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WUZHOU INTERNATIONAL HOLDINGS LIMITED

五洲國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 01369)

UPDATE ON SPECIAL INVESTIGATION COMMITTEE SUPPLEMENTAL ANNOUNCEMENT

This announcement is made by the board (the “**Board**”) of directors of Wuzhou International Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) pursuant to Rule 13.09 of the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) and the Inside Information Provisions under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

References are made to the announcements of the Company dated 20 September 2019, 18 October 2019 and 28 October 2019 in relation to the update on special investigation committee (the “**Previous Announcements**”). Unless otherwise defined, capitalized terms in this announcement shall have the same meanings as those defined in the Previous Announcements.

BACKGROUND OF THE INVESTIGATION

On 24 July 2018, the Company has appointed RSM Corporate Advisory (Hong Kong) Limited as an independent advisor (the “**Independent Advisor**”).

On 17 September 2018, the Company announced that upon receiving certain enquiries from the Independent Advisor, the Board has become aware that, subsequent to 31 December 2017, the Company may have transferred the equity interest of certain subsidiaries and such transfers had not been approved by the Board (the “**Suspected Unapproved Transfers**”). A special investigation committee (the “**SIC**”) which comprises Mr. Zhou Chen, Dr. Song Ming, Prof. Shu Guoying and Mr. Liu Chaodong was established on the same date to investigate the Suspected Unapproved Transfers.

On 24 October 2018, the SIC, with the consent of the Company, engaged the Independent Advisor to perform an independent review into the Suspected Unapproved Transfers.

On 20 September 2019, the Company announced that the Independent Advisor has provided a preliminary draft report (the “**Preliminary Report**”) to the SIC on the Suspected Unapproved Transfers. The preliminary findings in the Preliminary Report have been announced in the Company’s announcement dated 28 October 2019.

As disclosed in the Company’s announcement dated 18 October 2019, having considered the findings in the Preliminary Report and upon further discussion with the auditors of the Company, the SIC has resolved that it will proceed with the following follow-up actions:

- (1) to confirm with the Independent Advisor as to whether there is any unauthorized fund transfers (the “**Unauthorised Fund Transfers**”) during the period between April and July 2018 (the “**Relevant Period**”);
- (2) to further improve the internal control measures of the Company; and
- (3) to provide a copy of the Preliminary Report to the auditors of the Company once it is finalised as one of the documents provided for annual audit purpose.

The Company hereby announces that the Independent Advisor has completed their independent review on (i) the Suspected Unapproved Transfers and (ii) Unauthorised Fund Transfers as required by the SIC. The Independent Advisor has submitted their final reports on the above matters (the “**Final Reports**”) to the SIC. Under the instruction of the SIC, the Final Reports have also been provided to the auditors for annual audit purposes.

KEY FINDINGS OF THE INDEPENDENT REVIEW BY THE INDEPENDENT ADVISOR

Suspected Unapproved Transfer

Set out below are the findings in relation to the Suspected Unapproved Transfers. The Independent Advisor noted that:

Reporting/Approval Procedures

1. since 1 January 2018, there were in total 15 Suspected Unapproved Transfers, 13 of which had been completed, while the remaining 2 were subject to dispute or official registration. Based on the information gathered by the Independent Advisor, the basis for these Suspected Unapproved Transfers could be classified into 3 categories:
 - a. for brand exporting through transfer of entities, in which the third party transferees shall pay the brand use fee to the Group for the use of the brand attached to the transferred entities;
 - b. for strategic cooperation purpose; and
 - c. for settlement of debt owed by the Group;
2. each of the Suspected Unapproved Transfers had not been reported to the Board;

