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DIFFER GROUP AUTO LIMITED

鼎豐集團汽車有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 6878)

SUPPLEMENTAL ANNOUNCEMENT TO 2023 ANNUAL REPORT

This announcement is made by Differ Group Auto Limited (the “**Company**” and together with its subsidiaries, the “**Group**”) pursuant to Rule 13.09 of the Rules Governing the Listing of Securities on the Main Board of 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, Laws of Hong Kong).

Reference is made to the annual report of the Company for the year ended 31 December 2023 (the “**2023 Annual Report**”). This announcement is made to provide the following supplementary information to the 2023 Annual Report in relation to the details of the disclaimer opinion on going concern in the corporate governance report in light of the requirements of Code Provision D.1.3 of Appendix C1 to the Listing Rules.

EXTRACT OF THE INDEPENDENT AUDITOR’S REPORT

The following is an extract of the independent auditor’s report on the Group’s audited consolidated financial statements for the year ended 31 December 2023.

DISCLAIMER OF OPINION

We were engaged to audit the consolidated financial statements of Differ Group Auto Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”) set out on pages 128 to 306, which comprise the consolidated statement of financial position as at 31 December 2023, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information and other explanatory information.

We do not express an opinion on the consolidated financial statements of the Group. Because of the significant of the matters described in the *Basis for Disclaimer of Opinion* section of our report, we have not been able to form an audit opinion on these consolidated financial statements. In all other respects, in our opinion the consolidated financial statements have been properly prepared in compliance with disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR DISCLAIMER OF OPINION

Multiple uncertainties relating to going concern

As described in note 2(b) to the consolidated financial statements, for the year ended 31 December 2023, the Group incurred a net loss attributable to the shareholders of the Company of approximately RMB2,522,332,000 and a net operating cash outflow of approximately RMB771,205,000, and as of that date, the Group had net current liabilities of approximately RMB1,005,138,000.

As at 31 December 2023, the Group was in default in most of the bank and other borrowings and corporate bonds as at 31 December 2023 due to the events of default of late or overdue payment of loan principal and interest or cross default of the Group's borrowings, which, as a consequence, would be immediately repayable if and when requested by the lenders.

Moreover, the Company was served with a winding-up petition from a corporate bond holder issued with the High Court of Hong Kong for the winding-up of the Company.

These conditions, together with other matters described in note 2(b) to the consolidated financial statements, indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern and hence, its ability to realise its assets and discharge its liabilities in the normal course of business.

The directors of the Company have been undertaking a number of measures and plans to improve the Group's liquidity and financial position, and to mitigate the liquidity pressure and to improve the Group's financial position, which are set out in note 2(b) 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 measures and plans, which are subject to multiple uncertainties, including:

- (i) The successful execution and completion of the Scheme and Proposed Restructuring in restructuring indebtedness payables to Scheme Creditors;
- (ii) The successful execution and completion of the Financing Restructuring Plan in restructuring and renewal its existing borrowings from those lenders and creditors when their current terms expire;

- (iii) The recovery of the real estate sector and other businesses to generate cash inflow from its operations, settlement of various receivables upon their maturity and payment request by the Group as planned and scheduled;
- (iv) The successful in obtaining Funds from Operations and Businesses in accordance with the timeline of the cash flow projection reviewed by the directors of the Company; and
- (v) The successful in obtaining Additional and Alternative Sources of Financing other than those mentioned above in meeting its financial obligations as and when they need.

The Group's ability to obtain the abovementioned financing and operating funds depends on: (i) current and ongoing regulatory environments and how the relevant policies and measures might affect the Group and/or the relevant financial institutions; and (ii) whether the lenders and creditors of existing bank and other borrowings are agreeable to the terms and conditions for such extension or renewal and the Group's ability to continuously comply with the relevant terms and conditions of bank and other borrowings.

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

MANAGEMENT VIEW AND ACTION PLANS TO BE IMPLEMENTED BY THE COMPANY IN RESPONSE TO THE AUDITOR'S MODIFIED OPINION

THE COMPANY'S RESPONSE TO DISCLAIMER OF OPINION RELATING TO GOING CONCERN

As described in note 2(b) to the financial statements of this report, for the year ended 31 December 2023, the Group incurred a net loss attributable to the shareholders of the Company of approximately RMB2,522,332,000 and a net operating cash outflow of approximately RMB771,205,000, and as of that date, the Group had net current liabilities of approximately RMB1,005,138,000.

