

*Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*



## **HSIN CHONG GROUP HOLDINGS LIMITED**

**新昌集團控股有限公司**

*(provisional liquidators appointed)*

*(for restructuring purposes only)*

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 00404)**

### **QUARTERLY ANNOUNCEMENT**

This announcement is made by Hsin Chong Group Holdings Limited (provisional liquidators appointed) (for restructuring purposes only) (“**Company**” and together with its subsidiaries, collectively the “**Group**”) pursuant to Rule 13.09 and Rule 13.24A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“**Listing Rules**”) and the Inside Information Provisions under Part XIVA of the Securities and Futures Ordinance (Chapter 571, Law of Hong Kong).

References are made to the announcement of the Company dated 31 October 2018 (“**Announcement**”). Unless otherwise specified, capitalised terms used herein shall have the same meanings as those defined in the Announcement.

## I. IMPLEMENTATION OF THE RECOMMENDATIONS IN THE INDEPENDENT INVESTIGATION REPORT

As disclosed in the Announcement, the Company has updated on the implementation status of each of the 11 recommendations proposed by the Independent Investigation Committee to the Board. The Company would like to further update on the specific procedures/steps that have been/will be implemented for recommendations 4, 5 7, 8, and 10 as at the date hereof in the table below:

<b>Issue/Recommendation</b>	<b>Measure/Action</b>	<b>Progress</b>
4 Transactions and loans of material nature shall be approved by the Company's management and Chief Financial Officer, subject to usual approval of the Board	This will form part of the enhanced internal control system and procedure	<b>Resolved</b> — Two internal control review reports were issued on 18 September 2018, the details of which are set out in the section headed "II. Internal Control Review Reports" below.
5 Enhance the internal communication mechanism and clear delineation on functions of each Board member and the company secretary	This will form part of the enhanced internal control system and procedure	<b>Resolved</b> — Two internal control review reports were issued on 18 September 2018, the details of which are set out in the section headed "II. Internal Control Review Reports" below.
7 Take remedial action relating to the connected transactions under Identified Issue I and completion of list of connected persons	The Company was in the process of gathering information and completing the list of connected persons. The Company will also request the counterparties in the future transactions to provide details as to their ownership or/and declare to the Group whether they have any connected relationship with the connected persons of the Group	<b>Resolved</b> — Such list has been completed in March 2018 and will be updated on a regular basis.

Issue/Recommendation	Measure/Action	Progress
8 To assess the reasonableness of the loan arrangement under Identified Issue III	The Company has carried out internal assessment and will advise the Board whether such arrangement is desirable	<b>Resolved</b> — Identified Issue III has been resolved. The Company will nevertheless observe and implement the recommendation to be made available by the internal control review.
10 Seeking legal advice on the enforceability of agreements in relation to the loans	Such legal advice has been sought	<b>Resolved</b> — The Company has obtained relevant legal advice and is in the opinion that such agreements under the Identified Issue I are enforceable and taking into account of the terms of such agreements, together with the settlement agreement, the risk facing the Group under such agreements is relatively low.

## II. INTERNAL CONTROL REVIEW REPORTS

Two reports were issued by BDO Financial Services Limited (“**BDO IC Team**”) on 18 September 2018 which covered the Group’s operation in Hong Kong and in the PRC.

For the report covering Group’s operation in Hong Kong, review included the following areas:

<b>Category</b>	<b>Findings</b>	<b>Recommendation</b>	<b>Management Response</b>
Policy and procedure	<p>It was found that the Company did not establish the written documentation of the policy and procedure regarding the development of accounting and reporting policies includes but not limited to:</p> <ul style="list-style-type: none"><li>● Preparation of financial statements for disclosure</li><li>● Compliance with Hong Kong GAAP and selection of accounting policies</li></ul> <p>Without a formal written policy, the staff may not understand the procedures clearly. Meanwhile, it cannot ensure the relevant procedures are properly carried out and achieving effective financial reporting.</p>	<p>Management is recommended to establish written accounting policies and procedures to ensure all staff understand the procedures and properly carried out.</p>	<p>Accounts Department has been following the published accounting guidelines and standards to prepare financial statements for disclosure purpose. The draft financial statements are then reviewed for conformity by internal auditor before release. Our accounting team will keep abreast of the latest accounting guidelines and standards through participating in CPD training and communication with external auditor for knowledge sharing.</p>

<b>Category</b>	<b>Findings</b>	<b>Recommendation</b>	<b>Management Response</b>
Notice period of board meeting	<p>According to the Appendix 14 — corporate governance code and corporate governance report, notice of at least 14 days should be given of a regular board meeting to give all directors an opportunity to attend and directors should be provided in a timely manner with appropriate information in the form and quality to enable them to make an informed decision and perform their duties and responsibilities. However, BDO IC Team obtained 3 selected samples of board meetings minutes and noted that notices of board meetings were to be given less than 14 days and directors did not receive an agenda and accompanying board papers, in full, in a timely manner and at least 3 days before the intended date of a board or board committee meeting.</p> <p>It is difficult to ensure whether all directors have sufficient time to respond their duties and attend to the meeting.</p>	<p>Management is recommended to give notice of at least 14 days and agenda and accompanying board papers at least 3 days before meeting to all directors to give them an opportunity to attend and sufficient time to perform their duties.</p>	<p>The Company endeavors to abide by this Corporate Governance Code in future.</p>

