

## **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 ANNOUNCEMENT OF THE UNAUDITED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 30 JUNE 2023 (“2Q2023”)**

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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 21 August 2023 in relation to the announcement of the unaudited financial statements for the half year ended 30 June 2023 made by the Company on 14 August 2023.

#### **SGX-ST’s Query 1**

The Company explained that the Group’s revenue decreased by RMB 46.9 million, or 42%, from RMB 111.4 million in 6M2022 to RMB 64.6 million in 6M2023 mainly due to a decrease in properties sales by RMB 25 million and construction works sales by RMB 20 million in 6M2023. Please provide a breakdown by projects in the 2 corresponding periods and elaborate on the progress of the major projects and reasons for the significant decline in revenue of 42% to the extent necessary for a reasonable understanding of the decline, the significant factors that affected the turnover, costs of these projects and the factors and conditions that will affect these projects in the next reporting period and the next 12 months.

#### **Company’s Response**

The properties sales in 6M2023 and 6M2022 was related to Bay ONE project. The construction works refers to the construction for other companies which are also in the properties development market. The decrease in properties sales was due to the decrease in sales in Bay ONE Project. The decrease in sales was related to the downturn in the properties market in the PRC. The property market in general is in a difficult phase as evidenced by the problems faced by some large established property development companies. It is difficult to foresee when the property market will turnaround. On the other hand, the cost of sales for Bay ONE will not be materially affected as they are related to cost of construction already incurred in building Bay ONE. For the cost in relation to construction works, it will be related to the kinds of work and materials as required by the construction works itself and it is difficult to foresee at this moment.

#### **SGX-ST’s Query 2**

Please provide a breakdown of the projects that give rise to the RMB1,063 million of development properties under current assets, disclosing the value for each project and the status of development. Please also provide an update on any development plans and timeline with respect to the Company's inventory of land for development.

#### **Company’s Response**

	<u>RMB (Million)</u>
Bay ONE project	238
Imbi project	825
	<u>1,063</u>

The Imbi project is a development project of twin residential towers. This project is now on halt. We are concentrating our efforts in the completion of Bay ONE project first and will continue the development of Imbi project after the Huarong additional loan arrangement to be finalized in September 2023. In the meantime, only the basement for the towers had been completed.

Bay ONE project is a residential and shopping mall development project. 2 tower of apartments and 1 tower of hotel had finished construction and 2 tower of apartments are approximately 80% completed construction and expected will be 100% completed by the end of 2023.

Except the project mentioned above, the Company do not have land on hand pending development.

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

To provide a breakdown of the Company's current bank and other loans amounting to RMB 1.64 billion, including details on the lenders and the due dates of these loans and explain how the Company intends to meet the repayment of these short-term obligations as and when they fall due. Please also provide an explanation of the significant increase in bank and other loans from RMB 1.577 billion to RMB 1.64 billion in 6 months and provide a breakdown of the use of proceeds from these loans, providing a disclosure on the change in progress of construction and sale of the projects where these proceeds were applied. Please also disclose when construction will be completed for these projects.

### **Company's Response**

The total of current portion and long term portion of bank and other loans are as follows:

<b>Name</b>	<b>Due Date</b>	<b>RMB Million</b>
Industrial and Commercial Bank of China	7/22/2030	2.6
Guangdong Nanyue Bank	11/28/2023	16.4
Bank of Communications	12/21/2023	22.9
China Citic Bank	9/29/2033	306.0
Guangdong Nanyue Bank	4/22/2024	5.0
Bank of Communications	5/12/2024	12.5
Guangzhou Rural Commercial Bank	1/22/2024	18.1
Other loans - Personal	No fixed repayment date	75.0
Other loan - Huarong	To be determined	1,280.8
Other loan - Binhai	To be determined	190.6

1,929.8

The increase in bank and other loan is mainly due Huarong USD loan with a depreciation of RMB against USD in 6M2023 which increased the loan by approximately RMB 76 million and offset by a repayment of bank loans of approximately RMB 16 million.

