

*Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*



## **UNIVERSAL STAR (HOLDINGS) LIMITED**

**星宇(控股)有限公司**

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

**(Stock Code: 2346)**

### **INSIDE INFORMATION**

#### **(1) MAJOR FINDINGS OF THE INVESTIGATION AND THE INTERNAL CONTROL REVIEW; AND (2) CONTINUED SUSPENSION OF TRADING**

This announcement is made by Universal Star (Holdings) Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) pursuant to Rule 13.09(2)(a) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and the Inside Information Provisions (as defined in the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

References are made to (i) the announcement of the Company dated 29 March 2022 in relation to the delay in publication of 2021 Audited Results and despatch of the 2021 Annual Report; (ii) the announcement of the Company dated 1 April 2022 in relation to the suspension of trading in the shares of the Company (the “**Shares**”) with effect from 9:00 a.m. on 1 April 2022; (iii) the announcements of the Company dated 29 June 2022 and 15 August 2022 in relation to the Resumption Guidance; (iv) the announcement of the Company dated 19 August 2022 in relation to the establishment of the Independent Investigation Committee; (v) the announcement of the Company dated 30 September 2022 in relation to, among others, the engagement of professional parties to conduct a forensic investigation into the Loans and Related Arrangements and a review on the Company’s internal control and procedures; (vi) the announcements of the Company dated 30 June 2022, 30 September 2022, 30 December 2022, 30 March 2023, 30 June 2023 and 29 September 2023 in relation to the quarterly updates on the resumption progress; (vii) the announcement of the Company dated 30 March 2023 in relation to the further delay in publication of 2021 Audited Results and despatch of the 2021 Annual Report, and the delay in publication of 2022 Annual Results and

despatch of the 2022 Annual Report; (viii) the announcements of the Company dated 13 May 2022, 28 July 2023 and 21 August 2023 in relation to change, resignation and appointment of auditors of the Company; (ix) the announcements of the Company dated 31 October 2023 in relation to the appointment of an independent non-executive director of the Company; and (x) the announcements of the Company dated 30 October 2023 and 3 November 2023 in relation to, among others, the decision of the Listing Committee on cancellation of listing of the Company and the request to review decision of the Listing Committee on cancellation of listing of the Company (collectively, the “**Announcements**”).

Capitalised terms used in this announcement shall have the same meanings as those defined in the Announcements unless the context requires otherwise.

## **BACKGROUND, SCOPE AND KEY INVESTIGATION PROCEDURES OF THE INVESTIGATION**

### **Background**

As disclosed in the announcement of the Company dated 15 August 2022, the Company received a letter from The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) dated 11 August 2022, setting out the Additional Resumption Guidance, which includes, among others, conducting an independent forensic investigation into the Loans and Related Arrangements (the “**Investigation**”) concerning, among others, Mr. Lu, a former non-executive Director, announcing the findings and taking appropriate remedial actions.

The Independent Investigation Committee (“**IIC**”), comprising all the independent non-executive Directors, has been established by the Board to investigate into the Loans and Related Arrangements and other related matters, if any. As announced by the Company on 30 September 2022, the IIC has engaged Grant Thornton Advisory Services Limited (the “**Investigation Consultant**”) to conduct the Investigation.

On 25 September 2023, the Investigation Consultant has provided the advanced draft report on the Investigation (the “**Investigation Report**”) to the IIC. This announcement provides shareholders of the Company and investors with information on, among others, the major findings of the Investigation and the views of the IIC and the Board thereon.

## Scope of the Investigation

The key scope of the Investigation is as follows:

1. understanding the background and development of the Loans and Related Arrangements, including but not limited to the reason why the Group had got involved, the entering into of the Loan agreements and the relevant legal proceedings;
2. understanding and ascertaining the information in relation to the parties involved in the Loans and Related Arrangements as well as their roles and duties;
3. understanding the financial impact of the Loans and Related Arrangements on the Group; and
4. understanding the internal control of the Group during the relevant period of time in aspects including but not limited to the management of use of company seals and loan applications, and evaluating whether there were any material deficiencies in the internal control of the Group.