As at 31 December 2023, the Group was in default in most of the bank and other borrowings and corporate bonds as at 31 December 2023 due to the events of default of late or overdue payment of loan principal and interest or cross default the Group's borrowings, which, as a consequence, would be immediately repayable if and when requested by the lenders.

Moreover, the Company was served with a winding-up petition from a corporate bond holder issued with the High Court of Hong Kong for the winding-up of the Company.

These conditions, together with other matters described in note 2(b) to the financial statements of this report, indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern and hence, its ability to realise its assets and discharge its liabilities in the normal course of business.

As described in section headed "EXTRACT OF THE INDEPENDENT AUDITOR'S REPORT" in this report, the Company's auditors, SFAI (HK) CPA Limited (previously known as "**Yongtuo Fuson CPA Limited**") (the "**Auditors**") issued a disclaimer of opinion (the "**Disclaimer of Opinion**") regarding multiple uncertainties relating to going concern of the Company (the "**Multiple Uncertainties relating to Going Concern**"). In respect of the basis for Disclaimer of Opinion — Multiple Uncertainties relating to Going Concern relating to the appropriateness of the assumption regarding the Company's ability to continue as a going concern, the Group has prepared a forecast covering a period of not less than twelve months from the end of the reporting period taking into account of a number of measures and plans to improve the Group's liquidity and financial position, and to mitigate the liquidity pressure and to improve the Group's financial position, which are set out in note 2(b) to the financial statements of this report, including but not limited to:

- (i) The Company proposed the Scheme and formulated the terms of the Proposed Restructuring to restructure its indebtedness payables to Scheme Creditors as described in 2(a) to the financial statements of this report;
- (ii) The Group maintains continuous communication with other lenders and creditors and the directors believe that the existing borrowings available to the Group will be successfully restructured and renewed when their current terms expire given the long standing relationship the Group has with the relevant counter parties;
- (iii) The Group has been actively monitoring its finance lease, loan and account receivables and other receivables to ensure their collectability upon their maturity and payment to the subcontractors and suppliers request by the Group so as to complete the Group's construction projects as scheduled. In addition, the Group will retain sufficient fund in order to alleviate the Group's liquidity pressure;

- (iv) The Group will continue to focus in maintaining its inventories of properties and adopting a more proactive sale strategy to attract purchasers. The directors expect that there will have a recovery of the PRC's economy from the effects of the COVID-19 pandemic, especially the recent measures imposed by the PRC government to stabilise the properties market that will enhance the growth of the Group's property business and thus, the Group's cash flows will be improved.

According to the current properties' construction schedule, the directors estimate that most of its current properties' construction will be completed before the financial year ending 31 December 2025 and with the completion and promotion of sales of inventories of properties, the directors expect that the Group is able to obtain cash flows from its property development business, such as among five (5) major properties development projects of the Group, the construction of the three (3) projects (Differ Humane Mansion, the People Ancient City and ChuZhouFu City) were completed and the construction of two projects (Differ Sky Peak and Differ One City) is still in progress. The directors consider that the Group will generate satisfactory income and cash flows from the sales of properties in the coming years.

The Group continues to generate operating cash flows for the next twelve months by implementing various strategies to improve the Group's income from property development and investment, financial services and automobile e-commerce to generate additional operating cash inflows; and

- (v) The Group will also continue to seek for other additional and alternative financing to finance the settlement of its existing financial obligations and future operating expenditures.

The Group's ability to obtain the abovementioned financing and operating funds depends on: (i) current and ongoing regulatory environments and how the relevant policies and measures might affect the Group and/or the relevant financial institutions; and (ii) whether the lenders and creditors of existing bank and other borrowings are agreeable to the terms and conditions for such extension or renewal and the Group's ability to continuously comply with the relevant terms and conditions of bank and other borrowings.

The consolidated financial statements have been prepared on a going concern basis, the validity of which depends on the outcome of the above-mentioned measures and plans.

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

After discussion with the Auditors, the management of the Company expects that, on the assumptions that

- (i) The measures and plans as mentioned above have been successfully implemented, especially the conclusion and finalisation of the Scheme and Proposed Restructuring.

On 6 June 2024, the High Court has granted an order to the Company to convene a meeting of the creditors of the Company for the Scheme. Such creditors' meeting is tentatively scheduled to be held on 16 August 2024 and the sanction hearing of the High Court for the Scheme is tentatively fixed on 17 September 2024. For the details of the update on the date of creditors' meeting and the sanction hearing, please refer to announcements dated 16 August 2024 and 2 September 2024 respectively.

