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Mingfa Group (International) Company Limited

明發集團（國際）有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 00846)

SUMMARY OF KEY FINDINGS OF INDEPENDENT FORENSIC INVESTIGATION, UPDATE ON RECENT DEVELOPMENT OF SUSPENSION OF TRADING AND DELAY IN PUBLICATION OF OUTSTANDING FINANCIAL STATEMENTS AND REPORTS

References are made to the announcements of Mingfa Group (International) Company Limited (the “**Company**”, which together with its subsidiaries, the “**Group**”) dated 31 March 2016, 1 April 2016, 22 April 2016, 3 May 2016, 27 May 2016, 10 June 2016, 29 July 2016, 31 August 2016, 3 October 2016, 1 November 2016, 2 December 2016, 3 January 2017, 27 January 2017, 2 March 2017, 3 April 2017, 2 May 2017, 2 June 2017, 3 July 2017, 3 August 2017, 18 August 2017, 18 September 2017, 18 October 2017, 14 December 2017, 26 January 2018, 19 March 2018, 30 April 2018, 31 May 2018, 28 June 2018, 20 July 2018, 1 August 2018, 31 August 2018, 10 October 2018, 3 December 2018, 2 January 2019, 1 February 2019 and 28 February 2019 (collectively the “**Announcements**”). References are also made to the circular of the Company dated 1 February 2019 and the poll results announcement of the Company dated 6 March 2019 (the “**Poll Results Announcement**”) in relation to, among other matters, the annual report of the Company for the financial year ended 31 December 2015 (the “**2015 Annual Report**”), the re-election of directors of the Company (the “**Directors**”) and the appointment of BDO Limited (the “**Current Auditor**”) as the auditor of the Company following the retirement of PricewaterhouseCoopers (the “**Former Auditor**”) as the former auditor of the Company.

INDEPENDENT FORENSIC INVESTIGATION

By way of this announcement and in fulfilment of one of the Resumption Conditions (as defined below) imposed on the Company by the Stock Exchange regarding conducting an appropriate investigation on the matters identified by the Former Auditor and disclosing the findings of the investigation, the board of Directors (the “**Board**”) of the Company wishes to update the shareholders of the Company (the “**Shareholders**”) and the investing public on, among other matters, the progress of the Investigation up to the date of this announcement and set forth the summary of the key findings of the Investigation carried out by the Independent Forensic Investigator (as defined below).

Capitalised terms used in this announcement shall have the same meanings as defined in the Announcements unless otherwise defined herein. In particular, with the change in members of the audit committee of the Board since the publication of the 2015 Annual Results Announcement (as defined below) of the Company, the defined term “**Audit Committee**” in this announcement refers to the audit committee of the Board comprising such independent non-executive Directors of the Company at the material time. In this regard, please refer to (i) the announcement dated 4 September 2018 of the Company regarding the resignation of two former independent non-executive Directors with effect from 30 August 2018 and 1 September 2018 respectively, the appointment of two new independent non-executive Directors with effect from 1 September 2018 and the corresponding updates on the composition of the three Board committees of the Company including the new composition of the Audit Committee; and (ii) the Poll Results Announcement and the updated list of Directors announced by the Company on 6 March 2019. As at the date of this announcement, the Audit Committee of the Board comprises the three existing independent non-executive Directors. Shareholders and the investing public should note the difference in the composition of the Audit Committee prior to 1 September 2018, during the period from 1 September 2018 to 6 March 2019, and since 6 March 2019.

Meanwhile, to facilitate an easier comprehension by the Shareholders and the investing public of the incidents and matters disclosed in this announcement, the term “**Company**” is nevertheless used even if the entity(ies) involved in the relevant incidents and matters in respect of the Investigation was/were another member(s) of the Group.

1. BACKGROUND

1.1. Former Auditor’s disclaimer of opinion on consolidated financial statements of the Company for the year ended 31 December 2015

On 17 March 2016, the Former Auditor informed the Audit Committee at the time that the Former Auditor had doubts about certain equity transfer and sale transactions of the Company, as well as a number of issues relating to the nature of fund flow between the Group and certain other companies.

On 31 March 2016, the Company issued an announcement (the “**2015 Annual Results Announcement**”) relating to, among other matters, the consolidated financial statements of the Company for the year ended 31 December 2015. As disclosed in the 2015 Annual Results Announcement, the Former Auditor did not express an audit opinion (the “**Disclaimer of Opinion**”) on the consolidated financial statements of the Company for the year ended 31 December 2015 as a result of certain matters (collectively the “**Audit Matters**”) as follows:

- (a) the proposed sale of 51% equity interests in a subsidiary of the Company, namely Mingfa Group (Tianjin Binhai New District) Real Estate Development Co. Ltd.* (明發集團(天津濱海新區)房地產開發有限公司) (the “**Tianjin Subsidiary**”), pursuant to an equity transfer contract dated 20 December 2014 (the “**Audit Matter I**”);
- (b) certain property sales transactions which involved:
 - (i) the sales of use rights of eight units of properties in Xiamen Mingfa Harbour Resort* (廈門明發海灣度假村) (“**Xiamen Mingfa Harbour Resort**”), a property project of the Company, to the ultimate controlling shareholders of the Company and their close family members (the “**Audit Matter II(i)**”);
 - (ii) the transfer of use rights of 42 units of properties in Xiamen Mingfa Harbour Resort to the sub-contractor of two main contractors engaged by the Company for its three (3) property projects locating in the cities of Nanjing (南京) and Hefei (合肥) of the People’s Republic of China (the “**PRC**” or “**China**”) (the “**Audit Matter II(ii)**”); and
- (c) certain cash payments and receipts of the Group without supporting documents (the “**Audit Matter III**”, which is further elaborated into “Audit Matter III(i)” and “Audit Matter III(ii)” in paragraph 3.2(d) below).

Further details noted by the Former Auditor in respect of the abovementioned Audit Matters were set forth under the section headed “Extract of Independent Auditor’s Report on the Company’s Consolidated Financial Statements for the Year Ended 31 December 2015 — Basis of Disclaimer of Opinion” of the 2015 Annual Results Announcement. Reference can also be made to the Former Auditor’s report dated 31 March 2016 which is contained in the 2015 Annual Report. As set forth in the 2015 Annual Results Announcement and correspondingly in the 2015 Former Auditor’s Report, it was the opinion of the Former Auditor that in all other respects, the consolidated financial statements of the Group for the aforementioned period were properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance (Chapter 662 of the Laws of Hong Kong).

