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花房集团
HUAFANG GROUP

Huafang Group Inc.
花房集团公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3611)

**INSIDE INFORMATION
KEY FINDINGS OF INDEPENDENT INVESTIGATION
AND
CONTINUED SUSPENSION OF TRADING**

This announcement is made by Huafang Group Inc. (the “**Company**”, together with its subsidiaries, the “**Group**”) pursuant to Rule 13.09 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) (the “**Listing Rules**”) and 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 (i) dated March 20, 2023 in relation to the date of Board meeting; (ii) dated March 30, 2023 in relation to the unaudited annual results announcement for the year ended December 31, 2022; (iii) dated April 3, 2023 and April 25, 2023 in relation to, among other things, delay in publication of the audited consolidated final results for the year ended December 31, 2022 (the “**2022 Audited Annual Results**”) and suspension of trading; (iv) dated June 23, 2023 in relation to the Resumption Guidance; (v) dated June 30, 2023, September 29, 2023 and January 4, 2024 in relation to quarterly updates on status of resumption; (vi) dated July 25, 2023 in relation to updates on the Investigation; (vii) dated August 3, 2023 in relation to the resignation of the Company’s auditor; (viii) dated August 17, 2023 in relation to the appointment of the Company’s auditor; (ix) dated August 24, 2023 in relation to, among other things, update on the operating results for the six months ended June 30, 2023; (x) dated August 31, 2023 in relation to the appointment of the Independent Investigator and the Internal Control Consultant; and (xi) dated February 23, 2024 in relation to the key findings of independent internal control review (collectively, the “**Announcements**”). Unless the context requires otherwise, capitalized terms used herein shall have the same meanings as those defined in the Announcements.

BACKGROUND

Trading in the shares of the Company on the Stock Exchange has been suspended with effect from 9:00 a.m. on April 3, 2023 due to the delay in publication of the 2022 Audited Annual Results.

As disclosed in the announcement of the Company dated April 25, 2023, certain authorities in the PRC initiated an investigation on an investee company (“**Investee Company**”) in which the Group holds 25% equity interest (the “**Criminal Case**”), which involves the Frozen Accounts.

On June 19, 2023, the Company received a letter from the Stock Exchange setting out the guidance (the “**Resumption Guidance**”) for the resumption of trading in the Shares to, among others, conduct an appropriate independent investigation, assess the impact on the Company’s business operation and financial position, announce the findings and take appropriate remedial actions.

As disclosed in the announcement of the Company dated July 25, 2023, the Group tendered detained funds pending final judgement (待結案扣押款) of approximately RMB155 million to the relevant government authority. As of July 25, 2023, all Frozen Accounts had been released and available for daily business operations.

On August 31, 2023, the Company appointed AOGB Professional Consultancy Services Company Limited (“**AOGB**”) as the Independent Investigator to conduct the Independent Investigation to assess the impact of the incidents of the Frozen Accounts and the Criminal Case (the “**Incidents**”) on the Company’s business operation and financial position.

On February 19, 2024, the Independent Investigator issued the report of the Independent Investigation (the “**Investigation Report**”).

SCOPE OF THE INDEPENDENT INVESTIGATION

For the purpose of the Independent Investigation, the procedures the Independent Investigator performed independently includes, but not limited to, the following:

- (i) interviewing the directors (the “**Directors**”) and the management of the Group (the “**Management**”) and the personnel of its relevant business operation departments to understand relevant information about the Incidents;
- (ii) interviewing the external PRC counsel of the Company to understand the cause, process, latest progress and legal opinion of the Incidents;
- (iii) reviewing the information and documents in relation to the Incidents and the legal opinion issued by the PRC counsel of the Company; and
- (iv) performing independent procedures and data analysis on (a) the transactions between the Group and the Investee Company from January 1, 2022 to March 31, 2023 (the “**Inspection Period**”), (b) the internal transactions within the Group involved in the Frozen Accounts, and (c) the inflows and outflows of the Frozen Accounts during the Inspection Period.

SUMMARY OF THE KEY FINDINGS OF THE INDEPENDENT INVESTIGATION

1. The Criminal Case

The product of the Investee Company is a social networking app with the functions of live streaming and audio chatting room.

On March 18, 2023 and March 19, 2023, the Investee Company's Four Employees and the Legal Representative of Certain Subsidiary were subject to certain criminal compulsory measure taken by the relevant government authority on suspicion of certain crime.

