

CHINA YUANBANG PROPERTY HOLDINGS LIMITED

(Incorporated in Bermuda)

(Co. Reg. No.: 39247)

RESPONSES TO QUERIES FROM SGX-ST

The Board of Directors of China Yuanbang Property Holdings Limited (the "**Company**" or together with its subsidiaries, the "**Group**") refers to its second quarter and half year results ended 31 December 2019 announcement released to SGX-ST on 14 February 2020.

The following information is in response to the SGX-ST's queries dated 18 February 2020.

- 1) We refer to the Company's SGXNet announcement on 14 February 2020 titled "Half Yearly Results". We note that the reasons disclosed for the significant decrease in revenue by 86.7% to RMB 87.3 million between Q2 2020 and Q2 2019 (decrease of 77.0% between 1H 2020 and 1H 2019) was due to the significantly lower number of residential units handed over to customers. Please explain the reasons and provide specific details on why there was such a significant decrease in the number of residential units handed over to customers.

Response:

The total number of units handed over in 2Q2019 and 2Q2020 are 1,002 units (including 960 residential units and 42 car parks) and 105 units (including 97 residential units and 8 car parks), respectively. The Group had experienced a high number of units being handed over in 2Q2019 primarily due to the concurrent handing over of 843 residential units at Shan Qing Shui Xiu, which were backlog of properties units that were built up in the previous years. The number of units handed over for other projects, namely Hou De Zai Wu and Ming Yue Shui An in 1H2020 were relatively stable. During the 1H2020, the Group handed over 96 residential units of Hou De Zai Wu (1H2Q2019: 114) and 95 residential units of Ming Yue Shui An (1H2Q2019: 127).

- 2) We note the increase in "Administrative expenses" to RMB 15,357k in Q2 2020 from RMB 14,766k in Q2 2019 despite the significant plunge in revenue by 86.7% to RMB 87.3 million in Q2 2020. Please provide the breakdown of the expenses for Q2 2020 along with the comparative figures for Q2 2019. Please provide an explanation of the nature of material expenses as well as why the expense remains constant despite the significant decrease in revenue.

Response:

Revenue is recognized when the pre-sold property units are handed over to the buyers when a particular property project is completed, whereas Administrative Expenses comprises mainly staff related remuneration, depreciation, taxes and motor vehicle

expenses which are relatively constant and accordingly, the timing of revenue recognition does not usually match with that of the operating overheads.

Breakdown of administrative expenses is as follow:

	Notes	2Q 2020 RMB'000	2Q 2019 RMB'000	% chgn
Salaries and wages	(i)	7,835	8,515	-8%
Allowances and benefits in kind	(i)	595	457	30%
Retirement scheme contribution	(i)	497	533	-7%
Depreciation expenses	(ii)	1,928	2,025	-5%
Travelling expenses	(iii)	582	613	-5%
Other taxes	(iv)	1,392	1,385	1%
Legal and professional fee	(v)	1,013	530	91%
Others	(vi)	1,515	708	114%
		<u>15,357</u>	<u>14,766</u>	4%

Notes :

During 2Q 2020, the Group reduced its administrative headcount, and accordingly, the total salaries expenses and retirement scheme contribution decreased by 8% and 7%, respectively. The increase in allowance and benefits in kind by 30% was due to the compensation for dismissed employees.

- (i) Decrease in depreciation expenses of 5% was mainly due to disposal of fixed assets.
- (ii) Decrease in travelling expenses was mainly due to cost control and tightening budget for hotel expenses and air tickets in 2Q 2020.
- (iii) Other taxes included taxes paid to the local government, namely, city maintenance tax, property tax, education surcharges, land use tax, motor vehicle tax and construction tax.
- (iv) Increase in legal and professional fee was mainly due to the professional fee, legal and secretarial fee and professional fee incurred for exploration the feasibility of a fund raising exercise.
- (v) Others included motor vehicle expenses, entertainment, rental expenses and repair and maintenance fee.

- 3) Please provide a more detailed breakdown of "Other operating expenses" of RMB 4,019k in Q2 2020 and explain the nature of each material expense as well as the reason for incurring the expense.

Response:

	Notes	2Q 2020 RMB'000
Direct costs of the operation of National Park	(i)	3,401
Outgoings for rental income	(ii)	<u>618</u>
		<u>4,019</u>

Notes:

- (i) The expense refers to the operation cost of Batai Mountain National Park.
 - (ii) The expense mainly included repair and maintenance cost for the Group's rented out properties.
- 4) Please provide details of the movements of the specific foreign currency rates and amounts of the material underlying items that resulted in the gain of RMB 6.4 million on "exchange differences arising from the translation of financial statements of foreign operations".

Response:

The exchange differences was mainly due to the capital reorganisation. The Company uses Hong Kong Dollar ("HKD") and Renminbi ("RMB") as its functional currency and reporting currency, respectively. The amount of credit arising from capital reorganisation was transferred to the contributed surplus account.

The share capital used a historical rate of HKD:RMB 1: 0.965, whereas the credit amount used the prevailing rate of HKD:RMB 1: 0.914. The below table shows the share capital movement and how the exchange difference was derived.

