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 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 8 January 2021 in relation to the announcement of disclaimer of opinion by Independent Auditors on the financial statements for FY2019 made by the Company on 6 January 2021.

Basis for Disclaimer of Opinion

(i) Opening balances

<u>Divestment of Profit Consortium Sdn. Bhd. ("Profit Consortium")</u>

We were unable to obtain sufficient appropriate audit evidence or were we able to satisfy ourselves by any other alternative audit procedures whether the assets and liabilities of Profit Consortium at the beginning and end of the financial year ended 31 December 2018 are fairly stated. Consequently, we were unable to determine whether there are any adjustments which might have been necessary in respect of the impairment loss reported in the statement of comprehensive income and the net cash flows from operating activities reported in the statement of cash flows for the financial year ended 31 December 2018.

An impairment loss of RMB40,267,000 was taken to profit or loss in the current financial year, arising from the completion of disposal of 43% equity shares in Profit Consortium during the financial year. The remaining 19% of equity shares has not been transferred to the external party at the date of this report.

We were unable to obtain sufficient appropriate audit evidence or were we able to satisfy ourselves by any other alternative audit procedures on whether this additional loss of RMB40.3 million is sufficient. Neither were we able to satisfy ourselves management's assertion that this loss is a non-adjusting event based on SFRS(I) 8 – Accounting Policies, Changes in Accounting Estimates and Errors.

<u>SGX-ST's Query 1</u>

In the Company's announcement on 13 July 2020, it disclosed that "The land purchase agreement was signed on 26 June 2013 i.e. before Debao acquired Elite Starhill Sdn. Bhd as announced on 25 September 2015." and "The land cost can be cross checked with government records. We will arrange to obtain such records for FY2019 audit. Also, we will arrange face-to-face meeting for auditors with management who resigned so that the auditors can have a clear picture." In light of the foregoing, 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 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.

<u>Company's Response</u>

To the best of the Company's knowledge, Elite Starhill is not related to Profit Consortium. Additional provision for the divestment of Profit Consortium was made due to unforeseen circumstances during the course of the FY2018 audit. 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.

Divestment of Poly Ritz Green (Malaysia) Sdn. Bhd.

(1) The audited financial statements of Poly Ritz for the financial year ended 31 December 2018 were not made available to us for the purpose of consolidation at Group level. Accordingly, we were unable to perform alternative audit procedures to obtain sufficient appropriate audit evidence to determine the Group's share of Poly Ritz's results for the financial year ended 31 December 2018 as well as the relevant disclosures under SFRS (I) 1-28 Investments in Associates and Joint Ventures to be included in the consolidated financial statements of the Group.

(2) On 30 May 2019, the Group transferred its entire 50% equity interest in Poly Ritz to an unrelated party for a consideration of RM16 million (approximately RMB27.3 million), and recognised a net gain on disposal of RM5.16 million (approximately RMB8.6 million).

(3) In the current financial year, we are unable to verify the accuracy the net gain on disposal of Poly Ritz of RM5.16 million (approximately RMB8.6 million), as we were unable to obtain sufficient appropriate audit evidence to determine the Group's share of Poly Ritz's results and net assets/liabilities for the financial year ended 31 December 2018 and for the period up to the disposal date of 30 May 2019, or whether there are any contractual or constructive obligations arising from the disposal which will give rise to any adjustments for the financial year ended 31 December 2019.

SGX-ST's Query 2

(1) In the Company's announcement of 13 July 2020, it was disclosed that "Poly Ritz Green is a 50% jointly-controlled joint venture. The other 50% owner is Poly Ritz Development Sdn. Bhd. Poly Ritz Green is mainly operated by staffs from Poly Ritz Development Sdn. Bhd. During our last audit, Poly Ritz Development Sdn. Bhd. was under the pressure of its other project and not able to spare their staffs to meet with the auditors. In this year audit, we had made appointment with them well before audit and arrange auditors to have a face-to-face meeting with them to resolve the queries from auditors." Please disclose the beneficial ultimate shareholders of Poly Ritz Development Sdn Bhd, and explain why was the Company unable to obtain the audited financial statements of Poly Ritz for the purpose of audit, when they are equal 50% JV partner in the project?

(2) Explain the basis for the directors' determination of the consideration value of RM16 million.

(3) Explain why is Debao unable to provide evidence and obligations?

Company's Response

(1) The 50% JV partner is Poly Ritz Development Sdn. Bhd. which is owned by Tee Yam. We are able to obtain accounting and records prior to the disposal date and had provided these to our external auditors. However, after disposal date, Poly Ritz Green became a 100% privately owned company of Tee Yam, and the Company had no further access.

