

## DEBAO PROPERTY DEVELOPMENT LTD.

(Incorporated in the Republic of Singapore)

(Company Registration No. 200715053Z)

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### RESPONSE TO QUERIES FROM SINGAPORE EXCHANGE SECURITIES TRADING LIMITED (THE "SGX-ST") ON THE ANNOUNCEMENT OF THE UNAUDITED FINANCIAL STATEMENTS FOR THE THIRD QUARTER ("3Q2020") AND NINE MONTHS ENDED 30 SEPTEMBER 2020 ("9M2020")

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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 23 November 2020 in relation to the announcement of the unaudited financial statements for the third quarter ended 30 September 2020 made by the Company on 14 November 2020.

#### **SGX-ST's Query 1**

##### Page 1: Revenue

Provide details on the sales of BAY ONE for 3Q2020 and 9M2020 in comparison to the corresponding period last year, which led to increases in revenue of 101% and 143% respectively.

#### **Company's Response**

There were no sales of BAY ONE for 3Q2019 and 9M2019. Bay ONE commenced its sales in 4Q2019. Details of sales in Bay ONE are as follows:

<b>RMB million</b>	<b>3Q2020</b>	<b>3Q2019</b>	<b>9M2020</b>	<b>9M2019</b>
Sales of Bay ONE	37.1	-	176.8	-

#### **SGX-ST's Query 2**

##### Page 1: Finance costs of RMB165,878,000 for 9M2020

Provide the breakdown of payables by party, and reason for the significant increase of 69% when borrowings of the Company decreased 3.2% from RMB1,804,996,000 on 31.12.2019 to RMB1,746,641,000 on 30.09.2020.

#### **Company's Response**

There was an omission of finance cost of RMB 37.7 million in 9M2019. For details, please refer to announcement dated 14 May 2020 Query 2. Although the borrowings slightly decreased, some of the loans in previous year were replaced by a loan with a higher interest rate which increased the finance costs in 9M2020.

Breakdown of interest payments:

	<b>RMB million</b>
Banks	22.1
Non-banks	
- Huarong	99.6
- Binhai	17.2
Individuals	27.0
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	165.9
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### SGX-ST's Query 3

#### Page 3: Trade and other receivables of RMB533,420,000

Provide a breakdown between trade and other receivables, and explain why the Company is unable to collect its trade receivables. Also provide the breakdown by project and provide aging schedule in bands of 3 months. Why is receivables of RMB533,420,000 higher than revenue generated of RMB55,931,000 for 3Q2020, and even the RMB260,180,000 group revenue reported for 9M2020? Also disclose the nature of other receivables outstanding, and elaborate on when these other receivables will be repaid.

#### Company's Response

Descriptions	RMB (millions)	Aging (days)				Over one year
		within 90	91-180	181- 270	271- 365	
Management fee	1.9	1.3	0.1	0.5	-	-
Construction works	46.5	15.5	5.8	-	25.2	-
Rent	14.7	2.0	2.5	5.2	5.0	-
ShengYu (BVI) Limited	160.5	-	-	-	-	160.5
Prepayment	33.1	-	-	7.1	-	26
Deposits	51.0	0.6	-	-	0.4	50
Guangzhou Xu Zhou Enterprise Management Co. Ltd.	44.0	-	-	-	44.0	-
Perfect Praise Investment Limited	54.0	-	-	-	54.0	-
Properties sales	69.6	35.0	34.6	-	-	-
Global Ace Enterprise Limited	50.6	-	-	-	-	50.6
Others	7.5	1.9	4.4	1.2	-	-
	533.4	56.3	47.4	14.0	128.6	287.1

The receivables of RMB533,420,000 were higher than revenue generated of RMB55,931,000 for 3Q2020 and the RMB260,180,000 Group revenue reported for 9M2020 are mainly due to outstandings from ShengYu (BVI) Limited, Guangzhou Xu Zhou Enterprise Management Co. Ltd. and Perfect Praise Investment Limited which arose from the disposal of subsidiary and the receivables from Global Ace Enterprise Limited which related to a joint bids of land. All of them are not related to our Group revenue for 9M2020.

Management fees relate to the fees we need to collect for our management services provided to properties which includes Debao Garden, Xinliwan Garden, JiangNanMingJu and Sihui City Mall. Some occupants have either delayed or forgot to pay. We do not expect any problems in recovering these amounts in full.

Receivables relate to construction works performed mainly in Bay ONE, ShanShuiLongPan and other various work sites. It is an industry practice for developers to retain the last payment until the work is certified. This amount is related to work not yet certified. Also, some are related to works which require us to enhance or modify. We expect this amount to be collected in full.