## Key Investigation Procedures

The key investigation procedures conducted by the Investigation Consultant consisted of, but not limited to, the following:

- (i) conducting a comprehensive examination of the relevant documents obtained from the senior management of the Company (the “**Management**”) during the period of the Investigation to ascertain the background, details and the latest status of the Loans and Related Arrangements;
- (ii) reviewing documents including the announcements published by the Company, copies of certain agreements related to the Loans, accounting records of Ningde Xingyu and certain internal control documents and court documents of Ningde Xingyu, and relevant legal opinions;
- (iii) conducting interviews with relevant individuals, including the current and former Directors, the Management, the financial personnel of Ningde Xingyu and a law firm in the People’s Republic of China (“**PRC**”) engaged by the Company (the “**PRC Legal Advisers**”) to provide legal advice to the Group, represent Ningde Xingyu in defending the claims in the lawsuit initiated by the Claimant in respect of the Loans (the “**PRC Litigation**”), to understand the process of the Loans and Related Arrangements, including fund approval, fund utilisation, relevant internal controls and the latest status;

- (iv) conducting independent background checks on the relevant individuals, including Mr. Lu, Lyu Zhufeng (former chairman on the Board and a former executive Director) (“**Mr. Lyu**”) and the Claimant, and the relevant companies including Ningde Xingyu and the affiliated entities associated with Mr. Lu, to obtain a comprehensive understanding of their backgrounds including the business nature of the Company and the PRC Litigation;
- (v) obtaining the internal control documents of the Company from the Management and conducting a thorough review on the internal procedures adopted in the Loans and Related Arrangements, including the procedures in relation to loan applications, loan approvals, use of and the process of safeguarding company seals and the relevant documentation processes; and
- (vi) obtaining three business computers, including the business computers which belonged to each of Mr. Lyu and his spouse and the computer of Ningde Xingyu for financial data backup, for the purpose of conducting computer forensic procedures.

During the performance of the aforementioned procedures, the Investigation Consultant had encountered certain limitations, which were set out in the section headed “Key Limitations of the Investigation” in this announcement.

## **SUMMARY OF THE MAJOR FINDINGS OF THE INVESTIGATION**

Based on the key investigation procedures as set out in the section headed “Key Investigation Procedures” above in this announcement and subject to the limitations of the Investigation as further set out in the section headed “Key Limitations of the Investigation” below in this announcement, the Investigation Consultant reported the following findings in the Investigation Report in relation to the Loans and Related Arrangements and other related matters:

Based on the Investigation Report, the following sets out the background of the Loans and the circumstances leading to the provision of the Guarantee by Ningde Xingyu:

### *The Loans*

1. While Mr. Lu entered into the first loan agreement with the Claimant in April 2017, the first loan amount was taken out in August 2014.

2. Between the period of April 2017 and April 2019, a total of 13 loan agreements, with an aggregate loan amount of RMB49 million i.e. the Loans, were entered into by Mr. Lu and the Claimant. All the 13 loan agreements were signed by Mr. Lu and stamped with the seal of Ningde Xingyu. Among these 13 loan agreements, nine of them clearly revealed that Mr. Lu was the principal recipient of the relevant loan amounts in respect of the Loans.
3. Of the three aforesaid loan agreements which amounted to RMB2.2 million, only RMB0.29 million constituted to the principal amount of the Loans and the remaining RMB1.91 million was the outstanding interest that had been accumulated in respect of the relevant three loan agreements. Accordingly, the actual amount of the Loans should be RMB47.09 million instead.
4. Among the 13 loan agreements, a certain number of them which amounted to RMB29.5 million mentioned that the relevant loan amount was taken out for the purpose of supporting Ningde Xingyu's production and operation. However, the Investigation Consultant stated that the documents they had reviewed so far up to the date of the Investigation Report were insufficient to verify the accuracy of the purpose so stated.
5. Between the period of October 2014 and August 2020, interest in respect of the Loans was paid from time to time to the Claimant. The last time that Mr. Lu had made a repayment was on 31 August 2020.

