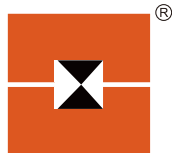


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KAISA GROUP HOLDINGS LTD.

佳兆業集團控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1638)

FULFILMENT OF ALL RESUMPTION CONDITIONS AND RESUMPTION OF TRADING

FULFILMENT OF ALL RESUMPTION CONDITIONS

Reference is made to the Company's announcement dated 23 July 2015 in relation to the Resumption Conditions imposed by the Stock Exchange on the Company in respect of the resumption of trading in the Company's shares on the Stock Exchange. As at the date of this announcement, the Company has fulfilled all the Resumption Conditions to the satisfaction of the Stock Exchange.

RESUMPTION OF TRADING

Trading in the shares of the Company has been suspended on the Stock Exchange from 9:00 a.m. on 31 March 2015. Since all the Resumption Conditions have been fulfilled, the Company has applied to the Stock Exchange for the resumption of trading in the Company's shares on the Stock Exchange with effect from 9:00 a.m. on 27 March 2017.

BACKGROUND

At the request of the Company, trading in its shares on the Stock Exchange was suspended from 9:00 a.m. on 31 March 2015. Reference is made to the Company's announcement dated 23 July 2015 in relation to the conditions imposed by the Stock Exchange on the Company in respect of the resumption of trading in the Company's shares on the Stock Exchange.

* For identification purposes only

As stated in that announcement, the Stock Exchange imposed the following conditions (the “**Resumption Conditions**”) on the Company in respect of the resumption of trading in the Company’s shares on the Stock Exchange:

- (a) to publish all outstanding financial results under the Listing Rules and address any audit qualifications (the “**First Resumption Condition**”);
- (b) to demonstrate that the Company has sufficient working capital for its operation for at least 12 months from its expected resumption date (the “**Second Resumption Condition**”);
- (c) to demonstrate that the Company has put in place adequate financial reporting procedures and internal control systems to meet its Listing Rules obligations (the “**Third Resumption Condition**”);
- (d) to conduct an investigation on the additional audit evidence regarding certain matters raised by the Company’s auditors in the course of the audit, disclose the findings of the investigation, assess the impact on the Company’s financial and operational positions, and take appropriate remedial actions (the “**Fourth Resumption Condition**”); and
- (e) to inform the market of all material information for the shareholders and the investors to appraise the Group’s position (the “**Fifth Resumption Condition**”).

FULFILMENT OF THE RESUMPTION CONDITIONS

The Company has fulfilled the Resumption Conditions.

(a) the First Resumption Condition – Publication of the outstanding financial information

The annual results of 2014, the interim results of 2015, the annual results of 2015, the interim results of 2016 and the annual results of 2016 were published by the Company on 26 March 2017.

The 2014 annual report and the 2015 annual report will be despatched to the Shareholders on 31 March 2017.

The 2015 interim report and the 2016 interim report will be despatched to the Shareholders on or before 15 April 2017.

Based on the FTI Investigation (as defined in the 2014 Results Announcement), the management had assessed the impact arising from the six audit issues identified by PwC before its resignation as the Company’s external auditors and the loss that the Group had suffered as a result of Audit Issue 1, Audit Issue 2, Audit Issue 3 and Audit Issue 5 (collectively referred to as the “**Incident**”) and reflected them in the consolidated financial statements for 2014, including but not limited to making prior year adjustments

to address the Incident in prior financial years, and determined to recognize the loss arising from the Incident of RMB482 million in the financial year ended 31 December 2014. The external auditors of the Company failed to obtain sufficient evidence in support of the adjustments to the financial results of the Group for the year ended 31 December 2014 and therefore disclaimed their audit opinion thereon (the “**Disclaimer**”).

As stated in the 2015 Annual Results Announcement and the 2016 Annual Results Announcement, the external auditors of the Company did not qualify their opinion on the results of the Group for the two years ended 31 December 2016. In the 2015 Annual Results Announcement, they emphasised the matter in connection with the Disclaimer and drew attention to the possible effect of the matters mentioned in the basis for Disclaimer on the results and cash flows on the comparability of the figures and the comparative information for the year ended 31 December 2015.

Under Rules 13.49(1) and 13.46(2) of the Listing Rules, the Company is required (a) to publish the 2014 Annual Results Announcement on or before 31 March 2015 and the 2015 Annual Results Announcement on or before 31 March 2016 and (b) to despatch the 2014 Annual Report on or before 30 April 2015 and the 2015 Annual Report on or before 30 April 2016.

Under Rules 13.49(6) and 13.48(1) of the Listing Rules, the Company is required (a) to publish the 2015 Interim Results Announcement on or before 31 August 2015 and the 2016 Interim Results Announcement on or before 31 August 2016 and (b) to despatch the 2015 Interim Report on or before 30 September 2015 and the 2016 Interim Report on or before 30 September 2016.

The Board acknowledges that the delay in the publication of the 2014 Annual Results Announcement, the 2015 Interim Results Announcement, the 2015 Annual Results Announcement and the 2016 Interim Results Announcement, and the delay in the despatch of the 2014 Annual Report, the 2015 Interim Report, the 2015 Annual Report and the 2016 Interim Report constitute non-compliance with Rules 13.49(1), 13.49(6), 13.46(2) and 13.48(1) of the Listing Rules. As time is required to investigate into the six audit issues identified by PwC before its resignation as the Company’s external auditors under the Fourth Resumption Condition and to quantify the effects arising therefrom, the publication of these announcements and reports was therefore delayed. To prevent any delay in the publication of the Group’s results, to reduce the exposure to fraudulent activities and to improve the financial reporting procedures, the Proposed Measures have been implemented. For further details of those measures, please refer to the section headed “the Third Resumption Condition – Internal control review – Summary of the internal control review”.

(b) **the Second Resumption Condition-Sufficiency of working capital**

(1) ***Debt restructuring***

The Company experienced liquidity problem and therefore underwent a series of debt restructuring to address the liquidity and support the operations of the Group. Details are as follows:

Onshore debt restructuring

The restructuring for the Group's onshore debts (comprised bank loans and trust loans) in the total amount of approximately RMB49,607.6 million was completed before 30 June 2016. The restructuring of the onshore debts involved (a) refinancing with the existing lenders with the same terms as the original loans and facilities or with extended maturity dates whereby the cash proceeds of the new facilities extended by the existing lenders for the purpose of repayment of the existing facilities with the existing lenders; and (b) refinancing with new lenders.

