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HSIN CHONG GROUP HOLDINGS LIMITED

新昌集團控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 00404)

US\$300 MILLION 8.75% SENIOR NOTES DUE 2018

(Stock Code: 5513)

US\$150 MILLION 8.50% SENIOR NOTES DUE 2019

(Stock Code: 5607)

UPDATE ON RECENT DEVELOPMENT –

- (I) IMPLEMENTATION OF THE RECOMMENDATIONS IN THE INDEPENDENT INVESTIGATION REPORT;**
- (II) INTERNAL CONTROL REVIEW REPORTS;**
- (III) POTENTIAL DISPOSAL OF HC ASTER;**
- (IV) STRATEGIC COOPERATION AGREEMENT;**
- (V) SENIOR NOTES;**
- (VI) LATEST DEVELOPMENT ON THE WINDING UP PETITION IN RELATION TO A SUBSIDIARY;**
- (VII) BUSINESS UPDATE AND**
- (VIII) RESUMPTION PROGRESS**

This announcement is made by Hsin Chong Group Holdings Limited (“**Company**” and together with its subsidiaries, collectively the “**Group**”) pursuant to Rule 13.09 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 announcements of the Company dated 9 January 2018 and 19 January 2018. Unless otherwise specified, capitalised terms used herein shall have the same meanings as those defined in Company’s announcement dated 9 January 2018.

I. IMPLEMENTATION OF THE RECOMMENDATIONS IN THE INDEPENDENT INVESTIGATION REPORT

As stated in the announcement of the Company dated 19 January 2018, Deloitte issued a final investigation report on 10 January 2018 (“**Final Investigation Report**”).

The Independent Investigation Committee accepted the factual findings made by Deloitte as documented in the Final Investigation Report, based on which the Independent Investigation Committee has issued its report on 15 January 2018 and in which it has made 11 recommendations to the Board for resolving the Identified Issues.

The Company would like to update on the implementation status of each of the recommendations as at the date hereof in the table below:

Issue/Recommendation	Measure/Action	Progress
1 Appointment of independent internal control consultant for review	The Company has appointed BDO Financial Services Limited to act as the internal control consultant to conduct a full range internal control review of the Group	Resolved – Two internal control review reports were issued on 18 September 2018, the details of which are set out in the section “Internal Control Review Reports” below.
2 Termination of the duties and powers of Mr. Zhou within the Group	The Company has resolved to remove Mr. Zhou from his positions as directors in the subsidiaries of the Group and terminated his employment with the Group	Resolved – Relevant arrangement has been done and as at the date of this announcement, all resignation letters have been signed and received and registration of such removal with the relevant local bureaus has been arranged, pending completion of such registration by the relevant local bureaus.
3 Establishment of Corporate Governance Committee and Risk Management Committee	The Board has established such committees	Resolved – The committees have been established and please refer to the announcement of the Company dated 27 March 2018 for details.
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	Resolved – Two internal control review reports were issued on 18 September 2018, the details of which are set out in the section “Internal Control Review Reports” below.

Issue/Recommendation	Measure/Action	Progress
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	Resolved – Two internal control review reports were issued on 18 September 2018, the details of which are set out in the section “Internal Control Review Reports” below.
6 Appoint directors of the Board to the boards of the Company’s major subsidiaries	The Company decided to appoint certain Directors to the boards of the major subsidiaries of the Group in order to strengthen internal communication and control and is in the course of deciding the relevant candidates	Resolved – The Company has resolved to appoint 3 executive Directors to be directors of the Group’s major subsidiaries in the PRC.
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	Resolved – Such list has been completed in March 2018 and will be updated on a regular basis.
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	Resolved – Identified Issue III has been resolved. The Company will nevertheless observe and implement the recommendation to be made available by the internal control review.
9 Training to senior management and directors on the Listing Rules and internal control	The Company will arrange for such training sessions on an annual basis in future	Resolved – The first training session on connected transactions and corporate governance has been conducted and completed.
10 Seeking legal advice on the enforceability of agreements in relation to the loans	Such legal advice has been sought	Resolved – 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 low.

Issue/Recommendation	Measure/Action	Progress
11 Seeking legal advice on initiating claims against relevant persons which cause loss to the Group	Such legal advice has been sought	Resolved – The Company has obtained and assessed relevant legal advice and took the decision of entering into a supplementary agreement to accelerate the recovery of outstanding balances.

