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CHINA SAITE GROUP COMPANY LIMITED

中國賽特集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 153)

MAIN FINDINGS OF THE INDEPENDENT INVESTIGATION

This announcement is made by China Saite Group Company 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**”), the Inside Information Provisions (as defined under the Listing Rules) 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 21 June 2020, 22 June 2020, 22 July 2020, 5 October 2020, 19 November 2020, 8 December 2020, 26 March 2021, 7 May 2021, 22 June 2021, 13 September 2021, 21 September 2021, 22 October 2021, 21 December 2021, 21 January 2022 and 4 February 2022 (the “**Announcements**”) in relation to, among others, the suspension of trading in the shares of the Company on the Stock Exchange pending the publication of the annual results of the Group for the years ended 31 December 2019 and 2020, the resumption guidance and additional resumption guidance issued by the Stock Exchange (the “**Resumption Guidance**”), the resignation of auditor of the Company, update on the independent investigation and the quarterly updates on the progress of fulfilling the Resumption Guidance. Unless otherwise defined, capitalised terms used herein shall have the same meanings as those defined in the Announcements.

BACKGROUND

Trading of the shares of the Company has been suspended since 22 June 2020 pending release of its annual results for the financial year ended 31 December 2019. It was because during the course of 2019 Audit, Crowe (HK) CPA Limited (“**Crowe**”), the then auditor of the Company has found out certain major litigations against, among others, certain subsidiaries of the Company in the PRC that may have a material impact on the 2019 Audit. As such, as stated in the Resignation Letter, it has not been able to complete certain audit procedures for the 2019 Audit and has tendered its resignation with effect from 19 June 2020.

One of the Resumption Guidance is to conduct an appropriate independent investigation into the issues identified in the Resignation Letter, announce the findings and take appropriate remedial actions.

In order to fulfil this Resumption Guidance, the Company has established the Independent Board Committee to conduct an Independent Investigation into the issues identified in the Resignation Letter (the “**Identified Matters**”) and other matters which have arisen during the course of the review. The Independent Board Committee has engaged the Independent Legal Adviser to provide legal advice to the Independent Board Committee on matters relating to the Independent Investigation, and through the Independent Legal Adviser, has engaged RSM Corporate Advisory (Hong Kong) Limited as the independent adviser (the “**Independent Adviser**”) to provide professional services and assistance.

Independent Investigation

During the Independent Investigation, the Independent Adviser had requested information and explanations to be provided by the Company on the Identified Matters and other related matters (through the then management of the Company) and received two sets of explanations and supporting documents in the process. According to the first set of explanations and supporting documents, some of the guarantees and loans relating to banks under the Identified Matters and other related matters (1) were made at the request of the government to undertake and/or transfer the non-performing loans of independent third party enterprises; (2) the government undertook that the risk arising from the loans would be borne by the government; (3) the funds of the relevant loans have not been remitted or returned through any bank account of the Group; (4) the relevant litigations have been withdrawn; and/or (5) the creditors have confirmed in writing that the Group’s repayment and/or guarantee liability has been released. The Independent Adviser subsequently found that the status of some of the litigations was inconsistent with the first set of explanations and supporting documents. Thereafter, the Independent Adviser received a second set of explanations and supporting documents from the Company, as well as direct access to the courts in Mainland China (“**Mainland Court**” or “**Mainland Courts**”) for extracting the documents relating to the Identified Matters and other related matters. The Independent Adviser found that there were differences between two sets of explanations and supporting documents in respect of (1) the use of the borrowings in relation to the relevant transactions; (2) the level of government’s involvement; (3) whether the remittance and repayment of the loans were made through the Group’s bank accounts; (4) the Group’s repayment liability; and (5) the status of litigations.

Based on the available information, the Independent Adviser believes that the second set of explanations and supporting documents and the court filings are probably closer to the true background or circumstances. The main findings of the Independent Adviser primarily relying on the second set of explanations and supporting documents and court filings are set out below.

Summary of the main findings of the Independent Investigation

1. *Litigations in relation to two overdue loans granted to Jiangsu Saite by two individuals*

Background

In the process of conducting the 2019 Audit, Crowe noted Jiangsu Saite, an indirect wholly-owned subsidiary of the Company, was involved in two litigations relating to two overdue loans obtained from two respective individuals under the name of Jiangsu Saite with guarantee provided by Mr. Jiang, the then Chairman of the Board and legal representative of Jiangsu Saite, and the funds obtained from the two overdue loans were directly deposited into Mr. Jiang's bank account. Mr. Jiang has fully repaid the relevant amounts under the two loans subsequent to 31 December 2019. During the course of audit, the overdue loans had not been recorded in the consolidated statements of financial position as at 31 December 2018 and 2019.

