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$100 MILLION 6% CONVERTIBLE BONDS DUE 2017
(Stock Code: 5579)

US$300 MILLION 8.75% SENIOR NOTES DUE 2018
(Stock Code: 5513)

US$150 MILLION 8.50% SENIOR NOTES DUE 2019
(Stock Code: 5607)

CLARIFICATION ANNOUNCEMENT IN RELATION TO ANONYMOUS ANALYST REPORT

The board of directors (the "**Board**") of Hsin Chong Group Holdings Limited (the "**Company**", together with its subsidiaries, the "**Group**") refers to the Company's announcement dated 28 September 2016 (the "**September Announcement**") in relation to a report released on 28 September 2016 by Anonymous Analytics on the Company ("**Anonymous Report**") and various media reports referring to the Anonymous Report, and the Company's business update announcement dated 5 December 2016 (the "**Business Update Announcement**").

In this announcement, the Board provides details of the Group's ongoing developments in Foshan and Tieling and addresses other matters in light of the commentary of Anonymous Report.

The Board has communicated to PricewaterhouseCoopers (the "**Auditor**") the allegations in the Anonymous Report, the contents of the September Announcement, the Business Update Announcement and this announcement. The Auditor has read the Anonymous Report and those announcements. The Board confirms that the consolidated financial statements of the Group for the year ended 31 December 2015 were audited by the Auditor who issued unqualified audit opinion thereon. As of the date of this announcement, the Auditor has not withdrawn or revised its unqualified audit opinion in the auditor's report in respect of the Group's consolidated financial statements for the year ended 31 December 2015.

The Group's progress at expansion through acquisitions of property development sites has been slower than expected. In view of market sentiment in the PRC (which has been subjected to well publicised direct and indirect PRC government measures to keep prices under control), the Company has been adjusting its development strategies to support its projects. As disclosed in the Business Update Announcement, the Company has been reviewing and assessing the financial requirements of the Group's business operations and the appropriate deployment of its resources. It has also been seeking to improve liquidity through disposal of investments/operating assets and joint venture with potential developers or investors.

STATUS FOR GROUP'S MAIN DEVELOPMENT PROJECTS IN CHINA

The following is an overview of the acquisition and current position of certain of the Group's projects in China.

La Viva, Foshan

Acquisition valuation

Anonymous Report commentary: "It just seems that Mr. LIN Zhuo Yan made out like a bandit acting as a middle-man on this transaction, while Hsin Chong and its shareholders paid a grossly inflated price for a property that has seen de minimis progress over the years…"

The interests of Mr. LIN Zhuo Yan ("**Mr. LIN**") in the vendor of the group of companies (the "**Foshan Target Group**") that hold the project in Foshan was disclosed in the shareholders circular of the Company dated 4 November 2014 (the "**Foshan Circular**"). Mr. LIN has confirmed that he was acting as principal and not middle man in the Foshan Acquisition (as defined below).

The Company has noted that the Foshan Target Group acquired its interests in the project companies that hold the Foshan site from the Beijing Capital group (the "**Prior Acquisition**"), as disclosed in note 22 of the accountants report contained in appendix IIA of the Foshan Circular and the management discussion and analysis of the Foshan Target Group contained in appendix III (page III-4) of the Foshan Circular. The Prior Acquisition (which involved the acquisition of 50% equity interest of one of the four project companies that hold the Foshan site, and 60% equity interest of the remaining three project companies at an aggregate consideration of approximately HK$651 million) was effected pursuant to an agreement in September 2012, more than 18 months prior to the signing of the agreement for the Foshan Acquisition. The Company is not in a position to comment on the reasons or basis for the price at which the Prior Acquisition was effected as the Group was not a party to those negotiations.

When the Company was provided with the opportunity to acquire the Foshan Target Group (the "**Foshan Acquisition**"), it had undertaken extensive due diligence (as is evident from the disclosure in the Foshan Circular) for reasons explained in detail in the Foshan Circular. The acquisition price was based on the fair value of the Foshan site and other terms of the transaction described in the Foshan Circular (including the property sales indemnity referred to below). The value of the Foshan site as at 5 August 2014, based on an independent valuation by DTZ Debenham Tie Leung Limited ("**DTZ**") using direct comparison valuation method was RMB14,200 million. The total consideration paid was approximately HK$5,855 million (after the adjustments for liabilities in accordance with the relevant acquisition agreement particulars of which have been disclosed in the Foshan Circular).

