

DEBAO PROPERTY DEVELOPMENT LTD.

(Incorporated in the Republic of Singapore)
(Company Registration No. 200715053Z)

RESPONSE TO QUERIES FROM SINGAPORE EXCHANGE SECURITIES TRADING LIMITED (THE “SGX-ST”) ON THE ANNOUNCEMENT OF THE UNAUDITED FINANCIAL STATEMENTS FOR FOURTH QUARTER (“4Q2019”) AND FINANCIAL YEAR ENDED 31 DECEMBER 2019 (“FY2019”)

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 15 April 2020 in relation to the announcement of the unaudited financial statements for 4Q2019 and FY2019 made by the Company on 27 March 2020.

SGX-ST’s Query 1

Page 1: Other expenses decrease from RMB227,497,000 to RMB21,365,000

Provide a breakdown of other expenses of RMB21,365,000 in FY2019 compared to RMB227,497,000 in FY2018, and elaborate on the reasons for material variances.

Company’s Response

	2019 RMB ‘000	2018 RMB ‘000
Bank interest income	2,005	2,606
Sundry income	589	668
Bad debts written off	-	(125,796)
Loss upon revocation	-	(4,243)
Impairment for non-current assets held-for-sale	-	(54,852)
Insurance assets written-off	-	(3,210)
Impairment loss on goodwill	-	(4,192)
Foreign exchange losses, net	(18,594)	(53,592)
Fair value gain on investment properties recognised in profit or loss	-	22,375
Provision for rectification cost of disposed subsidiaries’ development properties	-	(1,500)
Other expenses	(5,365)	(5,761)
	<u>(21,365)</u>	<u>(227,497)</u>

Other expenses decreased by RMB 206.1 million from RMB 227.5 million in FY2018 to RMB 21.4 million in FY2019, mainly due to one-time write-offs, provisions and impairments provided in FY2018 and not recurrent in FY2019. The decrease in exchange loss is mainly due to fewer foreign currency transactions and a more stable foreign exchange rate in FY2019.

SGX-ST's Query 2

Page 1: Finance costs of RMB111,576,000

Clarify the statement on page 21 which reads: "The increase is mainly due to the Group's record loan interest due for a loan in 4Q2019." Provide a breakdown and show how finance costs of RMB111,576,000 was incurred in 4Q2019.

Company's Response

	4Q2019 RMB '000
<i>Interest for 4Q2019:</i>	
Guangdong Nanyue Bank	888
Industrial and Commercial Bank of China Limited	67
Agricultural Bank of China Limited	29
China CITIC Bank Limited	6,361
Bank of Communications Co., Ltd.	163
Shengjing Bank	36
China Huarong International Holdings Limited	30,016
Luso International Banking Limited	690
Binhai Fund Management Co.,Ltd.	17,804
Personal loans	8,100
<i>Underprovided interest for the period 9M2019:</i>	
Binhai Fund Management Co.,Ltd.	9,704
China Huarong International Holdings Limited	37,718
	<hr/> <hr/> 111,576

SGX-ST's Query 3

Page 3: Explanatory notes

We note that common control over operating subsidiaries in the PRC could not be established from 1 January 2006 as set out in the Company's Prospectus dated 31 March 2010. As the acquisitions were completed almost 10 years ago in 31 March 2010, please advise why common control has not yet been established. Also elaborate on the purchase method under the SFRS 103 that the Company has alluded to, and how this has affected the accounting treatment of the Company's FY2018 and FY2019 financial results. Explain how the Company's accounting treatment has deviated from the norm, and disclose the financial effects thereof. Elaborate on why proforma financial statements are still required 10 years after the relevant acquisitions.

Company's Response

The Group has direct shareholdings and/or control of the respective operating subsidiaries, so there is no application of common control concept in the financial statements.

For the financial years ended 31 Dec 2018 and 31 Dec 2019, we did not note any acquisition by the Group, hence SFRS(I) 3 Business Combinations is not applicable.

There is no deviation of the Company's accounting treatment from the norm. The Company has applied SFRS(1) 103, or its equivalent predecessor accounting standard, for the financial years ended 31 Dec 2018 and 31 Dec 2019, which is the norm.

The proforma financial statements are voluntary disclosures by management to illustrate what the current year's/period's results will be like if common control was applied to the acquisitions during listing. Whilst it could be relevant for end-users in the 1-2 years after listing, the auditors have advised that it has lost its relevance now. Accordingly, the Company will remove them in future announcements.

SGX-ST's Query 4

Page 5: Restricted cash and cash equivalents decrease from RMB202,076,000 to RMB20,000,000

Provide a breakdown of the specific use of the approximately RMB182,076,000 cash that was part of the RMB202,076,000 in FY2018, which has decreased to only RMB20,000,000 as at 31 December 2019.

