Keyne 金奥国际
HK00009

KEYNE LTD

金奧國際股份有限公司*

(formerly known as Nine Express Limited)

(incorporated in Bermuda with limited liability)

(Stock Code: 00009)

ANNOUNCEMENT

SUPPLEMENTAL INFORMATION IN RELATION TO THE ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

Reference is made to the annual report (the "**Annual Report**") for the year ended 31 December 2021 ("**FY2021**") of KEYNE LTD (the "**Company**", together with its subsidiaries, the "**Group**") published on 29 April 2022. Unless the context otherwise requires, capitalised terms used herein shall have the same meanings as those defined in the Annual Report.

In addition to the information provided in the 2021 Annual Report, the Board would like to provide further information to the Corporate Governance Report there in relation to the disclaimer of opinion (the "**Audit Modification**") issued by the auditor of the Company (the "**Auditor**") in relation to the consolidated financial statements of the Group for the year ended 31 December 2021 pursuant to Code Provision D.1.3 of Appendix 14 of Listing Rules.

MITIGATION MEASURES AND FOLLOW UP ON YEAR 2021

a) The management of the Company has been engaged in active communication with the creditors and other financial institutions throughout the year 2021. The management has successfully persuaded the substantial shareholders to pledge the underlying assets of the projects as credit enhancement measures for the indebtedness of the Company, and entered into a debt restructuring agreement and supplemental agreement with Borrower B, a creditor, in June 2021 and December 2021, respectively, pursuant to which the maturity of the loan has been extended to the end of December 2022. The management also carried out active communication with Borrower A, another creditor, and procured its team to carry out onsite due diligence work on our projects at the end of 2021, the results of which had been submitted to its headoffice for approval and was unfortunately rejected by its head office. In addition, the Company also negotiated with Borrower E, a creditor, and succeeded in extending the maturity of the loan to the end of June 2023. The Company entered into an extension agreement for the loan from the Borrower F for the Xiangtan Project in June 2021, pursuant to which the maturity of the loan has been extended to June 2022.

During the period, the Company also proactively sought for refinancing channels and has approached a number of domestic financial institutions, but failed to obtain other refinancing facilities due to the overall tightening of loans for the real estate industry by the financial institutions as a result of the stringent regulation and control over real estate financing in China and the impact from the default events by some renowned real estate enterprises in Mainland China in the second half of 2021.

b) The Xiangtan Project of the Company stepped up sales efforts in 2021 and achieved robust sales in the first half of the year, recording an average monthly sales of approximately RMB65 million. The Xiangtan Project was granted pre-sale permits for a gross floor area of 50,468.52 square meters in August 2021. However, due to the real estate policy of "houses are for living instead of speculation" implemented by the central government and concern over the economic growth prospect as a result of the Pandemic, the domestic property sales market was hit hard and constantly deteriorated in the second half of 2021, and our Xiangtan Project wasn't immune from these negative impacts. The Xiangtan Project completed sales of only approximately RMB79 million in the second half of 2021, representing a substantial decrease of 82.37% over the sales amount of RMB448 million recorded in the corresponding period of 2020. Therefore, the Company failed to raise sufficient funding for repayment of loans from the financial institutions.

c) In 2021, the Company implemented strict control over the administrative costs in accordance with its internal expenditure management system. There was no substantial increase in the administrative costs in 2021 as compared with that of 2020.

d) Faced with the challenges brought by the COVID-19 Pandemic, the Company first strived to expand its target customer base. Before the outbreak of the COVID-19 Pandemic, the major target customers of the Xiangtan Project were the investors from Changsha City and the surrounding cities. After the outbreak of the COVID-19 Pandemic, the local residents in Xiangtan have raised their requirements for living experience. As such, the Xiangtan Project considered customers with improvement demand as another major target group of potential customers, and stepped up marketing effort to explore such target market. Furthermore, the Company accelerated sales and cash collection. Given the temporary liquidity difficulties caused by the emergence of the COVID-19 Pandemic, the Company adopted a series of measures such as price-down promotions and increasing investments in advertisement placement, sped up sales and maintained close interaction with local banks to ensure collection of sales revenue in time.