For the progress of construction and when the Imbi project and Bay ONE project will be completed, please refer to Query 2 above. The sales for Imbi project and Bay ONE project is approximately 10% and 77% of the total project size respectively.

In relation to the bank loans, due to the PRC Government recent supporting policy for properties development company, all banks loans can be rolled over for one year.

In relation to loan with Huarong, we are arranging additional loan agreement with Huarong and expected it will be finalized in September 2023.

In relation to loan with Binhai, due to the investigation over Binhai is still ongoing, we are requested by Economic Investigation Team of Commercial Criminal Investigation Department of Municipal Public Security Bureau of Guangzhou City not to repay the outstanding amount. The investigation is expected to be continued for more than one year.

Please also see our response to query 2 in relation to the status of the projects.

**SGX-ST's Query 4**

The Company stated that the increase in provisions from RMB96.2 million from 31 Dec 2022 to RMB99.3 million was due to an increase in provisions for late delivery of construction projects to buyers. Please disclose the breakdown for these projects and how long have they been delayed to date and how these provisions have been calculated.

**Company's Response**

<b>RMB'000</b>	<b><u>30.6.2023</u></b>	<b><u>31.12.2022</u></b>
Provision for cost of disposed subsidiaries	90,456	90,456
Provision for late delivery of properties to buyer and construction works	8,875	5,722
Total	<u>99,331</u>	<u>96,178</u>

The provision for late delivery of properties was calculated based on the amount of properties sold in Bay ONE project and the length from expected deliver date to actual deliver date, with 0.01% as provision per day. The delay for delivery is on average 6 months.

**SGX-ST's Query 5**

Please reconcile the "net cash from operating activities" amounting to RMB -63,222,000, "net cash from investing activities" amounting to RMB819,000, "Net cash used in financing activities" amounting to RMB -58,774,000 and the "net decrease in cash and cash equivalents" amounting to RMB -3,629,000.

**Company's Response**

There is a typo in the financing activities. The repayment of bank and other loan should be drawing of bank and other loan instead of repayment of bank and other loan. The net cash from financing activities should then be 58,774 instead of -58,774.

**SGX-ST's Query 6**

The Company has reported a net current liabilities position of RMB1,282 million as at 30 June 2023 and a net operating cash outflow of RMB63.2 million for 1H2023. The Company stated that its Directors believe that the Group can continue as a going concern based on, inter alia, the Group's ability to sell its development properties at the current market price and the Group is able to generate positive cash flow from operations in the next twelve months.

- a. Please explain the basis of the Directors' opinion that development properties can be sold at current market price and provide robust justifications and supporting evidence, noting that two-thirds of the Company's current assets are development properties (amounting to RMB1,063 million, including RMB702 million of land for development) and the Company has reported significantly lower revenues for 1H2023 due to lower sales of development properties in view of poor market sentiment. Please disclose the development properties that the Group is able to sell, their value and the amounts that can be collected within the financial year.
- b. Please explain the basis of the Directors' opinion that the Company can generate positive cash flow from operations in the next twelve months given that the Company has reported significant operating cash outflow in 1H2023. Please provide robust justifications and supporting figures/evidence.
- c. Please explain the basis of the Group's confidence in obtaining the lenders' approval to roll over loans, the lenders that will be rolling over the loans, the quantum of these loans and whether these has been approved to be rolled over.
- d. Please disclose whether the controlling shareholder has provided an undertaking to provide the financial support necessary for the Company to repay all debts that fall due in the next 12 months.

