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## **KEY FINDINGS OF INTERNAL CONTROL REVIEW**

This announcement is made by China Uptown Group Company Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) pursuant to Rule 13.09(2)(a) 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).

References are made to the announcements of the Company (i) dated 29 March 2022, 29 April 2022, 20 May 2022, 26 May 2022, 19 August 2022 and 31 August 2022 in relation to, among other matters, the delay in publication of annual results for the year ended 31 December 2021, delay in dispatch of 2021 Annual Report, postponement of board meeting and delay in the publication of interim results for the six months ended 30 June 2022; (ii) dated 1 August 2022 in relation to, among other things, the resumption guidance (the “**Resumption Guidance**”) for the trading of shares in the Company; (iii) dated 5 September 2022, 31 October 2022 and 29 November 2022 and 24 February 2023 in relation to, among others, quarterly update on resumption progress, (iv) dated 17 March 2023 in relation to the audited annual results of the Group for the year ended 31 December 2021, (v) dated 24 March 2023 in relation to the unaudited interim results of the Group for the six months ended 30 June 2022, and (vi) dated 31 March 2023 in relation to the Annual Results for the year ended 31 December 2022 (collectively, the “**Announcements**”).

Capitalised terms used herein shall have the same meanings as defined in the Announcements unless otherwise stated herein.

## **BACKGROUND**

On 27 July 2022, the Company received a letter from the Stock Exchange setting out the Resumption Guidance, one of which requires the Company to conduct an independent internal control review (“**IC Review**”) and demonstrate that the Company has in place adequate internal controls and procedures to meet its obligations under the Listing Rules.

In order to fulfil such resumption guidance, the Company engaged BT Corporate Governance Limited as its independent internal control consultant (“**IC Consultant**”) on 26 October 2022 to conduct IC Review and to prepare a report on the IC Review findings (“**IC Review Report**”).

## **SCOPE OF IC REVIEW**

The IC Consultant conducted an IC Review on the internal controls and procedures of the Group from 24 October 2022 to 17 February 2023. The scope of the IC Review covered the following aspects and operating cycles of the Group:–

- (i) the overall corporate governance environment;
- (ii) funds and bank accounts management cycle;
- (iii) financial management cycle;
- (iv) project tender management cycle;
- (v) project budget management cycle;
- (vi) project progress monitoring cycle;
- (vii) pre-sale, sales and collection cycle;
- (viii) property leasing management cycle;
- (ix) procurement, payment and expenses management cycle;
- (x) fixed assets management cycle;
- (xi) human resources and payroll management cycle;
- (xii) financial reporting and information disclosure procedures cycle; and
- (xiii) information system risk management cycle

## **METHODOLOGY AND PROCEDURE OF IC REVIEW**

The IC Consultant undertook the following procedures and methodology in relation to the IC Review:–

- (i) reviewing the Investigation Report and conducting review on internal controls and procedures of the Group, in particular its payment approval and procurement policies;
- (ii) obtaining relevant financial and operational information from the Group regarding the current procedures, systems and monitoring measures as per the corporate policies and procedures;
- (iii) raising enquiries to the management and/or the relevant personnel to ascertain the current procedures, systems and monitoring measures adopted by the Group;
- (iv) identifying whether the key procedures, systems and monitoring measures adopted by the Group are in compliance with the Listing Rules;
- (v) carrying out walk-through test on the key procedures, systems and monitoring measures adopted by the Group to confirm the IC Consultant’s understanding of the Group’s internal control system;
- (vi) performing system review and conducting compliance testing on the key procedures, systems and monitoring measures adopted by the Group to verify the effectiveness of the design and implementation of the internal control system; and
- (vii) putting forward recommendations to improve effectiveness and efficiency of the Group’s key procedures, systems and monitoring measures in view of the abovementioned review and test results.

## **COMPLETION OF THE IC REVIEW**

The Board is pleased to announce that it has taken action to address the findings and implement the recommendations made by the IC Consultant. The IC Consultant has accordingly issued the IC Review Report following the follow-up assessment of the remedial measures implemented by the Group.

## **KEY FINDING OF THE IC REVIEW**

The following is a summary of the key findings and respective remedial actions taken by the Group:–

### **A. Deficiencies in the Payment Approval Policy of the Group**

#### *Major Findings*

- (i) During the IC Review, the IC Consultant discovered that the payment approval system could not adequately safeguard the interest of the Group. As for Maoming Huada, the level of payments requiring the approval of the Company's Board is set at RMB10 million, which is a relatively high threshold. During the financial year of 2022, in view of the incident of freezing of the Maoming Subsidiaries' bank accounts and the subsequent signing of the Custodian Agreement with the Bank by Maoming Huada, Maoming Huada did not have any transactions with third parties exceeding RMB10 million. Thus, no sample was available for the IC Consultant to confirm the implementation status of the abovementioned policies. According to the transactions history of the Group in the financial year of 2021, the fund movement transactions of the current account of the Group ranged from several millions to tens of millions of RMB. Hence, the high threshold set at RMB10 million was not able to cover part of the payments and/or loan transactions with third parties so as to protect the interest of the Group. In the absence of a comprehensive loans and payments approval policy, the relevant operating units of the Group have no means to ensure that all funds were used in the best interest of the Group.
  
- (ii) Furthermore, the IC Consultant discovered that the Group did not have a set of comprehensive internal control procedures regarding approval and disclosure requirements per Chapter 14 – Notifiable Transactions of the Listing Rules.