Category	Findings	Recommendation	Management Response
Contract review and approval	<p>It was found that all proposed investment, borrowing and financial instrument are reviewed and approved by executive committee and recorded in writing in minutes by company secretary.</p> <p>However, BDO IC Team noted that no minutes of meeting recorded on the following borrowings were kept:</p> <ul style="list-style-type: none"> <li>● Approved revolving loan from HSBC which the remaining balance amounts to HKD133,672,010 as of 31 March 2018</li> <li>● Other borrowing from 朱勇軍 amounting to HKD183,363,774 as of 31 March 2018, including principal and interest</li> </ul> <p>It is difficult to ensure whether the terms and conditions of revolving loan and other borrowing are properly approved by management.</p>	<p>Management is recommended to maintain a written minutes of approval to ensure that the borrowing and the relevant terms and conditions are properly approved by the executive committee. All relevant documents should be kept as audit trail.</p>	<p>In general, the Company will ensure in future that all major loan applications would go through executive committee for approval and be properly recorded.</p> <p>For the HSBC revolving loan, there is a standard bank requirement for obtaining board minutes of the company to process the loan application. The fact is that these documents were previously sent to the bank for processing but have not been returned.</p> <p>For other borrowing from 朱勇軍, the Company believes that the approval document, among other loan approval documents, was just misplaced and is viewed as an exception in the control process.</p>
Policy and procedure	<p>It was found that the Company does not establish written policy and procedure of cash and treasury management included but not limited to following: Expenses reimbursement and cash advances to directors and employees</p>	<p>Management is recommended to establish the relevant policy and procedure for cash, treasury and investment in order to standardize the relevant processes and for better utilization of funds in coming future.</p> <p>The policy should be approved by the management before circulating to the responsible staff and updated it when necessary.</p>	<p>The Company agrees to prepare both the expenses reimbursement procedure and also the cash advance procedure, and expect to have these in place within 3 months.</p>

<b>Category</b>	<b>Findings</b>	<b>Recommendation</b>	<b>Management Response</b>
Cash advances to directors and employees	<p>It was found that the applicant needs to prepare the cash-in-advance requisition form to list out the amount and the purpose of cash in advance. Afterward, the requisition form is submitted to relevant department head for approval.</p> <p>However, BDO IC Team noted that the applicant only informed the finance staff verbally for cash advance. Afterward, the finance staff prepared the requisition form and submitted to department head for approval.</p> <p>Meanwhile, no requisition form was prepared for the cash advances to directors which the amount still not yet be repaid by the director up to now.</p> <p>Without proper written documentation, it cannot ensure whether the cash advance to employee/director is properly approved by management.</p>	<p>Management is recommended to strictly require all applicant (either employee or director) to prepare the requisition form and sign on it and submit to relevant department head or management for approval. The applicant shall sign on the requisition form once he receives the cash advance to ensure cash is properly received.</p>	<p>The Company will follow up the outstanding advance immediately and agree to strictly enforce the cash advance procedure in future.</p>
Cash advance limit and approval	<p>During BDO IC Team’s review, they noted that there was no cap limit on the cash advance for different grades in the policy &amp; procedure.</p> <p>Meanwhile, no approval matrix has been established to ensure that the cash advance is properly approved. Without setting the cap limit on the cash advance, it may increase the risk of inappropriate use of cash.</p>	<p>Management is recommended to set the cap limit on the cash advance in the policy and procedures and the approval matrix to ensure that the cash advance is for appropriate use and properly approved.</p>	<p>The Company agrees to put a cap limit for cash advance and will also review the management approval required for cash advance when drafting the cash advance procedure as indicated above.</p>

For the report covering Group’s operation in PRC, review included the following areas:

<b>Category</b>	<b>Findings</b>	<b>Recommendation</b>	<b>Management Response</b>
Senior management resignation policy	<p>Formalisation of policy and procedures to assess the risk and evaluate the impact of the company operation related to departure of senior management is critical.</p> <p>However, BDO IC Team noted that these procedures were not formalized into a written company’s standard operating policy to facilitate the senior management resignation procedures to ensure that the resignation of senior management is properly approved and consistent with the company’s policy.</p>	<p>Management is recommended to establish written policies and procedures related to the departure of the senior management in order to ensure the risk of affecting the company operation is reduced to an acceptable level.</p> <p>The policies and procedures shall include but not limited to the following:</p> <ul style="list-style-type: none"> <li>● Notice period of resignation;</li> <li>● Handover procedures; and</li> <li>● Exit procedures.</li> </ul>	The Company agrees to the recommendation.

