

DEBAO PROPERTY DEVELOPMENT LTD.

(Incorporated in the Republic of Singapore)
(Company Registration No. 200715053Z)

RESPONSE TO QUERIES FROM SINGAPORE EXCHANGE SECURITIES TRADING LIMITED (THE "SGX-ST") ON THE ANNOUNCEMENT OF RESPONSE TO QUERIES FROM SGX-ST ON THE UNAUDITED FINANCIAL STATEMENTS FOR FOURTH QUARTER ("4Q2019") AND FINANCIAL YEAR ENDED 31 DECEMBER 2019 ("FY2019")

The Board of Directors (the "**Board**") of Debao Property Development Ltd. (the "**Company**") wishes to announce the following in response to the queries raised by the SGX-ST on 4 May 2020 in relation to the announcement of response to queries from SGX-ST on the unaudited financial statements for 4Q2019 and FY2019 made by the Company on 21 April 2020 (the "**Previous Announcement**").

Unless otherwise defined, all capitalised terms used in this announcement shall bear the same meanings as ascribed to them in the Previous Announcement.

SGX-ST's Query 1

Response to SGX-ST's Query 1 (as set out in the Previous Announcement) relating to restated "Other Expenses" for FY2018 of RMB227.5 million (from original disclosed amount of RMB67.8 million in FY2018 Results)

Provide a breakdown of the underlying items in (Restated) FY2018:

- (a) "Bad debts written off" of RMB125,796,000: Provide details of the underlying transactions and explain why the bad debts is so significant. Provide details on the review undertaken by the AC on the veracity of the underlying transactions and/or the debtors with which these transactions were undertaken.
- (b) "Loss upon revocation" of RMB4,243,000. Please disclose the nature of this "Loss on revocation". Explain why this was revoked and by whom. Elaborate on the basis of how the RMB4.2 million loss was valued.
- (c) "Impairment for non-current assets held-for-sale" of RMB54,852,000. Please elaborate on the details of the material non-current items held for sale, the basis for the value determined for the impairment and reasons why the impairment is so significant.

Company's Response

- (a) Details of bad debt written-off is as follows:
 - (i) RMB 6,830,000 were amounts prepaid for construction work to our subcontractors but were not charged to the expense account.
 - (ii) During audit, the auditors deemed RMB 19,322,791 to be uncollectable as they have been outstanding for numerous years. Hence, they were written-off.
 - (iii) RMB 158,419 are receivables for services rendered to our group companies. However, payment was instead made by other group companies which did not receive the services. At the same time, the group companies which received the services did not record the payments made by other group companies on their behalf. On Group level, these amounts should be charged to expenses.

- (iv) RMB 10,940,325 was paid to a service provider but as the auditors could not obtain their confirmation, the amount was written-off.
- (v) RMB 88,543,901 are amounts paid for services and materials which should be charged to the profit and loss account upon completion of the relevant works.

Our Group has taken active steps to collect outstanding debts. Our Accounts Department and relevant Project Managers frequently follow up on the payments. Long outstanding debts would be escalated to CEO's attention and he will proceed to discuss and negotiate a payment schedule with the debtors directly. If necessary, legal proceedings will be taken to pursue the claims.

Management of the Company is required to update the Board quarterly on the ageing report of trade and other receivables. Significant long-outstanding debtors are to be reported to the Board and the plans undertaken to recover them.

Audit Committee ("AC") undertakes a rigorous review of the trade and other receivables quarterly, by monitoring the rate of collection from debtors who in particular have large accounts receivables outstanding for some time, and whether they have been making part payments periodically. Management is required to update the AC on the actions taken by the Group on specific debtors, including whether visits have been made to these debtors to chase on a debt or to ascertain whether they are still carrying on business. Management is also reminded by the AC to step up collection efforts and be vigilant if any of its larger debtors may be facing financial difficulties.