Main Findings

For the purposes of these transactions and subject to certain limitations, the main findings of the Independent Adviser are as follows:

(a) Transaction between Jiangsu Saite and Individual A

- (i) Since 2014, Jiangsu Saite has borrowed from and made several loan repayments with Individual A. However, the second set of explanatory and supporting documents provided by the Company and the court filings have not listed out the loans ultimately involved in the litigation. Since 2016, Individual A (as creditor), Jiangsu Saite (as debtor) and Mr. Jiang (as guarantor) have entered into several repayment agreements.
- (ii) As at 16 February 2016, Jiangsu Saite still owed RMB13,256,250 to Individual A, after which Jiangsu Saite repaid the principal amount of RMB1,256,250 and the principal amount of RMB12,000,000 remained outstanding. From 2018 to 2019, Jiangsu Saite repaid a total of RMB2.81 million to Individual A in seven instalments.
- (iii) Individual A sued Jiangsu Saite and Mr. Jiang on 24 February 2019 to recover the principal and interest of the loan from Jiangsu Saite and Mr. Jiang. The Mainland Court issued a civil judgment on 1 November 2019, ruling that Jiangsu Saite should repay the principal amounting to RMB12 million and interest to Individual A, and Mr. Jiang undertook joint and several guarantee liability for the aforesaid debt of Jiangsu Saite.

(b) Transaction between Jiangsu Saite and Individual B

- (i) On 3 November 2015, Individual B (as lender) entered into a loan agreement with Jiangsu Saite for RMB24 million with a term from 3 November 2015 to 10 November 2015, and Mr. Jiang undertook joint and several guarantee liability for the repayment of principal and interest of the loan made by Jiangsu Saite.

- (ii) Individual B sued Jiangsu Saite and Mr. Jiang on 2 November 2018 to recover the principal and interest of the loan from Jiangsu Saite and Mr. Jiang. The Mainland Court issued a civil mediation statement on 3 December 2018, stating that the plaintiff and the defendant had voluntarily reached an agreement that Jiangsu Saite shall repay the plaintiff (Individual B) the principal and interest of the loan in the total amount of RMB23 million by the end of December 2019. Mr. Jiang undertook joint and several guarantee liability.
- (iii) Subsequently, Individual B applied to the Mainland Court for enforcement of the civil mediation statement, which was filed on 13 March 2019. On 22 May 2019, Individual B applied for withdrawal of the execution application as he had reached a settlement agreement with Jiangsu Saite. On 3 June 2019, the Mainland Court issued the Enforcement Ruling to terminate enforcement of the above case.
- (c) Both Individual A and Individual B admitted that the debts related to Jiangsu Saite were the personal debts of Mr. Jiang. The debts were paid through Jiangsu Saite's account only for the purpose of having the debt being paid through the account of Jiangsu Saite, and the payment was arranged by Mr. Jiang personally into Jiangsu Saite's account, that is why the relevant debts were credited to Jiangsu Saite's account. However, the Independent Adviser did not find any evidence of the transfer of funds to and from Mr. Jiang's personal account.
- (d) According to the information provided by the Company to the Independent Adviser, Individual A and Individual B issued an undertaking on 23 December 2021 to waive all repayment obligations of Jiangsu Saite, and all debts shall be borne and repaid by Mr. Jiang personally. During the course of the Independent Investigation, the Independent Adviser did not find or receive any court documents proving that the joint and several liability of Jiangsu Saite had been discharged.
- (e) The Independent Adviser noted that (1) neither Individual A nor Individual B was an associate of the Group; (2) some of the above borrowings were approved by the board of Jiangsu Saite but were not notified to the board of the Company; and (3) the above borrowings were all made through the bank accounts of Jiangsu Saite but such borrowing transactions were not reflected in the Group's accounting records.

2. *Litigation in relation to guarantee provided to Bank A*

Background

In the process of conducting the 2019 Audit, Crowe noted that in 2019, Jiangsu Saite and Mr. Jiang provided a guarantee (the “**Guarantee**”) for a bank loan amounting to RMB35,000,000 granted by Bank A to an entity outside the Group (whose ultimate beneficial owner was an independent third party of the Company and its connected persons) by signing a guarantee agreement with Bank A on 5 January 2019 in respect of the loan. Subsequently, the entity outside the Group was unable to repay the loan and Bank A sued Jiangsu Saite in November 2019, demanding the repayment of the loan. According to the fact sheet issued by Bank A on 27 April 2020, it is confirmed that Bank A agreed to release the Guarantee and the guarantors, Jiangsu Saite and Mr. Jiang, were replaced by another entity outside the Group. At that time, Crowe has not obtained the necessary information to ascertain the fair value of the Guarantee and to perform the relevant assessments according to accounting standards.

Main Findings

In relation to the above Guarantee and litigation, the Independent Adviser received a response from the Company that it did not identify any transactions in relation to the above litigation but the Company provided another set of documents in relation to the transactions with Bank A. However, the borrowers and guarantors involved, the amount of the transactions and the year of the litigation stated in those documents are different from those identified in the above resignation letter.