As part of the Foshan Acquisition, the Group obtained a property sales tax indemnity (of up to HK$3,125 million) provided by the vendor on terms described in the Foshan Circular against part of the estimated potential tax liabilities on the Foshan Target Group (including estimated land appreciation tax and corporate income tax in the PRC) that would have arisen from the disposal of all or part of the property based on the fair value of the Foshan site. Such potential tax liabilities are required under Hong Kong Financial Reporting Standards (HKFRS) to be recognised in the consolidated financial statements of the Foshan Target Group and (following completion of the Foshan Acquisition) the consolidated financial statements of the Group as deferred tax liabilities.

The shareholders of the Company (other than Ms. MA Kwing, Pony ("**Ms. MA**"), spouse of Mr. LIN and Dr. Wilfred WONG Ying Wai ("**Dr. WONG**") and their associates who held shares of the Company at the time and abstained from voting), approved the Foshan Acquisition at the special general meeting held for that purpose on 27 November 2014.

The progress of the development of the Foshan site is described below.

Post-acquisition development

Anonymous Report commentary: "It also seems clear that Hsin Chong has put little effort into further developing the project since the acquisition, and has either been unwilling or unable to monetise the project."

The Company has stated in the Foshan Circular the Group's detailed development plan for the Foshan project. It was a mixed-use development project consisting of gross floor area ("**GFA**") of approximately 1.9 million square metres ("**sq.m.**"). It took the Group about 8 months to conduct market research and to finalise the new development plan which involved repositioning the original retail outlets project (the development plan of the previous owners of the Foshan Target Group in 2010) to a large themed retail and recreational resort development, before seeking relevant government consents and approvals. Agreement from the Foshan Land Resources and Planning Bureau to the revised development plan was obtained in June 2016.

In view of the above, the Group had undertaken planning, renovation of club house and sales centre, marketing work and has successfully discovered hot springs on site and was exploring the possibility of developing a wellness facility on site. Total construction costs that have been invested since acquisition and up to 30 June 2016 was approximately RMB369 million.

In the second half of 2016, the Group has also been undertaking renovation and fitting out of the outlet mall and villas that were already built, external work of the villa area, conversion of part of the club house into a temporary sales office to facilitate sales and leasing activities and the development of hot springs. Soft launch of the outlet mall (which is partially tenanted, as described further below) is planned to take place in April 2017.

Existing status/development plans

The current development plan and status of development for the different phases of the Foshan project is as follows:

Phase	Total GFA (sq.m.)	Residential (GFA in sq.m.)	Commercial (GFA in sq.m.)	Status (GFA rounded to nearest 1,000 sq.m.)
1	343,000	204,400	138,600	**Commercial:** 99,000 sq.m. GFA completed with 75,000 sq.m. of leaseable area (i.e. excluding those parts of the GFA attributable to common parts and/or occupied by common facilities). As at 31 December 2016, 38,000 sq.m. (or approximately 51%) of leasable area (involving units ranging from 34 sq.m. to 1,607 sq.m. per unit) has been leased. The Group is also in negotiations for rental arrangements with other potential tenants *(note)*. **Residential:** 24,000 sq.m. GFA completed, comprising 25 low rise residential buildings (including two detached buildings, one semi-detached building, 16 four-building terraces (housing 64 units) and six-building terraces (housing 36 units). The GFA per building ranges from 610 sq.m. to 1,389 sq.m.). The Group will apply for pre-sales permits of the completed residential units following the launch of the shopping mall. Following the issue of pre-sale permits, refurbishment can be completed and pre-sales of the residential units can be launched. No residential units have as yet been sold. The development and sale of the remaining commercial and residential units will take place in phases. As disclosed in the Business Update Announcement, the Company is reviewing the development plans for the Group's property portfolio and in the meantime, intends to minimize further funding commitments towards construction works being carried out at its property development projects (for both commercial and residential phases).

