



China International Holdings Limited

中翔國際集團有限公司

(Incorporated in Bermuda with limited liability)

(Bermuda Company Registration No. 23356)

RESPONSE TO SGX QUERIES ON THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2024

The Board of Directors of China International Holdings Limited (the “**Company**”), and together with its subsidiaries (the “**Group**”), refers to the Company’s condensed interim financial statements for the nine months ended 30 September 2024 released to Singapore Exchange Securities Trading Limited (“**SGX-ST**”) on 14 November 2024. The Company would like to provide the following additional information in reply to the queries raised by SGX-ST on 21 November 2024.

SGX Query 1

We refer to the Company’s third quarter results for the nine months ended 30 September 2024 (“3QFY24”). Listing Rule 705(2C) states that “An issuer that is required by the Exchange to announce its quarterly financial statements must prominently include a statement on the cover page of its announcement of its quarterly financial statements that such an announcement is pursuant to an Exchange requirement”. As the Company is currently required to do mandatory quarterly reporting, please include the statement here accordingly and in the cover page of its future quarterly financial statements.

Company’s Response

The Group notes and will indicate in future that the quarterly financial results announcement by China International Holdings Limited (the “Company”, and together with its subsidiaries, the “Group”) is pursuant to an Exchange requirement.

SGX Query 2

The Group recorded revenue of RMB 72.8 million in 3QFY24. The Group’s trade receivables of RMB 262.4 million as of 30 September 2024 is more than 3.5 times the amount of revenue recognised for the period.

- a) How much of the revenue of RMB 72.8 million recognised in 3QFY24 has been collected to date?
- b) It was disclosed on page 25 that the Group recognised wastewater treatment services revenue based on its related costs as the price of wastewater treatment services has not yet been agreed.
 - i) Please clarify how wastewater treatment revenue is computed based on cost (i.e. is it recognised at cost (zero-margin) or is there a fixed margin applied).
 - ii) Please disclose the name and details of these customer(s), its financial standing and for how long the Company has been providing these services without a contract and how much of the total revenue has been provided and how much has been collected to-date. On what basis has these services been provided if there are no contractual terms agreed?

iii) Why is the Group providing services when the price has not yet been agreed? Is this usual market practice? What safeguards do the Company have to ensure that these services are profitable, and the customer will pay the Company for its services rendered?

c) It was disclosed in Note 5 to the financial statements that the Group's contract assets of RMB 194.3 million was derived from (i) revenue from wastewater treatment services or (ii) income from temporary wastewater treatment services (before 1 January 2020).

i) Please break down the amount of contract assets contributed by each of (i) the revenue from wastewater treatment services and (ii) the income from temporary wastewater treatment services (before 1 January 2020).

ii) Please provide the Board's basis and assessment of the recoverability of these contract assets, noting that there are amounts due for services completed almost 5 years ago where the customer has not even completed its payment management process. Is the customer still operating and how significant are its operations?

d) It was also disclosed in Note 5 to the financial statements that the Group recorded trade and other receivables of RMB 68.4 million. Please disclose the aging table of these trade and other receivables, elaborate on the nature of the "other receivables" and provide the Board's basis and assessment of the recoverability of any long overdue (> 12 months) receivables and which FY were these incurred. Please provide specific details by customers and why the Board is of the view that there are no recoverability issues noted.

Company's Response

a) An amount of RMB50.18 million of the RMB 72.8 million revenue recognised in the 9 months to 30 September 2024 has been collected to date. However, of the RMB 50.18 million, a significant portion had already been received as advance payments in prior years.

b):

i) The wastewater treatment revenue was recognised at cost (at zero margin) and recorded as such in the books of CIHL (Tianjin) Water Development Company Limited ("CWDCL").

The Group considered and estimated the most likely amount of consideration which the Group expects to be entitled to, in exchange for providing the services as instructed to the customer. The consideration estimated is to the extent it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

ii) The sole customer for the water treatment service is 天津市滨海新区水务局 (the "Water Bureau"), a local government agency. The Group's wastewater treatment services have been in operations since 1 January 2018 and is considered as a provision of public services. The Group supplies such services to the local government under relevant environmental laws and regulations of the Tianjin New District, and do so in compliance with the requirements from the local government.

As at 31 October 2024, from the cumulative revenue of RMB305.92 million recorded from the wastewater treatment services, an amount of RMB81.20 million has been collected.