For the purposes of the documents provided by the Company and subject to certain limitations, the main findings of the Independent Adviser are as follows:

- (a) On 6 September 2015, Jiangsu Saite signed a credit facility contract (“**Loan Contract A**”) with Bank A, pursuant to which Bank A provided Jiangsu Saite with a credit facility with a maximum limit of RMB36 million for a term of 9 months for the purpose of settling the debts under two other credit facility contracts. As the Company informed the Independent Adviser, upon the release of the loan under Loan Contract A, RMB23 million was transferred to a third party company (“**Company A**”) and the remaining RMB13 million was transferred to another third party company (“**Company B**”) for actual use by such Company A and Company B. However, the Company did not provide any evidence of such assertion. The Independent Adviser notes that neither Company A nor Company B is an associate of the Group.
- (b) On 17 September 2015, Jiangsu Saite signed a short term loan contract (“**Loan Contract B**”) with Bank A, pursuant to which Jiangsu Saite borrowed RMB8,797,458.44 from Bank A for a term of 6 months for the purpose of repaying the debts under another credit facility contract by borrowing new loan. As the Company informed the Independent Adviser, after Loan Contract B was released, the full amount of the loan was transferred to Company B for actual use by Company B. However, the Company did not provide any evidence of such assertion.

- (c) As the Company informed the Independent Adviser, the borrowings under Loan Contract A and Loan Contract B are paid to Company A and Company B at Mr. Jiang's sole discretion and arrangement. However, the Company did not provide any evidence of such assertion. Except for the bookkeeping vouchers and customer transfer slips, the Company has not provided to the Independent Adviser, the bank transfer vouchers, bank transaction statements, bank statements, accounting and bank accounts records of the relevant borrowings and transfers, nor the reasons for the transfers to Company A and Company B, nor the explanations as to why the borrowings were used for repayment of loans and the amounts were eventually transferred to Company A and Company B.
- (d) Bank A commenced a lawsuit against, among others, Jiangsu Saite on 7 August 2017 for the repayment of the principal amount of RMB44 million and interest, penalties and compound interest ("**Non-Performing Loan A**"). According to an enforcement notice issued by the Mainland Court on 15 November 2019, Bank A has assigned the debts under the Non-Performing Loan A to an asset management company. On 15 November 2019, the Mainland Court demanded the defendants, including Jiangsu Saite, to repay RMB34,437,009.37 and interest on general debts, plus penalty interest and fee incurred in the application for enforcement to the above asset management company pursuant to an enforcement application filed by the asset management company. The Mainland Court subsequently ruled on 1 December 2020 that the above enforcement action was terminated on the ground that there was no property available for enforcement currently.
- (e) In the opinion of the Independent Adviser, unless there is evidence that the case has progressed otherwise, Jiangsu Saite shall remain liable for the debts set out in the aforesaid enforcement notice, notwithstanding that the enforcement action has been adjudged to be terminated.
- (f) The Independent Adviser noted that the Non-Performing Loan A had been remitted or repaid through the bank account of Jiangsu Saite, but such borrowing transactions were not reflected in the Group's accounting records. According to the information received by the Independent Adviser from the Company, that according to the understanding of the finance department, the Non-Performing Loan A was a loan coordinated by Mr. Jiang, who had not informed the finance department of the use of the funds and did not have the corresponding vouchers. Therefore, the finance department was unable to record the loan in the account and the account could not be verified.
- (g) The Independent Adviser also noted that Jiangsu Saite had issued a board resolution on 1 September 2015 agreeing to apply for a credit facility of RMB44 million from Bank A, which mentioned, among other things, that Mr. Jiang had provided security and guarantee for the credit facility. However, the board resolution did not specify the number of the credit facility contract in question, and the Company has not provided to the Independent Adviser, the relevant approval documents for the usage of the seals for the above-mentioned board resolution and any approval documents for the usage of the seals for the relevant loan documents of Jiangsu Saite. Therefore, the Independent Adviser has not found any evidence to prove that the signing of the above-mentioned loan documents had undergone internal approval process.

3. *Litigation in relation to bank loans undertaken by Jiangsu Saite and Jiangsu Qifeng*

Background

During the course of the 2019 Audit, Crowe noted that Jiangsu Saite and Jiangsu Qifeng, both being indirect wholly-owned subsidiaries of the Company at the time, undertook certain non-performing loans (“**Non-Performing Loan B**”) granted by Bank B to certain entities outside the Group (whose ultimate beneficial owners were previously independent third parties of the Company and its connected persons) by entering into eight separate loan agreements with Bank B in 2015 with a total amount of RMB92,000,000. In 2018, Bank B transferred the Non-Performing Loan B to Asset Management Company A and in the same year, a litigation was filed against Jiangsu Saite and Jiangsu Qifeng and a judgment was issued by a Mainland Court, ruling that Jiangsu Saite and Jiangsu Qifeng be held liable for Non-Performing Loan B. In 2019, Jiangsu Saite agreed with Asset Management Company A to acquire Non-Performing Loan B at a consideration of RMB24,000,000 (the “**Consideration**”). Non-Performing Loan B were subsequently transferred from Asset Management Company A to Asset Management Company B. Subsequently, Asset Management Company B entered into a settlement agreement with the Company, Jiangsu Saite, Jiangsu Qifeng, Mr. Jiang and four other parties in respect of Non-Performing Loan B in March 2019, in which an independent third party independent of the Company and its connected persons agreed in the agreement to take up the responsibility to repay the Consideration. During the course of audit, Crowe found that Non-Performing Loan B had not been recorded in the consolidated statements of financial position as at 31 December 2018 and 2019.

