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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)**

### **HOLDING ANNOUNCEMENT – UPDATE ON RECENT DEVELOPMENT OF SUSPENSION**

#### **BACKGROUND**

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

Reference is made to the 2016 annual results announcement published on 19 April 2017 and the annual report of the Company for the year ended 31 December 2016 (together “**2016 Annual Report**”) and the 2017 annual results announcement published on 23 March 2018 of the Company for the year ended 31 December 2017 (“**2017 Results Announcement**”), as well as the announcement of the Company dated 19 January 2018 in relation to the Final Investigation Report (the “**Update Announcement**”). Unless otherwise specified, capitalised terms used herein shall have the same meanings as those defined in the 2016 Results Announcement and the Update Announcement.

The Company would like to provide an update on the resolution of the Identified Issues and the other measures taken to fulfill the resumption conditions, which are set out as follows:

## **UPDATE OF THE SUSPENSION**

### **Audit Issue – Multiple uncertainties relating to going concern**

As disclosed in the 2017 Results Announcement, the auditors of the Company, BDO Limited (the “**Auditors**”), consider there are uncertainties of the Group being operated as a going concern.

Page 40 in the 2017 Results Announcement further provides that *“The Company’s ex-auditor did not express audit opinion on the Company’s consolidated financial statements for the year ended 31 December 2016 (the “Company’s 2016 financial statements”) due to the potential interaction of the above-mentioned multiple uncertainties relating to going concern and the possible cumulative effect on the Company’s 2016 financial statements, and the other limitations on their scope of audit procedures. The Group’s financial position as of 31 December 2017 and up to the date of this report, and the measures undertaken by the directors of the Company to improve the Group’s financial position as summarised above are substantially the same as that existing as of 31 December 2016 and as of date of the auditor’s report on the Company’s 2016 financial statements. The multiple uncertainties remain unresolved as of 31 December 2017 and their possible cumulative effects on the consolidated financial statements could be both material and pervasive.”*

Certain measures have been taken by the Management to mitigate the liquidity pressure and to improve the Group’s financial position which include, but are not limited to, the following:

- (i) The Group has been actively negotiating with a number of commercial banks and other financial institutions for renewal and extension of bank and other borrowings and credit facilities. Specifically, the Group is in active negotiations with the lenders to extend the repayment dates of the overdue borrowings, and to obtain waivers from complying with certain restrictive covenants contained in the loan agreements of certain borrowings;
- (ii) The Group is identifying various options for financing its working capital and commitments in the foreseeable future by obtaining facilities from shareholders, issuance of shares and debt instruments;

- (iii) The Group has accelerated its disposal plan of its properties, plant and equipment and leasehold land, investment properties, properties under development and completed properties held for sale (the “**Group Properties**”). Apart from selling the Group Properties, the Group expects to launch pre-sales of certain residential units in Foshan, which are expected to improve the Group’s operating cash inflow in 2018; and
- (iv) The Group will continuously take active measures to control administrative costs through various channels including human resources optimisation and containment of capital expenditures.

In addition, the Company considers that once trading in the Shares is resumed the Company will be able to obtain new sources of loan financing arrangement or may carry out possible fund raising programmes in order to improve the status of the Company as a going concern. For the course of audit, the Auditors have reviewed the Group’s cash flow projections prepared by management. The cash flow projections cover a period of not less than twelve months from 31 December 2017. The Directors are of the opinion that, taking into account the above-mentioned plans and measures on the assumption that they have been successfully implemented, the Group will have sufficient working capital to finance its operations and to meet its financial obligations as and when they fall due within twelve months from 31 December 2017.

#### **Audit Issue – Identified Issue I – Transactions and balances relating to Mr. Zhou and his related entities**

As disclosed in the 2017 Annual Results Announcement, the Auditors opined that “in relation to Identified Issue I, because of certain scope limitations, there were no alternative audit procedures that they could perform and they are unable to satisfy themselves as to:

- (i) ascertain the business rationale and commercial substance, occurrence, accuracy, completeness and presentation of these transactions and the related balances as at and during the year ended 31 December 2017; and
- (ii) whether the effects of these transactions have been properly accounted for and disclosed, including the accuracy and completeness of any related party transaction disclosures.

