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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)**

### **RESULTS OF INTERNAL CONTROL REVIEW, QUARTERLY UPDATE, UPDATE ON RECENT DEVELOPMENT OF SUSPENSION OF TRADING AND DELAY IN PUBLICATION AND DESPATCH OF OUTSTANDING FINANCIAL STATEMENTS AND REPORTS**

This announcement is made by Mingfa Group (International) Company Limited (the “**Company**”, which together with its subsidiaries, the “**Group**”) pursuant to Rules 13.09 and 13.24A 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 (as defined under the Listing Rules) under Part XIVA of the Securities and Future Ordinance (Chapter 571 of the Laws of Hong Kong).

#### **RESULTS OF INTERNAL CONTROL REVIEW**

References are made 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 (the “**Internal Control Consultant**”) of the Company to conduct a review of the internal control systems and procedures of the Group (the “**Internal Control Review**”) and make recommendations of remedial measures, the scope of the work of the Internal Control Consultant, and the updated timetable of the Company towards resumption of trading of its shares (the “**Updated Resumption Timetable**”) on the Stock Exchange respectively. Reference is also made to the announcement of the Company dated 18 April 2019 in relation to the additional

resumption guidance from the Stock Exchange to the Company pursuant to which the Stock Exchange has required the Company to demonstrate that it has put in place adequate internal control and procedures to comply with the Listing Rules.

References are also made to the announcements of the Company 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, 3 October 2018, 2 November 2018, 3 December 2018, 2 January 2019, 1 February 2019, 28 February 2019, 31 March 2019, 16 April 2019 and 18 April 2019 (collectively the “**Announcements**”). Capitalised terms used in this announcement shall have the same meanings as defined in the Announcements unless otherwise defined herein.

In accordance with the Updated Resumption Timetable and in compliance with the abovementioned additional resumption guidance given by the Stock Exchange, the board (the “**Board**”) of directors (the “**Directors**”) of the Company wishes to announce the results of the Internal Control Review and the related matters.

### **Objective and scope of Internal Control Review**

As stated in the announcement of the Company dated 19 December 2018, the results of the Internal Control Review will assist the Audit Committee (the “**Audit Committee**”) of the Board to determine whether the Group has maintained an appropriate and adequate internal control system required of a listed issuer under the Listing Rules, and to ensure that the Group will have in place proper procedures, systems and monitoring procedures.

The scope of the review by the Internal Control Consultant was reviewed and approved by the Audit Committee and it includes (i) an assessment of the internal control systems of the Group at both entity-level controls and process-level controls; (ii) making enquiries with the relevant management personnel and key process owners from the holding company and related individual subsidiaries to obtain understanding of the in-scope processes and conducting walkthrough to identify major risks, respective internal controls and design deficiencies of the internal controls system relating to the in-scope processes; (iii) performing substantive procedures to confirm the Internal Control Consultant’s understanding and identifying operating deficiencies for the internal controls for the period from 1 December 2018 to 31 March 2019; (iv) compiling a written internal control review report which includes the proposed rectification measures; and (v) performing a follow-up review on the remedial actions conducted by the holding company and related individual subsidiaries and finalising the internal control review report.

The Internal Control Review was conducted with reference to (i) Internal Control — Integrated Framework issued by the Committee of Sponsoring Organisations of the Treadway Commission (COSO); and (ii) the Corporate Governance Code and the Corporate Governance Report as set out in Appendix 14 of the Listing Rules as well as other applicable Listing Rules requirements. The Internal Control Review covered the following aspects of the internal control systems and procedures of the Group:

- internal control at enterprise level;
- sales, accounts receivable and collection management;
- contractor and supplier management;
- cash management;
- human resources and remuneration management;
- fixed asset management;
- financial reporting and disclosure approval; and
- information system management.

#### **Progress and results of Internal Control Review**

In January 2019, the Internal Control Consultant produced the first draft report in respect of the results of phase one of the Internal Control Review (the “**Phase One IC Review Report**”) to the management personnel of the Company and the Board. In the Phase One IC Review Report, it was reported that there were certain identified deficiencies in the internal control systems and procedures of the Company, being the holding company of the Group, and the selected members of the Group for the purpose of the Internal Control Review in the abovementioned aspects. Discussion took place between the Internal Control Consultant and the management personnel of the Company in respect of such internal control deficiencies, the responses of the Company thereto and the recommendations of the adequate remedial actions made by the Internal Control Consultant.