Main Findings

Subject to certain limitations, the main findings of the Independent Adviser are as follows:

- (a) Eight working capital loan contracts with Bank B
 - (i) Jiangsu Saite entered into six working capital loan contracts with Bank B between January and November 2015.
 - (ii) Jiangsu Qifeng entered into a working capital loan contract with Bank B in September 2014 and provided guarantee to a working capital loan contract entered into between Company A and Bank B.

(iii) The following is a summary of the above eight working capital loan contracts (the “**Eight Working Capital Loan Contracts**”):

Contract	Date	Borrower	Guarantor(s) related to the Group	Reason for borrowing	Borrowing amount (RMB)
1	16 January 2015	Jiangsu Saite	Mr. Jiang	Revolving of loans	10 million
2	28 February 2015	Jiangsu Saite	Mr. Jiang	Revolving of loans	10 million
3	23 September 2014	Jiangsu Qifeng	Jiangsu Saite	Undertaking of Company C's non-performing loans	10 million
4	8 July 2015	Jiangsu Saite	Jiangsu Qifeng, Mr. Jiang	Repayment of funds borrowed from the government	20 million
5	25 September 2015	Jiangsu Saite	The Company, Mr. Jiang	Repayment of funds borrowed from the government	11 million
6	24 November 2015	Jiangsu Saite	The Company, Mr. Jiang	Repayment of funds borrowed from the government	5 million
7	6 January 2015	Jiangsu Saite	The Company, Jiangsu Qifeng, Mr. Jiang	Revolving of loans	14 million
8	25 June 2015 (re- signed on 30 March 2017)	Company A	Jiangsu Saite	According to the court filings: debt restructuring According to the second set of explanations and filing: debt restructuring (formerly the undertaking of the non-performing loans of Company F)	12 million

- (iv) At a later stage of the Independent Investigation, the Independent Adviser was informed by the Company that there were other reasons for borrowings under the Eight Working Capital Loan Contracts in addition to the reasons for borrowings mentioned above. However, the Company did not provide any evidence of the said reasons for borrowings. The Company also stated that some of the borrowings under the Eight Working Capital Loan Contracts were transferred to third party companies after their remittance. The details are as follows:

Contract	Borrower	Third party company	Additional reason for borrowing	Transfer amount (RMB)
1	Jiangsu Saite	Company D	Provision of funds for government use	10 million
2	Jiangsu Saite	Company D	Funds of RMB9 million for government use	9 million
		Company A	No further explanations and supplementary documents	1 million
3	Jiangsu Qifeng	Bank B	Undertaking of Company C's non-performing loans at the request of the government	10 million
4	Jiangsu Saite	—	Provision of funds for government use (no further explanations and supplementary documents)	—
5	Jiangsu Saite	Company E	Provision of funds for government use	11 million
6	Jiangsu Saite	—	Provision of funds for government use (no further explanations and supplementary documents)	—
7	Jiangsu Saite	Company D	Provision of funds for government use	14 million
8	Company A	—	No further explanations and supplementary documents	—

- (v) The Company informed the Independent Adviser that the borrowings under the Eight Working Capital Loan Contracts were paid to independent third party companies at Mr. Jiang's sole discretion and arrangement. However, the Company did not provide any evidence of such assertion. Except for the bank transaction statements, bank statements and/or the bookkeeping certificates, the Company has not provided to the Independent Adviser the accounting of capital flow and bank accounts records for the relevant borrowings and transfers, nor the reasons for the transfers to the third party companies. The Independent Adviser noted that Company C, Company D, Company E and Company F are not affiliated companies of the Group.

