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南海控股有限公司*
NAN HAI CORPORATION LIMITED
(Incorporated in Bermuda with limited liability)
(Stock Code: 680)

INSIDE INFORMATION

This announcement is made by Nan Hai Corporation Limited (the “**Company**“and together with its subsidiaries, the “**Group**”) pursuant to Rule 13.09(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and the Inside Information Provisions (as defined under the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

References are made to the announcements of the Company (i) dated 16 March 2022 in relation to the date of Board meeting and publication of 2021 Unaudited Annual Results; (ii) dated 30 March 2022 in relation to the non-publication of 2021 Unaudited Annual Results; (iii) dated 1 April 2022 in relation to the suspension of trading; and (iv) dated 29 April 2022 in relation to, among other things, further delay in publication of 2021 Audited Annual Results (collectively, the “**Announcements**”). Unless the context requires otherwise, capitalised terms used herein shall have the same meanings as those defined in the Announcements.

(1) LIQUIDITY AND OTHER ISSUES

The Group has faced unprecedented challenges over the past 2 years that has seriously affected its cinema operations and property development business in the PRC being two of the Group’s key business segments. The box office revenue of the cinema business decreased by over 70% and 35% (unaudited) respectively for the years ended 2020 and 2021 compared with the box office revenue for 2019. These challenges have been brought on by principally the COVID-19 outbreak and measures implemented to deal with such outbreak in the PRC. The unaudited revenue of the Group’s property development segment for the year ended 2021 decreased by over 50% year-on-year as the Group experienced difficulties faced by developers in the PRC property sector generally.

* For identification purpose only

The Group is also actively dealing with the issues that have affected the Group's development of Phase 5 of The Peninsula project in Shenzhen. Until the Group receives the necessary approval for such development, the Group has sought to continue to take measures to reduce costs, including suspending the Group's employees in the property development section of The Peninsula project for certain period based on business needs. It is believed that the Group's financial position would improve when the Group is able to develop Phase 5 of The Peninsula project.

The Group has in issue US\$350 million 2.9% credit enhanced notes which are due for maturity on 11 June, 2022. Such payment of principal and interest will be settled by drawing funds from the Standby Letter of Credit (as defined in the Company's announcement dated 4 June 2020).

Given the Group's current liquidity situation, the Group has not been able to meet part of its financial obligations when due. This has resulted in certain creditors initiating enforcement actions. This has led to part of the Group's assets being subject to legal process to freeze part of the Group's assets used to secure such indebtedness. The Group will continue to actively communicate with its creditors and seek to restructure such liabilities. The Group will continue to work on improving its liquidity including exploring ways to accelerate the disposal of its properties held for sale.

As of the date of this announcement, the Company is not subject to any winding up petition.

The Board will continue to monitor the situation and make further announcement in due course in respect of any material update.

(2) INTERNAL CONTROL INVESTIGATION

As stated in the Company's announcement dated 29 April, 2022, the Company has engaged an external consultant ("External Consultant") to carry out an internal control investigation as requested by the Group's auditor. The scope of such investigation relates to, amongst other things, the following main areas during 2019, 2020 and 2021:

- (a) a complete list of the state of the Group's assets (including investment properties, inventories (of properties), land and bank deposits). The Company's auditor noticed that part of the Group's assets (including part of the Group's investment properties in the Peninsula project in Shenzhen and the "Free Man Garden" development in Guangzhou) were encumbered as a result of legal process to foreclose or freeze such assets. The auditor requested that the status and completeness of such assets be investigated by the External Consultant.

- (b) a complete list of the Group's liabilities (including contingent liabilities). The Company's auditor was concerned whether the information on financing raised by the Group from certain non-financial institutions and individuals was complete. They also noticed that the Group had previously provided a guarantee of up to RMB80 million in favour of a financial institution in connection with liabilities of an independent third party. This raised concerns on whether the Group's information was complete, supported by commercial rationale and had undergone the necessary internal approval procedures. The External Consultant's investigation will also address such issues.
- (c) A complete record of legal proceedings involving the Group. The Company's auditor's concern on the status of the Group's assets mentioned in (a) above also led them to request an investigation into the legal proceedings involving the Group as they noticed that part of assets are encumbered as a result of legal proceedings to foreclose or freeze assets. The External Consultant is in the process of compiling such information as part of its investigation.
- (d) An investigation on receivables and payables of the Group. The Company's auditor's concern on the completeness of liabilities mentioned in (b) above also led them to request an investigation into the receivables and payables of the Group and also the supporting commercial rationale for such transactions. The External Consultant is in the process of compiling such information.

While the External Consultant is still working on its investigation, it has produced a draft report which is being reviewed by the Company's audit committee who are also liaising with the Company's auditor to address any issues they may have. The Company will make a further announcement when such report has been finalized.

In addition to the issues covered by internal control investigation mentioned above, for other outstanding audit issues raised by the auditor, the Company has provided replies and supporting documents for the preparation of the going concern assumptions and the details of relevant accounting subjects, and has not yet received further inquiries. The Company is still liaising with the Company's auditor on issues including (i) cash flow forecast of certain segments of the Group's business, (ii) right-of-use assets and lease liabilities, and (iii) bank confirmations. The Company will still actively strive to maintain communication with the auditor to resolve the above and possible subsequent audit inquiries.

(3) CONTINUED SUSPENSION OF TRADING

At the request of the Company, trading in the shares (stock code: 680) and the related debt securities (Debt Securities Code: 40251) of the Company on The Stock Exchange of Hong Kong Limited have been suspended with effect from 9:00 a.m. on 1 April 2022 and will remain suspended until further notice.

Shareholders of the Company and potential investors should exercise caution when dealing in the shares and other securities of the Company.

By order of the Board
Nan Hai Corporation Limited
Liu Rong
Executive Director and Chief Executive Officer

Hong Kong, 6 June 2022

As at the date of this announcement, the directors of the Company are as follows:

Executive directors:

Mr. Yu Pun Hoi

Ms. Liu Rong

Non-executive director:

Mr. Lam Bing Kwan

Independent non-executive directors:

Mr. Lau Yip Leung

Mr. Xiao Sui Ning

Mr. Ho Yeung Nang