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**CIFI Holdings (Group) Co. Ltd.**

**旭輝控股(集團)有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 00884)**

**(Debt Stock Codes: 05261, 05925, 40046, 40120, 40316, 40464, 40519, 40681, 40682)**

**(Warrant Stock Codes: 21305, 24361)**

## **KEY FINDINGS OF THE INDEPENDENT REVIEW**

### **INTRODUCTION**

References are made to (i) the announcement of the Company dated 31 March 2023 in relation to, amongst other things, the delay in the publication of the audited annual results of the Group for the year ended 31 December 2022, (ii) the announcement of the Company dated 28 April 2023 in relation to the unaudited consolidated management accounts of the Group for the year ended 31 December 2022, (iii) the announcement of the Company dated 16 May 2023 in relation to the change of auditor of the Company, (iv) the announcement of the Company dated 23 June 2023 (the “**June 2023 Announcement**”) setting out the guidance prescribed for the resumption of trading in the securities of the Company on the Stock Exchange (the “**Resumption Guidance**”), and (v) the quarterly update announcement of the Company dated 30 June 2023 in relation to the Company’s resumption progress (together, the “**Announcements**”). Capitalised terms used herein shall have the same respective meanings as those defined in the Announcements unless otherwise defined.

As set out in the June 2023 Announcement, one of the conditions under the Resumption Guidance is that the Company shall conduct an appropriate independent investigation into the Audit Issues, the Anonymous Email (as defined below) and the Alleged Transactions, assess their impact on the Company’s business operation and financial position, announce the findings and take appropriate remedial actions.

This announcement sets out the key findings of the Independent Review (as defined below).

## BACKGROUND

On 27 March 2023, the Audit Committee received the DTT Letter from DTT, the former auditor of the Company, stating that, among other things, DTT received an anonymous email (the “**Anonymous Email**”, extracts of which were attached to the DTT Letter). The DTT Letter further stated that the key allegations (the “**Allegations**”) relate to the following:

- (A) misappropriation of cash and bank balances amounted RMB1.8 billion under [*sic*] CIFI ES in favour of the Company so as to provide fundings to the Company to support its liquidity (“**Allegation (A)**”);
- (B) out of the RMB1.8 billion, the Company structured the fund flows by way of entering into transactions with CIFI ES, including (i) disposal of car parking spaces in exchange of [*sic*] deposits paid by CIFI ES; and (ii) indirectly sold its investments in private equity funds to CIFI ES where the substance of these private equity investments is in doubt (“**Allegation (B)**”); and
- (C) no proper approval was obtained for these transactions (“**Allegation (C)**”).

DTT recommended in the DTT Letter that the Audit Committee, among other things, to investigate and to establish whether there were commercial substance and business rationale of the deposits for car parking spaces and divestment in private equity funds.

## INDEPENDENT REVIEW BY THE AUDIT COMMITTEE

The Audit Committee resolved to consider matters relating to the Allegations (the “**Independent Review**”) and to report findings to the Board. As disclosed the June 2023 Announcement, the Audit Committee has appointed an independent legal advisor, being a reputable full-service law firm with a long-standing presence in Hong Kong, (the “**Independent Legal Advisor**”) to advise it in connection with the Independent Review.

The Audit Committee reported its findings and views following the Independent Review to the Board on 26 September 2023.

## SCOPE AND KEY FINDINGS OF THE INDEPENDENT REVIEW

### *Scope of Independent Review*

In view of the Allegations, the Audit Committee:

- (a) noted, as stated in the June 2023 Announcement, that *“Other than naming the Company and CIFI ES and generally referring to their respective subsidiaries, neither the Letter i.e. the Anonymous Email nor the DTT Letter provides any specific details of the Alleged Transactions. As far as the Company is aware and up to the date of this announcement, no evidence has ever been provided to the Company to substantiate the vague allegations made in the Letter and the DTT Letter.*

*Notwithstanding the ambiguity and imprecision of the DTT Letter and the Letter, the Company has nevertheless for prudence’s sake, with the assistance of its advisors, reviewed what the Company believes to be the relevant transactions referred to in the Letter namely, those involving sales agency services with the ES Group or other third party property management companies and those involving private equity funds (together, the “Transactions”). Following such review, the Company continues to be of the view that these Transactions:*

- (i) have been properly recorded in the management accounts of the Group in accordance with the accounting policies and practices of the Group consistently applied;*
  - (ii) were conducted with sufficient commercial substance and business rationale; and*
  - (iii) are on normal commercial terms.”*
- (b) with the assistance of the Independent Legal Advisor, undertook a review, independent of the internal review that the management of the Company indicated in the June 2023 Announcement that they have undertaken, in relation to:
- (i) the Group’s transactions with the ES Group that involved car parking spaces and receipt of deposits;
  - (ii) the Group’s transactions with another property management group that involved sales agency services and receipt of deposits;
  - (iii) the CIFI Fund Divestments (as defined below);
  - (iv) whether the above transactions were supported by written agreements;
  - (v) whether the above transactions were approved by the relevant personnel of the Group in accordance with its internal approval procedures;
  - (vi) whether payments of deposit under the sales agency transactions referred to under (i) and (ii) were made on or after the date of the relevant agreements;