<b>Category</b>	<b>Findings</b>	<b>Recommendation</b>	<b>Management Response</b>
Formal policies and procedures	<p>The company has not established written documentation of the following policies and procedures:</p> <ul style="list-style-type: none"> <li>● Identification and reporting of notifiable and connected transactions;</li> <li>● Regarding the handling and monitoring of price-sensitive information;</li> <li>● Regarding the monitoring and handling of information leakage regarding inside information;</li> <li>● Policies and procedures for access to and maintenance of sensitive information;</li> <li>● Whistle blowing policy (including contact details of integrity committee);</li> <li>● Identifying and reacting to changing environment;</li> <li>● Risk management;</li> <li>● Development of action plan to mitigate risk; and</li> <li>● Business contingency plan.</li> </ul>	<p>Management is recommended to establish the said written policies and procedures to ensure that the relevant procedures are properly in place for staff compliance.</p>	<p>The Company agrees to the recommendation.</p>

<b>Category</b>	<b>Findings</b>	<b>Recommendation</b>	<b>Management Response</b>
Annual appraisal	<p>BDO IC Team noted that staff annual appraisal is performed by relevant department heads or general manager on a yearly basis to assess the staff performance.</p> <p>However, the company has not established any written documentation for annual appraisal to ensure an appraisal between the staff and their relevant department heads or general manager is properly carried out and agreed.</p>	<p>Management is recommended to establish annual appraisal document which should be signed by both parties to ensure that the staff performance has been evaluated by the management and the result of appraisal is agreed by the staff and their relevant department head.</p>	<p>The Company agrees to the recommendation.</p>
Maintenance of sub-contractor information	<p>During BDO IC Team's review, regarding the maintenance of sub-contractor/supplier information, BDO IC Team noted that:</p> <ul style="list-style-type: none"> <li>• No sub-contractor and supplier performance evaluation was performed (including independence/conflict of interest checks).</li> </ul>	<p>Management is recommended to implement the following:</p> <ul style="list-style-type: none"> <li>• Perform sub-contractor and supplier performance evaluation on a quarterly/yearly basis</li> </ul> <p>Meanwhile, all relevant documents should be retained as audit trail and for future reference.</p>	<p>The Company agrees to the recommendation.</p>
Policies and procedures	<p>The company has not established written policies and procedures regarding the following:</p> <ul style="list-style-type: none"> <li>• Related party transaction identification and background check for new sub-contractor and existing sub-contractor.</li> </ul> <p>Without a formal written approval on policies and procedures, the company cannot ensure that the relevant procedures are properly carried out.</p>	<p>Management is recommended to establish related party transaction policies and procedures to ensure that the relevant procedures are properly in place for staff compliance.</p>	<p>The Company agrees to the recommendation.</p>

Category	Findings	Recommendation	Management Response
Tendering process	<p data-bbox="395 225 743 378">During BDO IC Team’s review, BDO IC Team noted that no tendering process was performed for two selected projects.</p> <p data-bbox="395 421 743 540">Meanwhile, BDO IC Team noted the following during the tendering process review of projects:</p> <ul data-bbox="395 583 743 766" style="list-style-type: none"> <li data-bbox="395 583 743 642">● No independence/conflict check on supplier; and</li> <li data-bbox="395 676 743 766">● No justification when there were less than 3 quotations obtained.</li> </ul> <p data-bbox="395 804 743 991">Without performing proper tendering process performed, the company cannot ensure whether the selected supplier is properly approved by the management.</p>	<p data-bbox="767 225 1094 319">Management is recommended to implement the following:</p> <ul data-bbox="767 357 1094 1055" style="list-style-type: none"> <li data-bbox="767 357 1094 574">● Establish tender committee to evaluate bids in a fair, independent and professional manner, which aligns with the group’s objectives;</li> <li data-bbox="767 612 1094 732">● Establish independence/conflict check section on the sub-contractor assessment form; and</li> <li data-bbox="767 770 1094 1055">● Establish tender opening procedure and ensure that at least 3 sub-contractors are invited for tendering, justification should be obtained if less than 3 sub-contractors are invited.</li> </ul> <p data-bbox="767 1093 1094 1212">All relevant documents and correspondence should be retained as audit trail and for future reference.</p>	The Company agrees to the recommendations:

<b>Category</b>	<b>Findings</b>	<b>Recommendation</b>	<b>Management Response</b>
Policies and procedures	<p>The company has established the policies and procedures regarding the following:</p> <ul style="list-style-type: none"> <li>● Payment application; and</li> <li>● Approval on payment.</li> </ul> <p>However, BDO IC Team noted that the current policies and procedures are not comprehensive to reflect the current existing practices including but not limited to the following:</p> <ul style="list-style-type: none"> <li>● Policy on cash advances to directors and employees;</li> <li>● Return of staff advance and setting the time of the advance return from staff;</li> <li>● Opening and maintaining bank accounts;</li> <li>● Cash flow forecasting;</li> <li>● Monitoring liquidity (including procedures for preparation and approval of monthly fund application);</li> <li>● Managing liquidity;</li> <li>● Managing borrowing (includes looking for potential financial institution and obtaining 3 quotations for comparison);</li> <li>● Bank reconciliation;</li> <li>● Petty cash management; and</li> <li>● Settlement — payments and receipts.</li> </ul>	<p>Management is recommended to establish the relevant policies and procedures for cash and treasury management in order to align with the company operations and for staff's reference.</p> <p>The policies and procedures should be approved by the management before being circulated to the responsible staff and be updated when necessary.</p>	<p>The Company agrees to the recommendation.</p>

