Management Discussion and Analysis

MARKET REVIEW

In 2020, amidst the global COVID-19 pandemic, which caused severe economic downturn and economic de-globalization, the world is experiencing a huge once-in-a-century transformation with turmoil, restructuring and complicated economic and political situations. China took the lead in controlling the pandemic and resuming work and production in the world, becoming the only major economy to achieve positive economic growth worldwide. In the second half of the year, as key industrial and economic indicators basically returned to normality, the economy has returned to the track of organic growth. The RMB loans increased by RMB19.63 trillion for the year and the accumulated increment of the financing to the real economy amounted to RMB34.86 trillion. The gross domestic product for the year reached RMB101.5986 trillion, representing a year-on-year increase of 2.3%.

In respect of policies, despite the pandemic in 2020, the general approach towards real-estate market in China remained unchanged. The central government adhered to the principle that "houses are for living in, not for speculation and carrying out city-specific policies" as well as stabilising land prices, housing prices and market expectations, rather than regarding real estate as a means to stimulate the economy for the short term, so as to ensure the stable and healthy development of the real-estate market. Meanwhile, by maintaining the continuity, consistency and stability of the financial policies for real-estate, the central government accelerated the establishment of a long-term management system for real estate finance. In the second half of the year, with the introduction of "three red line" requirements, the real-estate finance regulation was gradually tightened as a whole.

As the stabilizer and cornerstone of economic development in China, the real-estate industry outperformed expectation in 2020 and the real-estate market nationwide has completely recovered from the impact of the pandemic and entered a normal track. In 2020, the sales area of commercial housing in China reached 1.76086 billion square meters, representing a year-on-year increase of 2.6%; the sales volume of commercial housing increased by 8.7% to RMB17.3613 trillion.

OVERALL PERFORMANCE

The Group reported a loss for the year ended 31 December 2020 (the "Reporting Period") of approximately RMB1,845.0 million (year ended 31 December 2019: loss of RMB1,693.3 million). The Group's revenue for the Reporting Period decreased by 62.4% to approximately RMB9,085.4 million (year ended 31 December 2019: RMB24,131.6 million) as a result of the decrease in areas delivered of property development projects. The Group's gross profit for the Reporting Period has decreased by 74.5% to approximately RMB535.2 million (year ended 31 December 2019: RMB2,101.6 million) mainly due to decrease in proportion of property development business ("Property Development Business") of the Group with higher gross profit margin.

The increase in loss for the Reporting Period was mainly due to the net results of:

a. a decrease in gross profit by 74.5% to RMB535.2 million (year ended 31 December 2019: RMB2,101.6 million) as a result of decrease in revenue of Property Development Business and distribution of information products business ("Distribution Business") of the Group;

b. a decrease in impairment of property under development and property held for sale, net incurred from the realizable net values of certain property projects based on the assessment of the prevailing market conditions, by 80.3% to RMB644.1 million (year ended 31 December 2019: RMB3,268.6 million);

c. an increase in other income and gains by RMB409.9 million to RMB583.1 million (year ended 31 December 2019: RMB173.2 million) attributable to net increase in fair value gains on investment properties;

d. a decrease in total selling and distribution expenses and administrative expenses by 22.3% to RMB858.6 million (year ended 31 December 2019: RMB1,105.1 million) attributable to the strict control on expenses imposed by the management;

e. a decrease in impairment losses on financial assets, net by 76.3% to RMB17.0 million (year ended 31 December 2019: RMB71.7 million) attributable to decrease in impairment of trade and other receivables;

f. an increase in other expenses and losses, net by RMB480.6 million to RMB485.1 million (year ended 31 December 2019: RMB4.5 million) attributable to increase in claim penalty on late repayment of bank and other borrowings;

g. an increase in finance cost by 25.1% to approximately RMB1,030.8 million (year ended 31 December 2019: RMB824.3 million) attributable to decrease in interest capitalised of those subsidiaries with their property development projects completed during the year; and

h. a decrease in income tax expenses by 71.0% to approximately RMB568.2 million (year ended 31 December 2019: RMB1,960.6 million) as a result of decrease in corporate income tax and land appreciation tax in the PRC for the year.

The loss attributable to the owners of the parents and the profit attributable to the non-controlling interests of the Group for the Reporting Period are approximately RMB2,025.4 million (year ended 31 December 2019: loss of RMB2,421.9 million) and RMB180.4 million (year ended 31 December 2019: profit of RMB728.6 million) respectively.

Basic and diluted loss per share attributable to equity holders of the Company for the Reporting Period were RMB31.57 cents (year ended 31 December 2019: RMB37.75 cents).

OPERATING REVIEW

Real Estate Business

Property Development

The turnover of the Property Development Business for the Reporting Period was approximately RMB3,811.5 million (year ended 31 December 2019: RMB15,216.7 million). The segment results recorded a loss of approximately RMB739.8 million (year ended 31 December 2019: profit of RMB1,182.8 million). The deterioration of segment turnover was primarily attributable to the decrease in areas delivered of property development projects. The decline in segment results was due to the net effect of decline in segment revenue and decline in impairment of properties under development, net and properties held for sale, net.

