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METaverse YUNJI TECHNOLOGY GROUP COMPANY LIMITED

元宇宙雲基科技集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8287)

KEY FINDINGS OF THE FORENSIC INVESTIGATION REPORT

This announcement is made by the board of directors (the “**Board**”) of Metaverse Yunji Technology Group Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) pursuant to Rule 17.10 of the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (the “**GEM Listing Rules**”) and the Inside Information Provisions (as defined in the GEM Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong).

References are made to (i) the announcement of the Company dated 31 October 2022 (the “**Trading Halt Announcement**”) in relation to the trading halt of the Company taken effect from 1:00 p.m. on 31 October 2022; (ii) the announcements of the Company dated 3 November 2022, 8 November 2022, 18 November 2022 and 11 September 2023 in relation to certain inside information of the Company (collectively, the “**Inside Information Announcements**”); (iii) the voluntary announcements of the Company dated 15 November 2022, 18 November 2022, 25 November 2022 and 23 December 2022 in relation to the latest updates of the Group (collectively, the “**Business Update Announcements**”); and (iv) the announcements of the Company dated 7 February 2023, 5 May 2023 and 4 August 2023 in relation to the first three quarterly updates on the status of resumption, respectively (together with the Trading Halt Announcement, the Inside Information Announcements and the Business Update Announcements, the “**Announcements**”). Unless otherwise defined, capitalised terms used herein shall have the same meaning as those defined in the Announcements.

BACKGROUND

As disclosed in the Company's announcement dated 28 November 2022, one of the conditions of the Resumption Guidance is for the Company to conduct appropriate independent investigation into the Fund Withdrawal, announce the findings of the investigation and take appropriate remedial actions.

Since the independent forensic investigation by OWKH Certified Public Accountants ("**OWKH**") has commenced, as disclosed in the Announcements dated 5 May 2023 and 4 August 2023, a great amount of time has been spent for the process of the investigation and the finalization of investigation results, which is mainly due to limited source of evidence caused by misappropriation of the Company's documents, including the Group's financial books and records by members of the Ex-management and/or employees of the Group. Also, additional findings of extra financial losses on the Company have surfaced during the course of investigation and hence extra time was also spent on conducting additional investigation work.

On 16 October 2023, OWKH finalized a forensic investigation report (the "**Forensic Investigation Report**") and submitted the same to the Board (the "**Board**") of directors of the Company. After reviewing and assessing the findings of the Forensic Investigation Report, the Board approved and adopted the Forensic Investigation Report on 17 October 2023.

OBJECTIVE OF THE INVESTIGATION

To investigate the Fund Withdrawals, OWKH was engaged to perform independent forensic review to provide (i) analysis and determination on illicit transactions; (ii) assessment of management's involvement; (iii) quantification of the financial impact; and (iv) recommendation on internal control environment.

By pursuing these objectives, this forensic investigation review aims to uncover facts, gather sufficient evidence, serve as source for the Company in understanding the nature and extent of the possible misappropriation of monies of approximately HK\$22.8 million from the Group as announced by the Company on 18 November 2022 together with another HK\$3.4 million transferred out in the same period (the "**Possible Dissipation of Funds**") and provide a basis for taking appropriate course of actions, if any, against the relevant parties.

SCOPE OF THE INVESTIGATION

The Forensic Investigation Report involves the following procedures including but not limited to:

- (i) obtain the particulars of each withdrawal or transfer in conjunction with the Possible Dissipation of Funds by checking to the bank statements and bank advices;
- (ii) interview of inquire appropriate management personnel on the details of the withdrawals or transfers;
- (iii) understand how the withdrawals or transfers were originally recorded in the books of the Company;
- (iv) determine whether there were proper authorizations on the withdrawals or transfers;
- (v) identify the identity of transferees in relation to the withdrawals or transfers;
- (vi) run a background search on the transferees and investigate whether the transferees were (or are) connected or related to the Company or its management;
- (vii) investigate if there were genuine documentary evidence in support of the withdrawals or transfers;
- (viii) investigate the purposes and natures of the withdrawals or transfers and determine if they were reasonable and had business or commercial merits;
- (ix) track the relevant emails and correspondences sent by relevant personnel of the Company, if any, to reveal the full background of the withdrawals or transfers;
- (x) conduct site visits of the registered addresses of the transferees or other locations deemed appropriate, if necessary;
- (xi) if any potential dissipation of funds is identified from the above procedures, form a preliminary view, based on the information available, on whether such transaction was more likely a mistake or intentional;
- (xii) identify any area which may require further investigation;

- (xiii) prepare an independent forensic investigation report on the findings of the above procedures; and
- (xiv) provide recommendations to the Company or any of its sub-committees on issues which require further review and remedial actions.