Thus, the directors of the Company are very optimistic and confident that the Scheme and Proposed Restructuring will be approved by the Scheme Creditors in the near future so that the Company will be successfully in restructuring the debts with the Scheme Creditors;

- (ii) The Company and each of the Company's operating subsidiaries has continued to operate as normal; and
- (iii) There are no other material threats to its status as a going concern, the directors considered that the Group will have sufficient liquidity to finance its operations for the foreseeable future and therefore of a view that the Group would be able to continue as a going concern.

In this regard, although whether the Group is able to continue as a going concern that is subject to successful implementation of the measures and plans, especially the conclusion and finalisation of Scheme and Proposed Restructuring such that the Auditors were not able to obtain sufficient audit evidence, the above-mentioned measures and plans have been initially formulated and is in an advanced stage and thus the management of the Company is optimistic about the outcome of measures and plans thereof.

AUDIT COMMITTEE'S VIEW ON THE MODIFIED OPINION

The audit committee of the Company (the "Audit Committee") had critically reviewed the basis for Disclaimer of Opinion of the Auditors and had also discussed with the Auditors relating to the Disclaimer of Opinion regarding the Multiple Uncertainties relating to Going Concern.

After discussion with the Auditors, the Audit Committee consider that:

Disclaimer of Opinion — Multiple Uncertainties relating to Going Concern

Audit Committee's view on whether the Company's measures and plans could address the underlying matters leading to the Multiple Uncertainties relating to Going Concern. The Auditors have informed the Audit Committee about their view regarding the basis of operating as a going concern, that due to the absence of sufficient appropriate audit evidence, especially the conclusion and finalisation of Scheme and Proposed Restructuring, the Auditors were unable to express their audit opinion whether the Group can continue to operate as a going concern. As abovementioned, the Multiple Uncertainties relating to Going Concern was mainly due to the Auditor's concern as to whether the Company will be able to successfully implement the plans and measures mentioned in note 2(b) to the financial statements of this report. The Audit Committee had critically reviewed the Multiple Uncertainties relating to Going Concern, the management's position concerning the Multiple Uncertainties relating to Going Concern and measures taken by the Group for addressing the Multiple Uncertainties relating to Going Concern. After discussion with the directors of the Company, the Audit Committee concurred with the going concern basis and assumptions adopted in preparing the consolidated financial statements based on the reasons above. Accordingly, the Audit Committee agreed that it was appropriate to use a going concern assumption to prepare the consolidated financial statements for the year ended 31 December 2023. Moreover, the Audit Committee requested the management to take all necessary actions to address the uncertainties regarding going concern underlying the Multiple Uncertainties relating to Going Concern that no such Multiple Uncertainties relating to Going Concern will be made in the forthcoming audited financial statements.

The Audit Committee had also discussed with the Auditors regarding the financial position of the Group, measures and plans taken and to be taken by the Group, and considered the Auditor's rationale and understood their consideration in arriving their opinion. The Audit Committee had reviewed the consolidated financial statements for the year ended 31 December 2023 and is of the opinion that the preparation of such statements complied with the applicable accounting standards and that adequate disclosures have been made.

The above information does not affect the information disclosed in the 2023 Annual Report and save as disclosed in this announcement, all other information in the 2023 Annual Report remains unchanged.

Completion of the Scheme is subject to the fulfilment or waiver (as the case may be) of various conditions, including the listing approval to be issued by the Stock Exchange in relation to the Scheme Shares, which may or may not be granted. The terms of the Proposed Restructuring may or may not be varied further. Accordingly, the Scheme may not proceed and the debts of the Company may or may not be settled, and the risk of the Company being wound up may or may not be eliminated. Shareholders and potential investors of the Company should therefore exercise caution and consult professional advisers, if necessary, when dealing in the Shares.

** for identification purpose only*

By order of the Board of
Differ Group Auto Limited
NG Chi Chung
Chairman and Executive Director

Hong Kong, 13 September 2024

As at the date of this announcement, the executive Directors are Mr. NG Chi Chung, Dr. FENG Xiaogang and Mr. TONG Lu; the non-executive Director is Mr. KANG Fuming; and the independent non-executive Directors are Mr. CHAN Sing Nun, Mr. LAM Kit Lam and Ms. CHUANG Yin Lam.