1.2. Suspension of trading of shares of the Company

At the request of the Company, trading in the shares of the Company (the “**Shares**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) has been suspended with effect from 1 April 2016.

1.3. Conditions for resumption of trading

On 29 April 2016 and 27 July 2018, the Stock Exchange issued the respective letters informing the Company of the following conditions (collectively the “**Resumption Conditions**”) which the Company must satisfy before it is allowed to resume trading:

- (a) conduct an appropriate investigation on the matters identified by the Former Auditor, disclose the findings of the Investigation, assess the impact on the Company’s financial and operational positions, and take appropriate remedial actions;
- (b) address the audit qualifications on the consolidated financial statements of the Company for the year ended 31 December 2015;
- (c) inform the market of all material information for the shareholders and the investors to appraise the Group’s position; and
- (d) publish all outstanding financial results and address any audit modifications.

Should future development necessitate, the Stock Exchange may modify or impose further conditions.

1.4. Engagement of Independent Forensic Investigator to conduct the Investigation

In light of the Disclaimer of Opinion and the Audit Matters, the Audit Committee comprising all the independent non-executive Directors of the Company at the time engaged an independent professional firm to act as the independent forensic investigator (the “**Independent Forensic Investigator**”) to conduct an independent investigation into the Audit Matters (the “**Investigation**”) pursuant to the engagement letter entered into between the Audit Committee at the time and the Independent Forensic Investigator on 30 March 2016. The scope of the Investigation was determined by the Audit Committee comprising the independent non-executive Directors at the time in consultation with the Former Auditor. The objectives of the Investigation were:

- (a) to identify the background, transaction arrangements, fund flows and personnel involved in the equity transfer transactions, sales transactions and other company fund flows as referred to in the Audit Matters; and
- (b) to identify the relations between the third parties involved in the Audit Matters and the Company.

2. THE INVESTIGATION

2.1. The Investigation Report

On 23 March 2019, the final draft of the report of the Investigation (the “**Investigation Report**”) was produced by the Independent Forensic Investigator. In the Investigation Report, the Independent Forensic Investigator has stated that the report is intended for use by the Audit Committee in understanding the Audit Matters and the report sets forth the procedures, limitations and related findings up to the date of the Investigation Report, which are summarised in the paragraphs below. The Independent Forensic Investigator also stated that in the Investigation, they did not comment or suggest any accounting treatments of the Company, nor did the Independent Forensic Investigator assess the impact of the result of the Investigation on the Company’s financial statements.

2.2. Procedures executed by Independent Forensic Investigator and use and limitations of Investigation Report

Procedures executed by Independent Forensic Investigator

In conducting their Investigation, the Independent Forensic Investigator had executed the following procedures:

- (a) discussing the background of the Audit Matters with the Former Auditor;
- (b) collecting data and information including obtaining the accounting records, the relevant policies, operational structure charts and the respective delegation of authority among various functional divisions of the Company and identifying personnel involved in the Audit Matters;
- (c) performing eDiscovery (electronic discovery) procedures including the preservation of electronic data;
- (d) performing evidence analysis including reviewing electronic data, obtaining and reviewing relevant bank statements, accounting entries and supporting documents for the period from 1 January 2015 to 29 February 2016, analyzing fund flow transactions of the Group, and cross-checking relevant financial data;
- (e) conducting interviews with employees, and relevant site visits; and
- (f) conducting background investigation on and interviews with third parties involved in the Audit Matters.

Use and limitations of Investigation Report

Below please find a summary of the limitations as reported by the Independent Forensic Investigator for the purpose of the Investigation:

- (i) in respect of processing of electronic data including being unable to obtain electronic data from certain former employees and the service provider of corporate email accounts of the Company, and reformatting of certain electronic devices, malfunction hard drive, reinstallation of operating system, and data deletion. Due to such restrictions, the Independent Forensic Investigator reported that the information derived from their review of electronic data may be incomplete;
- (ii) certain third parties including a PRC state-owned enterprise refused to attend interview with the Independent Forensic Investigator; and
- (iii) in respect of access to certain information -including (A) financial records of seven (7) third party companies which had fund flow transactions with the Company but which were not members of the Group; (B) internal audit reports (審計意見書) relating to the project cost audit performed by the Company due to long lapse of time since completion of construction of such property projects; (C) documents of sub-contractors including insource sub-contracting contracts (內部承包合同) with its insource-contractors (內部承包人) and final cost reports (決算報告). The aforementioned insource-contractors were Mr. Wong Wai Choi (黃偉才) (“**Mr. Wong**”) and Mr. Chen Xiaoyuan (陳小願) (“**Mr. Chen**”), which are the cousin and the younger brother of the spouse of Mr. Wong Wun Ming (黃煥明), the Chairman of the Board and an executive Director of the Company, and a controlling shareholder (within the meaning of the Listing Rules) of the Company (“**Chairman Wong**”) respectively; and (D) lack of consistent information of the arrangements between the main contractors and the sub-contractors for the purpose of verifying the work undertaken by the sub-contractors in the property projects involved.

3. SUMMARY OF KEY FINDINGS OF THE INVESTIGATION

3.1. Companies relating to relatives of chairman of the Board and controlling shareholders of the Company

During the Investigation, the Independent Forensic Investigator noted a number of fund flow transactions between the Company and seven (7) other companies which related to three (3) family members of Chairman Wong. According to the governmental registration records reviewed by the Independent Forensic Investigator, such relatives was/were or had acted as legal representative, shareholder, director and/or in other capacities of six (6) such companies, which was also confirmed in the interviews conducted by the Independent Forensic Investigator with them. Another such company was held by a son of Chairman

Wong. Through the review of electronic data, the Independent Forensic Investigator also noted several documents which showed that the Company was involved in part of the establishment and other administrative matters (in respect of which the Company had charged for the related costs and fees) of four such companies (collectively the “**Fujian Companies**”, which are further referred to under paragraph 3.2(d) below). None of the aforementioned companies including the Fujian Companies is a member of the Group.