- (vii) whether payment of the consideration was made by the relevant counterparties of the CIFI Fund Divestments on or after the date of the relevant agreements; and whether the CIFI Fund Divestments were conditional upon the ES Fund Investments (as defined below); and
- (viii) the commercial rationale of those transactions; and
- (c) discussed with Prism Hong Kong and Shanghai Limited (the “**Auditors**”), the incumbent auditor of the Company, as to the procedures they have undertaken in relation to those transactions in the course of their audit of the Group’s consolidated financial statements for the financial year ended 31 December 2022 (the “**FY2022 Financial Statements**”) generally and in light of the Allegations in the DTT Letter and the Anonymous Email.

### ***Key Findings of the Independent Review***

The Independent Legal Advisor (a) undertook a review and analysis of documentation (including transaction agreements and their terms, approval records, payment records, the Group’s divestment strategies) on a sampling basis, other related public documents of the parties involved and representations provided by the Company, (b) conducted background searches and other searches on the property development projects, private equity funds and parties involved in the relevant transactions, (c) conducted interviews with certain personnel of the Group who had participated and/or were involved in the signing or approval of the relevant transactions and (where applicable) certain counterparties of transactions and (d) where applicable, reviewed certain public documents of property management companies listed on the Stock Exchange for comparison. The Independent Legal Advisor reported in its report (the “**Report**”), subject to the fairly customary assumptions and qualifications specified in it, to the Audit Committee in summary that:

#### *In respect of Allegations (A) and (B)*

- (a) the ES Group has been providing the CIFI Group with sales agency services for some of their property development projects since 2019. The management of the Company and CIFI ES believe that the ES Group could make use of its market information collected through its network of property management offices located in the properties in its provision of property management services to the Group, in its sales of the unsold residential properties and unsold car parking spaces in the Group’s property development projects;
- (b) the Group has entered into a number of agreements to engage the ES Group to provide sales agency services to the Group in respect of unsold car parking spaces and storage facilities at residential development projects of the Group (“**CIFI Sales Agency Transactions**”) in the financial year ended 31 December 2022 (the “**FY2022**”) in respect of which deposits were receivable by the Group from the ES Group. Certain deposits were also received during FY2022 under CIFI Sales Agency Transactions entered into prior to FY2022. These CIFI Sales Agency Transactions are considered by the Company as individual agreements between members of the Group and the ES Group under the sales agency framework agreements and related supplemental agreement disclosed in the Company’s announcement dated 23 December 2021;

- (c) in the context of property sales agencies with other property management companies during FY2022, the Group has entered into certain exclusive sales agency agreements with companies which are subsidiaries of a property management company (which the Company has confirmed are independent third parties) (“**Independent PM Group**”) that involved the provision of sales agency services in respect of unsold shops in the development projects of the Group and payment by the Independent PM Group of an aggregate refundable deposits of approximately RMB300 million (“**Independent Sales Agency Transactions**”) to the Group. These Independent Sales Agency Transactions were consistent with the Group’s aim to utilising Independent PM Group’s resources, networks and competitive advantages in certain geographical regions to accelerate the sale of the relevant properties and were seen as a region wide collaboration between the Group and the Independent PM Group, focusing in regions where the Independent PM Group has stronger presence and more resources than the Group. The Company is aware that the parent company of the Independent PM Group which is engaged in property development has similarly appointed the ES Group as sales agent for unsold shops in the development projects of the parent company and its subsidiaries and under those arrangements, the ES Group was also required to pay refundable deposits (the “**ES Sales Agency Transactions**”);
- (d) the provision of sales agency services (including the receipt of deposits thereunder) appears to be widely adopted and common within the property management services industry in the PRC. The Independent Review supports that the CIFI Sales Agency Transactions and the Independent Sales Agency Transactions (including the payment of deposits thereunder) were entered into in the ordinary and usual course of business of the Group and the Group is shown to have reasonably clear commercial rationale for entering into the CIFI Sales Agency Transactions and the Independent Sales Agency Transactions. In respect of all of the individual sales agency agreements that were entered into in the financial year ended 31 December 2021 and FY2022 between relevant members of the Group and the ES Group which involved payment of deposits by the ES Group to the Group (the “**Selected Individual Transactions**”) and the Independent Sale Agency Transactions, the Selected Individual Transactions and the Independent Sale Agency Transactions are supported by the documents provided and the public searches conducted as described in the Report, and payments of deposit under the transactions were generally made on or after the date of the relevant agreements. There is no evidence that indicates the Group coercing the ES Group to enter into the CIFI Sales Agency Transactions or the ES Sales Agency Transactions;