KEY FINDINGS OF THE INDEPENDENT FORENSIC INVESTIGATION

The Group hereby discloses the key findings and recommendations (the “**Recommendations**”) of the Forensic Investigation Report with the views of the Board as follows:

KEY FINDINGS

Misappropriation of Assets

While there were a lack of proper documentation and substantiation for the withdrawals or transfers of money indicating a failure to adhere to standard accounting practices and internal control procedures, OWKH managed to spoke to a few of the directors on the possible misappropriation of assets and the rest simply remained unreachable for inquiries regarding the suspicious transactions of the Group. Unfortunately, nobody they managed to speak to claimed to have known how and why the withdrawals or transfer from China Cloud Databases Group Co Limited were authorized. There was no clear documentation or email trail indicating approval from any authorize personnel or the Board. Also, a former director Kim Jun Yeob (“**JY Kim**”) during the interview stressed that he was the one who approved the relevant payments relating to the Possible Dissipation of Funds in Zioncom (Hong Kong) Tech Ltd (“**Zioncom HK**”) but he was merely acting as such under the instructions of another former director Kwong Chun Man (“**Kwong**”) without any supporting document or justification. Furthermore, none of the payments, especially those made between November 2022 and June 2023 was discussed within or authorized by Zioncom HK’s board. Lastly, the timing of the withdrawals or transfers in conjunction with the Possible Dissipation of Funds appeared questionable as they occurred very shortly after the rights issue which was announced by the Company on 28 February 2022 and completed on 20 September 2022 (the “**Rights Issue**”) and the 66,000,000 share options issued by the Company on 8 September 2022 (the “**Share Options Scheme**”).

According to the Forensic Investigation Report, whilst it was essential to clarify that there was no concrete evidence explicitly confirming the misappropriation of assets, several significant irregularities and red flags were identified, which, when considered together, raised concerns and indicated a very possible chance of misapplication of assets for undisclosed, potentially illicit activities and likelihood of fraudulent activities. While direct evidence explicitly confirming misappropriation may be elusive, the significant irregularities, lack of proper documentation, absence of concrete authorizations, connections between transferees and former directors, limited responses, suspicious timing, and lack of clear business justifications collectively point to this conclusion. The potential misappropriation encompassed both the transfer of funds with the proceeds from the Rights Issue and Share Options Scheme and the other payments that OWKH considered unusual and questionable (the “**Other Questionable Payments**”). As discovered by the forensic investigation review, the funds were transferred from the Company’s accounts to transferees without proper supporting documents, authorization or apparent legitimate business purposes.

Involvement of Senior Management

To determine the degree of involvement of the senior management of the Group (or the Company), OWKH established the senior management’s knowledge and potential participation in the Possible Dissipation of Funds and Other Questionable Payments by interviews.

Under the interviews, the transaction in conjunction with the Possible Dissipation of Funds were allegedly made at the instructions of former directors in the group Cheng Kwan Yu (“**Cheng**”), Chung Shing Yip and Kwong from whom there was not any available mean to seek further information. While JY Kim confirmed that he was the one who approved the relevant payments from Zioncom HK and executed and authorized the Other Questionable Payments including payments to his own personal account, he stated that he was merely acting at the instructions of Cheng and Kwong without any supporting document or justification, and he had no further legitimate explanations or justifications for the payments, which highlights the issues on the integrity and ethics of the senior management as a whole.

Incompetency and Breach of Fiduciary Duties of Former Directors

According to the Forensic Investigation Report, there were quite a few directors (including the former ones) who are possibly liable to a breach of fiduciary duties owed to the Group (or the Company).

JY Kim as the Group's CEO, CFO and an authorized signer of the bank account, naturally bore significant responsibility for ensuring transactional accuracy and legitimacy, which he had failed to do so in the following manners: (a) strong reliance on instructions from the others without independent verification; (b) lack of questioning concerning irregularities; and (c) negligence for proper control and approval processes resulting in considerable financial losses and potential damage to the Company's reputation. The Forensic Investigation Report also made comments on former directors in the Group, accusing them of failing to ensure that the financial transactions were conducted with proper authorization and adhered to internal control policies and regulatory requirements. This lack of due diligence and active inquiry on their part raises serious doubts about their effectiveness on holding offices as EDs and INEDs and the effectiveness of the Audit Committee in safeguarding the Company's interests and shareholder value.

Overall, the Forensic Investigation Report suggested incompetency and breach of their fiduciary duties of all former directors in their handling of financial transactions, evidenced by the failure to validate or questioning to relevant payments. While the Possible Dissipation of Funds took place under the oversight of them but for those OWKH has managed to speak to, none of them claimed to have any idea on the nature and purposes of the transactions and failed to justify why no proper check or questioning had ever been carried out by them.