3.2. Summary of key findings of Investigation

Set forth below is a summary of the key findings of the Investigation and the corresponding explanation of the Company:

(a) Audit Matter I — proposed sale of 51% equity interests in the Tianjin Subsidiary

Main events

- (i) On 20 December 2014, the Company as the seller and Mr. Wong as the purchaser entered into an investment interest transfer contract (《投資權益轉讓合同》) (the “**Equity Transfer Contract**”) which stipulated that 51% equity (the “**Proposed Equity Transfer**”) of the Tianjin Subsidiary would be transferred to Mr. Wong at the consideration of RMB663 million, and the equity transfer payment should be settled within nine (9) months from the date of signing of the Equity Transfer Contract. Mr. Wong is a cousin (堂弟) of Chairman Wong.
- (ii) During the period from 31 December 2014 to 31 December 2015, the Company received ten (10) payments, which were referred to as relevant to the fund inflow in respect of the Proposed Equity Transfer as follows:
 - (A) the Company received five (5) payments from several third parties with a total amount of RMB442 million (collectively the “**Former Payments**”), of which:
 - (1) RMB210 million was recorded as “other payables— Wong Wai Choi”;
 - (2) RMB132 million was recorded as “other payables — Wong Wun Ming”; and
 - (3) RMB100 million was recorded as “other payables — Sheng Jiexing” (as defined below) respectively,

and the abovementioned amount of RMB210 million was assigned to Chairman Wong for settlement and recorded at 31 December 2015 as:

- (4) “other payables — Wong Wun Ming” in the amount of RMB210 million.

“**Sheng Jiexing**” refers to a company named Xiamen Sheng Jiexing Trading Co., Ltd.* (廈門盛杰興貿易有限公司) relating to Mr. Chen; and

- (B) the Company received five (5) payments from Nanjing Weida Building Decoration Co., Ltd.* (南京偉達建築裝飾有限公司) (“**Nanjing Weida**”), which was a company wholly-owned by Mr. Wong, with a total amount of RMB480 million (collectively the “**Re-payment**”). Due to the Former Auditor’s doubts about the Proposed Equity Transfer, the Re-payment of RMB480 million was recorded as “other payables — Nanjing Weida” in the consolidated financial statements of the Company for the year ended 31 December 2015 and was not recognised as revenue.
- (iii) On 13 May 2016, the Independent Forensic Investigator conducted a field visit to the Tianjin Subsidiary and its project namely Tianjin Mingfa Shopping Mall and learnt that the governmental registration, governance structure as well as operation and management rights of the Tianjin Subsidiary had not been changed, and the capital investment was still funded by the Company. According to a written statement from Chairman Wong dated 16 November 2018 provided to the Independent Forensic Investigator, Tianjin Subsidiary did not register with the relevant governmental bureau the Proposed Equity Transfer because Mr. Wong had not fully paid the entire amount of the consideration within the agreed timeframe. In order to protect the Company’s rights and interests in the Tianjin Subsidiary, it was the intention of the Company that the Proposed Equity Transfer would only be registered after receipt of the full amount of the consideration for the Proposed Equity Transfer.
- (iv) In July 2016, a creditor of the Company requested the Company to provide additional collateral for a loan extended to the Company in light of the trading suspension of the Company on the Stock Exchange.
- (v) In September 2016, the Company and Mr. Wong entered into a cancellation agreement to the Equity Transfer Contract (《投資權益轉讓合同》之解除協議書) to terminate the Proposed Equity Transfer.
- (vi) In November 2016, the entire equity interests in the Tianjin Subsidiary was pledged in favour of the abovementioned creditor. According to the enquiry conducted by the Independent Forensic Investigator from an online public

channel (Tianyancha, www.tianyancha.com) in December 2016, the Company had completed the governmental registration procedures of the equity pledge.

- (vii) During November and December 2016, according to the information provided by the Company to the Independent Forensic Investigator, Mingfa Nanjing Real Estate Development Co., Ltd.* (明發集團南京房地產開發有限公司) (a subsidiary of the Company) returned the equity transfer payment to Nanjing Weida by six (6) installments, totaling RMB480 million.
- (viii) On 13 March 2018, the Independent Forensic Investigator was informed that the abovementioned pledge of the equity interests in the Tianjin Subsidiary was released. However, the Company was not provided with any corresponding documents by the relevant governmental bureau when the equity pledge was released. On 13 March 2018, the Independent Forensic Investigator conducted an enquiry on Tianjin Market Entity Credit Information Publicity System* (天津市市場主體信用資訊公示系統) (hosted by the Tianjin Municipal People's Government) and noted that the Tianjin Subsidiary did not have any outstanding equity pledge registration information.
- (ix) Through the interviews the Independent Forensic Investigator had with Mr. Chen, Mr. Wong and Chairman Wong, and the written statement from Chairman Wong, the Independent Forensic Investigator noted that Mr. Wong and Mr. Chen were cooperating in the proposed purchase of the majority equity interests in the Tianjin Subsidiary, and in respect of the amount of approximately RMB480 million paid to the Company, Mr. Chen and Mr. Wong shared 49% and 51% of such amount respectively. Such cooperation between Mr. Chen and Mr. Wong was not made known to the Company when the Equity Transfer Contract was entered into between the Company and Mr. Wong in December 2014.

Fund flow relating to the Former Payments and the Re-payment

As reported in the Investigation Report, regarding the Former Payments, Mr. Wong entrusted several other companies to pay the consideration for the Proposed Equity Transfer in the total amount of approximately RMB442 million from 31 December 2014 to 31 August 2015. Please refer to paragraph 3.2(a)(ii)(A) for further details of how the Former Payments were recorded in the books of account of the Company. Pursuant to the subsequent request of the Company, Mr. Wong made the Re-payment through Nanjing Weida in the total amount of RMB480 million on 30 and 31 December 2015. As mentioned in subparagraph (vii) above, a subsidiary of the Company returned the equity transfer payment to Nanjing Weida by six (6) installments, totaling RMB480 million during November and December 2016.

As set forth under the Disclaimer of Opinion relating to Audit Matter I, the Former Auditor had independently identified a series of payments on 30 and 31 December 2015 totaling RMB580 million made by the Company to two entities which were owned by third party individuals. As reported by the Independent Forensic Investigator, such amount was acknowledged by Mr. Chen during the interview that upon receipt of RMB580 million by the two entities, RMB480 million was transferred to Nanjing Weida for the Re-payment, and RMB92 million was transferred to the Group and designated as the payments made on behalf of the family members of Chairman Wong as referred to under Audit Matter II(i) below.

