



# 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)

### RESPONSE TO SGX QUERIES ON FINANCIAL RESULTS FOR THE HALF YEAR ENDED 30 JUNE 2020

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 half year ended 30 June 2020 released to Singapore Exchange Securities Trading Limited (“**SGX-ST**”) on 12 August 2020. The Company would like to provide the following additional information in reply to the queries raised by SGX-ST on 21 August 2020:-

#### In relation to the KYWJ Group

##### SGX Query 1

To provide a breakdown of the revenue and the cost of sales and services provided against the corresponding reporting period and disclose the factors resulting in the material variances.

##### Company’s Response

A breakdown of Revenue and Cost of Sales in 1H 2020 and 1H 2019 of the KYWJ Group is shown below:

	1H - 2020		1H - 2019		Increase / (decrease)	
	Revenue (net)	Cost of sales	Revenue (net)	Cost of sales	Revenue(net)	Cost of sales
	RMB'000	RMB'000	RMB'000	RMB'000		
Phase 1-1	1,811	(1,226)	20,666	(14,803)	(91.2%)	(91.7%)
Phase 1-2	-	-	20,289	(23,580)	(100.0%)	(100.0%)
Phase 1-3	-	-	199	(241)	(100.0%)	(100.0%)
Phase 2	32,211	(29,583)	1,783	(635)	1,705.6%	4,558.7%
	34,022	(30,809)	42,937	(39,259)	(20.8%)	(21.5%)

As disclosed in the announcement, the pre-sales and related cost of uncompleted units in the KYWJ Group would only be recognised in income statements upon completion in later periods. Only sales of the completed units were recognised as revenue in the relevant financial periods. As the development properties in the different Phases are not put out for sale at regular periods, there will be natural variances arising.

##### SGX Query 2

To provide a breakdown of the other operating expenses of RMB6.3 million against comparative period amount of RMB7.6 million and describe each material items.

### **Company's Response**

A breakdown of Operating expenses for the KYWJ Group is as follows:

	6 months ended		Decrease
	30.06.2020	30.06.2019	
	RMB'000'	RMB'000'	
Advertising and salaries <sup>(1)</sup>	4,448	5,139	(13.4%)
Compensation expenses <sup>(2)</sup>	-	413	(100%)
Others <sup>(3)</sup>	1,894	2,019	(6.2%)
	<u>6,342</u>	<u>7,571</u>	(16.2%)

(1): Advertising and salaries for 1H 2020 of RMB4.45 million decreased 13.4% compared as in 1H 2019 as the KYWJ Group incurred more expenses on selling and marketing activities in the initial presales of Phase 3-1 in 1H 2019.

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

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

### **SGX Query 3**

To disclose reasons for the significant decrease of 69.3% in selling and marketing expenses from RMB12.1 million to RMB3.7 million in the current period.

### **Company's Response**

In the 1st Half of 2019, the KYWJ Group focused its marketing efforts on two particular products, the duplex houses and low-rise apartments of Phase 3-1. More cost effective marketing tools were employed, for example, advertising boards placed in key locations, showrooms and client events at the project site. These resulted in a significant decrease of 69.3% in selling and marketing expenses in 1H 2020.

### **SGX Query 4**

KYWJ Group recorded RMB1.23 billion of property for development as at 30 June 2020,

- a. To provide details of these properties for development.
- b. To disclose the status of development / construction and timelines for completion.
- c. To disclose the take up rate and factors which may affect the sales and collectability of sales proceeds of these properties.

### **Company's Response**

a. to c. As disclosed in the Announcement, as at 30 June 2020, the cumulative pre-sales amounted to approximately RMB1,576 million, which would only be recognised in income statement upon completion in later periods. The costs of those pre-sold properties are included in property for development sum of RMB1.23 billion of the KYWJ Group as at 30 June 2020.

A table setting out the status of the projects ended 30 June 2020 of the KYWJ Group is as follows:

Phase	Status of Construction	Status of Development	Take-up rate
Phase 1-1	Completed	Completed	95.0%
Phase 1-2	Completed	Completed	94.0%
Phase 1-3	Completed	Completed	90.7%
Phase 2	Completed	Completed	89.6%
Phase 3-1	Under construction (5% remaining)	Completion of development expected by 2H 2020	97.7%
Phase 3-2	Under construction (70% remaining)	Completion of development expected by the 1H of 2021	84.9%
Phase 3-3 <sup>(1)</sup>	Under construction (80% remaining)	Completion of development expected by the 1 H of 2021	N.A.

