

03 August 2020

MR HUALONG LIU
CHAIRMAN OF THE BOARD OF DIRECTORS
CRRC CORPORATION LIMITED
NO 16 WEST 4TH — RING MID ROAD
HAIDIAN DISTRICT
100036 BEIJING
PEOPLE'S REPUBLIC OF CHINA

Dear Mr Chairman Liu,

CONCERNS REGARDING A CHINA STATE-OWNED ENTERPRISE'S SUPPORT OF DISHONEST AND DAMAGING TRANSACTIONS IN SOUTH AFRICA

As a brief introduction, the Organisation Undoing Tax Abuse (OUTA) was established in 2012 as a proudly South African non-profit civil rights organisation and today, is supported and funded by hundreds of thousands of people who are passionate about improving the prosperity of the South African Nation. Our mission is to challenge maladministration and corrupt use of South African taxes, largely by seeking to hold those who do so to account for their actions. Some of our work has involved substantive investigations into corruption and fraudulent capture of billions of rands from South African State-Owned Entities (SOEs).

This letter serves to engage and seek accountability from the Board of Directors of the state-owned and publicly traded rolling stock entity CRRC Corporation Limited (CRRC), on a number of alleged unlawful transactions and dealings between CRRC, and those who allegedly acted on behalf of Transnet (the South African Government state-owned rail transport company), in a number of highly irregular, dishonest transactions since 2012.

ORGANISATION UNDOING TAX ABUSE NPC

Reg No.: 2012/064213/08

Directors: W Duvenage (CEO), Adv. S Fick,

Non-Executive Directors: F Adam (Chair), P Majazi, W Modisapodi, LP Pauwen, T Pillay Van Graan, Dr H Volmink

Address: O'Keeffe & Swartz Building, 318 Oak Avenue, Randburg, Gauteng

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Our facts have been gathered and submitted to South African law enforcement agencies, as well as the Judge Raymond Zondo Commission on State Capture in South Africa, which was established by the President of the Republic of South Africa in order to conduct inquiries into allegations of corruption and fraudulent capture of state funds. This letter will provide you with an overview of the highly irregular and obvious misconduct that gave rise to corruption and the siphoning of state funds from South Africa, by your state-owned enterprises in China. These are funds that had the ability to feed, house and provide medical support to thousands of citizens in our country.

China is a nation that has grown substantively within international markets and in many respects; the country's leadership can be applauded for creating an enhanced economic and social prosperity for the people of China. However, when the Chinese economy benefits from deals that are steeped in dishonesty and the abuse of authority in South Africa, with substantive negative socio-economic impact to the people of South Africa, we are of the opinion that this conduct is unacceptable. We firmly believe that such activities by state-owned entities in China should be prohibited and that the responsible persons to be held accountable, along with all ill-gotten gains to be returned to the country from whence these funds were allegedly stolen.

Please be informed that everything we state here has been backed up by facts and data, which had already been provided to the South African criminal-justice authorities. We ask that you and your Board of Directors view these allegations as extremely serious and with the intention of making amends, as opposed to denying this unacceptable conduct ever took place.

CRRC's annual reports showed that, even before the merger between the CSR Corporation Limited (CSR) and the China CNR Corporation Limited (CNR) to form CRRC in 2015, these companies excelled in business and became the largest supplier of rail transit equipment in the world. These state-owned entities in China have 46 wholly owned & majority-owned subsidiaries, employing over 180,000 employees. In 2015, these companies produced combined revenues of US\$37.8 billion and ranked at number 266 on the Fortune Global List. In the CSR 2015 annual Report of Directors, the company proudly reported that CSR obtained a US\$2 billion order for electric locomotives from South Africa, which was the most significant order in the company's history, breaking China's previous locomotive export records. Mr Changhong Zheng, Chairman of CSR, reported that CSR has

established a reputation of "obeying the rules and being honest", which he felt was a compliment for the company.

OUTA holds information and evidence that CSR and CNR were awarded several contracts to manufacture a total of 786 locomotives for the South African state-owned entity, Transnet, and that within these transactions, an amount of US\$ 283,780,249 was paid in unauthorised rebates by CSR and CNR and by CRRC after the merger. This is the exact amount of known transactions that we have concrete proof of; however, we are aware that a significantly higher amount of money was involved in dishonest or unauthorised payments within the locomotive transactions. These additional amounts still need to be verified, and for now, we will only reflect on the known and verified transactions amounting to US\$284 million in this letter.

