

**PAN HONG HOLDINGS GROUP LIMITED**

(Incorporated in Bermuda)  
(Registration Number: 37749)



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**RESPONSES TO QUESTIONS FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE)  
ON THE COMPANY'S ANNUAL REPORT FOR FINANCIAL YEAR ENDED 31 MARCH 2022**

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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 Securities Investors Association (Singapore) (“**SIAS**”) in relation to the Company’s annual report for the financial year ended 31 March 2022 (“**Annual Report 2022**”).

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

Q1. In his statement to shareholders, the chairman gave a market review of the real estate sector in China which included the following observations:

- Tightened regulatory and control measures under the national policy
- Introduction of deleveraging requirements, mortgage concentration management and concentrated land supply auctions
- Decline in market confidence as well as property prices
- Financial uncertainty over some large highly leveraged property developers
- Investment appetite of potential property buyers expected to remain weak in the short to medium term

(i) **Shanwei Project: When will the group be launching its flagship development that is in Guangdong Province? Does management anticipate that the secular demand for real estate will be dampened given the national policies? What is the targeted range of average selling price for the Shanwei Project?**

[Company’s response to Q1\(i\)](#)

The Shanwei Project is currently in the planning stage and the launching date (for pre-sale) is yet to be fixed.

Despite the weakened investment appetite of potential property buyers in the short to medium term, the local government of Shanwei City had introduced various stimulating policies in June 2022 to moderate the market trend, including lowering the minimum down payment ratio for first-time property buyers to 25%, encouraging timely release of mortgage loans by the banks and allowing the property buyers (with their spouses) to utilise their housing provident funds (住房公积金) to settle the down payments. Therefore, the management is of the view that there are signs of improvement from the real estate policy perspective.

The current selling prices of other property projects located near Shanwei Project ranged from RMB8,000 to RMB10,000 per sq.m. The management expects a slight increment of selling prices when the Shanwei Project is launched.

- (ii) **Run Ze Yuan (润泽园): The project is expected to be completed in the third quarter of 2023. With just 3% in pre-sold units amounting to RMB26.3 million, is this sales rate in line with past projects and management's expectations?**

[Company's response to Q1\(ii\)](#)

The weak pre-sale performance of Run Ze Yuan Project was mainly due to the macro-factors mentioned in the Chairman's Statement to shareholders.

To boost the pre-sale of Run Ze Yuan Project while maintaining certain profit margin, the Group had 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. Slight improvement of pre-sale numbers and advance receipts were observed as at the date of this announcement.

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 buying properties in the district. The Group will participate in the scheme and foresees that this scheme would serve as an incentive for the recovery of investment appetite of potential property buyers.

- (iii) **Run Hong Yuan (润泓园): How will the launch/pre-sale of Run Hong Yuan be adjusted given the latest developments in the real estate sector? In addition, the group would be required to own 35% of the gross floor area in the project, for a period of 8 years post-completion. What are management's plans for these units?**

[Company's response to Q1\(iii\)](#)

Run Hong Yuan Project is scheduled to be launched for pre-sale in the fourth quarter of 2022.

All property units (when completed) of Run Hong Yuan Project will be primarily positioned as properties held for sale.

For the units subject to self-ownership period as required in the land grant contract<sup>1</sup>, the management is considering options of leasing out or sale of right of use. The management plans to sell these units after the expiration of the self-ownership period.

<sup>1</sup> Details of the acquisition of the land parcel can be referred to the Company's announcement dated 19 June 2019.

- (iv) **Has the construction progress been affected by lockdowns, manpower constraints or supply chain disruption?**

[Company's response to Q1\(iv\)](#)

The Group did not notice any significant impact on construction progress as there was no large-scale pandemic outbreak in the respective project locations.

- Q2. As noted in the consolidated statement of cash flows (pages 66 and 67), the group used net cash of RMB693 million in its operating activities. It generated net cash of RMB18.8 million from investing activities, from the sale of property, plant and equipment. With new borrowings amounting to RMB295 million and advance from related parties amounting to RMB86 million, the group generated RMB330 million from financing activities.

Cash and cash equivalents decreased to RMB24.5 million from RMB369 million a year ago.

Even as the group's net assets grew significantly over the past 5 years, the cash and bank balances fell to RMB28.1 million and net gearing jumped to 30%. In fact, the company obtained

cash advance of RMB78 million from the associate of a controlling shareholder of the company to part-finance the acquisition of the land use rights.

- (i) **Would the board/management help shareholders better understand the group's capital management framework, especially with regard to the group's cash holdings and net gearing?**
- (ii) **Given the weak market sentiment in the Chinese real estate sector and the widely expected monetary tightening by regulators, has the board identified the risks to the group to leverage up at this point? How will the group be hedging/mitigating the risks?**

[Company's response to Q2\(i\) and \(ii\)](#)

The Group's objective is to ensure that there are adequate funds to meet commitments associated with its financial liabilities. Cash flows are closely monitored on an ongoing basis. The Group will raise funds from the realisation of its assets and/or external financing if required.

The Group has been operating under a low gearing level in its history. However, as a result of the macro-factors mentioned in the Chairman's Statement to shareholders, the Group's pre-sale and the pace of cash inflows were inevitably affected. In order to fund the development of the ongoing projects, the Group had sought external debt financing.

