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CECEP COSTIN NEW MATERIALS GROUP LIMITED (IN PROVISIONAL LIQUIDATION)

中國節能海東青新材料集團有限公司(臨時清盤中)

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2228)

KEY INVESTIGATION FINDINGS IN RELATION TO MISAPPROPRIATION OF FUNDS BY A FORMER DIRECTOR

Financial Adviser to the Company



禹銘投資管理有限公司
YU MING INVESTMENT MANAGEMENT LIMITED

This announcement is made by CECEP COSTIN New Materials Group Limited (In Provisional Liquidation) (the “**Company**”) pursuant to Rule 13.24A of the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

Reference is made to various announcements published by the Company dated 15, 19, 22 and 30 August 2016, 22 and 30 September 2016, 14, 20 and 27 October 2016, 11 and 29 November 2016, 13 and 16 December 2016, 5, 19 and 24 January 2017, 26 June 2017, 19 and 24 January 2018 and 13 July 2018 (each an “**Announcement**” and together the “**Announcements**”).

As disclosed in the Announcements dated 19 and 24 January 2018, on 24 January 2018, the Stock Exchange placed the Company into the Third Delisting Stage (as defined in the Announcement dated 19 January 2018) under Practice Note 17 to the Listing Rules. The Company was required to provide to the Stock Exchange a viable resumption proposal by 9 July 2018 addressing the Resumption Conditions. The Resumption Proposal was submitted by the Company to the Stock Exchange on 9 July 2018.

Pursuant to one of the Resumption Conditions, the Company is required to conduct an appropriate investigation on the Misappropriation (as defined in the Announcement dated 22 August 2016) by Mr. Chim (as defined in the Announcement dated 22 August 2016), a former executive director and co-chairman of the Company, disclose the findings of the investigation, assess the impact on the Company’s financial and operational positions, and take appropriate remedial actions. Mr. Chim’s duties and functions as a director of the Company had been suspended since 15 August 2016.

In this announcement, the Joint Provisional Liquidators (the “**JPLs**”) of the Company provide further details in relation to (i) the key findings of the Investigation; and (ii) remedial actions taken or to be taken by the Company and/or the JPLs on the Company’s behalf.

BACKGROUND TO THE INVESTIGATION

Following the Misappropriation allegations, the Company’s board of directors (“**Board**”) established the Special Investigations Committee (“**SIC**”) to conduct an inquiry into the alleged Misappropriation by Mr. Chim. The SIC comprised all three of the then independent non-executive directors of the Company (“**INEDs**”), namely Mr. Wong Siu Hong, Mr. Feng Xue Ben and Mr. Xu Qinghua. Each of the INEDs has since resigned from the Board, with effect from 9, 10 and 14 July 2018 respectively.

As disclosed in the Announcement dated 30 September 2016, the SIC, through its legal advisers, appointed Deloitte Advisory (Hong Kong) Limited (the “**Forensic Accountant**”) to conduct a forensic investigation (the “**Investigation**”), to assess the impact of Mr. Chim’s actions on the Company’s financial and operational positions, and take or recommend appropriate remedial actions.

On 3 November 2017, the Forensic Accountant issued an independent investigation report which detailed its findings in relation to Mr. Chim’s alleged Misappropriation, covering the period from 1 January 2014 to 31 August 2016 (“**Report**”).

On 14 November 2017, Mr. Simon Conway, Mr. Yat Kit Jong and Mr. Man Chun So of PricewaterhouseCoopers were appointed as JPLs of the Company by an order of the Grand Court of the Cayman Islands. The JPLs’ appointment was recognised by an order of the High Court of Hong Kong dated 14 March 2018.

Based on information available to the JPLs, there was no record that the SIC has formed any opinion or view in respect of the findings under the Investigation, nor has the SIC expressed a view on the relevant financial and operational impact of the Misappropriation to the Company.

