



# 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)

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## RESPONSE TO SGX QUERIES ON FINANCIAL RESULTS FOR THE SECOND QUARTER ENDED 30 JUNE 2019

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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 2019 released to Singapore Exchange Securities Trading Limited (“**SGX-ST**”) on 9 August 2019. The Company would like to provide the following additional information in reply to the queries raised by SGX-ST on 14 August 2019:-

### SGX Query 1

1. To provide breakdown and elaborate on the nature of material items as well as explain the material variances against corresponding period for Operating expenses for KYWJ Group.

### Company’s Response

A breakdown of Operating expenses for KYWJ Group is as follow:

	3 months ended		
	30.06.2019	30.06.2018	Increase
	RMB'000'	RMB'000'	RMB'000'
Brand <sup>(1)</sup>	2,289	-	2,289
Compensation expenses <sup>(2)</sup>	413	-	413
Other service expenses <sup>(3)</sup>	396	-	396
Staff costs <sup>(4)</sup>	657	463	194
Others <sup>(5)</sup>	546	374	172
	<u>4,301</u>	<u>837</u>	<u>3,464</u>

(1): Brand usage fees for Q2 2019 of RMB2.29 million represent accrued expenses for using the Hong Kun brand in selling and marketing activities. The same expenses for Q2 2018 were accrued only in Q4 2018.

(2): Compensation expenses represent compensation for contractual breaches in Q2 2019 after legal rulings were made in favour of some clients.

(3): Other service expenses included payment to a former sales service supplier who won a legal suit against the company. The amount has already been accrued under contingent liabilities at 31 December 2018. The KYWJ Group will make an accounting adjustment for this item on or before 31 December 2019.

(4): Staff costs increased RMB194,000 in Q2 2019 compared Q2 2018, following the classification of this expense as other operating expenses instead of as selling and marketing expenses.

(5): Others expenses comprise of building management expenses, office expenses, travelling expenses and other expenses.

## **SGX Query 2**

2. In relation of Trade and other receivables of KYWJ Group:-

- a. To provide breakdown against Trade receivables and Other receivables, and explain the material increase from RMB61.4 million to RMB256.9 million.
- b. To elaborate on the nature of the transaction which gave rise to each of the material Other receivables.
- c. To explain reason for the significant increment of Trade and other receivables at RMB256.9 million when the sales for 6 months is only RMB42.9 million.
- d. To explain why are the buyers of the units not paying promptly for their units and to disclose payment terms for these customers.

## **Company's Response**

a. to b. : A breakdown of the KYWJ Group's Trade and Other Receivables on 30 June 2019 and 31 December 2018 are set out below:

	30.06.2019 RMB'000	31.12.2018 RMB'000
Other current assets <sup>(1)</sup>	10,703	7,839
Prepayments, deposits and other receivables <sup>(2)</sup>	9,771	9,435
Trade receivables	-	1,800
Due from non-controlling shareholder	1,992	1,992
Due from third party <sup>(3)</sup>	79,269	39,269
Due from controlling shareholder <sup>(4)</sup>	155,159	1,044
	<b>256,894</b>	<b>61,379</b>

(1) Other current assets represent the incremental costs of obtaining the pre-sales contracts with customers, for example sales commission. The costs will only be recognised in income statement when the corresponding pre-sales is recognised as revenue.

(2) Prepayments, deposits and other receivables include, inter alia, prepaid construction costs in relation to property development, refundable security fund deposits and labour inspection deposits.

(3) The third party referred to was Zhongxiang Zhengxing Beijing Technology Development Co., Ltd (中翔正兴 (北京) 科技发展有限公司), and the amount arose from prepayment of construction contract costs.

(4) Amount due from controlling shareholder referred to Beijing Hongkunweiye Property Co. Ltd ("Hongkun").

c and d. : The decrease in trade receivables of RMB1.80 million are in respect of revenue earned in the first half financial period ended 30 June 2019, and following settlements received from some customers.

### **SGX Query 3**

3. In relation of Trade and other receivables of the Company:-

- a. To provide breakdown against Trade receivables and Other receivables, and explain the decrease from RMB219.7 million to RMB191.2 million.
- b. To elaborate on the nature of the transaction which gave rise to each of the material Other receivables.
- c. To explain reason for significant Trade and other receivables at RMB191.2 million when the sales for 6 months is only RMB26.27 million.
- d. To explain why are the buyers of the units not paying promptly for their units and to disclose payment terms for these customers.
- e. To explain the nature of amount owed by the associated company Yichang Xinshougang Property Development Company Limited.

