



RESPONSE TO SGX QUERY ON FINANCIAL RESULTS FOR THE SECOND QUARTER ENDED 30 JUNE 2017

The Board of Directors of China International Holdings Limited (the “**Company**”), and together with its subsidiaries (the “**Group**”) refers to the Company’s financial results for the second quarter ended 30 June 2017 (“**Q2 FY2017 Results**”) released to Singapore Exchange Securities Trading Limited (“**SGX-ST**”) on 11 August 2017. The Company would like to provide the following additional information in reply to the queries raised by SGX-ST on 21 August 2017:-

SGX Query 1

Other operating expenses in Q2 2017 increased RMB7.07 million as compared to RMB0.39 million recorded in Q2 2016. The Company explained that “[this increase was primarily due to a reversal of a loss incurred as guarantor amounting to RMB4.93 million in Q2 2016. The reversal of the loss incurred was made after the Group was discharged from its liabilities following a settlement reached between the Yichang Project Company and the defaulted buyer, and the subsequent revocation of the sale and purchase agreement between the said company and the defaulted buyer”. Please provide the following information:

- (i) Elaborate why the reversal of loss when the Group was discharged from its liabilities is recognized as an expense instead of an income;
- (ii) In respect of the discharge of liabilities, please disclose who discharged the liabilities of the Group. Please provide details of this former creditor and how it is involved in the sales and purchase transaction of the Group;
- (iii) Details of the sale and purchase agreement with the defaulted buyer, the type and number of units to be acquired, the reason for the revocation of the sale and purchase with the defaulted buyer, when the sales and purchase agreement was entered into, whether the defaulted buyer has any association or relationship with the Company’s directors, substantial shareholders, key management or their respective associates;
- (iv) Disclose the terms of the settlement which resulted in the Group recognizing and expense of RMB4.93 million losses; and
- (v) Breakdown of the remaining balance of RMB2.14 million in Other Operating Expenses and elaborate on the nature and how these other expenses arose.

Company’s Response

- (i) The Company recognised the reversal of a loss as a guarantor in other operating expenses in Q2 2016, because the related expense was previously recognised in other operating expenses.

(ii) - (iv) Yichang Xinshougang Property Development Company Limited (“YPDC”), a former subsidiary of the Group, provides guarantees to the local government housing funds and certain financial institutions in connection with the buyers’ borrowing of mortgage loans to finance their purchase of the properties.

In financial year 2014, a financial institution filed a court case against YPDC (“the Guarantor”) for a mortgage loan of a defaulted buyer (“the Borrower”). Based on the verdict given, YPDC was obliged to repay the financial institution (“the Lender”) an estimated amount of RMB4.93 million.

After been discharged from paying off the said mortgage loan to the Lender, the Guarantor had recover losses from the Borrower based on its subrogation rights. The defaulting party, the Borrower in this case agreed to cancel the sale and purchase transaction. The sale and purchase agreement was nullified and the property returned to the Company.

None of the directors, substantial shareholders, key management or their respective associated parties has any interest, direct or indirect, in the defaulted buyer.

(v) A breakdown of Other Operating Expenses is as follow:

	3 months ended		
	30.06.2017	30.06.2016	Increase
	RMB'000'	RMB'000'	%
Property management expenses	700	122	474
Legal and professional expenses	876	92	852
Stamp duties and other taxes	713	204	250
Loss / (reversal of loss) as guarantor	36	(4,933)	101
Others ^(N)	5,141	4,908	5
	<u>7,466</u>	<u>393</u>	<u>1,800</u>

(N): Others expenses are made up of staff costs, staff related expenses and other operating expenses incurred in the PRC subsidiaries.

Property management expenses increased from RMB0.122 million in 2016Q2 to RMB0.70 million in 2017Q2 mainly due to higher unit deliveries in 2017Q2 in YPDC. This also resulted in more services and fees occurred on the completed and unsold units.

