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## **KAISA GROUP HOLDINGS LTD.**

**佳兆業集團控股有限公司\***

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1638)**

### **CHANGE OF AUDITORS**

#### **RESIGNATION OF AUDITORS**

The Company has requested PricewaterhouseCoopers (“PwC”) to complete the audit of the consolidated financial statements of the Company for the year ended 31 December 2014 by September 2016. PwC has communicated to the Company that PwC has not been able to perform certain procedures as described in its resignation letter that is reproduced in this announcement and therefore is not in a position to commit to the timetable set by the Company. In these circumstances, the Company would like to terminate the Company’s auditor relationship with PwC as PwC is not in a position to commit to the timetable set by the Company. As PwC is not able to obtain satisfactory explanation and evidence to support or update the Significant Reporting Matters (as defined below) as described in its resignation letter that is reproduced in this announcement, and is not able to perform the necessary additional audit procedures which PwC believes are necessary for the audit of the consolidated financial statements of the Company for the year ended 31 December 2014, PwC therefore has agreed with the Company to terminate the auditor relationship.

#### **APPOINTMENT OF AUDITORS**

Grant Thornton Hong Kong Limited has been appointed as the new auditors of the Company with effect from 24 June 2016 to fill the casual vacancy following the resignation of PwC and to hold office until the conclusion of the forthcoming annual general meeting of the Company.

This announcement is made by Kaisa Group Holdings Ltd. (the “**Company**”) pursuant to Rule 13.51(4) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

## **RESIGNATION OF AUDITORS**

PricewaterhouseCoopers (“**PwC**”) has rendered their resignation as the auditors of the Company with effect from 24 June 2016.

The Company has requested PwC to complete the audit of the consolidated financial statements of the Company for the year ended 31 December 2014 by September 2016. PwC has communicated to the Company that PwC has not been able to perform certain procedures as described in its resignation letter that is reproduced in this announcement and therefore is not in a position to commit to the timetable set by the Company. In these circumstances, the Company would like to terminate the Company’s auditor relationship with PwC as PwC is not in a position to commit to the timetable set by the Company. As PwC is not able to obtain satisfactory explanation and evidence to support or update the Significant Reporting Matters (as defined below) as described in its resignation letter that is reproduced in this announcement, and is not able to perform the necessary additional audit procedures which PwC believes are necessary for the audit of the consolidated financial statements of the Company for the year ended 31 December 2014, PwC therefore has agreed with the Company to terminate the auditor relationship.

An extract of the resignation letter of PwC dated 24 June 2016 that has set out its reason for resignation and the unresolved matters in respect of the audit of the consolidated financial statements of the Company for the year ended 31 December 2014 is reproduced below.

“We are engaged to conduct an audit of the consolidated financial statements of the Company for the year ended 31 December 2014 (the “**2014 Financial Statements**”). In February 2015, during the course of our audit, we were informed by certain directors and senior management of the Company of certain matters with regards to (i) reversal of previously recognised sales, (ii) agreements entered into between the Company and non-controlling interests, (iii) deposits received from third parties, (iv) additional borrowing interests to be recorded, and (v) classification of perpetual capital instruments. We communicated to the Board and the AC on 17 February 2015 about these matters and requested the Board and the AC to form an independent investigation committee for the commission of an independent investigation on these matters (the “**Investigation**”) to be conducted by an independent professional adviser.

In March 2015, we were informed by the Board and the AC that they had decided at that point in time not to commission the Investigation, and requested us to continue with our audit of the 2014 Financial Statements on that basis. In April 2015, we had a meeting with the Board and

the AC (the “**Meeting**”), following the substantial completion of all other audit procedures, and communicated, among other things, the following matters that should be subject to the Investigation:

**1. Identification of certain agreements during 2014 and authenticity of the accounting records**

In February 2015, management of the Group uncovered a number of agreements (the “**Newly Uncovered Agreements**”) executed with certain third parties, most of which were signed in prior years while a few of them were signed in 2014. These Newly Uncovered Agreements were not previously disclosed or provided to us.

