

PAN HONG HOLDINGS GROUP LIMITED

(Incorporated in Bermuda)
(Registration Number: 37749)



**RESPONSES TO QUESTIONS FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE)
ON THE COMPANY'S ANNUAL REPORT FOR FINANCIAL YEAR ENDED 31 MARCH 2024**

The Board of Directors (“**Board**”) of Pan Hong Holdings Group Limited (the “**Company**” and together with its subsidiaries, the “**Group**”), refers to questions raised by Securities Investors Association (Singapore) (“**SIAS**”) in relation to the Company’s annual report for the financial year ended 31 March 2024 (“**Annual Report 2024**”).

The questions raised by SIAS and the Company’s corresponding responses are set out below:

Q1. Would the board/management provide shareholders greater clarity on the following operational and financial matters? Specifically:

(i) **Given that the group has roots in Zhejiang province, what are the learning curves and key insights gained from the group’s foray into Guangdong since 2021?**

[Company’s response to Q1\(i\)](#)

When considering the prospect of the Shanwei Project in 2021, the Group’s sales department and construction department had formed a project team and conducted site visits to the project site and surrounding area of the city to study the characteristics of the property market and preference of the potential property buyers. In particular, the project team had held meetings with some sizable property agency firms to understand the best-selling property styles and room types. With the Group’s institutional expertise and experience gained from developing property projects in Zhejiang Province as well as Jiangxi Province (in its history), the Group believes that it has sufficient adaptability and capability to extend its business footprint to Guangdong.

(ii) **Is Shanwei City considered a second or third-tier city? Are these second and third-tier cities significantly more impacted during this real estate downturn in China?**

[Company’s response to Q1\(ii\)](#)

Shanwei City is generally considered a third-tier city in China. However, it is essential to note that real estate market conditions (such as geographical location, economic development, historical property price trends, and local government policies, etc) can vary significantly across cities and therefore it is arbitrary to assert a direct linkage between the impact of real estate downturn and the tier status of the cities. As mentioned in the Company’s response to Q1(iii), it is noted that the property prices in Shanwei City have been stable since 2022.

In addition, the latest transportation developments of Shanwei City are as follows:

- The new high speed railway route connecting Guangzhou, Huizhou and Shanwei has been put in use in September 2023, reducing the travelling time between Guangzhou and Shanwei from around 2 hours to less than 1 hour.
- On top of the existing high speed railway route between Shenzhen and Shanwei, an alternative route between the 2 cities is expected to be put in use by 2026, which would further reduce the travelling time to around 30 minutes.

With the improved transportation infrastructure between Shanwei and major cities in the Guangdong Province, the management is of the view that there is better prospect for Shanwei's economic development.

- (iii) **The Shanwei Project has been in the planning stage for more than three years. In 2022, management expressed optimism that the Shanwei Project, when launched, could fetch prices of around RMB8,000 to RMB10,000 per sq.m. or higher based on pricing trends of projects in Shanwei. Can management provide insights into the current market sentiment in Shanwei City and the key factors influencing it? What are the specific challenges faced in obtaining the Construction Project Planning Permit, and how are they being addressed?**

[Company's response to Q1\(iii\)](#)

According to the latest data available to the Group, the new home price range in the region where the Shanwei Project located is approximately in the range from RMB8,000 to RMB10,000 per square meters ("sqm"), which has shown a stable trend since 2022. Despite the country-wide weak market sentiment in recent years, the market has been undergoing self-adjustment as generally the local developers have been focusing on destocking of existing inventories hence reducing the market supply.

Aiming to achieve a better sale performance when launching the project, the Group has been continuously refining the development plan of the project. The Group will apply for the Construction Project Planning Permit when the plan is finalised. The Group has not noted any significant technical or practical obstacle for application of the Construction Project Planning Permit.

- (iv) **With planned gross floor area of over 277,000 square meters, is the Shanwei Project significantly larger than the group's other projects? Does the group have the financial resources to support the project?**

[Company's response to Q1\(iv\)](#)

The scale of the Shanwei Project is comparable to the Group's past completed projects, for example, Pan Hong Run Yuan (around 200,000 sqm) and Pan Hong Run He (around 170,000 sqm). Similar to Pan Hong Run Yuan which was developed in 2 phases, the Group intends to develop the Shanwei project in phases.