Benefitting from the aforesaid measures, the Company experienced significant improvement in its cash flow condition in 2021, and recorded a substantial increase of approximately HK$300 million in the operation cash flow as compared with that of 2020. The Xiangtan Project has been the largest contributor to the Company's cash flow. However, the actual inventory sales of the Xiangtan Project failed to live up to expectation due to substantial decrease in sales in the second half of the year as a result of the Pandemic and real estate policies implemented in Mainland China. Furthermore, the Xiangtan Project was at preliminary sales stage and recorded an overall sell-through rate of only 15%. Although some of the loans that were used for early development and construction of the Xiangtan Project have been extended, the mismatch between the extended loan maturity and the timing of inventory sales of the project resulted in concentrated maturity of the majority of such loans, coupled with the deteriorating performance of the domestic real estate industry and the failure to obtain refinancing facilities due to tightening credit condition of the real estate industry, the Company was unable to solve the going concern issue in the short term. Nevertheless, due to the large scale of the Xiangtan Project which has a saleable value of approximately RMB6.7 billion for its remaining inventories, it is expected that the project will generate sufficient revenue to cover the working capital requirement of the Company upon completion of inventory sales in absence of unforeseen circumstances. As such, from the long-term perspective, with the gradual recovery of the property market in Mainland China, it is only a matter of time for the Company to solve the going concern issue.

MEASURES TO BE TAKEN TO ADDRESS AUDIT MODIFICATION

The management of the Company has been engaged in active communication with the creditors and other financial institutions throughout the year 2021.

i. The outstanding loan facilities of US$18,400,000 as at 31 December 2021 provided by Borrower A

The management of the Company held a meeting with the management of Borrower A, the headoffice of Borrower A in March 2022 to discuss loan extension and restructure issue, at which the Company presented an overview of the current sales of the Xiangtan Project and the operation performance of the Company. With the implementation of economic stimulus packages and favourable policies for the real estate industry by the central and local governments, both parties reached the consensus that the residential property sales market in Mainland China will gradually recover. Borrower A remains confident in our capability for repayment of indebtedness after recovery of sales performance, and has agreed to allow us more time to properly deal with our debt issue. After the meeting, Borrower A indicated their intention to assign a team to conduct due diligence work on the Company's project. However, due to the lockdown measures implemented in Shanghai, the onsite due diligence work was temporarily suspended and will proceed after the lifting of lockdown measures in Shanghai.

ii. The outstanding loan facility of US$36,509,876 as at December 2021 provided by Borrower B after enter into an extension agreement

As at the date of this announcement, Borrower B agreed to extend the loan facility to the end of Yr2022. The project management personnel of Borrower B were invited and paid a visit to Nanjing to discuss the existing debts of the Company with the substantial shareholders, de facto controller and chief financial officer of the Company in April 2022. The current liquidity shortage faced by the Company is a temporary issue due to the impact of the Pandemic on property sales. With the success in pandemic containment and the implementation of favourable policies for the real estate industry by various local governments, the property market in Mainland China is expected to gradually recover. Borrower B has agreed to allow more time for the Company to properly deal with its debt issue. Subsequently, the Borrower B also paid a field trip to the Xiangtan Project.

iii. The outstanding loan facilities of RMB662,370,000 as at 31 December 2021 provided by Borrower C

The Company has carried out communication with the senior management of Borrower C for several times since 2022. Given the long-term and sound cooperation relationship between both parties, Borrower C has indicated its intention to extend the maturity of the existing loans owed by the Company and lend us additional fund for project operation. However, due to the changes in the substantial shareholders and the management undergoing at the headoffice level of Borrower C, the submission of such cooperation proposal to the headoffice was temporarily postponed. As at the date of this announcement, there is no default payment in respect of the loan facility provided by Borrower C.

iv. The outstanding loan facility of RMB54,990,000 as at 31 December 2021 provided by Borrower D

As at the date of this announcement, Borrower D agreed to extend the loan facility at June Yr2022. The Company has paid several visits to the Borrower D during the period from February to April 2022, and it is the preliminary intention of both parties to extend the maturity of the loans after the local property market shows signs of improvement and the sales of our Xiangtan Project resumes to normal.

v. The loan facility of RMB250 million provided by Borrower E

To make further extension of the loan facility after June 2023, the Finance Department of the Company has been communicating with the relevant personnel of the bank in relation to the operation performance of the Company since February 2022. The Company believes that, benefitting from the supporting policies for the real estate industry implemented by the central government and the favorable policies for the real estate industry implemented by various local governments, the sales of residential properties of the Xiangtan Project will gradually restore to normal level, which is expected to improve the cash flow condition of the Company. Borrower E agreed to allow more time for the Company to properly deal with its debt issue.

vi. The Xiangtan Project Company has approached other financial institutions since February 2022, with an aim to raise additional facilities to finance the continuous development of the Xiangtan Project. Currently, the Company is negotiating with those institutions.