Legal and professional expenses increased from RMB0.092 million in 2016Q2 to RMB0.876 million in 2017Q2 mainly due to the legal and professional expenses incurred in respect of disposal of KYWJ Group.

Stamp duties and other taxes increased from RMB0.204 million in 2016Q2 to RMB0.713 million in 2017Q2. This was mainly due to the asset acquisition by CIHL (Tianjin) Water Development Limited.

SGX Query 2

Share of profit of associated companies amounted to RMB5.2 million. In the Exchange’s letter of 9 June 2017, SGX had informed the Company that notwithstanding the Disposal of 5% interest in KYWJ Group which will reduce its interest in the subsidiary to a significant associated company, the Exchange expects the Company to provide full and detailed disclosures on the operations and performance of the KYWJ Group, including impairments and write-offs as well as prospects of this significant associated company. The Exchange had noted that KYWJ Group is a significant operation

of the Company in which the Company has a very significant investment. As required, please provide:

(i) Full and detailed disclosure of the significant factors that affected turnover, costs and earnings of the KYWJ Group for the current financial period reported on, including impairments and write-offs;

(ii) a review of the performance of the KYWJ Group to the extent necessary for a reasonable understanding of the business of the KYWJ Group, including take-up rates, price trends of sales of the various phases of the project, the status of development of the project and any material issues faced by the project;

(iii) Any material factors that affected the cash flow, working capital, assets or liabilities of the KYWJ Group during the current financial period reported on; and

(iv) A commentary of the significant trends and competitive conditions in which the KYWJ Group operates and disclose any known factors or events that may affect the KYWJ Group in the next reporting period and the next 12 months.

Company's Response

(i) The Company recognised its share of profit of RMB5.21 million in respect of the KYWJ Group instead of consolidating its turnover and costs from 01 June 2017 to 30 June 2017. Details of the significant factors relating to the KYWJ Group are as follow:

	Consolidated period		Not consolidated period	Full period	
	Q2 (2 months) 31.05.2017 RMB'000	1H (5 months) 31.05.2017 RMB'000	1 month 30.06.2017 RMB'000	Q2 (3 months) 30.06.2017 RMB'000	1H (6 months) 30.06.2017 RMB'000
Revenue	370,204	392,438	21,683	391,887	414,121
Cost of sales and services provided	(366,653)	(391,026)	(13,361)	(380,014)	(404,387)
Gross profit	3,551	1,412	8,322	11,873	9,734
Other income - net	1,600	1,737	16	1,616	1,753
Expenses					
-Other operating	(2,442)	(4,649)	2,109	(333)	(2,540)
-Selling and marketing	(1,313)	(3,340)	(28)	(1,341)	(3,368)
Profit before income tax	1,396	(4,840)	10,419	11,815	5,579
Income tax credit	8,537	7,734	8	8,545	7,742
Profit for the financial period	9,933	2,894	10,427	20,360	13,321
Share of profit attributable to the Company			5,214		

(ii) As at 30 June 2017, the take-up rates for Phase 2, Phase 1-area 1, Phase 1-area 2, and Phase 1-area 3 of the Yichang Project are 74.43%, 81.97%, 52.70% and 90.63% respectively.

Project is being developed in phases	Remaining sales area (%)	Commencement date	Status (percentage of completion)
Phase 1 area 1	18.03	2010	100%
Phase 1 area 2	47.3	2015	100%
Phase 1 area 3	9.37	2010	100%
Phase 2	25.57	2015	90%
	Construction yet to commence		
Phase 3 and Phase 4	Construction yet to commence	N.A	N.A
	Construction yet to commence		
Hotel	Construction yet to commence	N.A	N.A

The Company is not aware of any technical issues which may have rendered delays to the Yichang Project. The Company is also not aware of any technical issues which may have led to low take-up rates for the Yichang Project.