### **Company's Response**

a. to b. and e: A breakdown of the Group's Trade and Other Receivables on 30 June 2019 and 31 December 2018 are set out below:

	30.06.2019 RMB'000	31.12.2018 RMB'000
Trade receivables <sup>(1)</sup>	31,129	37,490
Due from associates <sup>(2)</sup>	122,121	142,279
Due from non-controlling shareholder <sup>(3)</sup>	100	124
Other receivables		
- Prepayments <sup>(4)</sup>	7,671	9,573
- Refundable deposits <sup>(5)</sup>	30,000	30,000
- Other deposits <sup>(6)</sup>	214	216
<b>Total</b>	<b>191,235</b>	<b>219,682</b>

(1) The major customer is Tianjin Zhongda Enashe Water Limited (天津中大恩那社水务有限公司). Included in trade receivables are note receivables of RMB5.60 million which represent banker's acceptance bills.

(2) Due from associates, the KYWJ Group (including Yichang Xinshougang), is unsecured and repayable on demand. Included under due from associates is an initial shareholder loan of RMB121 million funded for the KYWJ Group's working capital purposes. The decrease is due to KYWJ Group repaying the outstanding sums.

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

(4) The prepayments include, *inter alia*, prepaid expenses for staff and construction materials in relation to water pipelines.

(5) The refundable deposits will be repaid by Baoding Zhongshang Real Estate Development Limited (保定市尚房地产开发有限公司,"Baoding"), the Company had given up its rights to cooperate with Baoding in relation to a property investment project to invest in the Xiongan New District (雄安新区).

(6) Other deposits include, *inter alia*, refundable rental deposits and electricity deposits.

c. and d.: Trade and other receivables of RMB191 million are made up of trade receivables of RMB31 million and non-trade receivables (ie, non revenue related) of RMB160 million.

The decrease in trade receivables of approximately RMB6 million are due to revenue earned in the first half of the financial period ended 30 June 2019, and settlement from customers. Except which, other receivables are not relate to the revenues.

The Group's practice has been to collect advances from its customers before commencement of work. Typically, the Group offers 0 to 90 days credit terms to its customers. It seeks to maintain a strict control over its outstanding receivables. Management performs regular reviews on overdue balances by reference to the Group's historical observed default rates, customers' ability to pay adjusted with forward-looking information in estimating the expected credit loss of each class of financial assets. All trade and other receivables disclosed above are believed to remain collectible, based on historical payment behaviors and the assessed credit-worthiness of the customers.

#### **SGX Query 4**

4. To elaborate and provide breakdown of the Other current assets in Statement of Cash Flow amounting to RMB27.6 million for 6 months ended 30 June 2019.

#### **Company's Response**

The Group adopted *IFRS 15 Revenue from contracts with customers* effective for the financial year beginning on or after 1 January 2018. The Group had previously recognised revenue from the construction of water pipeline contracts ("Construction Contracts") over the period of the contract activity with reference to the stage of completion.

In FY2018, the Group had assessed the implications of adopting of IFRS 15 based on Construction Contracts entered with the customers. Based on the assessment of the Construction Contracts, each comprise of a single performance obligation which is satisfied at a point in time, i.e. when the promised services has been handed to the customer. Hence, revenue is recognised only upon the completion of services rendered.

Changes of RMB27.62 million for other current assets shown in Statement of Cash Flow represent payments to fulfil water pipeline contracts and temporary waste water treatment services supplied in CIHL (Tianjin) Water Development Company Limited during the first half of 2019.

#### **SGX Query 5**

5. To provide further information on the advertising and marketing efforts by HongKun:-
  - a. What is the product/service being advertised?
  - b. Who is the target audience of the marketing efforts?
  - c. Describe the type of marketing activities conducted so far and at which locations were they held at?

#### **Company's Response**

- a. In the recent months, XSG focused its marketing efforts on two particular products, which are the duplex houses and low-rise apartments under Phase III.

b. The duplex houses and low-rise apartments are targeted to business owners, corporate executives and public servants because the prices of these products are relatively higher compared to other products offered by XSG.

c. XSG employed various marketing tools to reach targeted its audience, including: 1) placing physical advertising boards in key locations; 2) placing advertisements on TV channels, on-line internet channels as well as newspapers; 3) holding client events at the project site and the residents' club house; 4) mobilizing internal sales forces to reach potential clients; and 5) engaging an external real estate agency firms to reach potential clients.

As a result of these marketing efforts, XSG has managed to sell over 90% of the low-rise apartments and over 50% of the duplex houses.

#### **SGX Query 6**

6. In relation to the land development project of the Group where RMB146,000 was deposited for securing the performance and fund utilization:-
- How much is the estimated total capital outlay for the project?
  - What are the financial projects and break even rate for the project?
  - What are the relevant due diligence conducted before investing in the project?
  - What is the rationale for embarking on the new project?

