The Company's AR2016 announced on 28 August 2018	<p>The Company announced under the section, Review of Financial Performance:</p> <p><b>“Other income</b></p> <p><i>Decrease in other income by 36.9% from RMB3.0 million in FY2015 to RMB1.9 million in FY2016 was attributed by the followings:</i></p> <p><i>- Decrease in interest income by RMB1.0 million due to no rollover of fixed deposits amounting to RMB200 million was made on its maturity dates, 1 May 2016 and 30 June 2016.”</i></p>
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36. The LDC considered the following submissions that the Exchange made regarding this charge:

- (a) pursuant to Listing Rule 703(4)(a), read with paragraph 25(a) of Appendix 7.1, all SGXNET announcements are required to be, *inter alia*, factual. By disclosing that the Company held the ABC Fixed Deposit Account when this account in fact did not exist, the SGXNET announcements and annual reports set out in paragraph 35(d) above were therefore non-factual, false and misleading. Accordingly, the Company had breached Listing Rule 703(4), read with paragraph 25(a) of Appendix 7.1.
- (b) as the Executive Chairman and CEO of the Group as well as the legal representative of Shishi Sinwa, WXH was fully aware that the ABC Fixed Deposit Account was fictitious and did not exist. However, he readily signed off and/or approved the release of the SGXNET announcements and annual reports referred to in paragraph 35(d) above. Consequently, his actions directly caused the Company to disclose non-factual, false and misleading information in its quarterly results announcements and annual reports; and
- (c) pursuant to the personal undertakings provided to the Exchange under Mainboard Rule 720(1) by WXH as a director, he was required to use his best endeavours to (a) comply with the requirements of the Exchange pursuant to or in connection with the Listing Manual, and (b) procure that the Company shall so comply.

37. Having considered the relevant facts and the Exchange's submissions, the LDC finds that pursuant to Mainboard Rule 1402(5), WXH had breached Mainboard Rule 703(4), read with paragraph 25(a) of Appendix 7.1, by causing the Company to disclose in the Company's SGXNET announcements that the Company had a fixed deposit account with Agricultural Bank of China, which was non-factual, false and misleading.

*4<sup>th</sup> Charge concerning Mainboard 719(1), read with Mainboard Rule 1402(5) – Causing the Company to fail to have a robust and effective system of internal controls, addressing financial, operational and compliance risks*

38. Regarding the facts relating to this charge, the LDC noted that:
- (a) the Company did not have in place any policy or procedure to prevent such breaches of the Mainboard Rules. Specifically, the Company did not have any policy or procedure on the handling of items of an extraordinary nature, such as the purported Claims. Consequently, the Company failed to conduct any due diligence to verify the Claims, that turned out to be fictitious, and appoint appropriate and suitable professionals to safeguard the Company's assets and protect the shareholders' interests, despite repeated affirmations and representations from the Company to the shareholders that it would be done. The Purported Compensation, that later turned out to be fictitious, was purportedly paid out before consulting or seeking the Board's approval. There was also no policy in place to require any chain of approval for the payment of such claims; and
  - (b) while the common seal, legal seal and finance seal of Shishi Sinwa were separately and respectively held by Zhang Zhenglong, Wu Xinda<sup>19</sup> and Zhang Dufang, all three of them reported to WXH. Accordingly, WXH likely had the power and control over the seals and unfettered access to them.
39. The LDC considered the following submissions that the Exchange made regarding this charge:
- (a) the Code of Corporate Governance describes the purpose of maintaining a robust and effective system of internal controls:
    - (i) under Principle 11 of the Code of Corporate Governance 2012<sup>20</sup>, the Board "*is responsible for the governance of risk. The Board should ensure that Management maintains a sound system of risk management and internal controls to safeguard shareholders' interests and the company's assets*"; and
    - (ii) in this regard, the Board is required to ensure that the Company has a robust and effective system of internal controls, in accordance with Mainboard Rule 719(1);
  - (b) in the Director's Statement in the Company's audited FY2015 financial statements, Low highlighted that the AC was unable to discharge its duties as it had limited support and co-operation from the management (i.e. WXH):

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<sup>19</sup> Wu Xinda is WXH's son.

<sup>20</sup> This version of the Code was effective from 2 May 2018 to 5 August 2018.

