

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 2019**

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 2019 (“**FY2019**”).

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 FY2019 Financial Statements, which can be found in the Company’s Annual Report for FY2019 (“**FY2019 Annual Report**”). The FY2019 Annual Report will be released on SGXNET in due course.

By Order of the Board

Zhong Yuzhao
Executive Director and CEO
6 January 2021

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 2019, 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 30 to 113.

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

We issued a disclaimer of opinion for the financial statements for the financial year ended 31 December 2018 ("FY2018") on 11 October 2019 due to the following:

Divestment of Profit Consortium Sdn. Bhd. ("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 are 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.

An impairment loss of RMB40,267,000 was taken to profit or loss in the current financial year, arising from the completion of disposal of 43% equity shares in Profit Consortium during the financial year. The remaining 19% of equity shares has not been transferred to the external party at the date of this report.

We were unable to obtain sufficient appropriate audit evidence or were we able to satisfy ourselves by any other alternative audit procedures on whether this additional loss of RMB40.3 million is sufficient. Neither were we able to satisfy ourselves management's assertion that this loss is a non-adjusting event based on SFRS(I) 8 - Accounting Policies, Changes in Accounting Estimates and Errors.

Divestment of Poly Ritz Green (Malaysia) Sdn. Bhd. ("Poly Ritz")

The audited financial statements of Poly Ritz for the financial year ended 31 December 2018 were not made available to us for the purpose of consolidation at Group level. Accordingly, we were unable to perform alternative audit procedures to obtain sufficient appropriate audit evidence to determine the Group's share of Poly Ritz's results 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.

On 30 May 2019, the Group transferred its entire 50% equity interest in Poly Ritz to an unrelated party for a consideration of RM16 million (approximately RMB27.3 million), and recognised a net gain on disposal of RM5.16 million (approximately RMB8.6 million).

In the current financial year, we are unable to verify the accuracy the net gain on disposal of Poly Ritz of RM5.16 million (approximately RMB8.6 million), as we were unable 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 and for the period up to the disposal date of 30 May 2019, or whether there are any contractual or constructive obligations arising from the disposal which will give rise to any adjustments for the financial year ended 31 December 2019.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF DEBAO PROPERTY DEVELOPMENT LIMITED (CONTINUED)

Report on the Audit of the Financial Statements (continued)

Basis for Disclaimer of Opinion (continued)

(ii) Litigation case involving key management of Foshan Nanhai Chuangxintian Hotel Management Co., Ltd. ("Chuangxintian")

Chuangxintian is an associated company of the Group. During the period from 9 June 2020 to 17 July 2020, the directors of Chuangxintian, who were appointed by the majority shareholder (the "Majority Shareholder") of Chuangxintian, were arrested for suspect scam cases by Commercial Criminal Investigation Department of Municipal Public Security Bureau of Guangzhou City, Guangdong Province, the People's Republic of China. The cases are currently in the progress of investigations as at the date of this report.

In addition, the Majority Shareholder extended a loan amounting to RMB190,597,000 to Sihui Debao Jiangnan Mingju Development Co., Ltd. ("SHDB"), a wholly-owned subsidiary corporation of the Group in the form of equity investment. This loan is secured by 100% of equity shares of SHDB. Concurrently, Foshan Nanhai Debao Investment Management Co., Ltd., which is a wholly-owned subsidiary corporation of the Group, provided corporate guarantee for these borrowings.

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 consolidated financial statements are prepared, in all material respects, in accordance with SFRS (I). We were unable to obtain sufficient appropriate audit evidence or were we able to satisfy ourselves by any other alternative audit procedures to determine the Group's share of Chuangxintian's results and net assets/liabilities for the financial year ended 31 December 2019 and as at the end of the year then ended, respectively, 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 Company, and whether any contractual or constructive liabilities need to be provided, or any contingent liabilities need to be disclosed, arising from the transaction above, or the aforementioned litigation case, or both, in accordance with SFRS(I) 1-37 Provisions, Contingent Liabilities and Contingent Assets.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF DEBAO PROPERTY DEVELOPMENT LIMITED (CONTINUED)

Report on the Audit of the Financial Statements (continued)

Basis for Disclaimer of Opinion (continued)

(iii) Going concern

As disclosed in Note 2.1 to the financial statements, in preparing the financial statements, the Board of Directors has considered the operations of the Group as a going concern notwithstanding that the Group incurred a net loss of RMB224,636,000 (2018: RMB333,557,000) for the financial year ended 31 December 2019 and was in a net current liabilities position of RMB869,286,000 (2018: net current asset position of RMB437,048,000) as at that date. The Group's operations are highly dependent on borrowings and as at 31 December 2019, total borrowings amounted to RMB1,772,656,000 (2018: RMB1,887,284,000) and amounts classified as current amounted to RMB1,438,362,000 (2018: RMB526,466,000). During the financial year, to support the Group's operating cash flow requirements, the Group obtained loans from individuals and other non-financial institutions amounting to RMB162,160,000 and the total outstanding balance of other loans as at 31 December 2019 is RMB1,363,101,000. 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 RMB178,362,000 for the financial year ended 31 December 2019.

Although the above financial and other conditions indicate the existence of material uncertainties which may cast significant doubt on the Group's ability to continue as a going concern, 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 2019 is still appropriate after taking into consideration the following factors, assumptions and measures taken by the Company:

- (a) The Group is confident in obtaining the lenders' approval for roll over of all the loans, which are due in the financial year ending 31 December 2020;
- (b) The Group's ability to sell its development properties at the current market selling price and the timing of the receipt of proceeds estimated by management;
- (c) The ongoing litigation cases do not have any significant adverse impact on the Group's core operations;
- (d) The Group's controlling shareholder has provided an undertaking to provide continuing financial support to the Group for the next 12 months after reporting date; and
- (e) The Group is able to generate positive cash flow from operations for the next twelve months and with the satisfactory outcome 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.

The ability of the Group to continue in operational existence in the foreseeable future and to meet its financial obligations as and when they fall due are dependent upon the successful outcome of the measures undertaken and assumptions 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 consolidated financial statements of the Group is appropriate.

In the event that the Group is unable to continue in operational existence in the foreseeable future, the Group 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 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 adjustments which may arise from these uncertainties.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF DEBAO PROPERTY DEVELOPMENT LIMITED (CONTINUED)

Report on the Audit of the Financial Statements (continued)

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.

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
6 January 2021