The high-rise residential property portion of the Xiangtan Project has been launched for sales at the end of June 2020 and recorded sales amount of approximately RMB1 billion as of the end of 2021. Currently, the remaining residential and commercial properties of the project have a saleable value of approximately RMB6.7 billion and are expected to be sold out within the coming five to six years. Due to the combined effects of regulation on the real estate industry implemented by the central government and the COVID-19 Pandemic, the Company collected only approximately RMB12.5 million of cash generated from the Xiangtan Project during the first four months of 2022. However, a series of policies have been introduced by various local governments to boost property sales since the end of April 2022, including the relaxation of the home-purchase and sales restriction, cutting the mortgage loan interest rate and lowering the rate of deed tax. The Company expects to witness explosive sales growth of the Xiangtan Project in the second half of 2022.

The Company strived to streamline its workforce under the premise of ensuring normal operation, laying off one staff from each of its Finance Department and Administration Department. The Company implemented remuneration cut for the management and directors since March 2022 with an overall remuneration cut of 30%, and succeeded in lowering office rent by approximately 20%, with the new lease becoming effective from February 2022. Due to the aforesaid cost reduction schemes, the Company expects to lower its operating costs by approximately HK$4 million.

Due to the impacts on the personnel and goods mobility and economic development as a result of the outburst of the COVID-19 Pandemic in Shenzhen, Jilin, Shanghai, Beijing and other cities in Mainland China since February 2022 which continued to be rampant and has not achieved the dynamic clearing as required by the central government, and the implementation of much more stringent pandemic prevention and control measures by various local governments, the residential property sales and project construction of the Company have also been hit hard. Currently, the Company continues to proactively place advertisements via online and offline channels and expand its target customer group, with an aim to boost residential property sales of the Xiangtan Project after the Pandemic eases.

REASONS FOR THE REPEATED AUDIT MODIFICATION

The management of the Company are of the view that the main issue currently affecting its going-concern operation is the relatively large amount of debts that will be due for payment in the short period of time, coupled with the impact on its short-term cash flow caused by the Pandemic and real estate policies implemented in Mainland China, resulting in default events of delayed or overdue payment of loan principal and interest. However, in terms of assets in the long run, the Xiangtan Project, as the Company's major project, has sufficient residual value of up to RMB6.7 billion, while the Company's outstanding loan principal and interest as at 31 December 2021 was approximately

HK$1.9 billion, comprising the principal of HK$1.6 billion and outstanding interest and default penalty of HK$300 million. Once the project resumes normal sales, the Company will raise sufficient fund through destocking of the project to repay all existing debts and finance its normal operations. In addition, the Chengdu Project is expected to generate annual revenue of approximately HK$15 million for the Company. Given all the above, from the long term perspective, there is no doubt regarding the Company's ability to continue as a going concern.

Therefore, the Company proposes four improvement measures to address the mismatch between the short-term cash flow and short-term debts of the Company:

a) The Group is negotiating with several financial institutions and seeking for various options for fund to finance the Group's working capital and commitments in the foreseeable future. By negotiating with existing financial institutions to reach debt restructuring or extension agreements, or seeking new long-term debts to replace existing short-term debts, the Company may match the maturity of its debts with the timing of development and destocking of the projects, so as to fundamentally solve the short-term going concern issue. From the current communication between the management and existing creditors, it appears that the existing creditors also concur with the management's judgement, that is to address the short-term debt risk by extending its debts to match the Company's debt maturity with the development and sales progress of the Xiangtan Project. Given the above reasons, none of the creditors have notified the Company verbally or in writing to demand immediate repayment of the loans. Instead, they have expressed their intention to extend such loans. However, due to the travel restriction as a result of the lockdown measures implemented in Mainland China and the time required for the approval process at the headoffice, the Company has not yet entered into any extension agreements. Nevertheless, the management of the Company is confident that it will be able to extend the loans to resolve the going concern issue before the end of the new financial year.