The Group is planning to fund the said project with a mix of internal resources and bank loan(s).

- (v) **What feedback has been received from buyers of residential units in Run Ze Yuan (润泽园)?**

[Company's response to Q1\(v\)](#)

The feedbacks received from the buyers on the quality of residential units in Run Ze Yuan are generally satisfactory.

- (vi) **Considering current market conditions, how confident is management in achieving a full sell-out of Run Hong Yuan by early 2025? What strategies have been implemented to drive sales? 35% of the GFA of Run Hong Yuan are subjected to self-ownership period of 8 years upon completion of the project. The group has sold 78% of the project. Does the 78% sales achievement include the sale of right of use of certain units, or are the units under self-ownership restrictions excluded from these calculations?**

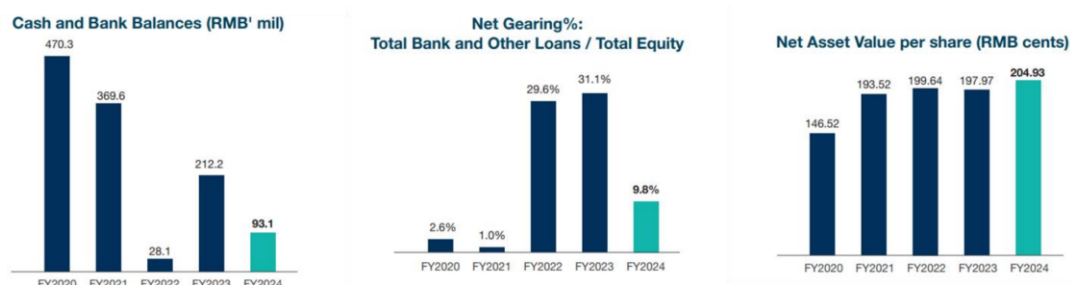
[Company's response to Q1\(vi\)](#)

Under the current market condition, it is unrealistic for the Group to predict the timing of full sell-out of the Run Hong Yuan Project. The sales department is authorised to negotiate the selling

price of unsold units with the buyers with a nominal discount according to the factors including room area, floor, direction, etc.

The gross floor area of Run Hong Yuan subject to self-ownership period of 8 years is excluded from the calculation of the 78% pre-sale percentage.

- Q2. As at 31 March 2024, the group had cash and cash equivalents of RMB13.6 million, excluding restricted bank balances of RMB79.4 million designated for property development project(s).



In FY2024, the group recorded RMB194.0 million of net cash generated from operating activities, mainly due to the net effect of receipts from property buyers, progress payment for the construction and payment of income tax. Net cash used in financing activities in FY2024 amounted to RMB221.2 million, primarily due to net effect of new other loans made and repayment of bank and other loans and interest during the year.

- (i) **Properties held for sale increased from RMB156.6 million as at 31 March 2023 to RMB478.6 million as at 31 March 2024, mainly due to the transfer of properties held under development to properties held for sale upon completion of construction of Run Ze Yuan. How many units of Run Ze Yuan, and what total value, remain to be handed over to buyers?**

[Company's response to Q2\(i\)](#)

There are 18 units pre-sold but yet to be handed over to the buyers as at 31 March 2024, with total pre-sale value of around RMB19.2 million.

- (ii) **As at 31 March 2024, the group has other receivables amounting to RMB89.1 million. RMB16.3 million are due from certain independent third parties which is unsecured, interest-bearing at interest rate of 8% and repayable on demand. Can management elaborate on the nature and provide a breakdown of these other receivables? Specifically, is the group making loans to individuals at 8% interest and who are the independent third parties?**

[Company's response to Q2\(ii\)](#)

Breakdown of other receivables (in RMB'000):

Categories by nature	Note	Gross carrying amount as at 31 March 2024	Expected credit loss	Net carrying amount as at 31 March 2024
Interest-bearing receivables	(A)	16,346	(2,288)	14,058
Deposited funds for property maintenance	(B)	32,956	(6)	32,950
Value-added tax (VAT) deductible	(C)	37,976		37,976
Others	(D)	4,138	(45)	4,093
Total		91,416	(2,339)	89,077