- (b) Banker's acceptance of commercial bills contract with Bank B
- (i) The Independent Adviser noted that on 29 June 2017, Jiangsu Saite also entered into a banker's acceptance of commercial bills contract with Bank B which was guaranteed by the Company, Company B and Mr. Jiang. Jiangsu Saite may deposit 50.01% of the acceptance amount as a performance bond into a dedicated deposit account designated by Bank B as a pledge guarantee. On the same date, Jiangsu Saite deposited RMB5,001,000 to Bank B as a deposit.
 - (ii) The banker's acceptance of commercial bills list contains four commercial bills, all drawn on Jiangsu Saite and all payable to Company A in the amounts of RMB3 million, RMB3 million, RMB3 million and RMB1 million, respectively, with a total amount of RMB10 million. The issuance date of the bills was all on 30 June 2017 and the maturity date was all on 29 October 2017. The Company has not provided to the Independent Adviser an explanation as to the reasons for the fund transfers to Company A and the relationship between the two parties.
 - (iii) The Company informed the Independent Adviser that the borrowings under the above banker's acceptance of commercial bills list were paid to Company A at Mr. Jiang's sole discretion and arrangement. However, the Company did not provide any evidence of such assertion. Except for the banker's acceptance bills and the bookkeeping certificates, the Company has not provided to the Independent Adviser the accounting of capital flow and bank accounts records for the relevant borrowings and transfers from the Company, nor has it obtained the reasons for the transfers to Company A.
- (c) Bank B filed eight separate litigations in respect of the Eight Working Capital Loan Contracts and the banker's acceptance of commercial bills contract and the Mainland Court ruled that the borrowers and guarantors, including the Company, Jiangsu Saite, Jiangsu Qifeng and Mr. Jiang, were liable for the Non-Performing Loan B.
- (d) Subsequently, according to the transfer of the Non-Performing Loan B as mentioned above, Asset Management Company B entered into an execution settlement agreement with the borrowers and related guarantors of the Eight Working Capital Loan Contracts, including the Company, Jiangsu Saite, Jiangsu Qifeng and Mr. Jiang, agreeing to settle the entire debt under the judgment at an amount of RMB73.94 million. The Independent Adviser noted that the execution settlement agreement did not include a signature date, and the Company expressed to the Independent Adviser that the execution settlement agreement was signed on 20 March 2019. The Company has not provided to the Independent Adviser supporting documents for repayment to clarify the status of repayment (including the number of repayments made and the number of repayments outstanding, as well as the expected date of completion of repayment).

- (e) With respect to the current status of the eight litigations, one of the litigations was withdrawn and the remaining seven cases were closed by way of terminated execution on the grounds that the fulfilment of the execution settlement agreement would require long-term performance.
- (f) The Independent Adviser noted that the Non-Performing Loan B were remitted or repaid through the bank account of Jiangsu Saite, but these borrowing transactions were not reflected in the Group's accounts. The Company's finance department explained that the Non-Performing Loan B were borrowings coordinated by Mr. Jiang, who had not informed the finance department of the use of funds and did not have corresponding certificates. Therefore, the finance department could not record the loans in the accounts and the items could not be verified.
- (g) The Independent Adviser noted that (1) the Company did not provide any of the Company, Jiangsu Saite and Jiangsu Qifeng approval documents for the usage of seals for the borrowing, guarantee and security documents; and (2) there were various issues with the resolutions of the board of directors and the resolutions of the shareholders' meetings provided by the Company in relation to the above transactions and some of the resolutions were not provided.

4. *Other Identified Matters*

Background

Apart from the major litigations identified in the Resignation Letter, the Independent Adviser has also conducted investigations in relation to the Group's other loans with certain banks (the "**Other Identified Matters**") during the Independent Investigation, the details are as follows:

- (a) Jiangsu Saite as the borrower and/or the guarantor, and the Company as the guarantor, entered into a working capital loan contract and/or a guarantee contract regarding four loans with Bank C. The total amount borrowed by Jiangsu Saite was RMB39.5 million, the total amount of guarantee provided by Jiangsu Saite was RMB31.5 million, and the total amount of guarantee provided by the Company was RMB57.5 million;
- (b) Jiangsu Saite as the borrower entered into a working capital revolving loan contract with Bank D, and the loan involved in the case amounted to RMB7,400,000;
- (c) Jiangsu Qifeng as the guarantor entered into a guarantee contract with Bank E to provide guarantee for the loans of Company B, and the amount of guarantee was RMB88.8 million;
- (d) The Company, Jiangsu Saite and Jiangsu Qifeng were involved in three loans with Bank F. The first loan was related to the small enterprise loan contract entered into between Jiangsu Saite and Bank F for the borrowing of RMB6 million. The Company has provided a guarantee of up to RMB8.4 million for the above contract and its first and second extension contracts. The second and third loans involved two working capital loan contracts entered into between Company B and Bank F for the borrowing of RMB23 million and RMB10 million respectively. Jiangsu

Qifeng provided a mortgage of up to RMB48.83 million for the above two contracts and their respective first extension contracts, and the Company provided a guarantee of up to RMB12 million for the first extension contract of the working capital loan contract for borrowing of RMB10 million; and

- (e) Jiangsu Saite as the guarantor entered into a guarantee contract with Bank B, providing guarantee to an independent third-party company regarding a principal sum of RMB3,230,000 plus interest, penalty interest, compound interest, liquidated damages, damages, litigations fees and attorney fees etc. and all expenses incurred by the lender for realizing the credits within the range of the principal.

