

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 THE UNAUDITED FINANCIAL STATEMENTS FOR THE FIRST QUARTER ENDED 31 MARCH 2020 ("1Q2020")

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 July 2020 in relation to the announcement of the unaudited financial statements for the first quarter ended 31 March 2020 made by the Company on 15 May 2020.

SGX-ST's Query 1

Page 1: Currency translation difference decrease to RMB27,335,000 from RMB5,289,000

Disclose and quantify the underlying items which caused the significant loss of RMB27.3 million on currency translation compared to a gain of RMB5.3 million previously.

Company's Response

The Group has overseas subsidiaries in Hong Kong, Malaysia and Singapore. The translation difference arise from the difference in exchange rate on overseas assets and liabilities. The major components that caused translation difference (1) USD loan amounting to USD 150 million (2) investment properties and development properties in Malaysian Ringgit. In 1Q2019, the USD liabilities caused an exchange gain and offset by the exchange loss from other overseas assets resulted in translation gain of RMB 5.3 million whereas in 1Q2020, the USD liabilities caused an translation loss and together with the translation loss from overseas assets resulted in translation loss of RMB 27.3 million.

SGX-ST's Query 2

Page 3: Trade and other receivables increase to RMB599,626,000 from RMB584,363,000

Provide a breakdown between trade and other receivables, and provide an aging schedule for both. Explain why these current assets have not been collected, and when they are due for repayment to the Company. Disclose the nature of the underlying contracts relating to other receivables, and explain the significant amount outstanding for both current trade and other receivables. Provide details on whether these debtors have been able to pay their debts as and when they fall due, and the amounts due to the Company.

Company's Response

	Aging	RMB million
Management fee	Overdue 1–6 months	3.5
Construction works	Overdue 1-6 months	22.7
Rent	Overdue 1- 9 months	6.0
Sheng Yu (BVI) Limited	NA	212.5
Prepayments	NA	73.6
Deposits	NA	51.0
Guangzhou Xu Zhou Enterprise Management Co. Ltd.	NA	60
Perfect Praise Investment Limited	NA	60
Properties sales	Current	30.2
Global Ace Enterprise Limited	Current	72.4
Others	Current	7.7
		<u>599.6</u>

For receivables related to construction works, the developers have an industry practice to retain the last payment until the work is certified. This amount is related to work not yet certified. We expect this amount to be collected in full.

Rent receivables relates to the monthly rent payable from lessees in our shopping malls. However, some rent has not been paid when due or delayed as a result of disputes relating to utilities. As the lessees have their establishments in our shops, we considered this amount to be fully recoverable.

The amount due from Sheng Yu (BVI) Limited. ("Sheng Yu") is related to the disposal of Infinity Real Estate Holdings Pte. Ltd. and Foshan Sanshui Fangao Land Co., Ltd. (for details, please refer to the announcement dated 8 November 2016). As Sheng Yu is required to pay a penalty for delayed development and as the Land and Resources Bureau has not yet determined the final penalties, they have withheld the last payment as guarantee monies because the contracted amount included delay penalties to be paid by us. The Company has negotiated with the Land and Resources Bureau and have preliminarily reached a consent of penalties of approximately RMB 5 million. No provision for the penalties had been made but we will provide such provision when we have clarity of the amount of penalties for the delayed development.

For prepayments, they are mainly prepayments for materials, machinery rental and construction fee for our development properties. These items are expected to be fully utilised in FY2020.

Deposits are related to the deposits that we are required to pay to the government bureaus in order to obtain their approval to commence development properties construction for Project Imbi and Bay One. These can only be recovered in two to three years when our existing development property projects are completed.

Receivables from Guangzhou Xu Zhou Enterprise Management Co. Ltd. and Perfect Praise Investment Limited relate to the disposal of 43% and 19% shares in Profit Consortium Sdn. Bhd. This amount can only be collected after approval for the transactions is obtained at an extraordinary general meeting ("EGM") to be held in 2020. The EGM circular is currently being reviewed by the SGX-ST.

Properties sales receivables relate to sales for which the buyers are taking a bank mortgage to pay the remaining amount. We will collect this amount only after the bank mortgage has been granted to the buyers. It usually takes one to three months for the banks to complete their mortgage approval process. Due to COVID-19 and Chinese New Year, the mortgage release process are slowed down and resulted in the increase in this amount.