- (b) Our Group joint ventured with GD Development Sdn Bhd. for the development of Green Beverly Hills in Malaysia. Our share of profits from this project was paid by way of units in Green Beverly Hills, based on market price. Our Group managed to sell these properties save for 5 which we then sold to GD Development Sdn Bhd for a price of MYR 7,897,800 which was RMB 4.2 million (in aggregate) lower than the price used in calculating our share of profits. This is because the market price had dropped.
- (c) There are no non-current items held for sale. All assets of the subject are transferred to "Disposal group assets classified as held-for-sale" and offset against the loss on disposal and the proportion of assets disposed. The liabilities are transferred to "Liability directly associated with disposal group assets classified as held-for-sale". "Disposal group assets classified as held-for-sale" contains cash and bank balances, trade and other receivables, development properties and PPE. "Liability directly associated with disposal group assets classified as held-for-sale" contains trade and other payables".

SGX-ST's Query 2

Response to SGX-ST's Query 2 (as set out in the Previous Announcement) on the substantial interest expense of RMB111.576 million incurred in 4Q2019

The Company provided the breakdown of the substantial Q42019 interest expenses of RMB111.576 million incurred in the 3 month period. Please provide further information on the following:

- (a) China Huarong International Holdings Limited ("China Huarong") – interest expenses of RMB30 million plus underprovided interest for 9M2019 of RMB37.7 million

Please disclose:

- (i) Details of China Huarong, its principal activities and its paid up capital;

- (ii) Whether China Huarong is permitted to undertake money lending in the PRC. Please provide details of China Huarong's money lending license. To provide the restrictions or approvals under the license for China Huarong to extend such a significant amount of loan to the Company;
- (iii) The shareholders and the ultimate beneficial shareholders, legal representative and directors of China Huarong and details of relationship with the entities in the Debao Group, Debao's substantial shareholders, directors and key management;
- (iv) Reason why the Company has to borrow such a significant amount from China Huarong, quantify the amount of loan, date of the loan and the use of proceeds. To disclose whether the Board had approved the loan;
- (v) Details of the amount of loan, the material terms of the loan, the maturity date, interest on the loan and terms of repayment;
- (vi) Explain how the Company underprovided interest for 9M2019 of RMB37.7 million. Please elaborate how the RMB37.7 million was derived; and
- (vii) AC to explain whether and how the accounting system is effective and adequate, taking into account the significant discrepancy of under-recording the significant interest expenses of RMB37.7 million for 9M2019.

Company's Response

(i) China Huarong is primarily engaged in investment and project financing. It is a listed company on the Hong Kong Stock Exchange (Stockcode: 2799.HK). Its paid-up share capital is RMB 39,070.2 million.

(ii) China Huarong has financial services certificate No. J0001H111000001 issued by the China Banking and Insurance Regulatory Commission (the "CBIRC"), and business license No. 911100007109255774 issued by the State Administration of Industry and Commerce of the PRC.

The loan is from a Hong Kong company for use by our Malaysia subsidiary. The abovementioned financial services license does not apply to our loan.

(iii) To the best of our knowledge, the beneficial shareholders, legal representatives or directors of China Huarong have no relationship with the entities in Debao Group, Debao's substantial shareholders, directors and key management.

(iv) The loan was taken up for the development of our Imbi Project. The loan was approved by the board of directors of Debao Property Development (HK) Ltd, which is the borrower.

(v) In order to protect our commercial secrets and to protect the commercial interest of China Huarong and since details of the loan were not disclosed on the Hong Kong Stock Exchange, we will not be disclosing the requested information. If required, we will provide details to the SGX-ST in private.

(vi) It was an oversight of the new finance staff as a result of change in personnel during that period. The oversight was discovered during the annual review process. The amount is derived by $[(RMB\ 1,046,505,000 \times 11\%) / 365] \times 120\ \text{days}$.

(vii) The Board and the AC are of the opinion that the current accounting system is effective and adequate as this is a once-off oversight due to a change in personnel. The oversight was discovered and the under-recording was rectified. The Company has established and maintained internal control policies which are regularly reviewed by management, the Board and the AC.

SGX-ST's Query 2 (con't)

- (b) Binhai Fund Management Co.,Ltd (Binhai) – interest expenses of RMB17.8 million plus underprovided interest for 9M2019 of RMB9.7 million
- (i) Disclose details of Binhai and its principal activities, its paid up capital and what type of licenses are held by the Binhai Fund Management Co Ltd;
 - (ii) The shareholders and the ultimate beneficial shareholders, legal representative and directors of Binhai and details of relationship with the entities in the Debao Group, Debao's substantial shareholders, directors and key management;
 - (iii) Reason why the company has to borrow such a significant amount from Binhai, quantify the amount of loan, date of the loan and the use of proceeds;
 - (iv) Provide details of the amount of loan, the material terms of the loan, the maturity date, interest on the loan and terms of repayment;
 - (v) Explain why the Company underprovided interest for 9M2019 of RMB9.7 million; and
 - (vi) AC to explain whether and how the accounting system is effective and adequate, taking into account the significant discrepancy of under-recording the significant interest expenses of RMB9.7 million for 9M2019.