The Internal Control Consultant conducted a follow-up review following the remedial actions and steps taken by the Company for the review period from 1 February 2019 to 31 March 2019. Based on the remedial actions and steps taken by the Company, the Internal Control Consultant has compiled and produced the draft report in respect of the phase two of the Internal Control Review (the “**Phase Two IC Review Report**”) for consideration by the management personnel of the Company as well as the Board in April 2019.

## Summary of major internal control deficiencies and remedial measures

Set forth below is a summary of the major internal control deficiencies identified by the Internal Control Consultant in the Internal Control Review and their corresponding recommendations, and the progress of implementation of the remedial measures of the Company. As at the date of this announcement, the recommended remedial measures as set forth in the summary below have been implemented.

<u>Major internal control deficiencies</u>	<u>Recommendations of Internal Control Consultant</u>	<u>Progress of implementation of remedial measures</u>
<i>Corporate Governance (Entity Level)</i>		
<p>1. <b>Regarding monitoring and identification of connected transactions:</b></p> <p>The lists of connected persons and notifiable transactions were not distributed to the subsidiaries of the Company as covered in the Internal Control Review.</p>	<ul style="list-style-type: none"> <li>• Updating and publishing the lists of connected persons and notifiable transactions to the subsidiaries regularly.</li> <li>• Reporting any issues to be disclosed by the subsidiaries to the Company and informing the company secretary of the Company and the Board to make disclosures thereafter.</li> </ul>	Implemented but no occurrence during the follow-up review period.
<p>2. <b>Regarding anti-corruption, anti-bribery and fraud prevention:</b></p> <ul style="list-style-type: none"> <li>• Conflict of interest policy was not established by the Company.</li> <li>• Employees under the headquarter of the Group in Xiamen, Fujian Province of China (“<b>Xiamen Headquarter</b>”) were not required to declare if they have any involvement in corruption, bribery and fraud.</li> </ul>	<ul style="list-style-type: none"> <li>• Requiring employee to declare existing and potential conflict of interest.</li> <li>• Standardising the policy and procedure regarding anti-corruption, anti-bribery and fraud prevention.</li> </ul>	Implemented.

<u>Major internal control deficiencies</u>	<u>Recommendations of Internal Control Consultant</u>	<u>Progress of implementation of remedial measures</u>
<b><i>Contractors and Suppliers Management</i></b>		
<p>3. <b>Regarding list of suppliers/contractors:</b></p> <p>The approval records of updating the list of suppliers/contractors and the records of contractors' performance assessments and background check were not retained by the subsidiaries of the Company which were engaged in property development.</p>	<p>Maintaining the records of contractor's performance assessment and background check and the records of approving and updating the list of suppliers/contractors.</p>	<p>Implemented but no occurrence during the follow-up review period.</p>
<p>4. <b>Regarding tendering management:</b></p> <p>The tendering procedures of the subsidiaries of the Company comprised under the Xiamen Headquarter which were engaged in property development were not aligned with the written tendering policy and procedure.</p>	<p>Requiring the responsible departments and employees adhere to the written tendering policy and procedure.</p>	<p>Implemented.</p>
<p>5. <b>Regarding segregation of duties for tendering:</b></p> <p>The written roles and responsibilities of employees under the Tendering Management Centre of the Xiamen Headquarter were not established, which may led to lack of segregation of duties.</p>	<p>Establishing job description at position level to define employees' respective roles and responsibilities.</p>	<p>Implemented.</p>
<p>6. <b>Regarding contract management:</b></p> <p>The records of approving the contracts with contractors were not retained by the subsidiaries comprised under the headquarter of the Group in Nanjing, Jiangsu Province of China ("Nanjing Headquarter") which were engaged in property development.</p>	<p>Retaining the approval records of the contract prior to contract signing.</p>	<p>Implemented.</p>

Major internal control deficiencies	Recommendations of Internal Control Consultant	Progress of implementation of remedial measures
<p>7. <b>Regarding direct appointment of main contractors:</b></p> <p>The reasons for selecting the main contractors were not noted in the approval forms for the subsidiaries which were engaged in property development. The ratings for contractors' evaluation documented on the evaluation form and list of contracts were not aligned.</p>	<ul style="list-style-type: none"> <li>● Obtaining the approval from authorised person before signing contracts with contractors.</li> <li>● Documenting the reasons for selecting main contractors in the approval form and ensure the accuracy of the evaluation of contractors.</li> </ul>	Implemented.
<b>Cash Management</b>		
<p>8. <b>Regarding financing management and loan from directors:</b></p> <ul style="list-style-type: none"> <li>● Written agreement was not required to be signed when the Company and directors entered into loan transactions.</li> <li>● Written financing management policy was not established by the Corporate Finance Department.</li> <li>● The assessment and approval record of the terms of loan were not retained by the Corporate Finance Department.</li> </ul>	<ul style="list-style-type: none"> <li>● Establishing written financing management policy and procedure for the Group.</li> <li>● Retaining approval records on the terms of loan and contract.</li> </ul>	Implemented but no occurrence during the follow-up review period.
<p>9. <b>Regarding variance analysis:</b></p> <ul style="list-style-type: none"> <li>● The review evidence of annual cash flow forecast for the Company were not noted.</li> <li>● Variance analysis of cash flow forecast were not conducted for both the Company and the selected subsidiaries.</li> </ul>	<p>Maintaining the review evidence of cash flow forecast and conducting the variance analysis regularly.</p>	Implemented.

