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DaFa Properties Group Limited **大发地产集团有限公司**

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 6111)

SUPPLEMENTAL ANNOUNCEMENT UPDATE ON THE ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2021

Reference is made to the announcement of DaFa Properties Group Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) dated 31 March 2022 in relation to the unaudited annual results of the Group for the year ended 31 December 2021 (the “**2021 Results Announcement**”). Unless otherwise defined, capitalised terms used herein shall have the same meanings as those defined in the 2021 Results Announcement.

The board of directors of the Company (the “**Board**”) hereby announces that, on 14 April 2022, the Company’s auditor, Ernst & Young, has completed the audit of the annual results of the Group for the year ended 31 December 2021 in accordance with Hong Kong Standards on Auditing (the “**HKSAs**”) issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”). Save for certain further update on the basis of preparation set out in page 8 to page 11 of the 2021 Results Announcement below, there are no other significant changes in the audited annual results as compared to the unaudited annual results contained in the 2021 Results Announcement.

Original disclosure:

“Going concern basis

The Group incurred a net loss of RMB428,771,000 for the year ended 31 December 2021. As at 31 December 2021, the Group’s total and current indebtedness amounted to RMB12,648,506,000 and RMB6,739,984,000 respectively, while its cash and cash equivalents amounted to RMB1,051,775,000 only.

Subsequent to 31 December 2021, the Group was in default under the terms and conditions of the relevant agreement of the senior notes for an aggregate principal amount of US\$40,360,000 that were not settled in full on the maturity date of 18 January 2022. This resulted in a winding-up petition was filed against the Company, and a separate winding-up petition was filed against YinYi Holdings (Hong Kong) Limited, a subsidiary of the Company, respectively at the High Court of the Hong Kong Special Administrative Region in relation to certain outstanding senior notes in the principal amount of US\$15,000,000 (plus accrued and unpaid interest). This also resulted in interest-bearing bank and other borrowings amounted to RMB117,280,000 in total (collectively “**Cross-default Borrowings**”) as at 18 January 2022 becoming immediately repayable if requested by the lenders.

In addition, the Company did not pay interest in due and payable on 30 January 2022 in the amount of US\$22,275,000 under the 12.375% senior notes due July 2022 (“**July 2020 Notes**”) issued by the Company as to ensure the fairness to all creditors by avoiding selective repayment in the situation. The Company had a grace period of 30 days to pay the interest. The Company did not make the payment before the expiry of the grace period. This resulted in the default for an aggregate principal amount of US\$360,000,000 under July 2020 Notes.

All of the above conditions indicate the existence of multiple uncertainties which may cast significant doubt on the Group’s ability to continue as a going concern.

In view of these circumstances, the directors of the Company have given careful consideration to the future liquidity and performance of the Group and its available sources of financial resources to continue as a going concern. In order to improve the Group’s liquidity and cash flows to sustain the Group as a going concern, the Group has implemented, or is in the process of implementing, the following key plans and measures:

- (i) The Group has appointed financial and legal advisers respectively to assist it with a holistic restructuring of its offshore debt, in order to reach a consensual solution with all the stakeholders as soon as practical;
- (ii) The Group has been actively negotiating with a number of commercial banks for renewal, extension and replacement of bank loans and credit facilities;
- (iii) In addition, the Group is also negotiating with various financial institutions and identifying various options for financing the Group’s working capital and commitments in the foreseeable future. In January 2022, the Company succeeded in carving out any default or event of default in respect of each outstanding Series of Notes as a result of a default or event of default occurring under the January 2021 Notes;
- (iv) The Group will seek to accelerate the pre-sales and sales of its properties under development and completed properties, including remaining units of property projects and saleable car parks;
- (v) The Group has implemented measures to speed up the collection of outstanding sales proceeds; and
- (vi) Management will consider other financing arrangements with a view to improving the Group’s liquidity and financial position.

The directors of the Company, including the members of the audit committee, have reviewed the Group’s cash flow forecast prepared by management. The cash flow forecast covers a period of 12 months from the end of the reporting period. The directors of the Company are of the opinion that, taking into account the above-mentioned plans and measures, the Group will have sufficient working capital to finance its operations and meet its financial obligations as and when they fall due within the next 12 months from the end of the reporting period. Accordingly, the directors of the Company are satisfied that it is appropriate to prepare these unaudited consolidated financial statements of the Group for the year ended 31 December 2021 on a going concern basis.

