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# 上海大生農業金融科技股份有限公司

Shanghai Dasheng Agriculture Finance Technology Co., Ltd.

*(a joint stock company incorporated in the People's Republic of China with limited liability)*

**(Stock code: 1103)**

## **SUPPLEMENTAL ANNOUNCEMENT TO ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2017 AND INTERIM REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2018**

Reference is made to the annual report for the year ended 31 December 2017 (the “**2017 Annual Report**”) and the interim report for the six months ended 30 June 2018 (the “**2018 Interim Report**”) of Shanghai Dasheng Agriculture Finance Technology Co., Ltd. (the “**Company**”, together with its subsidiaries, the “**Group**”) published on 24 August 2018 and 21 September 2018, respectively, and the Company’s supplemental announcement to the 2017 Annual Report and the 2018 Interim Report dated 13 December 2018. Unless the context otherwise requires, capitalised terms used herein shall have the same meanings as those defined in the Annual Report and the relevant announcements published between 21 March 2018 and 8 March 2019.

### **AUDIT QUALIFICATIONS**

As disclosed in 2017 Annual Report, the Company’s former auditors, BDO Limited (“**BDO**”), issued a disclaimer of opinion (the “**Audit Qualifications**”) on the Company’s consolidated financial statements for the year ended 31 December 2017 (the “**2017 Financial Statements**”) due to the potential interaction of the multiple uncertainties relating to going concern and their possible cumulative effect on the consolidated financial statements, as well as the insufficiency in appropriate audit evidence provided to them to form a basis for an audit opinion as described in the paragraph headed “Basis of Disclaimer of Opinion” of the independent auditor’s report contained in the 2017 Annual Report. The Board would like to provide further information in relation to the following Audit Qualifications:

## Management's view on the Audit Qualifications

### *Multiple uncertainties relating to going concern (the "Going Concern Qualification")*

Since the publication of the Company's preliminary annual results for the year ended 31 December 2017 on 20 March 2018, the management of the Company (the "**Management**") has been using its best endeavours to compile documents to support the uncertainties in the assumptions. However, due to the deteriorating status of the CEFC Events and the Shenzhen Dasheng Events, the Management understood and agreed with the Going Concern Qualification as at the date of the publication of the revised Results Announcement.

The Management prepared the revised 2017 Financial Statements on a going concern basis, the validity of which depends on the outcome of the plans and measures the Company has undertaken to improve the Group's liquidity and financial position which are subject to multiple uncertainties, including (i) the successful negotiations with the lenders for the renewal of or extensions for repayments of the Group's borrowings, including those with overdue principals and interests thereon; and (ii) the successful implementation of the Company's disposal plan of Nantong Road and Bridge Engineering Co., Ltd., a non-wholly owned subsidiary of the Company ("**Nantong Road and Bridge**") (the "**Disposal**").

As disclosed in the Interim Report, as at 30 June 2018, the Group's total borrowings amounted to approximately RMB3.62 billion. Based on the unaudited financial information of the Group, the Group's total borrowings as at 31 December 2018 amounted to approximately RMB3.38 billion, of which approximately RMB1.99 billion was not due. The Group has been negotiating with a number of banks and other financial institutions for renewal and extension of bank and other borrowings. Specifically, the Group is in negotiations with the lenders to extend the repayment dates of the overdue borrowings and interests thereon.

### *Status of legal proceedings*

The change in the Group's total borrowings was due to the settlement of the outstanding repayment of the Group under Tianjin Galaxy Legal Proceedings by Hong Kong Dasheng Investment Holdings Company Limited (香港大生投資控股有限公司), a substantial shareholder of the Company. For further details, please refer to the Company's announcements dated 18 July 2018 and 27 August 2018.

Further, the Bao Ze Pledged Shares have been successfully sold in an auction ordered by the court on 21 January 2019 under the Nanjing Dasheng Legal Proceedings. For further details, please refer to the Company's announcements dated 18 July 2018, 16 October 2018, 16 November 2018, 19 December 2018, 21 December 2018, 27 December 2018, 11 February 2019 and 19 February 2019.

Recently, Shanghai Agro-chemical Shares have been put under an enforcement action of claims filed by CEFC under the CEFC Legal Proceedings. The Shanghai Agro-chemical Shares may be put under auction or realisation ordered by the court to settle the outstanding repayment to CEFC. For further details, please refer to the Company's announcements dated 29 June 2018, 18 July 2018, 1 March 2019 and 8 March 2019.