<b>Category</b>	<b>Findings</b>	<b>Recommendation</b>	<b>Management Response</b>
Cash flow forecast	<p>It was found that the finance manager is required to prepare cash flow forecast on a yearly basis for approval.</p> <p>During BDO IC Team's review, BDO IC Team obtained and noted that the PRC 2018 consolidated cash flow forecast has been prepared. However, no written approval was noted to ensure that the relevant documents are properly reviewed and approved by the management.</p> <p>Meanwhile, the cash flow forecast did not show estimated figures of daily operation and loan repayment to ensure there is sufficient capital for operation.</p>	<p>Management is recommended to maintain a written approved cash flow forecast to ensure that there is sufficient cash flow for daily operation and loan repayment in order to avoid huge amount of overdue interest being incurred.</p> <p>Meanwhile, the cash flow forecast should be reviewed regularly and properly approved by the management.</p>	<p>The Company agrees to the recommendation.</p>

Recommendations had been made by the BDO IC Team and had been agreed by the management of the Company.

### III. RESUMPTION PROGRESS

As disclosed in the announcements of the Company dated 12 June 2017, 6 September 2018 and 21 December 2018, the Stock Exchange stated the following conditions for the resumption of trading in the shares of the Company:

- (a) address all Audit Issues identified by PwC;
- (b) inform the market of all material information for shareholders and investors to appraise the Company's position including the implication of the Audit Issues 2, 3 and 4 identified by PwC to the Group's assets, financial and operational position; and;
- (c) to demonstrate its compliance with the Rule 13.24 of the Listing Rules; and
- (d) demonstrate that its directors meet the standard of competence with their position as directors of a listed issuer to fulfil duties of skill, care and diligence as required under Rule 3.08 of the Listing Rules.

As further disclosed in the Announcement, Audit Issues 3 and 4 have been removed in the financial results of the Company for the year ended 31 December 2017 as announced in its audited financial results announcement dated 25 March 2018.

The Company is currently following up on the arrangement to resolve Audit Issue 2. As disclosed in the Company's announcement dated 27 July 2018, as a measure to resolve Mr. Zhou's Transactions, on 23 March 2018, the Company and relevant subsidiary of the Company, namely Hsin Chong (China), entered into the Settlement Agreement with Beijing Xuan He, and Zhong Wu Xin He, pursuant to which, Beijing Xuan He and Zhong Wu Xin He agreed to repay to Hsin Chong (China), within 4 months from the Settlement Agreement, all outstanding amounts arising from the Trust Loan borrowed by Hsin Chong (China) from Tianjin Trust.

Pursuant to the Settlement Agreement, in order to finance the repayment of the Trust Loan, Beijing Xuan He and Zhong Wu Xin He undertook to (i) sell the property mortgaged by Zhong Wu Xin He to Tianjin Trust ("**BJ Property**"); (ii) procure a third party to provide the loan amount to Hsin Chong (China) for repayment of the Trust Loan; or (iii) procure a third party to purchase the RMB247.5 million and RMB129 million loans borrowed by Beijing Xuan He and Zhong Wu Xin He from Hsin Chong (China) and repay the said loans to Hsin Chong (China). Upon repayment of the Trust Loan in accordance with any of the above methods, Hsin Chong (China) and the Company's liabilities and obligations under the Trust Loan shall be fully released and discharged. In case of payment by a third party to Hsin Chong (China) for repayment of the Trust Loan, Hsin Chong (China) shall no longer be liable for repayment to the third party.

As at the date of this announcement, Beijing Xuan He and Zhong Wu Xin He have not yet settled the balances due to the Company. To recover such balances and with the aim to effectively eliminate the risk exposed by the Mr. Zhou's Transactions, on 23 July 2018, the Company's PRC lawyers have issued demand letters to Beijing Xuan He and Zhong Wu Xin He to demand for repayment. The Company has continued negotiations with Beijing Xuan He and Zhong Wu Xin He for repayment of loan or amicable solutions. The Company has also considered cost-effective measures to achieve the recovery process.

The Company has also been actively negotiating with potential investors to provide funding or investment in the Company to support its operation and development, in order to address Audit Issue 1 and to demonstrate its compliance with Rule 13.24 of the Listing Rules. As various negotiations are still undergoing, the Company is in the course of formulating and yet to finalise a resumption proposal as at the date hereof.

The table below set out the progress of the negotiations so far conducted with the potential investors.

	<b>Date of announcement</b>	<b>Name of the investors</b>	<b>Nature of the investment/ cooperation</b>	<b>Status of the negotiations</b>
1	2 May 2018	Poly Property Group Co., Limited (Stock Code: 00119) (" <b>Poly</b> ")	The potential investment may result in Poly becoming a substantial shareholder of the Company (i.e holding more than 10%, but less than 30% of the Company's ordinary shares).	Poly has commenced its due diligence exercises for the potential investment, but no legally binding agreement in relation to the potential investment has been entered into as at the date of this announcement.