As a result of these Newly Uncovered Agreements, management indicated that they have identified certain significant errors relating to the consolidated financial statements for the year ended 31 December 2013 and before. These involved reclassification of certain non-interest bearing liabilities and non-controlling interests with a gross amount totalling RMB24,081,924,000 (Note: subsequently found to be “RMB20,615,400,000” per information provided by management after the Meeting) into borrowings. The related interest expenses totalling RMB1,910,194,000 (Note: subsequently found to be “RMB1,969,435,000” per information provided by management after the Meeting) would also need to be recorded, which would either be capitalised as costs of properties under development, completed properties held for sale and investment properties under development, or expensed in the relevant consolidated statements of comprehensive income.

During the first half of 2014, the Group also accounted for a number of transactions entered into by the Group in 2014 by increasing its non-interest bearing liabilities, non-controlling interests or perpetual capital balances. As a result of the above-mentioned Newly Uncovered Agreements that the Group executed in 2014, management indicated that all these balances would represent interest-bearing liabilities, and therefore would have to be adjusted from advance proceeds received and deposits received of RMB12,054,729,000, perpetual capital of RMB1,000,000,000 and non-controlling interests of RMB5,230,160,000 into borrowings (Note: subsequently found to be “advance proceeds received and deposits received of RMB1,766,630,000, amount due to non-controlling interest of RMB2,998,000,000, perpetual capital of RMB1,000,000,000 and non-controlling interests of RMB1,978,820,000” per information provided by management after the Meeting) as at 31 December 2014, and the related interest expenses be accrued accordingly. All the borrowings relating to the Newly Uncovered Agreements executed in 2014 and before are collectively referred to as the “**Unrecorded Borrowings**”.

There were departures of a number of executive directors and senior executives of the Group since the last quarter of 2014. Management of the Group was not able to provide satisfactory explanations to us on the nature and substance of the Unrecorded Borrowings, nor were we able to obtain from them satisfactory explanation and adequate documentary evidence to ascertain whether the contracting parties of most of the Newly Uncovered Agreements were, in fact, the same contracting parties associated with the above-mentioned non-interest bearing liabilities, non-controlling interests and perpetual capital instruments previously recorded in the 2014 Financial Statements and those consolidated financial statements in prior years. Moreover, we were not able to receive satisfactory confirmation replies from, nor were we able to interview, the relevant counter-parties of the Newly Uncovered Agreements. In addition, at that time the Board decided not to carry out the Investigation as requested.

As a result of these scope limitations, we have indicated to the Board and the AC at the Meeting that we would not be able to satisfy ourselves as to (i) the occurrence, accuracy, nature, substance and valuation of the Unrecorded Borrowings, together with the related interest expenses, and whether or not the significant errors identified, together with the relevant amounts recorded in 2014, were complete and accurate in all material respects; and (ii) whether the information and documents provided to us for the purpose of the audit were complete and accurate in all material respects, and whether the 2014 Financial Statements were free from material misstatement, whether caused by error or other reasons.

## **2. Identification of unexplained cash payments and receipts**

During the course of our audit of the 2014 Financial Statements, we identified significant amounts of receipts from and payments to a number of alleged third parties (the “**Alleged Third Parties**”) during and prior to the year ended 31 December 2014, some of which were recorded as construction payments to one of the Group’s contractors. These gross receipts and payments made during the year ended 31 December 2014 that did not represent construction payments amounted to RMB10,823,066,000 and RMB11,890,595,000 respectively. As at 31 December 2014, other receivables and payables balances with these Alleged Third parties amounted to RMB1,701,902,000 and RMB2,705,824,000, respectively (Note: subsequently found to be “RMB2,550,332,000 and RMB3,219,493,000, respectively” per information provided by management after the Meeting). All these balances were not supported by legitimate documentary evidence. Management was not able to provide us with satisfactory explanations or adequate evidence as to the identity of the Alleged Third Parties, their relationship with the Group, if any, and the commercial substance and rationale of these non-construction related payments and receipts. With the absence of the Investigation at that time and other relevant limitations as described in point 1 above, we have indicated to the Board and the AC at the Meeting that we would not be able to satisfy ourselves as to the occurrence, accuracy and completeness of these transactions and the substance of their nature, nor the existence, accuracy, valuation and completeness of the related other receivables and payables balances.