Explanation of the Company

In respect of the Company, its financial performance in 2014 was not satisfactory. The contracted sales in that year only amounted to RMB1.9 billion, representing a decrease of approximately 70% comparing to 2013, and the cash and cash equivalents as at 31 December 2014 was approximately RMB732 million while the prevailing indebtedness was approximately RMB12.2 billion, which demonstrated that a weak liquidity position of the Company at the time. The Company considered that it was feasible to sell one of its project companies to ease the tight cash flow position. Meanwhile, Mr. Wong intended to start his property development business and agreed with the Company in respect of the Proposed Equity Transfer.

Since Mr. Wong, being the buyer in the Proposed Equity Transfer, had entrusted various other companies to pay part of the consideration for the Proposed Equity Transfer from 2014 to 2015 in respect of which the Company had recorded as “other payables — Wong Wai Choi”, the Company had thus requested Mr. Wong to pay the consideration of the Proposed Equity Transfer himself directly, and the Company would then reimburse the Former Payments to Mr. Wong through Chairman Wong. In compliance with such request from the Company, Mr. Wong paid part of consideration of RMB480 million through his wholly-owned subsidiary, Nanjing Weida, from 30 December to 31 December 2015. The Re-payment was recorded as “other payables — Wong Wai Choi” as at 31 December 2015.

As for the series of payments on 30 and 31 December 2015 totaling RMB580 million made by the Company to two entities, RMB492 million out of RMB580 million was for the repayment of loans granted by the relevant third parties. This was supported by the Independent Forensic Investigator’s review of the amounts due by the Group to the relevant third parties in the aggregate amount of approximately RMB509 million prior to the repayment of the abovementioned amounts, whereas RMB88 million out of RMB580 million was entrusted by Chairman Wong to settle his loan due to the Group through the relevant third parties.

The termination of the Proposed Equity Transfer in September 2016 was mainly due to the fact that the Company was requested by its creditor to pledge the entire equity interests in the Tianjin Subsidiary in favour of the creditor to increase the collateral for a loan of USD100 million extended to the Company. For the termination of the Proposed Equity Transfer, during November and December 2016, the Company returned the partial consideration received by the Company in the total amount of RMB480 million to Nanjing Weida.

As the Proposed Equity Transfer was terminated and the partial consideration received by the Company was returned to Nanjing Weida in 2016, Tianjin Subsidiary has remained wholly-owned by the Company at all material times. The Company had not recognized the Proposed Equity Transfer as a gain in its consolidated financial statements for the year ended 31 December 2015, and accordingly, the Company does not anticipate any financial impact which would have arisen from the Proposed Equity Transfer in 2015 and its termination in 2016.

View of the Audit Committee

In respect of Audit Matter I, the Audit Committee, having taken into account of and considered the key findings of the Investigation and making the necessary enquiries and discussion with the Independent Forensic Investigator, is of the view that:

- (i) in light of the cancellation of the Proposed Equity Transfer in 2016, and the Tianjin Subsidiary remained a wholly owned subsidiary of the Company at the material times, no further action is recommended to be taken in respect of the Proposed Equity Transfer or its subsequent cancellation;
- (ii) a review of the internal control systems and procedures of the Group is recommended so as to eliminate the occurrence of any fund inflow from individuals and corporates who/which are not parties to any agreements entered into by any members of the Group, should there be any such associated internal control weakness, and to ensure compliance with the Listing Rules by properly and timely identifying and reporting the relevant transactions to the Board; and
- (iii) it is recommended that the Company should discuss this Audit Matter with the Current Auditor, and assess and determine if any adjustments would be needed to be made to the consolidated financial statements of the Company of the relevant year(s).

(b) Audit Matter II(i) — sales of use rights of certain properties to the ultimate controlling shareholders and their close family members

Main events

On 25 December 2013, the Company entered into house use rights transfer contracts (房屋使用權轉讓合同) with eight (8) individuals including Chairman Wong and his family members, pursuant to which the Company would transfer eight (8) respective villas in Xiamen Mingfa Harbour Resort (collectively the “**Harbour Resort Villas**”) for a total purchase price of RMB189 million.

As at the date of this announcement, the overall property ownership certificate (大產權證) of Xiamen Mingfa Harbour Resort was yet to be issued by the relevant governmental authorities. However, the use rights of the aforementioned Harbour Resort Villas had been passed to the purchasers. As noted by the Former Auditor in its Disclaimer of Opinion, the Company did not recognise these as revenue in its consolidated financial statements for the year ended 31 December 2015.

Fund flow relating to the payment of purchase price for the Harbour Resort Villas

During the period from June 2014 to December 2015, the total purchase price of RMB189 million was paid to the Company by the spouse of Chairman Wong (as to RMB42.88 million), another son of Chairman Wong (as to RMB54 million) and Sheng Jiexing (as to RMB92.12 million). At the relevant time, the Company was indebted to Chairman Wong, and out of the receipt by the Company of such total purchase price, Chairman Wong entrusted the Company to pay an amount of RMB88 million to Sheng Jiexing for the purpose of settling the current account balances between Chairman Wong and the Company.

Explanation of the Company

Prior to the date of this announcement, the respective use rights of the abovementioned eight (8) Harbour Resort Villas were delivered to the individual purchasers after confirmation of receipt by the Company of the relevant purchase price in 2016.

View of the Audit Committee

In respect of Audit Matter II(i), the Audit Committee, having taken into account of and considered the key findings of the Investigation and making the necessary enquiries and discussion with the Independent Forensic Investigator is of the view that:

- (i) a review of the internal control systems and procedures of the Group is recommended so as to, among other matters, ensure all transactions to be entered into by the Group are handled by appropriate personnel, and to ensure compliance with the Listing Rules by properly and timely identifying and reporting the relevant transactions to the Board;
- (ii) the Board should take the lead to strengthen the compliance culture of the Group by developing a proper program in this respect and implementing throughout the Group, including but not limited to provide sufficient and proper training to the staff of the Group about the Listing Rules and applicable regulatory requirements; and
- (iii) it is recommended that the Company should discuss this Audit Matter with the Current Auditor, and assess and determine if any adjustments would be needed to be made to the consolidated financial statements of the Company of the relevant year(s).