Offshore debt restructuring

The capitalised terms in this section headed "*Offshore debt restructuring*" have the same meaning as set out in the Offshore Debt Announcements.

In respect of the offshore debt restructuring, the Group exchanged, among other things, the securities and all offshore banking facilities with the Mandatorily Exchangeable Bonds and new senior notes. Such restructuring was completed on 21 July 2016. The details of the offshore debt restructuring is summarised below:

Before the restructuring

	Original Currency	Amount (in US\$)	Maturity Date
The 2015 Convertible Bonds	RMB	231,604,305	20 December 2015
Senior Notes April 2013	RMB	276,005,888	22 April 2016
Senior Notes 2012	US\$	250,000,000	18 September 2017
Senior Notes March 2013	US\$	550,000,000	19 March 2018
Senior Notes January 2014	US\$	250,000,000	19 March 2018
Senior Notes June 2014	US\$	400,000,000	6 June 2019
Senior Notes January 2013	US\$	500,000,000	8 January 2020
Other banking facility	HK\$	46,372,033	27 May 2015
Other banking facility	RMB	48,639,684	2 August 2016
Other banking facility	HK\$	19,965,736	31 December 2016
Liabilities from swap termination	US\$	12,448,585	Not applicable
Accrued interest		384,690,152	
Total		<u>2,969,726,384</u>	

After the restructuring

	Principal/ Notional Amount (in US\$)	Maturity Date
The Mandatorily Exchangeable Bonds	259,486,248	31 December 2019
Series A Notes	277,460,905	31 December 2019
Series B Notes	499,429,957	30 June 2020
Series C Notes	610,414,552	31 December 2020
Series D Notes	665,906,865	30 June 2021
Series E Notes	721,398,993	31 December 2021
	<hr/>	
Total	3,034,097,520	
	<hr/>	
Contingent Value Rights	16,283,470	31 December 2021

After the above debt restructuring, the Company's financial position has been improved considering as it improved the liquidity position of the Group as result of the extension of the maturity dates of the debts.

(2) Sufficiency of working capital

The Company is of the view that it has sufficient working capital for its operations for at least 12 months from its expected resumption date after taking into consideration the financial resources available to the Group based on the working capital forecast memorandum for the period ending 31 December 2017 and 2018 prepared by the Directors.

(c) The Third Resumption Condition – Internal control review

The Company has engaged GT Advisory to conduct a review of the Company's internal control. GT Advisory completed its internal control review and issued its report dated 24 March 2017 (the "**Internal Control Report**").

Summary of the internal control review

Set out below are (1) the eleven major areas for enhancement identified by GT Advisory; (2) the proposed measures in respect of these eleven major areas for enhancement (the “**Proposed Measures**”); and (3) the actions taken by the Company.

Major areas of enhancement	The Proposed Measures	Actions taken by the Company
<p>1. The internal audit function was not independent.</p>	<p>It is recommended that the Company segregate the internal audit function from the operational functions. The internal audit function should have direct reporting line to the audit committee to maintain its independence and objectivity.</p> <p>Roles and responsibilities of the internal audit function should be clearly specified in written policies. The internal audit plan should be approved by the audit committee.</p>	<p>The Company has implemented the proposed measures.</p> <p>It is stated in the Company’s policy that the internal audit function is endorsed with independence and reports directly to the audit committee. Roles and responsibilities of the internal audit function have been defined and the internal audit plan has been approved by the audit committee.</p> <p>The Company is restructuring and expanding its internal audit function. In February 2017, it recruited a responsible person for the internal audit function, and this person will take up the role of the head of internal audit and report directly to the audit committee after mid of May 2017.</p>

Major areas of enhancement	The Proposed Measures	Actions taken by the Company
<p>2. The whistle-blowing mechanism lacked independence. The receiving and follow-up procedures on reported incidents were in need of improvement.</p>	<p>It is recommended that the Company refine the whistle-blowing mechanism by assigning an independent unit to handle the whistle-blowing function. This independent unit should be given the authority to report directly to the audit committee.</p> <p>The procedures of receiving, investigating and handling reported incidents should be clarified in the whistle-blowing policy and be strictly followed.</p>	<p>The Company has implemented the proposed measures.</p> <p>The Company has appointed the internal audit team to be responsible for handling the whistle-blowing function. The updated whistle-blowing policy further clarifies the procedures of receiving, investigating and handling reported incidents.</p>
<p>3. Document retention procedures were not adequate, resulting in loss of important company documents.</p>	<p>It is recommended that the Company strengthen its document retention procedures. Sample checking on the subsidiary companies' document retention procedures should be performed regularly. Important documents, such as contracts, should be scanned and sent to the accounting department and relevant department heads.</p> <p>Employees' responsibilities in respect of document keeping should be specified in the staff handbook and be acknowledged. Legal actions should be taken against those who deliberately steal and destroy company documents.</p>	<p>The Company has implemented the proposed measures.</p>

Major areas of enhancement	The Proposed Measures	Actions taken by the Company
<p>4. Company chops were applied on fictitious or unauthorized contracts.</p>	<p>It is recommended that the Company strengthen its approval procedures on the use of company chops. Chop usage register should be put into place to keep track of the use of company chops.</p> <p>It is also recommended that Group level management perform sample checking on subsidiary companies chop usage regularly. Personnel responsible for unsatisfactory checking results should be disciplined according to Company policy.</p>	<p>The Company has implemented the proposed measures.</p>
<p>5. Some accounting entries were made in the absence of sufficient and appropriate supporting documents.</p>	<p>It is recommended that the Company define detailed requirements on supporting documents for accounting recording. Group accounting department should perform regular sample checking on the subsidiaries' financial control procedures. Personnel responsible for unsatisfactory checking results should be disciplined according to Company's policy.</p> <p>More training should be provided to accounting personnel regarding code of conduct as well as whistle-blowing procedures.</p>	<p>The Company has implemented the proposed measures.</p>