<u>Major internal control deficiencies</u>	<u>Recommendations of Internal Control Consultant</u>	<u>Progress of implementation of remedial measures</u>
<p>10. <b>Regarding fund transfer:</b></p> <p>The application form and approval record of the fund transfer with associated companies were not retained by Mingfa Group Nanjing Real Estate Co., Ltd.</p>	<p>Retaining the correspondences and approval record of the agreed fund transfer with associated companies.</p>	<p>Implemented.</p>

#### *Human Resources and Remuneration Management*

<p>11. <b>Regarding social security and housing provident fund:</b></p> <p>The Group made contribution of social security and housing provident fund based on internal policy established by the Group, instead of the actual monthly salary of the employees.</p>	<p>Obtaining legal advice regarding the compliance of relevant rules and regulations. Alternatively, making contribution to social security and housing provident fund based on the average monthly salary of employee.</p>	<p>The Company has obtained written legal advice from practising PRC lawyers and was advised that the relevant subsidiaries of the Group did not breach any applicable laws and regulations regarding social security and housing provident fund.</p>
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#### *Information System Management*

<p>12. <b>Regarding email management:</b></p> <p>Internal and external communication were transmitted by employees' personal emails instead of the Company's official email.</p>	<p>Establishing company official email system for employees' internal and external communication.</p>	<p>Implemented.</p>
<p>13. <b>Regarding backup management:</b></p> <ul style="list-style-type: none"> <li>● Backup restoration test was not conducted regularly by the Nanjing Headquarter.</li> <li>● Back up was only performed onsite and the records for completing the backup were not retained by the Xiamen Headquarter.</li> </ul>	<p>Maintaining and reviewing the record of completing the backup and conducting offsite backup regularly.</p>	<p>Implemented.</p>

## Risks identification relating to Audit Matters

References are also made to the announcement of the Company dated 31 March 2016 in respect of the consolidated annual results of the Group for the year ended 31 December 2015 (the “**2015 Annual Results**”) and the publication of the 2015 annual report of the Company in respect of the same financial year published by the Company on 31 January 2019, in which the Former Auditor of the Company expressed their disclaimer of opinion on the 2015 Annual Results (the “**Disclaimer of Opinion**”), and the announcement of the Company dated 31 March 2019 (which was supplemented by the supplemental announcement of the Company dated 16 April 2019) in relation to, among other matters, the key findings of the independent forensic investigator from their investigation on the audit matters giving rise to the Disclaimer of Opinion (collectively the “**Audit Matters**”). In this regard, the Internal Control Consultant was requested by the Audit Committee to refer to the Audit Matters and identify the major internal control risks which are manifested by the respective Audit Matters. Set forth below is a summary of such major internal control risks. The table below makes reference to the items in the table under the sub-paragraph headed “Summary of major internal control deficiencies and remedial measures” above and as disclosed thereunder, the remedial measures recommended by the Internal Control Consultant have been implemented by the Company as at the date of this announcement. Accordingly, the Board is of the view that the Company has put in place adequate internal control systems and procedures to prevent incidents like the Audit Matters from occurrence again.

<u>Audit Matter</u>	<u>Major internal control risks</u>	<u>Relevant items and corresponding implementation of remedial measures referred to in the table above</u>
(i) <b>Audit Matter I:</b>  Sale of equity interests in a subsidiary.	<ul style="list-style-type: none"> <li>• Fund inflow from parties without any agreements/supporting documents.</li> <li>• Unable to identify and report notifiable transaction.</li> <li>• Unable to prevent/detect inconsistency or irregularity.</li> </ul>	Items numbered 1 to 6, and 8 to 13.
(ii) <b>Audit Matter II(a):</b>  Sales of use rights of certain properties to the ultimate controlling shareholders of the Company and their close family members.	<ul style="list-style-type: none"> <li>• Transaction is not handled by appropriate personnel.</li> <li>• Unable to identify and report notifiable transaction.</li> </ul>	Items numbered 2 to 4, 6 to 9, and 12.