3. save for one Suspected Unapproved Transfers where the Company had taken remedial action and published an announcement on 20 August 2018 upon becoming aware of it, the Board was not informed of the remaining 14 Suspected Unapproved Transfers and had therefore failed to comply with the relevant reporting, announcement and shareholders' approval requirements of a notifiable transaction as required under Chapter 14 of the Listing Rules;
4. Mr. Shu Cecheng and/or Mr. Shu Cewan (“**Messrs Shu**”) were the legal representatives and/or senior management of the controlling shareholders of the subject entities transferred at the time when the Suspected Unapproved Transfer took place. Messrs Shu were also executive directors of the Company at the material time and had failed to report and disclose the potential transfer of the entities to the Board. As all the Suspected Unapproved Transfers were executed by either one of Messrs Shu, Messrs Shu are likely to be held responsible for the Company's failure in complying with the relevant requirements under Chapter 14 of the Listing Rules;
5. Messrs Shu explained that at the material time, the Company did not have any policy or procedures in place for reporting transfer of assets or equity interest of subsidiaries to the Board and/or management and hence they were not aware that the Suspected Unapproved Transfers had to be reported to the Board for approval. It was not until September 2018 did the Company set out the policy and procedures for reporting transfer of assets or equity interest of subsidiaries to the Board and/or management;
6. since the Company had not put in place clear reporting and approval policy or procedures for reporting transfer of assets or equity interest of subsidiaries at the time of the Suspected Unapproved Transfers, the Independent Advisor was unable to conclude whether the Suspected Unapproved Transfers were the result of the lack of clear policy or procedures or the willful withholding of the information by Messrs Shu; and

Considerations for the Suspected Unapproved Transfers

7. the considerations for certain of the Suspected Unapproved Transfers were below the net asset value or valuation of the subject entities in the month prior to the transfers and some had yet been received. Based on the explanation of Messrs Shu and the relevant staff members involved in the transfers, the relevant entities were either loss making, do not have substantive business operations or have completed most of the sales of their property developments. The Board should further evaluate if the interest of the Company has been sufficiently protected.

Unauthorized Fund Transfer

Set out below are the findings in relation to the Unauthorized Fund Transfer.

The Independent Advisor noted that:

1. during the Relevant Period, the Company made 30 transactions which involved payments with amount equivalent to RMB10,000,000 or above.
2. amongst the 30 transactions reviewed, all the transactions have complied with the relevant approvals as required under the applicable payment procedures, except for the 5 transactions as follows:
 - a. Transaction 1 — approval has only been obtained from the financial controller but not other approvers as required under the applicable payment procedures. The relevant finance personnel explained that the payment was made to rectify a previous payment mistakenly paid to a wrong recipient;
 - b. Transaction 2 — this payment did not comply with the applicable external payment approval procedures. The relevant finance personnel explained that this payment was associated with the issuance of a bank's acceptance bill previously approved pursuant to the internal payment approval procedure (as the issuance of bank's acceptance note involved only transfer of funds into a designated bank account of the relevant subsidiary and hence did not involve external payment);
 - c. Transaction 3 — this payment was only approved by the segment head and financial controller but not other approvers as required under the applicable payment procedures. The relevant finance personnel explained that the payment was made on an urgent basis to avoid overdue loan repayment, and while the approval from the chief executive officer (whose approval is required for the transaction) had not been formally obtained, he was notified and was aware of the transaction;
 - d. Transaction 4 — this payment did not comply with the external payment approval procedures as the relevant finance personnel considered that the payment did not constitute an external payment. Based on the information obtained by the Independent Advisor, the funds were subsequently repaid to the relevant subsidiary of the Company on the same day;
 - e. Transaction 5 — this payment was only approved by the chief executive officer but not other approvers as required under the applicable payment procedures. The relevant finance personnel explained that the transaction was made on an urgent basis to repay a short-term loan and while approvals have not been obtained from other approvers, approval from the chief executive officer (who is the final approver in the approval process) has been obtained; and
3. there were no discrepancies among the bank account records and the internal records of all the subsidiaries of the Company.

VIEWS AND RECOMMENDATIONS OF THE SPECIAL INVESTIGATION COMMITTEE

The SIC has carefully considered the findings of the Final Reports and has formed the following views:

- (1) the Independent Advisor, which is properly qualified and possesses the relevant credentials and experience in conducting reviews of similar nature, has taken, to the extent that is reasonably practicable, all necessary and appropriate methods and procedures to investigate the Suspected Unapproved Transfer and Unauthorised Fund Transfers;
- (2) the findings of the Final Reports revealed deficiencies in the Company's internal control system in areas including reporting and approval of potential notifiable transactions of the Group and payment process;
- (3) the findings concluded that Messrs Shu are likely to be held responsible for the Company's failure in complying with the relevant requirements under Chapter 14 of the Listing Rules. The SIC noted that Mr. Shu Cecheng and Mr. Shu Cewan have already stepped down from the Board on 19 June 2019 and 23 July 2020 respectively;
- (4) the findings also revealed a lack of understanding or awareness of certain former directors and relevant staff members in respect of the reporting and approval of potential notifiable transactions of the Group and payment process;
- (5) the Unauthorised Fund Transfers were not related to the Suspected Unapproved Transfers; and
- (6) whilst there is no evidence of embezzlement of funds or misappropriation of assets as a result of the Suspected Unapproved Transfers or Unauthorised Fund Transfers, there remains doubt as to whether the interest of the Company has been sufficiently protected in respect of the Suspected Unapproved Transfers.