Date of announcement	Name of the investors	Nature of the investment/cooperation	Status of the negotiations
2 May 2018	Kaisa Group Holdings Ltd. (Stock Code: 01638) (“ <b>Kaisa</b> ”)	The cooperation is in the form of a strategic business Cooperation, which may include: (i) the development, construction and sales management of the Company’s PRC real estate projects and (ii) the operational management of the commercial properties associated with the PRC real estate projects. The detailed terms and conditions of the cooperation for each of the Company’s individual real estate projects will be determined by specific agreements to be signed for each and every one of the real estate projects.	Kaisa has commenced its due diligence exercises for the cooperation, but no legally binding agreement in relation to the cooperation has been entered into as at the date of this announcement. Kaisa has provided a written confirmation giving up its first right of refusal to sign the Foshan Framework Agreement.
19 September 2018, 22 November 2018 and 5 December 2018	Beijing Enterprises City Development Limited (“ <b>Project Partner</b> ”)	The Company and the Project Partner entered into the PRC Property Project Framework Agreement, pursuant to which the Company and the Project Partner have conditionally agreed to jointly develop several property projects.	The Company entered into the Phase I Co-operation Master Agreement with the Project Partner, in relation to the subscription by the Project Partner of 51% of the respective enlarged equity interests in 7 project companies

Date of announcement	Name of the investors	Nature of the investment/ cooperation	Status of the negotiations
30 January 2019	Poly Opulence Limited	The Company and the Investor entered into the Framework Agreement (“ <b>Framework Agreement</b> ”), pursuant to which the Investor, to assist the Company and the JPLs’ objective of a holistic restructuring of the Group, agrees to provide funds according to the Framework Agreement to facilitate the restructuring of the Company and to subscribe for new Shares and/or convertible bonds at a price and on terms to be agreed when the Company has completed the debt restructuring process and resumed trading in Shares on the Main Board of the Stock Exchange.	Negotiation is in process but no other legally binding agreement subsequent to the Framework Agreement has been entered into as at the date of this announcement.

Further announcement in relation to the resumption proposal or any material update on the resumption progress will be made as and when appropriate in accordance with the Listing Rules.

For additional information for the Shareholders, the Company would like to disclose the factors considered by BDO Limited (“**BDO**”) (i) for not expressing a disclaimer opining on Audit Issues 3 and 4; and (ii) on how Audit Issues 1 and 2 can be resolved.

### **Factors considered by BDO for not expressing a disclaimer opinion on Audit Issue 3**

In 2016, the Company's auditor, PWC reported limitation on their scope of work in their audit of the Company's financial statements in respect of Audit Issue 3.

As extracted from PWC's auditor's report....*"because of the scope limitations, there were no alternative audit procedures that we could perform to satisfy ourselves as to:*

- (i) the business rationale (including the reasonableness of the subsidies to tenants as compared with common market practices) and commercial substance, occurrence, accuracy, completeness and presentation of these transactions together with the related balances as at and during the year ended 31 December 2016;*
- (ii) whether the effects of these transactions have been properly accounted for and disclosed, including the potential impact on the carrying amounts of the related assets of the Foshan project and the Taian project including "Investment Properties", "Receivables and Prepayments" or other assets in the Group's consolidated balance sheet and the potential related impact to changes in fair value for investment properties or other items in the consolidated income statement; and*
- (iii) disclosure of the related capital commitment, if any."*

To ascertain the findings in the Investigation Report, BDO had also re-performed all major procedures as adopted by PWC and Deloitte. BDO understands from the management that Audit Issue 3 was identified at a late stage in the 2016 audit, management was given little time to gather sufficient information to clarify and resolve the matter with ex-auditor in 2017. During the investigation process, more information was gathered by management and during the course of 2017 annual audit, this additional information was also made available to BDO for their review and assessment. In addition to this, at the request of BDO, additional information was also provided which include, but not limited to the following:

#### **Additional information**

#### **Objective/ Assertion achieved**

- |   |   |
|---|---|
| 1. Registers which details all major authorised contracts/ agreements where the company chops was used by the PRC subsidiaries to ensure the control is effectively implemented on use of the company chops to avoid any unauthorized agreement signed. | Occurrence and completeness               |
| 2. Details of cashbooks and bank ledger with relevant supporting documents of related subsidiaries (amount > component materiality) to identify any irregular/unusual bank transactions under the normal course of business.                            | No irregular transactions were identified |