Receivables from Global Ace Enterprise Limited was originally intended to be used in a joint bid for a land development project. However, the bid was unsuccessful and after negotiations with Global Ace Enterprise Limited, the amount is to be returned to us by September 2020 with an interest of 3.1% p.a.

The Company considered these trade and other receivables should have no collectability issues. Please see our reply to query 8 for the actions taken by the Company.

SGX-ST's Query 3

Page 3: Disposal group assets classified as held-for sale of RMB176,616,000

What are these held for sale assets?

Company's Response

The Group's management had signed sales and purchase agreement to dispose its partially owned subsidiary corporation in Malaysia, Profit Consortium Sdn. Bhd. ("PCSB"). The EGM circular for the disposal is currently being reviewed by the SGX-ST. According to SFRS(I) 5, assets held for sale and discontinued operations need to be separately identified, the disposal group assets classified as held-for-sale represent the assets of PCSB (i.e. cash and bank balances, property, plant and equipment, trade and other receivables and development properties) minus the impairment loss on disposal and the value of the shares to be disposed.

SGX-ST's Query 4

Page 3: Negative working capital of RMB876,125,000

The Company has a negative working capital of RMB876.1 million, an increasing significant net loss of RMB52.5 million, net cash outflow of RMB46.1 million from its operations, and cash on hand of only RMB11.4 million. Disclose and substantiate with details how it will be able to finance its short term obligations of RMB2.75 billion as and when they fall due within the next 9 months from 31 March 2020 to 31 December 2020.

Company's Response

We have already undergone negotiations with the borrower and have obtained preliminary agreement to extend the loan to further 3 years. In order to go through the borrower's internal approval process, borrower is required to perform field due diligence review in Malaysia. However, due to the continuous spread of COVID-19, the due diligence work had been delayed to September 2020. We will work with the borrower on the due diligence review once the travel restrictions have been loosen. The Company also expects to receive RMB 120 million from the disposal of Profit Consortium. The EGM circular for the disposal is currently being reviewed by the SGX-ST.

SGX-ST's Query 5

Page 10: Legal matter – court's verdict on the act of bribery and Payment to political party in Malaysia

Provide details of these acts of bribery and who are the persons involved in the "(a) Legal matter - court's verdict on the act of bribery", and "(b) Payment to political party in Malaysia". Have all the relevant persons involved resigned from the Company? Disclose the steps taken to strengthen internal controls to ensure that these will not recur.

Company's Response

(a) Legal matter – court's verdict on the acts of bribery

The case was related to a construction contract which was awarded by a subsidiary of the Group to a construction company owned by an associate of a Chinese official. The contract was awarded by the legal representative of this subsidiary. He has resigned from the position as CEO of the Group on 19 April 2018.

(b) Payment to political party in Malaysia

It was related to a payment made by a minority shareholder on behalf of the Group to a political party in Malaysia. The amount was recorded as an administrative expenses for the year ended 31 December 2017. The related expense and related receipt were subsequently reversed and removed from the accounting records in May 2018. Auditors raised their concern to the Board of Directors and the Audit Committee, the Board of Directors engaged an independent professional accounting firm to perform certain agreed upon procedures. Although the agreed upon procedures report did not show other occurrences of similar incidences and the Group responded to auditors' enquiries, auditors considered the Group's responses and independent findings report did not adequately address to their concern. The Group CEO resigned on 19 April 2018 to take the responsibility of this incident.

The Group's internal auditor has also recommended measures to strengthen the Group's internal controls and the Group has adopted and implemented these measures. The Management team has also been given a refresher course on the SGX code of corporate governance rules.

SGX-ST's Query 6

Page 11: Land costs of Elite Starhill Sdn. Bhd. ("Elite Starhill")

List the issues relating to this matter, and explain whether each issue has been addressed by the Company. For outstanding issues, explain what steps the Company is taking to address them.

Company's Response

Auditors were unable to verify the appropriate source documents or perform and other alternative audit procedures to satisfy themselves that the carrying amount of the land costs are fairly stated. 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. The Consideration was arrived at on a willing seller and willing buyer basis, after negotiations which were conducted at arm's length between Debao HK and the Vendors, which takes into account the net tangible asset of Elite Starhill together with the potential developments in the Imbi Land thereon.