(1) : As disclosed in the 1H FY2020 Result Announcement, the total saleable area for “new” Phase 3-3 has not yet been approved. Accordingly, no pre-sales have been made and no take-up rate is available.

Save as disclosed in the 1H FY2020 Results Announcement, the Group is not aware of any known factors or events that may affect the sales and collectability of sales proceeds of these properties.

#### **SGX Query 5**

KYWJ Group recorded RMB486.9 million of trade and other receivables as at 30 June 2020,

- To provide a breakdown of the receivables aging schedule in bands of 3 months with upper limit disclosed.
- To disclose whether these outstanding amounts are owing to related parties. If yes, to provide details and quantify.
- To disclose reasons why these amounts are outstanding and when are the amounts due for repayment.

#### **Company’s Response**

a. to c.: A breakdown of the KYWJ Group’s Trade and Other Receivables on 30 June 2020 and 31 December 2019 are set out below:

	30.06.2020	31.12.2019
	RMB’000	RMB’000
Other current assets <sup>(1)</sup>	41,322	21,266
Prepayments, deposits and other receivables <sup>(2)</sup>	20,363	8,866
Due from non-controlling shareholder <sup>(3)</sup>	1,992	1,992
Due from controlling shareholder <sup>(4)</sup>	423,247	534,226
	486,924	566,350

(1): Other current assets represent the incremental costs of obtaining the pre-sales contracts with customers, for example sales commission. These costs will only be recognised as sales expenses in the income statement when the corresponding pre-sales are 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): Amount due from non-controlling shareholder referred to the Group, repayable on demand.

(4): Amount due from controlling shareholder referred to Beijing Hongkunweiye Property Co. Ltd (“Hongkun”), repayable on demand.

### **SGX Query 6**

To explain the dip in revenue by 20.8% given the positive sales performance where the take-up rates for Yichang Project ranges between 84.92% to 97.67%. To disclose when are the outstanding amounts expected to be paid to the Group.

### **Company’s Response**

The take-up rate equals accumulative area of pre-sold units divided by the total saleable area of a kind of uncompleted development properties, for example, Phase 3-1 or Phase 3-2. The cumulative pre-sales would only be recognised as revenue in later periods when they are completed. Other than the dip in revenue by 20.8% is in respect of current financial period, the take-up rates relate to accumulative financial periods.

### **In relation to the CIHL Group**

### **SGX Query 1**

To provide a breakdown of the cost of sales and services provided against its respective revenue lines and disclose the factors resulting in the material variances.

### **Company’s Response**

A breakdown of Cost of sales and services provided in 1H 2020 and 1H 2019 is as follows:

	1H2020	1H2019	Increase / (decrease)	
	RMB’000	RMB’000	RMB’000	%
Cost of sales and services provided				
- water supply	11,970	14,843	(2,873)	(19.4)
- construction of water pipeline	9,391	2,878	6,513	226.3
- wastewater treatment services	23,291	-	23,291	NM
	44,652	17,721	26,931	152.0

NM: Not Meaningful

The increase of 152% came mainly from costs of wastewater treatment services in the new completed project (新河污水处理及再生水厂项目) in CIHL (Tianjin) Water Development Company Limited. The increase in revenue on construction of water pipeline for 1H 2020 has led to the increase of cost on construction of water pipeline by 226.3%.

### **SGX Query 2**

To provide a breakdown of the depreciation expense amounting to RMB12.6 million and explain the significant increase from RMB4.8 million in the comparative period.

### Company's Response

A breakdown of depreciation expense recorded in 1H 2020 and 1H 2019 is as follows:

	1H2020	1H2019	Increase / (decrease)	
	RMB'000	RMB'000	RMB'000	%
Depreciation expense				
- new property, plant and equipment from new completed project	7,893	-	7,893	NM
- other property, plant and equipment	4,683	4,817	(134)	(2.8)
	12,576	4,817	7,759	161.1

NM: Not Meaningful

As disclosed in the announcement, the Group completed the construction of the new project (新河污水处理及再生水厂项目) in December 2019, depreciation expenses of which have been recorded following the operating of the new project.