*The Mortgage Agreement and the Guarantee*

6. On 21 August 2020, a mortgage agreement was executed, whereby Ningde Xingyu pledged its property in Ningde City, Fujian Province, PRC (the "**Property**") to the Claimant for securing a loan amount of RMB37 million. The Property is where the Company's major production facilities are currently located. According to a confirmation signed later on 24 August 2020 by Ningde Xingyu, Ningde Xingyu confirmed that the loan amount of RMB37 million was not a loan freshly taken out by Ningde Xingyu and rather it involved the outstanding balances at the relevant time of five loan agreements in respect of the Loans.
7. Based on the review of the relevant documents, the structure of the mortgage and corporate guarantee in respect of the Loans is as follows:
  - (a) subject to paragraph 3 of the sub-section headed "The Loans" above, the entire amount of the Loans was RMB49 million;

- (b) a total of RMB37 million in the Loans was secured by a pledge of the Property;
- (c) a total of RMB11.2 million in the Loans was guaranteed by Ningde Xingyu; and
- (d) a total of RMB10 million in the Loans was both secured by a pledge of the Property and guaranteed by Ningde Xingyu.

### *The PRC Litigation*

- 8. In around June 2021, Mr. Lu and the Claimant carried out some negotiations in relation to the arrangement for the repayment of the Loans. A draft repayment agreement had been circulated to both parties for negotiation purposes. However, Mr. Lu and the Claimant failed to reach a consensus and the repayment agreement had not been signed.
- 9. On account of his failure to recover the Loans, the Claimant commenced legal proceedings against Mr. Lu and Ningde Xingyu by filing the Statement of Claim with Ningde Intermediate People's Court (寧德市中級人民法院) (the "**PRC Court**") on 25 August 2021. In the Statement of Claim, Mr. Lu and Ningde Xingyu were listed as the first and second defendants, respectively.
- 10. On 31 March 2022, the legal advisers to the Company in the PRC, namely Beijing Jincheng Tongda & Neal Law Firm (北京金誠同達(深圳)律師事務所), in representing the Company in the legal proceedings (the "**PRC Legal Advisers**") filed the defence opinion with the PRC Court.
- 11. The PRC Court issued the judgment for the PRC Litigation on 28 December 2022 (the "**Judgment**"). With respect to the Judgment, the PRC Court's ruling includes, among others, the following:
  - (i) Ningde Xingyu shall be jointly liable to repay a loan of RMB14,848,988 plus interests;
  - (ii) in respect of a loan of RMB34,348,988 plus interest, the Claimant shall be given priority to claim a repayment out of the sale proceeds of the Property from an auction or a selling-off; and
  - (iii) Ningde Xingyu shall bear the joint liability as a guarantor to two loans amounting to RMB10 million (also being secured by the pledge of the Property) and another loan amounting to RMB0.3 million, both plus interests.

12. Based on the Judgment, in the event that Mr. Lu failed to fulfil any of the repayment obligations, the worst scenario that the Group has to face is to repay an amount of RMB44.15 million together with the interests arising therefrom.
13. The PRC Legal Advisers filed an appeal against the Judgment on behalf of Ningde Xingyu with the PRC Court on 20 January 2023.
14. The court hearing to deal with the appeal matter commenced on 8 June 2023. As at the date of the Investigation Report, the ruling from the PRC Court with respect to the appeal against the Judgment has not come out.

### *The Conclusion*

15. Based on the findings of the Investigation, the Investigation Consultant concluded that:
  - (i) Mr. Lu entered into a total of 13 loan agreements with the Claimant between the period of April 2017 and April 2019 and the entire loan amount involved was RMB49 million.
  - (ii) As at the date of the Investigation Report, based on the documents obtained, the Investigation Consultant was not able to track the Loans after the relevant loan monies had been deposited into the bank accounts of Mr. Lu, Mr. Lyu and others.
  - (iii) Despite Mr. Lu's claim that the Loans were all used in the daily operation of Ningde Xingyu, the Investigation Consultant was not able to ascertain the ultimate use of the Loans (including whether the relevant loan monies had been deposited into any of Ningde Xingyu's bank accounts and whether these monies had been used in the operation of Ningde Xingyu).
  - (iv) The Claimant claimed that Mr. Lu had not made any repayment of the Loans since August 2020 and hence decided to commence legal proceedings against Mr. Lu and Ningde Xingyu. Details of the legal proceedings and the relevant judgment are set out in the sub-section headed "The PRC Litigation" in this announcement.
  - (v) With respect to the Judgment, the PRC Court ruled that Ningde Xingyu shall be liable for part of the repayment obligation and the amount would be RMB44.15 million, together with the interest arising therefrom. The Group had filed an appeal against the Judgment and the court hearing for the appeal commenced on 8 June 2023. As at the date of the Investigation Report, the decision of the PRC Court has not come out.