Furthermore, after the merger in 2015, CRRC endorsed these unauthorised rebate agreements and entered into new contracts and continued paying unauthorised rebates to the front companies that are identified herein as the allegedly corrupt entities. The nature of these transactions were obviously intended for middleman enrichment purposes and that the state-owned entities in China, as we explain below, must have been very aware of the highly irregular and dishonest nature thereof and if not, we believe they were grossly negligent in conducting basic checks and due-diligence assessments expected of companies handling transactions of this nature.

The payments we reflect on were made as a result of several agreements entered into with two front company entities, namely Regiments Asia Limited (Regiments Asia) and Tequesta Group Limited (Tequesta). In this regard, we point out that these two companies were both registered in Hong Kong on the same date – 20 June 2014. Furthermore, both companies had the same director - Mr Salim Essa and both had the same Company Secretary – PAMM Corporate Secretary Limited. In addition, both companies and the company secretary had the same business addresses. Neither of the two companies (Regiments Asia & Tequesta) had any personnel, nor did they have any track record of business advisory experience and finally, they did not have the skills as set out in various agreements signed with your state-owned companies.

In addition to the above, we found no evidence of these Hong Kong registered companies (Regiments Asia or Tequesta) having any long-lasting relationships in the territory of South Africa,

and yet they were paid the said millions of dollars in highly irregular rebates from funds generated through the South African state-owned Transnet locomotive purchase contracts. We could also find no evidence that they had acquired a familiarity with regulatory, social, cultural and political frameworks within South Africa or China.

Furthermore, neither of these front companies was able to closely coordinate with the designated authorities, nor were they able to comprehend the applicable government policies and identify opportunities of participation within the respective governments and private projects, which was the basis of the so-called facilitation agreements. Nor did they have the expertise to advise on participating in various tenders and bidding processes, or facilitate in the trade of goods and furthermore, they never had a track record of conducting business in South Africa.

We are sure you are aware that a simple due diligence assessment prior to the payment of millions in US Dollars to these companies, (as would be expected of your companies), would have detected these gross irregularities. Instead, we advocate that, those in authority within your companies were so eager to get the contracts with Mr Salim Essas's companies signed and sealed, that they did not even notice that the company registration number for Tequesta Group Limited (as reflected on the contracts) was not even Tequesta's registration number. A simple elementary assessment would have highlighted that it belonged to another company called "Daily Flight Limited", which was registered on 20 August 1985 and deregistered in 1995. How is it possible that this level of negligence is within reason from a world-leading company that signs multimillion-dollar contracts on a frequent basis?

We believe you are aware that, based on the facts reflected in the paragraphs above, the payment of multi-million dollar fees for the supposed credentials and work done, as reflected in the agreements, were invented and dishonest in their nature.

We therefore find it unimaginable to think that the largest supplier of rail transit equipment in the world would enter into 'Agency Agreements' and 'Business Development Services Agreements' to facilitate and advise on the most significant locomotive supply contract in your company's history, with two companies that had absolutely no track record in the rail industry, or any of the other credentials as stated in your agreements with them.

One would expect that you would acquire these proclaimed services from one or more of numerous experienced and well-known business advisors in this industry. Instead, your state-owned entities elected to partner with two unknown, unskilled, and inexperienced entities, and then set out to handsomely reward them for facilitating overpriced locomotive supply contracts.

More Corroborating Evidence

The evidence shows that between these locomotive manufacturers in China, they paid at least 20% (i.e., the US\$284 Million), being a portion of the payments received from Transnet, to these so called “performance-enhancing agents”, via account holders who are all affiliates of the CRRC group of companies, from bank accounts in China and Hong Kong, these being:

- Dalian Locomotive & Rolling Stock Company Limited – Industrial & Commercial Bank China
- CSR Hong Kong Company Limited – Bank of China (Hong Kong)
- CSR (Hong Kong) Company Limited – China Merchants Bank
- CSR (Hong Kong) Company Limited – China Construction Bank
- CSR Zhuzhou Electric Locomotive Company, Limited – Bank of China (China)
- CSR Zhuzhou Electric Locomotive Company, Limited – Citibank (China)
- CSR Zhuzhou Electric Locomotive Company, Limited – Bank of China (Hong Kong)
- CNR Hong Kong Corporation Limited – Nanyang Commercial Bank
- CNR Hong Kong Corporation Limited – Industrial & Commercial Bank of China
- CRRC Hong Kong Company Limited – Bank of China (Hong Kong)

Money Laundering

Perhaps you have overlooked what happened thereafter, but as soon as your state-owned entities made payments into your “business partners” accounts (of Regiments Asia and Tequesta), the money was almost immediately transferred to 160 other entities. The funds deposited by these companies constitute the “Placement” phase, and the subsequent deposits into the 160 entities are regarded as the “Layering” phase of the typical money laundering cycle.

