Securities Investors Association (Singapore)
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Email: admin@sias.org.sg www.sias.org.sg
UEN No: S99SS0111B
GST Reg No: M90367530Y

Issuer: Raffles Infrastructure Holdings Limited

Security: Raffles Infrastructure Holdings Limited

Meeting details:
Date: 29 March 2019
Time: 10.00 a.m.
Venue: Chinese Swimming Club, 21 / 34, Amber Road, Singapore 439870

Company Description

Raffles Infrastructure Holdings Limited, an investment holding company, provides dyeing and post-processing treatment services for cotton, polyester, and mixed knitted fabrics in the People's Republic of China. It is involved in the processing, dyeing, and finishing of fabrics. The company was formerly known as China Fibretech Ltd. and changed its name to Raffles Infrastructure Holdings Limited in September 2018. The company was founded in 1995 and is based in Shishi, the People's Republic of China. Raffles Infrastructure Holdings Limited is a subsidiary of Wellgain International Holdings Limited.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=LUY)

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1. In the Letter to Shareholders, it was disclosed that the company is "working very closely with the professional parties, as well as the former directors and management of the company to expedite the progress of the special audit" (page 2 of the annual report).

On 23 November 2018, the company informed shareholders that KPMG Services Pte. Ltd., as the professional firm appointed to carry out special audit, was not able to complete the tasks it had set out to do when it travelled to Quanzhou on 21 October 2018. The KPMG team was not afforded effective cooperation by the China subsidiary.

In addition, the KPMG team was not able to meet with Mr Wu Xinhua, who was the executive chairman and chief executive officer of the company before stepping down on 23 October 2017. Mr Wu "was away" when the KPMG team was there and his personal assistant, a "Mr Zhang", was not able to facilitate the team.

(i) Would the board help shareholders understand how it intends to work with the former directors and management to expedite the progress of the special audit?

(ii) When is the special audit scheduled to be completed?

(iii) Would the company also elaborate further on the roles and responsibilities of Mr Wu Xinhua, who was re-designated as non-executive non-independent director on 23 October 2017?

(iv) Did the board inform Mr Wu that the KPMG team would be visiting Quanzhou?

(v) What are the options available to the company/special auditors if the Chinese subsidiary is unwilling to cooperate?

(vi) What is the involvement of the directors, especially the independent directors, in the special audit?

2. For the financial year ended 31 December 2017, the group reported revenue of RMB27.0 million, an increase of 7.9% from RMB25.0 million from a year ago. Gross profit increased to RMB3.0 million in FY2017 but the group achieved a lower net loss of RMB3.1 million in FY2017.

At the Annual General Meeting scheduled to be held on 29 March 2019, shareholders are asked to "receive and adopt the Directors' Statement and the Audited Financial Statements of the Company for the financial year ended 31 December 2017 together with the Independent Auditor's Report thereon" (Resolution 3).

However, in the Independent Auditor's report, the auditors have provided a disclaimer of opinion, and stated that they "do not express an opinion on the accompanying financial statements of the Group and the statement of financial position and statement of changes in equity of the Company". They have not been able to obtain sufficient appropriate audit

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evidence to provide a basis for an audit opinion on these financial statements. The basis for disclaimer of opinion includes:

- Opening balances
- Compensation claims by three customers
- Bank confirmation
- Prepayment of land use rights
- Property, plant and equipment and land use rights
- Inventories
- Tax provision
- Investment in subsidiaries
- Trade and other receivables and trade and other payables
- Amount due from a subsidiary and amount due to a subsidiary
- Significant events during the financial year
- Post balance sheet events
- Legal action against the Group and the Company
- Going concern

In fact, on 14 December 2018, the company has announced that it has lost control of its subsidiary and had deconsolidated Sinwa Knitting & Dyeing Co., Ltd, in view of non clarity to its state of affairs.

(i) **Can the company disclose who has possession of the company seals such as the corporate seal (公章), legal representative seal (法人章), financial seal (财务章) and contract seal (合同章)?**

(ii) **As Mr Wu is still a director of the company, can the company disclose if Mr Wu is still an active board member and has been in frequent and timely communication with the board, the company and the company secretary and in discharging his fiduciary duties?**

(iii) **Given the circumstances surrounding Shishi Simwa Knitting & Dyeing Co., Ltd and Mr Wu, including the disclaimer of opinion by the auditors, how did the directors conclude that the "consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company together with the notes thereto are drawn up so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2017"?**

(iv) **How should shareholders read and use the "audited" financial statements for the financial year ended 31 December 2017?**

3. Following the restructuring of the company, including the injection of new capital by strategic partners, the group invested RM100 million in BoDao Road Construction Co., Ltd. for a 90.91% stake.

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It has also on 10 September 2018 signed a Tripartite Agreement with state-owned China Railway Construction Corporation Limited's 23 Bureau Group and Tianfu RailTech Valley Technology Co. to establish a consortium.

On 22 November 2018, the company also entered into a Framework Agreement with Tourist Board of the People's Government of Dengfeng City, People's Republic of China (登封市人民政府旅游局) and Chengdu Tianfu Railtech Valley Technology Co., Ltd. (成都天府轨谷科技有限公司) for the purpose of building tourist railways with an estimated contract value of RMB 6 billion.

Following the successful placement of an aggregate of 50,000,001 new ordinary shares in the capital of the company, the company raised $30 million in fresh capital.

$22.9 million of the placement proceeds have been earmarked for project investment while the balance $7 million is to be used for working capital purposes.

(i) Given that infrastructure projects are capital intensive and run into billions, how is the company/group able to fund these projects?

(ii) Would the board/management elaborate further on the group's business model? How is the group, with its limited capital and virtually no track record in the infrastructure segment, able to secure large-scale multi-billion infrastructure projects in the PRC?

(iii) What are the core competencies of the group and of its key management team?

Separately, can management help shareholders understand the large jump in directors' fees proposed for the financial period from 1 January 2018 to 30 June 2019? In FY2014-2017, the fees were $116,000, $116,000, $60,000 and $125,350. Although the latest proposed fees cover a period of 18 months, the quantum increased from $125,350 (for a 12 month period) to $320,000 (for a 18 month period).

A copy of the questions for the Annual Report for the financial year ended 31 December 2016 could be found here:

https://sias.org.sg/qa-on-annual-reports/?company=China%20Fibretech%20Ltd%20(now%20known%20as%20Raffles%20Infrastructure%20Holdings%20Ltd)&cid=5272

The company's response could be found here: -----