The Company’s ex-auditor did not express audit opinion on the Company’s 2016 financial statements due to, among other matters, limitations on their scope of audit procedures in relation to these transactions and balances with Mr. Zhou and entities related to him.”

As disclosed on page 42 in the 2017 Annual Results Announcement, a long-term loan facility of RMB420 million (the “**Trust Loan**”) was used for payment of RMB126.2 million and RMB121.3 million by a subsidiary of the Group to a company indirectly owned by Mr. Zhou on 29 December 2016 and 13 January 2017, respectively. Pursuant to a loan agreement dated 28 December 2016 (“**Trust Loan Agreement**”) and entered into among Hsin Chong Holdings (China) Limited (新昌控股(中國)有限公司) (“**Hsin Chong (China)**”) as borrower, Tianjin Trust Company Limited\* (天津信托有限責任公司) (“**Tianjin Trust**”) as lender, Beijing Zhong Wu Xin He Property Development Company Limited\* (北京中物信和房地產開發有限公司) (“**Zhong Wu Xin He**”) and the Company as guarantors in relation to the Trust Loan, Zhong Wu Xin He also executed a mortgage in favour of Tianjin Trust over the properties located in Nos. 19 and 21, Ma Lian Road, Xicheng District, Beijing City, the PRC (the “**Mortgage Property**”).

During the period, the Company has been putting its best endeavors to resolve this issue. On 23 March 2018, Hsin Chong (China), Beijing Xuan He Jia Mei Property Management Company Limited\* (北京宣和嘉美物業管理有限公司) (“**Beijing Xuan He**”), Zhong Wu Xin He and the Company entered into a settlement agreement (the “**Settlement Agreement**”), pursuant to which, Beijing Xuan He and Zhong Wu Xin He agreed to repay 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. Such arrangement has been disclosed on page 34 of the 2017 Annual Results Announcement as an “event after the reporting period”.

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 Mortgage 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 Agreement 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.

Should Beijing Xuan He and Zhong Wu Xin He fail to arrange the sufficient amount for repayment of the Trust Loan, Hsin Chong (China) shall have the right to declare the loans to Beijing Xuan He and Zhong Wu Xin He in the amount of RMB247.5 million and RMB129 million and all interest accrued thereon respectively be forthwith due and payable. The Company believes the Settlement Agreement could effectively eliminate the risk exposed by the Group as a consequence of the Identified Issue I and shall be a material step towards the resolution of the Identified Issue I.

Apart from the settlement arrangement, as a step to remedy the Identified Issue I and to prevent similar incident in future, the employment of Mr. Zhou with the Group was terminated and Mr. Zhou has already tendered resignation as director of the relevant subsidiaries of the Group, which will become effective upon the completion of the registration with the relevant local authorities.

### **Identified Issue II and III – Payment made to a construction company and payment made to certain financial consultancy companies**

During the past year, the Company has been using its best effort to resolve the Identified Issue II and III and the same has been properly dealt with as at the date of the announcement of the 2017 Annual Results.

Furthermore, the Company is also in the course of implementing the recommendations made by the Independent Investigation Committee and had engaged internal control consultant to conduct internal control review of the Company. The Company will keep working towards fulfilling the resumption conditions as set out by the Stock Exchange as disclosed in the announcement of the Company dated 12 June 2017.

### **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.**

By Order of the Board of  
**Hsin Chong Group Holdings Limited**  
**LIN Zhuo Yan**  
*Non-executive Chairman and Non-executive Director*

Hong Kong, 2 May 2018

*As at the date of this announcement, the Board comprises Mr. LIN Zhuo Yan as the Non-executive Chairman and Non-executive Director; 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 and Mr. LAI Chik Fan as Independent Non-executive Directors.*