(c) Audit Matter II(ii) — project costs and transfer of use rights of certain properties to a sub-contractor

Main events

- (i) Audit Matter II(ii) involved three property projects of the Company (collectively as the “**Property Projects**” and each a “**Property Project**”) namely:
 - (A) Nanjing Mingfa Riverside New Town and Pearl Spring* (南京明發濱江新城及珍珠泉), which was completed in November 2009 and December 2018 respectively;
 - (B) Nanjing Mingfa Shopping Mall* (南京明發商業廣場), which was completed in December 2010; and
 - (C) Hefei Mingfa Shopping Mall* (合肥明發商業廣場), which was completed in December 2011.

Among the main contractors engaged by the Company for the construction of the different phases/sections of these Property Projects, the relevant main contractor of Property Project (A) above was China State Construction Engineering Corporation* (中國建築工程總公司) (“CSCEC”) and the

relevant main contractor of Property Projects (B) and (C) above was Anhui Sanjian Engineering Co., Ltd.* (安徽三建工程有限公司) (“**Anhui Sanjian**”) respectively. For the construction of the Property Projects, CSCEC and Anhui Sanjian in turn engaged various sub-contractors.

- (ii) On 18 November 2015, the Company, the abovementioned two main contractors, and a sub-contractor namely Fujian Urban Construction Co., Ltd.* (福建城建建設有限公司) (“**Fujian Urban Construction**”) signed three agreements under which the parties agreed that the Company would transfer 42 villas in Xiamen Mingfa Harbour Resort (the “**42 Villas**”) at an aggregate value of RMB644 million to the abovementioned two main contractors so as to offset part of the payables in respect of Property Project (“**Project Payments**”). Based on the review of the related financial records of the Company, the aggregate amount due to the two main contractors at the time was approximately RMB743 million. A summary of these agreements is as follows:
 - (A) the Company, CSCEC, Anhui Sanjian and Fujian Urban Construction agreed that CSCEC and Anhui Sanjian would entrust the Company to directly offset part of the Project Payments which were owed by CSCEC and Anhui Sanjian to Fujian Urban Construction, and then CSCEC and Anhui Sanjian would no longer claim the Project Payments from the Company;
 - (B) the Company and Fujian Urban Construction agreed that the Company would use the 42 Villas to offset the Project Payments; and
 - (C) the Company and Fujian Urban Construction further agreed that Fujian Urban Construction could designate its insource-contractors namely Mr. Wong and Mr. Chen to take possession of the 42 Villas.
- (iii) Regarding the Project Payments, as the Former Auditor could not confirm the nature of these arrangements, and the corresponding transfers of the 42 Villas were not recognized and disclosed as revenue in the 2015 Annual Results Announcement.

Inconsistence of construction costs among various documents and records of the Company

During the Investigation, the Independent Forensic Investigator noticed that the respective construction costs of the three Property Projects were inconsistent among different documents and information made available to and gathered by the Independent Forensic Investigator. As noted by the Independent Forensic Investigator, there were discrepancies (the “**Alleged Discrepancies**”) between: the total main contractor invoicing amount (總包商開票金額); and the actual (expected) final cost amount (實際(預計)決算金額).

According to the electronic data review, the Independent Forensic Investigator noted that the total main contractor invoicing amount exceeded the actual (expected) final amount by RMB981 million in aggregate in respect of the Property Projects attributable to CSCEC and Anhui Sanjian at the time.

As further noted during the electronic data review of the Independent Forensic Investigator, the Alleged Discrepancies were settled through the arrangement whereby (i) the main contractors (i.e. CSCEC and Anhui Sanjian) sub-contracted the construction or related work to Fujian Urban Construction; and (ii) Fujian Urban Construction further sub-contracted part of the construction or related work to Mr. Chen and Mr. Wong being the insource-contractor (內部承包人) of Fujian Urban Construction. Subsequently, through the agreements referred to under sub-paragraph (ii)(A), (B) and (C) above, the Company used the 42 Villas to offset RMB644 million, being part of the payables of RMB743 million as mentioned above in respect of the Property Projects attributable to CSCEC and Anhui Sanjian.

For the construction invoices issued by CSCEC and Anhui Sanjian to the Company, the Independent Forensic Investigator had checked and noted that the Company recorded them in the construction cost accounts. It is the understanding of the Company that the invoices issued by CSCEC and Anhui Sanjian already included the sub-contracting costs and amounts payable to the sub-contractors by such main contractors. The Alleged Discrepancies were due to the sub-contracting work assigned by CSCEC and Anhui Sanjian. The Independent Forensic Investigator had requested but failed to obtain sufficient information (including but not limited to the proposed interview with CSCEC, which is a state-owned enterprise) to substantiate the construction costs of the sub-contractor engaged by CSCEC and Anhui Sanjian, including the payable in the aggregate amount of RMB743 million as mentioned above.

Explanation of the Company

The construction costs of the Property Projects were substantiated by the following principal documents:

- (i) the invoices (發票) issued by the abovementioned main contractors, which are state-owned enterprises; and
- (ii) the construction costs of two (2) of the Property Projects, namely Nanjing Mingfa Riverside New Town and Hefei Mingfa Shopping Mall, in the aggregate amount of approximately RMB3,983.5 million are supported and verified by an independent PRC qualified costing engineer (造價師) namely Jiangsu Jianzhun Engineering Cost Consulting Co., Ltd.* (江蘇建准工程造價諮詢有限公司).

In light of the lapse of time in settling the outstanding payables to the two main contractors, the Company intends to proceed with full settlement no later than end of May 2019. Proper documentation between the Company and the two main contractors will thus be entered into and prepared to properly document and record the proposed cash settlement.

In the Investigation Report, the Independent Forensic Investigator noted that there was a lack of supporting documentation in relation to the construction work undertaken by the sub-contractors in the Property Projects. Explanation was provided by the Company to the Independent Forensic Investigator that the Company only had contractual relationship with CSCEC and Anhui Sanjian and did not have any contractual relationship with any of the sub-contractors engaged by the main contractors. In respect of the Property Projects, the main contractors had in some circumstances entrusted the Company to settle the amounts owed by the main contractors to the relevant sub-contractors directly. However, this did not establish any contractual relationship between the Company and such sub-contractors in respect of the construction of the Property Projects. In particular, every entrusted settlement made by the Company to the relevant sub-contractors was only executed after a tri-partite settlement agreement between the Company, the main contractor and the sub-contractor. The Company does not have the primary responsibility to monitor, control or keep track of the progress and quality of work carried out by the sub-contractors, nor to settle the costs of the sub-contractors.

