



China International Holdings Limited

中 翔 國 際 集 團 有 限 公 司

(Incorporated in Bermuda with limited liability)

(Bermuda Company Registration No. 23356)

RESPONSE TO SGX QUERIES ON FINANCIAL RESULTS FOR THE THIRD QUARTER ENDED 30 SEPTEMBER 2019

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 2019 released to Singapore Exchange Securities Trading Limited (“**SGX-ST**”) on 8 November 2019. The Company would like to provide the following additional information in reply to the queries raised by SGX-ST on 20 November 2019:-

SGX Query 1

The Company reported 40.6% decrease in Revenue for 3 months ended 30 September 2019 due to a decline in revenue on construction of water pipelines which was attributed to lesser development projects in the area, please provide a breakdown of the Cost of sales and services provided in comparison with previous corresponding period and explain for significant items in 2Q2019 and reason why the decrease for Cost of sales being 7.2% was disproportionate to the decrease in Revenue.

Company’s Response

A breakdown of Cost of sales and services provided in 3Q2019 and 3Q2018 is shown below:

	3Q2019	3Q2018	Increase / (decrease)	
	RMB’000	RMB’000	RMB’000	%
Cost of sales and services provided				
- water supply	7,013	7,001	12	0.2
- construction of water pipeline	672	1,280	(608)	(47.5)
	<u>7,685</u>	<u>8,281</u>	<u>(596)</u>	<u>(7.2)</u>

The drop in cost of services on construction of water pipeline provided in Q3 2019 of 47.5% resulted in a net decrease of 7.2% of the Company’s overall cost of services provided. The decrease of 82.6% in revenue on construction of water pipeline for Q3 2019 resulted in the decrease in Company’s revenue by 40.6%.

SGX Query 2

Revenue and Cost of sales for KYWJ Group in 3Q2019 spiked sharply by 529.4% and 406.1% respectively, please provide a breakdown of Revenue and Cost of sales against corresponding period and explain the material items and also any significant increase from corresponding period.

Company's Response

A breakdown of Revenue and Cost of Sales in 3Q2019 and 3Q2018 of the KYWJ Group is shown below:

	3Q2019		3Q2018		Increase/(decrease)	
	Revenue (net)	Cost of sales	Revenue (net)	Cost of sales	Revenue(net)	Cost of sales
	RMB'000	RMB'000	RMB'000	RMB'000		
Phase 1-1	-	-	9,745	(10,069)	(100.0)%	(100.0)%
Phase 1-2	-	-	14,006	(12,359)	(100.0)%	(100.0)%
Phase 2-1	14,989	(10,708)	-	-	NM	NM
Phase 2-3	134,503	(102,808)	-	-	NM	NM
	149,492	(113,516)	23,751	(22,428)	529%	406%

NM: Not meaningful

As previously disclosed, cumulative pre-sales and related costs recorded in the KYWJ Group for its development properties would only be recognised in income statements in later periods upon completion.

On 22 August 2019, the KYWJ Group completed the development properties of Phase 2-3. Accordingly, cumulative pre-sales of RMB134.50 million on Phase 2-3 and their related cost of RMB102.81 million had been recognised as revenue and cost respectively in the income statements on 22 August 2019, removing from pre-sales in the balance sheet statement.

SGX Query 3

Please provide breakdown of Operating Expenses and Selling and Marketing Expenses amounting to RMB4.3 million and RMB10.2 million respectively for KYWJ Group. To provide explanation for the material variances of these expenses against corresponding period.

Company's Response

A breakdown of Operating Expenses for KYWJ Group is as follow:

	3 months ended		
	30.09.2019	30.09.2018	Increase/(decrease)
	RMB'000'	RMB'000'	RMB'000'
Brand ⁽¹⁾	3,099	1,046	2,053
Staff costs ⁽²⁾	665	(814)	1,479
Others ⁽³⁾	491	1,300	(809)
	4,255	1,532	2,723

(1): Brand usage fees for Q3 2019 of RMB3.10 million represent accrued expenses for using the Hong Kun brand in selling and marketing activities.

(2): Staff costs increased RMB1.48 million in Q3 2019 compared to Q3 2018, following the classification of this expense as other operating expenses instead of as selling and marketing expenses.

(3): Others expenses comprise of building management expenses, office expenses, travelling and other expenses.

A breakdown of Selling and Marketing Expenses of the KYWJ Group is as follow:

	3 months ended		
	30.09.2019 RMB'000	30.09.2018 RMB'000	Increase RMB'000
Advertising expenses	1,862	1,595	267
Publicity and exhibition expense	956	25	931
Legal & Professional Fee - marketing agency expenses	1,873	273	1,600
Marketing activity service expenses	1,447	556	891
Other expenses	4,056	3,657	399
	<u>10,194</u>	<u>6,106</u>	<u>4,088</u>

The KYWJ Group employed various marketing tools to reach its targeted audience, including: 1) placing physical advertising boards at key locations; 2) placing advertisements on TV channels, on-line internet channels as well as newspapers; 3) holding client events at the project site and the residents' club house; 4) mobilizing the internal sales forces to reach potential clients; and 5) engaging an external real estate agency firm to reach out to potential clients.