**Company's Response**

- a. The current market price is already at its lowest market price. The major reason for the decreased sales is mainly due to the poor market sentiment. Buyers usually rush in when the market price increase but remain observation when the market drops. With the recent supporting policy from government to recover the market, we believe the space for further downward adjustment in the market is minimal. The company expect the remaining Bay ONE properties can be handover by the end of 2023. With the expected recovery of market in the 2<sup>nd</sup> half of 2023, the company expect the sales in 2<sup>nd</sup> half of 2023 will be approximately RMB 60 million.
- b. With the expected recovery in market and thus properties sales as mentioned in (a) above, together with the Huarong additional loan and investment (please see response to query 15 (c) for details), the company can generate positive cash flow in the next twelve months.
- c. The loans that need to be roll over are as follows:

<b>Name</b>	<b>Due Date</b>	<b>RMB Million</b>
Guangdong Nanyue Bank	11/28/2023	16.4
Bank of Communications	12/21/2023	22.9

Due to the PRC Government recent supporting policy for properties development company, all banks loans can be rolled over for one year. The company has also negotiated with above banks for roll over and received positive verbal confirmations for roll over. Also, the company has successfully rolled over loans amounting to RMB 40.3 million with the above banks within the last six months. Thus, the company is confident in obtaining the lenders' approval to roll over bank loans. For other loans status, please see response to query 3 for details.

- d. The controlling shareholder has provided an undertaking to provide the financial support necessary for the Company to pay its debt when requested.

#### **SGX-ST's Query 7**

Please disclose why the Company has not performed a revaluation of investment properties for the FY2022 period and 1H2023 and disclose the fair value of the Company's investment properties.

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

The Company is now short of fund for audit and revaluation. We intend to perform a revaluation only when we perform the audit.

#### **SGX-ST's Query 8**

At Note 6 of the Company's financial statements, the Company reported an interested person transaction with Zhong Yu Xin amounting to S\$271,386 for the lease of Debao Hotel. Please provide details of the lease and the period of the lease. Please also disclose whether the lease has been conducted on terms that are on normal commercial terms and provide the basis for the AC's view on how the lease is on normal commercial terms and not prejudicial to the Company and its minority shareholders. Please quantify to support your views and basis.

**Company's Response**

The lease is related to the lease of approximately 7,422 sqm of shopping mall space and 110 car park space. The monthly lease price for shopping mall and car park is approximately RMB 28 per sqm and RMB 184 per car park space respectively. The rental period is from 1 March 2016 to 31 May 2024.

The monthly rental price for surrounding newer (around 10 years old) shopping mall and car park space is approximately RMB 30 – 32 per sqm and RMB 200 per car park space respectively.

Due to Debao Hotel complex is more than 30+ years old, AC considered the rental price after taken into account the age of the building is comparable to market value and considered the lease is on normal commercial terms and not prejudicial to the Company and its minority shareholders. Moreover, the rental period started is on 1 March 2016 and this will be reviewed on 31 May 2024.

**SGX-ST's Query 9**

At Note 6 of the financial statements, the Company reported an interested person transaction with Yuan Le Sheng amounting to S\$57,855 relating to consultancy fees. Please provide details of the nature of consultancy services provided to the Company and its financial impact on the Company. Please provide the CV of Yuan Le Sheng and how he is suitable to provide the consultancy services and the time he has spent to provide the consultancy services for which the abovementioned fees have been paid by the Company to him for the period from 1 Jan 2023 to 30 Jun 2023. Please also disclose how the value of the consultancy services has been determined.

**Company's Response**

Mr. Yuan Le Sheng has more than 20 years of experience in the construction and real estate development industries. Mr Yuan was a researcher in the He Shun Town Committee, Nanhai District, from May 1988 to March 1992. From March 1992 to July 1995, Mr Yuan took on the position of the deputy general manager of Nanhai Guinan Property Development Limited where he was in charge of administration and development. From 1995 to 2000, Mr Yuan was a general manager of Nanhai Guicheng Complex Property Development Co., Ltd. Mr Yuan was certified as an assistant construction engineer under the Nanhai Construction Series Beginner's Professional Technical Qualification for Work by the Human Resource Bureau of Nanhai District in January 2002 and obtained a bachelor's degree in construction project management from the Hubei Engineering College in 2003. Mr Yuan has extensive fund raising experience for project development and experience in property development.

