

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 YEAR ENDED 31 DECEMBER 2022 (“4Q2022”)

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 2 March 2022 in relation to the announcement of the unaudited financial statements for the full year ended 31 December 2022 made by the Company on 27 February 2023.

SGX-ST’s Query 1

It is noted that the Company recorded other income of RMB 14.243 million in FY2021 and other expenses of RMB 13.575 million in FY2022. Please provide breakdown of such other income and expenses for each of FY2021 and FY2022 and explain the material differences that contributed to the reduction of RMB 27.82 million from income to expenses. Please explain why these other expenses were incurred and the nature of the underlying transactions.

Company’s Response

The increase in other expenses is mainly due to the government bureau finalizing its tax expenses and other expenses of approximately RMB 18 million in relation to the Jinlonghuayuan project. This amount is not accrued previously and thus it is recorded in the current year. Also, there is a one-off bad debt recovered which increased the other income by RMB 4.9 million in FY2021.

SGX-ST’s Query 2

It is noted that the value of contract assets remained at RMB 19.254 million between FY2021 and FY2022. Has the Company not been able to invoice its customers for the relevant construction contracts in FY2022? If so, please explain why this is the case.

Company’s Response

The contract assets is related to construction work with Evergrande Group. Under the Chinese Government’s instructions, Evergrande stopped all work verification and thus we are not able to invoice this customer. The arbitration process was initiated to chase for the amount of the work done and we are waiting for arbitration court hearings in China.

SGX-ST's Query 3

Given the Group's significant current liabilities of RMB1.562 billion and cash and bank balance of only RMB 8.448 million and noting that the Company incurred losses of RMB 138.035 million in FY2022, please disclose the Board's assessment (i) whether the Company's current assets are adequate to meet the Company's short term liabilities, including its bases of assessment; and (ii) how the Company intends to fulfil its significant payment obligations in the next 12 months. Where the Company has worked out debt repayment plans to fulfil its debt obligations, please disclose if the Company is on track to fulfilling these obligations.

Company's Response

The major items in current liabilities which are to be repaid are (1) Bank and other loans, (2) Trade and other payables and (3) Tax payables. Other items are for accounting presentation only or there is no need to repay by cash within one year i.e. they have their current assets counterparts to offset with.

Banks and other loans

The bank and other loans mainly consists of loans from Binhai, Huarong and other loans of approximately RMB 191 million, RMB 1,205 million and RMB 181 million respectively. For the loan with Huarong, we are able to roll over pending completion of their internal due diligence. Huarong have expressed that they will not recall the loan until the due diligence review is complete. For the loan with Binhai, the Group had complied with the China police to stop repayment until further notice. For other bank loans, we rolled over all bank loans and the repayment date has been extended to 2024 and beyond.

Based on the above, the bank and other loans that need to be repaid as net current liabilities is RMB 11.2 million.

Trade and other payables

Trade and other payables include (1) accounts payables, (2) receipts in advance (3) accruals and (4) deposits received and (5) other payables.

Receipts in advance amounting to RMB 70.3 million need not be paid but will be kept as current liabilities for financial presentation only.

The accruals include RMB 434.4 million being interest to a non-financial institution. As mentioned above, this amount together with its loan are expected to roll over, pending internal due diligence. Another RMB 24 million was requested by the China Police to withhold payment until further notice. Thus, only RMB 70.1 million accruals need to be repaid within one year.

Deposits received amounting to RMB 23.8 million will be repaid when the rental contracts terminate and we forecast this amount is repayable in one year.

Based on the above, the trade and other payables that need to be repaid in one year will be reduced to RMB151.1 million.

Lease payables

The lease payables amounting approximately to RMB 56.9 million are fully payable as net current liabilities.

Contract liabilities

This item represents the amount we received in advance for certain sales. This is a non-cash accounting treatment item only.

Provisions

The Company is of the view that the need of the provision crystallising is minimal.

Tax payables

This represents approximately RMB 27 million being provisions for tax on profits. The remaining is from audit adjustments in previous years which auditors consider the need to pay but the tax assessment from the inland revenue shows otherwise. We will negotiate with auditors to reverse this amount.