## **3. Re-purchases, sales, cancellation of sales, and purchases of properties under development, completed properties held for sale in bulk and proposed development project**

In its normal course of business, the Group occasionally disposed of certain remaining units of completed properties held for sale in bulk, properties under development and proposed development projects through disposals of the related project companies to certain third parties. During the year ended 31 December 2014, the Group re-purchased some of these project companies (collectively the “**Re-purchased Project Companies**”) that were sold in prior years from each of the original buyers totalling RMB4,917,621,000, all of which are the Alleged Third Parties relating to the unexplained cash transactions described in point 2 above. Each of the Re-purchased Project Companies owns certain properties under development, completed properties held for sale and/or proposed development projects. Some of these re-purchases were

made at the original selling prices, while the remaining four of them was re-purchased at considerations that was different from the original selling price by RMB253,891,000 in total.

In addition, during the first half of the year ended 31 December 2014, the Group sold six project companies (the “**Sold Projects**”), which held certain properties under development, completed properties held for sale and proposed development projects, to certain Alleged Third Parties relating to the unexplained cash transactions described in point 2 above at a total consideration of RMB2,713,860,000. Of these six Sold Projects, the sales transactions of four of them, which consisted of four wholly-owned project companies (the “**Cancelled Project Companies**”), were cancelled such that the original cash considerations of RMB1,478,080,000 were refunded and the related sales revenue of the same amount and net profit of RMB824,689,000 were reversed in the second half of the year ended 31 December 2014. As a result of the sales cancellations, the relevant assets and liabilities of the Cancelled Project Companies were included in the 2014 Financial Statements.

Up to the date of the Meeting, the legal ownership of three of the Re-purchased Project Companies and one of the Cancelled Project Companies had not yet been transferred to the Group.

Pursuant to the relevant re-purchase and sales cancellation contracts, the Group made payments to various recipients designated by the sellers of the Re-purchased Project Companies and the original buyers of the Cancelled Project Companies. All of these payments were not supported by formal tripartite agreements amongst the Group, the designated recipients, and the sellers of the Re-purchased Project Companies/the original buyers of the Cancelled Project Companies. In addition, all of these designated recipients are the Alleged Third Parties relating to the unexplained cash transactions described in point 2 above. Moreover, the Group made a total payment of RMB6,313,149,000 (Note: subsequently found to be “RMB6,313,150,000” per information provided by management after the Meeting) to various recipients designated by the sellers of the Re-purchased Project Companies and the buyers of the Cancelled Project Companies which were more than the amounts pursuant to the relevant contracts by RMB171,339,000 (Note: subsequently found to be “RMB171,340,000” per information provided by management after the Meeting).

Furthermore, during the year ended 31 December 2014, the Group purchased four (Note: subsequently found to be “five” per information provided by management after the Meeting) project companies, which own certain properties under development and completed properties held for sale and one proposed development project, from certain Alleged Third Parties relating to the unexplained cash transactions described in point 2 above at a total cash consideration of RMB2,637,819,000 (Note: subsequently found to be “RMB2,937,819,000” per information provided by management after the Meeting). As a result of these purchases, the relevant assets and liabilities of these project companies were included in the 2014 Financial Statements.