Mr Yuan provide consultancy service mainly on fund raising and project financing for the company and provide professional advice on the development on construction works and properties development. Mr Yuan spend approximately 120 - 160 hours per month on providing consultancy service to the Company. The value of the consultancy fee was determined after compared to similar position in the market and approved by the Remuneration Committee and Board of Directors meeting.

No payment had been made to Mr Yuan since June 2020.

#### **SGX-ST's Query 10**

Please provide an ageing analysis of the deposits of RMB 60.1 million which had been paid to government bureaus to obtain approval to commence development properties construction for Project Imbi and Bay One and disclose the names of the government bureaus which received the deposits and whether the approvals have been given and if so, when. Please elaborate on the reasons for the significant deposits that have to be paid and when does the approval expire. Please also provide an update on the current status of the completion of these two projects and to explain why the deposits paid to the government can only be recovered two to three years after completion of the two projects.

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

The deposits amounting to RMB 60.1 million was paid more than 3 years ago as a guarantee for the development of the Imbi and Bay ONE project. If the company fail to develop the abovesaid projects, the deposits will be confiscated by the government bureau. No special approval wasd obtained except director approval as the company considered it is a normal course of business. The payment in relation to Imbi was paid to Dewan Bandaraya Kuala Lumpur (“DBKL”) whereas the payment in relation to Bay ONE was paid to Sihui bureau of Finance (“四会市财政局城镇建设项目”). After the completion of the project, the related government bureau need time to verify the development status of the project, such timing is out of company’s control. In our experience, it needs 2 to 3 years after completion of the project to recover the amount.

#### **SGX-ST's Query 11**

Please provide ageing analysis of the receivables from “properties sales”, the credit terms and due date for these payments and explain why these have not yet been repaid for more than 6 months. Please disclose whether these were sales to any related persons and disclose details, where applicable.

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

RMB Million	Aging		
	181-270	271-365	>365 days

Properties sales	7.4	4.0	20.8
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These properties sales revenue need to be settled by the purchase before the company hand over the properties. All properties sales were sales to unrelated third parties. The lengthy collection period was mainly due to (1) the time needed by banks to process mortgage (2) due to the properties market environment, the purchaser prefer to settle the outstanding amount just before the properties handover.

### **SGX-ST's Query 12**

In relation to the receivables from Sheng Yu (BVI) Limited, please provide details of the court hearing results and if none, please disclose when the results will be issued. Please provide details of the arbitration filed with the court.

### **Company's Response**

The court hearings is relating to the company's objection on Sheng Yu (BVI) Limited claims for deduction on potential tax liabilities, which on the company's view, it is not claim by the tax bureau and it should be the obligation of Sheng Yu (BVI) Ltd. The Guangzhou Arbitration Commission accepted our application for arbitration and last court hearing was held in June 2023. No court hearing results come out. The company expect the hearing results come out in October 2023.

### **SGX-ST's Query 13**

In relation to the litigation case involving key management of Chuangxintian, please provide links to news that have reported on this investigation and to disclose the nature of these scam cases that are being investigated in relation to the directors appointed by the Majority Shareholder. Please disclose the identity (full name) of the Majority Shareholder, the directors that were arrested, and their prior roles and designations in the group prior to their arrest. Please also disclose whether the directors are currently still involved in the management and/or decision making of any entities in the group.

### **Company's Response**

Please refer to <https://xueqiu.com/2566964535/154896313> to news that have reported on the investigation and the nature of scam cases that are being investigated in relation to the Shenzhen Binhai Fund Management Co. Ltd.

Shenzhen Binhai Fund Management Co. Ltd, appointed 谭凯欣 as legal representative for Foshan Nanhai Chuangxintian Hotel Management Co., Ltd. 谭凯欣 was also the 2nd largest shareholder of Shenzhen Binhai Fund Management Co. Ltd. 谭凯欣 wad officially retired from office in Foshan Nanhai Chuangxintian Hotel Management Co., Ltd. since 8 August 2022.

