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新明中国控股

XINMING CHINA

Xinming China Holdings Limited

新明中國控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2699)

**FURTHER ANNOUNCEMENT ON MAJOR TRANSACTION
IN RELATION TO PLEDGE CONTRACTS**

Reference is made to the announcement (the “Announcement”) dated 22 March 2019 of the Company regarding major transaction in relation to Pledge Contracts.

The Board hereby announces further information of the Pledge Contracts.

THE PLEDGE CONTRACTS

During the period of 26 December 2018 to 28 December 2018, Xingming Group, a wholly-owned subsidiary of the Company entered into the Pledge Contracts with Wenzhou Bank, pursuant to which Xinming Group agreed to pledge the certificates of deposit of a total value of RMB535,400,000 to Wenzhou Bank in order to provide a guarantee for Zhejiang Muzi for the amount of RMB537,461,290 by way of pledge. Xinming Group will receive 2% of the total amount of the Pledge Contracts as the guarantee fee.

Set out below is a summary of the principal terms of the Pledge Contracts:

Date and guarantee amount:	26 December 2018	RMB95,365,750
	27 December 2018	RMB90,346,500
		RMB85,829,175
		RMB81,311,850
	28 December 2018	RMB76,900,000
		RMB73,000,000
		RMB34,000,000
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	Total:	RMB537,461,290
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Parties: (1) Xinming Group, as the pledgor
(2) Wenzhou Bank, as the pledgee

Subject to be pledged: Certificates of deposit of a total value of RMB535,400,000

Term: Signing date of the Pledge Contracts till 31 March 2019

BACKGROUND OF THE ENTERING INTO OF THE PLEDGE CONTRACTS

Zhejiang Muzi is a third party independent of the Company at all material times. Mr. Chen, chairman of the board of directors of the Company and legal representative of Xinming Group, knew the general manager of Zhejiang Muzi through business function. In November 2018, the said general manager of Zhejiang Muzi contacted Mr. Chen and enquired whether the Company would be interested in providing a guarantee for Zhejiang Muzi by making a pledge to Wenzhou Bank, so as to receive a guarantee fee in the sum of 2% of the guaranteed amount. Wenzhou Bank is a bank where the Company has had business relationship with.

After the enquiry, Mr. Chen had engaged in the negotiation of the Pledge Contracts with Wenzhou Bank and Zhejiang Muzi. He formally met the general manager of Zhejiang Muzi to know more about the operation condition, background and financial status of Zhejiang Muzi, as well as the intended usage of the funds to be secured. He also reviewed the relevant information of Zhejiang Muzi to analyze the business plan of Zhejiang Muzi and the proposal regarding the pledge arrangement. Mr. Chen negotiated the terms of the Pledge Contracts impartially.

Under the proposed pledge arrangement, Xinming Group would receive 2% of the guaranteed amount of the Pledge Contracts as guarantee fee from Zhejiang Muzi, which was considered to be a relatively high return given the short term under the Pledge Contracts (i.e. approximately 3 months). With an aim to maximize the profit of the Company and considering that there would be no any change to the Company's current financial position, Mr. Chen decided to enter into the Pledge Contracts on behalf of Xinming Group.

REASONS AND BENEFITS OF ENTERING INTO THE PLEDGE CONTRACTS

The return of 2% in approximately 3 months was considered to be a relatively high return. Further, the subject of the pledge under the Pledge Contracts were the certificates of deposits which the Company originally placed with Wenzhou Bank. The certificates of deposits were still kept by Wenzhou Bank before and after the pledge. Therefore, given the absence of a material impact on the Company's cash flow and the intended high monetary return, it is considered that the entering into of the Pledge Contracts would be in the interests of the Company and the shareholders as a whole.

TERMINATION OF THE PLEDGE CONTRACTS

Under the agreed pledge arrangement, Zhejiang Muzi should pay half of the guarantee fee (i.e. 1% of the guarantee amount) as upfront payment to Xinming Group by 28 December 2018. However, after signing the Pledge Contracts, such payment was not made by Zhejiang Muzi by the end of 28 December 2018. As Mr. Chen was concerned that the potential risks associated with the Pledge Contracts may not have been fully and adequately considered, he promptly notified Wenzhou Bank and Zhejiang Muzi on 29 December 2018 that Xinming Group would like to terminate the Pledge Contracts. Due to the intervening holiday and that the responsible manager of Wenzhou Bank was on leave that few days, the Pledge Contracts were terminated on 2 January 2019.

Given that the transaction had ended in a very short period of time without any adverse impact on the stability of the Company's finance, and since he considered that the Pledge Contracts did not constitute a transaction involving physical transfer or disposal of assets, Mr. Chen did not report the transaction and its termination to the Board.