Company's Response

- (i) Based on public internet searches, Binhai is a fund manager and has a paid-up share capital of RMB 150 million. The type of license held by them is not disclosed in these searches.
- (ii) To the best of our knowledge, the beneficial shareholders, legal representatives or directors of Binhai have no relationship with the entities in Debao Group, Debao's substantial shareholders, directors and key management.
- (iii) The loan was taken up to finance the development of Bay One project in Sihui, PRC.
- (iv) In order to protect our commercial secrets and to protect the commercial interest of Binhai, we will not be disclosing the requested information. If required, we will provide details to the SGX-ST in private.
- (v) It was an oversight of the new finance staff as a result of change in personnel during that period. The oversight was discovered during the annual review process.
- (vi) The Board and the AC are of the opinion that the current accounting system is effective and adequate as this is a once-off oversight due to a change in personnel. The oversight was discovered and the under-recording was rectified. The Company has established and maintained internal control policies which are regularly reviewed by management, the Board and the AC.

SGX-ST's Query 2 (con't)

- (c) Personal loans of RMB8.1 million
- (i) Provide details on the lenders and the relationship with the Company and subsidiaries, its substantial shareholders, directors and key management personnel of the Debao Group;
 - (ii) Explain why the Company has to borrow from these individuals and how the Company has undertaken AML checks on these individuals; and
 - (iii) Disclose if any of these loans are secured. If so, please provide details on the security and value of the security.

Company's Response

- (i) The lenders are not related to our substantial shareholders, directors and key management personnel of our Group. One lender has been ordered by the PRC court to repay his property acquisition amount in instalments at an interest rate specified under court order. All other lenders have Money Lending License for Small Loans (“小额贷款公司牌照”).
- (ii) No AML checks were made as the above lenders are from proper legal sources. They are not associates of our substantial shareholders, directors and key management personnel of our Group.
- (iii) Except the lender ordered by the PRC court, other personal loans were secured by a personal guarantee from Yuan Le Sheng, our controlling shareholder.

SGX-ST's Query 3

Response to SGX-ST's Query 3 (as set out in the Previous Announcement) on the rationale for the Company's preparation of Proforma Accounts 10 years after RTO in 2010

Explain the items which resulted in the variation between the following Actual and Proforma CFS at 31.12.2019 in the Statements of Financial Position:

- a) Total current assets: RMB 1,891,023,000 versus RMB 1,626,580,000
- b) Total non-current assets: RMB 2,179,096,000 versus RMB 2,176,445,000
- c) Total non-current liabilities: RMB 757,473,000 versus RMB 691,904,000

Company's Response

- a) The differences are confined to 3 line items, namely development properties and property held for sale in China and accompanying deferred tax liabilities at the appropriate local income tax rates. These arise due to fair value adjustments which is required under the acquisition method (actual results), and not so under the proforma financial information (which assumes a restructuring of the group under common control, without uplift of the assets acquired).
- b) Please see our response to (a).
- c) Please see our response to (a).

SGX-ST's Query 4

Response to SGX-ST's Query 4 (as set out in the Previous Announcement) on the status of the Company's Restricted cash and cash equivalents of RMB182.1 million balance as at 31 December 2018

The Company responded that “Restricted cash and cash equivalents amounting to RMB182,076,000 is related to a back-to-back bank borrowing from Luso International Bank Limited (“Luso”). The loan from Luso amounting to RMB179,797,000 had been settled by offsetting against the back-to-back restricted deposit (classified as restricted cash and cash equivalents) in 4Q2019. The remaining RMB2,279,000 is used to pay the related loan interest and other working capital expenditure.”

