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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)

MEMORANDUM OF UNDERSTANDING IN RELATION TO THE POTENTIAL DISPOSAL

Financial Adviser



Euto Capital Partners Limited

This announcement is made by the Company pursuant to Rule 13.09(2)(a) of the Listing Rules and the Inside Information Provisions (as defined in the Listing Rules) under Part XIVA of the Securities and Futures Ordinance.

THE MOU

The Board announces that on 29 August 2018 (after trading hours), the Company and the Purchaser entered into the non-legally binding MOU in relation to the Potential Disposal, pursuant to which the Company has conditionally agreed to sell and the Purchaser has conditionally agreed to acquire the Sale Share(s), representing the entire issued share capital of the Target Company.

The Potential Disposal and the transactions contemplated under the MOU are subject to, among others, further negotiation concerning the entering into of a Formal Agreement and the results of the due diligence to be carried out by the Purchaser. At present stage, the terms and conditions of the Formal Agreement are yet to be finalized and agreed between the Company and the Purchaser. As such, the Potential Disposal and the transactions contemplated under the MOU may or may not proceed. Further announcement(s) in respect of the Potential Disposal or any other transactions contemplated under the MOU shall be made by the Company in the event that any Formal Agreement has been entered into. The Potential Disposal may be subject to certain conditions precedent which may not be able to be fulfilled or waived. Shareholders and investors are urged to exercise caution when dealing in the securities of the Company.

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THE MOU

The Board announces that on 29 August 2018 (after trading hours), the Company and the Purchaser entered into the MOU, pursuant to which the Company has conditionally agreed to sell and the Purchaser has conditionally agreed to acquire the Sale Share(s), representing the entire issued share capital of the Target Company. Details of the MOU are set out below.

Date: 29 August 2018

Parties: (i) the Company; and
(ii) the Purchaser.

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, the Purchaser and its ultimate beneficial owners are Independent Third Parties.

Subject to the parties entering into the Formal Agreement and the results of the due diligence to be carried out by the Purchaser, the Company has conditionally agreed to sell and the Purchaser has conditionally agreed to acquire the Sale Share(s), representing the entire issued share capital of the Target Company.

Subject to the satisfaction of the due diligence to be carried out by the Purchaser on the Target Company and the Company, and on the basis that the existing licenses, projects on hand, the management team of the Target Company and the maintaining of the listing status of the Company remain unchanged, the Purchaser or its associated companies also intends to invest in the equity interest of the Company, and parties to the MOU will further negotiate on the relevant terms thereof. For the avoidance of doubt, no terms, price or number of shares in relation to such potential investment in the Company has been provided in the MOU or otherwise agreed by the parties to the MOU as at the date of this announcement.

Financial support

The Purchaser agreed that after the signing of the MOU and subject to risk control assessment to be conducted by the Purchaser and the full cooperation among the parties, the Purchaser and/or its associated companies may provide financial support in the amount of HK\$600 million as working capital to the Target Company, of which HK\$300 million shall be provided within one week of the date of the MOU, and the remaining HK\$300 million will be provided within two weeks of the date of the MOU.

Joint management arrangement with the Purchaser

Pursuant to the MOU, the Company agreed that the Purchaser or its associated companies can appoint personnel or teams to jointly manage all the projects of the Group (including but not limited to proposed projects, completed projects and ongoing projects), with an aim to maintain normal operations of the projects of the Group and stability of the management teams. The Company and the Purchaser further agreed to jointly explore the construction projects in Hong Kong, Macau, overseas and the PRC. The Company further agreed that upon signing of the MOU, the Purchaser can appoint personnel to establish a joint working committee with the Board to jointly lead, coordinate and supervise the daily operation (in particular all construction projects of the Group in the PRC), working capital status and restructuring matters of the Group, the parties to the MOU further agreed that the joint working committee should be jointly led by the representatives of the Company and the Purchaser.

The Company shall procure the Board and relevant members of the Group to agree to the appointment of such personnel or teams as aforesaid.

Exclusive Period

The Company agreed to offer an Exclusive Period to the Purchaser in relation to the Potential Disposal and the potential investment by the Purchaser in the Company. During the Exclusive Period, the Company will not and will procure that the Target Company and its directors, officers, employees, representatives and agents not to, directly or indirectly (i) solicit, initiate or encourage inquiries or offers from; or (ii) initiate or continue negotiations or discussions with or furnish any information to; or (iii) enter into any agreement or statement of intent or understanding with, any person or entity other than the Purchaser or its associated companies with respect to the Potential Disposal, the potential investment in the Company or disposition of any business or assets of the Group. Should the Company receive any respective inquiries or invitation in relation to the above, the Company shall inform the Purchaser immediately.