Notwithstanding the above, significant uncertainties exist as to whether the Group will be able to continue as a going concern, which will depend upon the Group's ability to generate adequate financial and operating cash flows through the following:

- (i) the successful negotiations with the lenders for the renewal of or extension for repayment of outstanding borrowings, including those with overdue principals and interests;
- (ii) the successful obtaining of additional new sources of financing as and when needed;
- (iii) successfully accelerating the pre-sales and sales of properties under development and completed properties and speeding up the collection of outstanding sales proceeds; and controlling costs and containing capital expenditure so as to generate adequate net cash inflows; and
- (iv) successfully obtaining other financial resources, including but not limited to additional funding from its substantial shareholder so as to enable the Group to have sufficient working capital to finance its operations and be able to meet its financial obligations as and when they fall due for at least the next 12 months from the end of the reporting period.

Should the going concern assumptions be inappropriate, adjustments may have to be made to write down the values of assets to their recoverable amounts, to provide for any further liabilities that might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effects of these adjustments have not been reflected in the consolidated financial statements.”

is replaced by:

Updated disclosure:

“Going concern basis

During the year ended 31 December 2021, the Group recorded a net loss of RMB428,771,000. As at 31 December 2021, the Group's total bank and other borrowings and senior notes amounted to RMB12,648,506,000, out of which RMB6,739,984,000 will be due for repayment within the next twelve months, while its cash and cash equivalents amounted to RMB1,051,775,000. Subsequent to 31 December 2021, the Group did not repay a principal of US\$40,360,000 (equivalent to RMB257,323,000) and an interest of US\$22,275,000 (equivalent to RMB142,019,000) for certain senior notes due in January and March 2022 respectively. On 1 April 2022, the Group received the acceleration notices from the holders of at least 25% in aggregate principal amount of the senior notes due in July 2022 and April 2023 respectively. As a result, senior notes and interest-bearing bank and other borrowings with an aggregate principal amount of RMB4,189,720,000 became default or cross-default, out of which RMB3,307,425,000 were payable on demand. A winding-up petition was filed by certain senior notes holders against the Company and an indirectly wholly-owned subsidiary of the Company respectively on 18 February 2022.

The above conditions indicate the existence of material uncertainties which may cast significant doubt over the Group's ability to continue as a going concern. In view of such circumstances, the directors of the Company have undertaken a number of plans and measures to improve the Group's liquidity and financial position, including:

- (i) The Group has appointed financial and legal advisers to assist it with a holistic restructuring of its senior notes, in order to reach a consensual solution with all the stakeholders as soon as practical;
- (ii) The Group has appointed legal counsels in relation to the winding-up petitions;
- (iii) The Group has been actively negotiating with the Group's existing lenders to seek renewal or extension for repayment of the Group's bank and other borrowings;
- (iv) The Group will continue to actively communicate with banks to timely secure relevant project development loans for qualified project development;
- (v) The Group will continue to seek for other alternative financing and borrowings to finance the settlement of its existing financial obligations and future operating and capital expenditures;
- (vi) The Group has prepared a business strategy plan mainly focusing on the acceleration of the sales of properties;
- (vii) The Group has implemented measures to speed up the collection of outstanding sales proceeds and effectively control costs and expenses; and
- (viii) The Group will continue to seek suitable opportunities to dispose of its equity interest in certain project development companies in order to generate additional cash inflows.

The directors of the Company are of the opinion that, taking into account the above plans and measures, the Group will have sufficient working capital to finance its operations and meet its financial obligations as and when they fall due within the next twelve months from 31 December 2021. Accordingly, the directors of the Company are satisfied that it is appropriate to prepare the consolidated financial statements of the Group for the year ended 31 December 2021 on a going concern basis.

Notwithstanding the above, significant uncertainties exist as to whether the management of the Group will be able to implement the aforementioned plans and measures. Whether the Group will be able to continue as a going concern will depend upon the Group's ability to generate adequate financing and operating cash flows through the following:

- (i) successfully completing the holistic restructuring of its senior notes;
- (ii) successfully dismissing the winding-up petitions;
- (iii) successfully negotiating with the Group's existing lenders for the renewal or extension for repayment of the Group's bank and other borrowings;

- (iv) successfully securing project development loans for qualified project development timely;
- (v) successfully obtaining of additional new sources of financing as and when needed;
- (vi) successfully carrying out the Group's business strategy plan including the acceleration of the sales of properties;
- (vii) successfully implementing measures to speed up the collection of outstanding sales proceeds and effectively control costs and expenses; and
- (viii) successfully disposing of the Group's equity interest in project development companies when suitable.