(iii - iv) The Company has on 28 March 2017 announced that YPDC had received a Notice of Court from the Yichang City Intermediate Court on 24 March 2017 to attend a court hearing in respect of a claim initiated by Yiling District Urban Infrastructure Investment Company ("Legal Suit"). The legal suit is under mediation process supervised by the Court between the two parties. The suit has adversely affected the property sales during the second quarter to some extent and is expected to impact on the sales in the third quarter of 2017. At this stage, the Company does not expect the overall impact on the sales during the whole year to be material. And save as disclosed, the Company is not aware of other material factors that can affect the cash flow, working capital, assets or liabilities of the KYWJ Group during the current financial period, the next reporting period or the next 12 months.

SGX Query 3

The Company disclosed in a table on page 14 that the following items reduced primarily due to the reclassification of investment in KYWJ Group. Excluding the effect of the reclassification of the KYWJ Group, please provide more information on the following:

(i) Property, plant and equipment increased by RMB 19.2 million. To provide a breakdown, the details and the reasons for the increase;

(ii) Property for development decreased from RMB895.7 million to NIL. Please disclose why Yichang Project Company does not have any property for development notwithstanding its contribution to the Company's Revenue of RMB400.77 million in Q2 FY2017. Please disclose where the properties held by Yichang Project Company are reported in the Company's Statement of Financial Position; and

(iii) Other payables increased by RMB 66.471 million. To provide details of these other payables and the underlying contracts which resulted in these payables.

Company's Response

(i) A breakdown of property, plant and equipment is as follows:

	31.12.2016			30.06.2017	(Decrease)/increase
	Including KYWJ Group	KYWJ Group	Excluding KYWJ Group		
	RMB'000'	RMB'000'	RMB'000'	RMB'000'	RMB'000'
Property, plant and equipment	108,303	(8,100)	100,203	96,326	(3,877)
Construction in progress	148,000	(148,000)	-	23,100	23,100
	256,303	(156,100)	100,203	119,426	19,233

The increase of property, plant and equipment of RMB19.23 million is mainly due to the increase of construction costs of pipelines in CIHL (Tianjin) Water Development Company Limited.

(ii) On 1 June 2017, the Company completed the disposal of its 5% equity interest in KYWJ Group. Following the disposal, KYWJ Group ceased to be subsidiaries and instead became associated companies of the Company. And as a result its assets and liabilities were no longer consolidated in the consolidated balance sheet of the Group.

The Company recorded Revenue of RMB400.77 million in Q2 FY2017, which was contributed by the KYWJ Group from 01 April 2017 to 30 May 2017, the Company recorded Investment in associates of RMB100.29 million as at 30 June 2017 instead of consolidating assets (including properties) and liabilities held by Yichang Project Company in the Company's Statement of Financial Position.

(iii) A breakdown of the "Trade and other payables", excluding the effects of the reclassification of the KYWJ Group on 30 June 2017 and 31 December 2016 is set out below:

	30.06.2017	31.12.2016
	RMB'000	RMB'000
Trade payables	26,101	13,284
Gross amounts due to customers for contract work ⁽¹⁾	5,839	3,777
Accruals ⁽²⁾	16,328	14,683
Other payables		
- Non-related parties ⁽³⁾	189	456
- Non-controlling shareholders of subsidiaries ⁽⁴⁾	38,011	38,011
- Due to associated companies	1,992	-
Receipt in advance from ⁽⁵⁾		
- Supply of gray water	9,797	9,485
- Construction of water pipeline	60,960	53,050
Dividend payable to a non-controlling shareholder	40,000	-
Total	199,217	132,746

(1) Gross amounts due to customers for contract work which included receipts in advance for contract work, which the Company will schedule to complete on time;

(2) Accruals include value added tax payables and accrued interest expenses;

(3) Other payables to non-related parties include refundable deposits received from rental lessee;

(4) Other payables to non-controlling shareholders include payables to a non-controlling shareholder, the shareholders' loan is repayable on demand;

(5) Receipt in advance comprised largely of advances from construction of water supply systems. Construction of water supply systems are recognised as revenue in the financial statements when they meet the Group's revenue recognition policy on construction of water supply systems.