## **Additional information**

## **Objective/ Assertion achieved**

- |  |  |
|--|--|
| 3. The commercial rationale of the Foshan and Taian Projects and updated feasibility studies to support the long term benefits, the original of which had been approved by the board. These updates were made with reference to assumptions and actual costs incurred up to date. These are to review and assess the reasonableness of the budget and the future return and assess the business rationale of continuing of the projects. | Occurrence Business rationale and commercial substance were satisfied                            |
| 4. An independent valuation appointed by management to review the reasonableness of renovation subsidies and whether such subsidies are under common market practice in the PRC.   | Occurrence Business rationale and commercial substance were satisfied                            |
| 5. Additional information and evidence to explain the discrepancies between the payments and the recorded amount as mentioned in the Investigation Report.   | Vouching work performed with satisfactory results  |
| 6. Agreements signed with the local government and additional correspondence concerning about the agreed time schedule of the development project.   | Occurrence Business rationale and commercial substance were satisfied                            |
| 7. The Company arranged interviews with responsible representatives from local governments from Foshan and Taian.  | Occurrence Business rationale and commercial substance were satisfied                            |
| 8. BDO obtained direct confirmation on the payments/ receipts, outstanding amounts and the value of the amounts of work with the Construction Company. The Company arranged interviews between the Construction Company and BDO.   | Existence, occurrence, accuracy, valuation and completeness of the construction amounts obtained |
| 9. BDO obtained (i) a schedule of capitalisation of the payments to the Construction Company to related assets including investment properties, property, plant and equipment and receivables and prepayments; and (ii) capital commitment in relation to the payment of the Construction Company.   | Accuracy and presentation  |
| 10. The Company, upon the request by BDO, appointed another independent expert to review the reasonableness of renovation subsidies and whether such subsidies are under common market practice in the PRC as stipulated in the independent expert report as appointed by the management.  | Occurrence Business rationale and commercial substance were satisfied                            |

In light of satisfactory results and additional evidence and information provided, BDO are satisfied with (i) business rationale of the Audit Issue 3 and its commercial substance, occurrence, accuracy, completeness and presentation of the transactions together with the related balances as at and during the year ended 31 December 2016; (ii) the effects of these transactions have been properly accounted for and disclosed in the Group's consolidated balance sheet and the potential related impact to changes in fair value for investment properties or other items in the consolidated income statement have been properly dealt with; and (iii) disclosure of the related capital commitments.

#### **Factors considered by BDO for not expressing a disclaimer opinion on Audit Issues 4**

In 2016, the Company's auditor, PWC reported limitation on their scope of work in their audit of the Company's financial statements in respect of Audit Issue 4.

As extracted from PWC's auditor's report...*"because of the scope limitations, there were no alternative audit procedures that we could perform to satisfy ourselves as to:*

- (i) the business rationale and commercial substance, occurrence, accuracy, completeness and presentation of these transactions together with the related balances as at and during the year ended 31 December 2016; and*
- (ii) whether the effects of these transactions have been properly accounted for and disclosed, including the potential impact on the carrying amounts of the any related assets of the Group's property projects under "Properties under Development" and "Investment Properties" in the consolidated balance sheet and the potential related impact to the consolidated income statement."*

To ascertain the findings in the Investigation Report, BDO had also re-performed all major procedures as adopted by PWC and Deloitte. BDO understand from the management that the Group had been taking endeavour efforts in seeking various sources of finance during financial years 2016 and 2017 to order to meet its important and urgent financial needs both in Hong Kong and the PRC including repayments of certain loan principal, settlements of certain loan interest and development costs of its property projects including those in Foshan and Taian. However, the Group's attempts or plan to obtain financing with cheaper costs were not successful as financial institutions, which had previously agreed to provide financing, had rejected the financing subsequently and requested for repayment when the financing were due. As such, to maintain the Group's operations, the Group was required to obtain financing alternatives with much higher costs.

During the course of 2017 annual audit, more information of the transactions under Audit Issue 4 were provided by the management to justify their explanation and Investigation Report were made available to BDO for review and reference. Based on the above, additional information relating to Audit Issue 4 provided from the management and the objective of the work performed by BDO was illustrated as below:

<b>Additional information</b>	<b>Objective/ Assertion achieved</b>
1. Registers which details of all major authorised documents, where the company chop was used by the subsidiaries.	Occurrence and completeness
2. details of cash and bank ledger with relevant supporting documents of related subsidiaries (amount > component materiality) to identify any irregular/unusual bank transactions which are under the normal course of business	No irregular transactions were identified
3. Obtained a list of all parties involved for each financing activities during the years ended 31 December 2016 and 2017 and obtained all associated loan agreements and consultancy agreements. A schedule showing the chronological order of the bank receipt and payments for the PRC subsidiaries during the years ended 31 December 2016 and 2017 to assess the fund usage and the urgency of the fund need. Company searches on the counterparties of the loan agreements and consultancy agreements had been arranged and obtained by BDO.	Occurrence Business rationale and commercial substance were satisfied and vouching performed on bank receipt and payments with satisfactory results
4. Additional information such as correspondence with banks, as well as formal plan for issue of debentures, to demonstrate the Group had made its efforts but had difficulties/failure in financing arrangement with cheaper costs.	Occurrence Business rationale and commercial substance were satisfied
5. Additional information between the relationship of the relevant counterparties in each of the loan agreements in 2016 and 2017 and relevant bank receipts and bank payments were provided for vouching.	Existence, occurrence, accuracy, completeness
6. Perform interviews with the counterparties including those had not been interviewed in the Investigation process. Confirmations with the counterparties were arranged with counterparties.	Existence, occurrence, accuracy, completeness
7. Obtained a schedule of financing charges being capitalised into relevant assets including investment properties, property, plant and equipment and properties under development.	Accuracy and presentation

