TARGET
Intelligence Report

VOLUME XXIII No. 234 THURSDAY October 28, 2021

SHANGHAI ZENDAI PROPERTY LTD:
THINGS DO APPEAR TO BE WORSENING
WITH THE PUBLICATION OF EVERY NEW REPORT

With Total Liabilities of $HK14,407,054,000.00, as at December 31, 2020 (2019: $HK16,482,719,000.00), questions must abound as to whether or not Shanghai Zendai Property Ltd (上海証大房地產有限公司) (Code: 755, Main Board, The Stock Exchange of Hongkong Ltd) shall be able to continue to operate as a going concern for much longer.

Of the Company's Total Liabilities, as at December 31, 2020, $HK10,315,346,000.00 has been classified as being '*Current Liabilities*' – due to be repaid within the period of one year.

PricewaterhouseCoopers, Certified Public Accounts (羅兵咸永道會計師事務所), in its Independent Auditor's Report with regard to the Company, stated at Page 100 of the 2020 Annual Report, inter alia:

> '*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 these 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.*'

Then, at Pages 101 and 102 of the 2020 Annual Report of Shanghai Zendai Property Ltd, under the heading, '***Multiple Uncertainties Relating to Going Concern***', PricewaterhouseCoopers went on record, stating the following:

> '*As described in Note 2.1 to the consolidated financial statements, the Group reported a net loss of HK$1,157 million during the year ended 31 December 2020. As at 31 December 2020, the Group's equity attributable to owners of the Company amounted to HK$71 million and its current liabilities exceeded its current assets by HK$3,331 million. At the same date, the Group's total borrowings amounted to HK$7,036 million (including the current portion of HK$4,289 million), while the Group only*

had unrestricted cash and cash equivalents of HK$231 million. In addition, as at 31 December 2020, the Group was in default of borrowings (the "Defaulted Borrowings") with principal and interest amounts totalling HK$1,077 million because of non-payment at their respective due dates. Such default events also triggered cross-defaults of other certain borrowings of the Group with aggregated principal amounts of HK$1,869 million (the "Cross-Defaulted Borrowings") and related interest of HK$4.2 million as at 31 December 2020. Additional borrowings with aggregated principal amounts of HK$245 million (the "Subsequently Defaulted Borrowings") were defaulted and cross-defaulted subsequent to 31 December 2020 due to the provision of an additional financial guarantee by a subsidiary of the Company to the lender of the Defaulted Borrowings which breached certain terms and conditions of such borrowings of this subsidiary. These conditions, together with other matters described in Note 2.1 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.

'*Management of the Company has been undertaking a number of plans and measures to improve the Group's liquidity and financial position and to restructure the existing borrowings, which are set out in Note 2.1 to the consolidated financial statements. The consolidated financial statements have been prepared on a going concern basis, the validity of which depends on the outcome of these plans and measures, which are subject to multiple uncertainties, including (a) successful negotiations with the lenders of the Defaulted Borrowings, Cross-Defaulted Borrowings and Subsequently Defaulted Borrowings, despite the anticipated operating results for 2021 and the possible negative equity attributable to owners of the Company as mentioned in the said note, such that they will not take any actions against the Group to exercise their rights to demand immediate payment of the principals and interest of these borrowings before the Group is able to secure additional new sources of funding and restructure its existing borrowings, including repaying the Defaulted Borrowings; (b) successfully and timely securing new financing from the financial institutions with which the Group is actively negotiating to fund the aforesaid restructuring of its existing borrowings as well as the continued financing of the construction of properties. Securing new financing depends on (1) the current regulatory environment, and whether increased regulation such as the "Three Red Lines" financial supervisory rules for real estate companies or other restrictions are applicable to the Group and/or these financial institutions; (2) whether the lenders of existing borrowings are agreeable to the terms and conditions of the financing and refinancing agreements; and (3) the Group's ability to continuously comply with these terms and conditions; (c) successfully accelerating the construction as well as pre-sale and sale of its properties under development and timely collection of the relevant sales proceeds, including meeting all of the necessary conditions to launch the pre-sale, and to make these pre-sales at the expected sale prices and in accordance with the timelines projected by management in the cash flow projections; and (d) the Group's ability to generate operating cash flows and obtain* *additional sources of financing other than those mentioned above, to meet the Group's ongoing funding needs as well as successfully controlling administrative costs and capital expenditure.*

'*As a result of these multiple uncertainties, the potential interaction of these uncertainties, and, the possible cumulative effect thereof, we were unable to form an opinion as to whether the going concern basis of preparation is appropriate.*

'*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 value 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 effects of these adjustments have not been reflected in these consolidated financial statements.'*

On … **CLICK TO ORDER FULL ARTICLE**