Major areas of enhancement	The Proposed Measures	Actions taken by the Company
6. Some on-line bank payments were made in the absence of sufficient and appropriate supporting documents.	It is recommended that guidelines specifying documents for accounting personnel's inspection before release of on-line bank payment should be developed. Training should be provided to accounting personnel regarding code of conduct, whistle-blowing, and on-line bank payment procedures.	The Company has implemented the proposed measures.
7. Controls on borrowing procedures were not adequate or effective. The financing function and fund transfer function were not properly segregated. Besides, the accounting departments were not informed of borrowing transactions.	It is recommended that fund sourcing and internal fund transfer functions should be properly segregated. Furthermore, additional control procedures, such as incorporating accounting departments' approval into the borrowing approval procedures, and regular bank loan reconciliation between the financing function and the accounting departments, are recommended to be implemented.	The Company has implemented the proposed measures.
8. There was no clear guideline governing transactions with fund remittance agents.	It is recommended that restrictions be enforced on transactions with fund remittance agents. Designated approval procedures should be gone through for any such transaction. All relevant agreements, including tripartite agreements, should be properly signed.	The Company has implemented the proposed measures.

Major areas of enhancement	The Proposed Measures	Actions taken by the Company
9. There was no clear guideline governing transactions with significant monetary amounts or transactions not in the normal course of business.	It is recommended that policies and procedures on transactions of significant monetary amounts or transactions not in the normal course of business should be developed to clearly set out the approval procedures and responsible personnel regarding such transactions.	The Company has implemented the proposed measures.
10. Certain functions in the office automation system were not adequate to prevent errors or fraud in the system approval process. Users could manually choose the approval line in the system. Additionally, the right to delete the approval records in the system was not restricted.	It is recommended that, in place of manual operation, the Company set up automatic approval processes in the office automation system in line with delegation of authority. Rights to delete approval records in the system should also be disabled.	The Company has implemented the proposed measures.
11. The decision making power was concentrated on the chairman of the board.	It is recommended that the Company introduce into the delegation of authority collective approval from the board in approving transactions involving significant monetary amounts.	The Company has implemented the proposed measures.

Conclusion

GT Advisory has come to a conclusion that from its review of the Company's implementation of the Proposed Measures, its enquiries, observations and discussions with the management of the Company, as well as its examination of relevant documents and records, as of the date of the Internal Control Report, no material internal control deficiency was brought to its attention.

Having considered the Internal Control Report and the implementation of the Proposed Measures by the Company, the Board is of the view that the Company's financial reporting procedures and internal control systems are sufficient to meet the obligations under the Listing Rules.

(d) the Fourth Resumption Condition-Audit matters

Reference is made to the Company's announcement dated 15 July 2016 in relation to (a) the resignation of PwC as the Company's external auditors; and (b) the appointment of Grant Thornton Hong Kong Limited as the Company's external auditors.

On 17 February 2015 and before its resignation, PwC communicated to the Board six matters identified in its course of audit of the financial statements for 2014 and requested the Board to form an independent investigation for the commission of an independent investigation on these matters. As announced on 29 April 2015, the Board established an independent committee of the Board and FTI was engaged to conduct the investigation.

FTI has completed the investigation in relation to those six audit matters. The key findings of FTI are set out in the Company's announcement dated 19 December 2016 (the "**FTI Announcement**"), which is appended to this announcement.

FTI identified, among other things, that:

- (1) the Former Employees (as defined in the FTI Announcement) attempted to obscure the existence of certain borrowing agreements (the "**Uncovered Borrowings**") through an elaborate scheme which involved (i) the creation of fictitious agreements and documents; (ii) substantial improper and unauthorised payments; (iii) the use of fund remittance agents to disguise the true purpose of the improper and unauthorised payments; (iv) incorrect accounting treatment of the payments and the outstanding liability in the Group's accounting records; and (v) collusion between multiple parties, including the Former Employees, suppliers, fund remittance agents and certain other third parties;
- (2) certain payment transactions, which have been approved by a number of the Former Employees were found to have no clear business purpose and certain receipt transactions by the Group were either not properly authorised or had no identifiable business purpose; and
- (3) the Group acquired the equity interests of 19 project companies during the financial year of 2014 for a total purported consideration of approximately RMB8.1 billion, while none of these transactions was properly authorised and approved.

The Company has engaged its PRC counsel to report the wrongdoing as set out in the FTI Announcement to the relevant public security authority in the PRC and to consider and prepare the appropriate legal action to recover the loss suffered by the Group.

To prevent the recurrence, the Company has implemented the Proposed Measures for the enhancement of its internal control. For further details of those measures, please refer to section headed “the Third Resumption Condition – Internal control review – Summary of the internal control review”.

(e) the Fifth Resumption Condition-Blockage

Save as disclosed in this announcement, the Company is not aware of any inside information in relation to the Group that will need to be disclosed pursuant to the requirements under Rule 13.09 of the Listing Rules and Part XIVA of the Securities and Futures Ordinance (Chapter 571, the Laws of Hong Kong).

RESUMPTION OF TRADING

Trading in the shares of the Company has been suspended on the Stock Exchange from 9:00 a.m. on 31 March 2015. Since the Resumption Conditions have been fulfilled, the Company will make an application to the Stock Exchange for the resumption of trading in the Company’s shares on the Stock Exchange with effect from 9:00 a.m. on 27 March 2017.