<u>Audit Matter</u>	<u>Major internal control risks</u>	<u>Relevant items and corresponding implementation of remedial measures referred to in the table above</u>
(iii) <b>Audit Matter II(b):</b>  Sales of use rights of certain properties to a subcontractor.	<ul style="list-style-type: none"> <li>• Fund inflow/outflow does not relate to agreements/supporting documents.</li> <li>• Unable to identify and report notifiable transaction.</li> <li>• Unable to prevent/detect inconsistency or irregularity.</li> </ul>	Items numbered 1 and 4 to 13.
(iv) <b>Audit Matter III:</b>  Unexplained cash payments and receipts.	<ul style="list-style-type: none"> <li>• Original copies of agreement are not handled/retained by appropriate personnel.</li> <li>• Fund inflow/outflow does not relate to agreements/supporting documents.</li> <li>• Unable to prevent/detect inconsistency or irregularity.</li> </ul>	Items numbered 1 to 6, 9 to 11 and 13.

### **View of the Internal Control Consultant**

In relation to the above findings and the Company's responses (including the follow-up review results), the Internal Control Consultant noted that on the basis of the Company's completion of implementation of the remedial measures recommended above, there was no indication of any material irregularity or error on the internal control systems and procedures in relation to the companies within the Group that were the subject of the Internal Control Review and their business areas as at 31 March 2019.

### **View and recommendations of the Audit Committee and the Board**

Having considered the results of the Internal Control Review conducted by Internal Control Consultant and reviewed the Phase One IC Review Report and the Phase Two IC Review Report, the Audit Committee is of the view that the remedial measures implemented by the Company are sufficient and adequate to address all the major deficiencies in the internal control systems and procedures of the Group as identified by the Internal Control Consultant and the Group's enhanced financial reporting procedures and internal control systems are sufficient to meet the obligations of the Company under the Listing Rules.

In addition, the Audit Committee recommends that the Company should consider:

- (a) engaging an independent internal control consultant to conduct subsequent full-scope review(s) (each a “**Subsequent Internal Control Review**”) of the internal control systems and procedures of the Group regularly to verify and ensure that the Group has effectively implemented the internal control systems and procedures, and to make consistent and continuous improvement to the internal control systems and procedures of the Group on an ongoing basis. It is the recommendation of the Audit Committee that the Subsequent Internal Control Review can be conducted on a semi-annual basis in the first financial year after the trading in the Shares of the Company resumes, and subject to the results of such Subsequent Internal Control Reviews, the Audit Committee will make recommendation to the Board so as to determine the interval for conducting further Subsequent Internal Control Review; and
- (b) recruiting a senior internal audit manager (the “**Senior Internal Audit Manager**”) with commensurate credentials and experience, and familiarity of the PRC property development industry and business as well as the applicable Listing Rules requirements (and supporting personnel should circumstances require) to assist the Board in ensuring effective implementation of the internal control systems and procedures of the Group and timely identification of any deficiency (in case there will be any). It is recommended that the Senior Internal Audit Manager will be principally responsible for developing and implementing operational procedures and internal control measures of the Group and monitoring plans to ensure the business activities are compliant with the applicable laws and regulations, analyzing internal reports, financial transactions and other financial information for risk controls, and monitoring risk indicators as necessary. The Senior Internal Audit Manager will directly report to the Audit Committee and the Board.

Subject to the ongoing discussion among the Audit Committee and the professional advisers of the Company, the Audit Committee may make further recommendation(s) and in such case, the Company will issue further announcement(s) accordingly.

The Board (including the Independent Non-Executive Directors), after considering among other matters the results of the Internal Control Review, noted and accepted the view of the Audit Committee as set forth above in this announcement. In addition, having reviewed the findings and results of the Phase One IC Review Report and the Phase Two IC Review Report prepared by the Internal Control Consultant, and having taken into consideration the improvements and remedial measures implemented in accordance with the recommendations of the Internal Control Consultant, the Board is of the view that the Company has put in place adequate internal control systems and procedures including financial reporting procedures to meets its obligations under the Listing Rules.

## QUARTERLY UPDATE IN ACCORDANCE WITH RULE 13.24A OF THE LISTING RULES

Pursuant to 13.24A of the Listing Rules, the Board wishes to announce the unaudited contracted sales performance for the three months ended 31 March 2019.

Based on contracted sales record of the Company, for the three months ended 31 March 2019, the Group achieved unaudited contracted sales of approximately RMB2.10 billion in total, representing a decrease of approximately 39.82% when compared to the same period in 2018 (approximately RMB3.49 billion).

