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## **WAI HUNG GROUP HOLDINGS LIMITED**

### **偉鴻集團控股有限公司**

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

**(Stock Code: 3321)**

## **(1) KEY FINDINGS OF INDEPENDENT INVESTIGATION; (2) REMOVAL OF CHIEF FINANCIAL OFFICER; AND (3) CONTINUED SUSPENSION OF TRADING**

This announcement is made by Wai Hung Group Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) pursuant to Rule 13.09 of the Listing Rules 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 30 March 2022, 22 April 2022, 17 May 2022, 28 June 2022, 15 July 2022, 10 August 2022, 31 August 2022, 10 November 2022, 10 February 2023, 31 March 2023, 11 May 2023 and 10 August 2023 (collectively, the “**Announcements**”) in relation to, among other matters, (i) the delay in publication of audited annual results and annual report of the Company for the year ended 31 December 2021; (ii) the suspension of trading in the Shares; (iii) the resignation of Deloitte as the auditor of the Company with effect from 7 May 2022; (iv) the appointment of McMillan Woods as the new auditor of the Company with effect from 12 May 2022; (v) the resignation of McMillan Woods as the auditor of the Company with effect from 27 June 2022; (vi) the appointment of CL Partners as the new auditor of the Company with effect from 28 June 2022; (vii) the Resumption Guidance; (viii) the appointment of Crowe (HK) Risk Advisory Limited as the independent forensic accountant (the “**Independent Forensic Accountant**”); (ix) the delay in publication of the interim results and interim report of the Company for the six months ended 30 June 2022; (x) the delay in publication of audited annual results and annual report of the Company for the year ended 31 December 2022; and (xi) quarterly updates on the resumption progress. Unless otherwise defined, capitalised terms used herein shall have the same meanings as those defined in the Announcements.

### **BACKGROUND**

As disclosed in the announcement of the Company dated 17 May 2022, Deloitte has by its letters dated 16 April 2022 and 6 May 2022 (the “**Letters from Deloitte**”) recommended the Audit Committee to engage an independent and competent forensic accounting firm to investigate the commercial substance, fund flows and recoverability of the Deposits of

approximately MOP113.1 million paid to the Subcontractors during the financial year ended 31 December 2021 in respect of the smart garage projects (the “**Projects**”). In particular, Deloitte has raised the following Audit Issues:

- (i) the commercial substance of and business rationale for the payment of the Deposits to the Subcontractors; and
- (ii) the purported payment of part of the Deposits made to the PRC bank accounts of the relevant Subcontractors (as represented by management) may have violated the relevant laws and regulations in respect of the foreign exchange control policies in the PRC. Assuming the Deposits were made as purported, their collectability shall be assessed.

Trading in the shares of the Company has been suspended with effect from 9:00 a.m. on Wednesday, 11 May 2022. On 28 June 2022, the Company has been notified by the Stock Exchange of the Resumption Guidance to, among others, conduct an appropriate independent forensic investigation (the “**Independent Investigation**”) into the two Audit Issues, announce the findings and take appropriate remedial actions. As announced by the Company on 15 July 2022, the Company has engaged Crowe (HK) Risk Advisory Limited as the Independent Forensic Accountant to conduct the Independent Investigation.

The Independent Forensic Accountant issued the report (the “**Investigation Report**”) of the Independent Investigation on 10 November 2023.

### **Scope and major procedures of the Independent Investigation**

The scope of the Independent Investigation targeted at the Audit Issues which involved the Deposits of approximately MOP113.1 million. The major investigation procedures conducted by the Independent Forensic Accountant included, but not limited to, the following:

- (i) interviewing key individuals including, but not limited to, the senior management, the accounting manager and accounting officer of the Company, the Subcontractors in connection with the Projects;
- (ii) reviewing supporting documents provided by the Company in relation to the Projects and supporting documents from public sources;
- (iii) conducting public searches on the persons and/or entities in connection with the Projects; and
- (iv) reporting to the Board the findings of the Independent Investigation, including but not limited to the potential deficiencies in the internal control of the Company noted during the course of the Independent Investigation and the corresponding remedial actions to be taken.

