



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 THE FULL YEAR RESULTS FOR YEAR ENDED 31 DECEMBER 2021

The Board of Directors of China International Holdings Limited (the “Company”), and together with its subsidiaries (the “Group”), refers to the Company’s full year results for the year ended 31 December 2021 released to Singapore Exchange Securities Trading Limited (“SGX-ST”) on 1 March 2022 (the “Full Year Results Announcement”) and the Company’s announcement released on 9 March 2022 (the “Response Announcement”) in response to several queries raised by SGX-ST on 7 March 2022. The Company would like to provide the following additional information in reply to the queries raised by SGX-ST on 14 March 2022.

SGX Query 1

We refer to the Company's responses to SGX queries announced on 9 March 2022 relating to the Company's full year financial results for the year ended 31 December 2021. In the Company's response to Query 1, we note that the Company lost a client accounted that accounted for 11% of its total revenue in FY2020.

(a) Who is this client and what is the nature of their business.

(b) When had this client become a major customer of the Company and why did they relocate? To elaborate on whether the relocation of this client is an issue that affects the location of where the Company operates.

(c) We further note that the Company expressed their view that despite the impact on the water supply business, it is not a significant factor which will materially affect the performance of the Company's share price which requires prompt disclosure under Listing Rule 703(1). We wish to draw your attention to Appendix 7.1 of the listing manual, paragraphs 8(e) & (t) which expressly includes a loss of a significant customer or contract as a disclosable event under Listing Rule 703. Please robustly justify why the Company is of the view that no prompt disclosure is required under Listing Rule 703(1) for the loss of a significant customer which contributed 11% of the Group's total revenue for FY2020.

(d) We note that the Company explained that the loss of revenue from this major customer will be compensated by water supply to new customers in the Company's service area. Disclose the number of new customers and their contributions to the Company's revenue in FY2021.

Company's Response

(a) This client is Tianjin Dagu Chemical Industry Co. Ltd (“Dagu”) Complex in Tanggu District, Tianjin City 天津大沽化工(塘沽厂区) which is a chemical complex in the chloride and petrochemical industry.

(b) The Complex became an industrial client in 2012. This Complex has been planning to move to the

South Port Industrial Area which is outside of our service area in accordance with the Tianjin Government's Plan. Its purchases of industrial water have been declining since August 2021, and ceased completely only in December 2021 just before it was re-located.

(c) Management had deliberated on this matter carefully and took into account the following factors. Firstly, the relocation took place progressively over a period of time and the event did not happen suddenly. Secondly, in the year 2021 there was an overall drop in revenue from most of our customers due to less favourable economic and market conditions. Although Dagū was a major industry customer, revenue from sales of industrial water to Dagū for 2021 was only 23% lower than that of 2020. This means that the revenue from this client is declining at about the same rate as our total revenue. Also, during the year another established customer had lowered its purchases after reducing the generating capacity of its electricity plant due to a temporary government policy and economic conditions. Hence management does not deem that the progressive decline in sales to Dagū over the period is of very high significance as compared to other factors.

(d) There were 11 new industrial and commercial customers and 4,977 new household customers in 2021, whose combined contribution to revenue in FY2021 is insignificant as they are new customers.

SGX Query 2

We refer to the Company's response to Query 3. We note that the declaration of dividend of RMB 105.6 million consists of RMB 49.3 million received from the KYWJ group before 31 December 2020. Disclose which FY was the RMB 49.3 million received and why this amount was only recorded in FY2021.

Company's Response

KYWJ declared a dividend after receiving approval from its board and shareholders on 14 December 2021. Part of this dividend declared was used to offset against the cash advances of RMB 49.3 million (RMB29.1 million in FY2018 and RMB20.2 million in FY2019) received prior to 31 December 2020.

SGX Query 3

We refer to the Company's responses to Query 6.

(a) We note that the Company did not disclose the duration of the contracts as well as whether there were any issues relating to the management of these contracts for the contract assets of RMB 150.4 million as required under part (a) of Query 6. Provide the Company's response to these questions with specific details.

(b) The Company also did not elaborate on why it has been unable to collect these outstanding receivables. Please elaborate accordingly. In your explanation, include details on the status of operations or financial positions of major debtors and disclose whether any of them are under financial difficulties or have ceased operations. If so, please quantify and disclose details accordingly.

(c) We note that the Company's management believes that this public service business under a local government contract is an acceptable credit risk despite the longer settlement period at the introductory stage. Disclose the credit period for government contracts with the local governments and how long do the government take to eventually pay on the credit terms.

(d) We note that the Company has not disclosed the calculation of how the amortisation of its trade and other receivables is performed as well as the reasons for amortisation. Please disclose accordingly.

(e) We refer to the amounts due from KYWJ Group. Disclose the date when the Company extended this initial shareholder's loan of RMB 121.2 million and the age of this receivable.

(f) Provide a breakdown and aging, in bands of 3 months with the upper band disclosed, of "Dividend receivable and others" of RMB 3.6 million and explain why dividends were not paid despite being declared.

(g) Disclose how the write down amount of RMB 85.93 million was computed.

