

DEBAO PROPERTY DEVELOPMENT LTD.
(Incorporated in Singapore on 16 August 2007)
(Registration Number: 200715053Z)

**DISCLAIMER OF OPINION BY INDEPENDENT AUDITOR ON THE FINANCIAL STATEMENTS
FOR FINANCIAL YEAR ENDED 31 DECEMBER 2018**

Pursuant to Rule 704(5) of the Listing Manual of the Singapore Exchange Securities Trading Limited, the Board of Directors (the “**Board**”) of Debao Property Development Ltd. (the “**Company**” and together with its subsidiaries, the “**Group**”) wishes to announce that the independent auditor of the Company, Nexia TS Public Accounting Corporation, has issued a disclaimer of opinion in respect of its Independent Auditor’s Report (“**Auditor’s Report**”) for the financial statements of the Group for the financial year ended 31 December 2018 (“**FY2018**”).

A copy of the aforesaid Auditor’s Report is annexed to this announcement for further information.

Shareholders are advised to read this announcement in conjunction with the Auditor’s Report and the financial statements for FY2018, which can be found in the Company’s Annual Report for FY2018 (“**FY2018 Annual Report**”). The FY2018 Annual Report will be released on SGXNET and despatched to shareholders in due course.

By Order of the Board

Zhong Yuzhao
Executive Director and CEO
14 October 2019

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF DEBAO PROPERTY DEVELOPMENT LIMITED

Report on the Audit of the Financial Statements

Disclaimer of Opinion

We were engaged to audit the accompanying financial statements of Debao Property Development Limited (the "Company") and its subsidiary corporations (the "Group") which comprise the consolidated statements of financial position of the Group and the statement of financial position of the Company as at 31 December 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on page 39 to 141.

We do not express an opinion on the accompanying consolidated financial statements of the Group and the statement of financial position of the Company. Because of the significance of the matter described in the *Basis for Disclaimer of Opinion* section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

(i) Opening balances

The financial statements for the financial year ended 31 December 2017 ("FY2017") were audited by an independent auditor (the "Preceding Auditor") other than Nexia TS Public Accounting Corporation, who issued a disclaimer of opinion on 12 November 2018 on those financial statements due to the following:

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

The CEO of the Company was, on 16 October 2016, requested by the People's Procuratorate of Nanhai District, Foshan City, Guangdong Province, the People's Republic of China to assist in an investigation on a Chinese official of Foshan City.

During the audit of the financial statements for the year ended 31 December 2016, management represented to the Preceding Auditor that the focus of the investigation was on transactions relating to a construction contract which was awarded by a subsidiary of the Group to a construction company owned by an associate of this Chinese official. At that time, management had assessed whether the award of the construction contract was in accordance with the Group's policies and processes and that the pricing terms were comparable with market rates. Management concluded that the said construction contract was in compliance with the Group's policies and processes and the price was comparable to market rate.

The Preceding Auditor's audit procedures subsequently revealed that in December 2017, there was a court hearing in Nanhai District People's Court in relation to the abovementioned matter and in February 2018, the subsidiary and the CEO, as the legal representative of the subsidiary, were found guilty of an act of bribery by the court. The subsidiary was fined RMB2,000,000 and the CEO was sentenced to either an imprisonment of two (2) years or three (3) years of probation in lieu of imprisonment. These important developments were not disclosed to the Preceding Auditor, even though they made specific enquiries with management on the status of the investigation during the course of their audit, including at the Audit Committee meeting held on 28 February 2018 to approve the announcement of the Group's full year results.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF DEBAO PROPERTY DEVELOPMENT LIMITED

Report on the Audit of the Financial Statements (continued)

Basis for Disclaimer of Opinion (continued)

(i) Opening balances (continued)

b) *Payment to political party in Malaysia*

As at 31 December 2017, included in the advances from non-controlling interests, is a balance of RM3,000,000 (RMB4,716,000) for a purported payment made by a minority shareholder on behalf of the Group to a political party in Malaysia. The amount was recorded as an administrative expense for FY2017. The related expense and amount payable were subsequently reversed from the Group's accounting records in May 2018.