## SUMMARY OF THE KEY FINDINGS OF THE INDEPENDENT INVESTIGATION

Based on the major investigative procedures as set out in the section headed “Scope and major procedures of the Independent Investigation” above, the Independent Forensic Accountant made the following key findings:

### Background

1. As represented by management of the Company, the Projects were proposed to the Board in April 2020. As disclosed in the annual report of the Company for the year ended 31 December 2020, in order to expand the Group’s business scope and overall revenue stream, the Group plans to diversify into, among others, the smart garage business.
2. During the period from April 2020 to March 2021, the Group has identified and entered into non-legally binding framework cooperation agreements with five potential business partners, namely (i) Excel Billion Group Holdings Limited; (ii) Shantou Special Economic Zone Baizhen Urban Construction Investment Corporation\* (汕頭經濟特區百臻城市建設投資總公司); (iii) Investment Projects General Trading Company; (iv) Hangzhou Xizi Parking System Co., Ltd.\* (杭州西子智能停車股份有限公司); and (v) Shenzhen Mitrix Intelligent Technology Co., Ltd.\* (深圳密陣智能科技有限公司), details of which are set out in the announcements of the Company dated 20 October 2020, 30 November 2020, 8 March 2021, 30 March 2021 and 30 March 2021 respectively.
3. Based on the representations of the interviewees, in or around April 2021, considering (i) the increasing construction costs for developing smart garages; (ii) the global outbreak of the novel coronavirus; and (iii) the working capital of the Group at the material time, the Company suspended its pursuit of the Projects, which have remained in the preliminary stage since then. There is no written record in relation to the suspension of the Projects.
4. Save for (i) the aforementioned non-legally binding framework cooperation agreements; (ii) the minutes of the Board meetings approving the same; and (iii) the relevant announcements of the Company, there is no other documents in relation to the Projects, such as quotations from subcontractors, assessment and screening documents, management approval records, construction plans and progress reports, etc..
5. Based on the relevant framework cooperation agreements provided by the Company, there is no provision or clause in relation to the payment of the Deposits.

## Accounting records in relation to the Deposits

Upon reviewing and sorting out the relevant accounting records and monthly bank statements of the Group in relation to the Deposits, it has come to the attention of the Independent Forensic Accountant that:

6. During the period from June 2021 to November 2021, the accounts receivable of the Company of approximately MOP113.1 million due from five previous accounts receivable customers were adjusted and recorded as the Deposits paid to the Subcontractors through multiple accounting entries, which involved Wai Hung Hong Engineering Company Limited (“**Wai Hung HK**”) and Wai Hung Hong Engineering (Macau) Co., Limited (“**Wai Hung Macau**”), each being a wholly-owned subsidiary of the Company.
7. Among the Deposits of approximately MOP113.1 million, approximately MOP69.1 million, representing approximately 61.1% of the Deposits, were directly adjusted from “Accounts Receivable” to “Prepayment” without involving any payment arrangement, while approximately MOP44.0 million, representing approximately 38.9% of the Deposits, were indirectly adjusted from “Accounts Receivable” to “Prepayment” through multiple accounting entries involving payment arrangements being made among Wai Hung HK, Wai Hung Macau and Mr. Li Kam Hung (“**Mr. KH Li**”), being an executive Director, the chairman of the Board and the chief executive officer of the Company.
8. Upon scrutinising the accounting records in relation to the Deposits, the following observations were made:
  - (i) the relevant accounting vouchers in relation the Deposits were supported by receipts of acknowledgement with the names of the relevant Subcontractors and the recipients’ chops affixed thereon. However, such documents were contrary to the findings of the Independent Investigation that the Deposits were only adjustments of the accounts receivable;
  - (ii) the recipients of the Deposits as shown in the accounting records were (a) Foshan City Gaoming District Aolin Wood Processing Factory\* (佛山市高明區奧霖木器加工場) (“**Aolin Wood**”); (b) Foshan City Honglin Furniture Company Limited\* (佛山市紅霖家具有限公司) (“**Honglin Furniture**”); (c) Hunan Gourmet Flow Intelligent Technology Company Limited\* (湖南美食流智能科技有限公司); (d) Qian Jin Construction Engineering (前進裝修工程); and (e) Joint Art (匯藝裝修工程) (i.e. the Subcontractors), which are not the parties to the relevant framework cooperation agreements;
  - (iii) the Deposits of approximately MOP24.7 million were purported to be paid to Aolin Wood during the period from June 2021 to August 2021, while Aolin Wood was struck off on 30 August 2021; and