During the recent preparation of the annual audit report of the Company, the Company's auditors noticed the pledge from the bank's confirmation letter, and that the Company did not disclose this transaction in compliance of the Listing Rules. The Board was then informed of the incident regarding the Pledge Contracts on 19 March 2019.

INFORMATION OF THE PARTIES

The Company, together with its subsidiaries, is an integrated residential and commercial property developer.

Xinming Group is an investment holding company.

Wenzhou Bank is a commercial bank established under the approval by the China Banking Regulatory Commission in the PRC.

Zhejiang Muzi mainly engaged in the business of online sales (daily necessities, cultural and sports goods, metallic hardware, construction materials, household appliances, water-based paints, teaching instruments, instruments and meters).

IMPLICATIONS OF THE LISTING RULES

As one or more of the relevant percentage ratio according to Rule 14.07 of the Listing Rules in respect of the Pledge Contracts is higher than 25%, the relevant transaction, before termination, constituted a major transaction of the Company, which was originally required to comply with the requirements of the Listing Rules relating to notices, announcements, circulars and shareholders' approvals. However, the Company did not timely comply with the relevant requirements.

To the best knowledge, information and belief of the directors of the Company, Zhejiang Muzi and Wenzhou Bank are third parties independent of the Company.

The Company acknowledges that it did not comply with the requirement relating to notices, announcements, circulars and shareholders' approvals in respect of the Pledge Contracts, which would constitute non-compliance of Rules 14.34, 14.38A, 14.40 and 14.41 of the Listing Rules.

The Pledge Contracts were in fact terminated shortly after being signed. The certificates of deposits pledged have all been returned to Xinming Group and therefore no adverse impact has been caused to the Company.

REMEDIAL MEASURES

After being aware of such incident and as disclosed in the Announcemnet, the Company has promptly taken remedial measures, including making an announcement to disclose the incident, conducting investigation and reviewing the internal control system of the Company. Further information of some of the measures is stated below.

The scope of work of the special investigation committee would include (but not limited to):

- (a) conducting interview with the management team relating to the incident to gain further knowledge on the Pledge Contracts;
- (b) conducting interview with Wenzhou Bank so as to understand the arrangement of the Pledge Contracts;
- (c) performing company searches on Zhejiang Muzi and collecting background information including shareholding, company structure and principal business;
- (d) collecting and reviewing documents relating to the incident;
- (e) analyzing the background, the reason and the impact of the incident;
- (f) reviewing the result of the self-inspection conducted by the Company's finance department, such self-inspection is for checking whether there is any similar incident and is expected to be completed by the end of April 2019;

- (g) reviewing the results of the internal control review conducted by AVISTA PRO-WIS Risk Advisory Limited, and following up with the implementation of any suggested measures;
- (h) any other appropriate actions to enhance the internal control of the Company.

The work above except item (g) is expected to be completed by mid-June 2019. It is expected that item (g) will be completed by mid-August 2019.

AVISTA PRO-WIS Risk Advisory Limited (“Avista”) has been engaged to review the Company’s internal control. The scope of work of Avista would include interviewing the management of the Company, gathering information about the operation of the Company, observing the implementation of the internal control system, identifying any deficiencies in the internal control system and making suggestions to rectify the same (if applicable).

Avista will compile an initial review report within 2 months from the commencement date of the internal control review. After the implementation of the remedial actions by the Company, it plans to take 1 to 1.5 months to perform the follow-up review for the deficiencies as identified in the initial review.

DEFINITION

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

“Board”	the board of Directors of the Company
“Company”	Xinming China Holdings Limited, a company incorporated in the Cayman Islands with limited liability whose shares are listed on the Stock Exchange (Stock Code: 2699)
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Chen”	Mr. Chen Chengshou, chairman of the Board
“Pledge Contracts”	7 pledge contracts entered into between the Company and Wenzhou Bank from 26 December 2018 to 28 December 2018
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Wenzhou Bank”	Hangzhou branch of Bank of Wenzhou Co., Ltd.* (溫州銀行股份有限公司杭州分行)

“Xinming Group”	Xinming Group Holding Limited, a limited liability company established in accordance with PRC laws, and a wholly-owned subsidiary of the Company
“Zhejiang Muzi”	Zhejiang Muzi Trading Company Limited (浙江木子貿易有限公司), a limited liability company incorporated in the PRC
%	percent

By order of the Board
Xinming China Holdings Limited
Chen Chengshou
Chairman and Chief Executive Director

Hong Kong, 15 April 2019

As at the date of this announcement, the executive Directors are Mr. Chen Chengshou and Mr. Feng Cizhao; the non-executive Director is Ms. Gao Qiaoqin; and the independent non-executive Directors are Mr. Fong Wo, Felix, Mr. Gu Jiong and Mr. Lo Wa Kei, Roy.