Company's Response

Restricted cash and cash equivalents amounting to RMB182,076,000 is related to a back-to-back bank borrowing from Luso International Bank Limited ("**Luso**"). The loan from Luso amounting to RMB179,797,000 had been settled by offsetting against the back-to-back restricted deposit (classified as restricted cash and cash equivalents) in 4Q2019. The remaining RMB2,279,000 is used to pay the related loan interest and other working capital expenditure.

SGX-ST's Query 5

Page 5: Trade and other receivables of RMB584,363,000

Explain why trade and other receivables exceed FY2019 revenue of RMB123,920,000. Provide a breakdown between trade and other receivables and the aging schedules, showing the gross receivables and any provisions. Disclose the identity of the major debtors and explain why they have not paid their debts. For other receivables, disclose the underlying transactions and the terms of the transactions (including the contract sum) and terms of payment.

Company's Response

	Aging	RMB million
Management fee	Overdue 1–6 months	3.8
Construction works	Overdue 1-6 months	17.6
Rent	Overdue 1- 9 months	6.9
Sheng Yu (BVI) Limited	NA	212.5
Prepayments	NA	77.2
Deposits	NA	51.0
Guangzhou Xu Zhou Enterprise Management Co. Ltd.	NA	60
Perfect Praise Investment Limited	NA	60
Properties sales	Current	18.1
Global Ace Enterprise Limited	Current	72.4
Others	Current	4.9
		<u>584.4</u>

For receivables related to construction works, the developers have an industry practice to retain the last payment until the work is certified. This amount is related to work not yet certified. We expect this amount to be collected in full.

Rent receivables relates to the monthly rent payable from lessees in our shopping malls. However, some rent has not been paid when due or delayed as a result of disputes relating to utilities. As the lessees have their establishments in our shops, we considered this amount to be fully recoverable.

The amount due from Sheng Yu (BVI) Limited ("**Sheng Yu**") is related to the disposal of Infinity Real Estate Holdings Pte. Ltd. and Foshan Sanshui Fangao Land Co., Ltd. (for details, please refer to the announcement dated 8 November 2016). As Sheng Yu is required to pay a penalty for delayed development and as the Land and Resources Bureau has not yet determined the final penalties, they have withheld the last payment as guarantee monies because the contracted amount included delay penalties to be paid by us. The Company has negotiated with the Land and Resources Bureau and have preliminary reached a consent of penalties of approximately RMB 5 million. No provision for the penalties had been made but we will provide such provision when we have clarity of the amount of penalties for the delayed development.

For prepayments, they are mainly prepayments for materials, machinery rental and construction fee for our development properties. These items are expected to be fully utilised in FY2020.

Deposits are related to the deposits that we are required to pay to the government bureaus in order to obtain their approval to commence development properties construction for Project Imbi and Bay One. These can only be recovered in two to three years when our existing development property projects are completed.

Receivables from Guangzhou Xu Zhou Enterprise Management Co. Ltd. and Perfect Praise Investment Limited relate to the disposal of 43% and 19% shares in Profit Consortium Sdn. Bhd. This amount can only be collected after approval for the transactions is obtained at an extraordinary general meeting ("**EGM**") to be held in 2020. The EGM circular is currently being reviewed by the SGX-ST.

Properties sales receivables relate to sales for which the buyers are taking a bank mortgage to pay the remaining amount. We will collect this amount only after the bank mortgage has been granted to the buyers. It usually takes one to three months for the banks to complete their mortgage approval process.

Receivables from Global Ace Enterprise Limited was originally intended to be used in a joint bid for a land development project. However, the bid was unsuccessful and after negotiations with Global Ace Enterprise Limited, the amount is to be returned to us by September 2020 with an interest of 3.1% p.a.

SGX-ST's Query 6

Page 5: Bank and other loans increase from RMB526,466,000 to RMB1,470,077,000

Explain the significant increase of bank and other loans, and provide a breakdown of the lenders and their identities, the terms of the loans, interest on loans and maturity dates. Also disclose the use of proceeds from the additional loans of RMB943,611,000 obtained in FY2019.

Company's Response

The increase in bank and other loan – current portion is not an increase in loan borrowings. The total bank and other loans actually decreased from RMB1,887 million in FY2018 to RMB1,805 million in FY2019. The major reason for the increase in current portion of bank and other loans is due to a loan from China Huarong International Holdings Limited, amounting to RMB 1,047 million which will due in September 2020 and is thus classified as current liabilities in FY2019 whereas it was classified as long term in FY2018.

SGX-ST's Query 7

Page 20: Revenue

Provide details of the projects and their respective contribution to revenue, and explain why the Group's revenue decreased by 28% to RMB123.9 million in FY2019.

Company's Response

RMB million	Property Development	Construction Contracts	Property Investments	Property Management
<i>FY2019</i>				
Revenue	43.4	42.1	16.4	21.9
Cost of sales	17.9	17.3	1.6	15.5
<i>FY2018</i>				
Revenue	66.6	69.2	17.0	19.3
Cost of sales	34.7	33.0	1.6	14.8

Property Development (RMB million)	FY2019
<i>Revenue</i>	
Jin Long Garden	5.8
Bay One	20.0
Sihui City Mall	16.0
Car parks	1.6
<i>Cost of sales</i>	
Jin Long Garden	3.1
Bay One	5.5
Sihui City Mall	7.7
Car parks	1.0

In FY2018, auditors made an upward adjustment of approximately RMB 46.8 million to transfer all the sales proceeds from previous years in relation to old projects. They are related to the sales for which the buyers have not received the land and property certificate and thus comparatively the property development revenue decreased in FY2019.

