



RESPONSE TO SGX QUERY ON FINANCIAL RESULTS FOR THE SECOND QUARTER ENDED 30 JUNE 2016

The Board of Directors of China International Holdings Limited (the “**Company**”), or together with its subsidiaries (the “**Group**”) refers to the Company’s financial results for its second quarter ended 30 June 2016 (“**Q2 FY2016 Results**”) released to Singapore Exchange Securities Trading Limited (“**SGX-ST**”) on 12 August 2016. The Company would like to provide the following additional information in reply to the queries raised by SGX-ST on 19 August 2016:-

SGX Query 1

In the announcement of “Second Quarter and Half Year Financial Statements for the Period Ended 30 June 2016” (the “**Announcement**”) by the Company, the Company disclosed that “Cost of sales and services provided” had increased by RMB17.4 million or 374% to RMB 22.0 million while revenue had only increased by RMB75,700 or 2.5%. Please provide a breakdown of the cost of sales and explain the significant increase in property development cost items.

Company’s response

A breakdown of the cost of sales for the financial periods ended 30 June 2015 and 30 June 2016 are set out below:

	3 months (Q2)		Increase	
	30.06.2016 RMB’000	30.06.2015 RMB’000	RMB’000	%
Cost of services provided				
Water and utilities	5,080	4,896	184	3.8
Water pipe connection cost	2,456	2,355	101	4.3
Property development cost	14,017	(2,964)	16,981	572.9
Property services	448	355	93	26.2
Total	22,001	4,642	17,359	374.0

The fall of RMB16.02 million in water pipe connection income for Q2 2016 as compared with the Q2 2015, has offset the increase of RMB16.00 million in property development revenue for Q2 2016, resulting in only a marginal increase in revenue.

Water pipe connection income was lower by RMB16.02 million or 62.3% while water pipe connection cost only increased by 4.3%, due to the volatility of gross profit margins of the business operations.

SGX Query 2

In the Announcement, the Company disclosed that “Trade and other receivables” as at 30 June 2016 amounted to RMB68.8 million, an amount that is higher than the revenue for 2Q2016 and 1H2016 of RMB31.2 million and RMB 65.1 million respectively. Please provide a breakdown of the

“Trade and other receivables” and provide an aging schedule. Please disclose the nature of the transactions relating to items recorded as “other receivables” and provide details of the contracts which require such pre-payments/advances/deposits.

Company’s response

A breakdown of the “Trade and other receivables” for the financial periods ended 30 June 2015 and 30 June 2016 are set out below:

	Ageing	30.06.2016 RMB’000	31.12.2015 RMB’000
Trade receivables	Less than 1 year	20,429	4,342
Gross amounts due from customers for contract work	Less than 1 year	15,476	15,628
Other receivables			
- Due from non-controlling shareholders ⁽¹⁾	Less than 1 year	10,044	10,091
- Non-related parties ⁽²⁾	Less than 1 year	12,747	44,516
- Prepayments ⁽³⁾	Less than 1 year	4,347	23,458
- Deposits ⁽⁴⁾	Less than 1 year	5,781	4,697
Total		68,824	102,732

(1) The receivables due from non-controlling shareholders of subsidiaries are unsecured, interest-free and repayable on demand.

(2) Other receivables from non-related parties include provident funds placed with government organisations.

(3) The prepayments include, *inter alia*, prepaid expenses for rental, land development projects, and construction costs in relation to property development.

(4) Deposits include, *inter alia*, refundable security fund deposit, rental deposits and labour inspection deposits.

SGX Query 3

In the Announcement, the Company disclosed that “Trade and other payables” amounted to RMB516.5 million which is significant compared to the Group’s net asset value of RMB473.5 million.

Please provide further disclosure on the following:

- A breakdown of these amounts;
- Disclose the nature of transactions of other payables;
- Provide details of the underlying credit terms; and
- Explain the significant increase in “Trade and other payables”.