As at the date of this announcement, the Legal Proceedings, the Zhiying Legal Proceedings, the PD Legal Proceedings and the Second CEFC Legal Proceedings are still ongoing. For further details, please refer to the Company's announcements dated 28 May 2018, 11 June 2018, 29 June 2018, 4 September 2018, 14 September 2018, 1 November 2018, 3 December 2018 and 14 December 2018.

#### *Status of the Disposal*

The Company entered into an investment framework agreement on 21 May 2018 and five supplemental agreements (collectively, the “**Investment Framework Agreements**”) with Black Peony (Group) Co., Ltd.\* (黑牡丹(集團)股份有限公司), as the possible purchaser and Nantong Road and Bridge, in relation to the Disposal. As disclosed in the 2017 Annual Report, the Management expected that the Disposal will be completed in December 2018 and the net proceeds received therefrom will improve the Group's liquidity.

However, the validity period of the Investment Framework Agreement and the Exclusivity Period have expired on 20 February 2019 and the parties to the Agreements have neither extended the Exclusivity Period arrangement nor entered into any Formal Agreement in relation to the Disposal. Given the lapse of time since the entering into of the Investment Framework Agreement, the Board announces that the Company has decided not to extend it. The Company is currently seeking alternative methods to dispose of its equity interest in Nantong Road & Bridge.

Whilst the Company is not able to assess the view of the auditors of the Company, Asian Alliance (HK) CPA Limited (the “**New Auditors**”), on whether the Group's ability to continue as a going concern, it will use its best endeavours to co-operate with the New Auditors in conducting their audit work on the Group's ability to continue as a going concern. To the Management's best knowledge and belief, if a feasible plan could be devised before the end of March 2019, which shall cover (i) the probable settlement of all outstanding material debts (including extension/ renewal/ refinancing/ cash repayment/ debt conversion to equity etc.); and (ii) how the recurring business of the Group is to be carried for the year ending 31 December 2019, the Going Concern Qualification may be able to be adequately addressed and removed.

### ***Impairments of trade and other receivables (the “Impairment Qualification”)***

The Management understood and agreed with the basis of the Impairment Qualification put forward by BDO as at the date of the publication of the revised Results Announcement. The Management had used its best endeavours to provide all necessary information to BDO for preparing the 2017 revised annual results. However, as (i) details of the debt restructuring plan of the China CEFC Group was not publicly available information; (ii) the Management was not able to reach any agreement on the repayment plans with the Group’s customers affected by the CEFC Events and the Shenzhen Dasheng Events; and (iii) certain customers were not reachable as at the date of the publication of the revised Results Announcement, BDO was not provided with sufficient audit evidence to the satisfaction of the BDO for preparing the 2017 revised annual results in the limited time available to the Management.

The Management has since been using its best endeavors to gather further information regarding the CEFC Events and the Shenzhen Events and has been negotiating with certain debtors to enter into repayment / settlement agreements, and to provide any such available information to satisfy the New Auditors’ audit work.

To the Management’s best knowledge and belief, and as agreed with the New Auditors, if the relevant audit procedures to be performed by the New Auditors could produce satisfactory results, the Management believes that the Impairment Qualification may be removed for the Company’s results for the year ended 31 December 2018.

### **Audit Committee’s view on the Audit Qualifications**

The Audit Committee has critically reviewed the Management’s position on the major judgement areas and concurred with the positions of the Management to the Audit Qualifications and the basis thereof.

In last year, the Board has provided all necessary information to BDO for preparing the 2017 Annual Report. The Audit Committee from time to time closely communicate with the Board and BDO on the updated business situation and financial performance of the Group, in particular, the issues raised by BDO. At the pre-audit meeting for the annual audit of the consolidated financial statements of the Group for the year ended 31 December 2018, the New Auditors has drawn the Audit Committee’s attention to the Audit Qualifications in the previous financial year and circumstances under which the same Audit Qualifications would be issued in respect of the current financial year. As such the Audit Committee is fully aware of the repeated Audit Qualifications issued by the New Auditors and the reasons for such disclaimer of opinions.

Nevertheless, the Audit Committee believes that the root cause for the repeated Audit Qualifications is the CEFC Events and the Shenzhen Dasheng Events which resulted in the continued deteriorating operational situation and financial condition of the Group. Over the months, the Audit Committee has maintained close communication with the management and the New Auditors on the Audit Qualifications.

## **Action plan of the Group to address the Audit Qualifications**

The Company has proposed action plans to the New Auditors and is taking actions to address the Audit Qualifications with the aim to removing all the Audit Qualifications as soon as possible.