DEFINITION

“2014 Annual Report”	annual report of the Company for the year ended 31 December 2014;
“2014 Annual Results Announcement”	preliminary results announcement of the Company for the year ended 31 December 2014;
“2015 Annual Report”	annual report of the Company for the year ended 31 December 2015;
“2015 Annual Results Announcement”	preliminary results announcement of the Company for the year ended 31 December 2015;
“2015 Interim Report”	interim report of the Company for the six months ended 30 June 2015;
“2015 Interim Results Announcement”	interim results announcement of the Company for the six months ended 30 June 2015;
“2016 Annual Report”	annual report of the Company for the year ended 31 December 2016;
“2016 Annual Results Announcement”	preliminary results announcement of the Company for the year ended 31 December 2016;
“2016 Interim Report”	interim report of the Company for the six months ended 30 June 2016;

“2016 Interim Results Announcement”	interim results announcement of the Company for the six months ended 30 June 2016;
“Audit Issue 1”	identification of certain agreements during 2014 and authenticity of the accounting records;
“Audit Issue 2”	identification of unexplained cash payments and receipts;
“Audit Issue 3”	re-purchases, sales, cancellation of sales, and purchases of properties under development, complete properties held for sale in bulk and proposed development projects;
“Audit Issue 5”	re-designation of advance proceeds received to other payables;
“Board”	the board of the Company;
“Company”	Kaisa Group Holdings Ltd. (佳兆業集團控股有限公司*), a company incorporated in the Cayman Islands as an exempted company with limited liability and the shares of which are listed on the Stock Exchange;
“Director(s)”	director(s) of the Company;
“Fifth Resumption Condition”	has the meaning as set out in the paragraph headed “BACKGROUND” in this announcement;
“First Resumption Condition”	has the meaning as set out in the paragraph headed “BACKGROUND” in this announcement;
“Fourth Resumption Condition”	has the meaning as set out in the paragraph headed “BACKGROUND” in this announcement;
“FTI”	FTI Consulting (Hong Kong) Limited;
“FTI Announcement”	has the meaning as set out in the section headed “(d) the Fourth Resumption Condition-Audit matters”;
“Group”	the Company and its subsidiaries;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Loss arising from the Incident”	the loss arising from the Incident of RMB482,736,000 which was recognised in the consolidated statement of profit or loss for the year ended 31 December 2014, as the Directors are of the opinion that this is the earliest practicable period to recognise the loss having taken into account the findings of FTI in the related investigation;

“Offshore Debt Announcements”	the announcements of the Company dated 17 March 2016, 29 March 2016, 20 April 2016, 25 April 2016, 9 May 2016, 17 May 2016, 8 June 2016, 10 June 2016, 12 July 2016 and 15 July 2016 respectively;
“PRC”	the People’s Republic of China, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan for the purpose of this announcement;
“Proposed Measures”	has the meaning as set out in the paragraph headed “Fulfillment of the Resumption Conditions – 3. the Third Resumption Conditions – Internal control review” in this announcement;
“PwC”	PricewaterhouseCoopers;
“Resumption Conditions”	has the meaning as set out in the paragraph headed “BACKGROUND” in this announcement;
“RMB”	Renminbi, the currency of the People’s Republic of China;
“Second Resumption Condition”	has the meaning as set out in the paragraph headed “BACKGROUND” in this announcement;
“Shareholders”	shareholder(s) of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Third Resumption Condition”	has the meaning as set out in the paragraph headed “BACKGROUND” in this announcement; and
“US\$”	the United States dollar, the lawful currency of the United States.

By Order of the Board
KAISA GROUP HOLDINGS LTD.
Kwok Ying Shing
Chairman and Executive Director

Hong Kong, 26 March 2017

As at the date of this announcement, the executive Directors are Mr. Kwok Ying Shing, Mr. Sun Yuenan, Mr. Zheng Yi and Mr. Yu Jianqing; the non-executive Director is Ms. Chen Shaohuan; and the independent non-executive Directors are Mr. Zhang Yizhao, Mr. Rao Yong and Mr. Liu Xuehseng.

* *For identification purposes only*

Appendix
The FTI Announcement

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KEY FINDINGS OF THE INDEPENDENT INVESTIGATION

On 7 October 2016, FTI Consulting (Hong Kong) Limited (“**FTI Consulting**”) issued its investigation report on the audit issues (“**Audit Issues**”) identified during the audit of the Group’s financial statements for the year ended 31 December 2014. The key findings by FTI Consulting and the report of the Independent Committee to the Board are summarised in this announcement.

Trading in the shares of the Company has been suspended on the Stock Exchange from 9:00 a.m. on 31 March 2015 and will continue to be suspended until further notice.

BACKGROUND

Reference is made to the Company’s announcement dated 15 July 2016 in relation to the resignation of PwC as the Company’s auditors (the “**Auditor Announcement**”). A copy of the Auditor Announcement is appended to this announcement.

On 17 February 2015 and before its resignation, PwC communicated to the Board six issues identified in its course of audit of the financial statements for FY2014 and requested the Board to form an independent investigation on these issues.

As announced on 29 April 2015, the Board established the Independent Committee, and FTI Consulting was engaged, to conduct the investigation. On 7 October 2016, FTI Consulting issued the report on its findings.

The key findings by FTI Consulting in its investigation and the report of the Independent Committee to the Board are summarised as follows.

This announcement is made by the Company pursuant to Rule 13.09 of the Listing Rules and Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

KEY FINDINGS OF FTI CONSULTING

Audit Issue 1 – Identification of certain agreements during 2014 and authenticity of the accounting records

The background to this issue is set out in the section headed “1. Identification of certain agreements during 2014 and authenticity of the accounting records” of the extract of the resignation letter of PwC in the Auditor Announcement.

The key findings of FTI Consulting on this issue are summarised below.

- (1) During the financial years ended 31 December 2012 to 31 December 2014, the Group entered into 41 borrowing agreements with NBFIs (“**Non-bank financial institutions**”) which had a total loan facility of approximately RMB35.2 billion. As at 31 December 2014, the Group’s outstanding liabilities from these agreements were approximately RMB30.8 billion, based on the Company’s calculations. 39 of the approval forms of the 41 borrowing agreements were found to have been stored in the office-automation system of the Group and extracts were provided to FTI Consulting by the current management of the Company in the investigation. The remaining two borrowing agreements were not found in the system.
- (2) These agreements had not previously been disclosed or provided to the Group’s auditor, PwC, and led to the identification by the Company of significant accounting errors in the Group’s then accounting records.
- (3) These outstanding liabilities in the amount of RMB30.8 billion were misclassified in the Group’s accounting records as at 31 December 2014, as follows:
 - (i) an amount of approximately RMB13.8 billion was recorded as other payables;
 - (ii) an amount of approximately RMB4.4 billion was recorded as equity;
 - (iii) an amount of approximately RMB8.2 billion had previously been misclassified as *other payables* in prior years, but had since been reclassified as *short/long term debt* by 31 December 2014; and
 - (iv) an amount of approximately RMB4.4 billion was not recorded.
- (4) Whilst these 41 borrowing agreements were, based on information provided by the Company’s current management, properly approved and authorised in accordance with the Group’s then policies and procedures, FTI Consulting has identified that certain former employees of the Group attempted to obscure the existence of the 41 borrowing agreements through an elaborate scheme, which involved:
 - (i) the creation of fictitious agreements and documents;
 - (ii) substantial improper and unauthorised payments;