As mentioned above, the property sales performance of the Group in 2014 was not satisfactory alongside the declining property market in the PRC, and the cash flow of the Group in 2015 was relatively tight at that time. In light of the circumstances, the more viable option for the Company was to utilize the units of the Property Projects instead of cash to settle the costs of the sub-contractors

after negotiation with the relevant main contractors. As a result, the main contractors agreed to the set-off arrangements on the condition that the sub-contractors agreed to take delivery of the 42 Villas for settlement purpose.

View of the Audit Committee

In respect of Audit Matter II(ii), the Audit Committee, having taken into account of and considered the key findings of the Investigation and making the necessary enquiries and discussion with the Independent Forensic Investigator, is of the view that:

- (i) a review of the internal control systems and procedures of the Group is recommended so as to, among other matters, eliminate the possibility of any fund inflow or fund outflow which does not relate to agreements, arrangements or transactions to which the Group is not a party, and to ensure compliance with the Listing Rules by properly and timely identifying and reporting the relevant transactions to the Board; and
- (ii) it is recommended that the Company should discuss this Audit Matter with the Current Auditor, and assess and determine if any adjustments would be needed to be made to the consolidated financial statements of the Company of the relevant year(s).

(d) Audit Matter III — unexplained cash payments and receipts

Audit Matter III(i) — Between the Company and the Fujian Companies

In its Disclaimer of Opinion, the Former Auditor stated that they had identified significant amounts of payments and receipts which lacked documentary evidence. During the Investigation, the Independent Forensic Investigator had examined the relevant transactions and reported as follows:

(i) Acquisition of the entire equity interests in Chengdu Menggu

The equity transfer transactions of Chengdu Menggu Real Estate Development Co., Ltd.* (成都夢谷房地產開發有限公司) (“**Chengdu Menggu**”) which are summarised below:

- (A) on 1 January 2010, the Company entered into an agreement with Fujian Guanfu Modern Household Co., Ltd.* (福建冠福現代家用股份有限公司) (“**Guanfu**”), a third party unrelated to the Company, pursuant to which Guanfu would transfer the project land use rights and the entire equity interests in Chengdu Menggu to the Company;

- (B) subsequent to the signing of the abovementioned agreement, Guanfu had never transferred the equity interests in Chengdu Menggu to the Company according to the agreement. Instead, it came to the notice of the Company that Guanfu had transferred the equity interests in Chengdu Menggu to another company;
- (C) during 2012 to 2015, the Company had taken actions to obtain the entire equity interests in Chengdu Menggu through legal proceedings and judgement was given in favour of the Company in November 2013;
- (D) in June 2015, the Company temporarily transferred the equity interests of Chengdu Menggu to a company controlled by Mr. Chen. To safeguard against potential risks of the equity interests in Chengdu Menggu, the equity interests in Chengdu Menggu were further transferred to another company namely Xiamen Jieguang Kangsheng Investment Management Co., Ltd.* (廈門捷光康聖投資管理有限公司), which was wholly-owned by Mr. Cai Jianmin (蔡建民) (“**Mr. Cai**”), who was a third party unrelated to the Group; and
- (E) in an interview the Independent Forensic Investigator had with Mr. Cai coupled with a written declaration from the abovementioned company wholly-owned by him, Mr. Cai confirmed that the entire equity interests in Chengdu Menggu was in effect owned by the Group, and he and his company will cooperate with the Company to transfer the entire equity interests in Chengdu Menggu back to the Group without any consideration.

Explanation of the Company

In breach of the agreement between the Company and Guanfu, the seller of the equity interests in Chengdu Menggu, Guanfu transferred the equity interests of Chengdu Menggu to another buyer after receiving the deposit of the purchase price from the Company. Although the PRC court had found in favour of the Company in its judgement and the equity interests in Chengdu Menggu were transferred to the Company, the Company was concerned about whether the seller would take any other action in contravention of applicable law and regulations to jeopardize the interest of the Company in Chengdu Menggu. The Company then further transferred the equity interests in Chengdu Menggu to a third party, who had signed an agreement with the Company pursuant to which such third party agreed to transfer the equity interests in Chengdu Menggu back to the Company for no consideration.

As at the date of this announcement, the equity interests in Chengdu Menggu was held by the abovementioned company wholly-owned by Mr. Cai for and on behalf of the Company. According to the current discussion between the Company and the Current Auditor, it is the preliminary assessment that the assets and liabilities of Chengdu Menggu will be consolidated into those of the Company in the relevant financial years.

(ii) Payments to several contractors

In 2015, two subsidiaries of the Company successively paid a total amount RMB320 million as project payments to several contractors. Part of such project payments were recorded by the Company as development costs or accounts payable, and as some of the payments were made before the invoices from the contractors and thus recorded as prepayments. During the electronic data review, the Independent Forensic Investigator noticed a set of fund flows was marked as “Project Transfer Fund” (工程轉款) in a spreadsheet, which included the abovementioned RMB320 million payments to contractors and RMB376 million receipts from Fujian Shanghong Construction Engineering Co., Ltd.* (福建省尚鴻建設工程有限公司) (“**Fujian Shanghong**”) and Sheng Jiexing.

Explanation of the Company

According to two capital lending cooperation framework agreements (《資金拆借合作框架協議》) (collectively the “**Framework Agreements**”) entered into in January 2013 to which a subsidiary of the Company was a party, the Company requested the other contracting parties to such agreements to lend to the Company an amount totaling RMB376 million, which was lent to the Company by Fujian Shanghong and Sheng Jiexing mentioned in the preceding paragraph. These borrowings were recorded as “Project Transfer Fund”, and the Company assumed the payment obligations of the corresponding interests for the borrowed amount.

As a new value-added tax regime in the real estate sector was intended to be launched in the PRC in 2015, the contractors requested the Company to settle all the outstanding amount due to them in 2015. As explained above, due to the relatively tight cash position of the Company in 2015, the contractors agreed to lend certain amounts back to the Company through Fujian Shanghong and Sheng Jiexing pursuant to the Framework Agreements.

