

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



China Uptown Group Company Limited

中國上城集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2330)

KEY FINDINGS OF THE INDEPENDENT FORENSIC INVESTIGATION AND QUARTERLY UPDATE ON RESUMPTION PROGRESS

This announcement is made by China Uptown Group Company Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) pursuant to Rules 13.09(2)(a) and 13.51(4) of the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) and the inside information provisions under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong).

Reference is made to the announcements of the Company dated 28 January 2022, 28 March 2022, 29 March 2022, 29 April 2022, 20 May 2022, 26 May 2022, 1 August 2022, 17 August 2022, 19 August 2022, 31 August 2022, 5 September 2022 and 9 September 2022 (the “**Previous Announcements**”) in relation to, among other matters, (i) the appointment of the Independent Forensic Consultant; (ii) the delay in publication of annual results for the year ended 31 December 2021; (iii) the receipt of the resumption guidance from the Stock Exchange; (iv) the resignation of auditor; (v) resumption guidance for trading of shares in the Company; (vi) the formation of the independent investigation committee; (vii) the quarterly update on resumption process and (viii) the appointment of new auditor. Capitalised terms used herein shall have the same meanings as defined in the Previous Announcements unless otherwise stated herein.

BACKGROUND

Certain bank accounts of two of the Group’s subsidiaries, Maoming Huada Real Estate Development Limited* (茂名市華大房地產開發有限公司) (“**Maoming Huada**”) and Maoming Shang Cheng Real Estate Company Limited* (茂名上誠置業有限公司) (“**Maoming Shang Cheng**”) (collectively, the “**Maoming Subsidiaries**”) were frozen in January 2022. With the recommendation from the then auditors of the Company, the then members of the Board had engaged the Independent Forensic Consultant to conduct the Investigation into the incident of freezing of Bank Accounts.

Due to the delay in publication of the 2021 Audited Annual Results, trading in the Shares on the Stock Exchange was suspended with effect from 9:00 a.m. on 27 May 2022, pending the publication of the 2021 Audited Annual Results and the 2022 Interim Results.

The Investigation had been completed, and the Company received an independent forensic investigation report (the “**Investigation Report**”) from the Independent Forensic Consultant on 27 September 2022. The former auditors of the Company had concerns in relation to a number of alleged unauthorized payments made between 1 January 2021 and 28 February 2022 totaling approximately RMB143 million (the “**Alleged Unauthorized Payments**”) which are covered in the Investigation, and details of the Investigation Report are set out as follows:

SUMMARY OF KEY FINDINGS OF THE INVESTIGATION

The Company sets out the key findings of the Investigation together with the view of the Independent Investigation Committee and the Board below.

Freezing of the Bank Accounts

An associate of the former executive Directors (the “**Subject Party**”) was under investigation by the Security Bureau of Zhangjiang City (“**Security Bureau**”) after being reported to have allegedly committed loan fraud by the Bank. The Security Bureau, for prudence sake, temporarily froze all assets that may possibly be related to the Subject Party, including the Bank Accounts of the Maoming Subsidiaries.

Pursuant to the legal opinion issued by the PRC legal adviser dated 28 March 2022 the Subject Party is under investigation by the Security Bureau however the subject of investigation by the Security Bureau does not include the Maoming Subsidiaries.

The responsible officer sent by the Bank to monitor the Bank Accounts has expressed that the Maoming Subsidiaries operated legally and were not involved in any illegal operations or illegal activities, and there was no evidence as shown in the Industrial and Commercial Register that the Maoming Subsidiaries have any relationship with the Subject Party. The Bank Accounts have been unfrozen since 9 March 2022 upon entering into the Custodian Agreement between the Maoming Subsidiaries and the Bank, the Bank Accounts have since then been operated jointly by the Bank and the Maoming Subsidiaries which requires approval by the Bank according to the terms of the Custodian Agreement. Normal operational transfer of funds in the Bank Accounts have been approved by the Bank to ensure the normal operation of business of the Maoming Subsidiaries.

The Alleged Unauthorized Payments

The Independent Forensic Consultant conducted a sample document inspection of Maoming Shangcheng and Maoming Huada by checking a sample of 28 payment transactions from the Bank Accounts which took place between 1 January 2021 to 28 February 2022 (the “**Transactions Sample**”) and discovered that 14 of the Transactions Sample involving a total sum of RMB142.85 million, lack proper approval or supporting documentation, including transactions in relation to:

- (i) short-term loans and repayments in the sum of RMB98 million to third parties for the purpose of obtaining proof of funds for construction project permits (the “**Short-Term Loans**”);
- (ii) repayment of loans in the sum of RMB24 million to third-party from Maoming Huada (the “**Repayments**”), the Repayments include a repayment of director’s loan in the amount of RMB14 million advanced by the former chairman of the Company (the “**Former Chairman**”);
- (iii) payments of RMB15.85 million to contractors or suppliers by the Maoming Subsidiaries (“**Payments to Contractors/ Vendors**”); and
- (iv) a loan of RMB5 million by Maoming Huada to one of its minority shareholders (“**Loan to Minority Shareholder**”).

