

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 RESPONSE TO QUERIES FROM SGX-ST ON DISCLAIMER OF OPINION BY INDEPENDENT AUDITOR ON THE FINANCIAL STATEMENTS FOR 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 27 January 2021 in relation to the announcement of response to queries from SGX-ST on the disclaimer of opinion by the Independent Auditor on the Financial Statements for FY2019 made by the Company on 22 January 2021 (the "**Previous Announcement**").

Unless otherwise defined, all capitalised terms used in this announcement shall bear the same meanings as ascribed to them in the Previous Announcement.

SGX-ST's Query 1

Query regarding the Company's response to the SGX-ST's Query 1 (as set out in the Previous Announcement)

Please explain why the auditors were still unable to obtain sufficient appropriate audit evidence in respect of the assets and liabilities of Profit Consortium. Please elaborate on SFRS(I)8, and robustly explain why management treats the loss as a non-adjusting event and justify why they are of the view that this is in line with the accounting standards under SFRS(I) 8.

Company's Response

As at the sign off date of the Annual Report 2019, the disposal of the remaining 1% of the Profit Consortium shares has not been completed, and the auditors cannot ascertain whether there will be any changes in contract terms in the future disposal. Accordingly, the auditors are thus unable to obtain sufficient appropriate audit evidence in respect of the assets and liabilities of Profit Consortium.

Under SFRS(I)8, the Company is required to fairly state its assets and liabilities. To fairly state the assets and liabilities in FY2018, the company has provided provision for its assets and liabilities based on the information available. In FY2019, additional provision for the divestment of Profit Consortium was made due to unforeseen circumstances during the course of the FY2018 audit. The FY2019 additional provision has 2 allowable treatment methods under the accounting rules. The first method is to provide the additional provision when the shares transfer had been completed and the second method is to make additional provision in FY2019. As the Company is of the view that the provision should be provided in the year when the transaction had been completed, additional provision had been included in the FY2019 audit report and thus the Company considered it is in line with SFRS(I)8.

SGX-ST's Query 2

Query regarding the Company's response in (2) of the SGX-ST's Query 2 (as set out in the Previous Announcement)

In relation to the consideration, please further elaborate on how the valuations of the company's net assets and various payable amounts that need to be settled were determined.

Company's Response

The contract is intended to settle all outstanding amounts with Tee Yam. The purchase consideration as stated in the settlement agreement (RM16 million) consists of a repayment from Tee Yam to Million Goldyear Sdn. Bhd. of (a) RM7.6 million for the repayment of the amount payable by Poly Ritz Development Sdn. Bhd. (Tee Yam's company) and (b) RM7.7 million for the development cost of the Cheras Mahkota Project. The net difference of RM0.7 million received was the fair consideration to dispose of Poly Ritz Green Sdn. Bhd. which is loss making and has a net liabilities position in its financial statement.

SGX-ST's Query 3

Query regarding the Company's response in (1) of the SGX-ST's Query 3 (as set out in the Previous Announcement)

Please provide further information on the suspected scam case(s), and how Chuangxintian is involved. Name all the directors of Chuangxintian, the director(s) arrested, their dates of appointment to Chuangxintian and arrest, and elaborate on what they were arrested for. Further explain why the arrest of Tan Kai Xin was not announced via SGXNet. Also name the directors of Chuangxintian appointed by Binhai. What is the impact on and total investment costs into, and loans extended to, Chuangxintian from Debao to-date? Is Shenzhen Binhai Fund Management Co. Ltd. or Lin Shao Peng related to the Group in any way?

Company's Response

The only investment by Debao in Chuangxintian is the paid up capital amounting to RMB 45,000. As at 27 January 2021, the loans extended from Chuangxintian amount to RMB190.6 million. As the agreed loan from Chuangxintian was already drawn down, there is no impact arising from the Binhai scam case.

The scam case is related to Shenzhen Binhai Fund Management Co. Ltd. ("Binhai") which has been under investigation by the PRC police for criminal breach of trust by its legal representative, Lin Shao Peng (林少鹏) since 16 June 2020. This is the only information we know from the PRC police and we have no further details in relation the scam case.