As at 31 December 2020, the Group had a total of 39 property development projects across 18 cities in Mainland China. The total area of the properties held for sales, properties under development and areas pending construction of the Group amounted to approximately 6.72 million square meters.

The Group will further focus on the expansion of its regional property development business, while pushing forward the delivery of projects actively. Facing the changes internally and externally, the Group will make responses prudently and control risks proactively so as to maintain a stable operation of its own business, thereby pushing ahead with the delivery of property projects steadily in the coming year.

Contracted Sales

During the Reporting Period, in response to the regularized pandemic and industrial changes, the Group pushed forward the resumption of work and production actively. As at 31 December 2020, there was a total of 24 projects of 3.89 million square meters under construction. During the Reporting Period, the Group had 35 projects on sale. Contracted sales of properties and contracted gross floor area (the "GFA") amounted to approximately RMB3.15 billion and 0.34 million square meters, respectively, with an average selling price of approximately RMB9,297 per square meter.

Property Investment

The property investment business of the Group recorded an increase in turnover by 8.6% to approximately RMB37.9 million (year ended 31 December 2019: RMB34.9 million) and segment profit of approximately RMB510.9 million (year ended 31 December 2019: profit of RMB30.8 million) during the current financial year. The increase in segment revenue was mainly attributed to the increase in rentable floor area due to transfer from properties held for sale during the year. The improvement in segment results was mainly due to increase in fair value gains on investment properties arising from transfer from properties held for sale during the year.

Distribution Business

Distribution of Information Products

The Distribution Business recorded a turnover of approximately RMB5,236.0 million for the Reporting Period representing a decrease of 41.0% as compared to last financial year (year ended 31 December 2019: RMB8,880.0 million). The segment results recorded a profit of RMB28.8 million (year ended 31 December 2019: loss of RMB15.7 million). The improvement in segment results was due to reduction in operating cost and impairment of other receivables.

The Distribution Business is mainly focused on the distribution of information products such as servers, printers, switches, networking products, storage devices, workstations, optical screen products, video conference host, conference controller, codec, UPS power supply and notebook computer of a number of internationally famed and branded information product manufacturers such as HP, H3C, CommScope, Microsoft, Corning, Lenovo, Huawei and DELL. The decrease in turnover during the year was mainly attributable to decrease in sales volume of information products under the impact of COVID-19 pandemic and reduce in scale of operation under the intense market competition.

As the business environment in China is becoming more competitive with the unfavorable factors arising from the macro control policies, the management of the Group will continuously refine its product structure to avoid product overlapping and minimise market risk. The Group will focus on the distribution of information products with better trading terms and exploring the more profitable value-added service business.

PROSPECTS

Real Estate Business

Looking forward, the world economic situation remains complicated and tough with unstable and imbalanced recovery and ineligible risks arising from the pandemic. In the future, China will continue to smooth the domestic cycle by implementing various measures so as to fully unleash the potential of domestic demand and hence laying a solid foundation for forming the new landscape of "dual cycle". With the constantly strengthening regulation over real-estate finance, the Chinese government will, by continuing to adhere to the position that "houses are for living in, not for speculation" as well as carrying out city-specific policies and balancing between lease and purchase, continue to facilitate healthy development of housing consumption as well as stable and sound development of the real-estate market.

By keeping abreast with the direction of national policy and market changes and adhering to the strategic guideline of "One Body, Two Wings and Three Cores", the Group will continue to focus on key national city clusters and adopt the operation model integrating asset-light and asset-heavy, enhance the development of city-industry integration, push ahead with the establishment of core big healthcare and technology IPs and implement the strategy towards becoming a "technology and innovation services provider".

Distribution Business

The Distribution Business will continuously refine its product structure to avoid product overlapping and minimize market risk. The Group will focus on the distribution of information products with better trading terms and explore more profitable value-added service business. Moreover, the management will also place stronger emphasis on operating cash flow management, stringent control on working capital such as trade receivables and payables and inventory and cost management. The Group will continue to look for alliance with other international information products suppliers and investment opportunities.

EMPLOYEE

The Group has developed its human resources policies and procedures based on performance and contributions of employees. The Group ensures that the remuneration level of its employees are competitive and employees are rewarded on a performance basis within the general framework of the Group's salary and bonus systems. The Group provides on-the-job training to its employees in addition to retirement benefit schemes and medical insurance. The Group adopts share option scheme for the purpose of providing incentives and rewards to eligible directors (the "Directors") and employees of the Group who contribute to the success of the Group's operations. The Group had not granted any share options to its eligible Directors and employees during the Reporting Period.

The Group has 911 employees as at 31 December 2020 (31 December 2019: 1,205).