*“In 2016, the independent director(s) in Audit Committee has restricted access to and has restricted co-operation from the management and has been given restricted resources required for it to discharge its function. Hence, the Audit Committee is unable to discharge its function properly, including... the adequacy of the Group’s risk management process.”*

- (c) Low’s statement reflects the risk culture within the Company. Whereas a strong and robust risk management culture supports effective risk management, in the present case, the Company’s weak risk culture is a culpable risk in and of itself. WXH, as the sole controlling mind of the Group at the material time, was directly responsible for propagating the weak risk culture in the Company. The ineffective internal controls of the Company reflect this lack of a robust risk management culture, which resulted in the multiple breaches;
  - (d) even though it was later discovered that the Purported Compensation did not actually take place, it reflected the lack of a robust and effective system of the Company’s internal controls that would allow WXH and Wu DZ to purportedly approve and pay out large sums of monies without Low’s knowledge and approval;
  - (e) as evident from the Purported Compensation which purportedly took place with only the approval of WXH and Wu DZ, the Board’s ability to provide proper oversight over any payout was compromised. Low, as the only remaining independent director then, was not even informed of the purported payout beforehand;
  - (f) by failing to have in place a robust and effective system of internal controls, the Company had accordingly breached Listing Rule 719(1);
  - (g) pursuant to WXH’s personal undertaking provided to the Exchange under Mainboard Rule 720(1) as a director, he was required to use his best endeavours to (a) comply with the requirements of the Exchange pursuant to or in connection with the Listing Manual, and (b) procure that the Company shall so comply;
  - (h) WXH was the sole controlling mind of the Company at the material time and had failed in his duty to procure the Company’s compliance with Listing Rule 719(1); and
  - (i) WXH had purposefully perpetuated the weak risk culture and caused the Company not to have in place a robust and effective system of internal controls so that he could successfully carry out his Scheme.
40. Having considered the relevant facts and the Exchange’s submissions, the LDC finds that pursuant to Mainboard Rule 1402(5), WXH had breached Mainboard Rule 719(1), for causing the Company to fail to have a robust and effective system of internal controls, addressing financial, operational and compliance risks.

*5<sup>th</sup> Charge concerning Mainboard Rule 720(1), read with Mainboard Rule 210(5)(b) – Failing to demonstrate the character and integrity expected of a director of a listed issuer*

41. Regarding the facts relating to this charge, the LDC noted that the entire Scheme pertaining to the artificially inflated bank balances, fictitious Claims and Purported Compensation was orchestrated by WXH to conceal the actual state of financial affairs of the Company. The numerous misstatements by way of SGXNET announcements and annual reports that were approved by WXH and made by the Company had misled unknowing shareholders of the Company into believing that the Company was originally in a healthy financial position, that the Company had received Claims, that the Company had made the Purported Compensation and that the Purported Compensation had wiped out all of the Company's cash balance and affected the Company's ability to operate as a going concern. This conspiracy had concealed the true state of financial affairs of the Company.
42. The LDC considered the following submissions that the Exchange made regarding this charge:
- (a) the Mainboard Rules set out certain expectations of directors and management of issuers. In particular, Mainboard Rule 103(5) provides that the directors of an issuer shall act in the interests of shareholders as a whole; and
  - (b) in carrying out the Scheme, WXH had clearly breached his fiduciary duties as a director of the Company, by failing to act in good faith for the best interests of the Company and its shareholders. WXH had caused the Company to fail to meet even the most rudimentary standards of corporate governance.
43. Having considered the relevant facts and the Exchange's submissions, the LDC finds that WXH had breached Mainboard Rule 720(1), read with Mainboard Rule 210(5)(b), for failing to demonstrate the character and integrity expected of a director of a listed issuer.

**VI. AGGRAVATING FACTORS**

44. The LDC further considered the following aggravating factors submitted by the Exchange:

*Detriment to shareholders' interests*

- (a) the Scheme perpetrated by WXH had been detrimental to the interests of the Company and its shareholders. WXH had misled the shareholders as to the true state of the Company's financial affairs over a protracted period of at least four years, during which the Scheme was carried out. During this period where the Group's bank balances were artificially inflated by a significant amount of RMB 406,559,030, a false market was created, as shareholders and investors had traded in the Company's securities on a misinformed basis, without the

knowledge of factors that would adversely affect the Company's value and prospects; and