- (iii) the use of fund remittance agents to disguise the true purpose of the improper and unauthorised payments;
 - (iv) incorrect accounting treatment of the payments and the outstanding liability in the Group's accounting records; and
 - (v) collusion between multiple parties, including the Group's former employees, suppliers, fund remittance agents and certain other third parties.
- (5) In particular, the fictitious agreements and documents created the illusion that approximately RMB15.4 billion of the funds from some of the 41 borrowing agreements originated instead from cash deposits received by the Group arising from the purported sale of certain property projects to a number of third party buyers. Nevertheless, these purported sale transactions were, based on FTI Consulting's enquiries, not genuine.
- (6) Many of these purported sale transactions were subsequently cancelled; leading to the Group making cash payments of approximately RMB12.9 billion to third parties on the pretence the payments were refunds for the cash deposits previously received. None of these refund payments were made to the purported buyers of the property projects, and they were instead mostly made, through arrangements by certain former employees of the Group, to fund remittance agents allegedly appointed by the purported buyers to receive payments on their behalf. These fund remittance agents then dissipated the funds to unknown accounts and beneficiaries.
- (7) To further obscure the nature of the above cash payments, a series of fictitious accounting journal entries were recorded by the former employees to associate some of the RMB12.9 billion cash payments with the settlement of considerations of approximately RMB8.2 billion made by the Group for the purchase of 19 project companies, which is the subject of Issue 3 below. However, based on FTI Consulting's enquiries, the Group did not in fact make any payment at all for the purchase of the 19 project companies.
- (8) In addition to the above 41 borrowing agreements, the Company's current management also identified, after the commencement of FTI Consulting's investigation, an additional 14 borrowing agreements entered into by the Group with the NBFIs in prior financial years, which had not been identified and disclosed to PwC. As at 31 December 2014, there was no amount due by the Group pursuant to these 14 additional borrowing agreements. Nevertheless, approximately RMB1.4 billion of funds from these additional agreements were paid to fund remittance agents during the financial years of 2013 and 2014.
- (9) FTI Consulting has identified that some of the financial liabilities, amounting to RMB3.7 billion for borrowing costs and RMB2.2 billion for the repayment of NBF loan principal amounts were settled by a number of third parties on behalf of the Group. The representatives of these third parties stated during interviews with FTI Consulting that these repayments were made under the instructions of a former employee of the Group, in return for a service fee. FTI Consulting has identified that these repayments made by the third parties were not recorded in the Group's accounting ledgers.

- (10) FTI Consulting has not been able to contact any of the former employees identified above (with the exception of one former employee) to respond to the statements made against them by the various third parties. This former employee has however denied any involvement in the different transactions in which documents identified him as being involved.
- (11) Several of the former senior members/employees of the financial management group of the operation in the PRC of the Company were identified to have been consistently connected with the suspicious, improper and unauthorized transactions that fell within this audit issue.

The report of the Independent Committee to the Board on this issue is set out below:

- (a) The Company should seek legal advice on PRC law regarding the appropriate action to be taken against the former employees identified by FTI Consulting that were involved in the fraudulent scheme against the former members/employees and the third parties including both criminal and civil actions.
- (b) Mr Chen Gengxian (who is a former executive director of the Company) and Mr Kwok Ying Shing, the Chairman of the Board, were involved in the approval of 39 of the borrowing agreements that had been recorded in the Group's office-automation system. There is no evidence in the findings of FTI Consulting to suggest that either Mr Chen or Mr Kwok had knowledge of the subsequent accounting treatments of all the 41 borrowing agreements by the wrongdoers. The present evidence is insufficient to suggest either Mr Chen or Mr Kwok has breached his duty as the final approver.
- (c) Given that the opinions expressed by PwC in its audit of the Group's financial statements were true and fair despite that the fact that the information on 39 of the borrowing agreements were recorded in the Group's office-automation system, it would be reasonable not to expect the management in Hong Kong to be discernible of the fraudsters' deliberate act of concealing the borrowings from the account.

Audit Issue 2-Identification of unexplained cash payments and receipts

The background to this issue is set out in the section headed "2. Identification of unexplained cash payments and receipts" of the extract of the resignation letter of PwC in the Auditor Announcement.

The key findings of FTI Consulting on this issue are summarised below.

- (1) FTI Consulting has identified 31 third parties, which likely fell within the definition of the Alleged Third Parties as identified by PwC.
- (2) During the financial years of 2013 and 2014, the Group was involved in transactions with 12 of these 31 third parties. There were no cash receipt or payment transactions identified between the Group and the remaining 19 third parties, except that 15 of these 19 third parties were the original buyers and subsequent sellers of the project companies, which are the subject of Issue 3 below. These 15 third parties purportedly appointed agents to transact with the Group on their behalf.

