英利国际置业
YING LI INTERNATIONAL REAL ESTATE

YING LI INTERNATIONAL REAL ESTATE LIMITED
(Incorporated in the Republic of Singapore)
(Company Registration No. 199106356W)

RESPONSES TO QUESTIONS FROM SECURITIES INVESTORS ASSOCIATION (SINGAPORE) ON THE COMPANY'S ANNUAL REPORT FOR FINANCIAL YEAR ENDED 31 DECEMBER 2019

The Board of Directors (the "**Board**") of Ying Li International Real Estate Limited (the "**Company**", and, the Company and its subsidiaries, the "**Group**") refers to questions raised by Securities Investors Association (Singapore) ("**SIAS**") in relation to the Company's annual report for the financial year ended 31 December 2019 ("**Annual Report 2019**"). The questions raised by SIAS and the Company's corresponding responses are set out below:

Q1. *"Following a change in the controlling shareholder in April 2019, the management team was refreshed in the second half of 2019. A strategic review of the group's property assets was carried out. This led to a decrease in fair value of investment properties amounting to RMB371.7 million and a drop in the carrying amount of financial assets measured at fair value through profit and loss ("**FVPL**") amounting to RMB138.2 million.*

The company has stated that it will:
- *accelerate the pace of portfolio rebalance through reshuffling or disposing low yielding properties*
- *explore new asset-light operating model and asset management services to increase its revenue base, leveraging on the network of the new controlling shareholder."*

(i) "Can management elaborate further on the new asset-light operating model?"

Company's response to Q1(i)

In 2019, the management team undertook a strategic review of the Group's property assets and as part of its capital management initiatives to reduce gearing, the Group will look to reshuffle or dispose low yielding properties to achieve re-balancing of its property portfolio.

The real estate industry is highly capital intensive and to progressively enhance the Group's business model in the real estate industry, the management team is exploring an asset-light operating model which may comprise of fund and asset management services related to the real estate industry that would potentially minimise the need for significant capital investments and provide a new source of recurring income.

Such asset-light operating model aligns with the local government's development strategy for economic growth and leveraging on China Everbright Limited's ("**CEL**") extensive network and track record in China, the Group is well-positioned to harness the opportunities in this area and potentially increase return to shareholders. The Group will require new resources and relevant approvals from authorities for this business activity.

The Group is a subsidiary of CEL, China's leading cross-border asset management and investment company. CEL is listed in Hong Kong with alternative asset management as the core business.

The discussions on the foregoing are at a preliminary stage and the Company will make the appropriate announcements as and when there are material developments in relation to this subject matter.

(ii) "What are the in-house capabilities that would allow the group to carry out the proposed "asset management services?"

Company's response to Q1(ii)

The Group's Non-Executive and Non-Independent Chairman, Mr. Zhang Mingao, has over 30 years of industry and management experience in the financial industry. Mr. Zhang is the Executive Director and the Chief Investment Officer of CEL, which is a leading cross-border asset management and investment company with alternative asset management as its core business.

In addition, the Group's Executive Director and Chief Executive Officer, Mr. Hu Bing, has more than 18 years of experience in investment and portfolio management of real estate and financial assets. Prior to joining the Group, Mr. Hu was the President of EBA (Beijing) Asset Management Co., Ltd, where he has accumulated expertise and experience in developing assets management platform and real estate assets securitisations in China. Mr. Hu also held the position of Executive Director in Lenovo Holdings Corporation and Lenovo Raycom Investment Management Co., Ltd.

In addition, Mr. Chen Hongfei and Mr. Tang Chi Chun who were appointed as Non-Executive and Non-Independent Directors in 2019 have extensive experience and network in real estate investment, asset management and capital markets.

The Group has built up a strong foundation in Chongqing with a reputation for innovative design and urban renewal, having transformed areas of an old city into high-value urban integrated commercial developments of office space and shopping malls. Combined with the established networks and relationships in Chongqing, the Group has built up strong competitive advantages to tap such opportunities.