Should the Group be unable to operate as a going concern, adjustments may have to be made to write down the carrying values of assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effect of these adjustments has not been reflected in the consolidated financial statements.”

SCOPE OF WORK OF ERNST & YOUNG

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, the consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2021 as set out in the 2021 Results Announcement (save as supplemented and updated by this announcement) and this announcement have been agreed by the Company's auditor, Ernst & Young, to the amounts set out in the Group's audited consolidated financial statements for the year ended 31 December 2021. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with HKSAAs, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by Ernst & Young on the 2021 Results Announcement or this announcement.

EXTRACT OF THE AUDITOR'S REPORT

The following is an extract of the independent auditor's report on the Group's consolidated financial statements for the year ended 31 December 2021:

Disclaimer of Opinion

We do not express an opinion on the consolidated financial statements of the Group. Because of the potential interaction of the multiple uncertainties and their possible cumulative effect on the consolidated financial statements as described in the Basis for Disclaimer of Opinion section of our report, it is not possible for us to form an opinion on the consolidated financial statements. In all other respects, in our opinion, the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for disclaimer of opinion

Multiple uncertainties relating to going concern

As set out in note 2.1 to the consolidated financial statements, the Group recorded a net loss of RMB428,771,000 for the year ended 31 December 2021. As at 31 December 2021, the Group's total bank and other borrowings and senior notes amounted to RMB12,648,506,000, out of which RMB6,739,984,000 will be due for repayment within the next twelve months, while its cash and cash equivalents amounted to RMB1,051,775,000. Subsequent to 31 December 2021, the Group did not repay a principal of US\$40,360,000 (equivalent to RMB257,323,000) and an interest of US\$22,275,000 (equivalent to RMB142,019,000) for certain senior notes due in January and March 2022 respectively. On 1 April 2022, the Group received the acceleration notices from the holders of at least 25% in aggregate principal amount of the senior notes due in July 2022 and April 2023 respectively. As a result, senior notes and interest-bearing bank and other borrowings with an aggregate principal amount of RMB4,189,720,000 became default or cross-default, out of which RMB3,307,425,000 were payable on demand. A winding-up petition was filed by certain senior notes holders against the Company and an indirectly wholly-owned subsidiary of the Company respectively on 18 February 2022. These conditions, together with other matters set out in note 2.1 to the consolidated financial statements, indicate the existence of material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern.

The directors of the Company have been undertaking measures to improve the Group's liquidity and financial position, which are set out in note 2.1 to the consolidated financial statements. The validity of the going concern assumption on which the consolidated financial statements have been prepared depends on the outcome of these measures, which are subject to multiple uncertainties, including (i) successfully completing the holistic restructuring of its senior notes; (ii) successfully dismissing the winding-up petitions; (iii) successfully negotiating with the Group's existing lenders for the renewal or extension for repayment of the Group's bank and other borrowings; (iv) successfully securing project development loans for qualified project development timely; (v) successfully obtaining additional new sources of financing as and when needed; (vi) successfully carrying out the Group's business strategy plan including the acceleration of the sales of properties; (vii) successfully implementing measures to speed up the collection of outstanding sales proceeds and effectively control costs and expenses; and (viii) successfully disposing of the Group's equity interest in project development companies when suitable.

Should the Group fail to achieve the above-mentioned plans and measures, it might not be able to continue to operate as a going concern, and adjustments would have to be made to write down the carrying values of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effect of these adjustments has not been reflected in the consolidated financial statements.

KEY PLANS AND MEASURES TO ADDRESS THE DISCLAIMER OF OPINION

The Board has given careful consideration to the future liquidity and performance of the Group and its available sources of financial resources to continue as a going concern. In order to improve the Group's liquidity and cash flows to sustain the Group as a going concern, the Group has implemented, or is in the process of implementing the key plans and measures mentioned in the updated "Going concern basis" section above.

Save as disclosed above, there are no other significant changes in the audited annual results as compared to the unaudited annual results contained in the 2021 Results Announcement.

By order of the Board
DaFa Properties Group Limited
GE Yiyang
Chairman

Hong Kong, 14 April 2022

As at the date of this announcement, the Board comprises Mr. Ge Yiyang, Mr. Leng Junfeng, Mr. Chi Jingyong and Mr. Yang Yongwu as the executive Directors, and Mr. Gu Jiong, Mr. Sun Bing and Mr. Fok Ho Yin Thomas as the independent non-executive Directors.