FINANCIAL REVIEW

Liquidity, financial resources and capital commitments

During the Reporting Period, the Group generally financed its operations with internally generated resources and banking facilities provided by its principal bankers in Mainland China. As at 31 December 2020, the Group had approximately RMB12,173.9 million interest-bearing bank and other borrowings (31 December 2019: RMB12,913.0 million), of which approximately RMB469.8 million (31 December 2019: RMB480.0 million) were floating interest bearing and RMB11,704.1 million (31 December 2019: RMB12,433.0 million) were fixed interest bearing. The borrowings, which were subject to little seasonality, consisted of mainly bank loans, trust receipt loans and loans from certain subsidiaries and associates of Peking University Founder Group Company Limited ("Peking Founder", together with its subsidiaries, collectively the "Peking Founder Group"), and borrowings from financial institutions. Peking Founder was an indirect controlling shareholder of the Company during the Reporting Period. Almost all of interest-bearing bank and other borrowings are denominated in Renminbi ("RMB"), of which RMB12,173.9 million (31 December 2019: RMB12,654.9 million) were repayable on demand or within one year and nil (31 December 2019: RMB258.1 million) was repayable within two years. The Group's banking facilities were secured by corporate guarantee given by the Company, Peking Founder, Founder Information (Hong Kong) Limited ("Founder Information") and Peking University Resources Group Co., Ltd. ("Resources Group") (each a controlling shareholder of the Company during the Reporting Period), and certain properties under development, properties held for sale, the Group's stakes and assignment of return arising from the Group's certain properties under development and properties held for sale. The decrease in bank and other borrowings was mainly attributed to the repayment of bank loans for Property Development Business during the current financial year. The increase in other payables and accruals by 14.9% to RMB18,882.5 million (31 December 2019: RMB16,438.8 million) was due to increase in contract liabilities arising from sale of properties.

As at 31 December 2020, the Group recorded total assets of approximately RMB38,190.6 million (31 December 2019: RMB38,541.4 million) which were financed by liabilities of approximately RMB38,898.5 million (31 December 2019: RMB37,437.8 million), non-controlling interests of approximately RMB1,136.2 million (31 December 2019: RMB962.8 million) and deficit attributable to owners of the parent of approximately RMB1,844.1 million (31 December 2019: equity of RMB140.8 million). The decrease in equity was attributable to loss for the Reporting Period. The Group's net asset value per share as at 31 December 2020 was negative RMB0.11 (31 December 2019: positive RMB0.17). The decrease in net asset value per share was attributable to the loss for the Reporting Period.

The Group had total cash and cash equivalents and restricted cash of approximately RMB1,863.2 million as at 31 December 2020 (31 December 2019: RMB2,514.5 million). As at 31 December 2020, the Group's gearing ratio, measured on the basis of total borrowings as a percentage of total equity, was negative 17.2 (31 December 2019: positive 11.7) while the Group's current ratio was 0.94 (31 December 2019: 1.01).

As at 31 December 2020, the capital commitments for contracted, but not provided for, properties under development were approximately RMB4,959.2 million (31 December 2019: RMB4,517.1 million).

Treasury policies

The Group adopts conservative treasury policies and controls tightly over its cash and risk management. The Group's cash and cash equivalents are held mainly in Hong Kong dollars ("HKD"), RMB and U.S. dollars. Surplus cash is generally placed in short term deposits denominated in HKD, RMB and U.S. dollars.

Exposure to fluctuations in exchange rates and related hedges

The Group operates mainly in Mainland China and Hong Kong. For the operations in Mainland China, most of its revenues and expense are measured in RMB. For the operations in Hong Kong, most of the transactions are denominated in HKD and U.S. dollars. The values of RMB against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in the PRC's political and economic conditions. The conversion of foreign currencies into RMB is subject to the rules and regulations of the foreign exchange controls promulgated by the Chinese government. The Group has minimal exposure to exchange rate fluctuation. No financial instrument was used for hedging purposes.

Material acquisitions and disposals of subsidiaries, associates and joint ventures

The Group had no material acquisition or disposal of subsidiaries, associates and joint ventures during the Reporting Period.

Future plans for material investments or capital assets

The Group did not have any concrete future plans for material investments or capital assets as at 31 December 2020 (31 December 2019: Nil). However, the Group always seeks for new investment opportunities in the Real Estate Business and Distribution Business to broaden the revenue and profit potential of the Group and enhance shareholders' value in long term.

Charges on assets

As at 31 December 2020, properties under development of approximately RMB12,176.1 million (31 December 2019: RMB10,299.9 million), properties held for sale of approximately RMB5,451.7 million (31 December 2019: RMB6,081.9 million), property, plant and equipment of approximately RMB23.2 million (31 December 2019: RMB24.8 million), investment properties of approximately RMB165.3 million (31 December 2019: RMB179.6 million), bank deposits of approximately RMB10.4 million (31 December 2019: RMB25.1 million), certain equity interests of certain subsidiaries and the assignment of returns arising from certain properties under development and properties held for sale of the Group were pledged to banks to secure general banking facilities granted, as deposits for construction of the relevant properties and as guarantees deposits for certain mortgage loans granted by banks to purchasers of the Group's properties.

Contingent liabilities

As at 31 December 2020, the Group had contingent liabilities relating to guarantees mainly in respect of mortgages granted by certain banks to certain purchasers of the Group's properties amounting to approximately RMB7,886.6 million (31 December 2019: RMB6,254.0 million). This represented the guarantees in respect of mortgages granted by banks relating to the mortgage loans arranged for purchasers of the Group's properties. Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, the Group is responsible to repay the outstanding mortgage principals together with the accrued interest and penalty owed by the defaulting purchasers to the banks and the Group is entitled (but not limited to) to take over the legal titles and possession of the related properties. The Group's guarantee period starts from the date of grant of the relevant mortgage loans and ends upon issuance of the building ownership certificates which are generally available within one to two years after the purchasers take possession of the relevant properties. The fair value of the guarantees is not significant and the Directors of the Company consider that in case of default in payments, the net realisable value of the related properties will be sufficient to cover the repayment of the outstanding mortgage principals together with the accrued interest and penalty and therefore no provision has been made for the guarantees in the consolidated financial statements for the Reporting Period (31 December 2019: Nil).