Notes:

(A) The balance represents an amount due from a supplier of construction materials. The Group paid prepayment for procurement of a batch of construction materials to the supplier for its prior property project (which had been completed and delivered on time). Subsequently, the supplier failed to deliver the construction materials promptly because of supply chain delays. In order to meet the tight construction work schedule at that time, the Group sorted out the shortage of materials at its end. In this regard, the Group had agreed with the supplier to transfer the prepayment to an interest-bearing receivable with 8% interest. The Group has received partial repayment from the supplier during the financial year ended 31 March 2024 which the gross carrying amount was reduced to RMB16.3 million. The Group is actively monitoring the recoverability of the receivable through continuing communication with the supplier.

The loss allowance for the above receivable is RMB2.3 million, which was measured at 12-month expected credit loss model as adopted in the Group's accounting policies. The net carrying amount of the receivable is RMB14.1 million.

(B) The balance represents deposited funds for maintenance of the properties developed by the Group. The balance is refundable upon the expiration of the maintenance period.

(C) The balance represents input value-added tax (input VAT) paid upon incurrence of construction costs for the Group's property projects under development, which is eligible for deduction of output value-added tax (output VAT) payable upon transfer of control of the completed properties and recognition of revenue in the future.

(D) The balance comprises of accounts with relatively small balance.

(iii) Can the board provide an update on the status and progress of Zhejiang Gene Stem Cell Biotech Company Limited (Zhejiang GSCB)? has the board explored strategic options, including potential monetisation of Zhejiang GSCB, to enhance the group's liquidity and strengthen its balance sheet?

Company's response to Q2(iii)

As part of the Group's financial investment, Zhejiang GSCB provides regular business and financial updates to the Group. Zhejiang GSCB is currently engaging in provision of stem cell storage services and stem cell preparation services to its clients. In addition, Zhejiang GSCB is exploring new business opportunities through participation in research projects with several reputable hospitals in respect of the application of stem cell technology in the therapy of some diseases.

Currently, the Group is intending to hold the investment but will also consider the option of monetisation according to numerous objective factors including but not limited to any urgent need of funding or availability of attractive buyout offer(s).

(iv) Total accruals and other payables increased to RMB341.2 million as at 31 March 2024. Specifically, accrued construction costs and other project-related expenses account for RMB215.6 million of the total. The group entered into arrangement with a major contractor to defer construction contracts' payment terms. Can management provide detailed insights into the new payment terms and the negotiation process with the contractor? How will this deferral impact the project's timeline and construction activities on-site? Is there a risk of delays or potential work stoppages due to this arrangement?

Company's response to Q2(iv)

The major contractor concerned is the main construction company of the Group's Run Ze Yuan and Run Hong Yuan projects. Based on the long-term business relationship, understanding of current difficult market situation and sustainable mutual interest, the Group and the major contractor had reached agreement after the end of financial year ended 31 March 2024, that the major contractor would not pursue any claim for late payment of incurred construction costs or breach of contract term against the Group for a period of one year.

Since Run Ze Yuan project has already been completed and Run Hong Yuan is near completion (over 95%), the risks of delays or potential work stoppages are minimal.

- (v) **Has the board conducted a comprehensive review of the group's capital structure to ensure it aligns with the strategic growth objectives? What specific measures are being considered to optimise the capital structure and improve financial flexibility? For the benefit of shareholders, can the board restate the group's optimal capital structure?**

Company's response to Q2(v)

Review of Capital Structure:

The Board has been closely monitoring and reviewing the Group's capital structure to ensure it aligns with our strategic growth objectives. This review process has involved:

- Evaluating the current balance of debt, equity, and other forms of capital to assess its efficiency and effectiveness to safeguard the Group's ability to continue as a going concern, so that it continues to provide returns and benefits for stakeholders.
- Evaluating the cost of capital and gearing ratio to determine whether the current structure could support the Group's stability and growth.
- Analysing the risk profile of the capital structure in the context of the Group's operations and market conditions.