In light of the above, management have provided additional supporting evidence where there were instances where finances were urgently required and cheaper source of finance were not available after attempts to obtain low costs of finance were denied or failed. BDO had also reviewed the loan agreements, bank payments/receipts, interest calculation to assess the genuineness of the transactions with satisfactory results. As such BDO are satisfied (i) the business rationale and commercial substance, occurrence, accuracy, completeness and presentation of these transactions together with the related balances as at and during the year ended 31 December 2016; (ii) the effects of these transactions have been properly accounted for and disclosed, including the potential impact on the carrying amounts of any related assets of the Group's property projects under "Properties under Development" and "Investment Properties" in the consolidated balance sheet and the potential related impact to the consolidated income statement.

#### **Factors considered by BDO on how Audit Issue 1 can be resolved**

As disclosed in the Announcement, the Company has been actively negotiating with potential investors to provide funding or investment in the Company to support its operation and development, in order to address Audit Issue 1 and to demonstrate its compliance with Rule 13.24 of the Rules Government the Listing Rules.

The management of the Company also discussed with BDO on the possible solutions for addressing this disclaimer and it is understood that it would not be removed if the financial situation of the Group is not improved.

#### **Factors considered by BDO on how Audit Issue 2 can be resolved**

As disclosed in the Announcement, the Company is currently following up on the arrangement to resolve Audit Issue 2. As at the date of this announcement, Beijing Xuan He and Zhong Wu Xin He have not yet settled the balances due to the Company. To recover such balances and with the aim to effectively eliminate the risk exposed by the Mr. Zhou's Transactions, on 23 July 2018, the Company's PRC lawyers have issued demand letters to Beijing Xuan He and Zhong Wu Xin He to demand for repayment. The Company has continued negotiations with Beijing Xuan He and Zhong Wu Xin He for repayment of loan or amicable solutions. The Company has also considered cost-effective measures to achieve the recovery process.

The management of the Company also discussed with BDO on the possible solutions for addressing this disclaimer and it is understood that it would not be removed if the related balances are not yet removed.

### **IV. SENIOR NOTES**

As disclosed in the Company's announcement dated 2 May 2018 and 18 May 2018, the US\$300 million 8.75% senior notes due 2018 ("**2018 Notes**") issued by the Company fell due for redemption on 18 May 2018. The Company has not paid the amounts outstanding under the 2018 Notes to the account of the trustee of the 2018 Notes ("**2018 Payment Default**").

As further disclosed in the Company's announcement dated 22 January 2019, the US\$150 million 8.50% senior notes due 2019 ("**2019 Notes**") and together with "**2018 Notes**") collectively referred to as "**Notes**") issued by the Company fell due for redemption on 22 January 2019. The Company has not paid the amounts outstanding under the 2019 Notes to the account of the trustee of the 2019 Notes.

The Company recently met with certain holders of the Notes and their advisors to discuss a potential consensual restructuring of the Notes. The Company anticipates continuing this dialogue and holders of the Notes that are not presently in contact with Company are invited to contact the Company at Senior.Notes@hcg.com.hk.

## **V. CURRENT STATUS OF THE COMPANY AND ITS VARIOUS SUBSIDIARIES**

### **Change of Joint Provisional Liquidators of the Company**

As disclosed in the Company's announcements dated 21 January 2019 joint provisional liquidators (the "**JPLs**") were appointed to the Company pursuant to an order ("**Bermuda Court Order**") granted by the Supreme Court of Bermuda ("**Bermuda Court**") on 18 January 2019 (Bermuda Time).

On 19 February 2019 (Bermuda Time), a hearing was held by the Bermuda Court in relation to (1) an application by VMS Investment Group Limited ("**VMS**"), a creditor of the Company, to appoint Osman Mohammed Arab and Lai Wing Lun of RSM Corporate Advisory (Hong Kong) Limited, 29/F Lee Garden Two, 28 Yun Ping Road, Causeway Bay, Hong Kong and Mathew Conner Clingerman of Kryss & Associates (Bermuda) Ltd at Chancery Hall, First Floor, 52 Reid Street, Hamilton, HM12 Bermuda as joint provisional liquidators ("**New JPLs**") of the Company ("**Application of JPL Change**") and (2) an application by the Company to seek to withdraw the winding up petition filed by the Company against the Company itself on 18 January 2019 ("**Application of Withdrawal**").

Upon hearing the Application of Withdrawal, the Bermuda Court ordered, among other things, the discharge and release of Yeung Lui Ming (Edmund) and Ho Kwok Leung Glen, both of Deloitte Touche Tohmatsu, 35/F One Pacific Place, 88 Queensway, Hong Kong and Rachelle Ann Frisby, of Deloitte Ltd., Corner House, 20 Parliament Street, Hamilton HM 12, Bermuda as joint provisional liquidators of the Company with immediate effect.