Subsequently, pursuant to the Preceding Auditor raising their concerns to the Board of Directors and the Audit Committee, the Board of Directors engaged an independent professional accounting firm to perform certain agreed upon procedures to address, amongst others, the above matters. The Preceding Auditor made enquiries on their findings report dated 9 November 2018. Whilst the Company responded to their enquiries, the findings report and the Company's responses did not adequately address the Preceding Auditor's matters of concern as communicated to the Board of Directors and Audit Committee. Accordingly, they had not been able to obtain sufficient appropriate audit evidence as to whether there were any matters or issues that would have an impact on the financial statements.

In addition to the abovementioned matters, the Preceding Auditor had concerns over the inconsistent information and explanations that have been provided to them during the course of their audit with regards to the legal matter. In particular, the court hearing which took place in December 2017 and subsequent court verdict which was announced in February 2018 were not disclosed to them, even though specific enquiry was made on the status of the investigation at the audit committee meeting on 28 February 2018.

They were of the view that there was no basis for them to conclude on the matters of concern set out in the findings report and as they also had concern on the reliability of the representations from the key management personnel based on the facts stated above. Accordingly, there was no proper basis for them to conclude that the financial statements were fairly stated for FY2017. Therefore, they were not in a position to complete their audit and did not have any alternative means to complete their audit to express any opinion on the financial statements, as due to the above matters and concerns, they did not know if there was any further impact on the financial statements.

As the impact of the above form part of the opening balances for the current financial year, and in view of the Preceding Auditor's disclaimer of opinion on the financial statements for FY2017, and as we were not able to carry out any alternative audit procedures to obtain sufficient and appropriate audit evidence on the opening balances, we are unable to determine the impact on the current financial year's statement of comprehensive income and the net cash flows from any activities reported in the statement of cash flows arising from any other adjustments, if any, to these and any other opening balances.

(ii) Land costs of Elite Starhill Sdn. Bhd. ("Elite Starhill")

At the end of the financial year ended 31 December 2018, included in the development properties of the Group, are land costs pertaining to Elite Starhill of RM173,000,000 (approximately RMB287,577,000) brought forward from previous financial year. We were unable to verify to appropriate source documents or perform any other alternative audit procedures to satisfy ourselves that the carrying amount of the land costs are fairly stated.

In addition, subsequent to the end of the current financial year in April 2019, Elite Starhill was issued a warning letter by the local authorities stating that they did not comply to certain construction regulations and the management of Elite Starhill are to rectify these non-compliances immediately. Since the date of the warning letter, the construction of the development property has come to a halt and till the date of this report, the construction has not resumed. As part of the impairment assessment arising from the construction halt, we have compared Elite Starhill's land purchase cost to other similar published recently transacted land prices and noted that Elite Starhill's land purchase cost was significantly higher.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF DEBAO PROPERTY DEVELOPMENT LIMITED

Report on the Audit of the Financial Statements (continued)

Basis for Disclaimer of Opinion (continued)

(ii) Land costs of Elite Starhill Sdn. Bhd. ("Elite Starhill") (continued)

Therefore, in view of the above mentioned matters, we were unable to determine whether any adjustments which might have been necessary to be recognised for the land costs included in development properties of the Group as at the beginning and end of the financial year ended 31 December 2018.

(iii) Divestment of Profit Consortium Sdn. Bhd. ("Profit Consortium")

Profit Consortium is a 62% owned subsidiary of the Company, classified as a Disposal Group held for sale, with Gross Assets and Liabilities of RMB93,066,00 and RMB87,066,000 respectively, classified and presented as a Disposal Group held for sale on the consolidated statement of financial position as at financial year ended 31 December 2018. Subsequent to the financial year, specifically on 26 April 2019 and 25 July 2019, the Group disposed off 43% and 19% of its shareholdings in Profit Consortium for a consideration of RMB4,000,000 and RMB2,000,000, respectively, to unrelated third parties. The impairment loss taken to profit or loss in the current financial year, in view of the actual disposal subsequent to the current financial year end, is approximately RMB41,178,000 and RMB13,674,000 respectively. Following the disposal, the Group would cease to have any equity interest in Profit Consortium.