Binhai's supervisor ("监事"), Tan Kai Xin (谭凯欣) is also the executive director of Chuangxintian. Tan Kai Xin (谭凯欣), was appointed on 28 April 2019 and is the only director of Chuangxintian. Chuangxintian is not under investigation by the PRC police. Another Chuangxintian's executive in office is supervisor, Zheng Guo Hao (郑国浩), who was appointed on 4 April 2018. Zheng Guo Hao (郑国浩) is not arrested as he is not related to the Binhai scam case.

Tan Kai Xin (谭凯欣) is the only executive in Chuangxintian being arrested. The only relationship between Binhai and Chuangxintian is that Binhai has 40% shareholdings in Chuangxintian. Binhai and its legal representative, Lin Shao Peng (林少鹏), are not related to the Debao Group in any way. Tan Kai Xin (谭凯欣) is the only director of Chuangxintian appointed by Binhai.

We were informed by the Police that Tan Kai Xin (谭凯欣) was arrested to assist in the said investigation of Binhai and she has not been prosecuted. The arrest of Tan Kai Xin (谭凯欣) does not affect Debao Group's operations and this information will not have any material effect on the share price thus the said arrest not announced via SGXNet.

SGX-ST's Query 4

Query regarding the Company's response in (2) of the SGX-ST's Query 3 (as set out in the Previous Announcement)

Provide details on the RMB190.6 million loan and corporate guarantee. Please further explain why the loan was not announced, including whether shareholders' and/or Board approval is required, whether there are any Interested Person Transactions considerations, and if all applicable Listing Rules are complied with.

Company's Response

Binhai is an investment fund company and thus it is not allowed to lend money directly to the company. Instead, arrangement had been done to structure the loan as an investment to our subsidiary but have a fixed date for us to buy back their shares upon mature. Details are as follows.

The funds were provided by Binhai through a corporate fund injection as share capital and working capital to Chuangxintian. The shareholdings of Chuangxintian are as follows: 1. Foshan Nanhai Debao Investment Management Co. Ltd. - 40.2%; 2. Foshan Nanhai Debao Hotel Co. Ltd. - 19.8%; and 3. Binhai – 40%.

Foshan Nanhai Debao Investment Management Co. Ltd. is a wholly owned subsidiary of Debao Group.

Foshan Nanhai Debao Hotel Co. Ltd. is 50% owned by Zhong Yu Xin, and 50% owned by Zhong Yu Qiong, both are sister and brother of Zhong Yuzhao, our CEO.

The funds in Chuangxintian were used by Sihui Debao Jiangnan Mingju Property Development Co. Ltd. for the development of Bay ONE. There exists pledge of the shares of Foshan Nanhai Debao Investment Management Co. Ltd. and Foshan Nanhai Debao Hotel Co. Ltd. in Chuangxintian, a personal guarantee by our controlling shareholder Yuan Lesheng and 68% shareholdings of Sihui Debao Jiangnan Mingju Property Development Co. Ltd. held by Foshan Nanhai Debao Investment Management Co. Ltd, a 100% subsidiary of Debao Group.

Debao Group are required to purchase back the 40% shares of Chuangxintian in the hands of Binhai by way of progress payments at a price based on value of the funds injected together with interest at a rate of 12-18% (depends on when the fund was drawn down by Sihui Debao Jiangnan Mingju) per annum on the amount of fund injected in Chuangxintian. In the event that there is a default in repayment of more than 60 days, we are required to purchase back the 40% shares of Chuangxintian immediately.

Notwithstanding the investment structure as described above, the Company auditors treat the said arrangement as a loan from Binhai and have classified it as borrowings in our Consolidated Statement of Financial Position.

The incorporation of Chuangxintian 30 March 2018 was not announced as a result of an oversight.

By Order of the Board

Zhong Yuzhao
Executive Director and Chief Executive Officer
29 January 2021