Rent receivables relate to the monthly rents payable by lessees in our shopping malls, mainly in Tianjin Boulevard, Debao Garden, JiangNanMingJu and Sihui City Mall. 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 consider this amount to be fully recoverable.

For the receivables from Global Ace Enterprise Limited, please refer to announcement dated 13 July 2020. We are now receiving payment based on an agreed schedule, with full repayment expected by end of 2020.

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 first half of FY2021.

Deposits mainly 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. relates to the disposal of 43% shares in Profit Consortium. This amount is received according to the contract terms which is dependent on the issuance of the building plan and development order.

Receivables from Perfect Praise Investment Limited relate to the disposal of 1% shares in Profit Consortium.

Properties sales receivables relate mainly to sales in Bay ONE for which the buyers are taking a bank mortgage to pay the remaining amount. We will collect this amount only after the bank mortgage have been granted to the buyers. It usually takes one to three months for the banks to complete their mortgage approval process. If the buyer apply for special loan from Housing Provident Fund Center, the approval process will take more time. We expect this amount to be collected in full.

For the receivables from Global Ace Enterprise Limited, please refer to announcement dated 13 July 2020. We are now receiving payment based on agreed schedule with full repayment expected by end of 2020.

There should no collectability issues in relation to these trade and other receivables.

#### **SGX-ST's Query 4**

Page 3: Trade and other payables of RMB771,920,000

Provide a breakdown between trade and other payables, and aging schedule in bands of 3 months. Disclose the underlying transactions for other payables.

#### **Company's Response**

The aging of trade and other payables in current liabilities based on the time they were recorded in our books are as follows:

RMB million	Aging (days)					Total
	<= 90	91-180	181-270	271-365	> 365	
Accounts payables	55.8	54.4	35.9	54.5	20.0	220.6
Accruals	67.3	33.6	34.8	38.3	230.3	404.3
Deposits received	0.4	1.6	0.9	1.0	13.1	17.0
Receipt in advance	54.5	22.3	3.2	3.6	40.8	124.4
Others	1.2	1.9	1.6	0.4	0.7	5.8
	179.2	113.8	76.4	97.8	304.9	772.1

Accounts payables mainly consist of construction fees for Bay ONE and Tianjin Boulevard, rent payables for Tianjin Boulevard and salary payables.

Accruals mainly consist of interest for borrowings, tax other than income tax and professional fees.

Deposits received mainly consists of rental deposits and utilities deposits from occupants.

Receipt in advance mainly consists of proceeds and deposits received for properties sales and rental prepayment by occupants.

### **SGX-ST's Query 5**

#### **Page 3: Negative working capital**

Provide reasonable explanations for the negative working capital of RMB862,080,000. Explain how the Company is able to meet its short-term obligations as and when they fall due. Quantify and substantiate with data.

#### **Company's Response**

As at 30 September 2020, the current liabilities of the company in RMB'000 are as follows:

##### **Liabilities and shareholders' equity**

##### **Current liabilities**

Bank and other loans	1,385,743
Trade and other payables	771,920
Lease payables	32,817
Contract liabilities	80,000
Provisions	90,515
Tax payables	104,156
Liabilities directly associated with disposal assets classified as held-for-sale	174,616
<b>Total current liabilities</b>	<b>2,639,767</b>

The items which are to be repaid are (1) Bank and other loans, (2) Trade and other payables and (3) Tax payables. Other items are 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**

For bank and other loans, it can be divided into 3 categories, namely individuals, banks and non-bank loans.

Out of the bank and other loans, RMB 109 million is from individuals which have no fixed repayments terms. The Group is able to roll-over the borrowings if required.

For the loans from bank, the amount to be settled within one year amounted to RMB48.7 million.

For the non-bank loans, RMB 1.06 billion is from a non-financial institution of which we are able to roll over pending completion of their internal due diligence. For the remaining RMB190.6 million, although there are fixed repayment terms for progress repayments from 2019 to July 2021, the Group had complied with the China police to stop repayment until further notice.

Based on above, the bank and other loans that which to be repaid as net current liabilities is RMB48.7 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 124 million need not be paid but will be kept as current liabilities for financial presentation only.

The accruals include RMB 356 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 16 million was requested by the Police to withhold payment until further notice. Thus, only RMB 13.6 million accruals need to be repaid within one year.

Deposits received amounting to RMB 17 million will be repaid when the rental contracts terminate and we assume this amount is repayable in one year.

Based on above, the trade and other payables that need to be repaid in one year will be reduced to RMB232.6 million.