Main Findings

For the purposes of the Other Identified Matters and subject to certain limitations, the main findings of the Independent Adviser are as follows:

- (a) The Company claimed that some of the borrowed funds were transferred to government-related enterprises, but there is no substantive evidence that the government is involved in arranging the corresponding loans;
- (b) Some of the relevant borrowed funds were remitted in or out through the Group's bank accounts, but the Company has not provided the borrowing, repayment and transfer vouchers of the relevant contracts, accounting and bank accounts records of the capital flow. The Independent Adviser cannot confirm the whereabouts and usage of the capital;
- (c) The Group has not paid off all debts arising from transactions related to the Other Identified Matters and the Independent Adviser has found no evidence that the Group's repayment and/or guarantee obligations have been discharged; and
- (d) There is no evidence which shows that transactions related to the Other Identified Matters have been notified to the Board of Directors of the Company.

The limitations and unresolved problems of the Independent Investigation

The Independent Adviser has encountered limitations that may limit its investigation. Major limitations include:

1. The Company failed to provide sufficient and credible explanations and evidence

- (a) The Company successively provided the Independent Adviser with two different sets of explanations and documents and a set of court filings. The Company did not clearly state the source of the first set of explanations and documents and confirm their authenticity. On the contrary, it simply said that if there is any conflict between the first set of explanations and documents and the second set of explanations and documents, the second set of explanations and documents shall prevail. The Company has also not been able to confirm the ultimate source of the second set of documents.

- (b) The Company stated that its failure to provide a large number of necessary and relevant financial documents, especially those before 2019, including account details, sub-ledgers and accounting vouchers, was due to the departure of the relevant handlers.
- (c) The Company also stated that the bank statements prior to 2019 have never been printed and kept, and therefore cannot be provided. Such explanation is far-fetched.
- (d) According to the uncooperative attitude of the then management of the Group during the Independent Investigation, it is unlikely that it will cooperate with the investigation voluntarily and provide complete, credible and substantiated information and evidence at this stage.

2. *The long history of some relevant transactions*

As some relevant transactions happened long ago, some evidence may no longer be available due to the passage of time, such as departure of personnel and files exceeding the retention period.

3. *Lack of cooperation from third-party institutions*

The Independent Adviser has tried to contact other units involved in the case, including the government, auditors, banks, creditors, original debtors and the recipient of the capital of the case, to confirm whether their understanding of the case was consistent with the interviewees of the Group. But as at the date of issue of the report of Independent Investigation (the “**Independent Investigation Report**”), the Independent Adviser has not received any other responses other than from Crowe. Unless third party institutions are willing to cooperate, it is difficult for the Independent Adviser to obtain more information and documents for further review.

As a result of the above-mentioned limitations and challenges, the Independent Adviser cannot give a firm opinion on certain issues, including:

1. The reasons for the differences between the first set of explanations and documents and the second set of explanations and documents and court filings provided by the Company’s management;
2. The use of capital, the ultimate flow and whereabouts of the Group’s loans in relation to the Identified Matters and Other Identified Matters;
3. Whether the Group’s loans in relation to the Identified Matters and Other Identified Matters was used by Mr. Jiang, and its exact amount;
4. The reason for the loan in relation to the Identified Matters and Other Identified Matters being transferred from Jiangsu Saite or Jiangsu Qifeng to third-party companies;
5. The actual amount of financial loss of the Group due to the Identified Matters and Other Identified Matters;

6. The reasons for the transactions in relation to the Identified Matters and Other Identified Matters not being fully recorded in the Group's accounts;
7. The reasons for some transactions in relation to the Identified Matters and Other Identified Matters not having the relevant board/shareholders meetings resolutions; and
8. Whether the government and government-related enterprises/institutions have participated in the relevant transactions, and if so, the degree of their participation.

OPINION OF THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee has considered and accepted the findings of the Independent Investigation, and has requested the Company to fully implement the remedial measures recommended by the Independent Adviser, which is to be led by the executive Directors and management. Such measures include seeking legal advice on personnel handling, asset tracing, recognition and recovery of losses, investigation, as to the missing financial documents etc., and communicate effectively with auditors to clarify the Group's liabilities and the relevant interests, and make appropriate corrections to the Group's accounts. The Independent Board Committee believes that the completeness of financial documents is very important and hereby recommends the Company to strengthen its internal controls.

OPINION OF THE BOARD

The Board has reviewed the Independent Investigation Report and appreciated that the Independent Adviser has made best endeavors in conducting the Independent Investigation thoroughly, and fully understood that its findings might be limited in light of the restrictions and difficulties encountered by it as set out in the section headed "The limitations and unresolved problems of the Independent Investigation" above in this announcement. Despite all the restrictions and difficulties encountered, the Company (since the reconstitution of its Board composition following suspension of trading in the shares in the Company on the Stock Exchange) has cooperated with the Independent Adviser in all respects and offered complete, authentic and unreserved support and information without imposing any restrictions or limitations on its work.

The Board therefore is of the view that the content and findings in the Independent Investigation Report are reasonable and acceptable, and considers that the Independent Investigation Report has adequately addressed the Identified Matters and the Other Identified Matters. The Board also concurs with the remedial measures recommended by the Independent Adviser and endorsed by the Independent Board Committee. The Board has forthwith resolved to implement the recommendations made, details of which are set out in the section headed "Remedial Measures" in this announcement below.