- (a) Please reconcile the Company's explanation that it had used its cash of RMB180 million to repay bank loans of RMB180 million given that, the aggregate amount of the Group's borrowings and debt securities total debt increased to RMB1,804,996,000 at 31.12.2019 from the RMB1,773,708 reported in the Company's FY2018's Statement of Financial Position.
- (b) The Group's borrowings and debt securities for FY2018 was subsequently restated from RMB1,773,708 to RMB1,887,284,000 at 31.12.2018. Please explain the reason for the increase in the Group borrowings arising from the re-statement.
- (c) Based on the restated Group's borrowings and debt securities for FY2018 of RMB1,887,284,000 at 31.12.2018 and the Group's borrowing and debt securities of RMB1,804,996,000 at 31.12.2019, please explain why the repayment of the Luso loan of RMB180 million with cash did not result in a RMB180 million reduction in borrowing. Please reconcile and account for the movements in the Group's borrowings set out in paragraph 1(b)(ii) of its FY2019 Results which was disclosed as:

1(b)(ii) Aggregate amount of group's borrowings and debt securities

| | Group (Actual CFS) | |
|---|---------------------------|----------------------------------|
| | 31.12.2019 | (Restated) 31.12.2018 |
| | RMB'000 | RMB'000 |
| Amount repayable in one year or less, or on demand: | | |
| Secured | 1,470,077 | 526,466 |
| Sub-total (1) | 1,470,077 | 526,466 |
| Amount repayable after one year: | | |
| Secured | 334,919 | 1,360,818 |
| Sub-total (2) | 334,919 | 1,360,818 |
| Total debt (1)+(2) | 1,804,996 | 1,887,284 |

- (d) Please provide the AC's views on how the Company's internal controls over the internal controls systems surrounding the financial results are adequate and effective noting the significant re-statements in the amount reported in the Group's borrowing and debt securities in its FY2018 Results.

Company's Response

- (a) The amount RMB1,773,708 mentioned in (a) and (b) above should be RMB1,773,708,000 instead.

RMB1,773,708,000 is the figure before restatement. Before restatement, certain personal loans were recorded under other payables. Upon the advice of the auditors, these were reclassified. Although RMB 180 million was repaid, we borrowed additional RMB 92.2 million from Binhai to meet our working capital needs. Together with other borrowings and repayments that amounted to further net repayment of approximately RMB 10 million, our borrowings decreased from RMB1,887,284,000 as at 31 December 2018 to RMB1,804,996,000 as at 31 December 2019.

- (b) Please see our response to (a).
- (c) Please see our response to (a).

- (d) The restatement was made by the Company's new auditor. The ex-auditor had agreed with the Company's original classification which had been consistent over the years. We accepted the new classification as we found it reasonable and for consistency with other reclassifications to the FY2018 accounts as well as not to have different classifications in the auditor's report and the Company's quarterly announcements.

The Board and the AC are of the opinion that the Internal Controls are adequate and effective in relation to the financial results based on:

- (i) the Internal Controls policies established and maintained by the Company;
- (ii) reports issued by the internal auditors and external auditors (for previous years); and
- (iii) regular reviews performed by the management of the Company, and regular reviews undertaken by AC and the Board.

SGX-ST's Query 5

Response to SGX-ST's Query 5 (as set out in the Previous Announcement) relating to the breakdown of Trade and other receivables of RMB584,363,000

- a) The Company disclosed that "The amount due from Sheng Yu (BVI) Limited ("Sheng Yu") of RMB212.5 million is related to the disposal of Infinity Real Estate Holdings Pte. Ltd. and Foshan Sanshui Fangao Land Co., Ltd. (for details, please refer to the announcement dated 8 November 2016). As Sheng Yu is required to pay a penalty for delayed development and as the Land and Resources Bureau has not yet determined the final penalties, they have withheld the last payment as guarantee monies because the contracted amount included delay penalties to be paid by us. The Company has negotiated with the Land and Resources Bureau and have preliminary reached a consent of penalties of approximately RMB 5 million."
- (i) Given that the penalties only amount to approximately RMB5 million, please explain why Sheng Yu was allowed to withhold the large sum of RMB212.5 million for a long period of time since 2016;
 - (ii) Disclose the reason for the delay penalty payable by Debao. What are the relevant dates in relation to the delay;
 - (iii) What are the safeguards put in place to ensure that Sheng Yu has sufficient funds to repay the Company the debt of RMB212.5 million; and
 - (iv) Provide background details of the principal activities of Sheng Yu, the size and financial position of Sheng Yu, its reputation and track record in the industry and disclose whether it is currently involved in any legal suits. If so, please provide details.