## **KEY LIMITATIONS OF THE INVESTIGATION**

The Investigation Consultant encountered certain key limitations during the process of Investigation, which may have limited the extent of the Investigation. A summary of the key limitations of the Investigation is set out below:

- (a) the Investigation Consultant was not able to interview a number of former employees of Ningde Xingyu, former directors of the Company as well as representatives of third parties involved in the Loans and Related Arrangements matters;
- (b) the Investigation Consultant was not able to obtain some of the contemporaneous records of company documents they requested; and
- (c) the Investigation Consultant was not able to perform the inquiry procedure and obtain the originals or legible versions of the documents requested in relation to the remittances and transfers of the money involved in the Loans.

## **BACKGROUND AND SCOPE OF THE INTERNAL CONTROL REVIEW**

### **Background**

In addition to an independent forensic investigation into the Loans and Related Arrangements, the Additional Resumption Guidance issued by the Stock Exchange includes, among others, a requirement for conducting an independent internal control review (the “**Internal Control Review**”) and demonstrating that the Company has in place adequate internal control and procedures to comply with the Listing Rules.

Accordingly, the IIC has engaged Roma Risk Advisory Limited, an independent professional risk advisory firm, as the independent internal control consultant (the “**Internal Control Consultant**”) to conduct the Internal Control Review.

On 16 October 2023, the Internal Control Consultant issued the final report on the Internal Control Review (the “**Review Report**”) to the IIC. This announcement provides shareholders of the Company and investors with information on, among others, the major findings of the Internal Control Review and the views of the IIC and the Board thereon.



## **Scope of the Internal Control Review**

The key scope of the Internal Control Review is as follows:

1. reviewing the Company's internal control in respect of the loans taken out by a former non-executive Director, namely Mr. Lu; and
2. reviewing the Company's compliance procedures under the relevant Listing Rules.

## **SUMMARY OF THE MAJOR FINDINGS OF THE INTERNAL CONTROL REVIEW**

The Internal Control Consultant had (i) identified the following deficiencies in relation to the internal control of the Group as well as the compliance procedures under the relevant Listing Rules; and (ii) made corresponding recommendations, which are set out below:

### **Findings**

### **Recommendations**

#### *Policies on loan applications*

- |   |   |
|---|---|
| (i) At the time when Mr. Lu was taking out the Loans, the whole process was carried out by Mr. Lu alone without the participation of other staff of Ningde Xingyu, which made Ningde Xingyu unaware of the relevant loan agreements. As a result, Ningde Xingyu was not able to perform the approval process for the relevant loan agreements and the terms therein as well as to keep proper records of the documents. | To delegate the duty to approve loan agreements and guarantee agreements and to keep proper records (including the documents and the approval process) to the legal department.<br><br>To review the segregation of duties in the financing and lending process regularly in order to reduce the risk of having unauthorised lending. |
|---|---|

*Policies on mortgages and guarantees*

- |  |   |
|--|---|
| (ii) Ningde Xingyu failed to document the measures to monitor mortgages and guarantees.  | To establish a management system for asset registration and the application and signing process for mortgages and guarantees.   |
| (iii) The administration department and the accounts department failed to regularly check the asset register and spot any changes in the asset registration. | To update the asset register regularly and delegate specific staff members to perform the updates.<br><br>To keep the asset licences properly and to establish the approval process for the use of asset licences.<br><br>To keep the documents in relation to acquisitions and disposals of the assets for records.<br><br>To impose measures to monitor the pledging of assets and to establish a penalty system for violation of the measures as well as a whistle-blowing policy. |

*Policies on the company seal*

- |  |   |
|--|---|
| (iv) Ningde Xingyu failed to properly perform the application and approval process for the use of the company seal, including misappropriation of the company seal, incomplete record of the use of company seal and absence of proper filing of the relevant documents stamped with company seal. | To delegate the duty to keep the company seal to a specific staff member.<br><br>To ensure that the company seal is kept according to the regulations on the management of company seal formulated by Ningde Xingyu.<br><br>To establish a penalty system for violation of the regulations on the management of company seal. |
|--|---|

*Policies on the use of personal bank accounts*

- (v) Ningde Xingyu allowed the use of personal bank accounts for company use. To devise a policy expressly prohibiting the management and staff from using their personal bank accounts for company use.