The Board is also of the view that the issues identified in the Independent Investigation Report would not have a material adverse impact on the business, operation, and financial performance of the Group going forward as:

- (i) the Company has been effecting the Group Reorganization with a view of carving-out non-performing and non-core assets of the Group. The Identified Matters and the Other Identified Matters primarily concerns two entities of the Group, namely Jiangsu Saite and Jiangsu Qifeng, which were indirect wholly-owned subsidiaries of the Company held through Modern Day Holdings Limited (“**Modern Day**”). On 24 December 2021, a special resolution was duly passed by the shareholder of Modern Day to wind up Modern Day by way of creditors’ voluntary winding up and Mr. Cheung Hok Hin, Alan of Wing United CPA Limited of Suite 708, 7/F, Greenfield Tower, Concordia Plaza, 1 Science Museum Road, Tsim Sha Tsui, Kowloon, Hong Kong was appointed as the liquidator of Modern Day. Following commencement of the winding-up, the financial results and position of Modern Day and its subsidiaries (including Jiangsu Saite and Jiangsu Qifeng) has been deconsolidated from those of the Group since 24 December 2021. The indebtedness and liabilities of Jiangsu Saite and Jiangsu Qifeng in respect of the Identified Matters and the Other Identified Matters had therefore been carved-out from the Group and would not have any material adverse impact to the financial results of the Group going forward;
- (ii) the Company has been implementing the Scheme of Arrangement as planned, pursuant to which all claims of the creditors against the Company (including, without limitation, any claims that the creditors may have in respect of the Identified Matters and the Other Identified Matters against the Company) will be fully and finally discharged by virtue of the Scheme of Arrangement. The Scheme Meeting will be held on 25 February 2022 (Hong Kong time) and, assuming that the Scheme of Arrangement will be approved at the Scheme Meeting, a hearing of the Hong Kong Court for the purpose of sanctioning the Scheme of Arrangement is currently scheduled to take place on 11 April 2022;
- (iii) the issues identified in the Independent Investigation Report had not materially and adversely affected the business operation of the Group. The Company has successfully revived its primary business of providing integrated construction solutions that employs steel structures and prefabricated components in the PRC since the suspension of trading in its Shares on the Stock Exchange. The business operations of the Company continued normally up to the date hereof, and the Board is not aware of any material adverse change to its business, financial performance and/or operations; and
- (iv) the Board reasonably believes that the Independent Investigation Report would be able to meet the auditing requirements of the auditor of the Company in respect of the Identified Matters and the Other Identified Matters and hence facilitating the publication of the outstanding financial results. The Company will continue to work closely with the auditor and provide further information, documents and support as and when needed.

REMEDIAL MEASURES

The Board, after having reviewed the findings of the Independent Investigation Report, is of the view that the Identified Matters and the Other Identified Matters cast serious doubt on the integrity and character of Mr. Jiang:

- (i) the agreements and arrangements underlying the Identified Matters and the Other Identified Matters were conducted during Mr. Jiang's tenure as the chairman of the Board and as a Director;
- (ii) based on the limited information available and despite the material differences in factual background noted, Mr. Jiang appeared to have been involved in the key liaison and approval processes for the agreements and arrangements underlying the Identified Matters and the Other Identified Matters, and therefore it is reasonably believed that Mr. Jiang should have had personal, actual and extensive knowledge of such agreements and arrangements;
- (iii) two different sets of explanations and supporting documents with regard to the Identified Matters had been identified during the Independent Investigation, in which certain fundamental differences and contradictions as to the factual background and reasons for the relevant agreements and arrangements could be prominently identified;
- (iv) despite all the effort and attempts made by the Independent Board Committee, the Independent Adviser and/or the Independent Legal Adviser during the Independent Investigation, Mr. Jiang failed to provide reasonable and credible (a) explanations to address the material differences noted; and (b) evidence to support the authenticity, truthfulness and/or completeness of the explanations and documents; and
- (v) Mr. Jiang had not been cooperative during the Independent Investigation, even during his tenure as a Director.

Taking into account the above, and the main findings of the Independent Investigation, the Board has serious doubt as to whether Mr. Jiang had (i) exercised due care, skill and diligence to fulfill his fiduciary duties as Director; or (ii) acted in good faith to protect the interests of the Company at all material times.

Mr. Jiang has resigned as the chairman of the Board, an executor Director, the chairman of the nomination committee of the Board and an authorised representative of the Company under Rule 3.05 of the Listing Rules with effect from 29 October 2021. He is also no longer a director, legal representative, controller or management personnel of any members of the Group. Mr. Jiang hence has ceased to have any influence over the management and operation of the Group.

The Company will report the questionable and suspicious transactions to the relevant authorities in the PRC in due course. The Company is also in the course of obtaining appropriate legal advice in respect of potential legal proceedings that might be initiated against Mr. Jiang seeking restitution of any losses that had been or may be suffered by the Group as a result of the Identified Matters and the Other Identified Matters.