We have indicated to the Board and the AC at the Meeting that we were unable to obtain satisfactory explanations from management as to the substance and the nature of the above mentioned re-purchases, sales, cancellation of sales and purchases, including but not limited to the reasonableness of the consideration, the cash payment arrangements, and the identity of the counter-parties and the designated cash recipients together with their relationship, if any, with the Group. Further, we have not received satisfactory confirmation replies from these counter-parties or designated recipients, nor were we able to arrange interviews with these counterparties or designated cash recipients to verify the amounts, nature, substance and other arrangements of these re-purchases, sales, cancellation of sales and purchases. We were unable to obtain sufficient appropriate audit evidence to verify the occurrence, accuracy, completeness and valuation of these transactions. In addition, with the absence of the Investigation at that time and as well as other relevant limitations as described in the above sections, management was not able to provide us with information and evidence as to whether the identified re-purchase transactions in 2014 represented arrangements that were linked with the original sales transactions consummated in prior years, and if so, whether any other similar sales transactions consummated in year 2014 and prior years had similar re-purchase arrangements.

#### **4. Disposal of subsidiaries located in Dongguan and Huizhou**

In December 2014, the Group disposed of all its nine subsidiaries located in Dongguan, the People's Republic of China (the "PRC") and one subsidiary in Huizhou, the PRC, which are all engaged in real estate property development, to certain alleged third party buyers at a total consideration of RMB559,379,000. In this connection, the Group recognised a loss of RMB397,200,000 (Note: subsequently found to be "RMB422,509,000" per information provided by management after the Meeting) on disposal. Moreover, only an insignificant portion of the consideration amounting to RMB50,000,000 was received as at 31 December 2014 and yet the Group had transferred the legal ownership of all these subsidiaries to the buyer as at 31 December 2014. We have indicated to the Board and the AC at the Meeting that we were also not able to arrange interviews with the buyers in relation to such disposals, and that management was not able to provide us with satisfactory explanations or adequate evidence as to the commercial substance and rationale for these disposals, including but not limited to the reasonableness of the disposal consideration.

#### **5. Re-designation of advance proceeds received to other payables**

During the year ended 31 December 2014, pursuant to a tripartite agreement entered into amongst the Group, the original contracting parties of certain advance proceeds received and certain of the Alleged Third Parties, the Group re-designated certain advance proceeds received amounting to RMB760,824,000, which were originally recorded as amounts due to the original contracting parties, as other payables due to these Alleged Third Parties. We have indicated to the Board and the AC at the Meeting that management was not able to provide us with explanation of the reasons and substance of this transaction, and that we were not able to obtain satisfactory confirmation replies nor were we able to arrange interviews with the original contracting parties and the Alleged Third Party in relation to such tripartite agreement.

In addition to the aforementioned matters that we believed should be subject to the Investigation, we have also communicated the following unresolved matters during the Meeting which we believed could have a significant impact on our audit of the 2014 Financial Statements:

## 1. Blockage of property projects

Since December 2014, the Group were blocked from processing and filing of the sale and purchase agreements for certain unsold units of property projects under pre-sale (the “**Blockage**”), restricted from registration or filing of any transfers or pledges of unsold units of certain completed property projects and properties held for rental and self-use (the “**Restriction**”), declined from acceptance of any routine applications for licenses, certificates, permits, approvals, registrations and filings that are necessary during the different stages of development for certain properties under development (the “**Declination**”), or suspended from processing of all planning-related and state-owned land-related applications and approval procedures of certain construction projects (the “**Suspension**”) by the relevant government authorities. Besides, certain commercial banks in the PRC suspended the granting of personal mortgage loans to purchasers of substantially all of the Group’s properties, including those properties affected by the Blockage, the Restriction, the Declination and the Suspension (all these events and conditions are collectively referred to as the “**Business Disruption Events**”). The Business Disruption Events significantly impacted the Group’s ability to sell and lease out properties during its normal course of business.