#### **Company's Response**

a. to d.: The land development project had been completed before 31 December 2013. The Company will apply to cancel the account's limitation.

#### **SGX Query 7**

7. Please provide update on the status of construction of the project 新河再生水厂项目 which was estimated to be completed in Q2 2019 and when does the Company expect to book revenue from the project?

#### **Company's Response**

As disclosed in the Q2FY2019 Results Announcement, the Company expects to complete construction of the project 新河再生水厂项目 in the second half of 2019. The Company expects to commence the operation and record revenue from the project on or before 31 December 2019.

#### **SGX Query 8**

8. Please provide update on the outcome of litigation claim by YDUIIC against XSG for the repayment of RMB105 million and carried interest of RM52 million as well as the outcome of damage claims from China Resources and Transportation Group Limited in relation to the clawback amount.

### **Company's Response**

As disclosed by the Group on 24 March 2017, Yiling District Urban Infrastructure Investment Company ("YDUIIC") launched a case against Yichang Xinshougang Property Development Company ("XSG") for repayment of a cash advance it made back in 2006. XSG believed that the cash advance was made by YDUIIC to XSG as a reward promised by the Yichang Government under the Cooperation Agreement between the Yichang Municipal Government and Xinshougang Resources Holding Co. LTD, which was the parent company of XSG.

The two parties entered into mediation at the Yichang Intermediate People's Court and reached a settlement agreement on 14 December 2017. In accordance with the settlement agreement XSG repaid RMB105 million immediately to YDUIIC. Since the settlement, XSG has been in contact with various municipal and district government departments in Yichang to secure the stated promised reward in the Cooperation Agreement.

Meanwhile XSG has expedited the development of the hotel and exhibition centre as part of the Project as the Group believes will put XSG in a more favourable position to claim the said rewards from Yichang Government. However, the Group is not certain at this stage whether or when the said reward will be given to the Group.

### **Claim on China Resources and Transportation Group Limited ("CRTGL")**

According to Article 9 of the Sales and Purchase Agreement between the Company and CRTGL entered into on 15 September 2012, the seller is responsible for any loss relation to the above-mentioned reward CRTGL.

The Group's view is that if the reward from Yichang Government is not forthcoming, the Group will seek compensation from CRTGL.

### **SGX Query 9**

9. Please provide responses to the following queries for **both** Liuhe Gold project and the project in Papua New Guinea:-
- a. To disclose the identity of the valuer, date of valuation and how is the valuation conducted in line with International Valuation Standards (IVS).
  - b. To disclose if the valuer has been accredited by the China Appraisal Society (CAS). If not, why does the Company not appoint another valuer with the track record accredited by CAS instead?
  - c. To disclose the amount of investment made into the project to-date.
  - d. To disclose the basis and major assumptions used in the valuation carried out, the value attributable to the project and justify for the full impairment.
  - e. Please disclose whether the valuer has prior experience in conducting valuation of similar projects for SGX listed issuers.

## **Company's response**

### **Background of impairment loss of investments in LiuHe**

Based on a valuation conducted by Roma, an independent valuer, and taking into account the expected increase in mining costs and poor trial production results, the Company had forecasted that the cash flows over the life of the mining project would be insufficient to recover its investment in Liuhe. Accordingly, the Company and the business partners had decided not to pursue for further development. On this basis, the Company decided to impair RMB44,281,000 on the carrying amount of Liuhe.

### **Market valuation of Liuhe Gold project**

Roma was engaged as an independent valuer to conduct a valuation of the Liuhe Gold Project on 17 December 2015 ("Liuhe Valuation"). Roma is principally engaged in the provision of valuation and technical advisory services including natural resources valuation and technical advisory services. Roma submitted its valuation report to the Company on 26 February 2016. The Liuhe Valuation exercise was performed to consider whether there was any impairment to the Group's cost of investment in the Liuhe Gold Project and also to value the amount due from Liuhe to the Company. The Liuhe Valuation was based on a going concern premise and conducted on a market value basis. According to the International Valuation Standards established by the International Valuation Standards Council in 2011, market value is defined as "the estimated amount for which an asset should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties have each acted knowledgeably, prudently and without compulsion".

Roma estimated the market value of Liuhe Gold Project based on the Income-Based Approach. The Income-Based approach focuses on the economic benefits due to the income producing capability of the relevant business entity. The underlying theory of this approach is that the value of the business entity can be measured by the present worth of the economic benefits to be received over the useful life of the business entity. Based on this valuation principle, the Income-Based Approach estimates the future economic benefits and discounts them to their present values using a discount rate appropriate for the risks associated with realizing those benefits.