b) The Group will seek to accelerate the pre-sales of its properties under development (including remaining units of property projects and saleable car parks). Currently, the sale of the properties of Xiangtan Project is the Company's primary source of cash flow. By accelerating the sale of the properties, the Company may meet the cash flow requirements for project development and pay interest on debts with the cash inflows from property pre-sales, thereby improving its cash flow. Meanwhile, it will give confidence to the existing creditors and new creditors who intend to invest the project, with an aim to extend the debts or raise additional facilities.

c) The Group will continue to take active measures to control administrative costs through various channels including human resources optimization, management remuneration adjustments and capital expenditure control. This measure may reduce cash outflow and improve the cash flow of the Company.

d) In light of the COVID-19 outbreak, the Group will closely monitor the latest development and continue to assess the impact of the Pandemic, as well as any government's stimulus in response, on the Group's operations from time to time and adjust its sales and marketing strategy for its property projects to generate sufficient cash flows from its operations. The COVID-19 Pandemic has been raging for three years, imposing serious impact on economic activities. Despite of these negative impacts, with the further research and development of vaccines and specific medicines, we believe that it is only a matter of time before the Pandemic is over and the economy recovers. During the Pandemic, while adhering to its marketing strategy of combining online and offline channels, the Company seized the opportunities arising from ease of the Pandemic to step up marketing and property development efforts, with an aim to minimise the impact of the Pandemic on property sales.

In conclusion, the management of the Company believes that, from the long term perspective, there is no doubt regarding the Company's ability to continue as a going concern and that the short-term going concern risks will be solved through the implementation of the above four improvement measures.

AUDIT COMMITTEE'S VIEW TOWARDS THE AUDIT MODIFICATION

The audit committee of the Company (the "**Audit Committee**") had critically reviewed the Disclaimer of Opinion issued by the Auditor, the cash flow forecast and the action plan of the Group to address the Disclaimer of Opinion by the Auditor. The Audit Committee also had discussions with the Auditor, by which it understood that the main reasons for the Disclaimer of Opinion by the Auditor were the default events of delayed or overdue payment of loan principal and interest as well as the development of the Pandemic and the real estate policies in Mainland China, resulting in material uncertainties and serous doubt over the Group's status as a going concern. Based on the active discussion between the management of the Company and the creditors and the confidence in achieving loan extension, the Audit Committee recognises that the management has done its best to improve the Group's ability to continue as a going concern and agreed with the actions or measures to be implemented by the Group. The Audit Committee also emphasizes that the management should implement the actions and measures set out in the Financial Position Improvement Plan, with the intention of mitigating the Group's liquidity pressure and removing the Disclaimer of Opinion by the Auditor. In view of the challenges faced by the Group due to the challenging operation environment, the Audit Committee advises the management to report any material issues affecting the Group's going concern to the Audit Committee on a timely basis and ensure compliance with the Listing Rules.

AUDITOR'S VIEW TOWARDS THE AUDIT MODIFICATION

The Audit Modification would be removed in the next year's auditor's report if the proposed measures above have been successfully implemented after taking into account the latest progress of these measures. These measures would mitigate the Group's liquidity pressure and improve its financial position. However, as disclosed in the 2021 Annual Report, the outcome of these measures are subject to multiple uncertainties. In next financial year, the Auditor will exercise professional judgment and maintain professional skepticism throughout the audit in accordance with Hong Kong Standards on Auditing in order to conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. The conclusions would be based on the audit evidence obtained up to the date of the auditor's report.

