



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 THE FULL YEAR RESULTS FOR YEAR ENDED 31 DECEMBER 2021

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 for the year ended 31 December 2021 released to Singapore Exchange Securities Trading Limited (“**SGX-ST**”) on 1 March 2022. The Company would like to provide the following additional information in reply to the queries raised by SGX-ST on 7 March 2022.

SGX Query 1

We refer to the Company's full year financial results for the year ended 31 December 2021. We note that the Group's revenue for the 6 months ended 31 December 2021 ("2H 2021") of RMB 46.7 million is significantly lower than that of the 6 months ended 31 December 2020 ("2H 2020") of RMB 72.0 million. It was explained that it was in part due to a loss of a major industry customer which re-located to another area. How significant is this contract and was this announced as required under Listing Rule 703(1)? If not announced, please disclose all relevant material information as required under Listing Rule 703(1).

Company’s Response

This particular client accounted for 11% of total revenue of the Group in 2020. The loss of the client is due to the relocation of the client’s industrial plant away from our service area. While this will impact on the water supply business, it is not a significant factor which will materially affect the performance of the Company’s share price which requires prompt disclosure under Listing Rule 703(1). The loss will be compensated by increased water supply to new clients in our service area.

SGX Query 2

We note that the Group incurred significantly higher operating expenses in 2H 2021 of RMB 29.8 million compared to 2H 2020 of RMB 8.6 million and in FY2021 of RMB 41.0 million compared to FY2020 of RMB 18.3 million. Provide a breakdown of the RMB 29.8 million and RMB 41.0 million and elaborate on the specific expenses that led to the significant increase.

Company's Response

A breakdown of Other Operating Expenses is as follow:

		The Group			
		6 months ended 31 December 2021 RMB'000	6 months ended 31 December 2020 RMB'000	12 months ended 31 December 2021 RMB'000	12 months ended 31 December 2020 RMB'000
	Note				
Impairment on due from associated companies	(1)	22,176	-	22,176	-
Others	(2)	7,659	8,579	18,863	18,312
		<u>29,835</u>	<u>8,579</u>	<u>41,039</u>	<u>18,312</u>

Note:

(1) As disclosed in the announcement on 1 March 2022, in financial year 2021, other financial assets, at amortised cost – amount due from associates KYWJ Group has increased significantly since its initial recognition. The Group has assessed the lifetime expected credit losses of these receivables. Following the assessment, the Group recognised a loss allowance of RMB22,176,000 against other financial assets, at amortised cost over 365 days past due.

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

SGX Query 3

We note that the "Dividend received from associate companies" in the cash flow statement was RMB 53 million. Reconcile this amount with the dividend received of RMB104.6 million from KYWJ Group in the movement table in Note 16 on investment in associates.

Company's Response

	Group 2021 RMB'000
Dividend receivable from associates KYWJ group:	
Declaration of dividend by the KYWJ group to the Group	*105,602
Less: Amount received from the KYWJ group before 31 December 2020	(49,302)
Less: Amount received from the KYWJ group in the current year	(53,000)
Carrying amount	<u>3,300</u>

* : this amount was wrongly stated in the 1 March 2022 announcement as RMB 104.602 million as a result of a typographical error.

SGX Query 4

As per the movement table in Note 16 of the financial statements, the Group recorded a share of loss of associates of RMB 33.66 million from KYWJ Group due to the dividend received of RMB 104.6 million. Clarify what would have been the share of loss of associates in the absence of such dividend.

Company's Response

The dividend received from KYWJ Group (of RMB 105.602 million but which was wrongly stated as RMB 104.602 million in the 1 March 2022 announcement) represents distribution of profits made in the years prior to 2021. It is part of the winding down of the project company as it nears the end of project development. As disclosed in Note 16 of the announcement of 1 March 2022, the Group's share of loss of associates would have been RMB 54.83 million from the KYWJ Group.

SGX Query 5

Disclose the identities of the current shareholders of the balance 50% of KYWJ Group and whether these are owned by any of the Company's current or former substantial shareholders, directors or KMP or their respective associates.

Company's Response

The balance 50% shareholder of KYWJ Group refers to Beijing Hongkunweiye Property Co. Ltd ("北京鸿坤伟业房地产开发有限公司, Hongkun"). None of the Company's current or former substantial shareholders, directors or KMP or their respective associates has any interest in Hongkun.