Share capital movement

	HKD'000	Exchange rate	RMB'000
B/f	138,800	0.965	133,882
Movement	(131,860)	0.914	(120,520)
Exchange diff	<u>-</u>		<u>(7,107)</u>
c/f	<u>6,940</u>	0.894	<u>6,255</u>

- 5) Regarding the explanation for the changes in current assets:
- a. Please elaborate further on the following:
 - i. Increase in properties held under development by RMB 146.2 million due to the Group's Tonghua project, Hou De Zai Wu; and

Response:

The increase in properties held under development was mainly due to the increase in the cost incurred for the resettlement building and a local school related to the Tonghua project.

- ii. Decrease in property held for sales by RMB 140.0 million.

Response:

The decrease in “Property Held for Sales” was mainly due to the transfer of pre-sold units to “Cost of Sales” when the underlying pre-sold property units were handed over to customer during 2Q2020. In addition, as most of the Group’s property projects are still under-construction during 2Q2020, there was only a few “Properties held Under Development” that was transferred to “Properties held for Sales”.

- b. Please disclose the reason for extending a short-term loan to Jiadi Xindu as well as the terms of the loan. Please also disclose the status of Jiadi Xindu’s projects and whether Jiadi Xindu’s operations will generate sufficient cashflow for the loan to be repaid within 12 months.

Response:

As disclosed in our announcement dated 9 September 2019, the Group provided loans to Jiadi Xindu on 9 February 2018, 9 July 2018 and 26 October 2018. These loan were made to secure the rights for the Group to participate in Jiadi Xindu’s future property development projects, namely a commercial property development project in Zhongshan, Guangdong Province with land area of 2,727.7sqm, and two tourist projects in Beidaihe, Liaoning Province and Hainan Province. The loan is secured by income of Jiadi Xindu’s property development projects in Guangzhou.

The short-term loan to Jiadi Xindu was renewed and the repayment date was extended for another 8 months till 31 December 2020, with interest rate remains at 16% p.a.. The renewal of the short-term loan was based on (i) the sound financial statements of Jiadi Xindu as it has substantial amount of net assets; and (ii) Jiadi Xindu has been repaying the Group under the existing loan agreement. (iii) the loan is secured by the proceed of Jiadi Xindu’s project located in Guangzhou Baiyun district.

Status of Jiadi Xindu’s project in Guangzhou Baiyun district:

Type of development	Gross floor area	Total units	Status
Residential unit	11,206.97 m ²	154	Pending approval for pre-sales permission
Commercial unit	1,760.45 m ²	2	
Car park	12,132.40 m ²	317	
Others	3,928.48 m ²	Not applicable	
TOTAL	29,028.3 m²		

The construction works of the above project were almost completed and Jiadi Xindu expects to obtain the pre-sale approval from the local government before March 2020, and the pre-sale will likely to start in March 2020. Having considered the total gross floor area

of the project and the current housing price of Baiyun district, the Management is of the opinion that the project will generate sufficient cashflow to repay the loan principal and interest. Further, if the sales were affected by the Covid-19 situation, the Group could negotiate with Jiadi Xindu to repay the loan and interest with residential units of the project.

- 6) The Company disclosed “Not Applicable” when responding to paragraph 9 of the financial results announcement which requires explanations of variances between previously disclosed prospects statements and the actual results. **This is applicable.** The Company had disclosed in Paragraph 10 of the Company’s Q1 2020 Results announced on 14 November 2019 that “Both housing price and transaction volume in China have increased at a steady pace in key cities according to National Bureau of Statistics of China released on 30 September 2019”. Please also explain why the Board of Directors is of the view that the decrease in profit from RMB 135 million to RMB 15 million is not material information that requires a profit guidance to be announced prior to the release of the 1H 2020 results.

Response:

Due to the nature of the Group’s business and according to the Group’s revenue recognition policy under the International Financial Reporting Standards, revenue arising from sale of properties held for sale is recognised when the Group satisfied a performance obligation by transferring the promised goods to the customer, which is when the customer obtains control of the goods (i.e. handing over of pre-sale unit). Although the Group had recorded a steady increase in both price and transaction volume of its pre-sale units in 2Q 2020, such pre-sale revenue for 2Q 2020 was yet to be recognised under the Group’s revenue recognition policy as they have not been handed over to customer. In addition, the Group believes that its 2nd quarter results was in line with the expectation disclosed in its 1st quarter results because for the three months ended 31 December 2019, the Group recorded net profits of approximately RMB15.4 million, as compared to RMB 13.4 million in 1Q 2020. The significant profits of RMB 135 million in 2Q 2019 was primarily due to the high number of units concurrently being handed over in 2Q2019 after backlog of properties units were built up in the previous years. Accordingly, the Board of Directors held the view that the profit for 2Q 2020 was in-line with its 1Q 2020 and hence, profit guidance was not necessary.

BY ORDER OF THE BOARD

Huang Tak Wai
Chief Financial Officer / Company Secretary

Date: 20 February 2020