Reasons for the Alleged Unauthorized Payments

Short-Term Loans

The Short-Term Loans are for the purpose of obtaining bank fund proof for the application of construction permits. All the Short-Term Loans were interest free and settled within two weeks. No loan agreement was signed.

RMB48 million were short-term loans provided by third parties companies/individuals to assist Maoming Shang Cheng to obtain fund proof from banks. The sum of RMB48 million was fully repaid to the lenders after obtaining the proof of fund within two weeks. Meanwhile, a short-term loan of RMB50 million was provided by the Maoming Subsidiaries to assist a third-party company obtaining bank fund proof. The said RMB50 million was repaid to the Maoming Subsidiaries in one week’s time.

The finance department of the Maoming Subsidiaries did not obtain the written approval of the shareholders and/or the board of directors of the Company before executing the transactions. Accordingly, the Short-Term Loans did not comply with the internal payment policy of the Maoming Subsidiaries.

Repayments

Among the Repayments, RMB10 million was a repayment of loan to a supervisor of Maoming Shang Cheng. No loan agreement was signed.

Included in the Repayments, there was a loan of HK\$17.9 million provided by the Former Chairman to the Company and one of its subsidiaries for general working capital of the Group during the period from June 2021 and December 2021, and no loan agreement was signed. There was no fixed term nor any agreed interest for the loan. In December 2021, the Former Chairman orally instructed the repayment of the loan in a sum of RMB14 million to be repaid to third-party personal accounts designated by him in the PRC. The Repayments were not properly reflected in the accounting entries and records.

Payments to Contractors/Vendors

Among the Payments to Contractors/Vendors:

- (i) RMB10 million was construction progress payment to one of the contractors of Maoming Shang Cheng. The relevant construction contract has been submitted for approval by the board of directors of the Company;
- (ii) another RMB5 million was construction progress payment to a minority shareholder of Maoming Shang Cheng, who holds 20% equity interest in Maoming Shang Cheng through a corporation in which he owns 50% equity interest, however there was no supporting document for the construction progress payment; and
- (iii) the remaining RMB0.85 million was a temporary loan to a contractor for paying salaries of the workers. However, there was no written loan agreement. The said loan has been approved by the board of directors of Maoming Shang Cheng, but the relevant signatures for approval were missing.

Loan to Minority Shareholder

The loan of RMB5 million to a minority shareholder of Maoming Huada was interest-free and no loan agreement was signed. The loan was repaid in full in 2021. The minority shareholder of Maoming Huada is a third party interested in 10% equity interest in Maoming Huada.

VIEWS OF THE INDEPENDENT INVESTIGATION COMMITTEE

Having considered the Investigation Report, the Independent Investigation Committee noted that the freezing of the Bank Accounts was primarily caused by the investigation of the Subject Party, not the Maoming Subsidiaries, by the Security Bureau and there were potential unauthorized transactions in relation to the Maoming Subsidiaries in the past.

In view of the above, the Independent Investigation Committee is of the view that the findings of the Investigation revealed concerns in the Company's corporate governance and internal control system.

After due and detailed discussion, the Independent Investigation Committee is of the view that the content and findings in the Investigation Report are reasonable and acceptable. Accordingly, the Independent Investigation Committee has recommended to the Board to adopt the findings of the Investigation, also to undertake an internal control review to improve and strengthen the Group's internal control system and policies particularly in relation to notifiable and connected transactions under the Listing Rules.

OVERALL RESPONSES OF THE BOARD

The Board has reviewed the Investigation Report and considers that the Investigation Report has addressed the issues causing additional audit procedures being required for the audit of the 2021 Audited Annual Results. The Board has also reviewed the recommendations made by the Independent Investigation Committee and concurs with the view of the Independent Investigation Committee that the freezing of the Bank Accounts was primarily caused by the investigation of the Subject Party, not the Maoming Subsidiaries, by the Security Bureau and that there were potential unauthorized transactions in relation to the Maoming Subsidiaries in the past.