Company's Response

- (i) The withholding is pending negotiations with the Land and Resources Bureau.
- (ii) As stated, the penalty was for the delay in development for a few years due to market environment.
- (iii) Sheng Yu owns the land in Sanshui which has a value.

- (iv) As disclosed on page 12 of the Company's circular dated 11 January 2017, Sheng Yu was incorporated on 6 March 2007 in the British Virgin Islands as an investment holding company. It is part of the Evergrande Group headquartered in Guangzhou, which is in the business of real estate, finance, health, tourism, culture and sports. As at the Latest Practicable Date of 5 January 2017, Sheng Yu has an issued and paid-up share capital of US\$50,000 comprising 50,000 ordinary shares. No further public information is available.

SGX-ST's Query 5 (con't)

- b) The Company disclosed Prepayments amounting to RMB77.2 million. However, we note the cost of sales for the full year of FY2019 amounted to RMB52,234,000 which is less than the amount of prepayments of RMB77.2 million as at 31 December 2019.
- (i) Please explain how and why Prepayments as at 31 December 2019 heavily outweighed FY2019 Cost of Sales; and
- (ii) Please provide a breakdown of the Prepayments amounting to RMB77.2 million and identify the nature of each of the material prepayments.

Company's Response

- (i) Prepayment does not necessarily relate to cost of sales. Cost of sales is related to works that can be recognised as revenue. Prepayments relate to services not yet rendered or completed. During construction work, contractors are required to pay deposits to the local government bureau. Smaller contractors usually provide more competitive pricing but the drawback is that they may require us to pay these government deposits. Also, in order to lower costs, many contractors require us to make partial payments before their work is completed and verified. Contractors price quote usually take into account the prepayments we make. These prepayments will be used to offset their work done. Prepayment does not necessarily have any relationship with current year cost of sales, especially in the property development industry where the production cycle usually spans for more than one year. Cost of sales is related to sales or in other words, cost of sale is the cost we put in to earn the revenue. Prepayment mainly relates to the future development cost. When the work is completed and we generate income from selling these works, then we will have cost of sales.
- (ii) Prepayments were made to our suppliers of building materials and equipment in the ordinary course of business.

SGX-ST's Query 5 (con't)

- c) The Company disclosed that "Receivables from Global Ace Enterprise Limited [of RMB72.4 million] was originally intended to be used in a joint bid for a land development project. However, the bid was unsuccessful and after negotiations with Global Ace Enterprise Limited, the amount is to be returned to us by September 2020 with an interest of 3.1% p.a."
- (i) Please explain why Global Ace Enterprise Limited is allowed such a long period to return RMB72.4 million;
- (ii) Disclose when the amount of RMB72.4 million was remitted to Global Ace Enterprise and whether the AC is aware of the payments and whether this was approved by the Board;
- (iii) Provide details of Global Ace Enterprise Limited including its size, date of incorporation, its principal activities and track record, its financial standing and whether it would be able to make the repayment of RMB72.4 million; and

- (iv) Please provide the corporate profile of Global Ace Enterprise Limited, including information such as beneficial ownership and share capital. Also confirm if there are any relationships (including business relationships) between Global Ace Enterprise Limited, its directors and substantial shareholder(s) and the Debao Group, its directors and substantial shareholders and their respective associates.

Company's Response

- (i) The funds were kept by Global Ace Enterprise Limited ("Global Ace") pending other potential projects.
- (ii) The amount was remitted under several partial payments from December 2015 to February 2016. The agreement with Global Ace is in the ordinary course of business and the amounts due from Global Ace is part of debtors aging report.
- (iii) Global Ace was incorporated on 10 October 2008 solely for the co-operation with us. No further public information is available.
- (iv) Please see response (iii) above. Save as disclosed, there are no relationships (including business relationships) between Global Ace, its directors and substantial shareholder(s) and our Group, its directors and substantial shareholders and their respective associates.

