



China International Holdings Limited
中翔國際集團有限公司
(Incorporated in Bermuda with limited liability)
(Bermuda Company Registration No. 23356)

ADDITIONAL INFORMATION TO THE UNAUDITED FULL YEAR FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

The Board of Directors of China International Holdings Limited (the “**Company**”), and together with its subsidiaries (the “**Group**”), refers to the Company’s full year results released to Singapore Exchange Securities Trading Limited (“**SGX-ST**”) on 1 March 2019. The Company would like to provide the following additional information in reply to the queries raised by SGX-ST on 13 March 2019:-

SGX Query 1

1. Please provide update on the outcome of discussion with relevant government agencies in Yichang City and Yiling District in relation to the claw back of grant where the Company has the rights to claim damage from CRTGL.

Company’s Response

The Company, through its associated company, Yichang Property Development Co., is still in discussion with the relevant government agencies in Yichang City and Yiling District in relation to the re-application of the award as stipulated in the original Cooperation Agreement and has therefore not served notice to CRTGL on the possible claim of damages in relation to the Settlement Agreement. The Company will provide an update when there are new developments in relation to the award and any claim of damages to CRTGL. Yichang XSG has resumed the construction of the exhibition centre and the hotel project, both of which were investment commitments made by Yichang XSG.

SGX Query 2

2. Please elaborate on the significant factors contributing to the Revenue of RMB89.7 million and Cost of sales of RMB38.7 million in FY2018.

Company’s Response

A breakdown of Revenue and Cost of sales in FY2018 is shown below:

	Revenue in FY2018 RMB’000	Cost of sales in FY2018 RMB’000
Water supply	34,911	(26,493)
Construction of water pipeline	54,770	(12,164)
	89,681	(38,657)

SGX Query 3

3. Please provide a breakdown of the Operating expense of RMB24.7 million against previous comparative period and provide reasons for the material items.

Company's Response

A breakdown of Other operating expenses in FY2018 and FY2017 is as follow:

	FY2018 RMB'000	FY2017 RMB'000	Increase %
Building management expenses ⁽¹⁾	319	47	578.7
Depreciation of property, plant and equipment ⁽²⁾	3,539	1,630	117.1
Office expense ⁽³⁾	2,572	1,115	130.7
Legal and professional expenses ⁽⁴⁾	2,984	282	958.2
Employee benefit expenses ⁽⁵⁾	9,741	7,827	24.5
Other expense ⁽⁶⁾	5,501	7,748	(29.0)
	<u>24,656</u>	<u>18,649</u>	32.2

(1), (2) and (3): Building management expenses, depreciation of property, plant and equipment and Office expense in FY2018 increased significantly as compared to FY2017 is mainly due to higher expenses in CIH (Tianjin) Water Development Limited following use of new office buildings.

(4): Legal and professional expenses in FY2018 increased significantly compared as in FY2017, after the Company paid professional service expenses in respect of the disposal of the Yichang project.

(5): Employee benefits expenses in FY2018 increased compared as in FY2017 as more manpower were required for the construction of the new project 新河再生水厂项目 ("Xinhe Water Project") in CIHL (Tianjin) Water Development Company Limited

(6): Other expenses include, *inter alia*, travelling motor vehicles expenses, entertainment and other operating expenses.

SGX Query 4

4. In relation to the dividend paid to a non-controlling shareholder:
- Please explain rationale for the dividend paid out to the non-controlling shareholder.
 - Please disclose the identity of the non-controlling shareholder.
 - Please disclose the amount paid out as dividends.
 - Please explain why there was no dividend paid for the other minority shareholders.

Company's Response

This refers to the dividend declared by the Company's 60% owned subsidiary, CIHL (Tianjin) Water Development Company Limited ("Tianjin Water") in the financial year ended 31 December 2017 amounting to RMB 100million. Based on the shareholding percentage, 60% of the dividend was paid to the Group, and 40% was paid to a non-controlling shareholder, the local Water Bureau. After the intergroup transaction was eliminated, the consolidated financial statements only reflected the dividend paid by Tianjin Water to the non-controlling shareholder of RMB 40 million.

SGX Query 5

5. Paragraph 12 of Appendix 7.2 of the Listing Manual requires an issuer to state the reasons if no dividend has been declared. Please disclose accordingly.

Company's Response

The Board does not recommend a final dividend for the FY2018 as the Group needs to set its resources to fund the investment in the Xinhe Water Project through Tianjin Water.