Measures to Optimise Capital Structure:

To optimise the capital structure and improve financial flexibility, the Board is evaluating the implementation of several measures, including:

- Refinancing high-cost debt to reduce interest expenses and improve cash flow.
- Issuing new debt or equity to fund daily operations, strategic investments, expansions, or acquisitions.
- Exploring opportunities for asset sales or monetisation to streamline operations and release capital tied up in non-core assets.
- Reviewing and possibly revising the Group's leverage targets to maintain a balance between risk and reward.

Restatement of Optimal Capital Structure:

The Board's view of the Group's optimal capital structure is one that:

- Balances the use of debt and equity to minimise the weighted average cost of capital.
- Ensures sufficient liquidity to meet operational needs and takes advantage of strategic opportunities as they arise.
- Provides flexibility to adjust the capital structure in response to changing market conditions or firm-specific circumstances.
- Supports a sustainable development of the Group's business.

Specifically, the Board aims to have a capital structure with a target debt-to-equity ratio within a certain range, which is determined based on the Group's risk tolerance, industry standards, and sustainable development objectives.

Q3. At the annual general meeting scheduled to be held on 26 July 2024, the company is proposing to re-elect Mr Tan Kim Swee Bernard¹ and Mr. Chung Yiu Kwong Nixon² and to note the retirements of Dr Choo Kian Koon and Dr Zheng Haibin.

(i) **Would the nominating committee (NC) elaborate further on the rationale, selection criteria, board diversity considerations and the search and nomination process, that led to the nominations and appointments of Mr Tan Kim Swee Bernard and Mr. Chung Yiu Kwong Nixon, as required in the SGX template?**

The biographies of the directors can be found on page 17 of the annual report. Additional information required pursuant to Rule 720(6) of the Listing Manual of the SGX-ST on directors seeking for re-election is on pages 126 to 129.

(ii) **Can the board, particularly the nominating committee, provide insights into the specific expertise and experience that Mr. Tan Kim Swee Bernard and Mr. Chung Yiu Kwong Nixon bring with regard to the Chinese real estate market?**

How do their backgrounds align with the strategic needs of the company during this challenging time?

How will the new directors be able to constructive challenge management and contribute effectively as a board member?

Company's responses to Q3(i) and (ii)

As stated in the Company's corporate governance report, the size and composition of the Board is reviewed annually by the Nominating Committee ("NC") to ensure that the size of the Board is appropriate so as to facilitate effective decision making. The review will ensure that there is an appropriate mix of expertise and experience, which the Group may tap on for assistance in furthering its business objectives and shaping its business strategies. A diverse Board also enhances the decision-making process through perspectives derived from differentiating skillsets, business experience, industry discipline, gender, age and culture, geographical background and nationalities, tenure of service and other distinguishing qualities of the Directors.

Having regard to the guidelines in the Board Diversity Policy adopted by the Board, the NC will, in reviewing the Board's composition, rotation and retirement of Directors and succession planning, take into account factors, including but not limited to gender, age, nationality, cultural background, educational background, experience, skills, knowledge, independence and length of service. These differentiating factors will be considered in determining the optimum composition of the Board and when possible, will be balanced appropriately.

Since 2022, the NC and the Board had been reviewing the composition of the Board and its committees with intention to make changes to the composition of Board, which includes the progressive renewal of Independent Directors and succession planning of the Board. In conjunction with the progressive renewal and succession planning, there were several changes to the composition of the Board and its committees, as follows:

(i) Mr. Ng Keong Khoon ("**Mr. Samuel Ng**") was appointed as an Independent Director of the Company with effect from 1 June 2023. Consequently, he was appointed as the Lead Independent Director of the Company, chairman of the AC and members of the RC and NC in place of Mr. Sim Wee Leong ("**Mr. Sim**") who did not seek re-election and retired as a Director of the Company pursuant to Bye-Law 86(1) of the Bye-Laws of the Company at the conclusion of the AGM held on 28 July 2023.

- (ii) Mr. Chung Yiu Kwong (“**Mr. Nixon Chung**”) and Mr. Tan Kim Swee Bernard (“**Mr. Bernard Tan**”) had been appointed as Independent Directors of the Company with effect from 1 June 2024.