The Board believes that the collective business experience and strong industry networks of the Board and the management team are likely to position the Group to harness the opportunities in the proposed "asset management services".

(iii) "In terms of geographical footprint, are there plans to increase its exposure beyond Chongqing?"

Company's response to Q1(iii)

Recently, China issued a guideline on advancing the development of western regions to promote coordinated regional development, which will see new investments in energy, transportation, environmental and infrastructure projects.

Located in China's inland southwest, Chongqing has become an inland logistics hub between the western Chinese provinces and regions and other parts of China. As such, Chongqing's economic growth is poised to benefit from this macro development policy.

In Chongqing, the Group is well-recognised for its outstanding design, premium quality and rich user-experience in commercial property developments. Leveraging on its established brand name and track record in Chongqing, the Group will continue to further expand its business presence in Chongqing.

While the majority of the Group's real estate portfolio is in Chongqing, the Group also has a real estate investment project, Beijing New Everbright Centre, located at Beijing Tongzhou which was announced in December 2014 and the real estate investment project has commenced development since 2015.

As highlighted in the Annual Report 2019, the Company is looking to leverage on CEL's extensive network and track record for its business expansion. As such, the Company will consider expanding its business presence beyond Chongqing if suitable opportunities arise.

(iv) "Has the board evaluated how it could balance the need to reinvest in the business and the need to generate return for shareholders in the form of dividends? The company has not paid a dividend to shareholders in the last 12 years. The last dividend paid out was in August 2008 and it amounted to SGD0.00079 per share."

Company's response to Q1(iv)

The issuance of dividends has always been part of the Board's agenda and discussions for rewarding shareholders.

The Group's real estate business activities are capital intensive and requires significant amount of working capital and the Group's borrowings as at 31 December 2019 was approximately RMB 2.8 billion.

The recent outbreak of Covid-19 has led to an unprecedented crisis that has impacted nearly all businesses worldwide.

In light of the challenges and uncertainties arising from Covid-19 and the need to fund new growth plans, the Group is taking a prudent approach to conserve cash and ensure adequate and steady cash flow for the Group's working capital requirements as well as its future operational and development needs for its business activities.

Q2. *"The carrying value of Future International held steady at RMB1.02 billion while Ying Li International Financial Center/IMIX Park Jiefangbei saw its valuation drop from RMB1.74 billion to RMB1.56 billion. Ying Li International Plaza/IMIX Park Daping saw its valuation slip from RMB1.57 billion to RMB1.413 billion.*

The valuation losses were recognised despite the drop in the discount rate used in the discounted cash flow the valuation method from 7% to 6.0-6.7% (page 109)."

(i) "Can management help shareholders understand the changes in the operating environment, if any, that led to the RMB371.7 million decrease in fair value of its investment properties?"

Company's response to Q2(i)

New supply of retail shopping spaces intensified the competition in the regional market and the opening of Raffles City Chongqing in the Jiefangbei submarket in 2019 increased the total stock of retail spaces by 235,000 square metres. In undertaking the valuation of the Group's investment properties as at 31 December 2019, the independent valuer, Colliers International (Hong Kong) Limited ("**Colliers**"), has taken into account various market factors such as those mentioned above and adjusted the fair value of the Group's investment properties accordingly.

(ii) "Since the group reported a 2% increase in its rental income from investment properties (page 107), does it mean that the value of its investment properties was overstated in previous years?"

Company's response to Q2(ii)

In undertaking the valuation, Colliers has lowered the reversionary market rental and narrowed the spread to the passing rental level due to various market factors mentioned above. Taking into account the intensified competition in the regional market, the independent valuer has also adjusted the discount rate and cap rate to reflect the risk profile of the investment properties held by the Group.

