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**RESPONSES TO QUESTIONS FROM SHAREHOLDERS ON THE COMPANY'S ANNUAL REPORT FOR FINANCIAL YEAR ENDED 31 MARCH 2020**

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The Board of Directors (“**Board**”) of Pan Hong Holdings Group Limited (the “**Company**” and together with its subsidiaries, the “**Group**”), refers to questions raised by shareholders no later than 10.00 a.m. on 26 July 2020 in relation to the Company’s annual report for the financial year ended 31 March 2020 (“**Annual Report 2020**”).

The questions raised by shareholders and the Company’s corresponding responses are set out below:

**Results for the year ended 31 March 2020 (“FY2020”):**

Q1. Can the company do a presentation for the investors for FY2020 results and business?

[Company's response to Q1](#)

Please refer to the Company’s FY2020 Annual Report. It includes the Chairman’s statement which provides an overview of the performance of the Company during the financial year while financial details are provided in the financial statements.

**Property Projects**

Q2. What is the forward development in the next 3-5 years?

Q3. As a Singaporean, I am not familiar with the location of Huzhou Delong and Huzhou Fenghuang projects. Please help to provide the addresses of the 2 respective projects. It would be even better if you can provide URLs pointing to the locations on Baidu or Gaode maps.

Q4. Will be company be launching Huzhou Delong and Huzhou Fenghuang in 2020?

Q5. Can the company give a project update on Huzhou Delong and Huzhou Fenghuang?

Q6. How long does it take the projects (Huzhou Delong and Huzhou Fenghuang) to complete construction?

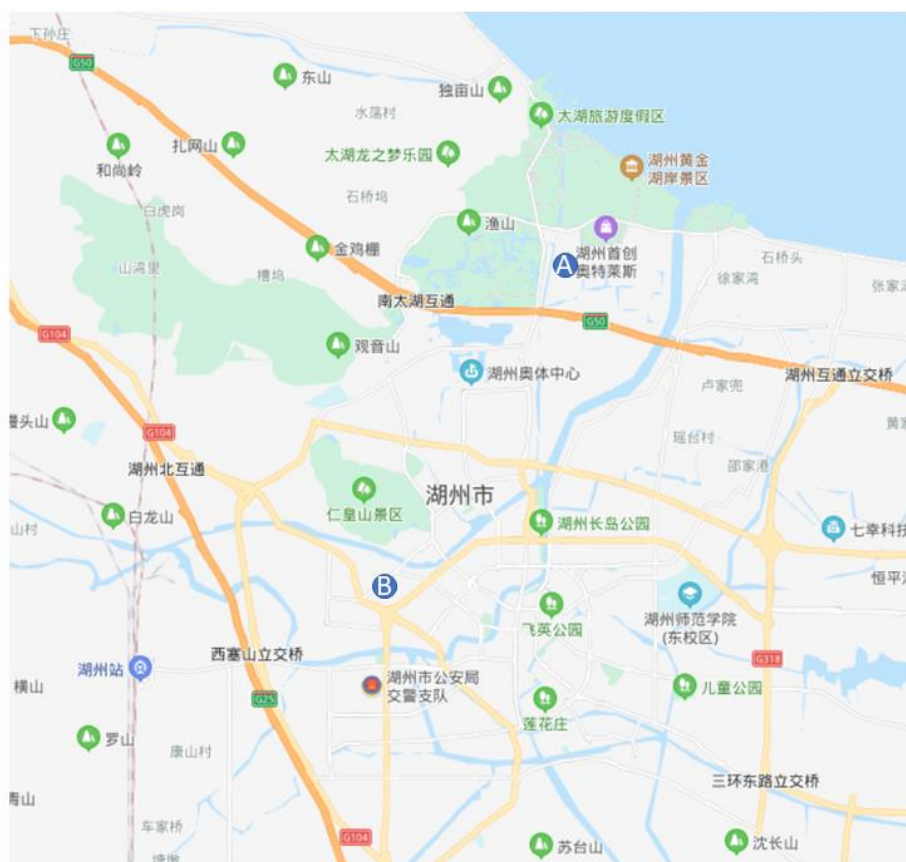
[Company's response to Q2 to Q6](#)