As a result of these marketing efforts, XSG had managed to sell over 90% of the low-rise apartments and over 50% of the duplex houses.

SGX Query 4

In relation to Trade and Other Receivables:-

- a. Trade and Other Receivables increased sharply from RMB61.4 million to RMB501.8 million, please provide breakdown of Trade and other receivables and explain items with material increment.
- b. Please explain reasons for the significant Trade and Other Receivables at RMB501.8 million when the sales for 9 months is only at RMB192 million.
- c. Please provide aging schedule of Trade and Other Receivables breakdown in 3 month band with upper limit specified.
- d. Please provide reason why customer of the properties are not paying for their purchases and what has the Company done to follow up with KYWJ on the collection of debts.
- e. Please explain the Company has any concerns about the high Trade and Other Receivables and the collectability of these debts?

Company's Response

a.: A breakdown of the KYWJ Group's Trade and Other Receivables on 30 September 2019 and 31 December 2018 are set out below:

	30.09.2019	31.12.2018
	RMB'000	RMB'000
Other current assets ⁽¹⁾	11,596	7,839
Prepayments, deposits and other receivables ⁽²⁾	8,967	9,435
Trade receivables	-	1,800
Due from non-controlling shareholder	1,992	1,992
Due from controlling shareholder ⁽³⁾	479,270	40,313
	<u>501,825</u>	<u>61,379</u>

Notes:

(1) Other current assets represent the incremental costs of obtaining the pre-sales contracts with customers, for example sales commission. The costs will only be recognised in income statement when the corresponding pre-sales is recognised as revenue.

(2) Prepayments, deposits and other receivables include, inter alia, prepaid construction costs in relation to property development, refundable security fund deposits and labour inspection deposits.

(3) Represents amount due from the controlling shareholder, Beijing Hongkunweiye Property Co. Ltd ("Hongkun"), which is repayable on demand.

b to e.: Trade and Other Receivables totalling RMB501.825 million at 30 September 2019 are not revenue related. The decrease in trade receivables of RMB1.80 million are in respect of revenue earned in the financial period ended 30 September 2019 following settlements received from some customers.

SGX Query 5

Please provide breakdown of Other Current Assets amounting to RMB61.4 million and explain reason for the material increase from corresponding period.

Company's Response

The Group adopted *IFRS 15 Revenue from contracts with customers* effective for the financial year beginning on or after 1 January 2018. The Group had previously recognised revenue from the construction of water pipeline contracts ("Construction Contracts") over the period of the contract activity with reference to the stage of completion.

In FY2018, the Group assessed adopting IFRS 15 based on Construction Contracts entered with the customers. Based on the assessment of the Construction Contracts, each comprise of a single performance obligation which is satisfied at a point in time, i.e. when the promised services have been handed to the customer. Hence, revenue is recognised only upon the completion of services rendered.

The variance of RMB33.60 million for the Current Assets from RMB27.81 million at 31 December 2018 to RMB61.41 million at 30 September 2019 are in respect of direct cost incurred to fulfil water pipeline contracts and temporary waste water treatment services supplied by CIHL (Tianjin) Water Development Company Limited during the financial period ended 30 September 2019.

SGX Query 6

In relation to the development in “new” Phases 3-1, 3-2 and 3-3:-

- a. Please provide stage of development of each construction projects and phases. To also disclose the estimated date of completion for each of them.
- b. Please provide the status of sales to-date for each project and pricing per square foot.
- c. Please discuss any factors or issues relating to the development or sales of the projects.
- d. Please disclose if the cash flow of such sales have been positive.

Company’s Response

a. The “new” Phase 3-1 is still in the process of construction, with 10% of the remaining work planned to complete by end 2019. The “new” Phases 3-2 and 3-3 are in the process of construction, with 70% and 85% respectively of work remaining to complete. The KYWJ Group expects to complete the development of “new” Phases 3-2 and 3-3 by Quarter 4 of 2020.

b. and c.: Save as disclosed, the Group is not aware of any known factors or events that may affect the Group in the next reporting periods.

d. The KYWJ Group has indicated that net cash flow generated from the development properties of “new” Phases 3-1 was positive.

SGX Query 7

In relation to the investment project in Papua New Guinea:-

- a. Please explain reason why the Company decided to apply renew exploration rights within next year when it has made full impairment after determining that there are unlikely future economic benefits from future exploitation or sale.
- b. Please provide further details in supporting what are the Company’s plans for the investment in project in Papua New Guinea.

Company’s Response

a. As stated in the past announcements, the Group has been trying to dispose the investment or find new investors for the project. To do so, the Group has to maintain the licensing status of the project. As such it intends to apply to renew the license covering the same project area once the current license expires in early 2020. There is no certainty that the application to renew the license will be successful.

b. The Group has no further investment plans for the project and will only incur minimal expenses to maintain the licensing status.

BY ORDER OF THE BOARD
CHINA INTERNATIONAL HOLDINGS LIMITED

Shan Chang
Chairman
22 November 2019