- (iv) the receipt issued by Honglin Furniture with the company chop of the same affixed therein and acknowledging receipt of the Deposits from Wai Hung Macau was dated 1 July 2021, which is preceding 6 August 2021, being the date on which Honglin Furniture was established in the PRC.
9. Based on the outcomes of the interviews with the accounting manager and the accounting officer of the Company, the Independent Forensic Accountant was given to understand that in or around February 2022, upon receiving the written instructions and the receipts in relation to the Deposits from Mr. Li Kam Chi, Kennedy (“**Mr. Kennedy Li**”), being the chief financial officer of the Company at the material time, the accounting manager and the accounting officer of the Company adjusted the relevant accounts receivable into the Deposits.
10. Based on the representations of the accounting manager and the accounting officer of the Company, they were merely following the instructions from Mr. Kennedy Li without enquiring into the nature of the transactions.
11. According to the representation of the interviewees, as disclosed in the announcement of the Company dated 31 March 2022 in relation to the unaudited annual results of the Company for the year ended 31 December 2022, the Deposits were recorded as “Refundable deposits paid to sub-contractors” as shown in note 11 to the Notes to the Consolidated Financial Statements.
12. As Mr. Kennedy Li was unable to be reached throughout the course of the Independent Investigation, the circumstances leading to and the reasons for the above accounting arrangements could not be ascertained.

#### **Commercial substance of and business rationale for the payment of the Deposits**

13. Based on the findings of the Independent Investigation, there is no sufficient information in support of the commercial substance and business rationale for the payment of the Deposits.

## Potential deficiencies in the Company's internal control

14. Following the Independent Investigation, the Independent Forensic Accountant has also identified the potential deficiencies in the internal control of the Company and suggested the remedial measures as follows:

### Potential deficiencies

### Suggested remedial measures

#### *Project formulation and evaluation*

The Group did not conduct feasibility analysis and properly retain the relevant documents in support of the management's assessment and investment value of the Projects.

Conduct feasibility analysis on new projects, such as project proposal, market and revenue analysis, project timetable, etc., and keep records of management approvals.

#### *Project progress monitoring*

The Group did not keep comprehensive records of the progress of a project to be developed or under development, and the Group did not keep written records in relation to the termination of the Projects.

The project manager should report the progress of the project to be developed or under development to the management on a regular basis, e.g., on a half-yearly basis, and keep record of the relevant reports as well as independent reviews. Any termination of a project should be stated in the next reporting record after the termination of the project.

#### *Records management mechanism*

The Projects were not supported by appropriate supporting documents, especially contracts, agreements or written payment records in relation to financial records, including emails, payment applications and records of approval, etc..

Establish records management standards and systems, including:

- (i) defining the types of key records to be retained, including originals, hard copies or electronic copies, retention periods and the responsible departments;
- (ii) establishing a register of signed contracts;
- (iii) conducting back-up of key business records on a regular basis; and
- (iv) conducting regular or occasional tests of the records management system to ensure the completeness of the records through spot checks.

## Potential deficiencies

## Suggested remedial measures

### *Internal funds transfer requests and approvals*

No formal request and written approval for the internal transfer of funds, and the Group did not maintain supporting documents in relation to the purpose and use of the transferred funds and the relevant accounting records; and

Mr. KH Li approved the internal transfer of funds and issued the relevant cheque without having full knowledge of the purpose of the payment and the use of the funds.

Make the internal fund transfer requests in writing, setting out the purpose and use of the funds, and obtaining the approval from the appropriate management, and informing the management of the reasons for the transfer. The approved internal funds transfer request should be retained as supporting document for the relevant accounting records; and

Step up the approval hierarchy by increasing the number of officers required for the approval of fund transfer request, such that any payment applications exceeding a specified amount of, for example, HK\$500,000 or above, must be concurrently approved by two persons, namely Mr. KH Li and another authorised officer.

### *Review of contents of draft announcements*

Insufficient time for the Board to fully consider and review the draft announcement in relation to the unaudited annual results of the Company for the financial year ended 31 December 2021 and understand the nature of the Deposits.

With reference to the code provision C.5.8 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules, draft announcements and related materials shall be made available for review by the Directors at least three days prior to Board meetings to ensure sufficient time for reviewing and considering the meeting materials.

### *Sufficiency of accounting resources*

The financial statements of the Company are prepared by Mr. Kennedy Li, being the then chief financial officer, and based on the trust and confidence in Mr. Kennedy Li, there is no mechanism in place for effective review of the financial statements prepared by Mr. Kennedy Li to ensure that the unaudited financial data are free from material misstatement.