City	Area (sq.m.)	Average Selling Price (RMB/ sq.m.)	Amount (RMB in million)	Percentage (%)
Nanjing, Jiangsu Province	24,325	18,554	451.3	21.4%
Changsha, Hunan Province	40,781	6,343	258.7	12.3%
Zibo, Shandong Province	22,798	10,192	232.4	11.0%
Jinzhai, Anhui Province	35,007	5,531	193.6	9.2%
Ma'anshan, Anhui Province	21,791	6,641	144.7	6.9%
Wuhu, Anhui Province	20,481	6,282	128.7	6.1%
Quanjiao, Anhui Province	18,484	5,836	107.9	5.1%
Guang'an, Sichuan Province	20,580	5,181	106.6	5.1%
Taizhou, Jiangsu Province	14,534	6,972	101.3	4.8%
Chizhou, Anhui Province	8,335	8,492	70.8	3.4%
Zhenjiang, Jiangsu Province	10,739	5,423	58.2	2.8%
Hanshan, Anhui Province	6,861	6,841	46.9	2.2%
Others	<u>24,700</u>	8,340	<u>206</u>	9.7%
	<u>269,416</u>	7,823	<u>2,107.1</u>	

The information set out above are unaudited figures based on the contracted sales record of the Company, which may differ from the figures to be disclosed in the annual reports or interim reports to be published by the Company on an annual or interim basis. The above figures are provided for reference only and do not mean to be complete. Investors are advised to exercise caution and not to place undue reliance on such information when dealing in the securities of the Company. When in doubt, investors are advised to seek professional advice from professional or financial advisers.

## **UPDATE ON RECENT DEVELOPMENT OF SUSPENSION OF TRADING**

### **Publication of summary of key findings of the Investigation**

In compliance with one of the Initial Resumption Conditions (as defined in the announcement of the Company dated 18 April 2019) as set out in the announcement of the Company dated 3 May 2016 and reproduced in the announcement of the Company dated 1 August 2018 regarding conducting an investigation on the matters identified by the Former Auditor of the Company in respect of the financial statements of the Company for the year ended 31 December 2015, the Company has on 31 March 2019 announced the summary of key findings of the Investigation and announced information in supplemental thereto on 16 April 2019.

### **Additional Resumption Guidance**

On 18 April 2019, the Company announced that in the letter from the Stock Exchange to the Company dated 15 April 2019, the Stock Exchange had set out Additional Resumption Guidance for the Company which form part of the Resumption Conditions (as per the definition adopted in the announcement of the Company dated 18 April 2019 to comprise the Initial Resumption Conditions and the Additional Resumption Guidance) which the Company must fulfil before it is allowed to resume trading. Please refer to the announcement of the Company dated 18 April 2019 for the details of the Additional Resumption Guidance.

### **DELAY IN PUBLICATION AND/OR DESPATCH OF OUTSTANDING FINANCIAL STATEMENTS AND REPORTS OF THE COMPANY**

On 31 January 2019, the Company published its 2015 annual report comprising, among other matters, the report of the directors of the Company at the time dated 31 March 2016 and the Former Auditor's report dated 31 March 2016 in respect of the consolidated financial statements of the Company for the year ended 31 December 2015. On 7 April 2019, the Company published its unaudited management accounts for the year ended 31 December 2018.

As at the date of this announcement, the outstanding financial statements and reports of the Company which are yet to be announced and published/despached are (i) the respective annual reports of the Company for the financial 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, and (ii) the respective interim results announcements of the Company for the six months ended 30 June 2016, 30 June 2017 and 30 June 2018, and the annual results announcement of the Company for the year ended 31 December 2016, 31 December 2017 and 31 December 2018 (collectively the “**Outstanding Financial Statements and Reports**”).

As disclosed in the Updated Resumption Timetable, it was estimated that the annual results of the Company for the years ended 31 December 2016 and 31 December 2017 would be issued by the Company by the end of April 2019. Based on the latest progress of work between the Company and the Current Auditor in relation thereto and as advised by the Current Auditor, the Outstanding Financial Statements and Reports are now expected to be published on or before the end of May 2019.

## **FURTHER ANNOUNCEMENT(S) ON MATERIAL INFORMATION AND PROGRESS**

The Company will make further announcement(s) on the material developments and progress in relation to the fulfilment of the Resumption Conditions as and when appropriate. The Company will use its best endeavours to comply with the Resumption Conditions and continue to carry on with its work for the resumption of trading of the shares of the Company on the Stock Exchange.

## **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 remain suspended until further notice pending the fulfilment of the Resumption Conditions (as defined in the announcement of the Company dated 18 April 2019).

**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, 30 April 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.*