Mr. Bernard Tan is currently the Managing Director and Founder of Quadrant Law LLC, and has been practising corporate and commercial law since 2001. With over 20 years of experience in the industry, his areas of practice include mergers and acquisitions, funds, securities and token offerings, corporate finance, corporate transactions, banking and private lending, exits from companies, employment, intellectual property, and commercial real estate and leases, licensing and compliance and sales of goods and services and distribution agreements. He regularly advises multi-national companies, listed companies, start-ups, small and medium-sized enterprises and government agencies as well as international law firms. In his course of work, Mr. Bernard Tan has assisted with legal work for Chinese clients, including clients in the Chinese real estate market.

Mr. Nixon Chung is currently the Managing Director of Camloy International Ltd. since 2004, a professional hospitality and commercial real estate consulting and investment firm based in Hong Kong which specialises in hospitality, commercial mixed use and tourism real estate projects in China and Asia. Before founding his own company, Mr. Chung served Asian property developers and international hotel management companies including New World Development Co. Ltd., New World Hotels Intl., International Maritime Carriers and Marriott Inc. for over 20 years on world-class hotels and commercial real estate development projects in China and South East Asia.

The NC and the Board, having reviewed the qualifications, working experience, expertise, suitability and independence of Mr. Bernard Tan and Mr. Nixon Chung, were of the view that they have the requisite track record, experience and capabilities to provide the Board with different perspectives during Board discussions, insight and guidance to the Group’s strategies.

In addition, the Board believed that (i) Mr. Bernard Tan’s legal expertise and skills would greatly benefit the Company where he could provide additional oversight in terms of the Company’s compliance with the relevant regulations; and (ii) Mr. Nixon Chung’s experience and insight of the hospitality and commercial real estate development industry in China is relevant and would greatly benefit the Group.

Each Director has been appointed based on his strength, experience and stature. They are expected to bring a valuable range of experience and expertise, and contribute to the development of the Group’s strategy and business performance.

- (iii) Dr. Choo Kian Koon and Dr. Zheng Haibin expressed that they will not be seeking re-election at the forthcoming AGM. Accordingly, (i) Dr. Choo Kian Koon shall retire as Independent Director of the Company, chairman of the NC and members of the AC and the RC; and (ii) Dr. Zheng Haibin shall retire as Independent Director of the Company, chairman of the RC and a member of the AC, at the conclusion of the forthcoming AGM.

Concurrently upon the conclusion of the forthcoming AGM, the Board committees shall be reconstituted as follows:

- (a) Mr. Nixon Chung, an incumbent Independent Director of the Company, shall be appointed as the chairman of the RC and a member of the AC.
- (b) Mr. Bernard Tan, an incumbent Independent Director of the Company, shall be appointed as chairman of the NC and a member of the AC and the RC. Consequent to the aforesaid changes and upon the conclusion of the upcoming AGM, the Board and its Board committees shall be as follows:

Board of Directors	Designation	AC	NC	RC
Wong Sum	Executive Chairman	-	Member	-
Wang Cuiping	Executive Director and Chief Executive Officer	-	-	-
Ng Keong Khoon	Lead Independent Director	Chairman	Member	Member
Bernard Tan	Independent Director	Member	Chairman	Member
Nixon Chung	Independent Director	Member	-	Chairman

Together, the Board and Board Committees comprise Directors who as a group provide a broad range and an appropriate balance and diversity of expertise in areas such as accounting, finance, knowledge of the Company's business, legal, management and industrial experience, strategic planning experience and customer-based experience, knowledge, geographical background and nationality, age and gender as well as familiarity with regulatory requirements. The diversity of the Directors' experience allows for useful exchange of ideas and views.

Key information regarding the Directors is set out in the "Board of Directors" section of the Annual Report.

¹<https://links.sgx.com/1.0.0/corporate-announcements/ZHLZIDI6AKQHK0V1/cbe28a0a916595760d330c818540c798e297d965914a1e38439e3b16a4bae233>

²<https://links.sgx.com/1.0.0/corporate-announcements/3YEKC2GY7ZXXZD7D/96c3f4a2d86f81d4b0c792c78e51c3b0c65ba21656cfeed2110bccd6b65fc43a>

By Order of the Board

Wong Sum
Executive Chairman

25 July 2024