Phase	Total GFA (sq.m.)	Residential (GFA in sq.m.)	Commercial (GFA in sq.m.)	Status (GFA rounded to nearest 1,000 sq.m.)
2	376,600	160,000	216,600	The development of each of the subsequent phases will be dependent upon the performance of the Phase 1 and also the macro and local economic environment.
3	376,600	160,000	216,600	
4	553,300	180,000	373,300	
5	255,900	75,600	180,300	
Total	1,905,400	780,000	1,125,400	

Note:

As at 30 December 2016, approximately 50% of the total indoor leasable areas of the outlet mall have been committed for use, comprising (i) approximately 27,000 sq.m. of leasable floor area in 119 units signed up with tenants representing a total of 113 brands; and (ii) approximately 11,000 sq.m. in 9 units to be operated by the Group as stores offering 52 branded products and two food & beverage outlets. The Group is also in discussion with potential tenants for a further 43 brands for 72 units having a total indoor leasable floor area of about 15,000 sq.m. (representing approximately 20% of the total leasable indoor area of the shopping mall).

La Viva, Tieling

Acquisition valuation

Anonymous Report commentary: "In November 2011, Hsin Chong acquired 17 parcels of undeveloped land covering approximately 1.8 million square meters in Tieling, Liaoning Province. Total consideration paid for the acquisition was HK$1.8 billion.

Outrageously, the original vendors – which included a related party – had completed the acquisition of the land only five months prior for a mere RMB439 million (HK$575 million)."

"Often local governments will sell land parcels at steep discounts on condition that the property is developed. We believe the vendors took advantage of such an arbitrage and bought the property only to flip it to Hsin Chong."

The Group acquired (the "**Tieling Acquisition**") the companies (the "**Tieling Target Group**") that hold the project in Tieling at a total consideration of HK$1,828 million (after the adjustments for liabilities in accordance with the relevant acquisition agreement particulars of which have been disclosed in the shareholders circular of the Company dated 30 September 2011 (the "**Tieling Circular**"). The value of the Tieling site as at 30 June 2011, based on an independent valuation by DTZ using direct comparison valuation method was RMB2,030 million.

The valuation report has stated that the total acquisition costs of the land use rights for the Tieling project was approximately RMB429 million pursuant to land grant contracts entered into in March or June 2011. The Company is not in a position to comment on the basis on which the acquisition price at the time was secured or determined, as it was not a party to that acquisition.

The "related party" referred to in the Anonymous Report would be Dr. WONG (then one of eight directors of the Company and the executive deputy chairman of the Company) who was an indirect shareholder of the vendor of the Tieling Target Group and also held 20,000,000 shares in the Company. The vendor of the Tieling Target Group, was also owned by Ms. MA (then an independent third party) and a PRC State-owned enterprise. The Company made its business decision on the acquisition by reference to the market value of the property and the net asset value of the target group, amongst other things. In view of the interests of Dr. WONG, the Tieling Acquisition was put to the shareholders of the Company (other than Dr. WONG who abstained from voting) and those independent shareholders (including the majority shareholder of the Company which at the time was Mission Hills Golf Club Limited) approved the Tieling Acquisition at the special general meeting held for that purpose on 19 October 2011.

Post-acquisition development

Anonymous Report commentary: "The Tieling development project, named "La Viva', was Hsin Chong's maiden foray into the property development business. Yet, after five years and billions of RMB spent on construction, the project has consistently missed deadlines and currently sits empty as one of China's many notorious ghost towns…… In fact, a recent site visit shows that the property is neither ready to be sold nor habitable. Worse still, the entire project seems stalled and commercially unviable."

The Tieling project involves a virgin site with a vision encompassed in a development plan approved in 2011 to turn it into a multi-faceted, integrated new town for residential, commercial, retail and leisure use. The year-round water recreation facility, Aqua Wave Water Park, is designed to become a major tourist destination, adding to the attraction of the Tieling project.

Since its acquisition and up to 30 June 2016, the Group has invested approximately HK$3,426 million in and towards the development of the Tieling project. Substantial progress has been made on the project as shown below.

During development of the project, changes in the macro and local economic environment (including the impact of "e-tailing" on the retail sector) prompted the Company to consider the necessity of adjustments to the development plan. Due to disagreements with the initial contractor over adherence to contract requirements, the progress of the development had been slower than expected. The parties entered settlement agreements with respect to their disagreements. In October 2013, the Group's relationship with the initial contractor was terminated. Over the winter of 2013 when works could not be performed due to sub-zero weather conditions, the Group secured a new contractor, which then commenced works in April 2014. There exists disagreement with the new contractor with respect to the project implementation progress and the amount of work done which the Group is seeking to resolve amicably with the contractor.