In view of the above, the SIC has made the following recommendations to the Board:

- (1) an internal control consultant shall be engaged to review the internal control system of the Group and make recommendations;
- (2) the Company shall take steps to improve the awareness and understanding of internal control policy and procedures; and
- (3) the Company may seek further legal or professional advice as to whether the Company has suffered any damages as a result of the Suspected Unapproved Transfers which may warrant the Company taking further legal actions.

REMEDIAL ACTIONS TAKEN

The Final Reports and the views and recommendations from the SIC have been reviewed, considered and endorsed by the Board. The Board has taken the following remedial actions since the Preliminary Reports were submitted to address concerns over the internal control of the Group:

(1) Enhancement of Internal Control

The Board, together with the legal advisors of the Company, have compiled an internal memorandum regarding reporting requirements and procedures of transactions which may have Listing Rules implications (the “**Memorandum**”). Pursuant to the Memorandum, the management and the relevant staff members of the Group are required to report any transactions which may have Listing Rules implications to the Board to assess the applicable compliance requirements before entering into any such transactions. The Memorandum was completed in November 2018 and was circulated to all relevant management and staff members thereafter.

In addition to the implementation of the Memorandum, the Company has also taken the following steps to improve the internal control of the Group:

- (a) circulated reminders on the Company’s internal control procedures to the staff of the Group on a regular basis to alert them and increase their awareness on the importance of observance of the internal control procedures;
- (b) conducted regular training sessions for all Directors, senior management and relevant personnel of the Group to ensure that necessary financial and internal control measures (especially those relevant to notifiable transactions and connected transactions) are properly and effectively implemented and observed;
- (c) carried out regular on-site inspection of major subsidiaries and investment companies to monitor their operating conditions; and
- (d) performed internal audit to review any deviations on the Company’s internal control procedures.

(2) Internal Control Review

The Company engaged Zhonghui ANDA Risk Services Limited as the internal control consultant of the Company to review the internal control systems and financial reporting procedures of the Group.

The internal control review has been completed and the internal control consultant issued its report on 24 August 2020. The scope of work of the internal control consultant included an independent assessment of the internal control systems of the Group covering financial reporting procedures, tax reporting procedures, receivables recording and collection procedures, recording procedures on sales process, cash and treasury management, etc.

The internal control consultant recommended improvements and/or remedial measures which addressed, among other things, the recommendations of the SIC. The Company considered and implemented the recommendations of the internal control consultant to strengthen the internal control measures of the Company.

The internal control consultant was satisfied that the Company has implemented the recommended improvements and/or remedial measures and, as at the date of the internal control review report, no material deficiency in the Group's internal control was brought to its attention.

Having reviewed the findings and results of the report on the internal control review prepared by the internal control consultant, and having taken into consideration the improvements and/or remedial measures implemented in accordance with the internal control consultant's recommendations, the Board is of the view that the Company has put in place adequate internal control measures and financial reporting procedures to meet its obligations under the Listing Rules.

(3) Legal Advice on Suspected Unapproved Transfers

The Company is currently seeking legal advice as to whether the Company has suffered any damages as a result of the Suspected Unapproved Transfers which may warrant the Company taking further legal actions. Further announcement will be made to update on the progress of the matter as and when appropriate.

CONTINUED TRADING SUSPENSION OF THE SHARES OF THE COMPANY

Trading in the shares of the Company on the Stock Exchange was suspended with effect from 9:00 a.m. on 3 September 2018 and will remain suspended until further notice. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the shares of the Company.

By Order of the Board
WUZHOU INTERNATIONAL HOLDINGS LIMITED
Shen Xiaowei
Executive Director and Chief Executive Officer

Hong Kong, 24 August 2020

As at the date of this announcement, the Board comprises four executive directors of the Company, being Mr. Shen Xiaowei (Chief Executive Officer), Mr. Zhu Yongqiu, Ms. Cai Qiaoling and Mr. Zhou Chen, and three independent non-executive directors of the Company, being Dr. Song Ming, Prof. Shu Guoying and Mr. Liu Chaodong.