SGX-ST's Query 6

Response to SGX-ST's Query 9 (as set out in the Previous Announcement) in relation to Project Updates

The disclosed aggregate value of Project Imbi, Project Kuchai Lama, Tianjin Boulevard and Bay One is RMB786.2 million. However, "Development properties" as at 31.12.2019 in the Statement of Financial Position amounts to RMB1,037,408,000. Please explain the variance, and provide the status of construction for the remaining RMB251 million worth of Development Properties.

Company's Response

The adjustments made by auditors in capitalizing the interests on Project Imbi amounting to RMB251.2 million was erroneously left out. Thus, the revised value of all projects under development properties should be as follows:

| | |
|--|----------------|
| <i>Value of projects (RMB million)</i> | FY2019 |
| Project Imbi ("The Landmark") | 672.7 |
| Project Kuchai Lama | - |
| Tianjin Boulevard | 141.6 |
| Bay One | 223.1 |
| | <u>1,037.4</u> |

SGX-ST's Query 7

Response to SGX-ST's Query 10 (as set out in the Previous Announcement) on accumulated pre-sales

The Company disclosed in Query 10 response that the accumulated sales/pre-sales status of projects as at 31 December 2019 for Project Imbi amounted to RMB421.5 million. The value of Project Imbi disclosed in the response to Query 9 amounted to RMB421.5 million. However, take-up rate was disclosed as only 1.5% in the response to Query 9. Please reconcile this take-up rate of only 1.5% with the value of accumulated pre-sales, which is equivalent to the value of the whole Project Imbi.

Company's Response

According to our 4Q2019 results announcement, the accumulated pre-sales for Project Imbi is RMB 69.4 million, not RMB 421.5 million.

Take up rate was calculated based on the area sold over the total area available for sale rather than the accumulated pre-sale value over the project cost as suggested. Using accumulated pre-sale value over the project cost as suggested is meaningless as it represents using cost plus profit margin over cost, which is not comparable fundamentally.

SGX-ST's Query 8

Response to SGX-ST's Query 11 (as set out in the Previous Announcement) on going concern noting negative working capital of RMB811,932,000, losses incurred by the Company and negative cash used in operating activities of RMB101,661,000

The Board confirmed that Debao will be able to operate as a going concern as the Board is of the view that "With the sales of Bay One and the increase in rental income from the completed constructions of Tianjin Boulevard buildings, the Group is expected to get additional cash inflow of approximately RMB 320 million in FY2020. From Sheng Yu, we expected to collect approximately RMB 100 million in FY2020. Also, with the completion of sales in Profit Consortium, the Group is expected to receive additional RMB 120 million in FY2020." Please provide the following:

- (a) How the collection of RMB540million (being the aggregate of RMB 320 million, RMB 100 million and RMB 120 million) will be sufficient for the Company to be able to operate as a going concern noting its negative working capital of RMB811.9 million due within one year. Please robustly provide the Board's justification and substantiate with details how the Company will be able to meet its short term obligations as and when they fall due. We draw your attention to Listing Rule 1303(3) which states, inter alia, "The Exchange may at any time suspend trading of the listed securities of an issuer... Where the issuer is unable to continue as a going concern or unable to demonstrate to the Exchange and its shareholders that it is able to do so...". Kindly comply accordingly.

Company's Response

- (a) Debao Property Development (HK) Limited is currently negotiating with China Huarong to rollover the loan amounting to USD 150 million (approximately RMB1 billion). This will provide relief on our repayment pressures. Current liabilities will then decrease to approximately RMB 200 million. The inflow of RMB 540 million is adequate to cover our yearly operation and development needs as development cost input will maintain at a similar level as in the past year. Hence, cash flow will be less than RMB 300 million.

The Board confirms that the Company is able to operate as a going concern. The Board's confirmation is provided based on:

- (i) after meeting all the current liabilities in the coming year, the Company will have net positive cashflows, the availability of credit facilities and future positive cashflows from the sale of properties, the Group will be able to meet its obligations as and when they fall due;
- (ii) the capital structure of the Group consists of equity and bank borrowings. The Group is dependent on credit facilities committed by banks and related parties and the availability of future cash flows from the Group's operations; and
- (iii) the disposal of non-performing assets to lower the costs and reduce borrowings.

By Order of the Board

Zhong Yuzhao
Executive Director and Chief Executive Officer
14 May 2020