Events after the Reporting Period

1. The restructuring process of Peking Founder Group

The Company received a notification letter from Peking Founder on 25 January 2021, regarding a civil order received by the administrator of Peking Founder from The First Intermediate People's Court of Beijing* (北京市第一中級人民法院) on 22 January 2021. Pursuant to the civil order, the deadline for the submission of the restructuring proposal will be extended to 30 April 2021.

The Company received the "Notification letter in relation to determination of restructuring investors of Peking Founder" from the administrator of Peking Founder on 29 January 2021. It is stated in the notification letter that after multiple rounds of competitive selection, it is finally determined that Zhuhai Huafa Group Co., Ltd. (on behalf of Zhuhai State-owned Assets), Ping An Insurance (Group) Company of China, Ltd. and Shenzhen SDG Group Co., Ltd.* (collectively, the "Restructuring Investors") formed a consortium as investors of restructuring of Peking Founder. In the next step, the administrator of Peking Founder will proceed the signing of investment agreements and drafting of restructuring proposals in accordance with the laws.

The Company received a notification letter from the administrator of Peking Founder on 30 April 2021, which stated that the Restructuring Investors entered into a restructuring investment agreement (the "Restructuring Investment Agreement") with the administrator of Peking Founder, Peking Founder, Founder Industry Holdings Co., Ltd., Peking University Healthcare Industry Group Co., Ltd., Peking University Founder Information Industry Group Co., Ltd. and Resources Group (the "Five Companies including Peking Founder") on 30 April 2021.

The Company received the "Notification Letter of Voting Results of the Second Creditors Meeting and the Meeting of the Group of Capital Contributors in relation to the Substantive Consolidated Restructuring of Founder Group" on 28 May 2021, which stated that in the second creditors' meeting and the meeting of the group of capital contributors in relation to the substantive consolidated restructuring of the Five Companies including Peking Founder held on the same day, the "Restructuring Proposal of the Five Companies including Peking University Founder Group Company Limited (Draft)" (the "Restructuring Proposal (Draft)") has been approved and the administrator of Peking Founder will apply to the First Intermediate People's Court of Beijing for approval of the Restructuring Proposal (Draft) in accordance with the laws.

The Company received a notification letter from the administrator of Peking Founder on 5 July 2021, which stated that a written civil ruling (No. (2020)京01破13號之五) served by The First Intermediate People's Court of Beijing was received by it on the same day, in which it was held that the Restructuring Proposal (Draft) was approved and the restructuring procedure was terminated. Accordingly, the Restructuring Proposal (Draft) has become effective and is in the phase of execution.

Details of the restructuring and liquidation process are set out in the announcements of the Company dated 25 January 2021, 29 January 2021, 2 February 2021, 22 February 2021, 12 March 2021, 3 May 2021, 31 May 2021 and 8 July 2021, respectively.

2. Change of controlling shareholders and substantial shareholders of the Company

On 5 March 2021, a sealed regulating order was issued by the High Court of Hong Kong regarding the appointment of the liquidators (the "Liquidators") of Founder Information, the immediate holding company of the Company. Upon such appointment, the Liquidators shall have the powers, including but not limited to, taking possession of the property of Founder Information and selling any of the property of Founder Information (including the shares of the Company) by way of public auction or private contract, with power to transfer the whole of it to any person or to sell the same in parcels.

* *For identification purpose only*

As informed by the Liquidators, Founder Information (acting by the Liquidators) conducted several sales of the shares in the Company, details of which are set out as follow:

(1) on 29 June 2021, Founder Information (acting by the Liquidators) accepted an irrevocable offer made by Ample Grace Investments Limited ("Ample Grace"), pursuant to which, Founder Information agreed to sell 641,615,565 shares in the Company (representing approximately 10% of total issued share capital of the Company) ("Accepted Offer Shares") to Ample Grace; and Ample Grace was granted a right to require Founder Information to purchase from Ample Grace all Accepted Offer Shares (subject to the completion of such sale set out above). Upon completion of such transfer, Ample Grace became a substantial shareholder of the Company. Details of the transfer are set out in the announcement of the Company dated 8 July 2021;

(2) on 12 August 2021, Founder Information (acting by the Liquidators) sold 1,276,384,435 shares in the Company (representing approximately 19.89% of total issued share capital of the Company) to Ample Grace. The 1,918,000,000 shares in the Company held by Ample Grace are subject to the share charge entered into by Ample Grace and Founder Information (acting by the Liquidators) on 11 August 2021 and the put option in respect of the Accepted Offer Shares was terminated. Details of the transfer and the share charge are set out in the announcement of the Company dated 31 August 2021;