The Company has 2 reserve projects for future development, including the Huzhou Delong Project and Huzhou Fenghuang Project, which an update is summarized below:

	Huzhou Delong Project	Huzhou Fenghuang Project
Location	Taihu Meidong (太湖梅东), Huzhou, Zhejiang Province, the PRC – Marked as “A” in below map	Feng Huang West District (凤凰西區), Huzhou, Zhejiang Province, the PRC – Marked as “B” in below map
Nature of land use right	Residential	Residential
Gross Floor Area (“GFA”)	65,412 sq.m.	65,020 sq.m.
Current stage	Under planning	Under planning
Estimated launch date*	First Quarter 2021	Second Quarter 2021
Estimated completion date*	First Quarter 2024	Second Quarter 2024

\*subject to actual progress

Please refer to the map below for an illustration of the locations:



The Group is actively sourcing other prospective projects and would make further announcement when there is substantial development.

- Q7. For the Huzhou Delong Project, what is the expected revenue from this project on 100% sale and when is completion scheduled?

[Company's response to Q7](#)

Huzhou Delong Project is still under planning stage and the Group would not be able to provide a revenue forecast. Estimated completion date could be referred to above response.

- Q8. For Pan Hong Run Yuan Phase 2, after FY2020, how much of the revenue from this project is still not sold or not booked?

[Company's response to Q8](#)

As at 31 March 2020, the Group has recognised the revenue of the residential properties of Pan Hong Run Yuan Phase 2 which 99% of the total units have been sold.

- Q9. For the Pan Hong Run He project, what is the upfront deposit % collected from the pre-sale buyers?

[Company's response to Q9](#)

The minimum down payment for the Pan Hong Run He project is 30% of the property unit sale price.

- Q10. For Pan Hong Run He, on 100% sale, the revenue to be booked is about RMB1,500 million. With project completion expected in Q3 CY2020, approx how much of this revenue will be booked in FY2021 and FY2022? / Will the full presales of 1303.2 RMB be fully recognised in this FY? (If not, roughly how much of it (%) will be recognised in 2020 and how much in 2021?)

[Company's response to Q10](#)

The Company is not able to provide a revenue/profit forecast on Pan Hong Run He.

- Q11. In Huzhou, what is the minimum stage of construction (eg. foundation, topping out) before the pre-sale permit can be approved? In the context of apartments and landed properties respectively.

[Company's response to Q11](#)

In Huzhou, in normal circumstances developers can apply for pre-sales permit when the foundation work has been completed.

- Q12. As of mid-July 2020, what is the total pre sales value and GFA achieved for the Pan Hong Run He project? What is the range of the transacted prices?

[Company's response to Q12](#)

As at 30 June 2020, the pre-sale value was around RMB1,342 million representing a GFA of 145,200 square metre, with an average selling price of RMB9,240 per square metre after tax.

- Q13. What is the average commission percentage paid to property agents for sales?

[Company's response to Q13](#)

The average commission paid to property agents for sales is approximately 5% of the property unit sale price.

- Q14. "As at 31 March 2020, the building ownership certificates of certain investment properties of the Group with carrying amounts of approximately RMB32,227,000 (2019: RMB190,000) have not yet been obtained. In the opinion of the independent PRC legal advisors of the Group, the Group is entitled to obtain the building ownership certificates without legal impediment and is entitled to lawfully and validly use the investment properties during the year."  
Can the company identify this particular investment property and explain the delay in receiving the building certificate?

[Company's response to Q14](#)

This is a commercial unit of the Pan Hong Run Yuan project, which is constructed and owned by the Group. The Group intends to hold it for capital appreciation and is currently leasing out the property to earn rental income. As the Group is entitled to obtain the building ownership certificates without legal impediment and is entitled to lawfully and validly use the investment properties, the Group would arrange to obtain the building ownership certificates when necessary, an example is when there is an attractive offer and the Group decides to sell.

- Q15. What kind of property investments is the company looking at for rental income and business opportunities to diversify as mentioned in the Chairman's Statement (Pg 8. Annual Report)?  
Could the company give shareholders some insight?