II. THE INTERNAL CONTROL REVIEW REPORTS

As disclosed above, on 18 September 2018, BDO Financial Services Limited issued two reports regarding its internal control review of the Group, which are:

1. the Internal Audit Report for the Group’s operation in Hong Kong
2. the Internal Audit Report for the Group’s operation in the PRC

In the above two reports, BDO Financial Services Limited made a number of recommendations and the Company will implement all the recommendations by 31 December 2018.

III. POTENTIAL DISPOSAL OF HC ASTER

On 11 October 2018, the Company entered into a memorandum of understanding (“**Aster MOU**”) with 北京中標怡高投資管理有限公司 (Beijing Zhong Biao Yi Gao Investment Management Limited*) (“**Zhong Biao**”), pursuant to which the Company has conditionally agreed to sell and Zhong Biao has conditionally agreed to acquire the entire issued share capital of Hsin Chong Aster Building Services Limited (“**HC Aster**”).

Such potential disposal and the transactions contemplated under the Aster MOU are subject to, among others, further negotiation concerning the entering into of a formal agreement (to be entered into within 3 months from the date of Aster MOU) and the results of the due diligence to be carried out by Zhong Biao.

Save for those provisions relating to confidentiality, the governing law and jurisdiction, the provisions of the Aster MOU do not have any legal effect.

To the best of the Company’s knowledge, information and belief, Zhong Biao is a third party independent of the Company and its connected persons (as defined in the Listing Rules).

IV. THE STRATEGIC COOPERATION AGREEMENT

On 25 October 2018, the Company and 上海天賦動力股權投資基金管理有限公司 (Shanghai Tian Fu Dong Li Share Investment Fund Management Limited*) (“**Shanghai Tian Fu**”) entered into a strategic cooperation agreement (“**Strategic Cooperation Agreement**”), pursuant to which the Company and Shanghai Tian Fu have conditionally agreed to form a strategic cooperation arrangement to develop projects in the PRC.

The period of cooperation under the Strategic Cooperation Agreement is 2 years from the date of the Strategic Cooperation Agreement or till the date on which the Strategic Cooperation Agreement is early terminated pursuant to the provisions thereunder.

Pursuant to the Strategic Cooperation Agreement,

- (1) the Company and Shanghai Tian Fu shall jointly set up a special purpose fund (specific terms to be agreed under a formal fund cooperation agreement to be entered by the parties) to make offer for acquisition or agree to acquire the green asset projects directly or indirectly held by the Company.
- (2) Shanghai Tian Fu shall, as per the Company’s needs, set up industry acquisition fund for each of the Company’s business segments in the PRC so as to provide financing to those business segments of the Company which meet financing criteria in order to facilitate the development of those business segments.
- (3) Shanghai Tian Fu may, as per the needs of the acquired target companies or as per its information resources relating to local policies on funds, set up funds with the relevant local government authorities so as to optimize the local acquired target companies by providing capital investment and incubation development.
- (4) Shanghai Tian Fu intends to conduct due diligence exercise on the Company and its associated companies in the operational, financial and legal areas during the cooperation period and the Company shall make its best endeavors to provide assistance and answer the reasonable enquiries and requests made by Shanghai Tian Fu and its professional advisers.

- (5) The Company and Shanghai Tian Fu shall explore capital and investment cooperation including but not limited to jointly develop high quality projects and strategically invest by one party in the share capital of the other party.
- (6) The Company and Shanghai Tian Fu shall not, without the consent of the other party, get in touch or enter into business cooperation with the other party's strategic cooperation partner(s).

Save for those provisions relating to the default responsibility, confidentiality, the governing law and jurisdiction, the provisions of the Strategic Cooperation Agreement do not have any legal effect.

To the best of the Company's knowledge, information and belief, Shanghai Tian Fu is a third party independent of the Company and its connected persons (as defined in the Listing Rules).

V. 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 ("**Payment Default**"). This has resulted in an event of default under the US\$150 million 8.50% senior notes due 2019 ("**2019 Notes**") and, together with the 2018 Notes, the "**Senior Notes**") issued by the Company. The Payment Default has also resulted in cross-defaults under certain of the loan agreements to which the Company and/or its subsidiaries are party.

Although the Company has taken a number of business initiatives to develop its business and provide cash flow to improve the current financial affairs, given the existing status of those initiatives, there is no developments concrete enough to finalise a restructuring proposal. The Company wishes to emphasise that the restructuring or settlement of the Notes is an ongoing process and the Company endeavours to keep the Senior Notes holders informed of developments which may lead to a successful restructuring of the Senior Notes.