Assign personnel with relevant qualifications and extensive experience in accounting to assist the Board in reviewing the financial statements to ensure the accuracy of the financial data and disclosures.

## Potential deficiencies

## Suggested remedial measures

### *Personnel management*

Mr. Kennedy Li was under the employment of the Group but failed to cooperate in the Independent Investigation.

Establish a contingency mechanism covering circumstances where investigations are required by the regulatory authority, requiring employee's proactive cooperation with internal investigations and that the senior management or department heads should explain to and lead their members and subordinates in respect of the internal investigations. In addition, the employee's responsibilities in relation to such incidents should be set out in the internal documents, such as job descriptions, employment contracts or staff manuals.

### **Addressing the remaining Audit Issues (i.e. potential non-compliance with laws and regulations in connection with the fund flow relating to the purported payment of Deposits in the PRC)**

15. In respect of the issue of potential non-compliance with the foreign exchange control policies in the PRC, based on the representation of the interviewees, they are not aware of any payment of the Deposits nor any indirect payment of the Deposits made to the PRC bank accounts of the Subcontractors by the payers on behalf of the Group. Therefore, according to the understanding of the interviewees, the purported payment of the Deposits of approximately MOP69.1 million to the PRC bank accounts of the relevant Subcontractors does not exist. According to the accounting books and records, the Deposits of approximately MOP69.1 million were only adjusted from the accounts receivable without any payment arrangement. As such, there is no noted issue in connection with the foreign exchange control policies in the PRC.
16. Further, given that (i) there has not been any payment of the Deposits by the Group nor any cash outflow to the Subcontractors; and (ii) the Deposits were merely adjusted from the accounts receivable, there is no noted issue of recoverability of the Deposits.

### **OPINION OF THE BOARD**

The Board has reviewed the content and the findings of the Investigation Report. The Board is of the view that the Independent Forensic Accountant has investigated into the Audit Issues and adequately addressed the concerns raised by Deloitte, and the findings of the Independent Investigation in the Investigation Report are reasonable and acceptable. The Board has adopted the appropriate remedial measures in order to control the inherent risks.



## REMOVAL OF CHIEF FINANCIAL OFFICER

Since the engagement of the Independent Forensic Accountant to carry out the Independent Investigation in July 2022, Mr. Kennedy Li had not cooperated with the Independent Forensic Accountant and refused to attend any interview for the purpose of the Independent Investigation, and as such, his duties and responsibilities had been suspended since 1 June 2023. In light of the findings of the Investigation Report, the Board has raised concerns over the integrity of Mr. Kennedy Li and thus, has resolved to terminate the employment of Mr. Kennedy Li on 1 November 2023 with immediate effect.

As at the date of this announcement, the Company is in the course of identifying suitable candidates with sufficient knowledge, skills and experience to fill the vacancy following the removal of Mr. Kennedy Li as the chief financial officer of the Company and will make further announcement(s) as and when appropriate.

## BUSINESS UPDATE

As at the date of this announcement, the business operations of the Group are continuing as usual in all material respects. The Board will continue to assess and monitor the impact of the suspension of trading on the operations and financial performance of the Company (if any).

## CONTINUED SUSPENSION IN TRADING

Trading in the shares of the Company has been suspended with effect from 9:00 a.m. on 11 May 2022 and will remain suspended pending the fulfilment of all the resumption conditions stated in the Resumption Guidance.

In the meantime, shareholders and potential investors of the Company are advised to exercise caution when dealing in shares of the Company.

By order of the Board  
**Wai Hung Group Holdings Limited**  
**Mr. Li Kam Hung**  
*Chairman, Chief Executive Officer and  
Executive Director*

Hong Kong, 10 November 2023

*As at the date of this announcement, the Board comprises Mr. Li Kam Hung, Mr. Yu Ming Ho and Mr. Yau Yan Ming Raymond as executive Directors; Mr. Li Chun Ho as non-executive Director; and Ms. Rita Botelho dos Santos, Mr. Wu Chou Kit and Mr. Lam Chi Wing as independent non-executive Directors.*

\* *the English translation of Chinese names or words in this announcement, where indicated, is included for information purpose only, and should not be regarded as the official English translation of such Chinese names or words.*