(3) on 8 October 2021, Founder Information (acting by the Liquidators) sold 1,276,814,973 shares in the Company (representing approximately 19.90% of the issued share capital of the Company) to Firstunion Animation Technology (HK) Co. Limited ("Firstunion"). Upon completion of such transfer on 18 October 2021, Firstunion became a substantial shareholder of the Company and Founder Information beneficially owned 655,319,434 shares in the Company (representing approximately 10.21% of the issued share capital of the Company) and ceased to be a controlling shareholder of the Company. Details of the transfer are set out in the announcement of the Company dated 29 October 2021; and

(4) on 20 October 2021, Founder Information (acting by the Liquidators) accepted an irrevocable offer made by Kaiya Fund Pte. Ltd. ("Kaiya Fund"), pursuant to which Founder Information (acting by the Liquidators) agreed to sell a total of 641,600,000 shares in the Company (representing approximately 10.00% of the issued share capital of the Company) to Kaiya Fund. Upon completion of the transfer on 5 November 2021, Founder Information (acting by the Liquidators) beneficially owned 13,719,434 shares in the Company (representing approximately 0.21% of the issued share capital of the Company) and Kaiya Fund beneficially owned 641,600,000 shares in the Company (representing approximately 10.00% of the issued share capital of the Company). As a result, Kaiya Fund became a substantial shareholder of the Company and Founder Information (acting by the Liquidators) ceased to be a substantial shareholder of the Company. Details of the transfer are set out in the announcement of the Company dated 30 November 2021.

3. Litigations

The Group has been involved in the following legal proceedings and has been proactively responding to the cases:

(1) in August 2021, Zhonghang Trust Company Limited* filed a civil complaint in the Intermediate People's Court of Nanchang, Jiangxi Province against Kunshan Hi-Tech Electronic Arts Creative Industry Development Co., Limited* ("Kunshan Hi-Tech") in respect of the outstanding debts amounting to RMB1,035,850,924.54 (including outstanding principal of RMB400 million and outstanding interest and the default interest accrued as of 30 June 2021);

* *For identification purpose only*

(2) in August 2021, Shanghai International Trust Company Limited* ("Shanghai Trust") filed a civil complaint in the Shanghai Financial Court against the indirectly wholly-owned subsidiaries of the Company, namely Chongqing Yingfeng Property Co., Ltd.* ("Chongqing Yingfeng"), Kunshan Fangshi Property Development Co., Limited* ("Kunshan Fangshi") and Hong Kong Yingfeng Holdings Limited ("Hong Kong Yingfeng") in respect of the outstanding debts amounting to RMB413,640,127.62, details of which are set out in the announcement of the Company dated 15 October 2021;

(3) in August 2021, Shanghai Trust filed a civil complaint in the Shanghai Financial Court against Beijing Founder Century Information System Co., Ltd. ("Beijing Founder") and Chongqing Yingfeng in respect of the outstanding debts amounting to RMB716,171,285.90 (including outstanding principal and interest), details of which are set out in the announcement of the Company dated 15 October 2021;

(4) in August 2021, Shanghai Trust filed a civil complaint in the Shanghai Financial Court against Kunshan Fangshi in respect of the outstanding entrusted loans amounting to RMB982,523,221.99 (including the outstanding principal, damages and legal costs); in September 2021, Shanghai Trust filed an application to the Shanghai Financial Court to add Peking University Resources Group Investment Co., Limited ("Resources Investment") as a defendant of the same case;

(5) in August 2021, Minmetals International Trust Co., Ltd ("Minmetals International") filed a civil complaint in the Intermediate People's Court of Xining, Qinghai Province against Dongguan Yihui Property Co., Limited, Yuxi Runya Property Company Limited* ("Yuxi Runya") and Chongqing Yingfeng in respect of the outstanding debts amounting to approximately RMB1,510 million (Minmetals International changed the amount of outstanding debts of the case to RMB1,458,513,421.66 in December 2021);

(6) in August 2021, Minmetals International filed a civil complaint in the Intermediate People's Court of Xining, Qinghai Province against Wuhan Tianhe Jinrui Property Development Company Limited*, Yuxi Runya and Resources Investment in respect of the outstanding entrusted loans amounting to approximately RMB631 million (including outstanding principal of RMB620 million and outstanding interest and default interest as of 19 August 2021);

(7) in August, 2021, Kunshan Hi-Tech filed a civil complaint in the Intermediate People's Court of Suzhou, Jiangsu Province against Peking University Resources (Hubei) Asset Management Co., Limited ("Resources Hubei") in respect of the outstanding debts amounting to RMB178,517,969.43 (including the outstanding principal and interest accrued as of 31 August 2021);

(8) in October 2021, the People's Court of Haidian District, Beijing made an order that 70% of the equity interests of Qingdao Boya Real Estate Co., Limited* ("Qingdao Boya"), a subsidiary of Resources Investment, shall be auctioned and sold;

(9) in November 2021, Resources Group filed a civil legal proceeding in the First Intermediate People's Court of Beijing against Resources Investment in respect of the amount owed by Resources Investment to Resources Group, which Resources Group claimed to be approximately RMB7,926 million, details of which are set out in the announcement of the Company dated 10 November 2021;

(10) in November 2021, Resources Investment filed a legal proceeding in the People's Court of Haidian District, Beijing against Mr Zeng Gang to request him to return the business licenses, company seals and other necessary documents of Resources Investment; and

(11) in December 2021, the People's Court of Haidian District, Beijing made an order that 70% of the equity interests of Qingdao Boya shall be frozen.