Q3. *"The "Opening balances and Prior year adjustment ("PYAs")" is a key audit matter (KAM) highlighted by the Independent Auditor in their Report on the Audit of the Financial Statements (page 66). Key audit matters are those matters that, in the professional judgement of the Independent Auditor, were of most significance in the audit of the financial statements of the current period.*

The independent auditor stated the following:

Following the acquisition of the Company by China Everbright Limited ("CEL") during the financial year, there were changes made to the management team of the Group. In taking over the financial and accounting functions of the Group, certain issues in respect of the historical financial statements of the Group and the Company have been highlighted and corrected in accordance with SFRS (I) 1-8 Accounting Policies, Changes in Accounting Estimates and Errors. These adjustments were significant to the Group and require certain degree of judgement and estimates.

The audit committee ("AC") comprises Mr Chia Seng Hee, Jack (chairman; independent director), Mr Tan Sek Khee (independent director) and Mr Tang Chi Chun (non- independent director). Mr Chia and Mr Tan were the chairman and a member of the AC since FY2018 respectively.

In December 2019, the former independent auditors, Foo Kon Tan LLP ("FKT"), resigned on 21 January 2020, after receiving Accounting and Corporate Regulatory Authority's consent to do so.

Over 7 pages in Note 32 (pages 153 to 159), the company disclosed the prior year adjustments and reclassifications made. There were at least 12 PYAs made that involved at least 14 items in the FS.

This resulted in the groups' total equity, as at 31 December 2018, being adjusted down by RMB1.64 billion, from RMB5.39 billion to RMB3.77 billion. As at 31 December 2018, the net profit before restatement of RMB248 million was adjusted to a loss of RMB(499) million after restatement."

(i) "Would the independent directors in the AC elaborate in greater detail how they had discharged their duties objectively as a director and as a member of the AC

given that historical financial statements were found to be not in accordance with SFRS (I) 1-8 Accounting Policies, Changes in Accounting Estimates and Errors?"

Company's response to Q3(i)

The principal duties and responsibilities of the AC are set out under the corporate governance section in the Annual Report 2019.

Besides assisting the Board in discharging its responsibilities in safeguarding shareholders' investment and the Company's assets, the AC constantly reviews the development and maintenance of adequate and effective system of internal controls, with an overall objective of ensuring that the management team creates and maintains an effective control environment in the Group.

The external auditors and/or the Group Chief Financial Officer ("**Group CFO**") will update the AC on the changes to accounting standards and issues which have a direct impact on financial statements from time to time.

In addition, the AC is entitled to seek clarification from the management team, the external auditors and/or the internal auditors or independent professional advisers, or attend relevant seminars, informative talks from time to time to apprise themselves of accounting standards / financial updates.

The AC has explicit authority to investigate any matter within its terms of reference, full access to and co-operation by the management team, full discretion to invite any Executive Director or officer to attend its meetings, and reasonable resources to enable it to discharge its functions properly.

The Group's historical financial statements have been prepared based on the prevailing information and management opinion/judgement at that point in time. As announced by the Company on 13 September 2019, certain issues in respect of the historical financial statements of the Group were highlighted by the new finance team put in place to take over the financial and accounting functions of the Group following the acquisition of the Company by CEL. The Company had then engaged an internationally recognised and reputable accounting firm to assist in a special standalone review of such issues. Such issues have been highlighted and corrected in accordance with SFRS (I) 1-8 Accounting Policies, Changes in Accounting Estimates and Errors by the management team after consultation with independent advisers. These adjustments were significant to the Group and require certain degree of judgement and estimates. More details can be found in the Annual Report 2019.

As such, the AC has discharged its roles and responsibilities accordingly.

(ii) "Would the AC chairman help shareholders understand his recent and relevant accounting or related financial management expertise or experience?"

Company's response to Q3(ii)

The Company's AC Chairman, Mr. Jack Chia, is a professional Director, specialising in corporate governance and he has about 20 years of related financial management experience in both the private and public sectors. Currently, Mr. Chia spends a substantial amount of time in Chongqing and he has been a keen observer of the real estate industry where most of the Group's assets are located.