We were unable to obtain sufficient appropriate audit evidence or were we able to satisfy ourselves by any other alternative audit procedures whether the assets and liabilities of Profit Consortium at the beginning and end of the financial year ended 31 December 2018 is fairly stated. Consequently, we were unable to determine whether there are any adjustments which might have been necessary in respect of the impairment loss reported in the statement of comprehensive income and the net cash flows from operating activities reported in the statement of cash flows for the financial year ended 31 December 2018.

(iv) Poly Ritz Green (Malaysia) Sdn Bhd ("Poly Ritz")

In accordance with Singapore Standards on Auditing 600 Special Considerations — *Audits of Group Financial Statements (Including the Work of Component Auditors)*, we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the Group financial statements are prepared, in all material respects, in accordance with SFRS (I). We were unable to perform audit procedures to obtain sufficient appropriate audit evidence to determine the Group's share of Poly Ritz's results and net assets/liabilities for the financial year ended 31 December 2018 as well as the relevant disclosures under SFRS (I) 1-28 *Investments in Associates and Joint Ventures* to be included in the consolidated financial statements of the Group.

(v) Expected Credit Loss ("ECL") of Other Receivables of RM43,534,000 (RMB72,366,000)

In accordance with Singapore Financial Reporting Standards (International) 9 *Financial Instruments* ("SFRS(I) 9") — the Group is required to account for its expected credit risk in its trade and other receivables by appropriately providing for ECL, on a timely basis and in calculating the ECL rates, the Group should considers historical loss rates, and adjusts for forward looking macroeconomic data.

For a certain other receivables amounting to RM43,534,000 (RMB72,366,000), there has been a significant increase in default risk since initial recognition as the amount was due to the Group on 30 November 2018 and as at date of this report, there have been no subsequent receipts. Although the default risk on the amount has increased significantly since initial recognition, the Group did not measure the loss allowance for these other receivables at an amount equal to 12-month or lifetime ECL, as the management has determined that there was no increase in credit risk since initial recognition and has assessed the amount to be recoverable.

The assessment of whether 12-month and lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition instead of on evidence of a financial asset being credit-impaired at the reporting date or an actual default occurring.

Accordingly, we are unable to obtain sufficient appropriate audit evidence to determine whether the ECL for these other receivables of RM43,534,000 (RMB72,366,000) is adequate for the financial year ended 31 December 2018.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF DEBAO PROPERTY DEVELOPMENT LIMITED

Report on the Audit of the Financial Statements (continued)

Basis for Disclaimer of Opinion (continued)

(vi) Non-receipt of bank confirmations

Confirmations in respect of bank and loan balances amounting to RMB4,109,743 (31 December 2017: RMB13,338,956, 1 January 2017: RMB370,197,197) and RMB52,300,000 (31 December 2017: RMB Nil, 1 January 2017: RMB515,120,000) respectively from banks have not been received by us. Consequently, we were unable to carry out audit procedures necessary to obtain sufficient appropriate audit evidence regarding the carrying value and completeness of the bank and loan balances for the financial year ended 31 December 2018. There were no other satisfactory audit procedures that we could adopt to obtain sufficient evidence regarding the carrying value and completeness of the bank and loan balances, including any disclosures that may be required. Accordingly, we were unable to quantify the adjustments that would be required, had the confirmations from the banks been received by us as any adjustment to the bank and loan balances might have a significant financial impact on the results for the current financial year.

