

## **Regulatory Action - Singapore Exchange reprimands China Sky Fibre Chemical Limited and the Directors of its Board**

- Singapore Exchange Limited reprimands China Sky Fibre Chemical Limited (“the Company”) and the Directors of its Board for failing to comply with the Exchange’s directive (“the Directive”) pursuant to Listing Rule 704(14) to appoint a Special Auditor. The Company persistently failed to comply despite every opportunity offered to the Company and its Board.
- The Directive arose because the Exchange has concerns over various issues, chiefly, certain interested party transactions (“IPTs”) between the Company and its Audit Committee (“AC”) Chairman, Lai Seng Kwoon, the aborted acquisition and development of land in China and certain repairs and maintenance costs (collectively, the “Special Audit Issues”). The Company made contradictory statements and disclosures which were not substantiated when queried by the Exchange. Coupled with the unusual nature of the transactions and having regard to all the circumstances, the Exchange considered that the interest of the Company’s shareholders and the investing public would be best served with the appointment of a Special Auditor to investigate into the Special Audit Issues.
- On 16 November 2011, pursuant to Listing Rule 704(14), the Exchange issued the Directive. The appointment and terms of reference for the Special Auditor were to be carried out in consultation with the Exchange. As is the practice, the Special Auditor was to report to the independent members of the Audit Committee and the Exchange.
- On 17 November 2011, the Board of Directors (the “Board”) requested a trading suspension of the Company’s shares on its own accord and announced the Directive. It further stated that the Board would be meeting on an urgent basis to consider the Directive and “to make the necessary announcements as needed.”
- On 22 November 2011, the Board announced that it would “be seeking legal and professional advice to respond to this directive from SGX. The Board’s primary responsibility is to protect and preserve the value of all stakeholders. It will work expeditiously to resume trading of its shares upon receipt of appropriate legal and professional advice. Appropriate announcements will be made as and when they are available.” On the same day, the Exchange asked the Board to provide timelines for its appointment of its legal and professional advisors and for the appointment of a Special Auditor. On 30 November 2011, the Company announced its appointment of a legal advisor but did not inform the Exchange nor disclose when it would comply with the appointment of the Special Auditor.
- The Company failed to appoint a Special Auditor even though sufficient time was accorded. This was despite the Board’s representation that it will work expeditiously to comply with the Directive. Further delay was unacceptable. On 6 December 2011, the Exchange gave a deadline of 8 December 2011 for the Company to comply with the Directive. The Company failed to do so. Instead, the Company wrote three letters to the Exchange. The letters made clear that the Company continued to refuse to comply with the directive for the appointment of the Special Auditor. In those letters, the Company made a number of unfounded allegations about the Exchange including accusing the Exchange of taking “an intimate interest in the corporate and strategic management and the day to day operations” of the Company. The letters also issued a series of demands including requiring that all contact between the Exchange and members of the Board, the CFO and the Company Secretary should be through the Company’s solicitors.
- The Exchange takes a serious view of the Board’s disregard of the Directive. The Exchange had given the Board numerous opportunities to respond to the Special Audit Issues and had carefully considered the responses. The Directive is made in the interest of the shareholders, and is taken only after careful and deliberate consideration. The Special Audit Report will provide clarity on the matters to be investigated. The Exchange’s concern is heightened when the Company not only failed to appoint the Special Auditor but instead aggressively resisted the Directive.
- The Exchange reiterates that it will continue to communicate directly with any officer of any listed company. The Exchange will not allow any issuer to dictate how it regulates listed companies.
- The Exchange reprimands the Company, and each and every one of the directors of the Board, namely Cheung Wing Lin, Huang Zhong Xuan, Song Jian Sheng, Wang Zhi Wei, Lai Seng Kwoon, Er Kwong Wah and Yeap Wai Kong, for their flagrant disregard of the Directive and for their non-compliance with the Directive in breach of Listing Rule 704(14).
- It is in the interest of the Company and its shareholders for the Special Audit to be carried out immediately and the trading suspension lifted. The continued suspension of trading in the Company’s shares is not in the interest of shareholders.