- (3) FTI Consulting has identified the following payment and receipt transactions with respect to the 12 third parties as follows:
- (i) approximately RMB25.0 billion of payments were made by the Group to these 12 third parties during the financial year of 2013 and the financial year of 2014; and approximately RMB24.1 billion, or 96% of these payments by the Group were found to have no clear business purpose. Many of these payments were identified, according to the Company's books and records, to have been approved by a number of former employees of the Group. Nevertheless, the Company's current management does not accept that the approval records were bona fide;
 - (ii) the Group received approximately RMB21.6 billion from these 12 third parties during the same period; and approximately RMB21.4 billion, or 99% of the amount received by the Group were either not properly authorised or had no identifiable business purpose; and
 - (iii) the Group has recorded an un-accounted-for difference of RMB3.4 billion (that is, RMB25 billion less RMB21.6 billion) in the transactions with these 12 third parties during the FY2013 and FY2014.
- (4) Nine of these 12 third parties have been identified as fund remittance agents, most of whom in return transacted for a fee, facilitated the transfer of funds between multiple parties, including the Group. In connection with this, it is found that:
- (i) approximately 98%, or RMB23.6 billion of the RMB24.1 billion of unauthorised payments by the Group in the financial year of 2013 and the financial year of 2014 were made to these nine fund remittance agents. In interviews held by FTI Consulting with representatives of the fund remittance agents, they all declined to provide any details of where they transferred the funds and the identities of the ultimate beneficiaries.
 - (ii) the Group received amounts of approximately RMB21.2 billion from these nine fund remittance agents during the same period. Similarly, the fund remittance agents declined to disclose the original source of these funds.
- (5) Nevertheless, representatives of the fund remittance agents interviewed by FTI Consulting all stated that the transactions in which they were involved were initiated under instructions by certain former employees of the Group, who provided them with the necessary account details in order for them to effect the transactions.
- (6) FTI Consulting has not been able to contact any of the former employees identified above (with the exception of the same former employee as referenced to in paragraph (10) under Issue 1 above) to respond to the statements made against them by the fund remittance agents.

The report of the Independent Committee to the Board on this issue is set out below:

- (a) 15 of the 31 third parties were genuine buyers and subsequent sellers of the project companies in Audit Issue 3.
- (b) 12 of the 31 third parties had transactions with the Group. As for the un-accounted-for difference in the sum of RMB3.4 billion, FTI is currently in the process of quantifying the financial loss, if any, suffered by the Group on this issue.
- (c) There is prima facie evidence in the findings of FTI Consulting to suggest impropriety of the un-accounted-for difference in the sum of RMB3.4 billion. The cash payment and receipt transactions to and from the 12 third parties had no clear business purposes, nor with proper authorization. However, there is no evidence that the management in Hong Kong had any knowledge of these improper transactions. When a report under Audit Issue 1 is made, it is worth to also bring to the attention of the police the possibility of impropriety including possible embezzlement of the un-accounted for difference by the 12 third parties.

Audit Issue 3 – Re-purchases, sales, cancellation of sales, and purchases of properties under development, complete properties held for sale in bulk and proposed development project

The background to this issue is set out in the section headed “3. Re-purchases, sales, cancellation of sales, and purchases of properties under development, complete properties held for sale in bulk and proposed development project” of the extract of the resignation letter of PwC in the Auditor Announcement.

The key findings of FTI Consulting on this issue are summarised below.

- (1) FTI Consulting has established that the Group acquired the equity interests of 19 project companies during the financial year of 2014 for a total purported consideration of approximately RMB8.1 billion.
- (2) It has been found that 16 of the 19 project companies had previously been owned and sold by the Group, with 12 in prior accounting periods and four during the first half of 2014. FTI Consulting has been informed by the Company’s current management that these 16 disposal transactions were properly authorised in accordance with the Group’s then policies and procedures, although it acknowledges that no approval records can now be located. FTI Consulting has identified that the legal title of 10 of the 16 original disposals were not transferred to the buyers before the dates at which the re-purchase or the sale and cancellation transaction took place in FY2014.
- (3) Based on FTI Consulting’s enquiries with representatives of the sellers, a former employee of the Group was identified as being responsible for instigating, negotiating and effecting all of the 16 disposal transactions. The representatives stated that this former employee had persuaded them to enter into the transactions by providing them with a verbal and unconditional guarantee that the Group would re-purchase the project companies, if requested. Nevertheless, the Company’s current management stated that it was not aware of this guarantee.

- (4) For each of the 16 disposal transactions, the Company's current management has identified an independent valuation report dated between February 2012 and July 2014. FTI Consulting has however noted that all of the valuation reports were prepared after the dates of the relevant share transfer agreements. FTI Consulting has not been able to meet with the former employee as identified above to understand the reasons for the date differences.
- (5) FTI Consulting has been unable to find any payments (or other types of consideration) made by the Group for the proposed acquisition of any of these 19 project companies. FTI Consulting has been informed by the Company's current management that none of the 19 acquisition transactions were authorised and approved by the Board.
- (6) The 19 project companies were accounted for as subsidiaries in the Group's consolidated financial statements for FY2014. The Group's current management suspects that the accounting journal entries effecting their inclusion were made in February 2015 and were created to appear as if they had been entered into the Group's accounting records during the period from July 2014 to November 2014, in order to closely coincide with the dates of certain of the RMB12.9 billion cash payments identified in Issue 1 above. These accounting journal entries were likely to be false and were made, in part, to obscure the fact that no actual payment was made by the Group for the 19 project companies and to bring about the appearance that previous cash payments, which were improper payments, were related to the purchase of the 19 project companies, when they were in fact not.
- (7) The Company has obtained written confirmations from representatives of the sellers of the 19 project companies that there was no outstanding consideration due from the Company as at 31 December 2014. It is unclear to FTI Consulting how the sellers have received payments from the Company, as the sellers have all declined to provide any information regarding from whom they received the funds.

The report of the Independent Committee to the Board on this issue is set out below:

- (a) The parties that had received payments had either been dissolved or refused to disclose to FTI Consulting the purpose of the payments they received and the identities of the beneficiaries of the payments. FTI Consulting is unable to ascertain the ultimate recipients of those funds.
- (b) As advised by legal counsel, the legal title to the project companies have been fully and properly vested in the Group. For completeness sake, the Company should secure confirmatory assignments from the sellers of their respective transfers of the equity interests in the project companies to the Group. The Board should approve the post – events of the Company's acquisition of the equity interests in the 19 project companies.
- (c) The Independent Committee cannot advise on how an accounting adjustment could be made to reconcile the acquisitions of these 19 project companies with the acknowledgment by the respective sellers of the receipts of the considerations in full with no debt owed by the Company to each of them on one hand and the fact that no payments were identified on the other.

Audit Issue 4 – Disposal of subsidiaries located in Dongguan and Huizhou

The background to this issue is set out in the section headed “4. Disposal of subsidiaries located in Dongguan and Huizhou” of the extract of the resignation letter of PwC in the Auditor Announcement.

The key findings of FTI Consulting on this issue are summarised below.