(vii) Going concern

As disclosed in Note 2.1 to the financial statements, in preparing the financial statements, the Board of Directors has considered the Group and the Company as going concerns notwithstanding that the Group and the Company incurred net loss of RMB333,557,000 and RMB41,454,000 for the financial year ended 31 December 2018 respectively (2017: RMB49,383,000 and net profit of RMB231,864,000 respectively). The Group's operations are highly dependent on borrowings and as at 31 December 2018, total borrowings amounted to RMB1,887,284,000 (31 December 2017: RMB1,634,667,000) and amounts classified as current are RMB526,466,000 (31 December 2017: RMB633,564,000). During the current financial year, to support the Group's operating cash flow requirements, the Group obtained loans from individuals and other non-financial institutions amounting to RMB137,799,000 and the outstanding balance of these loans as at 31 December 2018 is RMB1,293,320,000. These other loans from individuals and other non-financial institutions bore average annual interest rate ranging from 18% to 38% and the Group incurred interest expense amounting to RMB103,121,000 for the financial year ended 31 December 2018.

Although the above financial and other conditions indicate the existence of material uncertainties which may cast significant doubts on the Group's and the Company's abilities to continue as going concerns, the Board of Directors believes that the use of the going concern assumption in the preparation of the financial statements for the financial year ended 31 December 2018 is still appropriate after taking into consideration the following measures taken by the Company factors and assumptions:

- a) During the financial year on 31 May and 1 August 2018, the Group entered into a Loan Agreement ("LA") with a non-financial institution to drawdown a total of RMB200,000,000 in multiple tranches before 31 January 2020. The details and material terms of the LA are disclosed in Note 28 to the financial statements and the Group expects to meet these material terms in the LA and if not, an extension can be obtained;
- b) Divestment of non-core assets in Malaysia, namely Profit Consortium Sdn Bhd within 12 months subsequent to the financial year ended 31 December 2018;
- c) The Group is confident in obtaining the lenders' approval for roll over of all the loans, which are due in the financial year 2019;
- d) The Group's ability to sell the development properties at the current market selling price and the timing of the receipt of proceeds estimated by management; and
- e) The Group is able to generate positive cash flow from operations for the next twelve months and with the completion of (a) to (d) above, the Group would have sufficient cash to meet its obligations as and when they fall due for the next twelve months.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF DEBAO PROPERTY DEVELOPMENT LIMITED

Report on the Audit of the Financial Statements (continued)

Basis for Disclaimer of Opinion (continued)

(vii) Going concern (continued)

The ability of the Group and of the Company to continue in operational existence in the foreseeable future and to meet their financial obligations as and when they fall due are dependent upon the successful outcome of the measures and assumptions undertaken as disclosed above which cannot be determined at present. At the date of this report, we are unable to obtain sufficient audit evidence regarding the likely outcome of these measures and assumptions. Therefore, we are not able to form an opinion as to whether the going concern basis of presentation of the accompanying financial statements of the Company is appropriate.

In the event that the Group and the Company are unable to continue in operational existence for the foreseeable future, the Group and the Company may be unable to discharge its liabilities in the normal course of business and adjustments may have to be made to reflect the situation that assets may need to be realised other than in the normal course of business and at amounts which could differ significantly from the amounts at which they are currently recorded in the statement of financial position. In addition, the Group and the Company may have to provide for further liabilities that might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The financial statements do not include any adjustment which may arise from these uncertainties.

Responsibilities of Management and Directors for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Companies Act, Chapter 50 (the "Act") and Singapore Financial Reporting Standards International ("SFRS(I)"), and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

In preparing the financial statements, Management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Directors' responsibilities include overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our responsibility is to conduct an audit of the Group's financial statements in accordance with Singapore Standards of Auditing and to issue an auditor's report. However, because of the matter described in the *Basis for Disclaimer of Opinion* section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are independent of the Group in accordance with the Accounting and Corporate Regulatory Authority ("ACRA") Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities ("ACRA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF DEBAO PROPERTY DEVELOPMENT LIMITED

Report on Other Legal and Regulatory Requirements

In our opinion, in view of the significance of matters described in the *Basis for Disclaimer of Opinion* section of our report, we do not express an opinion on whether the accounting and other records required by the Act to be kept by the Company and by those subsidiary corporations have been properly kept in accordance with the provisions of the Act.

The engagement director on the audit resulting in this Independent Auditor's report is Loh Ji Kin.

Nexia TS Public Accounting Corporation
Public Accountants and Chartered Accountants

Singapore
11 October 2019