Based on the above, the tax payables which are required to be repaid as net current liabilities is RMB 27 million.

Liabilities directly associated with disposal assets classified as held-for sales

This item is presented for accounting purpose only and will not relate to any cash pay out in the future to settle it.

In summary, the total amount that needs to be settled within one year is approximately RMB 246.2 million.

Income stream

On the income side, the properties sales from BAY ONE and Imbi (“The Landmark”) pre-sales deposit is expected to give rise to RMB 1,100 million cash inflow by the end of 2023.

Together with annual rental income of approximately RMB 30 million, annual management income approximately of RMB 25 million and annual construction income of approximately RMB 20 million is sufficient to repay our liabilities as discussed above.

Based on the above, total cash in will be approximately RMB 1,175 million which is adequate to pay for the payables of approximately RMB 246.2 million. Therefore, the Company will be able to meet its short-term obligations as and when they fall due.

SGX-ST's Query 4

Please provide the Board's justifications and bases behind the assumption that the Group will be able to sell its development properties at the current market selling price given that sales of development properties declined 54.4% from RMB 174.63 million in FY2021 to RMB 79.573 million in FY2022. We further note that the Board had stated the same bases for preparing the Group's financial statements on a going concern basis for FY2021.

Company's Response

The decrease in properties sales was mainly due to the combined effect of the COVID-19 pandemic and the result of the “Three Red Lines” regulatory criteria that tighten the market. With the adjustments on local anti-epidemic measures and the relaxation of the “Three Red Lines”, the market become more active and the China Index Research Institute recently announced that the area of new residential building transactions in Chinese cities during the New Year holiday increased by more than 20% year-on-year, with Beijing, Shanghai, and Guangzhou's transaction areas increasing by 80%, 131%, and 74%, respectively. Also, government plans to establish a 200 billion yuan loan support program to ensure the successful delivery of residential properties. In addition, a 100 billion yuan loan will be provided to support the development of the housing market. There are reports that regulatory authorities will also gradually increase real estate housing developers' annual debt increase limit. We believe the measures above will give a strong support for the market and we believe the Group will be able to sell its development properties at the current market selling price.

SGX-ST's Query 5

Referring to Note 6 to the condensed financial statements, please provide details on what specific consultancy services Mr. Yuan Le Sheng had provided to the Group. Please also provide details on how the amounts paid for his consultancy services were determined and deemed to be reasonable and on normal commercial terms.

Company's Response

Mr. Yuan Le Sheng is responsible for negotiation with banks and financial institutions for roll over of loans, negotiation with government bureau on construction issues and to acquire land for future developments. The amount was referenced to the market rate with similar job responsibilities. No payment to Mr. Yuan was made since July 2020.

SGX-ST's Query 6

Referring to part (b) Other Loans under Note 10 to the condensed financial statements, please clarify the following:

(i) It was disclosed that the Group obtained loans from individuals and other non-financial institutions amounting to RMB 83 million. Please disclose the number of individuals and non-financial institutions who had extended the loans and how the Company obtained such loans.

(ii) How does the Company track that the loans from individuals and other non-financial institutions are still outstanding, and how does it establish and confirm that the amounts have been correctly recorded?

(iii) How are the interest rates on such loans determined and why is there such a big range of interest rates from 12% to 33.6%?

(iv) Please provide ageing schedule by financial years when these loans were extended.

(v) Please provide details on what legal documents are in place to support these loans.

(vi) What are the internal controls in place to ensure that the loans from individuals are bona fide and that the sources of funds are legal?

Company's Response

- (i) There are 3 individuals and 1 non-financial institutions who had extended the loans. The loans are obtained through direct negotiations with these individuals and non-financial institutions.
- (ii) The Company keeps record on each payments to these individuals and non-financial institutions and thus have records on the amount outstanding and the interest that needs to be paid. Also, these individuals and non-financial institutions will visit the company to collect payment and we can confirm the amount of interest and principal outstanding to them during their visit.
- (iii) The individuals and non-financial institutions charged a higher interest rate as they provide funds faster and require less information for the loan release.
- (iv)

<u>RMB million</u>	<u>Loan maturity in</u>
83	No fixed repayment date
81	Year 2023 - Arranged roll over to Year 2024.
3	Year 2030
308	Beyond Year 2030
191	Binhai - Pls. refer to Query #3
1,205	Pending approval from Huarong to roll over for 3 more years

- (v) Loan contracts are in place.
- (vi) The lenders hold money lender license for small loans in PRC and are legitimate money lenders.