The Company intends to form a Senior Notes Holders' Committee when a more concrete restructuring plan is available for direct discussions to reach a consensual solution. For further enquiries or note holders who wish to contact the Company for this matter, please use the email address Senior.Notes@hcg.com.hk.

VI. LATEST DEVELOPMENT ON THE WINDING UP PETITION IN RELATION TO A SUBSIDIARY

As disclosed in the Company's announcement dated 28 August 2018, Hsin Chong Construction Company Limited, which is a wholly owned subsidiary of the Company ("**Subsidiary**") received a petition filed by Kenworth Engineering Limited ("**Petitioner**") for an order that the Subsidiary may be wound up by the High Court of the Hong Kong Special Administrative Region ("**High Court**") pursuant to the Companies (Winding Up and Miscellaneous Provision) Ordinance (Cap. 32, Laws of Hong Kong) on 27 August 2018. The petition (the "**Petition**") was filed against the Subsidiary for failure to settle a sum of HK\$8,284,961.20 being construction costs payable and the winding up petition was scheduled to be heard before the High Court at 9:30 am on 31 October 2018.

Prior to the abovementioned hearing, the Company and the Petitioner has already reached a settlement, and the lawyers to the Petitioner attended the hearing and informed the High Court of the conclusion of the settlement and sought leave for the Petitioner to withdraw or dismiss the Petition. However, subsequent to the hearing, on 31 October 2018, the Company was informed by the lawyers to the Petitioner that at the hearing there was a counsel to Ng Chiu Construction Company Limited ("**Ng Chiu**"), which is claimed to be a creditor of Hsin Chong Construction, indicated to the High Court that Ng Chiu wishes to apply to be substituted as the petitioner in place of the Petitioner in the proceedings. As a result, the High Court has adjourned the hearing of the Petition to 14 November 2018 to consider both the Petitioner's application to withdraw the Petition and Ng Chiu's application to be substituted as petitioner in place of the Petitioner. The Company will seek legal advice as to the claims by Ng Chiu and take appropriate action in response.

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

VII. BUSINESS UPDATE

The Company would like to provide an update on its business operation as at the date hereof for the holders of securities of the Company and potential investors' reference.

The Group has continued carrying out the construction contracts on hand and taken measures to divest the property projects held in the PRC.

VIII. RESUMPTION PROGRESS

As disclosed in the announcements of the Company dated 12 June 2017 and 6 September 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.

Regarding condition (a) above, 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 23 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.

	Date of announcement	Name of the investors	Nature of the investment/cooperation	Status of the negotiations
1	2 May 2018	Poly Property Group Co., Limited (Stock Code: 00119) (" Poly ")	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.
	2 May 2018	Kaisa Group Holdings Ltd. (Stock Code: 01638) (" Kaisa ")	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.

Date of announcement	Name of the investors	Nature of the investment/cooperation	Status of the negotiations
29 August 2018 and 7 September 2018	An Independent Third Party (“ Potential Purchaser ”)	The potential disposal of the entire equity interest in the Hsin Chong Construction Company Limited (新昌營造廠有限公司).	The negotiation ended when the Potential Purchaser informed in writing to the Company on 24 October 2018 that it will not proceed further with the potential disposal.
19 September 2018	Beijing Enterprises City Development Limited (“ Project Partner ”)	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 Project Partner has commenced its due diligence exercises for the potential cooperation, but no legally binding agreement in relation to the potential cooperation has been entered into as at the date of this announcement.

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

CONTINUED SUSPENSION OF TRADING IN THE SHARES AND DEBT SECURITIES

Trading in the ordinary shares and debt securities of the Company has been suspended since 3 April 2017 and will continue to be suspended until further notice. Conditions of the resumption of trading have been set out in the Company's announcement dated 12 June 2017.

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

* *English names of such entities are transliteration of the Chinese names adopted for reference only and shall not be regarded as their formal name.*

By order of the Board of
Hsin Chong Group Holdings Limited
WANG Guozhen
Vice Chairman and Executive Director

Hong Kong, 31 October 2018

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, Mr. CHUI Kwong Kau and Mr. LUI Chun Pong as Non-executive Directors; and Mr. CHENG Sui Sang, Mr. George YUEN Kam Ho, Dr. LAM Lee G. and Dr. LO Wing Yan William, JP as Independent Non-executive Directors.