Lower than expected pre-sales of residential units in 2014 presented the need for a new strategy to launch residential sales after phased opening of the retail outlets and water park. In the meantime, certain of the pre-sold units have been refunded.

As stated in the Business Update Announcement, the Company is reviewing the development plans for the Group's property portfolio and in the meantime, intended to minimize further funding commitments towards construction works being carried out at its property development projects.

Existing status/development plans

The current development plan, status of development and expected completion dates for the different phases of the Tieling project are as follows:

Phase	Total GFA (sq.m.)	Residential (GFA in sq.m.)	Commercial and others (GFA in sq.m.)	Status (GFA rounded to nearest 1,000 sq.m.)
1A	307,000	225,000	82,000	**Residential:** 29 residential blocks of 229,000 sq.m. GFA have been substantially completed (except for interior decoration and electrical and mechanical ("**E&M**") works). This comprises, 2,108 residential units having total GFA of 225,000 sq.m. (or between 44.46 sq.m. to 213.46 sq.m. per unit) and 50 units of commercial space (of between 13.51 sq.m. to 190.08 sq.m. per unit) totalling 3,500 sq.m. GFA. As at 31 December 2016, 12 residential (of approximately 3,600 sq.m. GFA) have been pre-sold (and not refunded). **Commercial:** One building of 8,500 sq.m. GFA that includes an exhibition centre and banquet hall has been completed. Five other blocks of 53,000 sq.m. GFA in total and 316 car parking spaces have been substantially completed, except for interior decoration and E&M works. The water park has been substantially completed, except for fitting out and E&M works.

Phase	Total GFA (sq.m.)	Residential (GFA in sq.m.)	Commercial and others (GFA in sq.m.)	Status (GFA rounded to nearest 1,000 sq.m.)
1B	381,000	161,000	220,000	**Commercial:** The structure of 2 buildings having 120,000 sq.m. GFA of commercial space has been substantially completed. The construction work of club house of 4,700 sq.m. GFA has been completed. **Residential:** Construction not yet commenced, the planning for which will be undertaken based on market response after the launch of commercial space and pre-sale of the residential units already built.
2	691,500	269,000	422,500	The development of each of the subsequent phases will be dependent upon the performance of Phase 1 and also the macro and local economic environment.
3	762,000	543,000	219,000	
4	874,500	796,000	78,500	
Total	3,016,000	1,994,000	1,022,000	

Works at phases 1A and 1B are not being undertaken at present due to the winter weather conditions. The Company is considering, but has not as yet determined, its plan for the completion and launch of the constructed parts of phases 1A and 1B this year.

OTHER ACQUISITIONS

Anonymous Report commentary: "unbelievably, we found that all these acquisition can linked to Mr. LIN."

The Anonymous Report made references to other acquisitions that may have had a connection with Mr. LIN, the Company's non-executive chairman, in relation to the Group's acquisitions of its commercial development project in Tai'an (the "**Tai'an Project**"), commercial portion of Tian Cheng Ming Yuan (the "**Guangzhou Project**") and the commercial development project in Tianjin (the "**Tianjin Project**").

As noted in the Anonymous Report, the interest of Mr. LIN in the vendor of 1% of the issued share capital of the company that indirectly held the Guangzhou Project has been disclosed in the Company's discloseable transaction announcement dated 29 April 2015.

The Company notes that, based on the register of members of companies concerned, companies which Mr. LIN has confirmed were his associates (as defined in the Listing Rules) had divested of their interests in the companies holding the Tai'an Project in February 2012. The Group acquired a group of companies that held the Tai'an Project in March 2015. Based on the due diligence of the Company, at the time of the Company's acquisition of the Tai'an Project, neither Mr. LIN nor his associates (as defined in the Listing Rules) had any shareholding interest in the vendor. The acquisition consideration was determined by reference to an independent valuation of the underlying property.

The Company acquired its interest in the indirect holding company of the Tianjin Project from an independent third party who, so far as the Board is aware, is independent of Tianjin Century Group. The 1.05% interest in the project company that directly holds the Tianjin Project was held, as noted in the discloseable transaction announcement of the Company dated 14 September 2015, by Tianjin Century Group (in order to retain the foreign investment entity status of the project company). However, Tianjin Century Group was not a vendor to the Company of interest in the Tianjin Project. Mr. LIN has confirmed that he and companies controlled by him or his spouse had provided guarantees/security in respect of RMB490 million principal amount of payment obligations of Tianjin Century Group for a fund raising exercise unrelated to the Tianjin Project during the period from April 2014 to October 2015. The acquisition consideration was determined by reference to an independent valuation of the underlying property.