To establish a penalty system for violation of the policy as well as a whistle-blowing policy.

*Compliance procedures under the relevant Listing Rules*

- (vi) The Group failed to disclose the whistle-blowing policy and the reporting channels on its website, which may fail to comply with the Corporate Governance Code and Guidance for Boards and Directors under the Listing Rules. To review and revise the whistle-blowing policy regularly.

To ensure disclosure of the whistle-blowing policy on the Company's website for public inspection, and to provide reporting channels.

- (vii) The Group failed to circulate its monthly financial statements to the Board. To provide the members of the Board with monthly financial statements in accordance with the Company's financial management system so as to comply with Code Provision D.1.2 of the Corporate Governance Code under the Listing Rules. The monthly updates should give a balanced and understandable assessment of the Company's performance, position and prospects in sufficient detail to enable the Board as a whole and each Director to discharge their duties under Rule 3.08 and Chapter 13 of the Listing Rules.

In response to the findings from the Internal Control Review, the Company has taken remedial actions with a view to enhancing the internal control of the Group. The remedial actions taken are to a large extent based on the recommendations made by the Internal Control Consultant as stated above. As at the date of the Internal Control Report, the Company has completed the remedial actions and adopted the recommendations given in the Internal Control Report. After a follow-up review, the Internal Control Consultant is satisfied with the Company's current internal control in the aforementioned aspects and has not spotted any material internal control issues.

## **VIEWS OF THE INDEPENDENT INVESTIGATION COMMITTEE AND THE BOARD**

As at the date of this announcement, the IIC has reviewed contents of the Investigation Report. The IIC is of the view, which the Board concurred, that having taken into account the practical limitations not controllable by the current Management, the Investigation represented a best-effort attempt, having carried out appropriate and reasonably practicable procedures and having the full support and cooperation by the current Management. In addition, the IIC and the Board are of the view that the Investigation Consultant has exploited all reasonably practicable means to conduct the Investigation and that the content and findings of the Investigation Report are reasonable and acceptable. As at the date of this announcement, Mr. Lu and Mr. Lyu no longer hold any positions in the Group except that Mr. Lyu remains the authorised representative of the Company solely for the purpose of shouldering the legal risks and responsibilities associated with the PRC Litigation. Despite this, neither Mr. Lyu nor Mr. Lu has any substantial influence over the Company's management and operations. The Group's business operation continues as usual in all material aspects despite the suspension of trading in the Shares since 1 April 2022.

Having considered the findings of the Internal Control Review and the remedial actions taken by the Management, the IIC and the Board are of the view that the remedial actions taken by the Management are sufficient to address the major findings of the Internal Control Review. As such, the IIC and the Board are of the view that the Company has adequate internal control in place over the aspects concerned as stated in the sub-section headed "Summary of Major Findings of the Internal Control Review" above in this announcement. The Company will continue to enforce its internal control policies and procedures on an on-going basis and revise such policies and procedures as and when appropriate to ensure compliance with the Listing Rules.

## **CONTINUED SUSPENSION OF TRADING**

Trading in the Shares on the Stock Exchange has been suspended with effect from 9:00 a.m. on 1 April 2022 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  
**Universal Star (Holdings) Limited**  
**Li Li**  
*Chairlady and Executive Director*

Hong Kong, 24 November 2023

*As at the date of this announcement, the Board comprises Ms. Li Li as the executive Director; Ms. Li Yanfang as the non-executive Director; and Mr. Yan Aru, Mr. Gong Peiyue and Mr. Tsang Ho Pong as the independent non-executive Directors.*