SGX Query 6

We note that under current assets, trade and other receivables of RMB 281.8 million as at 31 December 2021 is significantly higher than the Group's full year revenue of RMB 128.7 million. As per Note 5 to the financial statements, we note that it comprises contract assets of RMB 150.4 million and trade and other receivables held at amortised cost of RMB 131.4 million.

For the contract assets of RMB 150.4 million:

- (a) Provide details of the ongoing contracts that contribute to this RMB 150.4 million, including the duration of these contracts, and whether there are any issues relating to the management of these contracts.
- (b) It was explained that these will be transferred to trade receivables when the customer completes its payment management processes. Elaborate further on what the completion of the customers payment management processes means and when the Company will be able to transfer contract assets to trade receivables.
- (c) Explain why contract assets have been increasing every year from RMB 15.4 million as at 31 December 2018 to RMB 150.4 million as at 31 December 2021, but revenue has been declining.
- (d) It is noted that the Company has classified these as current receivables though it has historically not been collectible within 1 year. Explain why the Company has been unable to collect these outstanding receivables. In your explanation, include details on the status of operations or financial positions of major debtors and disclose whether any of them are under financial difficulties or have ceased operations. If so, please quantify and disclose details accordingly,

For trade and other receivables held at amortised cost of RMB 131.4 million:

- (e) Provide a breakdown of the significant items between trade and other receivables and the amount of amortisations accordingly. To also disclose how these amortisations are calculated and the reasons for their amortisations.
- (f) For the amounts due from KYWJ Group of RMB 102.6 million, provide a further breakdown of the nature of each receivable (i.e. trade receivables, dividend receivable, loan receivable, etc.) and their ageing schedule in bands of 3 months with the period of the higher band clearly disclosed.
- (g) Elaborate on the factors which caused the credit risk of KYWJ Group to increase significantly in FY2021 and explain how the allowance of RMB 22.2 million recognised against receivables from KYWJ Group was computed.
- (h) Noting that the KYWJ Group is in a net liability position of RMB 44.4 million as at 31 December 2021 and had recorded a net loss of RMB 109.7 million for the year ended 31 December 2021, provide the Board's view on why the remaining collectibles of RMB 102.6 million is recoverable.
- (g) Aside from the KYWJ Group, disclose the details and identities of the major customers for which receivables have also been impaired and explain the reasons why debts from these entities have not been collected to-date, stating the period they have been outstanding.

Company's Response

(a) and (d) The contract assets of RMB150.4 million arose from the Company's wastewater treatment operations, which is considered a public service business. The Company supplies such

services to the local government under relevant environmental laws and regulations, and in compliance with the local government's requirements.

The local government will carry out certain audit processes after which a written agreement will be signed with its appointed service providers, including the Company. The management of the Company believes this public service business under a local government contract is an acceptable credit risk despite the longer settlement period at the introductory stage.

(b) and (c) The local government must complete a set of payment management processes, for example, appointing a third party to review and audit the quality and quantity of the services provided by the Company. This has led to delay of its payments and contributed to the increase in contract assets.

For trade and other receivables held at amortised cost of RMB 131.4 million:

(e) and (i) A breakdown of the trade and other receivables on 31 December 2021 is set out below:

	Receivables 31.12.2021 RMB'000	Impairment 31.12.2021 RMB'000	Net carrying amount 31.12.2021 RMB'000
Prepayments, deposits and other receivables ⁽¹⁾	28,739	-	28,739
Due from non-controlling shareholders ⁽²⁾	79	-	79
Due from associated companies			
- Future Trillion Group	82,312	(82,312)	-
- Liuhe	9,010	(9,010)	-
- KYWJ Group	124,792	(22,176)	102,616
-			
Total	244,932	(113,498)	131,434

(1) The prepayments, deposits and other receivables include: prepaid expenses for VAT, construction materials in relation to water pipelines, refundable rental deposits and electricity deposits.

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

There are no amortisations on trade and other receivables on 31 December 2021.