* *For identification purpose only*

4. Suspension of trading

As mentioned in the Company's announcement dated 28 April 2021, Resources Group claimed that there were certain discrepancies regarding the amount due to Resources Group reflected in the financial results of the Company for the Reporting Period. As the Company need more time to review the consolidated financial statements, it was unable to issue the annual report for the Reporting Period before 30 April 2021. As a result, trading in the shares of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") has been suspended with effect from 9:00 a.m. on Monday, 26 April 2021.

On 23 July 2021, the Company received the following resumption guidance from the Stock Exchange (the "Resumption Guidance"):

(i) publish the revised consolidated financial statements of the Company for the Reporting Period and address any audit modifications;

(ii) demonstrate the Company's compliance with Rule 13.24 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"); and

(iii) announce all material information for the Company's shareholders and investors to appraise the Company's position.

Details of the Resumption Guidance are set out in the announcement of the Company dated 28 July 2021.

5. Change of financial year end date

As disclosed in the Company's announcement dated 5 January 2022, the board of Directors (the "Board") resolved to change the financial year end date of the Company from 31 December to 31 March with effect from 5 January 2022.

The Board considered that the change of financial year end date to 31 March will enable the Group to rationalise and mobilise its resources with higher efficiency for the preparation of results announcements and financial reports given the change will:

(1) avoid competition of resources with other listed companies with regard to results announcement and reports-related external services under the peak reporting season in the market;

(2) remove the uncertainty from the variation in the dates of the Chinese New Year Holiday which put pressure on the workflow; and

(3) better coincide with the seasonal operating cycle of the Group's property development business, which usually records higher sales of properties in the first quarter of each year. Such busy season demands heightened commercial efforts, and the change of financial year end date will enable the Group to better utilize its resources on executing its business plans during such busy season.

The Board did not foresee any material financial impact on the Group in respect of the change of financial year end date of the Company and there is no other matter that would need to be brought to the attention of the shareholders of the Company.

Following the change of financial year end date, in respect of the Company's audited consolidated financial information for the 15-month period from 1 January 2021 to 31 March 2022, the Company will be required to publish results announcement on or before 30 June 2022, and the financial report on or before 31 July 2022.

Thereafter, the Company will announce its unaudited interim results for the 6-month period from 1 April to 30 September and the audited annual results for the 12-month period from 1 April to 31 March on or before 30 November and 30 June each year, respectively.

Saved as disclosed above, there is no other important event affecting the Group since 1 January 2021 and up to date of this annual report.

Revision of the information contained in the final results announcement for the year ended 31 December 2020 of the Company dated 31 March 2021 (the "Final Results Announcement")

On 31 March 2021, the Company published the Final Results Announcement. Subsequently, on 28 April 2021, the Company made an announcement that as Resources Group, the then indirect controlling shareholder of the Company, informed in April 2021 that the amount due to it included in "Other payables and accruals" in consolidated statement of financial position as at 31 December 2020 should be revised, the management of the Company needed time to reconcile the balance with the related party and to further discuss and consult on whether to adjust the consolidated financial statements of the Company, and thus, more time was needed for the Company to prepare and finalise relevant information to be contained in the annual report for the year ended 31 December 2020.

Subsequent to the publishing of the Final Results Announcement, the auditor of the Company revised the independent auditor's report on the consolidated financial statements of the Company for the year ended 31 December 2020, primarily amended the basis for their disclaimer of opinion. As such, the section headed "Extract of Independent Auditor's Report on the Consolidated Financial Statements for the Year Ended 31 December 2020" in the Final Results Announcement has been superseded. For details, including the reasons for the changes and the potential impact on the consolidated financial statements of the Company for the year ended 31 December 2020, please refer to pages 71 to 73 of this annual report.

Response from the Directors regarding the Disclaimer of Opinion set out in the Independent Auditor's Report for the year ended 31 December 2020

Ernst & Young (the "Auditor"), the independent auditor of the Company, stated in the Independent Auditor's Report (the "Independent Auditor's Report") set out in this annual report that they are unable to form an opinion as to (i) whether the use of going concern assumption in the preparation of the consolidated financial statements of the Group is appropriate and (ii) the uncertainties relating to an amount due to Resources Group and its subsidiaries (the "Disclaimer of Opinion"). Please refer to the Independent Auditor's Report set out in this annual report for details.

The management's view and assessment on the Disclaimer of Opinion

Going concern basis

The following audit evidence in relation to the going concern is provided by the management to the Auditor:

(1) the information of extension of borrowings with the existing lenders including but not limited to correspondence details with lenders, renewed agreements, etc.;

(2) the information of outstanding litigation with lenders such as pre-litigation property attachment and summary of status of outstanding litigation; and

(3) the information of the Peking Founder Reorganisation such as the notification letters issued by the Administrator of Peking Founder.

The Group has closely communicated with the Auditor to review the above audit evidence and to assess the appropriateness and reasonableness of the going concern basis.