SGX Query 4

Trade and Other receivables increased from RMB93.83 million to RMB 432.5 million as at 30 Jun 2017. On page 14 of the Results, the Company attributed this to:

(i) RMB 75.26 million due from "Others". To provide details on the nature of these trade and other receivables, the underlying transactions from which these balances were incurred and reasons why these were not recorded in previous reporting periods; and

(ii) RMB 357.24 million due from KYWJ Group. To provide details on the aging schedule of these debts, reasons why KYWJ Group is owing so much to the Company, whether KYWJ Group is able to repay these debts to the Company and disclose the periods when will the debts be repaid in full; and

(iii) Whether the buyers of the properties sold by the KYWJ Group have made payments for their purchases. If so, why is the amount owing to the Company by the KYWJ Group so significant; and

(iv) Disclose the arrangements made by the Company to collect these debts.

Company's Response

(i) A breakdown of the due from "Others" on 30 June 2017 and 31 December 2016 are set out below:

	Ageing	30.06.2017 RMB'000	31.12.2016 RMB'000
Trade receivables	Less than 1 year	13,186	23,731
Gross amounts due from customers for contract work	Less than 1 year	18,916	17,604
Other receivables			
- Due from non-controlling shareholders ⁽¹⁾	Repayable on demand	99	10,125
- Non-related parties ⁽²⁾	Less than 1 year	9,549	14,864
- Prepayments ⁽³⁾	Less than 1 year	16,861	17,980
- Deposits ⁽⁴⁾	Less than 1 year	16,651	9,526
Total		75,262	93,830

(1) Receivables due from non-controlling shareholders of subsidiaries are unsecured, interest-free and repayable on demand.

(2) Other receivables from non-related parties include provident funds placed with government organisations.

(3) The prepayments include, *inter alia*, prepaid expenses for rental, land development projects, and construction material in relation to water pipe lines.

(4) Deposits include, *inter alia*, refundable security fund deposit, rental deposits and labour inspection deposits.

(ii) - (iv) Details of amounts due from KYWJ Group are as follow:

	Ageing	30.06.2017 RMB'000
Initial shareholder's loans ⁽¹⁾	Repayable on demand	121,192
Short term loan ⁽²⁾	Less than 1 year	236,052
Total		357,244

(1) The initial shareholder's loans due from KYWJ Group are unsecured, interest-free and repayable on demand. These are managed as a part of the capital invested in KYWJ Group by the Company.

(2) The short term loan due from KYWJ Group is unsecured, carries an annual interest rate of 8% and is repayable less than 1 year.

The short term loan was used to pay for construction costs of the Yichang Project, which was managed as operating capital before completion of the disposal of the 5% interest of KYWJ Group. With the completion of the said disposal, the KYWJ Group will repay the short term loan within a year.

SGX Query 5

Noting that Q2 FY2017 Revenue was reported solely from property sales by Yichang Project Company, please disclose the prospects of Yichang Project Company, its orderbooks, the take-up rates to-date of its properties, the status of development of its projects, the outlook for the sales of its projects. To provide a commentary of the significant trends of the sales of its properties and the competitive trends of its sales in the projects.

Company's Response

Please refer to the answer (ii) to query 2.

The company currently holds a 50% interest in Yichang Project Company. The other 50% interest is held by an established real estate developer in PRC, the HongKun Group. The development would be able to leverage on HongKun's substantial resources, and enjoy economies of scale in the planning, construction, and marketing of the remaining phases in the development of the Yichang Project.

**BY ORDER OF THE BOARD
CHINA INTERNATIONAL HOLDINGS LIMITED**

Shan Chang
Chairman
25 August 2017