(iii) Bank transaction in and out on the same day

In the review of the Independent Forensic Investigator, they noted that a fund inflow and outflow on the same day might involve a bridging loan with an amount of RMB58 million as follows:

- (A) on 17 February 2015, a subsidiary of the Company paid RMB58 million to Xiamen Gongsheng Decoration Design Engineering Co., Ltd.* (廈門功盛裝修設計工程有限公司) (“**Gongsheng**”). On the same day, Gongsheng paid RMB58 million to another subsidiary of the Company. The Independent Forensic Investigator noted that the fund flows related to a bridging loan arrangement; and
- (B) the Company recorded such RMB58 million as other receivables after its payment, and offset other receivables when recovering the bridging loan of RMB58 million. Different to accounting treatment of other bridging loans, such bridging loan was not part of the offset adjustments when the Company prepared its consolidated financial statements.

Explanation of the Company

In February 2015, Everbright Bank (光大銀行) granted a Fixed Asset and Project Finance loan in the aggregate amount of RMB100 million. Among the loan of RMB100 million, an amount of RMB42 million was utilized to repay the bank loan owed to Xiamen Bank (廈門銀行). The remaining balance of RMB58 million was:

- (A) transferred to a subsidiary of the Company, which transferred the amount to Gongsheng. This transfer was recorded in the books of accounts of the Company as a debit under “Other receivables”; and
- (B) Gongsheng subsequently transferred the same amount to another subsidiary of the Company. This transfer was recorded in the books of accounts of the Company as a credit under “Other receivables”.

As a whole, the Company did not suffer any loss in cash in the abovementioned same day bank payment and receipt.

(iv) *Other fund flow transactions*

- (A) From January 2015 to February 2016, there were other fund flow transactions between the Company and the four Fujian Companies (totaling a receipt of approximately RMB47,793,000 and payment of RMB113,260,500). The Company regarded all these fund flows as lending and had provided related documentations including bank slips, payment notices and requests, and receipts to the Independent Forensic Investigator during the Investigation.

Explanation of the Company

As disclosed above in this announcement, the Company had explained to the Independent Forensic Investigator that the contracted property sales of the Group in 2014 was not satisfactory alongside the declining property market in the PRC, and the cash flow of the Group in 2015 was relatively tight, thus rendering the Company having difficulties in obtaining or increasing the banking facilities or credit from financial institutions to ease its tight cash position. As a result, the Company had to make loan requests under the Framework Agreements to increase its liquidity position at the time. With the improved contracted property sales of the Group in the second half of 2015, the Company started to settle the loans provided to the Company under the Framework Agreements.

- (B) On 5 January 2013, a subsidiary of the Company entered into two Framework Agreements with each of Gongsheng and Mr. Chen (who is the owner of three out of the four Fujian Companies). As disclosed in the 2015 Annual Result Announcement, the Former Auditor stated that such lending agreements and related financial treatment of the Company had the following issues: (1) these agreements were signed in 2013, but they were not provided to the Former Auditor until March 2016; (2) according to the requirements of these lending agreements, any borrowings used by any party shall bear the interest calculating by load period and at 20% higher on current bank interest rate, but the Company had not accrued relevant interest expense in the accounting records. In response to the requests from the Independent Forensic Investigator, the Company responded that no reconciliation of the loan amounts and accrued interests between the parties were made since the entry of the Framework Agreements, and the agreements were handled and remained in the custody of Chairman Wong. According to the Framework Agreements, after the fifth (5th) anniversary of these agreements, the interest payable should be settled for each party, and the party with a higher accumulative interest payable should pay the differences in interests to the other party. The relevant interests were fully settled in 2018.

Explanation of the Company

As the property industry is capital intensive, Chairman Wong signed the two Framework Agreements for and on behalf of the relevant subsidiary of the Company on 5 January 2013. Under the Framework Agreements, the parties might lend/borrow money from each other where situation necessitated. The Framework Agreements had a term of five (5) years and it was agreed between the parties that the interests payable on the loans lent/borrowed under the Framework Agreements would be settled upon the expiry of the agreements. For the financial years 2013 to 2015, the Company had not accrued and recorded the interests incurred under the Framework Agreements. The Company will assess the financial impact and make adjustments if necessary.

Audit Matter III(ii) — Between the Company and other third party companies

As noted by the Independent Forensic Investigator during the Investigation, there were the following fund flow transactions between the Company and other third party companies in 2015:

Third party company	Note	Amount received in 2015 (RMB)	Amount paid in 2015 (RMB)
• Anhui Sanjian	1	255,000,000	24,000,000
• Nanjing Zhongshan Garden Gurui Construction Co., Ltd.* (南京中山園林古瑞建設有限責任公司) (“ Zhongshan Garden ”)	2	54,000,000	105,000,000
• Wuxi Sanyang Yinhui Real Estate Development Co., Ltd.* (無錫三陽銀輝房地產開發有限公司) (“ Wuxi Sanyang ”)	3	—	15,000,000
• Jiangsu Teda Electromechanical Equipment Co., Ltd.* (江蘇泰達機電設備有限責任公司) (“ Jiangsu Teda ”)	3	—	10,000,000
• Qin Jiumu (秦久木) (an individual)	4	—	10,000,000
Total:		<u>309,000,000</u>	<u>164,000,000</u>

During the Investigation, the Independent Forensic Investigator noted the nature of the cash receipts and payments set forth in the above table as follows:

1. (i) an amount of RMB255 million was the designed special fund for the resettlement housing project in Jinzhai Country (金寨縣安置房項目) (“**Jinzhai County Resettlement Housing Project**”) and the Company managed such fund as the agent for the construction manager (代建管理方); and (ii) the amount of RMB24 million out of such fund was paid by the Company during the fund management process to Anhui Sanjian as the related construction costs;
2. (i) an amount of RMB105 million was a loan (拆借款) lent by the Company to a third party company namely Zhongshan Garden; and (ii) an amount of RMB54 million was paid by Zhongshan Garden as part of the repayment;
3. an amount of RMB25 million was paid by the Company to two companies namely Jiangsu Teda and Wuxi Sanyang as the earnest money for the related proposed equity investments in these two companies; and

4. an amount of RMB10 million was the interest paid by the Company to Qin Jiumu. The amount of such interest payment represented the difference between the borrowing of funds between the Company and Qin Jiumu, and the joint investment amount of the Company and Qin Jiumu in Nanjing Mingfa Putai Real Estate Co., Ltd.* (南京明發浦泰置業有限公司).