As disclosed in the announcement of the Company dated 30 November 2021, Founder Information (acting by the Liquidators) was only interested in approximately 0.21% of the issued share capital of the Company immediately following the completion of several sales of shares of the Company from June to November 2021. Thus, Peking Founder, being the holding company of Founder Information (acting by the Liquidators), was no longer an indirect controlling shareholder of the Company. As disclosed in the section headed "Management Discussion and Analysis – Events after the Reporting Period" in this annual report, the Group's creditors have initiated multiple litigations against certain Group's members for repayment of the loans. Therefore, it is difficult for the Directors to provide such supporting evidences that the Auditor considers sufficient at this stage.

For the purpose of assessing going concern, the management will undertake the following measures to mitigate the liquidity pressure and to improve its financial position:

1. actively negotiating with existing lenders for loan extension, the waiver of the repayable on demand clause and breach of the undertaking and restrictive covenant requirements of certain bank and other borrowings; and

2. implementing business strategy plans to enhance profitability, control costs and to generate adequate cash flows from operations.

The management understood that there were multiple uncertainties over the Group's status as a going concern as disclosed in the note 2.1 to the financial statements. As disclosed above, it is difficult for the Directors to provide supporting evidences that the Auditor considers sufficient at this stage.

Amount due to Resources Group

As disclosed in the announcement of the Company dated 10 November 2021, a civil legal proceeding had been filed by Resources Group in The First Intermediate People's Court of Beijing against Resources Investment in respect of the amount owed by Resources Investment to Resources Group (the "Litigation"). According to the relevant statement of claim, up to 30 September 2020, the amounts owed by Resources Investment to Resources Group were approximately RMB7,926 million (the "Alleged Debts").

The management has been using its best efforts to understand the events and circumstances leading to the discrepancies (the "Discrepancies") claimed by Resources Group regarding the amount due to Resources Group. In October 2021, the Company has established an investigation team to conduct investigation on the Discrepancies (the "Investigation").

During the Investigation, as disclosed in the announcement of the Company dated 10 December 2021, the Board has discovered that Resources Group is suspected to have misappropriated funds of the Group (the "Misappropriation") in the following manner:

(1) Resources Group had arranged certain subsidiaries of the Company ("Group Companies") to transfer or deposit their funds into Resources Group, resulting in large amount of indebtedness due from Resources Group to the Group.

(2) In 2020 and 2021, Resources Group and its associates, Resources Investment and some other Group Companies have undertaken a series of transactions to transfer, assign and/or offset their respective debts. In particular, Kunshan Hi-Tech, a subsidiary of the Company had transferred and deposited its funds to Resources Group, leading to an aggregated debt of approximately RMB2,417 million owed by Resources Group to Kunshan Hi-Tech (the "Kunshan Hi-Tech Debt"). On 25 March 2021, Resources Group, Resources Investment, Kunshan Hi-Tech and Resources Hubei, an indirect subsidiary of the Company entered into and executed several debt assignment and transfer documents, pursuant to which (a) Resources Investment assumed the liabilities of Resource Group and agreed to repay part of Kunshan Hi-Tech Debt in an amount of approximately RMB2,085 million to Kunshan Hi-Tech, and (b) Resources Hubei assumed the liabilities of Resource Group and agreed to repay part of Kunshan Hi-Tech Debt of approximately RMB141 million to Kunshan Hi-Tech. Thus, Resources Investment and Resources Hubei have incurred vast amount of debts which should have been borne by Resources Group.

(3) While being fully aware of the transactions as disclosed above, Resources Group knowingly and willfully claimed that there were discrepancies regarding the amount payable by Resources Investment to Resources Group and filed a civil lawsuit against Resources Investment for the repayment of the Alleged Debts of approximately RMB7,926 million.

As at the date of this annual report, the Investigation is still ongoing. With the support of the Company's PRC legal advisers, the Company has been proactively collecting the relevant evidences and preparing defence with respect to the Litigation. In relation to the suspected Misappropriation, the Company is currently seeking legal advices and will continue to conduct Investigation over the conducts of Resources Group.

The Board consider there is no sufficient basis for the Company to conduct the reconciliation of the amount due to the Resources Group with the Alleged Debts claimed by the Resources Group after taking into accounts the followings:

(1) Resources Group claimed that the Alleged Debts of RMB7,926 million was the amount owed by Resources Investment to Resources Group as at 30 September 2020, while the amounts due to Resources Group of approximately RMB2,351 million as included in other payables and accruals in the consolidated balance sheet at 31 December 2020 in this annual report is the amounts due to Resources Group as at 31 December 2020, thus no direct comparison can be made with respect to these two figures;

(2) no formal explanation or details regarding the Discrepancies or any document of the underlying transactions leading to the Discrepancies was provided by Resources Group to the Company so far;

(3) the Alleged Debts of RMB7,926 million owed by Resources Investment to Resources Group was fabricated by Resources Group through a series of debt transfer, assignment and offsetting transactions undertaken by Resources Group and its associates, Resources Investment and other Group Companies, which were conducted under the procurement of Resources Group by exerting its control over Resources Investment and other Group Companies at that time, thus did not represent a true indebtedness of Resources Investment; and

(4) the amounts due to Resources Group of approximately RMB2,351 million was prepared based on the internal financial records of the Group.