In analysing the frequency and size of the deposits into and from the two accounts (Regiments Asia and Tequesta), it is clear to us that the individual/s were attempting to circumvent the Anti-money Laundering (AML) rules and regulations, and the FATF 40 Recommendations. This is done to create blind alleys and machining it difficult for law enforcement and/or the relevant Tax Authorities to track the flow of money. At times, the alleged perpetrators acted in haste and their careless actions have produced clear evidence of their misconduct.

In the case of Tequesta and Regiments Asia, the question we asked is; 'Why would anyone transfer the funds out of their account within days, if the payments received from the locomotive manufacturing companies in China were legitimate and required to manage their day-to-day business transactions and the provision of services that the state-owned manufacturing companies in China were paying for?' It is very obvious that these payments were never really intended to pay for "performance enhancing supplier services" and instead, this was a classic case of alleged corruption and dishonest conduct to obtain and launder funds from the South African state's coffers, with the aim of enriching a few connected individuals. We maintain the latter is clearly evident and was, or should have been, obviously known to your organisations or their respective authorities.

We have further proof and hereby inform you that part of the payments made to Regiments Asia and Tequesta was used to pay for the performers at the extravagant wedding of Mr Ajay Gupta's son in Turkey. Payments were also made to high-ranking government officials in Angola, to purchase helicopters in France and to pay for properties in Dubai. Mr Ajay Gupta, was allegedly one of those most responsible for State Capture saga in South Africa, and is now living in comfort within the UAE on much of the proceeds allegedly stolen from South Africans by way of alleged money laundering tactics, to which the state-owned entities in China are alleged to have been party to.

The US Treasury Department's sanctions against Mr Ajay Gupta, Mr Atul Gupta, Mr Rajesh Gupta and Mr Salim Essa – in terms of the Global Magnitsky Human Rights Accountability Act - suggests that the authorities at CSR, CNR and CRRC chose their business partners poorly.

All this information and evidence have been handed over to our law enforcement agencies as well as international law enforcement agencies and we are confident that it will be dealt with accordingly.

In our opinion, we find it unbecoming that state-owned entities in China paid millions of dollars to these fictitious “performance-enhancing supplier services”, especially when your locomotive manufacturing companies were already rated as leading developers and producers of these products in the world. We maintain this is clearly a situation where these SOEs in China did everything they could to merely obtain these prized contracts, without giving much thought to the effects and negative impact of their actions.

Millions of poor and vulnerable citizens in our country go hungry every day as a result of corruption and fraudulent activities in South Africa, much of it perpetuated by external companies that feed off the system. In this matter, your Board of Directors, along with their contracted “performance-enhancing suppliers” have added to our stress. We can tell you that, for the US\$284 million portion paid to these undeserving companies, around 33,000 homes could have been built to provide shelter for over 130,000 homeless South Africans.

We sincerely believe that, if your Board of Directors is serious about addressing this matter, you will reach out to us and/or our National Prosecuting Authority in South Africa, to establish the facts of these serious accusations and then decide how you intend to rectify the situation. Should you believe our claims are false and libellous, we ask that you do not hesitate to charge us, as by doing so, the process will also enable people like –

- Pan Wang,
- Zhan Ma,
- Zhiyong Zhu,
- Gang Wang,
- Yuewan Hu,
- Bingqiang Guo,
- Qinghe Zhou, and
- other CRRC employees (former or current), et al.,

to provide their recollection of the events that took place when entering into certain contracts on behalf of the state-owned businesses in China.

We understand that you also have the option of completely ignoring this letter and its serious content thereof, and thereby continue with your business as usual. Doing so, however, would be in conflict with your conscience and the integrity of the Chinese nation and its Government. We

sincerely believe, it is time for you and your Board of Directors to exercise the necessary moral courage to address this issue.

We ask that you make the right decision and assist us in placing this specific chapter of the South African State Capture saga to rest, by having the perpetrators held to account and the alleged stolen funds returned to South Africa.

We are looking forward to hearing from you.

Yours sincerely,

For and On Behalf of
Organisation Undoing Tax Abuse



Wayne Duvenage
Chief Executive Officer

Postscript: The English version of this letter has been translated into Chinese and is attached herewith as Addendum A. This translation is solely intended for the convenience of non-English-speaking readers and is not intended to replace or substitute the original English document. Should there be any dispute or interpretation of the text, the English version shall prevail.

Copy to:

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