Under current procedures, the local government agency must complete a set of management processes before it is able to approve regular payments to the service providers. This includes appointing an independent third party to review and audit the costs recorded in the books of CWDCL. Using the audited cost numbers, the Water Bureau is then expected to pay CWDCL the audited costs incurred for providing the services plus a 10% of margin.

iii) According to normal government procurement practices, the services provided to the government is subject to cost audits performed by independent auditors appointed by the government authority and this is incorporated in normal service contracts. However, the procurement administration activities at the Water Bureau came to a halt during the Covid-19 pandemic, and did not fully resume until later. While the Group was in discussions with the government authority on a formal service contract, the Group continued to provide water treatment services under the instructions of the local government. Despite the lack of a formal service contract, the Group has continued to receive interim payments from the Water Bureau from time to time. Though the interim payments were not sufficient to cover costs incurred to provide the service, the Group's priority has always been focused on getting the service contracts executed as soon as possible.

In the early part of 2024, the Water Bureau formally appointed an independent auditor to undertake an audit on the treatment services provided by CWDCL. This represents a step closer to the signing of a formal contract.

It is noteworthy to state that the Group is only one of several service providers to the Water Bureau who are still waiting for contract signing and payments for services provided. In addition to regular reminders to the Water Bureau on the need to address the issue, the Group has also worked with other service providers who face a similar situation to engage the relevant government agencies in Tianjin New District for a prompt resolution to the difficult situation faced by service providers in this industry.

Management has assessed and believes that such as public service business carried out under the local government requirements of the Tianjin City is an acceptable credit risk despite the current extended settlement durations for revenue collection.

c):

i) For the period from 1 January 2018 to the end of 30 September 2024, the contract assets of RMB194.63 million mainly comprised RMB12.29 million for temporary wastewater treatment services and RMB182.34 million for wastewater treatment services.

(ii) The Group is of the view that these contract assets due from this government agency will be collectible based on historical payment pattern and the creditworthiness of related government bodies in general in Tianjin City.

d) A breakdown of the Group's Trade and Other Receivables as at 30 September 2024 is as follows:

	30.09.2024
	RMB'000
Trade receivables ⁽¹⁾	26,923
Other receivables	
- Prepayments ⁽²⁾	41,081
- Other deposits ⁽³⁾	381
Total	68,385

Notes:

(1) Trade receivables represent mainly arrears on water bills due from these entities, Tianjin Port Free Trade Zone Huantou City Operation Management Group Co. LTD (“天津港保税区环投城市运营管理集团有限公司”), Tianjin Ambien Water Technology Co. LTD (“天津安必恩水务科技有限公司”) and Novadan (Tianjin) Co., LTD (“诺华丹(天津)有限公司”), as well as arrears for pipeline connection works due from Tianjin Binhai New Area Central Business District Municipal Environmental Construction Investment Co. LTD (“天津滨海新区中心商务区市政环境建设投资有限公司”), Tianjin Binhai New Area Xincheng Yuexin Real Estate Development Co. LTD (“天津市滨海新区新城悦鑫房地产开发有限公司”), Tianjin Binhai New Area Central Business District Investment Group Co. LTD (“天津滨海新区中心商务区投资集团有限公司”) and Tianjin Binhai New Area Water Bureau (“天津市滨海新区水务局”). The outstanding amounts are aged less than one year. All the above debtors are external third parties who are not related to the Group.

(2) The prepayments include, inter alia, prepaid expenses for value-added tax and construction materials in relation to water pipelines.

(3) Other deposits include, inter alia, refundable rental deposits and electricity deposits.

The Group is of the view that the debtors identified in (1) are local government related entities in Tianjin and are long-term customers of CWDCL, and that the amounts due from them will eventually be collected after completing the necessary internal auditing procedures.

SGX Query 3

The Group recorded a significant other assets (current) balance of RMB 18.6 million as of 30 September 2024.

a) Please provide a breakdown and clarify the nature of the significant items that comprise this balance.

b) Please reconcile the decrease in other current assets of RMB 0.3 million in the balance sheet with the cash outflow from other current assets of RMB 15.4 million in the cash flow statement.