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.

SGX-ST's Query 7

Page 11: Poly Ritz Green (Malaysia) Sdn Bhd

Why was the Company not able to arrange for the auditors to meet the related parties? Who are these related parties? Please provide their identities and explain how they are related. How can the Company be certain that this will be possible in the next audit fieldwork?

Company's Response

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.

SGX-ST's Query 8

Page 12: Expected Credit Loss of Other Receivables of RM43,534,000 (RMB72,366,000)

Provide details of the Company's actions to-date regarding these credit losses provisions. Is the Audit Committee satisfied that the internal control weaknesses in relation to this matter have been resolved?

Company's Response

Our Group has taken active steps to collect outstanding debts. Our Accounts Department and relevant Project Managers frequently follow up on the payments. Long outstanding debts would be escalated to CEO's attention and he will proceed to discuss and negotiate a payment schedule with the debtors directly. If necessary, legal proceedings will be taken to pursue the claims.

Management of the Company is required to update the Board quarterly on the ageing report of trade and other receivables. Significant long-outstanding debtors are to be reported to the Board and the plans undertaken to recover them.

Audit Committee ("AC") undertakes a rigorous review of the trade and other receivables quarterly, by monitoring the rate of collection from debtors who in particular have large accounts receivables outstanding for some time, and whether they have been making part payments periodically. Management is required to update the AC on the actions taken by the Group on specific debtors, including whether visits have been made to these debtors to chase on a debt or to ascertain whether they are still carrying on business. Management is also reminded by the AC to step up collection efforts and be vigilant if any of its larger debtors may be facing financial difficulties.

The Board and the AC are of the opinion that the Internal Controls are adequate and effective in relation to the financial results based on:

- (a) the Internal Controls policies established and maintained by the Company;
- (b) reports issued by the internal auditors and external auditors (for previous years); and
- (c) regular reviews performed by the management of the Company, and regular reviews undertaken by AC and the Board.

SGX-ST's Query 9

Page 12: Non-receipt of bank confirmations

Has an audit been conducted to verify cash in the Company's bank accounts? Provide details of how the Company has satisfied the auditors that the cash is in the bank accounts.

Company's Response

The auditors and the company verified and tied the bank balances with bank statements without any discrepancy. The disclaimer arose mainly due to the fact that the auditors require all bank confirmations to be received for first time client but some confirmations did not come back to auditors before audit field work. The Group had worked closely with the auditors to ensure the necessary audit field work can be completed for the upcoming audit.

SGX-ST's Query 10

Page 15: Bay One Project

Provide details on the status of sales to-date. When will construction be completed?

Company's Response

Out of the five towers, one tower has been completed, the main bodies of two towers have been completed, just finished the basement works of one tower and finally, in the state of completing the basement of the final tower. Construction is expected to be completed in the first half of Year 2021.

As at 31 May 2020, approximately 560 apartments have been sold. Sales in 2nd quarter is approximately RMB 95 million.

SGX-ST's Query 11

Page 15: Decrease in interest income from RMB 2.5 million in 1Q2019 to RMB 0.2 million in 1Q2020

Why was there a decrease in interest income when the Company's cash balance increased?

Company's Response

There is a typo and should read RMB 0.25 million. The decrease in interest income was mainly due to the shorter period of time of the balances in bank.

SGX-ST's Query 12

Page 15: One-off disposal income of financial assets amounting to RMB 4.8 million in 1Q2019

Provide details of these financial assets and the nature of these disposals.

Company's Response

The one-off disposal income of financial assets is related to the disposal of shares in Foshan Nanhai Rural Credit Union. Please refer to announcement dated 25 June 2019.

SGX-ST's Query 13

Page 16: Finance Costs

Provide details of the amount of the loans and the increase in interest rates which resulted in an increase in finance costs to RMB54.1 million.

Company's Response

The increase in finance cost is mainly due to the increase in weighted average increase cost when we roll over the old loans. The weighted average interest rate increased from 9.7% in 1Q2019 to 12.1% in 1Q2020.

In order to protect our commercial secrets and the bank borrowing rates from different sources, we will not be disclosing the requested information. If required, we will provide details to the Singapore Stock Exchange in private.

By Order of the Board

Zhong Yuzhao
Executive Director and Chief Executive Officer
13 July 2020