- (b) in addition, due to the uncertainties surrounding the Claims, trading in the Company's securities was suspended on 30 November 2015. The subsequent Purported Compensation further cast significant doubt over the Company's ability to continue as a going concern. The payout of RMB 470 million represented 95.5% of the Company's net asset value and exceeded the Company's entire cash and bank balances. This was highlighted in the Company's AR2015 as follows:

*"Accordingly, the Group's cash and cash equivalents of approximately RMB450 million [Note 20] as at 31 December 2015 have been substantially depleted due to the above compensation on 28 September 2016. This has created a material uncertainty with respect to cash flow management that may cast significant doubt over the Group's and the Company's ability to continue as a going concern."*

*Blatant disregard for regulatory requirements*

- (c) the breaches in question were grave and premeditated. The extended duration of the breaches is indicative of a pattern of non-compliance by WXH and demonstrated a contemptuous attitude to the Mainboard Rules;
- (d) WXH's recalcitrant attitude extended to his dealings with the Exchange. When the Exchange first brought six charges against the Company and WXH, for various contraventions under the Listing Manual on 26 October 2017, WXH did not respond to the Exchange's show cause letter or notice of charges. He was also absent at the hearing before the LDC, despite being afforded opportunities to defend himself against the charges;
- (e) in the current disciplinary proceedings initiated after the release of the Independent Review Report, WXH once again ignored the Exchange's show cause letter as well as the LDC's directions that had been sent to him;
- (f) WXH's repeated failures to respond to the show cause letters suggests that he did not take his obligations as the management and/or director of a listed issuer seriously;

*Failure to extend cooperation*

- (g) as evident from the Independent Review Report, WXH had intentionally obstructed and withheld cooperation from KPMG by way of the following:
  - (i) becoming uncontactable and refusing to meet the KPMG review team when they conducted onsite review between 22 October 2018 to 23

October 2018. This necessitated KPMG conducting a second onsite review between 14 January 2019 to 16 January 2019; and

- (ii) refusing KPMG's requests for (a) Shishi Sinwa's accounting books and records, substantiating documents, the accounting systems used to maintain its accounts, and the computers assigned to its employees, (b) bank statements prior to 1 September 2013, and (c) his attendance at an interview with KPMG;
- (h) even when WXH extended his limited cooperation to KPMG, it would appear that he had done so solely for the purpose of complying with the Exchange's condition for the approval of the Company's trading resumption application. At that time, the Company was conducting a placement to a PRC state-owned enterprise and the placees required certainty of trading before they could invest in the Company. One of the conditions imposed by the Exchange was that the Company must take all necessary measures / steps to allow KPMG unfettered access to the Company for the conduct of the Independent Review. Without such a condition imposed, it would appear highly unlikely that WXH would have cooperated with KPMG at all; and
- (i) this was not the first time that WXH had failed to extend cooperation. Previously, WXH had deliberately waylaid the conduct of the FY2015 audit through his pervasive non-cooperation, specifically by imposing a limitation of scope and failing to provide supporting evidence for the external auditors to satisfy themselves as to the validity of the Claims and the existence of the bank balances. In so doing, WXH's intent was clearly to impede the audit process and prevent the external auditors from discovering the true state of financial affairs of the Company. Consequently, the FY2015 audit could not be finalised in time and the Company was not able to meet the deadlines for issuing its FY2015 annual report and holding the FY2015 AGM.

## **VII. SANCTIONS IMPOSED BY THE LDC**

- 45. As part of their deliberations, the LDC confirmed with the Exchange that all the documents pertaining to the proceedings, including the Exchange's Further Representations, had been served on WXH at the address that WXH had confirmed to the Exchange. The LDC was satisfied that WXH had chosen not to respond as opposed to being unaware of the charges against him.
- 46. Having considered the Written Representations, the LDC has decided to impose the following sanctions on WXH:
  - (a) a public reprimand; and
  - (b) an order prohibiting any issuer from appointing or reappointing WXH as a director or executive officer, or both, for a period of three years. This prohibition order takes effect from the date of publication of this grounds of decision.



47. The sanctions are the maximum sanctions that the LDC is empowered to impose against a director and/or executive officer pursuant to Mainboard Rule 1417(2)(e). All members of the LDC agreed that the maximum sanctions are warranted in light of the severity of the non-disclosure and misrepresentation, which amounted to a deliberate fraud perpetrated by WXH on the market, and his lack of cooperation with KPMG.

END