Company’s Response

a) A breakdown of other current assets as at 30 September 2024 is as follows:

	<u>RMB’000</u>
Contract cost	18,624
Total	<u>18,624</u>

Other current assets comprised costs incurred to fulfil contracts for construction of water pipeline related to direct cost incurred for uncompleted contracts as at 30 September 2024, are recognised only if (a) these costs relate directly to a contract or to an anticipated contract which the Group can specifically identify; (b) these costs generate or enhance resources of the Group that will be used in satisfying performance obligations in the future; and (c) the costs are expected to be recovered. Otherwise, such costs will be recorded as an expense.

b) The description cash outflow from other current assets of RMB 15.397 million reflected in the cash flow statement announced on 14 November 2024 reflects cash outflow from contract assets as well as other current assets.

A breakdown of changes in working capital in relation to current assets and contract assets in 9 months financial period ended 30 September 2024 is as follows:

	<u>The Group</u>
	<u>9 months ended</u>
	<u>30.09.2024</u>
	<u>RMB'000</u>
Changes in working capital	
- Contract assets	(15,723)
- Other current assets	326
Total	<u>(15,397)</u>

SGX Query 4

In the Group's commentary on the factors or events that may affect it in the next operating period and the next 12 months, it was disclosed that the Group secured a new exploration license ("PPL 666") covering roughly the same area previously explored by the Group and its then partners for the previous license.

- a) Please clarify the area that PPL 666 covers and what are the estimated material reserves and resources contained in the area.
- b) Please disclose the status of the previously explored area near PPL 666 and details of the success of this previously explored area and how the Board had determined that securing the area is in the best interest of the Company and its shareholders.
- c) Please clarify how much did the Group pay for the renewal of PPL 666, the exploration costs, how will the payments for the concession and exploration costs be financed, and the period of its concession.
- d) Please justify why the Group decided to renew this license when it had previously fully impaired its previous project in Papua New Guinea and the Liuhe Gold project.
- e) Please disclose the estimated capital expenditure, the time that will be required to operationalise this project, and the estimated impact to the Group's financials?

Company's Response

a) A large part of PPL666 is located in the southeast of Sandaun Province, Papua New Guinea, and covers around 3310 square kilometres in area. It has thirty-nine (39) blocks, namely, blocks 765-772, 837- 844, 907-916, 981-983, 1055-1059, 1129-1131, 1202, and 1203, which is shown on Fly River Map Sheet S.B.54 of the Graticular Section Maps (1:1000000) prepared and published under the authority of the Minister and is available for sighting at the Department of Petroleum and Energy, Port Moresby.

Exploration works conducted on the area covered by PPL 666 are not sufficient to be able to provide any estimated or indicated reserves or resources. Further exploration in the area is required and the Group has been seeking partners to fund the further exploration.

b) The area covered by PPL 666 was part of the area covered by PPL294. The Group led works under PPL 294 from June 2008 to March 2020, when the licence period for PPL 294 expired. The exploration works undertaken then included 60.6km of seismic data collection, biochemical data collection and computer modelling of seismic data. Before that round of exploration, the area had been explored by other licensed holders, with previous work done in the area such as seismic collection and exploration well drilling. As far as we are aware, all the works carried out to date have not produced any reserves and resources that meet industry standards. Nevertheless, the Company believes the PPL 666 covers an area which has the most promising potential.

In the nature of this business, exploration carries risks. At the time of application for PPL 666, it was considered that undertaking further exploration work in what were the most promising areas were in the best interests of the Company and its shareholders. However, in the current conditions the Group does not intend to commit our own funds to carry out any further works, and is considering various options available to us.

c) The Company received PPL 666 licence directly from the Department of Petroleum and Energy (DPE) of PNG without any requirement to pay for the concession. But the licence carries certain conditions, which if not met may result in it being revoked by the government. The Group is not planning further expenditures in the near future.

d) For the oil and gas exploration project in Papua New Guinea, capitalised expenses of the project were already fully impaired by the time the previous licence expired. This was when the Group had assessed that it was not commercially viable to continue exploration, after taking into consideration depressed oil and gas prices at the time of impairment and the inability to obtain additional funds. At the time of expiry of the previous licence, there was no certainty that the Group would be able to secure a new licence. However, after about one year, the government authority approved a new licence for PL 666.

For the Liuhe Gold Project, the reason for impairment was different. This project had embarked on trial operations and had entered into further exploration mode for a few years before the project company encountered financial and technical difficulties. The controlling shareholder was not keen to continue funding the project and the project company ceased operations entirely in 2016.

e) The Company has no plans to commit further funding to these projects, and they are not expected to have any material impact on the Group's financials.

By Order Of The Board
China International Holdings Limited

Shan Chang
Executive Chairman
21 November 2024