After the hearing of the Application of Withdrawal, at the same hearing on 19 February 2019, the Bermuda Court proceeded to hear the Application of JPL Change and/or the winding up petition filed by VMS against the Company on 17 January 2019 (the "**VMS Petition**") seeking the appointment of the New JPLs. The Bermuda Court made the orders as sought in the VMS Petition and the New JPLs were appointed with immediate effect.

## **Appointment of receivers of subsidiaries of the Company**

As disclosed in the Company's announcement dated 24 December 2018, on 20 December 2018, the Company received a letter from Ho Man Kit and Kong Sze Man Simone ("**Receivers**") informing that they had been appointed by Ultimate Achieve Developments Limited ("**Ultimate Achieve**") on 20 December 2018 as joint and several receivers and managers of the issued share capital of three subsidiaries, being Hsin Chong Construction Company Limited ("**HCCC**"), Hsin Chong Construction (Asia) Limited ("**HCCA**") and Hsin Chong Construction (BVI) Ltd ("**HCCBVI**").

On 21 January 2019, the Company was notified that, among other matters, the entirety of the 150,000 shares issued by HCCBVI were transferred to Ho Man Kit (as nominee and trustee for Ultimate Achieve).

## **Appointment of joint liquidators of HCCBVI**

On 4 February 2019, the Company received a letter from RSM Corporate Advisory (Hong Kong) Limited stating that, among others:

1. HCCBVI was placed into liquidation on 24 January 2019 by way of a qualifying resolution passed at a meeting of the member held on 24 January 2019;
2. Charlotte Caulfield of KRyS Global and Lai Wing Lun of RSM Corporate Advisory (Hong Kong) Limited were appointed as joint liquidators of HCCBVI ("**HCCBVI Liquidators**") on 24 January 2019 pursuant to Sections 159(2) and 161 of the Insolvency Act 2003 ("**Act**"); and
3. A meeting of creditors of HCCBVI would be held on 14 February 2019 at 2:30 pm (Hong Kong Time) for the purposes provided for in Sections 179(3) and (4) of the Act.

On 14 February 2019, the creditors' meeting was adjourned/rescheduled to 28 February 2019 and no other business had been tabled or discussed at the meeting on 14 February 2019.

Further announcement will be made to update the holder of securities of the Company and potential investors on the purported liquidation of HCCBVI.

## Winding up petitions

Regarding the petitions filed against the Company and its subsidiaries, the Company wishes to update the holders of shares and securities of the Company that, at as the date of this announcement, the Company is aware of four winding up petitions filed against the Company and its subsidiaries, with details set out in the table below:

<b>Previous Announcements</b>	<b>Case Number</b>	<b>Petitioner</b>	<b>The company against whom the petition was filed</b>	<b>Hearing Date</b>
28 August 2018, 31 October 2018, 14 November 2018, 12 December 2018, 14 January 2019, 24 January 2019 and 29 January 2019	HCCW 239/2018	Ng Chiu Construction Company Limited	HCCC	15 May 2019*
8 November 2018, 14 January 2019, 24 January 2019 and 29 January 2019	HCCW 316/2018	Kitchen Infinity Corp. Limited	HCCA	15 May 2019*
21 January 2019	Proceedings No 16 of 2019	VMS	The Company	3 May 2019
24 January 2019	HCCW 17/2019	Aspect Consulting Asia Limited	HCCC	13 March 2019
21 January 2019 and 24 January 2019	HCCW 28/2019	Synergis Holdings Limited	The Company	20 March 2019

\* The Company is aware that Osman Mohammed Arab and Lai Wing Lun, both of RSM Hong Kong, being two of the New JPLs were appointed as joint and several provisional liquidators of HCCA and HCCC and such appointments were extended until further order of the High Court of Hong Kong.

Further announcements will be made to update the holder of securities of the Company and potential investors on the development of the relevant court proceedings.

## **VI. CONTINUED SUSPENSION OF TRADING IN THE SHARES OF THE COMPANY**

Trading in the shares of the Company has been suspended since 3 April 2017 and will continue to be suspended until further notice. Holders of the shares and other securities of the Company and potential investors are advised to exercise caution when dealing in the shares and other securities of the Company.

By order of the Board of  
**Hsin Chong Group Holdings Limited**  
(provisional liquidators appointed)  
(for restructuring purposes only)  
**WANG Guozhen**  
Vice Chairman and Executive Director

Hong Kong, 22 February 2019

*As at the date of this announcement, the Board comprises Mr. LIN Zhuo Yan as the Non-executive Chairman and Non-executive Director; Mr. WANG Guozhen (Vice Chairman), Ir Dr Joseph CHOI Kin Hung (Chief Executive Officer), Mr. Wilfred WU Shek Chun (Chief Risk Officer) and Mr. Eric TODD as Executive Directors; Mr. YAN Jie, Mr. CHEN Lei and, Mr. CHUI Kwong Kau as Non-executive Directors; and Mr. CHENG Sui Sang, Mr. George YUEN Kam Ho, Dr. LAM Lee G., Dr. LO Wing Yan William, JP and Prof. HUNG Wai Man, JP as Independent Non-executive Directors.*