#### *Recommendations*

The IC Consultant recommended the Group to:–

- (i) establish a set of comprehensive loans and payments approval policy, circulate such policy to all employees and ensure that the same is strictly implemented;

- (ii) lower the threshold for loans and payments requiring the Company's board approval to RMB5 million;
- (iii) properly maintain all payment approval documents for future review; and
- (iv) prepare a written internal control manual for the approval and disclosure requirements per Chapter 14 – Notifiable Transactions of the Listing Rules and consult independent legal and compliance advisers whenever the Group engages in major transactions to ensure its compliance with the Listing Rules.

*Company's Response and Remedial Status*

- (i) The Group has adopted the IC Consultant's recommendations and revised its "Financial and Management Policy" ("**Updated Approval Policy**"). Pursuant to the Updated Approval Policy:–
  - (a) all payment transactions to third parties exceeding RMB5 million shall be approved by the Board of the Company;
  - (b) all payments to connected parties of the Group, regardless of the amount, must be approved by the Board of the Company; and
  - (c) all loans, borrowing or payments which are not in the ordinary course of business of the Company, regardless of the amount and the identity of the counterparty, must be approved by the Board of the Company.
  - (d) The Group has prepared an internal control manual regarding its continuous disclosure responsibilities, which specifies the principles and procedures for disclosure as per Chapter 14 – Notifiable Transactions of the Listing Rules. Moreover, the Group has also maintained a connected party list which has been circulated to all relevant staff, and the connected party list shall be updated regularly.

## **B. Lack of Written Approval and Supporting Documents for Payments to Connected Parties**

### *Major Findings*

The IC Consultant was informed that during the period when the bank accounts of the Maoming Subsidiaries were frozen, the Company's operating units provided cash loans to the Maoming Subsidiaries to support their daily operating expenses. Among 20 sample cash loans, 5 of them lacked the requisite approval documentation. Under such circumstance, it would be difficult for the Company to verify whether the cash loans have been properly approved.

### *Recommendations*

The IC Consultant recommended the Company to compile a written policy for approval of connected transactions. All applicants for payments to connected parties must fill out a payment request form which shall be approved in writing by designated personnel of the Company. The relevant personnel shall keep the payment request form and other supporting documents as records for future review purposes.

### *Company's Response and Remedial Status*

The Company has adopted the IC Consultant's recommendation to compile a Connected Transaction Manual and Guideline, which stipulates the definition, the approval mechanisms and procedures for connected transactions.

## **C. Lack of Internal Control Policies regarding Connected Transactions**

### *Major Findings*

During the IC Review period, the IC Consultant did not discover any transaction between the Company and connected party. Nonetheless, the IC Consultant discovered that the Company did not have any connected transaction policy nor a list of connected parties. Without such policy, it is difficult for the management of the Company to identify connected transactions, which may increase the risk of violating the Listing Rules.

### *Recommendations*

The IC Consultant recommended the Company to prepare a connected transaction policy and a list of connected parties pursuant to the requirements of the Listing Rules. The said list shall include details of all connected parties to the Company, comprising the company names, business types, legal representative, place of incorporation, authorised capital, principal business, shares and equity held by the Company and its management. The list of connected parties shall be updated regularly, i.e. quarterly, by designated personnel, approved by the management and circulated to all employees for reference.

### *Company's Response and Remedial Status*

The Company has adopted the IC Consultant's recommendation to compile a Connected Transaction Manual and Guideline and a List of Connected Parties, which would be updated by the Company's Company Secretary in a timely manner.

## **D. Deficiencies in the Procurement and Price Comparison Procedures**

### *Major Findings*

- (i) Further to the existing procurement policy of the Company, the procurement assistant would obtain fee quotation from at least two suppliers within the List of Qualified Suppliers, Outsourcers and Contractors. The procurement assistant should then conduct a price comparison analysis; while the general assistant manager and general manger would approve the choice of supplier. Subsequently, the procurement assistant would place order with the selected supplier.
- (ii) However, during the IC Review, the IC Consultant discovered that among the five procurement and payment samples, three of which lacked the quotations of unsuccessful suppliers. Also, among the two procurement-to-payment samples, all of which lacked written records of price comparison analysis conducted by the procurement assistant.

### *Recommendations*

The IC Consultant recommended that the relevant operating units of the Company shall obtain written fee quotation from more than one supplier. The procurement assistant shall prepare price comparison tables, submit to the same to designated personnel for approval and keep the fee quotation documentation for record.

### *Company's Response and Remedial Status*

The Company adopted the IC Consultant's recommendation and enhanced its procurement and price comparison procedures:–

- (i) The procurement assistant would obtain fee quotations from at least two qualified suppliers and conduct price comparison analysis. The general assistant manager and the general manger would then review the same and approve the suitable supplier. The fee quotations of all suppliers, including the unsuccessful suppliers, should be retained by the procurement department for record; and
- (ii) The procurement assistant must compile a price comparison analysis in support of every procurement decision. If only one supplier's fee quotation can be obtained, the procurement assistant shall explain the reasons for the same. The price comparison analysis together with all suppliers' quotations would be circulated to the head of the department making procurement applications, the general assistant manager and the general manager for approval.

## **VIEWS OF THE AUDIT COMMITTEE AND THE BOARD**

Having considered the IC Review Report and the remedial action taken by the Group, the Audit Committee and the Board of the Company are of the view that the remedial measures implemented by the Group are adequate and sufficient to address the key findings of the IC Review Report and the updated loans and payments approval system can facilitate the Group to prevent similar incidents, i.e. the freezing of bank accounts, from happening in the future. As such, the Board is of the view that the Company has now in place an adequate and effective internal control systems to comply with its obligations under the Listing Rules.



## **CONTINUED SUSPENSION OF TRADING OF SHARES OF THE COMPANY**

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, 21 April 2023

*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.*