
RESPONSES TO QUESTIONS FROM SHAREHOLDERS ON THE COMPANY'S ANNUAL REPORT FOR FINANCIAL YEAR ENDED 31 MARCH 2022

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 shareholders no later than 10.00 a.m. on 20 July 2022 in relation to the Company’s annual report for the financial year ended 31 March 2022 (“**Annual Report 2022**”).

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

Dividend:

Q1. Rationale for suspension of final dividend payment for the year ended 31 March 2022 (“**FY2022**”).

The form, frequency and amount of dividends declared each year (if any) will take into consideration the Group’s profit growth, cash position, positive cash flow generated from operations, projected capital requirements for business growth and other factors as the Board may deem appropriate.

With reference to the Chairman’s Statement in the Annual Report 2022, the overall business environment of the real estate sector in the People’s Republic of China (“**PRC**”) is expected to remain challenging in the short to medium term due to the weakened investment appetite of potential property buyers.

Thus, the Board had decided not to declare a final dividend for FY2022 in order to conserve cash for business operations and future developments, and is of the view that it is in the best interest of the Company as well as its shareholders.

Future development:

Q2&3. What is the Company’s future plan? With many reports citing that PRC’s real estate market has entered “a new stage of growth” Can the group comment on the prospects of its projects going forward? What are the trends currently shaping the market? How is the group positioned to take advantage of these trends?

The real estate market in the PRC comes under a national policy of “houses are for living in, not for speculation”. With the introduction of deleveraging requirements, mortgage concentration management and concentrated land supply auctions, property developers have been operating under challenging conditions while market confidence as well as property prices declined during recent quarters.

The investment appetite of potential property buyers is expected to remain weak in the short to medium term in the wake of financial instabilities of some large highly leveraged developers domestically as well as growing concerns with global economic prospects and market risks.

In light of the above various PRC cities have started implementing stimulating or relieving measures to support the market, including a decrease in interest rates for first-time buyers, reduction of down payment proportions, and withdrawal of purchase limits

As the Group's projects are primarily located and positioned to satisfy the needs of home buyers who are owner occupiers, it is cautiously optimistic that core housing demand will improve when the abovementioned measures take effect and market confidence is gradually restored.

As at 31 March 2022, the Group had land bank with total planned saleable gross floor area of 403,982 sq. m. in Huzhou and Shanwei in the PRC. The Group will continue to develop and deliver these projects with superior quality through innovative design and high standard of quality control.

Taking into consideration its management expertise, financial position and relevant industry prospects, the Group will also carefully assess and filter investment opportunities for both its core property development business as well as other potential business growth areas.

- Q4. Is the management looking to cut back on longer-dated projects so as to conserve cash in view of the slowdown in the housing market as well as record unsold inventories?

In view of the current market conditions, the Group is taking a more cautious approach when assessing investment opportunities for longer-dated projects.

- Q5. The group has reported a net loss for 2H'22 owing to the sharply declining pre-sales from the Run Ze Yuan project (4 units sold through 2H). Is the group implementing cost-cutting measures to conserve cash? Is the group considering selling out units in the Run Ze Yuan project at a lower average price? Can the group also help shareholders understand the current burn rate for the company as well as the required units sold to break even in cash flows?

The Group's revenue is recognised in accordance with requirements of the relevant International Financial Reporting Standards ("IFRSs"), i.e. at the time when customers obtain control of the properties which is also when the properties are delivered and have been accepted. Therefore, pre-sale performance may not translate directly into the Group's revenue and profit in the same financial year when the properties have yet to be completed and delivered to customers.

During the slower years, the Group will normally look into the reduction of year-end bonuses and slowing the pace of staff recruitment.

To boost the pre-sale of Run Ze Yuan Project while maintaining certain profit margin, the Group has adopted a dynamic discount policy of mild-to-medium degree since June 2022, which mainly depends on the superiority or marketability of certain property units, the ratio of down payment made by the customers and the real-time pre-sale performance.

In mid-July 2022, the district government of which Run Ze Yuan Project is located had initiated a "Property Coupon Scheme" with the local enterprises and property developers collectively to subsidise the local labour group on purchase of properties in the district. The Group will participate in this scheme and foresees that this scheme would serve as an incentive for the recovery of investment appetite of potential property buyers.

The burn rate and cash flow breakeven point are affected by a complex set of factors, including but not limited to:

- Number and scale of projects (or phases) currently under construction
- Pace of construction of projects and progress payments which the Group possesses a certain degree of control
- Pace of units pre-sold which are expected to be sensitive to the potential buyers' investment appetite and degree of discount
- Amount of down payments received
- Timing for the banks to release mortgage loans made by the customers to the Group
- Availability of external financing

Since some of the factors mentioned above are dynamic and inter-conditional, it would be difficult or possibly misleading for the Group to state any exact figure in a static point of time.

Nevertheless, the Group's practice is to monitor closely the above factors and take necessary measures to ensure that all financial obligations are fulfilled as and when they fall due.

- Q6. Is the group considering write-downs on the value of real estate held on the books to accurately reflect the current market situation?

As at 31 March 2022, the Group had properties held under development and properties held for sale of RMB573,593,000 and RMB187,142,000 respectively.

According to the Group's accounting policies, which are consistent with requirements stated in relevant IFRSs:

- Properties held under development are stated at the lower of cost and net realisable value except for the leasehold land element which is measured at cost less impairment, if any.
- Properties held for sale are stated at the lower of cost and net realisable value except for the leasehold land element which is measured at cost less impairment, if any. Net realisable value is the estimated selling price in the ordinary course of business less estimated selling expenses.

In view of the above, the value of real estate held in the audited financial statements of the Group reflects the market situation at each reporting date.

- Q7. In view of the current market conditions, does the group consider M&As of troubled developers to be a more strategic deployment of capital instead of working on new projects?

Currently the Group has no plan to acquire or merge with any other property developers. However, the Group will carefully consider appropriate investment opportunities associated with other developers if and when they arise.

By Order of the Board

Wong Sum
Executive Chairman
23 July 2022