Given the above, the management is unable to provide the Auditors with sufficient appropriate audit evidence to substantiate the validity and completeness of the amount owed by the Group to Resources Group as of 31 December 2020.

Audit committee's view on the Disclaimer of Opinion

The Audit Committee had critically reviewed the Disclaimer of Opinion, the management's position concerning the Disclaimer of Opinion and measures taken by the Group for addressing the Disclaimer of Opinion. The Audit Committee agreed with the management's position based on the measures disclosed above. Moreover, the Audit Committee requested the management to take all necessary actions to address the effect on the Disclaimer of Opinion that no such Disclaimer of Opinion to be made in the forthcoming audited financial statements. The Audit Committee had also discussed with the Auditor regarding the financial position of the Group, measures taken and to be taken by the Group, and considered the Auditor's rationale and understood their consideration in arriving their opinion.

Action plan to address the Disclaimer of Opinion

In order to address the uncertainties that may cast significant doubt on the Group's ability to continue as going concerns, and with a view to the Disclaimer of Opinion, the Group had taken and intends to continue to implement the following measures to mitigate the liquidity pressure and to improve its cash flows, including:

1. Actively negotiating with existing lenders for the waiver of the repayable on demand clause and breach of the undertaking and restrictive covenant requirements of certain bank and other borrowings.

   The Group has been taking steps to negotiate with the existing lenders to seek for extension of due dates for the overdue loans, and will use its best endeavours to negotiate with the lenders to seek for extension of due dates on a continuing basis.

   Based on the communication with the financial institutions cooperating with the Group, all financial institutions expressed their understanding of the current status of the Group, and at the same time hope that the Group can sustain normal operations. Therefore, the operation and staff stability of the Group are not significantly affected. As at 31 December 2020, the overdue loans of RMB3,218 million were extended for repayment by the lenders.

2. Implementing business strategy plans to enhancing profitability and control costs and to generate adequate cash flows from operations.

   (a) Accelerating the pre-sale and sale of properties under development and completed properties

   The Group formulated the sales strategy tailored to the local conditions of each property development project based on their respective product structure and actively responded to the market, so as to accelerate the pre-sale and sale of properties under development and completed properties. In addition, the Group strengthened communication and coordination with cooperative banks and capital regulatory departments to speed up the receipt of proceeds from pre-sale and sale of properties under development and completed properties.

   (b) Cost Control Measures

   The Group has been taking measures to control the operating costs and improve management efficiency and competitiveness. The Group formulated and closely monitored the budgeted cost for each stage of projects. Cost management system was adopted for real-time cost management and control. The Group has achieved product standardisation and adopted transparent tender system for centralised purchase and subcontracting with standard procedures and documents to determine reasonable and competitive bidding price.

   The structure of marketing expenses were adjusted in each stage so as to improve the cost-effectiveness ratio in the process of pre-sale and sale of properties under development and completed properties.

The Group is also tightening cost controls over the daily administrative and other operating expenses aiming at improving the working capital and cash flow position of the Group.

The Group is confident that the new measures could improve management efficiency while saving operating costs.

3. The Group is seeking legal advice and is proactively responding to the litigations involved to protect its legitimate interests.

In order to address the uncertainties relating to the amount due to Resources Group, the Group had taken and intends to continue to implement the following measures:

1. The Company will continue to conduct the Investigation regarding the Discrepancies, including the circumstance leading to the Misappropriation by Resources Group.

2. In respect of the Litigation, the Company will rigorously defend itself to protect its legitimate interest. The Company is also proactively collecting the relevant evidences and preparing the defence with respect to the Litigation with the support of the Company's PRC legal advisers.

3. In relation to the suspected Misappropriation, the Company is currently seeking legal advices and will continue to conduct Investigation over the conducts of Resources Group. The Group will take proactive follow-up actions to safeguard the Group's interests and assets.

4. The Company has engaged financial advisers, legal advisers and valuer to assist the Company in dealing with the subsidiaries implicated in the Discrepancies and the suspected Misappropriation.

Removal of the Disclaimer of Opinion

The Board will take into consideration the Disclaimer of Opinion when preparing the consolidated financial statements for the 15-month period from 1 January 2021 to 31 March 2022. The Board will be responsible for assessing the Company's ability to continue as a going concern and the amounts due to Resources Group based on the conditions and circumstances as at 31 March 2022.

Assuming (i) all of the above action plans can be implemented as intended; (ii) that there are no other material adverse changes to the business, operation and financial conditions of the Group; (iii) the supporting evidence in proving the Group's ability to continue as a going concern can be provided to the Company's auditor to its satisfaction; and (iv) the supporting evidence to substantiate the validity and completeness of the amount owed by the Group to Resources Group can be provided to the Company's auditor to its satisfaction, the Company believes that its auditor will be able to remove the Disclaimer of Opinion by the time of issuing the audit opinion for the consolidated financial statements of the Group for 15-month period from 1 January 2021 to 31 March 2022. The Group will work closely with its auditor with the view to making timely reporting of the consolidated financial statements of the Group for 15-month period from 1 January 2021 to 31 March 2022 in accordance with the Listing Rules and relevant regulatory requirements. The Company has engaged financial advisers, legal advisers and valuer to assist the Company in dealing with the subsidiaries implicated in the Discrepancies and the suspected Misappropriation.