### **Annexure**

1. In view of the Company’s resistance to comply with the Directive, it is in the interest of the Company’s shareholders and the investing public to understand the facts and circumstances giving rise to the issuance of the Directive. Interested Party Transactions (“IPTs”)
2. Listing Rules 907 and 1207(16) require the value of IPTs and the name of the interested persons to be disclosed in the annual report.
3. The Company’s Annual Reports (“AR”) for financial year ending 31 December (“FY”) 2007, FY2008 and FY2009 stated that there were no IPTs for those years. In the Company’s AR2010, the Company reversed its position, and stated that there were IPTs in FY2009 and FY2010 of RMB1,500,000 and RMB866,000 respectively. The Company did not reveal

any particulars of those IPTs, nor did the Company identify the Interested Person in question.

4. Upon probing by the Exchange, the Company disclosed that it had IPTs since FY2007 relating to professional fees paid to SK Lai and Co., an accounting firm owned by Mr Lai Seng Kwoon ("SK Lai"). This was the first time since the IPTs began in FY2007 that the Company disclosed payments were made to SK Lai, who is an independent director and the Audit Committee ("AC") Chairman of the Company.
  5. When questioned by the Exchange, the Company attempted to justify that the IPTs had been disclosed as Related Party Transactions ("RPTs") in the Notes to the Accounts. This does not meet disclosure requirements under Listing Rules 907 and 1207(16). Further, the Company substantially revised downwards the RPTs amounts for FY2007 to FY2010 on 22 April 2011 and 6 May 2011. Despite the Exchange's repeated requests, the Company has to-date not provided any documentation to substantiate its amended disclosures.
  6. Subsequently, on 10 October 2011, the Company reversed its position, and claimed that it did not need to disclose these IPTs as individually the IPTs did not exceed \$100,000. The Company has not substantiated these claims despite requests by the Exchange to do so. The Company also did not substantiate its claim that proper corporate governance was exercised over the conduct of the IPTs.
  7. After the Exchange queried about the IPTs, the Board then tried to regularise the IPT payments through a Board resolution dated 14 May 2011 to approve the professional services performed by SK Lai and Co. between 2006 and 2010.
  8. Given the actions of the Company and the questionable nature of its disclosures relating to the IPTs, it is in the interest of its shareholders for the Company to appoint a Special Auditor to determine the state of affairs in this matter.  
Acquisition and Development of Fujian Land
  9. The Company paid a total of RMB149 million between December 2006 and January 2008 for the acquisition of a piece of land in Fujian (the "Fujian Land"). The Company also paid a non-refundable deposit of RMB 114 million for construction work which started in 2008. Only in its AR2009, was it disclosed that the vendor from whom the Company purchased the Fujian Land from (the "Third Party") did not have the land use rights but would acquire it from the government. In its AR2010 issued on 7 April 2011, the Company again disclosed that "the Third Party has not yet obtained the land use right certificate in respect of the land." However, on 22 April 2011, the Company contradicted its earlier position by disclosing that the "land is still under the name of Fujian Fuyuan" (the Third Party).
  10. Only when queried by the Exchange, the Company disclosed on 29 April 2011 that the estimates for the basic development cost of the Fujian Land is RMB1 billion and the full development cost is RMB5 billion. This is material information which was not earlier disclosed.
  11. On 1 July 2011, the Company announced that the agreement to purchase the Fujian Land was rescinded, with a full refund of the deposit for the Fujian land and also a refund for the "non-refundable" deposit of the construction works.
  12. The Exchange notes the inconsistent statements and the omission of material information on the Fujian Land transaction. These, together with the unusual arrangements with the Third Party and subsequent reversal of this transaction after five years, warrant a special audit.
- Repairs and Maintenance Costs**
13. On 15 May 2009, the Company announced that it incurred repairs and maintenance expenditure of RMB72 million in 1QFY2009 which is 41% of the Company's revenue of RMB176 million for the same period and contributed to the Company's loss of RMB58 million.
  14. The Exchange raised queries on the significant expenses and the Company's AC instructed the external auditors to extend their audit procedures to the repairs and maintenance expenditure. The external auditor's report to the AC for FY2009 stated that "management should appoint an external consultant to review the reasonableness of the expenditures and there appears to be no formal tender process on the maintenance and recalibration expenditure contracts".
  15. Notwithstanding the recommendation by the external auditors, the AC through its Chairman, SK Lai, informed the Exchange that the AC had reviewed the matter and considered it closed.
  16. Given the recommendation of the external auditor and that the expenditure is not insignificant, the Exchange takes the view that it is in the interest of the Company and its shareholders to have an independent review of these expenditures as provided by the special audit.

- END -