### SGX Query 3

To elaborate on the performance and the factors that affected the associated companies which saw the decrease in share of loss from RMB6.95 million to RMB2.66 million.

### Company's Response

Share of loss recorded in 1H 2020 and 1H 2019 is attributed to the KYWJ Group. The decrease in share of loss from RMB6.95 million to RMB2.66 million came mainly from a reduction in selling and marketing expenses in the KYWJ Group.

### SGX Query 4

To provide a breakdown of the aging trade and other receivables amounting to RMB 206.22 in comparison with amounts outstanding as at 31 December 2019.

### Company's Response

A breakdown of the Group's Trade and Other Receivables on 30 June 2020 and 31 December 2019 are set out below:

	Aging	30.06.2020	31.12.2019
		RMB'000	RMB'000
Trade receivables <sup>(1)</sup>	Less than 1 year	92,354	71,504
Due from associates <sup>(2)</sup>	Repayable on demand	72,167	72,145
Due from a non-controlling shareholder <sup>(3)</sup>	Repayable on demand	106	197
Other receivables			
- Prepayments <sup>(4)</sup>	Less than 1 year	9,891	7,954
- Refundable deposits <sup>(5)</sup>	More than 1 year	30,000	30,000
- Other deposits <sup>(6)</sup>	Less than 1 year	1,706	67
<b>Total</b>		<b>206,224</b>	<b>181,867</b>

(1): Included in trade receivables of RMB68.4 million are due from government bodies, arising from the operating of the new project (新河污水处理及再生水厂项目).

(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.

(3): Receivables due from a non-controlling shareholder 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 RMB30 million deposit remains unpaid to date. However, the Company is in active discussions with the project owner for return of the deposit and expects to reach a resolution in the near future. The Company will make prompt announcement when there is a change of status regarding this deposit.

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

### **SGX Query 5**

It is stated on page 7 that "as at 30 June 2019 and 2018, cash equivalents include restricted bank balances of approximately RMB146,000 for securing the performance and fund utilization for a land development project of the Company."

- a. To clarify if the above refers to 30 June 2020 and 2019 instead.
- b. To elaborate on the land development project which the Company had put aside RMB146,000 for.

### **Company's Response**

- a. The above refers to 30 June 2020 and 2019.
- b. The land development project was completed before 31 December 2013. The Company will apply to cancel limitations relating to the account.

### **SGX Query 6**

The Company recorded RMB86.24 million Revenue in 1H 2020, an increase of 228.3% against the comparative period mainly due to higher revenue on construction of water pipeline and revenue on wastewater treatment services in the new completed project (新河污水处理及再生水厂项目) in CIHL (Tianjin) Water Development Company Limited.

- a. To elaborate on the newly completed project 新河污水处理及再生水厂项目 (i.e. date of project completion, identities of the government bodies who are the main clients for water treatment services and average contract tenure).
- b. To disclose how much are amounts owing from the government bodies in respect of wastewater treatment services and provide aging schedule in bands of 3 months, with upper bands disclosed.
- c. To elaborate how is the revenue recognised on construction of water pipeline.

### **Company's Response**

- a. The Tianjin Binhai New District Government is the agency looking after public services in the new completed project. As disclosed in the Announcement, the Group completed construction of the new project (新河污水处理及再生水厂项目) in December 2019. Further details are not available at this point.
- b. Please refer our response on Query 4.

c. Construction contracts of water pipeline include a single performance obligation which must be satisfied at a point in time, i.e. when the promised services have been handed over to the customer. Hence, revenue on water pipeline is recognised only upon the completion of services rendered.

**SGX Query 7**

To elaborate on the financial services provided amounting to RMB3.55 million and in the comparative period and explain reasons for the increase of RMB2.53 million from such services.

**Company's Response**

The financial services income is a one-time income recorded in 1H 2020, which represented a compensation from “Hongkun”, the controlling shareholder of the KYWJ Group who had used additional resources.

BY ORDER OF THE BOARD  
CHINA INTERNATIONAL HOLDINGS LIMITED

Shan Chang  
Chairman  
25 August 2020