As at the date of this announcement, the Board has been reconstituted and comprises (i) 6 executive Directors (namely Mr. Li Xulin, Mr. Xu Fanghua, Mr. Liu Zhibo, Mr. Hua Gang, Mr. Shan Hu and Mr. Zhang Tianbo); and (ii) 5 independent non-executive Directors (namely Mr. Xu Jiaming, Mr. Yan Hualin, Mr. Wu Zhongxian, Mr. Choi Ho Yan and Mr. Siu Siu Ling, Robert). Each of the current Directors possess the necessary skill and the standard of competence that commensurate with their position as directors of a listed issuer to fulfil duties of skill, care and diligence as required under Rules 3.08 and 3.09 of the Listing Rules, and there is no reasonable regulatory concern about the integrity and competence of the current management of the Company which may pose a risk to investors and damage market confidence. None of the current members of the Board is a nominee director of Mr. Jiang and/or his associates, and Mr. Jiang is not a de facto or shadow director of the Company and/or any of its subsidiaries following his resignation. Daily operations of the Group are principally managed by the executive Directors, who are assisted and supported by the senior management of the Group, and are not promoting the interest of any particular controlling or major or key shareholder of the Company. With the appointment of five independent non-executive Directors to the Board, a strong independent element is present to effectively exercise independent judgment on the corporate actions of the Company, and the Board is able to make decisions after due consideration of the independent and impartial opinions and views of the independent non-executive Directors.

In addition, to strengthen the internal control and corporate governance of the Group, the Group has engaged Shinewing as its internal control consultant to conduct a second round of independent review of the internal control systems and procedures of the Group (i.e. the 2nd IC Review). The 2nd IC Review has been completed and the Group have already formulated and implemented remedial actions with reference to the recommendations provided by Shinewing.

In particular, the Group has adopted the following tightened internal control measures to avoid reoccurrence of transactions and issues similar to the Identified Matters and the Other Identified Matters going forward:

- (1) Policy of financial reporting and disclosure has been enhanced to govern the procedures of financial reporting close, preparation and approval of financial statement, reporting and record keeping.
- (2) Policy for managing loan and guarantee has been enhanced to govern the procedures of risk analysis, contract approval, execution, monitoring as well as the procedure of reporting relevant transactions to the board.
- (3) List of loan transaction has been prepared with review of directors for monitoring the status of each loan transaction.
- (4) Treasury policy has contained the procedure of fund transfer and its approval.

- (5) Company stamp management is enhanced and the relevant policy is formulated with the procedures of stamp usage, approval and custody.
- (6) There is a mechanism in place to require directors and senior management to make declaration on potential conflict of interests on an annual basis, or as and when required.
- (7) Corporate governance handbook and compliance procedures for certain listing rules and SFO have been enhanced, and relevant training is provided to directors.
- (8) Internal audit policy has been formulated to specify the monitoring, authority and reporting of internal audit.

The follow-up review has been completed by Shinewing on 29 January 2022, which opined that nothing has come to its attention which make it believe that there is any material deficiencies identified in the internal control system of the Group upon the completion of follow-up review.

The Board believes that the above measures would strengthen the internal control of the Group and adequately and effectively remedy the key internal control issues identified in the Independent Investigation Report (as well as avoiding reoccurrence of transactions and issues similar to the Identified Matters and the Other Identified Matters).

The Company will continue to engage appropriate professional advisers as and when appropriate to conduct review and provide advice and suggestions regarding the Group's internal control measures and corporate governance with a view of ensuring that the enhanced internal control measures are properly implemented and complied with.

Furthermore, the Company has also set up an executive committee comprising all the executive Directors (namely Mr. Li Xulin, Mr. Xu Fanghua, Mr. Liu Zhibo, Mr. Hua Gang, Mr. Shan Hu, and Mr. Zhang Tianbo) and chaired by Mr. Li Xunlin to (i) regularly monitor, review and evaluate the progress and effectiveness of abovementioned remedial measures taken and/or such other additional measures to be taken by the Group in respect of the main findings of the Independent Investigation; and (ii) report and update the updates, findings and opinions of the executive committee to the Stock Exchange as well as publish announcement(s) on the same to keep its Shareholders and potential investors abreast of the developments (if any) as and when appropriate.

CONTINUED SUSPENSION OF TRADING

At the request of the Company, trading in the shares of the Company on the Stock Exchange was suspended with effect since 22 June 2020 and will continue to be suspended until further notice.

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

By order of the Board
China Saite Group Company Limited
Li Xulin
Chairman

Hong Kong, 23 February 2022

As at the date of this announcement, the executive Directors are Mr. Li Xulin, Mr. Xu Fanghua, Mr. Liu Zhibo, Mr. Hua Gang, Mr. Shan Hu and Mr. Zhang Tianbo; and the independent non-executive Directors are Mr. Xu Jiaming, Mr. Yan Hualin, Mr. Wu Zhongxian, Mr. Choi Ho Yan and Mr. Siu Siu Ling, Robert.