Set out below are the total investment and impairment accounted for under investment in associated company to date - Liuhe Country YuKun Mining Co. Ltd (also known as "Liuhe Gold project"):

	30 June 2019/ 31 December 2015 RMB'000
Share of net assets	27,237
Goodwill	17,044
	44,281
Impairment loss on investment in associate	(44,281)
	-
Due from associate	9,968
Less: allowance for impairment	(9,968)
	-

The carrying amounts of investment in associate as well as the amount due from associate were fully impaired during the financial year ended 31 December 2015.

*Background of impairment loss of investments in FT Group*

MKS has expensed off approximately RMB104.97million of exploration and evaluation expenditure (“EEE”) in FY2015. The Company was of the view that further exploration for the Exploration Project was beyond the financial capacity of the Group. Hence the Group had been seeking out for industry and financial partners to undertake further exploration. However, due to the slump in oil and gas prices, many investors whom the Group had approached decided not to participate in the Exploration Project due to constraints in their budgets. This resulted in the Group being unable to secure partners for the Exploration Project and to meet the conditions set out in the MKS’ exploration licence (“Exploration Licence”), which is expected to expire in 2020. As such, the Group decided to cease the Exploration Project.

*Market valuation of Papua New Guinea project*

The Company had earlier disclosed the evaluation reports conducted by GCA on 23 May 2012 and 7 January 2013 in relation to the Exploration Project. The announcement released by the Company on 23 May 2012 disclosed a report by GCA which identified one prospect and one lead for further exploration and provided prospective resources estimation for the prospect named AOI-2, which showed 44 million barrels of oil or 489 billion cubic feet of gas on P50 assumption.

The announcement released by the Company on 7 January 2013 disclosed a report by GCA which, based on revised data processing and studies, identified updated estimation for the prospect named AOI-2 and showed 70 million barrels of oil or 775 billion cubic feet of gas on P50 assumption.

This updated report also eliminated AOI-3W as a lead for further exploration. Based on the updated evaluation of AOI-3W lead, GCA concluded that there was no trap in the AOI-3W area and did not recommend any additional work in this area.

And the application of the Group’s accounting policy for EEE requires judgement to determine whether future economic benefits are likely from either future exploitation or sale, or whether activities have not reached a stage that permits a reasonable assessment of the existence of reserves. Factors taken into account in assessing whether the Company’s interests in associated company have suffered any impairment include the financial health and cash flow projection of the associated company, the period for the associated company has the right to explore a specific area, the substantive expenditure of the associated company on the exploration for and evaluation of oil, and gas resources in specific areas and the future prospect and commercial viability of further exploration and evaluation activities.



Set out below are the total investment and impairment accounted for investment in associated company to date – Future Trillion Holdings Limited, which holds 28.35% of MKS Limited (also known as “Papua New Guinea Project”):

	30 June 2019/ 31 December 2015 RMB'000
Share of net assets (including goodwill of RMB40,876,000)	24,617
Impairment loss on investment in associate	(24,617)
	-
Due from associate	76,102
Less: allowance for impairment	(76,102)
	-

#### **SGX Query 10**

10. To elaborate on the internal control processes put in place for the Company’s investment mandates, including the investment into Liuhe Gold project and the project in Papua New Guinea.

#### **Company’s Response**

The Group has a system of internal control process in place for making investment decisions and the Group adheres to the Listing Manual Rules in relation to disclosure and decision-making by the shareholders. The internal control system has been designed and improved by external advisers and evolves over time. When Liuhe Gold project and oil gas exploration project in Papua New Guinea were made, energy and natural resources sector was approved by shareholders as one of three core businesses of the Group at the 2010 AGM. The board went through evaluation and decision making processes and made proper disclosure when the investments were made.

#### **SGX Query 11**

11. Please elaborate if any audit procedures have been performed on the 2 fully impaired projects (Liuhe Gold and the one in Papua New Guinea) to assess the existence of the projects as well as to validate the claim that these assets have zero value.

#### **Company’s Response**

The Company believes that adequate audit procedures have been carried out, as follows, but are not limited to:

1. Discussed in AC planning meeting, management accounts and other relevant information are provided to the auditors during fieldwork;
2. Discussed at the clearance meeting with management (with presence of all the executive members on the board), the outcome remain consistent that the carrying amount of the investment in associated companies shall remain fully impaired; and

3. Summarised the audit response at Q4 AC meeting on their assessment with reference to IAS 36.

BY ORDER OF THE BOARD  
CHINA INTERNATIONAL HOLDINGS LIMITED

Shan Chang  
Chairman  
19 August 2019