MULTIPLE UNCERTAINTIES RELATING TO GOING CONCERN
(Under Code Provision D.1.3 of Appendix 14 of Listing Rules)

As described in note 3.2 to the consolidated financial statements, the Group had accumulated losses of approximately HK$3,082,883,000, current liabilities exceeded its current assets by approximately HK$1,016,251,000 and net liabilities amounted to approximately HK$ 373,393,000 as at 31 December 2021. As at the same date, the Group's total borrowings amounted to approximately HK$1,763,611,000, of which current borrowings amounted to approximately HK$1,744,180,000, while its cash and cash equivalents amounted to approximately HK$12,437,000, and restricted bank deposits amounted to approximately HK$33,648,000. In addition, as at 31 December 2021, the Group was in default in respect of principal amount of borrowings approximately HK$1,612,661,000 due to the events of default of late or overdue payment of loan principal and interest during the year ended 31 December 2021.

These conditions, together with other matters described to the consolidated financial statements, indicate the existence of material uncertainties which may cast significant doubt about the Group's ability to continue as a going concern.

The directors of the Company have been undertaking a number of measures to improve the Group's liquidity and financial position, and to remediate certain delayed repayments to financial institutions, which are set out to the consolidated financial statements, including, (i) the Group is negotiating with various financial institutions and identifying various options for financing the Group's working capital and commitments in the foreseeable future; (ii) The Group will seek to accelerate the pre-sales of its properties under development including remaining units of property projects and saleable car parks. The properties from property and hotel development ("**Xiangtan Project**") in Xiangtan is expected to give further substantial sales in 2022. Overall, the Group expected to gradually launch a major project and the pre-sales permits were already obtained in 2021; (iii) The Group will continue to take active measures to control administrative costs through various channels including human resources optimization and management remuneration adjustments and containment of capital expenditures; (iv) In light of the COVID-19 outbreak, the Group is closely monitoring the latest development and will continue to assess the impact of the epidemic, as well as any relaxation of control measures imposed on properties developers sector, on the Group's operations from time to time and adjust its sales and marketing strategy for its property sales to generate sufficient cash flows from its operations.

The Executive Directors, have reviewed the Group's cashflow projections prepared by management. The cashflow projections cover a period of twelve months from 31 December 2021. They are of the opinion that, taking into account the above-mentioned plans and measures and with additional financial support from majority shareholders, the Group will have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due within twelve months from 31 December 2021. Accordingly, the Executive Directors are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

The Group is in active negotiation with all the lenders in respect of the Overdue Borrowings for renewal and extension of the relevant borrowings and the Directors are confident that agreements will be reached in due course.

Notwithstanding with above, significant uncertainties exist as to whether management of the Company will be able to achieve its plans and measures as described above. Whether the Group will be able to continue as a going concern would depend upon the Group ability to generate adequate financing and operating cash flows through the following:

(i) successful negotiations with the lenders for the renewal of or extension for repayments beyond year 2022 for those borrowings that (a) are scheduled for repayment (either based on the original agreements or the existing arrangements) in year 2022; (b) were overdue as at 31 December 2021 because of the Group's failure to repay either the loan principal or the interests on or before the scheduled repayment dates; and (c) became or might become overdue in year 2022;

(ii) successful maintenance of relationship with the Group's existing lenders so that no action will be taken by the relevant lenders to demand immediate repayment of the borrowings in default, including those with cross-default terms.

(iii) successful obtaining of additional new sources of financing as and when needed.

(iv) successful accelerating of the pre-sales and sales of properties under development and completed properties; and controlling capital expenditures so as to generate adequate net cash inflows; and

(v) successfully managing the impact of the COVID-19 outbreak, as well as any government's relaxation in control measures imposed on properties developers, on the Group's operations from time to time, continual financial support from majority shareholder and adjusting its sales and marketing strategy for its property sales to generate sufficient cash flows from its operations.

Should the Group fail to achieve the abovementioned 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. The effects of these adjustments have not been reflected in these consolidated financial statements.

The additional information set out above does not affect other information contained in the Annual Report and the contents of the Annual Report remain unchanged.

By order of the Board
KEYNE LTD
ZHANG LI
Executive Director and Chief Executive Officer

Hong Kong, 2 June 2022

As at the date of this announcement, the Board comprises six Directors. The executive Directors are Ms. Qian Ling Ling (Chairman), Mr. Zhang Li (Chief Executive Officer) and Mr. Xiang Junjie; and the independent non-executive Directors are Mr. Tsui Pui Hung, Mr. Tang Ping Sum and Mr. Chiu Sin Nang, Kenny.

* *for identification purpose only*