(2) The consideration was based on the valuations of the company's net assets and various payable amounts that need to be settled.

(3) The Company was formerly a 50% JV partner in the project, and had provided its accounting and other records that it had available to the independent auditors during the audit process. However, after the disposal date, the new buyer did not provide access to the accounting and other records to the Company despite the face-to-face meetings arranged by the Company, which had resulted in insufficient audit evidence for the independent auditors.

(ii) Litigation case involving key management of Foshan Nanhai Chuangxintian Hotel Management Co., Ltd. ("Chuangxintian")

(1) Chuangxintian is an associated company of the Group. During the period from 9 June 2020 to 17 July 2020, the directors of Chuangxintian, who were appointed by the majority shareholder (the "Majority Shareholder") of Chuangxintian, were arrested for suspect scam cases by Commercial Criminal Investigation Department of Municipal Public Security Bureau of Guangzhou City, Guangdong Province, the People's Republic of China. The cases are currently in the progress of investigations as at the date of this report.

(2) In addition, the Majority Shareholder extended a loan amounting to RMB190,597,000 to Sihui Debao Jiangnan Mingju Development Co., Ltd. ("SHDB"), a wholly-owned subsidiary corporation of the Group in the form of equity investment. This loan is secured by 100% of equity shares of SHDB. Concurrently, Foshan Nanhai Debao Investment Management Co., Ltd., which is a wholly-owned subsidiary corporation of the Group, provided corporate guarantee for these borrowings.

(3) In accordance with Singapore Standards on Auditing 600 Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors), we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the consolidated financial statements are prepared, in all material respects, in accordance with SFRS (I). We were unable to obtain sufficient appropriate audit evidence or were we able to satisfy ourselves by any other alternative audit procedures to determine the Group's share of Chuangxintian's results and net assets/ liabilities for the financial year ended 31 December 2019 and as at the end of the year then ended, respectively, as well as the relevant disclosures under SFRS (I) 1-28 Investments in Associates and Joint Ventures to be included in the consolidated financial statements of the Company, and whether any contractual or constructive liabilities need to be provided, or any contingent liabilities need to be disclosed, arising from the transaction above, or the aforementioned litigation case, or both, in accordance with SFRS(I) 1-37 Provisions, Contingent Liabilities and Contingent Assets

SGX-ST's Query 3

(1) Please provide the background of the suspected scam cases, the identities of these directors arrested, their dates of appointment to Chuangxintian, and whether they were arrested prior to their appointment to Chuangxintian. Disclose the identities of the ultimate shareholders and directors of the "Majority Shareholder" of Chuangxintian. Disclose whether the litigation case involving key management of Chuangxintian was announced via SGXNet and if not, why not? What is the impact on and total investment costs into, and loans extended to, Chuangxintain from Debao to-date?

(2) Was the RMB190.6 million loan announced? Provide further details on the loan and corporate guarantee. What is the impact on Debao?

(3) Explain why is Debao unable to provide evidence and provide details on the litigation?

Company's Response

(1) According to local media news xueqiu.com, Shenzhen Binhai Fund Management Co. Ltd. ("Binhai") 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. Binhai owns 40% of Foshan Nanhai Chuangxintian Hotel Management Co. Ltd. ("Chuangxintian"). Binhai appointed its supervisor ("监事",) Tan Kai Xin (谭凯欣) as executive director and legal

representative of Chuangxintian. Tan Kai Xin (谭凯欣) was arrested to help in the said investigation and she has not been prosecuted and thus not announced via SGXNet.

(2) The loan was not announced as the Company considered the loan from Binhai in the ordinary course of the business. The only impact arising from the Binhai situation is that we have not repaid the loan when it fell due as the bank accounts of Binhai were confiscated by the police bureau and we were instructed by the police bureau not to pay any money into the designated account until further notice.

(3) Chuangxintain's books and records are maintained by Binhai and they have been confiscated during the police raid on Binhai. We have also not been updated by the police bureau on the progress of its investigation.