These aforesaid affected property projects of the Group amounted to RMB22,701,104,000 (Note: subsequently found to be “RMB31,597,319,000” per information provided by management after the Meeting) in total, consisting of property and equipment, investment properties, land use rights, properties under development, completed properties held for sale, deposits for land acquisition and prepayments for proposed development projects. Besides, the Group recognised during the year ended 31 December 2014 revenue and gross profit from sales of completed properties that were affected by the Business Disruption Events of RMB1,983,912,000 and RMB577,643,000 (Note: subsequently found to be “RMB570,155,000” per information provided by management after the Meeting), with a corresponding outstanding accounts receivable of RMB595,235,000 (Note: subsequently found to be “RMB288,876,000” per information provided by management after the Meeting) as at the same date. No provision for impairment against these assets was recorded in the 2014 Financial Statements.

As at the date of the Meeting, whilst the Group noted that the Blockage of certain property project units under pre-sale and the Restrictions of all unsold units of certain completed property projects and properties held for rental and self-use were lifted according to the publicly available information as shown on the website of the relevant PRC authority, these property projects were still subject to freezing orders imposed by local PRC courts with regards to the applications filed by the creditors as mentioned below and therefore were not saleable. The Group had not received any notification from the relevant PRC authority regarding the partial release of the Blockage and the Restriction. Through reading of the relevant announcements made by the Company, we noted that there have been updates with respect to these Business Disruption Events but we have not been provided with the details nor are we able to communicate with the relevant parties relating to these Business Disruption Events up to the date of this letter.

## 2. Multiple uncertainties relating to going concern

Based on the Group's unaudited management accounts, it incurred a significant net loss and had a significant net operating cash outflow during the year ended 31 December 2014. In addition, as at 31 December 2014, certain current and non-current borrowings of the Group were in default because of either breaches of restrictive covenants in the loan agreements or the Group's failure to repay loan principal and interest. Furthermore, as of the date of the Meeting, the Group had been significantly affected by the Business Disruption Events and was not able to sell and lease out most of its properties in its normal course of business. Furthermore, as at the date of the Meeting, the Group received a number of applications filed by the Group's creditors with the courts in the PRC (the "**Application**") in relations to preservation of the Group's assets pursuant to the PRC onshore loan agreements.

As a result, subsequent to 31 December 2014 and up to the date of the Meeting, certain of the Group's cash, property and equipment, land use rights, investment properties, properties held for sales and properties under development were frozen such that the Group would not be able to transfer or encumber these assets, while some of the same classes of assets might be subject to the same restriction should the relevant courts decide to exercise their power to do so. All of these conditions indicate the existence of material uncertainties that may cast significant doubt about the Group's ability to continue as a going concern. Through reading the relevant announcements made by the Company, we noted there have been updates to these conditions and events but we have not been provided with the details nor are we able to communicate with the relevant parties relating to these conditions and events up to the date of this letter.

During the Meeting, the Board indicated that they would follow up with the above matters (collectively the "**Significant Reporting Matters**") and would provide us with further supports or explanations, if any. Our audit field work has halted following the Meeting since the end of April 2015 and we have not re-started the audit field work up to the date of this letter. Subsequent to the Meeting, we communicated with the Board in a number of occasions to understand the Board's follow up actions on the above matters. However, no significant updates were obtained up to the date of this letter.

Furthermore, we noted from the Company's announcement dated 29 April 2015 that the Company had established an Independent Committee (the "**IC**") consisting of Mr Zhang Yizhao ("**Mr Zhang**") and Mr Rao Yong ("**Mr Rao**"), the independent non-executive directors of the Company, to lead the Investigation. We communicated to the Board on 7 May 2015, to reiterate that we, as auditor of the Company, need to assess the competency, objectivity and independence of the independent professional advisor to be appointed to conduct the Investigation; and to be satisfied with respect to the adequacy of the scope and procedures of the Investigation. The results of the Investigation would be relied upon by us as significant evidence for our audit of the 2014 Financial Statements, and are likely to have significant impact on the nature, timing and extent of the additional audit procedures to be undertaken by us. We have communicated in a number of occasions with the Board and the IC that we need to be involved in setting the scope of the Investigation and to be updated and informed during the course of the Investigation.



