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DREAM EAST
梦东方

DREAM EAST GROUP LIMITED

夢東方集團有限公司

*(Incorporated in Bermuda with limited liability and
carrying on business in Hong Kong as “DreamEast Cultural Entertainment”)*

(Stock Code: 593)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE DISCLAIMER OF OPINION SET OUT IN THE INDEPENDENT AUDITOR’S REPORT FOR THE YEAR ENDED 31 DECEMBER 2020

We refer to the annual report of DreamEast Group Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) for the year ended 31 December 2020 (the “**2020 Annual Report**”). Unless otherwise defined, capitalized terms used in this announcement shall have the same meanings as those defined in the 2020 Annual Report.

In the 2020 Annual Report, the Company’s auditor (the “**Auditors**”) expressed a disclaimer of opinion on the Company’s consolidated financial statements for the year ended 31 December 2020 on material uncertainty related to going concern (the “**Disclaimer**”). The Group had net current liabilities of HK\$2,249 million as at 31 December 2020. It also incurred losses since 2019 and reported a loss of HK\$1,802 million for the year ended 31 December 2020. In addition, any further liabilities of obligations arising from the legal disputes, loans and bonds may have significant negative impact on the liquidity position of the Group.

Pursuant to Code Provision C.1.1 of the Corporate Governance Code, the management provided such explanation and information to the Board to enable the Board to make an informal assessment of the financial and other information put before the Board for approval. The Directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that might cast significant doubt upon the Company’s ability to continue as a going concern.

MANAGEMENT POSITION AND ASSESSMENT ON THE DISCLAIMER

In preparation of the consolidated financial statements of the Company for the year ended 31 December 2020 on a going concern basis, the management took into consideration the following factors in arriving at its position:

1. Net current liabilities

The net current liabilities of the Group as at 31 December 2020 were as follows:

	HK\$'M	<i>Notes</i>
Current assets		
Properties under development for sale	3,919	
Completed properties held for sale	301	
Amounts due from related companies	352	<i>(a)</i>
Bank balances and cash	11	
Other current assets	279	
	<u>4,862</u>	
Current liabilities		
Trade and other payables and accruals	1,079	<i>(b)</i>
Contract liabilities	353	<i>(b)</i>
Amounts due to related companies	1,158	<i>(a)</i>
Bank and other borrowings — within one year	3,771	<i>(c)</i>
Due to a joint venture	106	
Convertible bonds and bonds	567	<i>(d)</i>
Other current liabilities	77	
	<u>7,111</u>	
Net current liabilities	<u><u>(2,249)</u></u>	

(a) SkyOcean Group Holdings Limited (天洋控股集團有限公司), the controlling shareholders of the related companies, would not demand repayment of the Group's amounts due to (net of due from) related companies until the Group is in a financial position to do so.

(b) The Group has been actively negotiating with independent third parties to dispose the Group's certain equity interests in Fangshan Project, DreamEast Jiashan and DreamEast Suzhou. In particular, the Group was finalising a non-legally binding framework agreement (the "**Framework Agreement**") to dispose of 51% equity interest in DreamEast Jiashan to an independent third party before the announcement of the 2020 audited annual result on 31 May 2021. The Framework Agreement was signed on 3 June 2021. Upon successful disposal, the

Group will have additional cashflow to reactivate the aforesaid projects and settle the trade and other payables. The liquidity position of the Group will then be improved.

- (c) The bank and other borrowing repayable within one year of the Group amounted to HK\$3,771 million as at 31 December 2020, which mainly commercial loans from Shandong Assets and Bank of Beijing in the amount of HK\$3,236 million and HK\$318 million, respectively.

The Group is in active negotiations with the Shandong Assets for a debt restructuring. Considering that the valuation of the investment properties, properties under development for sales and completed properties held for sales pledged to Shandong Assets amounted to a total of HK\$5,495 million, with reference to valuation performed by independent qualified professional valuer, the management is of the view that the Group would have sufficient resources to meet its financial obligation with Shandong Assets.

The Group is finalising a Civil Mediation Agreement (民事調解協議) (“CMA”) with Bank of Beijing in which the loan interest rate will be reduced from 6.175% to 4% per annum and the repayment schedules will be revised to extend the repayment period.

