

CHINA YUANBANG PROPERTY HOLDINGS LIMITED

Registration Number 39247

(Incorporated in Bermuda)

RESPONSES TO QUERIES FROM SGX REGCO

The Board of Directors of China Yuanbang Property Holdings Limited (the “**Company**” or together with its subsidiaries, the “**Group**”) refers to its half-year results announcement for the period ended 30 June 2022 released to SGX-ST on 29 August 2022.

The following information is in response to the SGX RegCo's queries dated 5 September 2022:

- 1) **We refer to the Company's financial statements for the 12 months ended 30 June 2022. It was reported in the income statement that the Group's selling expenses increased 77.6% to RMB 16.9 million on the back of a plunge by 84% in revenue to RMB 79.2 million.**

- i) **Please provide the breakdown of selling expenses for FY2021 and FY2022 and explain the material selling expenses.**

Reply

Breakdown of selling expenses is as follows:

		For the year ended 30 June		
		2022	2021	
	Notes	RMB'000	RMB'000	Variance %
Commission expenses	(a)	11,867	3,150	277%
Wages and salaries	(b)	1,563	2,064	-24%
Advertising and promotion	(c)	2,922	3,960	-26%
Sundries		493	312	58%
		<u>16,845</u>	<u>9,486</u>	78%

Notes:

- a) The Group had offered a sales incentive ranging from RMB30,000 to RMB40,000 for each sales of car park unit and increased commission rate for residential unit in order to boost the sales in 2H2022. The Group had sold 386 car park and 58 residential units in FY2022, whereas 301 car park and 304 residential units were sold in FY2021. The Group had incurred commission expenses of RMB10.3 million and RMB1.6 million for sales of car parks and residential units in FY2022, respectively.
- b) The Group had reduced the basic salaries for sales staff and offered a more competitive sales incentive. Hence, the wages and salaries expenses had decreased.
- c) Since the outbreak of Covid-19, the Group had increasingly relied on online advertising which were relatively cheaper, thus resulted in costs saving for advertising and promotion expenses.

- ii) Please also disclose the value of the revenue generated in FY2022 of the Shan Qing Shui Xiu car park units that contributed significantly to the material increase in selling expenses. Quantify the breakdown of the selling expenses incurred for the sale of the Shan Qing Shui Xiu car park units.

Reply

Shan Qing Shui Xiu had sold 167 car park in FY2022 and it would generate RMB18.4 million of sales income when handed over to buyers. As the Group had offered a RMB30,000 to RMB40,000 sales incentive to its sales staff, the Group had incurred RMB5.0 million sales commission for Shan Qing Shui Xiu's car park units sold.

- 2) It was reported that other operating expenses increased 37.9% to RMB 57.7 million in FY2022. Please provide a breakdown of the material items in other operating expenses amounting to RMB 57.7 million in FY2022 and RMB 41.8 million in FY2021 and explain why the Group consistently has such significant other operating expenses which are significant when compared to the Group's operating profit & loss.

Reply

Breakdown of other operating expenses are as follows:

		For the year ended 30 June		Variance %
		2022	2021	
	Notes	RMB'000	RMB'000	
Impairment loss of loan receivables	(a)	3,115	9,793	-68%
Impairment loss of other receivables	(a)	45,343	8,012	466%
Operating cost of Batai Mountain				
National Park	(b)	6,800	15,300	-56%
Surcharge of tax payment	(c)	-	4,272	-100%
Sundries		2,435	4,459	-45%
		<u>57,693</u>	<u>41,836</u>	38%

Notes:

- a) The Group had recognised an impairment loss for the loan receivables based on results of the Expected Credit Loss model. Increase in impairment loss of other receivables was mainly due to the impairment of land bidding cost and land acquisition cost in Tonghua Litong.
- b) The decrease in operating cost of Batai Mountain National Park was mainly due to a decrease in number of visitors to the National Park.
- c) Surcharge of tax payment in the FY2021 was charged by the local tax authority of Guangzhou due to the late payment of Enterprise Income Tax and Land Appreciation Tax of the Group's project in Xilang, namely Ming Yue Shui An.

Other than the impairment loss of loan and other receivables and operating cost, the Group had only incurred other operating cost of RMB2.4 million which is insignificant to the Group's Operating profit and loss.

- 3) In relation to the impairment loss on loan and other receivables amounting to RMB 45.8 million, we note that it was mainly due to an impairment of RMB 38 million provided for land bidding cost and land acquisition cost for the resettlement of a local school in Tonghua.

i) Please clarify what does this land bidding cost and land acquisition cost relate to, and provide a breakdown of these costs.

Reply

The land bidding cost and land acquisition cost represented the re-settlement costs incurred pursuant to a potential acquisition of a land that was previously occupied by a local school in Tonghua. Pursuant to the agreement entered into between Tonghua local government and Tonghua Litong, Tonghua Litong is required to construct a new school campus before the original land occupied by the school can be acquired by the Group for redevelopment purposes. Upon completion of the new school campus, the incurred re-settlement cost would be fully reimbursed to the Group or it could be used to offset the cost of acquiring the land.

Breakdown of land bidding cost and land acquisition cost incurred are as follows:

	RMB'000
Construction cost for new school buildings	45,063
Cost of demolishing existing building at the land for the new school campus	9,949
Infrastructure and facilities in new school campus	4,469
	<u>59,481</u>

ii) How do these costs result in the impairment of loan and other receivables and how was the impairment amount of RMB 38 million determined?