譚凱欣 currently not involved in the management and/or decision making of any entities in the group.

**SGX-ST's Query 14**

Please provide details of the various projects of the group and the sales of these projects. Please also disclose the status of construction of each of these projects, their dates of completion and the take up rates of each of these projects and the trend of the selling prices in each of these projects.

**Company's Response**

Please also see our response to query 2 in relation to the status of the projects.

The take up rate for Imbi project is approximately 10%. There are no current trend for the selling price on this project as we suspend the sales until the project relaunch. The market price for surrounding properties remain stable.

The take up rate for Bay ONE project is approximately 77%. In relation to the selling price of Bay ONE, the average selling price decreased from 1Q2023 of RMB 9,227 sqm to 2Q2023 of RMB 9,172 sqm. The company plans to boost sales in Bay ONE by lowering the average price by 10%. The company will monitor the sales progress and make further discounts if needed.

**SGX-ST's Query 15**

The Company stated that it is making efforts to accumulate cash to pay the 2017 dividend and that the Group is also trying to address the delisting issue.

- a. Please disclose why the company is unable to repay its dividends of S\$749,997 when it has cash of RMB 4.8 million and the reasons why it had not been able to apply for the remittance of dividends to Singapore even though it had purportedly applied the proper procedures required for remittance of dividends.
- b. Please explain robustly the efforts by the Company to accumulate cash, noting that the Company's cash and bank equivalents has decreased even further from RMB8.4 million to RMB4.8 million as at 30 June 2023.
- c. Please provide specific details on the work that has been done by the Company thus far, including the parties with whom the Company has engaged in regard to making an exit offer, as well as a target timeline to make such offer and to delist from the Mainboard of the SGX-ST.

**Company's Response**

- a. The company is unable to repay its dividends as it need to reserve its fund to meets its working capital needs e.g. salary payment, payment to bank interest etc. In addition, for

payment to dividends, we need to pay additional 10% for the withholding tax in PRC, which is the difference in tax rate between PRC and Singapore. After taken this into account, the RMB 4.8 million is barely enough to pay dividend but leave no cash fund for company's operation.

- b. The company is trying hard in several ways to build up its cash by (1) to collect its receivables (2) discount sales in its properties and (3) delay payment. However, the effort was offset by the significant decrease in sales revenue. The company need more time to build up the cash reserve for dividend payment.
- c. The company is trying to arrange with Huarong for additional loan and investment to make exit offer. Huarong is now undergoing internal clearance and expected to have preliminary packaged proposal (expected to be approximately USD 50 million) in October 2023.

**SGX-ST's Query 16**

In relation to the Tianjin Boulevard project, when did the hotel and shopping mall start operations? Please disclose the occupancy rates of the hotel and shopping mall. Please also disclose the name of the hotel and the brand under which it will be operated.

**Company's Response**

The Tianjin Boulevard project commenced operations since 2019. The company do not have hotel operations in Tianjin Boulevard project. The hotel was operated by lessee. The occupancy rate is currently approximately 11%.

**SGX-ST's Query 17**

With reference to the table at page 26 of the Company's financial statements showing the status of the Company's projects as at 30 June 2023, please provide details to include the date the projects were completed, the value of these projects that have been sold and the corresponding amounts that the Company has collected thus far, the amounts that remain to be collected and recorded under receivables, as well as the aging profile of these receivables, and any impairment provisions/losses.

**Company's Response**

Name	Completion Date	Sold/Collected	
		RMB million	Included in AR
Project Imbi - Landmark	To be determined	69.5	None
Jin Long Garden–South Zone	Year 2011	853	None
Jiangnan Mingju Phases 5 and 6	Year 2010	1,003.5	None
Sihui City Mall	Year 2015	396.4	None
Project Bay ONE	December 2023	505.4	32.2 million

No impairments had been made for all the projects above.

Please refer to response to query 11 for the aging of receivables.

By Order of the Board

Zhong Yuzhao  
Executive Director and Chief Executive Officer  
29 August 2023