In June 2015, we noted that a legal adviser (“**Legal Adviser**”) was engaged by the IC to advise the IC on, and to lead, the Investigation. We also noted from the Company’s announcement on 29 October 2015 that the IC has engaged FTI Consulting (Hong Kong) Limited (“**FTI**”) to assist with the Investigation. We repeatedly requested a meeting to be held amongst the IC, FTI and us to discuss the scope and the status of the Investigation. Up to the date of this letter, we have not been involved in setting the scope of the Investigation nor have we been updated on the status of the Investigation.

On 19 May 2016, we had another meeting with the IC and the Legal Adviser to discuss the status of the Investigation. We understand that FTI has yet to complete the Investigation, but no details about the scope and status of the Investigation were provided to us during the meeting. Therefore, during the meeting we have requested to meet with FTI to further understand the scope and the status of the Investigation.

On 30 May 2016, we were informed by the Board the timetable set for the fulfilment of the resumption conditions imposed by The Stock Exchange of Hong Kong Limited, one of which is to announce and publish the financial results of the Group for the year ended 31 December 2014 by a specified date. Therefore, the Board requested us to complete the audit of the 2014 Financial Statements by September 2016.

On 17 June 2016, we communicated with the Board in writing that because we have not been involved in setting the scope of the Investigation nor have we been updated on the status of the Investigation, we have therefore not been able to assess the relevant audit implications of the findings of the Investigation so far, nor are we able to determine the additional audit procedures, if any, that we will need to perform as well as the timing to conclude such procedures. In these circumstances, we were therefore not in a position to commit to the timetable set by the Board regarding the completion of the audit of the 2014 Financial Statements.

We were informed by the Board on 20 June 2016 that the Company would like to terminate the Company’s auditor relationship with us as we are not in a position to commit to the timetable set by the Board in relation to the completion of the audit of the 2014 Financial Statements. As we are not able to obtain satisfactory explanations and evidence to support or update the Significant Reporting Matters described in this letter, and are not able to perform the necessary additional audit procedures (including assessing the scope and results of the Investigation) which we believe are necessary for the audit of the Company’s 2014 Financial statements, we therefore agree with the Board to terminate the audit relationship.”

The Company is incorporated under the laws of the Cayman Islands and to the knowledge of the Board there is no requirement under the laws of the Cayman Islands for the resigning auditors to confirm whether or not there is any circumstance connected with their resignation which they consider should be brought to the attention of the Company’s members and creditors. PwC has therefore not issued such confirmation under Rule 13.51(4) of the Listing Rules.

## **APPOINTMENT OF AUDITORS**

Grant Thornton Hong Kong Limited has been appointed as the new auditors of the Company with effect from 24 June 2016 to fill the casual vacancy following the resignation of PwC and to hold office until the conclusion of the forthcoming annual general meeting of the Company.

## **SUSPENSION OF TRADING**

At the request of the Company, trading in the Company's shares (the "**Shares**") on The Stock Exchange of Hong Kong Limited has been suspended with effect from 9:00 a.m. on 31 March 2015. The trading in the Shares will continue to be suspended until further notice.

By Order of the Board  
**KAISA GROUP HOLDINGS LTD.**  
**Kwok Ying Shing**  
*Chairman and Executive Director*

15 July 2016

*As at the date of this announcement, the executive Directors are Mr. Kwok Ying Shing, Mr. Sun Yuenan, Mr. Zheng Yi, Mr. Yu Jianqing and Mr. Lei Fugui; the non-executive Director is Ms. Chen Shaohuan; and the independent non-executive Directors are Mr. Zhang Yizhao and Mr. Rao Yong.*

\* *For identification purposes only*