Reply

According to the agreement entered with Tonghua local government, upon the completion of the new school campus, Tonghua Litong could acquire and redevelop the land previously occupied by the school. However, due to the weak market sentiment, the Group had decided not to proceed with the land acquisition and requested a reimbursement from Tonghua local government for the resettlement cost of RMB 59.5 million incurred.

As the Tonghua local government had rejected the RMB39.3 million payment request, Tonghua Litong filed a RMB 39.3 million claim against the Tonghua local government but the court had ruled in favour of the Tonghua local government in January 2022. Accordingly, the Group made an additional RMB38 million impairment loss in 2H2022 to increase the total provision of impairment loss for the outstanding construction cost receivable to RMB39.9 million.

iii) Does the Group still own the original plot of land or asset? Where is this land or asset recorded in the financial statements and what is its carrying amount as at 30 June 2022? Does the Group expect any further impairment losses to be recognised on this matter?

Reply

Given that the Group decided not to proceed with the land acquisition, the Group did not record any land value in its balance sheet. As the remaining RMB20.2 million reimbursement is still under review by the Tonghua local government, the Group may have to make further provision of impairment if the Group is unable to claim such amount successfully from the Tonghua local government.

iv) Why was this impairment not recognised when Tonghua Litong filed the claim against the Tonghua local government in November 2021?

Reply

The outcome of the first trial was only announced in January 2022, hence the impairment was not recognised in the Group's 1H FY2022 results.

v) Noting that the impairment amount of RMB 38.0 million is material when compared to both the Group's total revenue of RMB 79.1 million (48%) and operating loss of RMB 78.9 million (48%) in FY2022, please clarify why there was no announcement made pursuant to Chapter 7 of the listing rules upon the filing of a claim against the Tonghua government in November 2021 or when the court ruled in favor of the Tonghua government in January 2022.

Reply

The management was of the view that it was too pre-mature to make any announcement when the Group filed a claim against the Tonghua government in November 2021 or when the court rule in favour of the Tonghua government in January 2022 as the Group has the intention to contest against the court's ruling by making an appeal against the judgement. In addition, the management was also of the view that :-

- (i) The claim was related to a land acquisition for a property development project and such disputes are, in management's views, within the scope of the ordinary course of business of the Group; and
- (ii) The amount of RMB 38 million impaired represented less than 5.0% of the Group's latest audited NTA as at 30 June 2021.

Notwithstanding the above, the Group had disclosed in its FY2022 results announcement regarding the matter and the related impairment loss of other receivable.

4) It was reported in the cash flow statement that there was a significant increase in prepayments, deposits paid and other receivables of RMB 37.7 million in FY2022. Please quantify and provide a breakdown of the significant increase, as well as disclose the nature of the underlying transactions which resulted in the significant increase.

Reply

The increase in prepayments, deposits paid and other receivables of RMB37.7 million in the cashflow statement was mainly attributable to an increase in deposit paid to subcontractor of RMB61.9 million for the final construction phase of Shan Qing Shui Xiu. This increase was partially offset by the decrease in house maintenance fund of RMB 19.3 million and others receivables of RMB 5.2 million. The decrease in house maintenance fund of RMB 19.3 million was mainly due to utilisation of house maintenance fund for repair and maintenance of the property projects previously sold by the Group, namely Yuanbang Aviation Homeland and Yuanbang Mingyue Gardens.

5) It was reported in Note 10 to the financial statements on loan receivables that there was an increase in the impairment of loan receivables from RMB 24.8 million to RMB 27.9 million.

- i) Please provide the breakdown of the loan receivables which comprise of the Jiadi Xindu loan and Kaiping Qingshi loan and provide details of the loans, including the borrowing date, repayment date, interest rate, accrued interest, outstanding balance, and allowance for impairment.

Reply

Breakdown of the two loans is as follows:

Jiadi Xindu loan

Principal Amount	Borrowing date	Interest rate	Repayment date	Outstanding balance
RMB'000				RMB'000
36,000	26/10/2018	16% p.a.	31/12/2023	15,600
52,000	9/7/2018	16% p.a.	31/12/2022	20,000
88,000			Total	35,600
			Add: accrued interest	18,153
			Less: provision of impairment	(18,936)
				34,817

Kaiping Qingshi Loan

Principal Amount	Borrowing date	Interest rate	Repayment date	Outstanding balance
RMB'000				RMB'000
23,500	18/2/2018	16% p.a.	31/12/2022	18,500
			Add: accrued interest	14,461
			Less: provision for impairment	(8,951)
				24,010

- ii) We note that the Jiadi Xindu loan is secured by the sales proceeds of 16 residential units worth an aggregate of RMB 55.6 million. Please disclose when these 16 residential units are expected to be sold and what is the basis for the Company's valuation of those 16 residential units at RMB 55.6 million? Was there a valuation done?

Reply

There were no valuation done on the 16 residential units. The value of the 16 residential units were determined after taking into consideration of the listing prices (政府报备价) that Jiadi Xindu has submitted to Guangzhou Baiyun District Housing and Construction Bureau. Due to the continuous changing circumstance relating to the COVID-19 safe distancing measures in China, the Group is unable to predict when the 16 residential units can be sold and handed over to buyer.

- iii) We note that Kaiping Qingshi has pre-sold 130 residential units of Phase I of the project. When can Kaiping Qingshi expect to receive these sales proceeds such that it can repay the loans owed to the Company?

Reply

To the best knowledge of the Management, Kaping Qingshi has started to hand over its pre-sold residential units. Barring unforeseen circumstances, the Management envisaged that Kaping Qingshi shall be able to use the sales proceeds to repay the loan owed to the Group before 31 December 2022.

By Order of the Board

Huang Tak Wai
Chief Financial Officer / Company Secretary
7 September 2022