[Company's response to Q15](#)

The principal businesses of the Company are property development and sale of residential and commercial properties. The Company would consider property and diversification investments when the Directors found such opportunities profitable and matching to the Group's expertise and risk profile. For example, investing properties in Huzhou would be a good choice as the Group is familiar with the local market and prospects.

**Land Appreciation Tax ("LAT")**

- Q16. Can the company give a simple explanation on how the LAT is calculated? At which stage of the property development will the LAT be assessed?

[Company's response to Q16](#)

LAT is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds from sales of properties less deductible expenditures including cost and land use rights, borrowing costs, business tax and all property development expenditures. The tax is incurred upon transfer of property ownership.

- Q17. What is the current LAT provisioned on the Balance Sheet as at 31 March 2020?

[Company's response to Q17](#)

Since both LAT and Enterprise Income Tax are income taxes which are based on taxable profits, the sum of both tax liabilities is booked as current tax liabilities on the Group's consolidated statement of financial position under the International Financial Reporting Standard ("IFRS"). The balance was RMB61,786,000 as at 31 March 2020.

- Q18. At which stage of the project development does our Company provide for the LAT?

[Company's response to Q18](#)

The tax is incurred upon transfer of property ownership.

Q19. When will this LAT expected to be paid?

[Company's response to Q19](#)

LAT is pre-paid during pre-sale stage of property projects at a certain percentage of sales proceeds and the final LAT amount and remaining tax payable are determined after the property projects are substantially sold.

**Property Management**

Q20. How much GFA (if any) of completed property does our Company have under property management?

[Company's response to Q20](#)

The Group does not engage in the business of property management.

Q21. How much revenue (if any) does our Company have from the property management business?

[Company's response to Q21](#)

Not applicable as the Group does not engage in the business of property management.

**Impact of COVID-19 and Flooding in PRC**

Q22. In the midst of COVID-19 and global trade wars, how would Pan Hong be affected? Moving forward, what will the foreseeable impact on the company's P&L and dividend? What is the management strategy to navigate crisis to achieve sustainable profitability?

[Company's response to Q22](#)

The coronavirus ("COVID-19") outbreak in the PRC adversely affected the country's property market and economic activities in early 2020. The Group's property pre-sales also recorded a slowdown during the period from February 2020 to March 2020.

However, although the global COVID-19 pandemic has worsened, it is encouraging to note that the number of newly confirmed cases has been decreasing in the People's Republic of China ("PRC") since March 2020, as the country has brought the situation under control.

With the progressive lifting of lockdown measures in most PRC cities, economic activities in the country have started to resume. The PRC's property market has been showing signs of rallying since April 2020, with the Group's property pre-sales trending upward.

For the impact of global trade war, as the Company has a low gearing ratio and its property projects' target customers are local buyers from second-to-third-tier cities in the PRC, the impact of global trade war is expected to be manageable.

Thus, the management does not expect material adverse impact on the Group's profit and loss and dividend at this stage.

Q23. Have the floods impacted any of property projects? In terms of damage to property, pre-sales, delay in project completion and construction cost respectively.

[Company's response to Q23](#)

The Group's properties and construction schedules are not impacted by the floods as they are not located in the affected locations.

**Pan Hong vs Sino Harbour**

Q24. Both Pan Hong and its sister company Sino Harbour are (1) in property development in China; and (2) diversifying into the biotechnology sector. Why have 2 listed entities pursuing similar strategy? How are decisions taken in terms of which company bid for a piece of land, or which investment to make?

[Company's response to Q24](#)

Sino Harbour Holdings Group Limited ("Sino Harbour") was a subsidiary of the Company until the completion of the distribution in specie exercise on 29 March 2018. Upon completion of the said exercise, Sino Harbour and its subsidiaries ("Sino Harbour Group"), and the Group are no longer companies within the same group. We wish to highlight that the composition of Sino Harbour's Board of Directors and the Company's Board are distinct, and they have been making decisions independent of each other based on the objective assessment of profitability and prospect of each investment opportunity.

**Properties Held for Investment (Pg 121 of Annual Report)**

Q25. What is the rental income generated by 4 respective properties?

[Company's response to Q25](#)

As stated on page 86 of the Annual Report, the rental income generated by the 4 respective properties is RMB1,194,000.