(h) Disclose how the provision for onerous contracts of RMB 99.52 million was computed and why it was determined to be onerous.

(i) Elaborate what was KYWJ Group's recent experience in estimating net realisable values of its completed units and properties under development and why this led to the credit risk of KYWJ Group to increase significantly in FY2021.

(j) Disclose the identity of the valuers used to value these properties in KYWJ Group, their accreditation and experience, the market value reported by the valuers and the book value of all these properties held by KYWJ Group.

Company's Response

(a) The local government decision to purchase services which requires our plant, along with other service providers, to process waste water in line with certain established pricing principles. These principles are yet to be developed into detailed contracts. The Group has been in discussions with the local government to attempt to finalise the implementation of the contract. The Group has already supplied relevant operating cost information to the local government, and a third party auditor has been retained by the local government to ascertain that the cost information is correct for the purpose of determining the service pricing. This contract, when signed, will be of a long term duration. Prior to the signing of the contract, the Group has meanwhile been providing the service on an interim basis. The local government acknowledged receiving the services as noted in the company's correspondence with local government officials.

As of 31 December 2021, the balance of unpaid fees recorded in our financial accounts is approximately RMB 150.4 million. This is based on the Group's estimation of the most likely amount of consideration which the Group expects to be entitled to in exchange for transferring the promised services to the customer. The consideration estimated is to the extent it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

(b) The local government has been our customer for waste water treatment since 2019 when our Xinhe Water Plant was put into operation. In FY2021, we received RMB 9.202 million in processing fees, bringing the total amount received since 2019 to RMB 62.405 million. Please refer also to the explanation in item (a) above.

(c) We have been in discussion with the local government to finalise the detailed contract. We expect all terms and conditions for the final contract, including the terms for payment, will be in line with normal commercial terms practiced in the People's Republic of China.

(d) As disclosed on 9 March 2022, there are no amortisations on trade and other receivables as at 31 December 2021.

(e) This shareholder's loan was part of investment ("Investment Loan") made before the Group acquired the investment in KYWJ from China Resources and Transportation Group Limited. Since the acquisition, the Group had made further working capital loans to KYWJ group. These working capital loans have already been repaid. The Group is currently awaiting repayment of the Investment Loan.

(f) A breakdown of dividend receivable and others due from KYWJ Group is as follow:

	Ageing	31.12.2021 RMB'000
Dividend receivable	Repayable on demand	3,300
Other receivables	Repayable on demand	300
Total		<u>3,600</u>

The dividend was approved by the board and shareholders of KYWJ on 14 December 2021, with no specific date to be paid. Management is currently following up the matter with KYWJ.

(g) and (h) The Group makes allowance for losses by applying its experience in estimating the net realisable values of completed units and properties under development. References were made to KYWJ's recent transaction price, comparable properties, management's expected net selling prices and estimated development expenditure. The basis of valuation is in line with IAS 2 – Inventories that the inventories shall be measured at the lower of cost and net realisable value. The net realisable value refers to the estimated selling price of the inventory in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

The provision of RMB 99.52 million is for foreseeable losses on properties under development which was previously disclosed as onerous contracts.

(i) KYWJ Group has been involved with the project for about ten years and has accumulated significant experience and knowledge of the local property market. It has assessed that the difficult operating environment with COVID-19 coupled with the government's tightening of loans to the property sector will cause a change to the credit risk profile of the property developers.

(j) The Group did not employ an external valuer to value the relevant properties as at 31 December 2021. Please also refer to the explanation in item (g) and (h) above.

SGX Query 4

We refer to the Company's responses to Query 7.

(a) What is the date of the agreement between the Group and Baoding for the transfer of the development properties?

(b) Why does the Group not exercise its rights to collect the full outstanding sum of approximately RMB 30 million in cash?

(c) Provide details of this RMB 30 million development properties to be transferred, including the market value, the location and status of the development.

Company's Response

(a) The agreement between the Group and the Baoding Parties was dated 14 December 2020. The relevant properties will be completed and handed over to owners by 1 October 2022.

(b) As disclosed on 8 March 2021, the Group had discussed with Baoding in relation to the return of RMB30 million on several occasions between 30 June 2020 to 14 December 2020. With the agreement entered into on 14 December 2020, the Group reserved the rights to collect the receivables before the development properties are to be completed while the RMB 30 million is returned in kind by transferring the development properties valued at approximately RMB 30 million to the Group. The agreement was entered into after careful consideration of the following factors: (a) Baoding had defaulted more than once on its promise to repay the Group in 2020; (b) Baoding has other general and trade creditors with whom the Group has no priority over. The Group believes by entering into the agreement, the Group is in a better position to recover RMB30 million deposit in full.

(c) The market value of the properties to be transferred under the agreement involves 15 properties with a total area of about 2,089 square meters, with an estimated value of RMB 30.2 million. The properties are from Zhongshang-Boxinwan Project, in the new development zone in the Yi County, Baoding City, Hebei Province. The project is due for completion around October 2022.

By Order Of The Board
China International Holdings Limited

Shan Chang
Chairman
16 March 2022