Despite the borrowings raised, the Group is still closely monitoring and controlling its gearing level. As at 31 March 2022, the Group's gearing ratio was 29.6% and the Board is of the view that it is at a safe level which is lower than the industry average.

As mentioned in the Company's response to Q1(ii), in light of the current situation, the Group has taken necessary measures to stimulate the pre-sale and cash inflows of its launched project, in order to reduce the pressure of further increasing its gearing level.

- (iii) **Is the Shanwei Project too big for the company at this stage of its growth? Does the group have the working capital to fund the development given that it relied on advances from the associate of a controlling shareholder to finance the land acquisition?**

[Company's response to Q2\(iii\)](#)

The Group is considering developing the Shanwei Project in phases to reduce the pressure on working capital and allow sufficient time for the market to digest the pre-sale volume.

As the Shanwei Project is expected to be launched after 2022, the Group is considering using a mixture of self-owned capital, external financing and pre-sale proceeds (by the time of launching) to finance the development.

As shown in Note 21 (page 102 of the Annual Report 2022; Prepayments and other receivables), the Group's prepayments had increased to RMB802 million mainly due to the successful bid for the land use right of a land located in Shanwei City, Guangdong Province.

- (iv) **The group made the successful bid on 30 April 2021. Is the group facing delays in obtaining the land use rights certificates from the local government?**

[Company's response to Q2\(iv\)](#)

The Group has submitted the required legal documents to apply for the land use rights certificates before 31 March 2022. The Group was subsequently notified by the local government in April 2022 that the local government needs to occupy part of the land parcel temporarily to complete an urban road work. The Group is currently following up on the work progress with the local government and expects to obtain the land use right certificates by the second half of 2022.

- (v) In addition, the group has made advances to contractors for the purchase of construction materials amounting to RMB61.6 million as at 31 March 2022 (FY2021: RMB60.4 million; FY2020: RMB30.7 million). Are there any long outstanding unfulfilled orders? What is the average length of time from prepayment to receipt of the construction materials?

[Company's response to Q2\(v\)](#)

The amount mainly represents the prepaid construction fees made to the contractors who are responsible for the procurement of construction materials and provision of construction work. Such prepayments would be transferred to properties under development in the consolidated statement of financial position according to the construction progress. There was no long-aging prepayment in this regard.

- Q3. The board comprises five directors, with three non-executive directors who are also deemed independent directors. All three were appointed on 14 August 2006. As such, the directors have each served for nearly 16 years. The directors had obtained shareholders' approval via a two-tier voting process to continue as independent directors at the AGM held on 28 July 2021.

The directors are:

- Mr. Sim Wee Leong (also lead independent director)
- Dr. Zheng Haibin
- Dr. Choo Kian Koon

On 30 November 2021, Mr Tan Boon Gin, chief executive of Singapore Exchange Regulation (SGX RegCo), gave guidance that companies are expected to use the two-tier rule sparingly to remote renewal and succession planning<sup>2</sup>. In the report on corporate governance, the company acknowledged that it is expected to use the two-tiered voting sparingly (page 29) and the board has the intention to make changes to the composition of the board, which includes the progressive renewal of the independent directors in the near future.

<sup>2</sup> <https://www.businesstimes.com.sg/companies-markets/answer-my-question-before-i-vote-sgx-regcosets-new-timelines-for-companies-to>

- (i) **For shareholders' benefit, what is the search and nomination process for new directors, especially independent directors? Will the nominating committee be using a third-party search firm and/or professional body to cast its net wider for potential candidates?**

[Company's response to Q3\(i\)](#)

The search and nomination process for new directors is as follows:

- The NC evaluates the balance of skills, knowledge and experience of the existing Board and the requirements of the Group, taking into consideration the requirements in the Board Diversity Policy. Following such evaluation, the NC determines the role and the key attributes that an incoming Director should have.
- After endorsement by the Board of the key attributes, the NC taps on resources such as Directors' personal contacts and recommendations for potential candidates and goes through a short-listing process. If candidates identified from this process are not suitable, executive recruitment agencies will be appointed in the search process.
- The NC meets with the shortlisted candidate(s) to assess suitability and to ensure that the candidate(s) is/are aware of the expectations and the level of commitment required.
- The NC recommends the most suitable candidate to the Board for appointment as Director.

- (ii) **Are there any challenges faced by the board in identifying and onboarding of new board members?**

[Company's response to Q3\(ii\)](#)

As stated in the Annual Report 2022, the NC and the Board intend to make changes to the composition of Board, which includes the progressive renewal of Independent Directors in the near future. The Company is in the midst of searching for and shortlisting the potential candidates, and has yet to face any challenges in identifying and onboarding new Board members.

- (iii) **What is the progress made by the board in identifying new candidates to the board as directors? When will the new independent directors be appointed?**

[Company's response to Q3\(iii\)](#)

The Board had held several formal and informal discussions about the succession plan of the independent directors and intend to adopt a progressive renewal approach to ensure continuity and a smooth transition.

The Board is still in the midst of assessing the suitability of potential candidates before it goes through the short-listing process in due course. The Company will make the relevant announcement(s) on the re-constitution of the Board and the Board committees in due course.

**By Order of the Board**

Wong Sum  
Executive Chairman

27 July 2022