### ***Going Concern Qualification***

#### *Action plan for Going Concern Qualification*

The New Auditors are currently performing their audit procedures, which include, without limitation, (a) understanding the financial position of the Group as at 31 December 2018; (b) assessing the working capital forecast of the Group for the year ending 31 December 2019 to demonstrate that the Company would have sufficient working capital for the next twelve months; (c) considering the availability of financial resources provided to the Group; and (d) enquiring the management's future action plans and assessing the feasibility of these plans. The Company is also actively seeking alternative to disposal of Nantong Road & Bridge. Such audit procedures and assessment by the New Auditor shall be substantially completed in mid-March 2019.

Apart from renewal of the existing loans, the Company also plans to repay the outstanding debts mainly (i) through net proceeds from the disposal of Nantong Road & Bridge if such disposal can be materialised, and (ii) with the support from Shenzhen Dasheng by sale of its assets and offset of debts owed by the Company to Shenzhen Dasheng.

The Company will, by then, assess and adopt the above action plans, subject to the circumstances and financial conditions of the Company.

### ***Impairment Qualification***

#### *Basis for Impairment*

For the overdue 1 year amount by the debtors of the Company whom the Company failed to contact, the Company will consider making full impairment on the amounts.

### *Action plan for Impairment Qualification*

To address the Impairment Qualification, the Company has been carrying out the following measures:

- in January 2019, the Company has engaged an independent external valuer to value the impaired amount according to IFRS 9 for the year ended 31 December 2018, which is effective for accounting period beginning on or after 1 January 2018. As at the date of this announcement, the independent external valuer (the “**Valuer**”) is in the process of performing the valuation. By end of February 2019, the Valuer has provided the preliminary results of the impaired amount valuation to the Company and the New Auditors for review. However, the results of the valuation conducted by the Valuer and whether the impairment qualification may be ultimately removed will be dependent on whether the New Auditors agree with the basis and assumptions of the valuation. According to the latest discussion with the New Auditors, it is expected that the New Auditors will form a view on the valuation results by no later than end of March 2019.
- The Company has provided correct and accurate contact information of the debtors in its possession (such as their business address as shown in the contracts entered into or usual contact information) to the New Auditors. The Management has been assisting the New Auditors to analysis the credit risk of the debtors by (i) conducting credit search on the debtors through credit check agents; (ii) obtaining the financial statements of the debtors with normal operations to assess their financial ability to repay; (iii) arranging interview(s) with the debtors in respect of the operation status and future settlement plan (if available); (iv) arranging site visit(s) to the office of the debtors to ensure the existence of operation; (v) obtaining information on legal actions initiated against the debtors and their repayment plans; and (vi) compiling and collating information in relation to the CEFC Events and the Shenzhen Dasheng Events to prove its effect on the financial and business operations on the debtors. From the Company’s understanding, the New Auditors has been dealing with the information of the debtors and has carried out necessary audit procedures regarding the unreachable debtors and no conclusive judgment has been drawn as at the date of this announcement.
- The Management has been assisting the New Auditors to analyse the measurement of impairment made during the year ended 31 December 2018 by: (i) checking the settlement during the year and subsequent settlement of the debtors; (ii) checking collateral provided to the Group (if any); and (iii) assessing the reasonableness of assumptions made in the valuation.
- As at the date of this announcement, the Company has not entered into repayment agreements with those debtors it managed to contact to remove the Impairment Qualification.

After preliminary discussion with the New Auditors, the New Auditors will consider the above measures taken as a whole. In view of the above measures taken and to be taken by the Company, the Management is confident that the Impairment Qualification can be removed for the year ended 31 December 2018. However, whether the Impairment Qualification may be ultimately removed will be subject to the view of the New Auditors. The Management will use its best endeavours to provide all the information requested by the New Auditors in order to remove the Impairment Qualification for the year ended 31 December 2018.

The Company will keep its shareholders and investors informed of developments in relation to the Group's financial position, action plan and other matters by way of further announcement(s) as and when appropriate.

**Shareholders and investors of the Company should be aware that the value of an investment in the Company is subject to normal market fluctuations and other risks inherent in investing in securities. There is no assurance that any appreciation in the value of the shares of the Company will occur or that the investment objectives of the Company will be achieved. Shareholders of the Company and potential investors are advised to exercise caution when dealing in securities of the Company.**

By order of the Board  
**Shanghai Dasheng Agriculture Finance Technology Co., Ltd.**  
**Lan Huasheng**  
*Executive Director and Chairman*

Shanghai, PRC, 11 March 2019

*As at the date of this announcement, the Board comprises two executive directors: Mr. Lan Huasheng and Mr. Wang Liguu; and three independent non-executive directors: Mr. Chung Cheuk Ming, Mr. Yang Gaoyu and Mr. Zhou Jianhao.*