SGX-ST's Query 7

Referring to Note 17 to the condensed financial statements, please provide a qualitative write-up on the performance of Tianjin Hotel Street Co., Ltd., including details such as the number of rooms which the hotel has, the occupancy rate, as well as the RevPAR in both FY2021 and FY2022.

Company's Response

This consists of a hotel and a shopping mall. Total redevelopment area is approximately 46,000 sq meters. All redevelopment work has been completed. Tianjin Boulevard project is expected to generate rental income till 2032. The hotel was intended to be decorated and operated by lessee, but due to the COVID-19 pandemic in the last 3 years, the Company is still finding a lessee for the hotel, we have no information on the numbers of rooms in the hotel and no RevPAR for the hotel can be provided. For the shopping mall, approximately 11,000 sq meters is rented out with yearly rental income of approximately RMB 20 million.

SGX-ST's Query 8

It was disclosed in Para 3A. of the Other Information Required by Listing Rule Appendix 7C that the directors of the Group's associated company, Chuangxintian, were arrested for suspect scam cases by the Commercial Criminal Investigation Department of Municipal Public Security Bureau of Guangzhou City. Please disclose more details of the matters that are being investigated.

Company's Response

As the company is not involved in the suspected scam cases, Commercial Criminal Investigation Department of Municipal Public Security Bureau of Guangzhou City refused to disclose any case details with us. Except the details previously disclosed in announcements dated 22 January 2021, 29 January 2021 and 21 May 2021, the Company does not have any further updates for the case.

SGX-ST's Query 9

It was disclosed in Para 7 of the Other Information Required by Listing Rule Appendix 7C that the Group's results are in line with the general prospect statement previously disclosed in the results announcement for FY2021. Please provide more details on the expected results and how the Group's results have matched such expectations.

Company's Response

The Company did not make any forecast, or a prospect statement. The Company will make amendment to this statement.

SGX-ST's Query 10

It was disclosed in Para 8 of the Other Information Required by Listing Rule Appendix 7C that the Group is trying to address the delisting issue. Please provide specific details on the work that has been done by the Company thus far, including the parties with whom the Company has engaged in regards to making an exit offer, as well as a target timeline to make such offer and to delist from the Mainboard of the SGX-ST.

Company's Response

Since the receipt of the Delisting Notification, the Company and its controlling shareholder are working with financial institutions in the People's Republic of China for funding support as well as possible investments or a white knight solution. We are also working with an overseas private investor for investment injection/fundings. No concrete plans are available at the moment and no liquidator has been appointed.

SGX-ST's Query 11

Please provide more information on the progress of Project Imbi including the status of development to date, level of completion, and reason(s) why construction has stopped.

Company's Response

The construction of Project Imbi has completed construction of the basement for the twin towers only. Due to the COVID-19 pandemic and the MCO in Malaysia, the Company's staff was unable to go to Malaysia to monitor and work on the project and thus the Project Imbi had been temporarily on hold. The Company thus concentrated its efforts in the completion of the Bay ONE project first and expect to continue the development of the Imbi project after the MCO in Malaysia is relaxed and construction will resume before March 2024.

SGX-ST's Query 12

What is the occupancy rate of the units held as investment in Tianjin Boulevard, which is expected to generate rental income till 2032?

Company's Response

Occupancy rate is approximately 23.9%.

SGX-ST's Query 13

Please provide the percentages of sold units to total number of units available for each of the projects listed in Para 8 of the Other Information Required by Listing Rule Appendix 7C.

Company's Response

For the existing projects, only units in Project Imbi and Bay ONE is available for sales.

	Units for sale	Units sold	% sold
Bay ONE	1,906*	1,323	69.4%
Project Imbi	1,138	-	-

*Includes shops but exclude parking space

By Order of the Board

Zhong Yuzhao
Executive Director and Chief Executive Officer
7 March 2023