(f) Details of amounts due from KYWJ Group are as follow:

	Ageing	31.12.2021 RMB'000
Initial shareholder's loans ⁽¹⁾	Repayable on demand	121,192
Impairment of initial shareholder's loans	Not applicable	(22,176)
Dividend receivable and others ⁽²⁾	Less than 1 year	3,600
Total		102,616

(1) Due from associates, the KYWJ Group (including Yichang Xinshougang) is unsecured and repayable on demand. Included under due from associates is the balance of the initial shareholder loan of RMB121 million to fund the KYWJ Group's working capital.

(3) Dividend receivable and others are unsecured, receivable within 1 year.

(g) As disclosed in the announcement of 1 March 2022, included in the cost of sales and services provided of the KYWJ Group for the financial year ended 31 December 2021 are a write down of RMB85.93 million against its completed units and a provision for onerous contracts amounting to RMB99.52 million against properties under development within the KYWJ Group's property for development. The said write down and provision were made after taking into account KYWJ Group's recent experience in estimating net realisable values of its completed units and properties under development by making reference to expected net selling prices and development expenditure.

The allowance of RMB 22.2 million recognised against receivables from KYWJ Group was computed based on the negative assets of the KYWJ Group on 31 December 2021 as set out below:

	Group 31.12.2021 RMB'000
Net assets of the KYWJ Group	(44,353)
The Company's interests in the KYWJ Group	50%
Allowance recognised	(22,176)

(h) The amount of due to the Company from the KYWJ Group is also included in the total liabilities of the KYWJ Group on 31 December 2021. Except the liability of RMB44.4 million (including the company's portion which amounts to RMB22.2 million), the remaining liabilities could be repaid when the assets recorded in the KYWJ Group as at 31 December 2021 are realised.

SGX Query 7

With reference to the non-current other receivables of RMB 30 million, disclose the nature of the receivable, which year it was recorded in and when the Group expects to recover the receivable.

Company's Response

As disclosed in our announcement of 23 April 2021, for the financial year ended 31 December 2020, the group recognised RMB30 million in (non-current) other receivables. This is related to the group's deposit with Baoding Zhongshang Real Estate Development Limited ("Baoding") in a proposed joint investment opportunity which subsequently did not materialise.

The Group and Baoding had entered into an agreement with the latter to "return" the deposit in kind by transferring development properties valued at approximately RMB30 million to the Group. Under the agreement, the Group reserved the rights to collect the full outstanding sum of RMB30 million in cash before the development properties are completed. As such, the Group had reclassified the RMB30 million from current to non-current in the statement of financial position.

SGX Query 8

With reference to the Group's trade and other payables and borrowings held at amortised cost, provide a breakdown of the material items for FY2021 and FY2020 and explain the factors which are causing the significant outstanding amounts.

Company's Response

The breakdown of the "trade and other payables and borrowings" as at 31 December 2021 and 31 December 2020 is set out below.

	31.12.2021	31.12.2020
	RMB'000	RMB'000
Trade payables	35,010	47,740
Other payables and accruals	12,090	13,032
Due to related parties ⁽¹⁾	1,992	1,992
Due to a non-controlling shareholder of a subsidiary ⁽²⁾	18,011	18,011
Receipt in advance from		
- Supply of gray water	4,850	2,021
- Construction of water pipeline	93,224	89,879
- Advance rental income	41	-
Borrowings	92,658	100,000
Total	257,876	272,675

(1) The related company refers to the KYWJ Group, and the amount due is repayable on demand.

(2) The non-controlling shareholder is 天津滨海新区建设投资集团有限公司, and the amount due is in respect of an initial shareholder's loan, which is interest-free and repayable on demand. These are managed as a part of the shareholders' capital invested in a subsidiary of the Group.

SGX Query 9

We note that the KYWJ Group has recorded both a gross loss as well as a net loss in FY2021 due to a write down and provision for onerous contracts. Provide specific details of these onerous contracts, when were they signed, the reasons and disclosed details and factors to explain how they have taken on the classification of onerous contracts. Does the KYWJ Group expect to record similar write downs and provisions for FY2022? If no, justify why not.

Company's Response

As the Yichang development project nears its end, an overall review was done of the remaining contracts for the project. Management decided to write down and make provision for properties under development after reference to the estimated (future) net selling prices and the estimated development expenditures to complete the properties under development. This review was based on information available at the time of review and there is no guarantee that similar write downs and provisions for FY2022 will not be recorded in future.

By Order Of The Board
China International Holdings Limited

Shan Chang
Chairman
9 March 2022