- (d) Convertible bonds and bonds payable amounted to HK\$567 million as at 31 December 2020, of which HK\$100 million was due on 31 December 2020, with the remaining balance of HK\$467 million will be matured on 30 June 2021. The Company is in the process of negotiating with the convertible bondholder and bondholder to extend the outstanding convertible bonds and bonds payable and revise the repayment schedules.
- (e) The management is reviewing the market strategies and selling price for pre-sale of Hengyang DreamEast Resort. The pre-sales will be re-launched in the fourth quarter of 2021 which will improve the liquidity position of the Group.

2. Loss for the year

The loss for the year was mainly attributable to the impairment loss of properties, plant and equipment and properties under development for sales of HK\$114 million and HK\$1,377 million, respectively, as well as the provision for litigation and compensation of HK\$179 million and HK\$44 million, respectively, in relation to disputes under construction contracts in respect of the Group’s various property development projects and defaults of repayment of several bank and other borrowings.

The management is of the view that the financial performance of the Group will be improved for the year ending 31 December 2021 because:

- (a) It is expected that the Group will not have further material assets impairment for the year ending 31 December 2021;

- (b) The Group is actively negotiating with the construction contractors and banks to sort out revised repayment schedules;
- (c) The Group is taking active measures to control administrative costs, including human resources optimisation, management remuneration adjustments and containment of capital expenditures;
- (d) Upon successful disposal of certain projects of the Group as mentioned in Section 1(b) above, the administrative costs will be further decreased.

3. Further liabilities arising from legal disputes

As mentioned above, the Group is actively negotiating with the construction contractors and banks for revision of repayment schedules and debt restructuring, the directors do not expect that there will be material further liabilities arising from legal disputes with construction contractors and banks.

The directors of the Company had made due enquiries and performed sufficient work to assess the Disclaimer. However, during the course of audit, the auditors were not provided with adequate information, including but not limited to, executed sales and purchase agreement for disposal of the Group's equity interests in DreamEast Jiashan, executed CMA with Bank of Beijing, supplemental agreements with Shandong Assets, convertible bondholder, bondholder and construction contractors for revision of repayment schedules and debt restructuring, etc. The auditors were therefore unable to obtain sufficient appropriate audit evidence to ease their concern over the Group's ability to continue as a going concern. The directors agreed with the auditors to issue the Disclaimer in the independent auditor's report for the year ended 31 December 2020.

AUDIT COMMITTEE'S VIEW TOWARDS THE DISCLAIMER

The audit committee of the Company had held meetings on 29 March 2021, 3 May 2021 and 31 May 2021, respectively to enquire management of their basis to prepare the consolidated financial statements on a going concern basis and discuss with the auditors to understand the reasoning for the Disclaimer issued by the auditors. The Directors note that the audit committee did not disagree with the board of directors.

PROPOSED ACTION PLAN FOR ADDRESSING THE DISCLAIMER AND THE TIMETABLE FOR IMPLEMENTATION

The Company's action plan for addressing the Disclaimer is as follows:

	Timeline
CMA with Bank of Beijing executed	June 2021
Supplemental agreement with CCBI executed	August 2021
Disposed 51% equity interest in DreamEast Jiashan	Third quarter of 2021
Pre-sales of Hengyang DreamEast Resort re-launched	Fourth quarter of 2021
Supplemental agreement with Shandong Asset	December 2021

REMOVAL OF THE DISCLAIMER

Dependent on the successful and favourable outcomes of the above action plan, the Company expects that the Disclaimer will be removed in the auditors' report in respect of the Company's financial statements for the year ending 31 December 2021. The auditor's concern is on the Group's "net current liabilities" position at each reporting date. When the Group is able to improve its liquidity position to a satisfactory level with a concrete plan, the auditor will consider the removal of the Disclaimer in the coming audits.

On behalf of the Board
DREAMEAST GROUP LIMITED
Chan Tak Kwong
Company Secretary

Hong Kong, 17 June 2021

As at the date of this announcement, the Board comprises Ms. Zhou Jin (Chairman) and Mr. Yang Lei being the executive Directors, and Dr. Chen Guanglei, Dr. Meng Xiaosu, Mr. Yang Buting and Mr. Zhao Daxin being the independent non-executive Directors.