SGX Query 6

6. In relation to the significant associated company, KYWJ Group:
- Please disclose who the statutory auditors for the KYWJ Group are and whether the auditor met the requirements under Rule 715(2). To provide details to substantiate why the auditor is suitable.
 - Please disclose whether there was a disclaimer of audit opinion in FY2017 financial statements and when will the audit for FY2018 be completed.
 - Please provide a breakdown of the Revenue and Cost of sales against the corresponding reporting period and elaborate on the projects contributing to the significant difference in revenue for FY2018 against FY2017.
 - Please provide breakdown of Other operating expenses for FY2018 against FY2017 and explain reasons for 10.9% increase where Revenue has decreased by 73.5% for FY2018.
 - Please provide breakdown of Selling and marketing expenses for FY2018 against FY2017 and explain reasons for a significant 100.2% increase where Revenue has decreased by 73.5% for FY2018. Who were the expenses paid to and what formed the basis for the payments made to them?
 - Please provide segmental breakdown of the results of KYWJ Group.
 - It was disclosed on 26 November 2018 that an amount of RMB639 million was owed by controlling shareholder Beijing Hongkunweiye Property Co. Ltd. Please explain if the amount has been repaid, in what form and when was the payment received?
 - Please provide breakdown of Trade and other receivables as at 31 December 2018 against corresponding reporting period, identify the major debtors and explain the reasons for material items and nature of the transactions which resulted in the significant balance of RMB61.4 million as at 31 December 2018 where Revenue had decreased by 73.5% to RMB131.1 million.
 - Please disclose if any of the debtors are related to the Company's substantial shareholders, directors, key management and/or their respective associates.
 - Please provide breakdown of Trade and other payables as at 31 December 2018 against corresponding reporting period and explain for the significant items which contributed to the 38.4% increase at RMB934.3 million as at 31 December 2018.

Company's Response

- a. The KYWJ Group did not appoint a statutory auditor in FY2018 as this was not required under the local regulations. However, Hong Kun Group, which holds 50% equity interest and being the holding company of KYWJ Group had appointed Ruihua Certified Public Accountants ("Ruihua 瑞华") (part of Crowe Global network) as the statutory auditor of the Hong Kun Group. Ruihua is a large professional and international accounting firm with a history of more than 20 years. It is a limited partnership employing more than 2,500 certified accountants and is a registered body of PCAOB of the United States. Its business covers the fields of stock issuance and listing, corporate restructuring, corporate restructuring, capital operation, financial consulting, management consulting and tax consulting.

As an associated company of the CIH Group, the audit procedures were designed per the requirements of ISA600 Special Consideration – Audit of Group Financial Statements (Including the work of component auditors) and performed by Shanghai Nexia TS Certified Public Accountants - 上海尼夏腾欣会计师事务所 (“Shanghai Nexia”) for group consolidation purposes. Shanghai Nexia is part of Nexia International. The Board, as well as the Audit and Risk Committees are of the view that Shanghai Nexia is a suitable firm taking into consideration Shanghai Nexia is a member of Nexia International (same as the Group’s Auditors - Nexia TS Public Accounting Corporation) and its profile, size, experience and past track record. Moreover, the work performed by Shanghai Nexia will be reviewed and cleared by our Group’s Auditors, Nexia TS Public Accounting Corporation, as part of their audit of the Group.

b. An unqualified audit opinion was issued for the FY2017 financial statements and audit work of Hong Kun Group for FY2018 is expected to be completed in about one month.

c. A breakdown of Revenue and Cost of sales for FY2018 and FY2017 is followed:

	FY2018			FY2017			Increase / (decrease)		
	Revenue (net)	Cost of sales	Gross profit	Revenue (net)	Cost of sales	Gross profit / (loss)	Revenue (net)	Cost of sales	Gross profit
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000			
Phase 1-1	37,868	(34,826)	3,042	4,586	(4,398)	188	725.7%	691.9%	1,518.1%
Phase 1-2	77,762	(75,586)	2,176	72,293	(69,471)	2,822	7.6%	8.8%	(22.9%)
Phase 1-3	506	(321)	185	-	-	-	NM	NM	NM
Phase 2-1 and Phase 2-2	15,004	3,270	18,274	416,485	(391,767)	24,718	(96.4%)	(100.8%)	(26.1%)
Revenue on property management	-	-	-	781	(1,203)	(422)	(100.0%)	(100.0)	(100.0%)
	131,140	(107,463)	23,677	494,145	(466,839)	27,306	(73.5%)	(77.0%)	(13.3%)

NM: Not meaningful.