- (e) the Group disposed of a number of financial assets including the minority interest in three private equity funds in December 2022 at the total consideration of RMB197 million to independent third parties (the “**CIFI Fund Divestments**”, together with the CIFI Sales Agency Transactions and the Independent Sales Agency Transactions referred to as the “**Relevant Transactions**”), amongst which, (i) the purchasers of two of the three funds subsequently sold their interest in those two funds to the ES Group and (ii) the ES Group invested in another fund, the fund manager of which also managed the remaining fund which the Group exited from (the “**ES Fund Investments**”). The CIFI Fund Divestments were consistent with the strategy and decision of the Group’s investment committee at the time to liquidate the Group’s financial assets in order to achieve capital return and replenish the Group’s working capital. The Independent Review supports that the Group is shown to have reasonably clear commercial rationale for entering into the CIFI Fund Divestments. The CIFI Fund Divestments are supported by the documents provided and the public searches conducted as described in the Report; and payments of consideration for the CIFI Fund Divestments were made by the relevant counterparties to the Group on or after the date of the relevant agreements. The key objective of the Group at that time was to cash out its investment in private equity funds as soon as possible and before 31 December 2022, and there is no evidence that indicates that the CIFI Fund Divestments were conditional upon the ES Fund Investments nor the Group coercing the ES Group to enter into the ES Fund Investments; and

*In respect of Allegation (C)*

- (f) the Relevant Transactions were conducted with the knowledge and approval of the relevant personnel of the Group generally in accordance with the applicable internal approval procedures which did not require approval by the Board.

## **THE AUDITOR’S AUDIT PROCEDURES AND OPINION**

The Auditors have also undertaken separate interviews with the management of the Group and conducted on-site visits, ledger and document reviews and property right transfer records checking on a sampling basis in respect of the CIFI Sales Agency Transactions and the Independent Sales Agency Transactions and required payment evidence of CIFI Fund Divestments as at the date of divestment as part of its audit procedures, having taken into account the DTT Letter, the Anonymous Email and the Report. Based on their report to the Audit Committee (subject to finalisation of audit), the Auditors have indicated that they do not expect to qualify their audit opinion for the FY2022 Financial Statements.

## **THE AUDIT COMMITTEE'S VIEW**

The Audit Committee reported to the Board that, subject to the finalisation of audit of the FY2022 Financial Statements:

- (a) there was no finding of any appropriate cause to doubt the veracity of the assertion by the Company's management that the Relevant Transactions were conducted with sufficient commercial substance and business rationale nor was there any recommendation that further investigation be undertaken; and
- (b) it appears to the Audit Committee that (i) the CIFI Sales Agency Transactions and the Independent Sales Agency Transactions took place in the ordinary course of the Group's business operations, (ii) there was reasonable business rationale for the receipt of deposit/consideration under the Relevant Transactions; and (iii) deposit/consideration were generally received on or after the date of the relevant agreements and after the relevant transactions had been approved in a manner generally consistent with the Group's internal approval procedures.

## **THE BOARD'S VIEW**

Having considered the findings of the Independent Review as reported by the Audit Committee in addition to the internal review by the management of the Company indicated in the June 2023 Announcement that it has undertaken with the assistance of the Company's advisors, the Board is satisfied that:

- (a) the Relevant Transactions had commercial substance and business rationale at the time they were entered into;
- (b) the Relevant Transactions do not require disclosure or the approval of the shareholders of the Company under the Listing Rules;
- (c) the Relevant Transactions were properly approved in accordance with the Group's internal control procedures; and
- (d) the Relevant Transactions have been properly reflected in the consolidated financial statements of the Group.

Based on the above, the Board is of the view that the Allegations have no impact on the Company's business operation and financial position and that no remedial actions are required to be undertaken in connection with the Allegations.



## **SUSPENSION OF TRADING**

At the request of the Company, trading in the ordinary shares, warrants and derivatives of the Company on the Stock Exchange has been suspended with effect from 9:00 a.m. on Friday, 31 March 2023. As disclosed in the announcement of the Company dated 26 September 2023 in relation to, among other things, fulfilment of the Resumption Guidance, the Company has made an application to the Stock Exchange for the resumption of trading in the ordinary shares, warrants and derivatives of the Company with effect from 9:00 a.m. on Wednesday, 27 September 2023.

## **WARNING**

**Holders of the securities of the Company and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company. When in doubt, Shareholders, holders of the securities of the Company and other investors of the Company are advised to seek professional advice from their own professional or financial advisers.**

By order of the Board  
**CIFI Holdings (Group) Co. Ltd.**  
**LIN Zhong**  
*Chairman*

Hong Kong, 26 September 2023

*As at the date of this announcement, the Board comprises Mr. LIN Zhong, Mr. LIN Wei, Mr. LIN Feng, Mr. RU Hailin and Mr. YANG Xin as executive Directors; and Mr. ZHANG Yongyue, Mr. TAN Wee Seng and Ms. LIN Caiyi as independent non-executive Directors.*