- (1) In early December 2014, the Group disposed of its nine subsidiaries in Dongguan and one subsidiary in Huizhou to three buyers for approximately RMB559 million. According to PwC, the Group recorded a loss on these disposals of approximately RMB423 million.
- (2) FTI Consulting’s work indicates that the disposal transactions were properly authorised and approved in accordance with the Company’s then operating policies and procedures. FTI Consulting has also identified that the buyers and their ultimate beneficial owners were not, based on the available information, Connected Persons of the Company at the relevant time of the transactions as defined by Chapter 14A of the Listing Rules.
- (3) There is limited contemporaneous documentation explaining the background to and the commercial rationale for a number of the key disposal features. This is due to, according to the Company’s current management, the transactions being negotiated and executed in haste. In addition, most of the senior management involved in the negotiation and approval of the disposal transactions have resigned from the Company, and are not available to assist in the investigation.
- (4) The sale agreements required the buyers to pay deposits of approximately 20% of the agreed equity purchase consideration, with the balance falling due one year after the signing of the agreements. On receipt of the initial deposit amounts, the Group transferred legal ownership of four of the subsidiaries to the buyers. FTI Consulting has been informed by the Company’s current management that the buyers did not have sufficient financial resources to make full payment for the subsidiaries. Accordingly, the Company structured the transactions in such a way to allow the buyer’s time to use the assets they had purchased as security to obtain further funding. FTI Consulting has not been able to determine whether the buyers attempted to obtain additional funding.
- (5)
 - (i) The disposal considerations were supported by valuation reports prepared by an independent accountant, who valued the subsidiaries using a cost based valuation approach. No adjustments were made by the valuer to reflect differences, if any, between the carrying book values of the properties held by the subsidiaries and their market values.
 - (ii) The Group’s current management explained that the Group would ordinarily finance its property development projects by raising offshore debts in Hong Kong and capitalising interest expenses directly attributable to those development projects through consolidation adjustments. These consolidation adjustments were not reflected in the unaudited balance sheets of these project companies that were relied on for the valuation.

- (iii) The Group's current management further explained that approximately 80% of the loss of RMB423 million as alleged by PwC was due to the write-off of offshore capitalised interest expenses previously allocated to the property projects in the financial year of 2014 and in the prior years.
- (6) Subsequent to completion of the disposals, FTI Consulting has found that the Group maintained joint operating control of the subsidiaries and did not change either the legal representatives or the management teams. This arrangement of both parties maintaining joint operating control was not documented in the sale agreements but was acknowledged by the buyers.
- (7) The disposal transactions were cancelled in November 2015 due to the buyers being unable to pay the outstanding considerations. In June 2016, the Company refunded approximately RMB136 million to the buyers. This refunded amount comprised the partial consideration payments the Group had received from the buyers, and the net receivable/payable amounts between the Dongguan and Huizhou subsidiaries and various third parties, which had been re-designated to the buyers.
- (8) FTI Consulting has confirmed that legal ownership of the Dongguan and Huizhou subsidiaries was subsequently transferred back to the Group by July 2016.

The report of the Independent Committee to the Board on this issue is that given that the Company has not suffered any loss as a result of the disposals and the subsequent cancellations and the titles to the properties that are held by the subsidiaries are not affected by the disposals and cancellations, it is not recommended that any legal action shall or can be taken on the disposals.

Audit Issue 5 – Re-designation of advance proceeds received to other payables

The background to this issue is set out in the section headed “5. Re-designation of advance proceeds received to other payables” of the extract of the resignation letter of PwC in the Auditor Announcement.

The key findings of FTI Consulting on this issue are summarised below.

- (1) During the period from June 2012 to August 2012, the Group executed certain borrowing agreements with two NBFIs for aggregated loan facilities of approximately RMB1.1 billion. These borrowing agreements were duly approved in accordance with the Company's then authorisation policies and procedures.
- (2) (i) As at 31 December 2012 and 31 December 2013, the outstanding financial liabilities associated with these borrowing agreements had been incorrectly recorded in the Group's accounting records as other payables, as opposed to debt.
- (ii) FTI Consulting has identified that at about the same time when the loan facilities were drawn down by the Group, three fictitious agreements were created, which purported to show that the Group received cash advances, in the equivalent amounts to the loan facilities, from a number of third parties.

- (iii) The Company's current management suspects that these three fictitious agreements were created to obscure the existence of the borrowing agreements and the true nature of the cash inflow from the loan drawdowns, and to facilitate the incorrect accounting treatment.
 - (iv) FTI Consulting has further identified that, in order to obscure the cash flow associated with the loan drawdowns, a former employee of the Group instructed a third party to remit cash in the amount of RMB491 million to the Group on the pretence that the receipt was originated from one of the three fictitious agreements.
 - (v) Two of three fictitious agreements were subsequently cancelled such that the Group paid a total amount of RMB700 million to a third party appointed by the original counterparty to the fictitious agreements. Such payment was alleged to have been approved by a number of former employees of the Group. Nevertheless, the Company's current management does not accept that the approval records were bona fide.
 - (vi) Separately, FTI Consulting has identified another cash payment of RMB386 million being made by the Group from the proceeds received from one of the loans. This payment, which was made to a different third party, was not supported by any documentary evidence and had no identifiable business purpose.
- (3) (i) As at 31 December 2014, the Group's liabilities under the aforementioned two borrowing agreements had been settled in full through a combination of repayments made by the Group, and by two third parties which received funds in advance pre-arranged by a former employee of the Group. The repayment amount by the third parties amounted to RMB222.1 million for borrowing costs and RMB296.0 million for loan principal amounts.
- (ii) The representatives of these third parties stated during interviews with FTI Consulting that these repayment transactions were made under instructions of a former employee of the Group, in return for which the third parties received a service fee.
- (iii) Nevertheless, FTI Consulting has identified that these repayments made by the third parties were not recorded in the Group's accounting ledgers.

The report of the Independent Committee to the Board on this issue is set out below:

- (a) a report should be made to the police in the PRC regarding the wrongdoings which involve suspected embezzlement of the Company's fund, false accounting and forgeries by creation of fictitious documents; and
- (b) the Company should consider taking civil action in the PRC against the wrongdoers for damages that the Group has suffered if FTI Consulting's further findings confirm that the Group has suffered financial loss under this audit issue.