#### Lease payables

The lease payables amounting approximately to RMB 32.8 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 only.

#### Provisions

This is provision for uncertain liabilities. The Company did not receive any claims which require provision. The Company is of the view that the need of the provision crystallising is minimal.

#### Tax payables

This represents approximately RMB 7 million being provisions for tax on profits. The remaining RMB 97 million 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 are negotiating with auditors to reverse this amount.

Based on the above, the tax payables which are need to be repaid as net current liabilities is RMB 7 million.

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

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

In summary, the total amount that needs to be settled within one year is approximately RMB272.4 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 1,593 million cash inflow by September 2021.

A loan from GuangDong Finance Asset Management Co., Ltd amounting to RMB 230 million can also be drawdown in the second half of year 2020.

Together with annual rental income of approximately RMB 50 million, annual management income approximately of RMB 25 million and annual construction income of approximately RMB 30 million is sufficient to repay our liabilities discussed above.

Based on the above, total cash in will be approximately RMB 1,593 million which is adequate to pay for the payables of approximately RMB272.4 million. Therefore, the Company will be able to meet its short-term obligations as and when they fall due.

## **SGX-ST's Query 6**

### **Auditors' Disclaimer of Opinion**

Explain in detail the Group's efforts to resolve each of the auditors' bases for disclaimer of opinion in the latest published Annual Report.

### **Company's Response**

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

The details of the lawsuit in China has been fully disclosed to the Board and to the existing auditors. The former CEO has also stepped down from his position with effect from 19 April 2018. Management considers this issue resolved and this will not have any impact on the current or comparative figures for FY2019.

- (b) Payment to political party in Malaysia

Management considers this issue resolved and this will not have any impact on the current or comparative figures for FY2019.

- (c) Land costs of Elite Starhill Sdn. Bhd. ("Elite Starhill")

The Land Purchase Agreement was signed on 26 June 2013 before the Company acquired Elite Starhill, as announced on 25 September 2015. The consideration amount was reached after extensive discussions between the seller and the buyer, where Debao Property Development (HK) Limited and Messrs Wong Siaw Puie and Koo Soon Khang entered into an arm's length transaction. The consideration amount takes into account the net tangible assets of Elite Starhill, together with the potential developments in the Imbi Land thereon. As part of the payments were settled through management staff who have since resigned, the auditors could not ascertain the purpose for the amounts paid and could not perform alternative audit procedures. Nonetheless, the land cost can be cross-checked with government records. For FY2019 audit, the Company had provided all information requested by auditors. Management considers this issue resolved and this will not have any impact on the current or comparative figures for FY2019.

It is noted that the warning letter sent by the local authorities stipulating that the Company had not complied with noise level regulations caused during construction was addressed to the Company's subcontractor and not the Company. Construction has since resumed and the project commenced pre-sales in November 2019.

- (d) Divestment of Profit Consortium Sdn. Bhd.

The auditors could not verify that the land cost and various other costs paid through related parties were solely for that particular purpose. The Group was unable to arrange for the related parties to meet with the auditors during their fieldwork. The Company will work diligently with the independent auditors to appropriately account for this disposal for the upcoming audit for FY2019.

- (e) Poly Ritz Green (Malaysia) Sdn Bhd

Due to insufficient audit evidence, the independent auditors could not verify that the payments to the Group through related parties were solely for the agreed purpose. This was because the Group was unable to arrange for the related parties to meet with the auditors during the fieldwork. For FY2019 audit, the Company had provided all information requested by auditors. Management considers this issue resolved and this will not have any impact on the current or comparative figures for FY2019.

- (f) Expected Credit Loss of Other Receivables of RM43,534,000 (RMB72,366,000)

The Company will work diligently with the independent auditors to appropriately account for its expected credit risk losses provisions for the upcoming audit for FY2019.

(g) Non-receipt of bank confirmations

The Group had received 82% of the bank confirmations (by value) required by the independent auditors at the date of the audit report. The independent auditors required receipt of confirmation from all the banks to ascertain the carrying value and completeness of the bank balances, loan balances and any other banking arrangements which are required for disclosure for the financial year ended 31 December 2018. For FY2019 audit, auditors confirmed they have received all bank confirmations. Management considers this issue resolved and this will not have any impact on the current or comparative figures for FY2019.

The Company has engaged internal auditors in Malaysia to review the EY report dated 9 November 2018 and to ensure that the internal control weaknesses identified in the report have been rectified.

By Order of the Board

Zhong Yuzhao  
Executive Director and Chief Executive Officer  
25 November 2020