During the period from January and February 2016, the Company paid an aggregate amount of RMB75 million to other third party companies and received an aggregate amount of RMB129 million as follows:

Third party company	Note	Amount received during January and February 2016 (RMB)	Amount paid during January and February 2016 (RMB)
● Anhui Sanjian	5	129,000,000	70,000,000
● Zhongshan Garden	6	—	5,000,000
Total:		<u>129,000,000</u>	<u>75,000,000</u>

During the Investigation, the Independent Forensic Investigator noted the nature of the cash receipts and payments set forth in the above table as follows:

5. (i) an amount of RMB129 million was the designed special fund for the Jinzhai County Resettlement Housing Project and the Company managed such fund as the agent for the construction manager (代建管理方); and (ii) the amount of RMB70 million out of such fund was paid by the Company during the fund management process to Anhui Sanjian as the related construction costs; and
6. an amount of RMB5 million was the loan (拆借款) between the Company as the lender and Zhongshan Garden as the borrower.

View of the Audit Committee

In respect of Audit Matter III, the Audit Committee, having taken into account of and considered the key findings of the Investigation and making the necessary enquiries and discussion with the Independent Forensic Investigator is of the view that:

- (i) it is recommended that, upon careful consideration of the potential impacts which the transfer of the equity interest of Chengdu Menggu back to the Group may have, the Company should take appropriate actions to request

the current registered shareholder of Chengdu Menggu to proceed with such transfer or where the circumstances do not allow, to consider disposing of the equity interest in Chengdu Menggu;

- (ii) a review of the internal control systems and procedures of the Group is recommended so as to, among other matters, eliminate the possibility of any individual, not even any Board member, to retain original copies of any agreements to which any member of the Group is a party; and
- (iii) it is recommended that the Company should discuss this Audit Matter with the Current Auditor, and assess and determine if any adjustments would be needed to be made to the consolidated financial statements of the Company of the relevant year(s).

4. VIEW OF THE BOARD

The Board (including the independent non-executive Directors of the Company), after considering among other matters the key findings of the Investigation, noted and accepted the views of the Audit Committee on the Audit Matters as set forth above in this announcement. Meanwhile, the Board would like to refer to the announcements of the Company dated 19 December 2018 and 28 February 2019 in relation to, among other matters, the appointment of BDO Financial Services Limited as the internal control consultant of the Company to conduct a review of the internal control systems and procedures of the Group and make recommendations of remedial measures, and that the key findings of the internal control review together with the implementation by the Group of the recommended remedial measures are expected to be announced by the Company by the end of April 2019. The Board would also like to refer to the appointment of the Current Auditor in the Shareholders' meeting on 6 March 2019 and according to the updated resumption timetable announced by the Company on 28 February 2019, it is currently scheduled that the audited consolidated financial statements of the Company for the years ended 31 December 2016 and 2017 will be published by the end of April 2019 and those for the year ended 31 December 2018 will be published by the Company by the end of May 2019.

DELAY IN PUBLICATION OF OUTSTANDING FINANCIAL STATEMENTS AND REPORTS OF THE COMPANY

As at the date of this announcement, the outstanding financial statements and reports of the Company to be published/despached include:

- (i) the respective annual results announcements of the Company for the years ended 31 December 2016, 31 December 2017 and 31 December 2018, and interim results announcements of the Company for the six months ended 30 June 2016, 30 June 2017 and 30 June 2018; and

- (ii) the respective annual reports of the Company for the years ended 31 December 2016, 31 December 2017 and 31 December 2018, and the respective interim reports of the Company for the six months ended 30 June 2016, 30 June 2017 and 30 June 2018.

Reference is made to the announcement of the Company dated 28 February 2019 in relation to, among other matters, the updated timetable of the Company towards resumption of trading of its shares on the Stock Exchange (the “**Updated Resumption Timetable**”). According to the Updated Resumption Timetable, it is currently scheduled that the Company will publish its (a) the annual results announcements of the Company in respect of the years ended 31 December 2016 and 2017, and the respective annual reports; and (b) the interim results announcements for the respective six months ended 30 June 2016 and 2017 and the respective interim reports by the end of April 2019, whereas the publication of the annual results announcement of the Company in respect of the year ended 31 December 2018 and the annual report will be made by the end of May 2019. Following the appointment of Current Auditor pursuant to the ordinary resolution passed by the Shareholders in the annual general meeting of the Company on 6 March 2019, the Company has been working closely with the Current Auditor on the outstanding financial statements and reports of the Company.

INTERNAL CONTROL REVIEW

Reference is made to the announcements of the Company dated 19 December 2018 and 28 February 2019 in relation to, among other matters, the appointment of the independent control consultant to the Company and its scope review of the internal systems and procedures of the Group. As at the date of this announcement, the review by the independent control consultant was underway. According to the Updated Resumption Timetable, it is currently expected that the internal control review report will be finalised by the end of April 2019 and the Company will announcement of the key findings of the internal control review thereafter.

FURTHER ANNOUNCEMENT(S) ON MATERIAL INFORMATION AND PROGRESS

The Company will make further announcement(s) on the progress in relation to the fulfilment of the Resumption Conditions and progress of the application of the Company for resumption of trading on the Stock Exchange as and when appropriate in accordance with the Listing Rules and Part XVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong). The Company will use its best endeavours to carry on its related preparation work to fulfil all the Resumption Conditions.

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 1 April 2016 and will be remain suspended until further notice pending the fulfilment of the Resumption Conditions.

The release of this announcement does not indicate that the trading of the Shares of the Company will resume. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

On behalf of the Board
Mingfa Group (International) Company Limited
WONG WUN MING
Chairman and Executive Director

Hong Kong, 31 March 2019

As at the date of this announcement, the Board comprises:

Executive Directors: *Mr. Wong Wun Ming, Mr. Huang Qingzhu,
Mr. Huang Lianchun and Mr. Huang Li Shui*

Independent Non-Executive Directors: *Mr. Lau Kin Hon, Mr. Chu Kin Wang Peleus
and Dr. Lam, Lee G.*

** For identification purpose only.*