



RESPONSE TO SGX QUERY ON FINANCIAL RESULTS FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2017

The Board of Directors of China International Holdings Limited (the “**Company**”), and together with its subsidiaries (the “**Group**”) refers to the Company’s financial results for the third quarter ended 30 September 2017 (“**Q3 FY2017 Results**”) released to Singapore Exchange Securities Trading Limited (“**SGX-ST**”) on 10 November 2017. The Company would like to provide the following additional information in reply to the queries raised by SGX-ST on 21 November 2017:-

SGX Query 1

1. The following relates to financial results of KYWJ Group:
 - a. Please explain why there was no sales for development projects for 3 months ended 30 September 2017.
 - b. Please explain why the cost of sales has a positive figure.
 - c. Please explain whether and why it is an acceptable practice to recognize sold property units based on pre-sales contracts and subsequently making an adjustment for the actual floor area.
 - d. Please provide the statement of financial position for KYWJ Group.

Company’s response

- a. After Hongkun became a shareholder of the KYWJ Group at the end of the second quarter, the management of the KYWJ Group decided to put a temporary hold on sales in order to review marketing and sales strategy, which resulted in no sales for development projects for 3 months ended 30 September 2017. The review process was completed at the end of third quarter.
- b. The cost of sales being a positive figure represents the cost of the adjustment for the actual floor area, it corresponds to the negative revenue recorded in Q3 2017 in KYWJ Group.
- c. As with normal practice in China, the preliminary floor area of a property unit described in the pre-sales contract is based on an official construction drawing. After property certificates are issued, formal floor areas of each unit is measured and approved by the relevant government authorities. The difference between the preliminary floor area and formal floor area may be adjusted and recognized after the issue of the property certificate. In the particular case, the adjustment was negative, and the fact that the KYWJ Group put a hold on normal sales in the third quarter made resulted the adjustment becoming a dominant factor in the sales of negative RMB0.35 million.
- d. The unaudited - Statement of Financial Position as at 30 September 2017 for the KYWJ GROUP is follows:

	30.09.2017 RMB'000'	31.12.2016 RMB'000'
NON-CURRENT ASSETS		
Property, plant and equipment	155,970	156,100
	155,970	156,100
CURRENT ASSETS		
Property for development	648,666	895,747
Trade and other receivables	31,282	35,116
Cash and bank balances	56,020	18,037
	735,968	948,900
CURRENT LIABILITIES		
Borrowings	169,544	217,044
Trade and other payables	476,965	646,385
	646,509	863,429
Net Current Assets	89,459	85,471
Total assets less current liabilities	245,429	241,571
NON-CURRENT LIABILITIES		
Deferred tax liabilities	44,271	51,358
Net Assets	201,158	190,213
Equity		
Share capital	4,444	4,444
Reserves	536,208	535,711
Accumulated losses	(339,494)	(349,942)
	201,158	190,213

SGX Query 2

Please explain the reason for an increase in Other income of 391.8% mainly from higher interest income in CIHL (Tianjin) City Development Limited.

Company's response

On 1 June 2017, the KYWJ Group ceased to be subsidiaries and became associated companies of the Company. As at 30 September 2017, the Company's interest receivable accruing from other receivables due from the KYWJ Group have been recognised as interest income, instead of eliminating them as intercompany transactions for consolidation purposes. This resulted in an increase in Other income of 391.8% mainly from higher interest income in CIHL (Tianjin) City Development Limited.

SGX Query 3

Please explain the reason for a decrease in Finance costs of 76.8% mainly from lower interest expenses in CIHL (Tianjin) City Development Limited.

Company's response

The average amount of borrowings of the Company as in Q3 2017 was lower than as in Q3 2016, after borrowings were repaid by CIHL (Tianjin) City Development Limited, which resulted in a decrease in Finance costs of 76.8%. Details are follows:

Average amount of Borrowings of the Company

	30.06.2017	30.09.2017	Average	30.06.2016	30.09.2016	Average	Decrease of average
	RMB'000'	RMB'000'	RMB'000'	RMB'000'	RMB'000'	RMB'000'	RMB'000'
Borrowings	114,674	103,374	109,024	520,344	514,585	517,465	(408,441)

SGX Query 4

Please provide brief background on why full impairment was made for the Liuhe Gold project and Papua New Guinea project; and also to provide market valuations of these two projects.

Company's response

Background of impairment loss of investments in FT Group

MKS has expensed off approximately RMB104.97million of exploration and evaluation expenditure ("EEE") in FY2015. The Company was of the view that further exploration for the Exploration Project was beyond the financial capacity of the Group. Hence the Group had been seeking out for industry and financial partners to undertake further exploration. However, due to the slump in oil and gas prices, many investors whom the Group had approached decided not to participate in the Exploration Project due to cuts in their budgets. This resulted in the Group being unable to secure partners for the Exploration Project and to meet the conditions set out in the MKS' exploration licence ("Exploration Licence"), which is expected to expire in 2020. As such, the Group decided to cease the Exploration Project.