Q26. Is our Company actively trying to divest these properties?

[Company's response to Q26](#)

The Group intends to hold them for capital appreciation and is currently leasing out the properties to earn rental income. The Company is not actively trying to divest these properties.

**Zhejiang Gene Stem Cell Biotech 浙江金時代生物技術有限公司 (Pg 98 of Annual Report)**

Q27. Can the Board give any update on the progress of the investment? Has the company generated sales, turned profitable or been cash flow positive?

[Company's response to Q27](#)

Zhejiang Gene Stem Cell Biotech Company Limited ("ZSCB") is carrying out stem cell storage service and technical service business and is cooperating with some local hospitals in Zhejiang Province to provide such services. ZSCB had generated sales, profit and positive operating cashflow in last financial year.

To clarify, as the Group only invests in 16.6% of equity interest of ZSCB, therefore the profit and loss, assets and liabilities and cashflows of ZSCB would not be consolidated to the Company's consolidated financial statements. Instead, the Group accounts for investment in ZSCB under financial assets at fair value through other comprehensive income.

### **Loan to Sino Harbour (SH) Hangzhou Ganglian**

Q28. Are the interest expenses paid by the Hangzhou Ganglian deductible from their Enterprise Income Tax and Land Appreciation Tax assessments respectively?

#### Company's response to Q28

Generally, interest expense from Enterprise Income Tax is deductible when relevant conditions are fulfilled while interest expense from Land Appreciation Tax is deductible under other development costs when relevant conditions are fulfilled. For the avoidance of doubt, Hangzhou Ganglian is a subsidiary of Sino Harbour and not a company within the Group.

### **Taxes - Effect of withholding income tax on distributable profits of the Group's PRC subsidiaries (Note 9 to Accounts, Pg 88)**

Q29. Does the company provide for withholding tax on the entire distributable profit for the year, or only on the portion it earmarks for distribution/actually distributed?

#### Company's response to Q29

The Group would have to bear a 5% withholding income tax when distributing profit of the Group's PRC subsidiaries to offshore holding companies. The Company only provides for withholding tax when a distribution of profit from the PRC subsidiaries is made.

No distribution of the Group's PRC subsidiaries was made during FY2020 and the Group did not provide for any withholding tax during the year.

### **Strategic Review**

Q30. Many Pan Hong shareholders are also shareholders of Sino Harbour shareholders. Can the Board consider a merger with a single listing in HKEX where listed PRC property developers are relatively better appreciated?

#### Company's response to Q30

In terms of the current overall market appetite, there is no guarantee that a property developer would be better appreciated when listed on The Stock Exchange of Hong Kong Limited. For example, some large-scale listed property developers could be valued up to around 2 times of price-to-book ratio while a number of small-to-medium-scale listed property developers could only be valued at below 0.5 times (or even lower) of price-to-book ratio. There would be significant transaction costs associated with such proposed merger, if any. Nonetheless, in reviewing the Group's strategic direction, the Board would take into consideration the interests of the Group and its shareholders.

## **Dividends/ Share Price**

- Q31. Does the Company have a dividend policy? / Given that Pan Hong has negligible borrowings, will the Board commit to a dividend policy of paying out at least 50% of profits in each of the forward financial year as dividends to shareholders?
- Q32. The share price has plummeted quite a fair bit over the years, are any plans for the management plan to improve it? And how?

### Company's response to Q31 and Q32

The Board of Directors has been focusing on driving the Group's performance and growth of the Group's property development business and create values to shareholders through paying out dividends.

However, the Company does not have a policy on payments of dividends. The form, frequency and amount of dividends declared each year will take into consideration the Group's profit growth, cash position, positive cash flow generated from operations, projected capital requirements for business growth and other factors as the Board may deem appropriate. The Company endeavours to pay dividend and where dividends are not paid, the Company will disclose its reason(s) accordingly.

For FY2020, the Board has recommended the payment of a final dividend of S\$0.015 per share (tax not applicable), which is equivalent to a dividend yield of around 14% using the closed share price as at 24 July 2020, subject to the Shareholders' approval at the forthcoming AGM to be held on 29 July 2020.

## **By Order of the Board**

Wong Sum  
Executive Chairman

28 July 2020