The existing status and development plans for each of these projects are outlined below:

Project (description)	Status	Plans
Tai'an Project		
This project occupies a site of approximately 219,982 sq.m.	Construction of the structure of 34 blocks of two-storey commercial retail outlet mall with total GFA of approximately 101,000 sq.m. of phase 1 of the development has been completed. Phase 2 of the development comprising approximately 114,000 sq.m. of GFA of commercial space, and 200,000 sq.m. car parking space have not commenced.	Substantial completion of the mall can be completed within nine months following availability of funding for that purpose. It is expected that within three months following substantial completion the mall can become operational.

Project (description)	**Status**	**Plans**
Tianjin Project		
This project comprises a site of approximately 147,000 sq.m. to be developed for commercial and office use.	The Company is in the process of seeking local government approvals for the change of user for part of the site to include residential use and associated development plan. As a result, foundation works that have been undertaken under the original plan have been suspended pending the outcome of such proposals.	The timing for the development and marketing of this project will be determined after relevant government approvals for the revised development plan are obtained.
Guangzhou Project		
This is a three-storeyed commercial property with total GFA of 26,306 sq.m. and two levels of basement car park with around 325 car parking space).		The Group intends to sell the project and accordingly will not be undertaking substantial refurbishment of the property as originally planned. In the meantime, the Group is looking at the possibility of generating revenue through short lets.

Anonymous Report commentary: "Furthermore, we are also giving a 10% discount to Hsin Chong's prepayment account because at least HK$200 million of this amount is earnest deposits on more land acquisitions, which we have no reason to believe will perform any better than all the other non-revenue generating properties the Company has acquired."

The Company has outstanding prepayments in the amount of HK$200 million of earnest moneys paid for the potential acquisition of two parcels of land for residential use, having site area of 219,757 sq.m., located to the east of Long Tan Road in Taishan District, Tainan City, Shandong Province, the PRC and which is subject to the same master layout plan within which the Tai'an Project mentioned above, as mentioned in the Company's announcement dated 31 March 2015. The Company believes that after the mall in the existing Tai'an Project is completed and becomes operational, there can be enhancement in the value of the residential site. The acquisition of the residential site, if it proceeds, will constitute a major transaction of the Company (as a result of aggregation with the acquisition of the Tai'an Project). Negotiations with the owner of the residential site is ongoing.

As at the date of this announcement, none of the development land owned by the Group has been ruled by the PRC land authorities as idle land nor has any idle land penalty been imposed on any company within the Group.

FINANCIAL INFORMATION

Anonymous Report commentary:

"In each of 2013, 2014, 2015 and interim 2016 Hsin Chong has been operating and investing cash flow negative. In fact, HK$8.8 billion exited the Company through CFO and CFI in the last four and a half fiscal years, with nearly 2/3 of that occurring in the last 18 months alone:"

"More concerning is that interest expenses are on the rise given the Company's large debt obligations. According to its 2016 interim results, Hsin Chong paid cash interest of HK$352 million in the six months to June 2016 – most of which was capitalized:"

"On an annual basis, this means that Hsin Chong is paying HK$704 million in cash interest. Actually, this figure is likely understated because in January 2016 the Company issued US$150 million in senior notes bearing 8.5% interest. Due to the timing, these additional interest payments would not be reflected in the above cash flow statement."

The Group actively manages its cash flow needs and, as mentioned above, has been and continues to work on possible disposals and/or joint venture transactions and/or consider other fund raising options with a view to improving the Group's liquidity. As at the date of this announcement, the Group is current on its debt servicing and repayment obligations.

By Order of the Board of
Hsin Chong Group Holdings Limited
LIN Zhuo Yan
Non-Executive Chairman

Hong Kong, 25 January 2017

As at the date of this announcement, the Board comprises Mr. LIN Zhuo Yan as the Non-Executive Chairman; Ir. Joseph CHOI Kin Hung (Co-Chief Executive Officer), Mr. ZHOU Wei (Chief Strategic Officer) and Mr. Wilfred WU Shek Chun (Chief Risk Officer) 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, Ms. LEE Jai Ying, Mr. KWOK, Shiu Keung Ernest and Mr. George YUEN Kam Ho as Independent Non-executive Directors.