Weaknesses in Internal Controls

As disclosed in the Forensic Investigation Report, there are several critical weaknesses in the Company's internal control policies, which significantly contributed to the misappropriation of funds and financial irregularities. These weaknesses are:

- (i) payments without supporting documents: the Company lacked a robust process to ensure that every transaction had appropriate documentation including invoices, contracts or other relevant evidence;
- (ii) no dual control in authorizing payments: only one personnel was required to approve payment transactions, which increases the risk of fraudulent activities going undetected;

- (iii) lack of accounting records: the absence of comprehensive financial records hindered the ability to track and verify financial transactions accurately;
- (iv) no effective whistleblowing policies in place: the absence of effective whistleblowing policies and mechanisms within the Company created a challenging environment for employees or stakeholders to report potential financial irregularities or misconduct;
- (v) insufficient training and awareness: the lack of sufficient training and awareness of best practices in financial management, internal controls and corporate management contributed to the failure of implementing and enforcing these effective internal controls;
- (vi) ineffective risk management: the Company's risk management practices were inadequate in identifying the addressing potential financial risks and the Company did not conduct regular fraud risk assessments, making the Company more susceptible to financial misconduct and misappropriation of funds;
- (vii) weak oversight by the Audit Committee: the Audit Committee's lack of involvement and thorough review of financial activities allowed irregularities to persist undetected; and
- (viii) delays in updating bank accessibilities: the delay in updating access permission indicated an opportunity for enhancing governance and oversight and potential vulnerability to conflicts of interest while weakening the intended separation of duties which was fundamental for strong internal controls.

RECOMMENDATIONS

Based on the key findings, the Forensic Investigation Report has listed out some recommendations as follows:

- (i) pursue appropriate legal actions against relevant individuals: The Company should engage counsel(s) who are experienced in financial fraud and corporate law, which will be essential to initiate civil or criminal proceedings, seek restitution and hold responsible parties accountable for their actions;

- (ii) engage Specialist to conduct detailed internal control review: The Company should engage a reputable specialist firm which is independent and have expertise in the internal control systems to conduct a comprehensive review on its internal control framework encompassing all aspects of financial transactions including payment authorizations, procurement processes and segregation of duties;
- (iii) conduct Financial Assurance Review: The Company should engage financial assurance specialist to assess the accuracy and reliability of its financial information and the assurance proves should encompass a detailed examination of financial records, transactions, and supporting documentation;
- (iv) review Transactions for Compliance with Respective GEM Listing Rules: A review as part of the post-investigation actions should be conducted involving assessment of whether the transactions were properly disclosed and appropriately authorized. Assessment as to whether any connected-party transactions were appropriately disclosed and approved as per the GEM Listing Rules' Guidelines should be made as well; and
- (v) strengthen Internal Controls: The Company should implement comprehensive internal control policies and procedures to ensure proper authorization, verification and documentation of financial transactions, including strengthening oversight of the Board and the Audit Committee, assessing the fit and properness of each senior management, enhancing record-keeping practices, strengthening whistleblowing policies, reviewing and updating authorized signatories, conducting effective risk assessments, providing regular training and awareness programs and fostering a culture of ethical conduct.

VIEWS AND OVERALL RESPONSES FROM THE BOARD AND REMEDIAL ACTIONS TAKEN BY THE BOARD

The Board has reviewed the Forensic Investigation Report and the Recommendations made by OWKH. The Board agreed with the Recommendations and has resolved that the Recommendations shall be implemented as soon as practicable. Accordingly, the following Recommendations have been implemented as at the date of this announcement:

- (i) commenced High Court action against relevant former directors and employees for the recovery of Group's property in April 2023;

- (ii) issued demand letters against the relevant parties for retrieving the Possible Dissipation of Funds in May 2023;
- (iii) engaged specialists to conduct the internal control review in July 2023 despite the process has been temporarily suspended because of the insufficiency funding;
- (iv) engaged specialist to conduct the financial review in July 2023 despite the process has been temporarily suspended because of the insufficiency funding; and
- (v) changed the payment authorization to joint authorization in the account of HSBCNets, the HSBC ebanking system of Zioncom HK in early July 2023.

POLICE REPORTING

In light of the seriousness and the urgency of the situation, the Investigation Team has filed a case in relation to the additional Withdrawals to the Hong Kong Police Force on 5 September 2023 (the “**Case**”) and is also considering a possible civil claim against the relevant Ex-management to recover the dissipated fund (the “**Claim**”). The Company will seek legal advice from legal advisors and will publish further announcement(s) to inform the shareholders of the Company of the progress of the Case and the Claim from time to time respectively.

CONTINUED SUSPENSION OF TRADING

At the request of the Company, trading in the shares of the Company on the Stock Exchange has been halted with effect from 9:00 a.m. on 7 November 2022. Trading in the shares of the Company will remain suspended until further notice.

By Order of the Board
Metaverse Yunji Technology Group Company Limited
Tang Yuxiao
Executive Director

Hong Kong, 17 October 2023

As at the date of this announcement, the Board comprises Mr. Tang Yuxiao, Mr. Zhao Xiuming, Ms. Cai Peiyao and Mr. Chan Wang Fai as executive Directors and Mr. Ng Thiam Chye (Alias Huang Tiancai), Mr. Wang Yow Hsiong and Mr. Lam Chiu Chuen as independent non-executive Directors.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

This announcement will remain on the “Latest Listed Company Information” page of the Stock Exchange’s website at www.hkexnews.hk for at least 7 days from the date of its publication.