THE INVESTIGATION

Pursuant to the Report, the following work and procedures were carried out by the Forensic Accountant:

- (a) visiting the account-holding banks of certain bank accounts of the three main operating subsidiaries of the Company, auditing fund transactions for the said subsidiaries against the internal system records of the Company;
- (b) obtaining statements of certain bank accounts and carrying out verification work on the bank balances;
- (c) obtaining and assessing corporate credit reports on the major subsidiaries of the Company which are incorporated in China;
- (d) obtaining and assessing the internal documents and financial records of the Company and its key subsidiaries, including the consolidated financial statements, account balance sheet, subsidiary ledgers, bank loans and credit guarantee contracts;

- (e) carrying out a sampling test on large bank transactions, inspecting the bank subsidiary ledgers, bank statements and the financial vouchers and other supporting documents for certain major payment transactions;
- (f) carrying out a background investigation on Mr. Chim and his investments, and those of his spouse and his relatives, and his appointments as director, supervisor or manager of entities, and identifying the affiliated enterprises of Mr. Chim;
- (g) carrying out searches on the publicly available databases of the courts in China at the district, city, provincial, national level and various other levels, to assess the public litigation records of Mr. Chim, his spouse and his relatives, as well as his affiliated enterprises and key subsidiaries of the Company;
- (h) interviewing relevant employees and management personnel of the Group at the relevant offices of the Group, including Mr. Chim himself, as well as more than 20 other employees; and
- (i) obtaining data from the computers and company emails of Mr. Chim, his relatives, the management personnel and personnel responsible for the accounting books and funds management of the Company and its key subsidiaries, as well as the accounting systems of the key subsidiaries, and carrying out a forensic analysis on such data.

KEY FINDINGS OF THE INVESTIGATION AND IMPACT OF THE MISAPPROPRIATION ON THE COMPANY

The following are key findings of the Investigation as set out in the Report:

- (a) There are discrepancies in bank balances, loan balances and external credit facilities between what had been disclosed in the annual reports of the Company and the statements and records received from the banks and credit agencies for the financial years of 2014, 2015 and 2016 (up to 31 August 2016);
- (b) There are omissions in the Company's annual reports for the financial years of 2014 and 2015 in respect of external guarantees provided by the Company's subsidiaries to third parties;
- (c) Since 2012, three subsidiaries of the Company have kept two sets of accounting records; and
- (d) Unauthorised payments were made from the bank accounts of a subsidiary of the Company to the bank accounts of Mr. Chim and his brother and the then director of the Company, Mr. Chim Wai Shing Jackson, and/or their connected entities between 2012 and 2016.

The JPLs are considering the findings in the Report and reserve the rights to take any legal action against certain parties in relation to the misconduct of Company's affairs.

REMEDIAL ACTIONS TAKEN OR TO BE TAKEN BY THE COMPANY

As disclosed in the Announcement dated 13 July 2018, on 16 May 2018, the Company and the Investor entered into the Restructuring Agreement (as defined in the Announcement dated 13 July 2018) principally relating to the proposed Acquisition (as defined in the Announcement dated 13 July 2018) by the Company of several target companies which are engaged in property investment in Hong Kong ("**Target Group**"), which, if consummated, will constitute a very substantial acquisition and a reverse takeover involving a new listing application of the Company under the Listing Rules.

Upon completion of the transactions contemplated under the Restructuring Agreement:

- (a) the Target Group will become the only operating subsidiaries of the Company;
- (b) the existing assets of the Company, including but not limited to any potential legal claims the Company may have, will be transferred or assigned to a single-purpose-vehicle pursuant to the terms of schemes of arrangement to be made between the Company and its creditors;
- (c) all existing directors of the Company will resign/be removed prior to the resumption of trading in the shares of the Company, and new Board members, who are intended to have the character, experience and integrity to fulfil their role as directors of the Company and be able to demonstrate a standard of competence commensurate with their position as directors of the Company, will be appointed prior to the resumption of trading; and
- (d) an internal control consultant will be appointed to review the internal control procedures of the Target Group and the Company to ensure compliance with the Listing Rules.

By completing the transactions contemplated under the Restructuring Agreement, it is intended that the previous problems associated with the Company's existing operating subsidiaries, business operations, assets, and integrity of the existing management and shareholders of the Company will be resolved.

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 3:17 p.m. on 15 August 2016. Trading in the shares of the Company will continue to be suspended until further notice and until full satisfaction of the Resumption Conditions and such other further conditions that may be imposed by the Stock Exchange.

Shareholders of the Company and potential investors are advised to exercise caution when dealing in the shares of the Company.

For and on behalf of
CECEP COSTIN New Materials Group Limited
(In Provisional Liquidation)
Man Chun So
Yat Kit Jong
Simon Conway
Joint Provisional Liquidators
Acting as agents without personal liability

Hong Kong, 24 July 2018

As at the date of this announcement, the board of directors comprises three executive directors, Mr. Xu Zhou, Mr. Wang Li, and Mr. Yang Yonghui and two non-executive directors, Mr. Zeng Wu and Ms. Ma Yun.