

## DEBAO PROPERTY DEVELOPMENT LTD.

(Incorporated in the Republic of Singapore)

(Company Registration No. 200715053Z)

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### RESPONSE TO QUERIES FROM SINGAPORE EXCHANGE SECURITIES TRADING LIMITED (THE “SGX-ST”) ON THE ANNUAL REPORT FOR FINANCIAL YEAR ENDED 31 DECEMBER 2019

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The Board of Directors (the “**Board**”) of Debao Property Development Ltd. (the “**Company**”) wishes to announce the following in response to the queries raised by the SGX-ST on 25 February 2021 in relation to the Annual Report for the financial year ended 31 December 2019:

#### **SGX-ST's Query 1**

With reference to the audited consolidated statement of comprehensive income on page 37 of the Company's Annual Report 2019 (“**AR2019**”), please provide an explanation for the material differences in the amounts of the following items, as compared to page 1 of the unaudited financial statements announcement for the financial year ended 31 December 2019 (“**FS2019**”):-

- i. Gross profit of RMB26,296,000 in AR2019 against RMB71,686,000 in FS2019.

#### **Company's Response**

We have prepared the income for construction projects based on the stages of work done to issue billing and recorded the figures accordingly. However, during the year, part of the construction works had not been accepted and verified by the vendor and rework needs to be done. Thus, the auditors have, during the course of their audit, proposed for this billing to be reversed. The invoiced amount of this construction work amounted to RMB 25.9 million.

At the same time, the rework involved additional cost amounting to RMB 19.5 million not verified by the vendor as at 31 December 2019. The rework cost had been recorded as prepayment and the Company recorded rework cost as prepayment until the rework is verified and billed, before transferring the prepayment to cost of goods sold with the newly rework billing. However, our auditors determined that the rework cost should be classified as cost immediately due to application of SFRS(I) 15 in FY2019.

#### **SGX-ST's Query 2**

With reference to the audited consolidated statement of cash flows on page 42 of AR2019, please provide an explanation for the material differences in the line item amounts of the following classifications, as compared to page 9 of the unaudited financial statements announcement for FS2019:-

- i. Net cash used in operating activities of RMB147,078,000 in AR2019 against RMB101,661,000 in FS2019.
- ii. Net cash provided by/(used in) investing activities of RMB96,126,000 in AR2019 against (RMB2,930,000) in FS2019.
- iii. Net cash provided by financing activities of RMB49,324,000 in AR2019 against RMB102,963,000 in FS2019.

#### **Company's Response**

- (i) The differences are mainly from: (a) fair value gain on investment properties amounting to RMB 76.5 million had been recognised as a result of completion of the audit, based on valuations from external valuers; (b) additional impairment for non-current assets held for sale amounting to RMB 40 million proposed by auditors due to the disposal of Profit Consortium. For details, please refer to page 33 of AR2019; (c) the Company treated the monies collected from the buyers arising from disposal of Profit Consortium amounting to RMB 81 million as advances as we considered the payment terms had not been fulfilled. However, the auditors treated it as

settlement of the receivables for the disposal of Profit Consortium; and (d) when subsidiaries repaid the bank loans on behalf of the Company, it was recorded as receivables. And until we got bank confirmations the loan was settled, we offset the receivables with bank loan liabilities. With the receipt of the bank confirmations as part of the audit process, the auditors proposed for this amount of approximately RMB 47 million to be offset against our bank borrowings.

(ii) The difference arises mainly from (i)(c) above.

(iii) The difference arises mainly from (i)(d) above.

We have worked, and will continue to work, with the auditors to ensure the proper policies and procedures had been implemented in our audit processes.

### **SGX-ST's Query 3**

Listing Rule 1207(10C) requires the Audit Committee's comments on whether the internal audit function is independent, effective and adequately resourced. Please also provide information on the details of the head of the internal audit function team and elaborate on the relevant experience and qualifications of the head of the internal audit function. Where the internal audit function is outsourced, please provide information on the relevant experience of accounting firm and the engagement team.

### **Company's Response**

The Audit Committee is of the opinion that the company's internal audit function is independent, effective and adequately resourced.

We have engaged Crowe Horwath First Trust as our internal auditors. The engagement team has relevant experience and qualifications as described below.

<b>Name</b>	<b>Professional Affiliations</b>	<b>Experience</b>
Tan Kuang Hui, Managing Partner	<ul style="list-style-type: none"> <li>• Practicing Member, Institute of Singapore Chartered Accountants</li> <li>• CPA Australia</li> </ul>	Kuang Hui has over 23 years of experience in audit and financial advisory services. As the Managing Partner of Crowe Horwath First Trust LLP, Kuang Hui leads the Singapore firm comprising 12 partners and approximately 200 professionals. He is particularly well versed in PRC business, accounting and tax matters. He is also currently a member of the Board of Directors of Crowe Global.
Chia Shu Siang, Director	<ul style="list-style-type: none"> <li>• Non-Practicing Member, Institute of Chartered Accountant</li> </ul>	Shu Siang has over 16 years of experience in providing financial assurance and risk consulting services to companies ranging from multinationals, public listed companies and government corporations.

Name	Professional Affiliations	Experience
Amos Law, Director	<ul style="list-style-type: none"> <li>• Certified Internal Auditor</li> <li>• Certification in Risk Management Assurance</li> <li>• Chartered Member of the Malaysian Institute of Internal Auditors</li> <li>• IIA-Accredited Internal Quality Assessor/Validator</li> </ul>	<p>Amos Law is the Director for Crowe Malaysia and oversees the Risk Advisory section of the firm. He has been involved in the internal audit profession for over 19 years. He was part of the senior management of the Internal Audit unit of a Big 5 Accounting firm in Kuala Lumpur. Apart from overseeing the internal audit function there, he was also a member of its global task force responsible for developing a global internal audit methodology to be adopted by its member firms worldwide. Previously, he was a Senior Corporate Auditor for a US Fortune 500 Company and is primarily responsible for assisting the company to successfully achieve Sarbanes Oxley Section 404 certification. He started his career in the Group Internal Audit Department of a diversified public listed conglomerate and before joining one of the largest public listed food and beverage companies in Malaysia government linked corporation.</p>
Benedict Cho, Manager	<ul style="list-style-type: none"> <li>• Member, ISACA</li> <li>• Licensed Member, Federation of Investment Managers Malaysia (FIMM)</li> </ul>	<p>Benedict has more than 9 years of experience in providing assurance, advisory and attestation services. Prior to joining Crowe, he has 3 years experience in providing tax consultation to SMEs in Malaysia.</p>
Tan Su Long, Manager	<ul style="list-style-type: none"> <li>• Student Member, Association of Chartered Certified Accountants, Singapore</li> </ul>	<p>Su Long has more than 8 years of experience in providing forensic and risk advisory services. Prior to joining Crowe, Su Long was a Forensic Analyst with Deloitte Singapore, and a Compliance Officer with the Ministry of Community Development, Youth and Sports (MCYS).</p>

By Order of the Board

Zhong Yuzhao  
Executive Director and Chief Executive Officer  
5 March 2021