Company's response

(a) to (c) A breakdown of the "Trade and other payables" for the financial periods ended 31 December 2015 and 30 June 2016 are set out below:

	30.06.2016 RMB'000	31.12.2015 RMB'000
Trade payables	26,024	22,509
Gross amounts due to customers for contract work ⁽¹⁾	2,790	6,353
Accruals ⁽²⁾	106,066	156,864
Other payables		
- Non-related parties ⁽³⁾	21,007	24,849
- Non-controlling shareholders of subsidiaries ⁽⁴⁾	167,094	167,088
Receipt in advance from ⁽⁵⁾		
- Supply of gray water	6,217	11,285
- Construction of water pipeline	40,567	21,421
- Sales of development properties	146,728	69,303
Total	516,493	479,672

(1) Gross amounts due to customers for contract work which included receipt in advance payment for contract work, which the Company is scheduled to complete on time;

(2) Accruals include land appreciation tax and accrued construction costs in relation to the Company's property development;

(3) Other payables to non-related parties include the guarantees of mortgage facilities for property development, payable land use tax and refundable deposits received from buyers for purchases of properties under development;

(4) Other payables to non-controlling shareholders include payables to a non-controlling shareholder, which contributed to 45% of a shareholder's loan for purposes of the cost of land developed by Yichang Xinshougang Property Development Company Limited. The shareholders' loan is repayable on demand;

(5) Receipt in advance comprised largely of advances from sales of development properties. Sales of development properties are recognised as revenue in the financial statements when they meet the Group's revenue recognition policy on sales of properties.

(d) The significant increase in "Trade and other payables" was mainly due to the increase in advances from sales of development properties of RMB 77,425,000.

SGX Query 4

Under the Statement of Cash Flow of the Company, it was disclosed among the changes in working capital that cash flows to development properties had increased from RMB9.4 million to RMB83.1 million. Please provide details and breakdown of this significant increase.

Company's response

In Q2 2016, the Company commenced construction of high-rise apartments under Phase II of the Yichang Guobin No.1 development project. Accordingly, the resultant increase in construction costs led to cash flows to development properties increasing from RMB9.4 million to RMB83.1 million for the financial periods ended 30 June 2015 and 30 June 2016 respectively.

SGX Query 5

Under paragraph 8 of the Announcement, the Company explained that "Selling and marketing expenses in Q2 2016 was RMB2.12 million, an increase of RMB1.05 million as compared to selling and marketing expenses of RMB1.07 million in Q2 2015, which represents an increase of 98.5%, mainly due to increase in advertising fee and marketing agency fee in Yichang Xinshougang Property Development Company Limited".

Please provide further disclosure on the following:

- Reasons for the significant increase in selling and marketing expenses when there is no significant increase in revenue;
- The underlying issues affecting sales that caused the significant increase of selling and marketing expenses;
- A breakdown of the take-up rates relating to various phases of the property projects under Yichang Xinshougang Property Development Company Limited.

Company's response

(a) and (b):

A breakdown of the "property development revenue" and "receipt in advance" for the financial periods ended 30 June 2015 and 30 June 2016 are set out below:

	3 months ended		Increase	6 months ended		Increase
	30.06.2016	30.06.2015		30.06.2016	30.06.2015	
	RMB'000	RMB'000	%	RMB'000	RMB'000	%
Property development revenue	10,852	(5,145)	310.9	20,585	(1,077)	2,011.3
Receipts in advance - presale	37,271	5,476	580.6	88,871	18,776	580.6

The Group's property development revenue and property presale receipts in advance increased by 310.9% and 580.6% for the financial periods ended 30 June 2016 as compared to 30 June 2015 respectively. Accordingly, the increase in selling and marketing expenses of the Group corresponds with a larger increase of both property development revenue and property presale receipts in advance.

(c): The breakdown of the take-up rates relating to various phases of the property projects under Yichang Xinshougang Property Development Company Limited is set out below:

Project Stages	Percentage of completion	Completion date/ Target completion date	Percentage of sales as at 30 June 2016
<u>Phase 1</u>			
Stage 1 – residential units	100%	29 June 2013	64%
Stage 2 – residential units	90% (as at 30 June 2016)	30 September 2016	19%
Stage 3 – residential and commercial units	100%	26 December 2012	Residential –96% Commercial – 71%:
Convention center	90% (as at 30 June 2016)	End of 2016	N.A.
<u>Phase 2</u>			
Residential units (6 high-rise apartments buildings)	90% (as at 30 June 2016)	31 March 2017	22%
<u>Phase 3</u>			
	Construction yet to commence	N.A.	N.A.
<u>Phase 4</u>			
	Construction yet to commence	N.A.	N.A.

**BY ORDER OF THE BOARD
CHINA INTERNATIONAL HOLDINGS LIMITED**

Shan Chang
Chairman
24 August 2016