The Board noted that no money was lost on the Alleged Unauthorized Payments notwithstanding there is deficiency in the internal control systems of the Group which is of concern to the Board. The Board concurs with the Independent Investigation Committee's observations that the Group's internal control mechanisms need to be strengthened.

The Board has resolved to adopt forthwith the findings of the Investigation and the other recommendations of the Independent Investigation Committee mentioned above and is of the view that the issues identified in the Investigation Report do not affect the business operation of the Group.

REMEDIAL ACTIONS TAKEN BY THE BOARD

The Board has appointed an internal control consultant to review the internal control policies of the Group. Further announcement(s) will be made by the Company to update shareholders and investors on further developments of the internal control review.

QUARTERLY UPDATE ON RESUMPTION PROGRESS

Update on Business Operations of the Group

The Company is an investment holding company. The principal activities of the Group are (i) property development and investment; and (ii) trading of raw sugar. There had been no revenue from trading of raw sugar during the financial year ended 31 December 2021 as the global market of raw sugar remained volatile due to the COVID-19 outbreak. The management of the Group will continue to take extra precautions to mitigate relevant business risks.

The business operations of the Group as a whole have operated as usual in all material respect.

The Resumption Guidance, the Company's Resumption Plan and the Expected Timeline in fulfilling Resumption Guidance

Below is the Resumption Guidance of the Stock Exchange and the Company's resumption plan with details of actions that the Company has taken or intends to take as well as the expected timeframe in fulfilling the Resumption Guidance to resume trading in the Shares:

	Resumption Guidance	Update on resumption progress and the expected timeline
(i)	Publish all outstanding financial results required under the Listing Rules and address any audit modifications;	<p>The Company has appointed McMillan Woods (Hong Kong) CPA Limited ("McMillan Woods") as the new auditor of the Company with effect from 9 September 2022 to fill the casual vacancy following the resignation of Deloitte and to hold office until the conclusion of the next general meeting of the Company</p> <p>McMillan Woods is in the process of preparing the audit of the 2021 Audited Annual Results, the Company will publish further announcement(s) to inform the shareholders the progress of the publication of the 2021 Annual Results and the 2022 Interim Results as and when appropriate.</p>
(ii)	Conduct an independent forensic investigation into the issues causing additional audit procedures being required for the audit of the Group's 2021 Audited Annual Results, assess the impact on the Company's business operation and financial position, announce the findings and take appropriate remedial actions;	The Investigation has been completed, details are set out above.
(iii)	Demonstrate that there is no reasonable regulatory concern about management integrity and/or the integrity of any persons with substantial influence over the Company's management and operations, which may pose a risk to investors and damage market confidence;	The Company will take appropriate actions and measures as soon as practicable to ensure that there is no reasonable regulatory concern about the management integrity, and/or the integrity of any persons with substantial influence over the Company's management and operations.

(iv)	Conduct an independent internal control review and demonstrate that the Company has in place adequate internal controls and procedures to meet its obligations under the Listing Rules;	The Company has appointed an independent internal control consultant to review the internal control systems of the Group and it is expected that the internal control review and implementation of measures to improve the internal control systems of the Group will be completed by the end of January 2023.
(v)	Demonstrate the Company's compliance with Rule 13.24 of the Listing Rules; and	The business operations of the Group have operated as usual in all material respects.
(vi)	Inform the market of all material information for the Company's shareholders and investors to appraise the Company's position.	<p>Since the suspension of trading in the Shares on 27 May 2022, the Company has kept its shareholders and potential investors informed of all material information in relation to the Investigation, the Resumption Guidance and any relevant updates and progress by way of announcements.</p> <p>The Company will continue to keep its shareholders and potential investors abreast of any relevant material development by making further announcement(s) as and when appropriate in accordance with the requirements under the Listing Rules.</p>

CONTINUED SUSPENSION OF TRADING

At the request of the Company, trading in the shares of the Company on the Stock Exchange has been suspended with effect from 9:00 a.m. on 27 May 2022 and will remain suspended until further notice.

The Company will make further announcement(s) to keep its shareholders and potential investors informed of any progress on the fulfilment of the Resumption Guidance as and when appropriate.

By order of the Board
China Uptown Group Company Limited
Pan Shimin
Chairman

Hong Kong, 31 October 2022

As at the date of this announcement, the executive Directors are Mr. Pan Shimin, Mr. Chen Xian, Mr. Cheng Chi Kin and Mr. To Kwan; and the independent non-executive Directors are Mr. Yau Sze Yeung, Mr. Chen Weijiang and Mr. Lee Chun Tung.