Legal effect

Save for those provisions relating to the exclusivity, confidentiality, costs and expenses and the governing law, the MOU does not have any legal effect.

INFORMATION ON THE TARGET COMPANY

The Target Company is mainly engaged in business of building construction and civil engineering.

REASONS AND BENEFITS FOR ENTERING INTO THE MOU

The Company is principally engaged in building construction, civil engineering, electrical and mechanical installation, property development and investment.

As advised by the Purchaser, the Purchaser is principally engaged in the construction businesses.

As disclosed in the Company's announcement dated 18 May 2018, the Company was in a difficult financial situation as it had not paid the amounts outstanding under the US\$300 million 8.75% senior notes to the account of the trustee of the notes when they were due for redemption on 18 May 2018. The Directors consider that the Potential Disposal would provide a good opportunity for the Group to realise its investment to alleviate the aforesaid financial situation.

The terms of the MOU were arrived at after arm's length negotiations between the Company and Purchaser. The Directors consider that the transactions contemplated by the MOU are on normal commercial terms and the terms of the MOU are fair and reasonable and in the interest of the Company and its shareholders as a whole.

POTENTIAL INVESTMENT IN THE COMPANY

For the avoidance of doubt, the Board wishes to clarify that the Purchaser is not the same or related party of the Potential Investor as defined and disclosed in our announcement dated 2 May 2018. The Potential Investor is continuing with its due diligence work.

The Potential Disposal and the transactions contemplated under the MOU are subject to, among others, further negotiation concerning the entering into of a Formal Agreement and the results of the due diligence to be carried out by the Purchaser. At present stage, the terms and conditions of the Formal Agreement are yet to be finalized and agreed between the Company and the Purchaser. As such, the Potential Disposal and the transactions contemplated under the MOU may or may not proceed. Further announcement(s) in respect of the Potential Disposal or any other transactions contemplated under the MOU shall be made by the Company in the event that any Formal Agreement has been entered into. The Potential Disposal may be subject to certain conditions precedent which may not be able to be fulfilled or waived. Shareholders and investors are urged to exercise caution when dealing in the securities of the Company.

DEFINITIONS

In this announcement, the following expressions shall, unless the context requires otherwise, have the following meanings:

“Board”	the board of Directors
“Company”	Hsin Chong Group Holdings Limited, a company incorporated in Bermuda with limited liability and the issued Shares of which are listed on the main board of the Stock Exchange (Stock Code: 00404)
“connected person(s)”	has the meaning as ascribed thereto under the Main Board Listing Rules
“Director(s)”	the director(s) of the Company
“Exclusive Period”	90 days from the date of the MOU or as extended by the parties
“Formal Agreement”	the formal sale and purchase agreement which may or may not be entered into in relation to the Potential Disposal
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	independent third party(ies) who is/are not connected person(s) of the Company and is/are independent of and not connected with the Company and Directors, chief executives, controlling shareholders and substantial shareholders of the Company or any of its subsidiaries or their respective associates
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Main Board”	Main Board of the Stock Exchange

“MOU”	the non-legally binding memorandum of understanding dated 29 August 2018 entered into by the Company and the Purchaser setting out the preliminary understanding in relation to the Potential Disposal
“Potential Disposal”	the proposed disposal of the entire equity interest in the Target Company by the Company to the Purchaser subject to the entering into of the Formal Agreement
“PRC”	the People’s Republic of China which, for the purposes of this announcement, excludes Hong Kong, Macau and Taiwan
“Purchaser”	An Independent Third Party who is a limited liability company established in the PRC and principally engaged in the construction businesses
“Sale Share(s)”	the entire issued share capital of the Target Company beneficially owned by the Company
“Share(s)”	the ordinary share(s) of par value of HK\$0.10 each in the issued share capital of the Company
“Shareholder(s)”	the holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	Hsin Chong Construction Company Limited 新昌營造廠有限公司, a company incorporated in Hong Kong, being a wholly owned subsidiary 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, 29 August 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, Dr. LAM Lee G. and Dr. LO Wing Yan William, JP as Independent Non-executive Directors.