For the cost of sales, the decrease is mainly due to the sales of Bay One. The apartments in Bay One is intended for buyers to decorate as 2 floor apartments in a single unit, thus, the selling price per square meter is nearly double for those one floor apartments although development cost for both the one and two floor apartments is about the same. Also, in FY2018, auditors made an upward adjustment amounting to approximately RMB 16.3 million in relation to the revenue adjustment mentioned above. Together, it decreased the cost of sales for property development in FY2019.

For construction contracts revenue, it depends on the amount and kind of work awarded to us by other developers. Due to the project completion schedule of other developers, less work was awarded. In addition, compared with FY2018, most of the construction works in FY2019 are repairs, road and garden construction etc. which are of lower value as the developers provide the raw materials.

SGX-ST's Query 8

Page 20: Cost of Sales and Gross Profit

Provide a breakdown of cost of sales in comparison to FY2018, and discuss the material factors in relation to the major items contributing to the decline of 38% in cost of sales.

Company's Response

Please refer to our response to Query 7 above.

SGX-ST's Query 9

Page 26: Project Updates

For each of the projects, disclose the value of these projects as recorded in the Statement of Financial Position, in order for investors to understand the significance of the information provided. Disclose the take-up rates, and also provide descriptions of the developments (e.g. how many units and how many stories, which segment of the residential market or the commercial market, etc.).

Company's Response

<i>Value of projects (RMB million)</i>	FY2019
Project Imbi	421.5
Project Kuchai Lama	-
Tianjin Boulevard	141.6
Bay One	223.1
<i>Take-up rate</i>	FY2019
Project Imbi (apartment sales)	1.5%
Project Kuchai Lama	-
Tianjin Boulevard (rental)	51%
Bay One (apartment sales)	10%

Project Imbi

The Landmark is a development project of twin residential towers. The towers are located in the CBD of Kuala Lumpur, opposite Tun Razak Exchange. Each tower consists of 73 floors and there are 1338 high-end service apartments in total. The towers have 2 swimming pools, a library, a mini golf park, a BBQ area, sky park and butler services to its residents. It also has a skyline restaurant to provide high end catering for its residents and general public.

Project Kuchai Lama

It is a development project which consists of 4 apartment towers. In total, it can provide 1128 mid class service apartments and 1948 car park lots. It is located in Kuchai Lama which is approximately 14 km from the center of Kuala Lumpur. The project has yet to commence.

Tianjin Boulevard

A development project which consists of a hotel and a shopping mall. Total redevelopment area is approximately 40,000 sq meters. All redevelopment work has been completed. Tianjin Boulevard project is expected to generate rental income till 2032.

Bay One

A residential and shopping mall development project comprising 4 tower apartments each of 20 floors and 1 tower of hotel and apartments. The project consists of 1778 apartments with 4 blocks of street style commercial blocks and 739 car parks. The towers are located in a Tier 4 city of Sihui.

SGX-ST's Query 10

Page 27: The accumulated sales/pre-sales status of our projects as at 31 December 2019

Provide details of the value of each of these projects as recorded in the Statement of Financial Position.

Company's Response

<i>Value of projects (RMB million)</i>	FY2019
Project Imbi (also known as "The Landmark")	421.5
Jin Long Garden	7.5
Jiangnan Mingju	10.8
Bay One	223.1
Sihui City Mall	64.6

SGX-ST's Query 11

Board confirmation

We note the significant net loss for FY2019 of RMB212,938,000, the negative cash used in operating activities of RMB101,661,000, and the negative working capital of RMB811,932,000. Please provide the Board of Directors' confirmation on whether the Company is able to operate as a going concern, and the basis for the Board's views, as well as confirmation that all material information has been disclosed. Kindly note that Listing Rule 1303(3) states, inter alia, "The Exchange may at any time suspend trading of the listed securities of an issuer... Where the issuer is unable to continue as a going concern or unable to demonstrate to the Exchange and its shareholders that it is able to do so...".

Company's Response

With the sales of Bay One and the increase in rental income from the completed constructions of Tianjin Boulevard buildings, the Group is expected to get additional cash inflow of approximately RMB 320 million in FY2020. From Sheng Yu, we expected to collect approximately RMB 100 million in FY2020. Also, with the completion of sales in Profit Consortium, the Group is expected to receive additional RMB 120 million in FY2020. In view of the above, the Board confirms that the Company is able to operate as a going concern, and that all material information has been disclosed.

By Order of the Board

Zhong Yuzhao
Executive Director and Chief Executive Officer
21 April 2020