Mr. Chia graduated from the National University of Singapore with a degree in Accountancy, from the International University of Japan with a Master's degree in International Relations and is a Fellow of the Institute of Singapore Chartered Accountants. He also attended the General Management Program at Harvard Business School.

After some twenty years in various roles with Arthur Andersen, Singapore Technologies and the Government of Singapore Investment Corporation (GIC), he was appointed a role as Senior Director (China Operations) on the board of Enterprise Singapore, and is based at the Consulate General of Singapore in Shanghai, as Consul (Commercial).

(iii) "What improvements have the AC made to the group's financial reporting and internal controls?"

Company's response to Q3(iii)

There was a total of 7 AC meetings held in 2019 as compared to 4 AC meetings held in 2018. In addition, there were several informal discussions between the AC, the Group CFO, the independent advisers, internal auditors and the external auditors, Nexia TS Public Accounting Corporation, focusing on areas such as internal controls, risk management, financial reporting, internal and external audits.

As announced by the Company on 13 September 2019, the Company had engaged an internationally recognised and reputable accounting firm to assist in a special standalone review and consultation on these accounting matters of the Group.

In line with good corporate governance practice and to enable the Company to benefit from a fresh perspective, the AC also recommended for the change of external auditors to audit the financial statements of the Company for the financial year ended 31 December 2019. The Group's previous external auditor has served for more than 11 years since its appointment with effect from the financial year ended 31 December 2008.

To further strengthen the ongoing corporate governance processes of the Company, the AC has proposed for the rotation of the Company's internal auditor to a different "Big Four" accounting firm in 2019.

(iv) "Can the AC disclose the identity of the internal auditor?"

Company's response to Q3(iv)

The Company has engaged one of the "Big Four" accounting firms as its internal auditor for the past five years. Previously, Ernst & Young Advisory Pte. Ltd. was appointed as the Group's internal auditor. To further strengthen the ongoing corporate governance processes of the Company, the AC proposed to rotate the Company's internal auditor to KPMG Services Pte. Ltd. in 2019.

(v) "On what basis did the directors judge that the statement of financial position and the consolidated financial statements give a true and fair view?"

Company's response to Q3(v)

In addition to the work undertaken by the AC, the Board has had frequent and extensive discussions with the Group CFO and the finance team to oversee financial reporting and review the financial results of the Group.

In 2019, the Company has engaged various independent advisers from accounting, legal and professional valuers to provide advice and new perspective on the Group's business activities.

Following the extraordinary general meeting of the Company held on 14 February 2020, a change of external auditors was effected for the audit of the Group's consolidated financial statements for the financial year ended 31 December 2019. A change of external auditors accords with good corporate governance and will enable the Company to benefit from a fresh perspective. The Board is of the view that it would be timely to effect the change of external auditors to further strengthen the ongoing corporate governance processes of the Company. The Group's previous external auditor has served for more than 11 years since its appointment ended 31 December 2008.

The Board has deliberated and reviewed the audit plans and the scope of audit to be conducted by the internal auditors and the external auditors. The Board has also assessed the external auditors' basis of opinion and key audit matters in the audit of the Group's consolidated financial statements for the financial year ended 31 December 2019.

Separately, the Company's independent external auditors, Nexia TS Public Accounting Corporation, has opined that the accompanying consolidated financial statements of the Group in the Annual Report 2019 and the statement of financial position of the Company are properly drawn up in accordance with the provisions of the Companies Act, Chapter 50 of Singapore and Singapore Financial Reporting Standards (International) so as to give a true and fair view of the consolidated financial position of the Group and the financial position of the Company as at 31 December 2019 and of the consolidated financial performance, consolidated changes in equity and consolidated cash flows of the Group for the financial year ended on that date. More details of the basis for opinion of Nexia TS Public Accounting Corporation, can be found in page 65 of the Annual Report 2019.

Based on the above-mentioned reasons, the Board is of the opinion that the Group's consolidated financial statements present a true and fair view.

By Order of the Board
Ying Li International Real Estate Limited

Hu Bing
Executive Director and Group Chief Executive Officer
21 May 2020