Market valuation of Papua New Guinea project

The Company had earlier disclosed the evaluation reports conducted by GCA on 23 May 2012 and 7 January 2013 in relation to the Exploration Project. The announcement released by the Company on 23 May 2012 disclosed a report by GCA which identified one prospect and one lead for further exploration and provided prospective resources estimation for the prospect named AOI-2, which showed 44 million barrels of oil or 489 billion cubic feet of gas on P50 assumption.

The announcement released by the Company on 7 January 2013 disclosed a report by GCA which, based on revised data processing and studies, identified updated estimation for the prospect named AOI-2 and showed 70 million barrels of oil or 775 billion cubic feet of gas on P50 assumption. This updated report also eliminated AOI-3W as a lead for further exploration. Based on the updated evaluation of AOI-3W lead, GCA concluded that there was no trap in the AOI-3W area and did not recommend any additional work in this area.

And the application of the Group's accounting policy for EEE requires judgement to determine whether future economic benefits are likely from either future exploitation or sale, or whether activities have not reached a stage that permits a reasonable assessment of the existence of reserves. Factors taken into account in assessing whether the Company's interests in associated company have suffered any impairment include the financial health and cash flow projection of the associated company, the period for the associated company has the right to explore a specific area, the substantive expenditure of the associated company on the exploration for and evaluation of oil,

and gas resources in specific areas and the future prospect and commercial viability of further exploration and evaluation activities.

Background of impairment loss of investments in LiuHe

Based on a valuation conducted by Roma, an independent valuer, and taking into account the expected increase in mining costs and poor trial production results, the Company forecasted that the cash flows over the life of the mining project would be insufficient to recover the Group's investment in Liuhe. On this basis, the Company decided to impair RMB44,281,000 on the carrying amount of Liuhe.

Market valuation of Liuhe Gold project

Roma was engaged as an independent valuer to conduct a valuation of the Liuhe Gold Project on 17 December 2015 ("Liuhe Valuation"). Roma is principally engaged in the provision of valuation and technical advisory services including natural resources valuation and technical advisory services. Roma submitted its valuation report to the Company on 26 February 2016. The Liuhe Valuation exercise was performed to consider whether there was any impairment to the Group's cost of investment in the Liuhe Gold Project and also to value the amount due from Liuhe to the Company.

The Liuhe Valuation was based on a going concern premise and conducted on a market value basis. According to the International Valuation Standards established by the International Valuation Standards Council in 2011, market value is defined as "the estimated amount for which an asset should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties have each acted knowledgeably, prudently and without compulsion".

Roma estimated the market value of Liuhe Gold Project based on the Income-Based Approach. The Income-Based approach focuses on the economic benefits due to the income producing capability of the relevant business entity. The underlying theory of this approach is that the value of the business entity can be measured by the present worth of the economic benefits to be received over the useful life of the business entity. Based on this valuation principle, the Income-Based Approach estimates the future economic benefits and discounts them to their present values using a discount rate appropriate for the risks associated with realizing those benefits.

SGX Query 5

Please explain why the Group want to sell these two projects if they have already been written down in full.

Company's response

Although the Group has made full provision on these two projects, the Group is still a shareholder in the two projects. Therefore the Group provides certain maintenance expenses to the projects. The Company would like to recover the investment when there is an opportunity.

SGX Query 6

Please disclose the prospects of Yichang Project Company, its order books, the take-up rates to-date of its properties, the status of development of its projects, the outlook for the sales of its projects. To provide a commentary of the significant trends of the sales of its properties and the competitive trends of its sales in the projects.

Company's response

All of Phase 1-1, Phase 1-2, Phase 1-3 and Phase 2-1 have already been completed. The completion date for Phase 2-2 of the Yichang Project is expected to be in December 2017. Phase 2-3 is work in progress and is estimated to be completed in December 2018. Other phases are in the process of design with plans to start construction in the next year.

The take-up rates for Phase 1-1, Phase 1-2, Phase 1-3 and Phase 2-1 of the Yichang Project are 81.97%, 52.70%, 90.63% and 94.57% respectively as at 30 September 2017.

Yichang's real estate market is expected to improve in the near future as a whole. According to the data released by the National Bureau of Statistics, new property prices of Yichang have increased by 8.9% as at October 2017 as compared to the same period last year.

**BY ORDER OF THE BOARD
CHINA INTERNATIONAL HOLDINGS LIMITED**

Shan Chang
Chairman
23 November 2017