Audit Issue 6 – Blockage of property projects

The background to this issue is set out in the section headed “1. Blockage of property projects” of the extract of the resignation letter of PwC in the Auditor Announcement.

The key findings of FTI Consulting on this issue are summarised below.

- (1) FTI Consulting has identified that 39 of the Company’s property projects have been subject to different types of restrictions imposed by the local government authorities in Shenzhen and/or the PRC courts since November 2014.
- (2) As at 30 September 2016, three of the above 39 property projects remained partially restricted. The total net book value of these three property projects was approximately RMB3.4 billion as at 31 December 2014.

The report of the Independent Committee to the Board on this issue is that FTI Consulting has not identified any evidence of fraud that was involved in those restrictions and as such, no legal action has to be taken.

METHODOLOGY

FTI Consulting has proceeded with its investigation based on a comprehensive work plan approved by the Independent Committee, which focused on the following objectives:

- (1) Independently determine the facts and circumstances surrounding the identification of the Audit Issues;
- (2) Consider PwC’s areas of concern on which it indicated that it would require additional audit evidence;
- (3) Identify, to the extent possible, whether there is evidence indicative of fraudulent accounting and/or other irregularities in connection with the Audit Issues; and
- (4) Identify, to the extent possible, whether there is evidence of potential misstatement or error in the Company’s Financial Statements.

The methodology adopted by FTI Consulting in the course of the investigation includes, but is not limited to, the following:

- (1) Collation, review and analysis of a significant volume of the Group’s internal policies and procedures, accounting records, bank statements, accounting journal vouchers, legal agreements and other relevant books and records;
- (2) Computer-assisted data analytics on the Group’s electronic accounting system, electronic transaction approval workflow system and other information databases;
- (3) Forensic data collection of email archives, computer hard-drives, back-ups and server files belonging to selected senior management and former employees;

- (4) Meetings and interviews with the Company's employees (both current and former) and with representatives of selected third party entities; and
- (5) Investigative research regarding the identities of selected third party entities that are relevant to the Audit Issues.

LIMITATIONS OF FTI CONSULTING'S INVESTIGATION

We draw attention below to a number of limitations and challenges encountered by FTI Consulting during the course of its work, which in some respects limited both the nature and extent of the procedures it was able to undertake and complete.

A summary of the main limitations is as follows:

- (1) PwC has refused to meet with FTI Consulting to assist with its understanding of the Audit Issues and to provide it with copies of the documents and/or information previously relied on in the course of the audit engagement;
- (2) A significant number of senior management and employees of the Company whom FTI Consulting considers to be integral to obtaining a full understanding of the Audit Issues have resigned since the identification of the Audit Issues and are not available to assist with the investigation;
- (3) FTI Consulting has been advised by the Company's current management that some of the documents and/or electronic records that it has requested are no longer retained, or cannot be located or they may have been inadvertently lost or misplaced in early 2015;
- (4) Many of the third party entities, the subjects of FTI Consulting's enquiries, have either been dissolved since the end of 2014, and/or they were offshore entities registered in the British Virgin Islands, whose exact ownership records are not publicly available. It is also common that these third party entities engaged financial intermediaries or agents to transact with the Company on their behalf, which obfuscated FTI Consulting's analysis of the transaction chronology and fund flows;
- (5) FTI Consulting has conducted interviews with representatives of selected third party entities, but noted that the interviewees generally have either limited or no knowledge of the relevant transactions, or they were reluctant to divulge any information to substantiate their statements owing to confidentiality reasons;
- (6) FTI Consulting's analysis of the Group's accounting records indicates that a large number of transactions, many of which the subjects of the investigation, were not supported by sufficient documentary evidence. It is noted that in some instances the transaction descriptions recorded in the Group's General Accounting Ledgers were incomplete, inaccurate or inadequate to explain the precise nature, substance and rationale behind a particular transaction.

- (7) The Company manages its liquidity and cash flows through use of a Capital Pool (資金池) system, whereby funds are aggregated in a central pool, and mixed and distributed between different subsidiaries on a regular basis in order to meet changing cash supply and demand requirements. In addition, a number of the Company's former employees executed a significant volume of cash transactions, both payments and receipts, through the use of fund remittance agents. It is acknowledged that the above features of cash movements facilitated many of the transactions, now the subject of FTI Consulting's investigation.

SUSPENSION OF TRADING

At the request of the Company, trading in the Company's shares on the Stock Exchange has been suspended with effect from 9:00 a.m. on 31 March 2015 and will continue to be suspended until further notice.

DEFINITION

“Alleged Third Parties”	third parties who were alleged to have received payments from, and have been paid by, the Group during and prior to the year ended 31 December 2014;
“Auditor Announcement”	has the meaning as set out in the paragraph headed “BACKGROUND” in this announcement;
“Board”	the board of the Company;
“Company”	Kaisa Group Holdings Ltd. (佳兆業集團控股有限公司*), a company incorporated in the Cayman Islands as an exempted company with limited liability and the shares of which are listed on the Stock Exchange;
“connected person”	has the meaning as set out in the Listing Rules;
“FTI Consulting”	FTI Consulting (Hong Kong) Limited;
“FY2013”	the financial year ended 31 December 2013;
“FY2014”	the financial year ended 31 December 2014; “Group” the Company and its subsidiaries;
“Independent Committee”	the committee of the Board comprising Mr. Zhang Yizhao and Mr. Rao Yong, the independent non-executive directors of the Company;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;

“NBFI”	non-bank financial institutions;
“PRC”	the People’s Republic of China, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan for the purpose of this announcement;
“PwC”	PricewaterhouseCoopers;
“RMB”	Renminbi, the lawful currency of the PRC; and
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

By Order of the Board
KAISA GROUP HOLDINGS LTD.
Kwok Ying Shing
Chairman and Executive Director

Hong Kong, 19 December 2016

As at the date of this announcement, the executive Directors are Mr. Kwok Ying Shing, Mr. Sun Yuenan, Mr. Zheng Yi and Mr. Yu Jianqing; the non-executive Director is Ms. Chen Shaohuan; and the independent non-executive Directors are Mr. Zhang Yizhao and Mr. Rao Yong.

* *For identification purposes only*