Revenue in FY2018 for the KYWJ Group decreased RMB363 million or 73.5% compared to last year. The decrease was mainly attributed by the decrease in sales of Phase 2. In FY2017, revenue are mainly contributed by the completion and handover of Phase 2-1 and Phase 2-2 to the buyers, whereas in FY2018 the remaining phases were still in development. In FY2018, revenue was only contributed by the sales of remaining completed units from Phases 1-1, 1-2, 2-1 and 2-2. Accordingly, the decrease in cost of sales is in proportion with the decrease in revenue.

d. A breakdown of Other operating expenses in FY2018 and FY2017 is as follow:

	FY2018 RMB'000	FY2017 RMB'000	Increase/ (Decrease)
Employee benefit expense ⁽¹⁾	(1,558)	(6,913)	(122.5%)
Brand fee ⁽²⁾	(5,896)	-	NM
Other expense ⁽³⁾	(3,445)	(2,916)	18.1%
	(10,899)	(9,829)	10.9%

(1): Employee benefits expenses in FY2018 decreased compared as in FY2017, mainly due to the payment of severance expenses in relation to the change in operating company of KYWJ Group.

(2): Brand fee expenses in FY2018 is in relation to charges levied by the operating company for use of the “Hong Kun” brand name.

(3): Other expenses include, *inter alia*, building management expenses, travelling expenses and entertainment.

The increase in other operating expenses has no direct relation to revenue.

e. A breakdown of selling and marketing expenses of the KYWJ Group is as follow:

	FY2018 RMB'000	FY2017 RMB'000	Increase / (decrease) %
Advertising expense	11,806	5,080	132.4
Staff costs - salaries	3,603	1,005	258.5
Marketing activity expense	4,201	2,796	50.3
Others	1,556	1,689	(7.9)
	<u>21,166</u>	<u>10,570</u>	100.2

The significant increase in sales and marketing expenses was attributed to greater advertising and marketing activity as the new operating company, Hong Kun, focused more on advertising and marketing to attract new buyers. A different sales strategy adopted led to additional staff being employed resulting in the higher staff costs for FY2018. Revenue did not increase proportionately as the said sales and marketing expenses were general expenses in nature.

f. The KYWJ group has only one reportable segment, property development.

g. The amount of RMB600 million due from the controlling shareholder, Beijing Hongkunweiye Property Co. Ltd (“Hongkun”) has been offset against an amount of RMB600 million due to Hongkun.

h: A breakdown of Trade and other receivables in the KYWJ Group is as below:

	31.12.2018 RMB'000	31.12.2017 RMB'000
Costs to obtain a contract ⁽¹⁾	7,838	-
Prepayments, deposits and other receivables ⁽²⁾	9,435	8,583
Due from non-controlling shareholder	1,992	1,992
Trade receivables	1,800	5,282
Due from related company ⁽³⁾	1,043	-
Due from related company ⁽⁴⁾	39,269	-
	<u>61,377</u>	<u>15,857</u>

(1) Costs to obtain a contract represents the incremental costs of securing pre-sales contracts, i.e sales commissions.

(2) Prepayments, deposits and other receivables include, *inter alia*, refundable security fund deposits, labour inspection deposits and provident funds security deposits placed with government organisations as well as prepaid expenses for construction costs in relation to property development.

(3) The debtor is Yichang Zhong Xiang Property Management Company Limited (宜昌中翔物业管理有限公司), the amount arose from an advanced payment for its services.

(4) The debtor is Zhonxiang Zhengxing (Beijing) Technology Development Co. LTD (“Zhonxiang Zhengxing”, 中翔正兴 (北京) 科技发展有限公司), the amount arose from advanced payment for its services.

I: As disclosed in (h), Zhonxiang Zhengxing is a technology development company established in the PRC, and its 75% shareholder is Beijing Aodu Investment Co. Limited (“Aodu”, 北京奥都投资有限公司). Mr Zhang Rong Xiang is the Legal Representative and Chairman of Aodu. Save as disclosed above, as far as the Company’s aware, none of the debtors are related to the Company’s substantial shareholders, directors, key management and/or their respective associates.

J. Movements of Trade and Other payables are as follow:

	31.12.2018	31.12.2017	Movement
	RMB'000	RMB'000	RMB'000
Trade payables ⁽¹⁾	84,635	69,660	14,975
Receipts in advance ⁽²⁾	597,502	120,219	477,283
Due to shareholder ⁽³⁾	132,820	184,737	(51,917)
Due to non-controlling shareholder ⁽³⁾	119,294	300,152	(180,858)
	<u>934,251</u>	<u>674,768</u>	

(1): Trade payable includes constructions cost payable to the contractors in relation to the development properties.

(2): Receipt in advance represents pre-sales revenue from Phase 2-3 and the “New” Phase 3-1 which will only be recognised in the income statement upon completion in a later period.

(3): Due to shareholder and non-controlling shareholder decreased in FY2018 compared to FY2017 is due to repayment made during the year.

BY ORDER OF THE BOARD
CHINA INTERNATIONAL HOLDINGS LIMITED

Shan Chang
Chairman

15 March 2019