(iii) Going concern

(1) As disclosed in Note 2.1 to the financial statements, in preparing the financial statements, the Board of Directors has considered the operations of the Group as a going concern notwithstanding that the Group incurred a net loss of RMB224,636,000 (2018: RMB333,557,000) for the financial year ended 31 December 2019 and was in a net current liabilities position of RMB869,286,000 (2018: net current asset position of RMB437,048,000) as at that date. The Group's operations are highly dependent on borrowings and as at 31 December 2019, total borrowings amounted to RMB1,772,656,000 (2018: RMB1,887,284,000) and amounts classified as current amounted to RMB1,438,362,000 (2018: RMB526,466,000). During the financial year, to support the Group's operating cash flow requirements, the Group obtained loans from individuals and other non-financial institutions amounting to RMB162,160,000 and the total outstanding balance of other loans as at 31 December 2019 is RMB1,363,101,000. These other loans from individuals and other non-financial institutions bore average annual interest rate ranging from 18% to 38% and the Group incurred interest expense amounting to RMB178,362,000 for the financial year ended 31 December 2019.

Although the above financial and other conditions indicate the existence of material uncertainties which may cast significant doubt on the Group's ability to continue as a going concern, the Board of Directors believes that the use of the going concern assumption in the preparation of the financial statements for the financial year ended 31 December 2019 is still appropriate after taking into consideration the following factors, assumptions and measures taken by the Company:

(a) The Group is confident in obtaining the lenders' approval for roll over of all the loans, which are due in the financial year ending 31 December 2020.

(b) The Group's ability to sell its development properties at the current market selling price and the timing of the receipt of proceeds estimated by management.

(c) The ongoing litigation cases do not have any significant adverse impact on the Group's core operations.

(d) The Group's controlling shareholder has provided an undertaking to provide continuing financial support to the Group for the next 12 months after reporting date.

SGX-ST's Query 4

(1) We note the Company is in a significant net loss position of RMB224.6 million. Its net current liabilities position doubled from RMB437 million to RMB869 million in FY2019. Its current borrowings increased from RMB526 million to RMB1438 million in FY2019. In addition, loans bear interest of 18% to 38%, resulting in interest expenses of RMB 178 million.

We note that on 21 April 2020, the board announced that the Company is able to operate as a going concern on the bases that "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." However, it appears none of these have materialised and the Company is unable to substantiate its claims of the basis for its being able to operate as a going concern. Therefore in view that the auditors have issued a disclaimer on the Company's going concern, please request a suspension of trading pursuant to LR1303(3) immediately.

(a) Provide evidence of all loans' lenders' approvals.

(b) Provide detailed breakdown of FY2018 & 2019 sales figures, including unsold units and cash received/outstanding.

(c) Provide detailed explanation of possible impact of cases.

(d) Provide evidence that the Controlling shareholder is able to meet its commitment under its undertaking, state amount pledged, and provide proof of funds. Disclose the identity of this controlling shareholder.

<u>Company's Response</u>

(1) The Company has on 18 January 2021 requested for suspension in the trading of the Company's shares pursuant to Listing Rule 1303(3) of the Listing Manual.

(a) For bank loans that matured in FY2020, they are already replaced/renewed by various bank loans. For individual loans, they do not have fixed repayment dates and we have verbal confirmations from them the lenders that they will not recall the loans. The Company is also taking actions to convert the loans from individuals to a shareholder loan. More details will be announced when available. For loans from Binhai, the company had arranged a loan to repay the Binhai loan in full when needed. However, the Company will comply with the PRC police instructions not to make any repayments pending investigation into the matter. For loans with Huarong, we have confirmed its intention to roll-over the loan and proposed to lend Debao additional USD 20 million as a boost to the project during a phone conference with the auditors. The auditors have also obtained minutes of meeting from the company and written confirmation from Huarong that they have discussed the above with the company. Huarong also confirmed that they are pending the due diligence work. Huarong indicated that due diligence work cannot commence until COVID-19 is over and they will not recall the loan in the meantime.

(b)

Development Properties Sales RMB'000

		As at year end		
Year	**Sales**	**Monies received**	**Receivables**	**Unsold units***
2018	66,558	66,558	-	413
2019	24,181	20,246	3,935	1,394

*Unsold units includes shopping malls, apartments and parking spaces.

(c) To the best of our knowledge, there are no ongoing litigation cases that have any significant adverse impact on the Group's core operations.

(d) Mr Yuan Lesheng, our controlling shareholder, has provided personal guarantees for 2 loans granted by financial institutions amounting to USD150 million and RMB190.6 million respectively. Also, he provided financial support for the Company whenever requested by the Company. Mr Yuan Lesheng is currently unable to provide proof of funds regarding his financial ability to provide financial support to the Company. However, he will provide a written confirmation via email to the Board that he is able to provide financial support to the Company if requested.

By Order of the Board

Zhong Yuzhao
Executive Director and Chief Executive Officer
22 January 2021