At the end of September 2023, the criminal investigation phase of the Criminal Case was completed and the Criminal Case has entered into the examination and prosecution stage.

During the criminal investigation phase of the Criminal Case, the relevant government authority did not list any member of the Group as a criminal suspect. As of the date of this announcement, the Group has not received any notice from the relevant authorities adding it as a criminal suspect.

2. The Frozen Accounts

Prior to the release of the Frozen Accounts, the aggregate cash amount of the Frozen Accounts was approximately RMB136.1 million. The Independent Investigator observed that the freezing of the Frozen Accounts did not significantly affect the Group's daily operations, as the major products of the Group such as *Huajiao* (花椒) and *6.cn* (六間房) continued to operate normally, and new third-party payment platform accounts could be established if needed. As of July 25, 2023, all Frozen Accounts had been released and available for daily business operations.

According to the relevant rules on the confidentiality of the criminal investigation, public security authorities normally do not disclose the reasons of freezing and the investigation status to banking financial institutions or specific non-financial institutions.

As stated in the legal opinion issued by the PRC counsel of the Company, Application of Seizing and Freezing Measures in the Handling of Criminal Cases (公安機關辦理刑事案件適用查封、凍結措施有關規定) defines the scope of frozen assets in criminal case as "various assets that can be used to prove the guilt or innocence of a criminal suspect" (可用以證明犯罪嫌疑人有罪或者無罪的各種財產), and the owner of the frozen accounts may not necessarily be the criminal suspect (or entity). Especially in economic crime cases where flow of funds is complicated, any account having fund flows with the account of the criminal suspect may also be frozen by relevant government authority for investigation purpose.

3. The Frozen Accounts have not had a significant impact on the Group’s financial position and business operation.

As of July 25, 2023, all Frozen Accounts had been released and available for daily business operations.

As for the detained funds pending final judgement (待結案扣押款) of approximately RMB155 million (the “**Detained Funds**”) to the government authority, it is less likely that the relevant government authority would increase the amount of the detained fund at the current stage. For any loss arising from the Frozen Accounts and the Detained Funds, the Group reserve its rights to seek reimbursement and/or compensation from the Investee Company. Upon occurrence of the Incidents, the Investee Company had suspended its operations with no significant assets retained. As advised by the Company’s PRC legal advisor, it is likely that the Detained Funds would be confiscated by the relevant PRC authorities upon conclusion of the Criminal Case and therefore, for the sake of prudence, the Group recognised the estimated risks arising from the Incidents of approximately RMB155 million, which approximates to the amount of the Detained Funds as provision recognised in its consolidated financial statement for the year ended December 31, 2022 in accordance with the accounting policies adopted by the Group.

Also, as the operation of the Investee Company has been suspended since March 2023, the Group has recognised a decrease in fair value on the investment in the Investee Company of RMB19.0 million in other comprehensive income for the year ended December 31, 2022.

The Independent Investigator inspected the monthly statements of 20 bank accounts and third-party payment platform accounts of the Group, accounting for approximately 96% of the total balance of the Group’s bank accounts and third-party payment platform accounts as of August 31, 2023 with an aggregate amount of approximately RMB1,963.7 million. The monthly statements showed that there was no material difference between the balance shown on the bank/account statements and the financial records on the Group’s book. The Independent Investigator also noted from the bank/account statements that the relevant accounts were in normal operating status.

At the same time, the Independent Investigator has noticed that the major products of the Group are currently in normal operation.

In summary, except for the provision of RMB155 million and the decrease in fair value on the investment in the Investee Company of RMB19.0 million in other comprehensive income recognised in the consolidated financial statements for the year ended December 31, 2022, the Frozen Accounts have not had any other significant impact on the Company’s financial position and business operation.

4. There is no evidence that the Criminal Case has had a significant impact on the Group's financial position and business operation.

During the Independent Investigator's interviews with the Management, as of September 30, 2023, the investigation phase of the Criminal Case involving the product of the Investee Company was completed and the Criminal Case has entered into the examination and prosecution stage. Following the investigation phase of the Criminal Case, except for the Legal Representative of Certain Subsidiary, who was subject to certain criminal compulsory measure, no Directors, senior management, current employees or subsidiaries of the Company were identified in the Criminal Case.

The Independent Investigator also reviewed the legal opinion issued by the Company's external PRC legal counsel on the Incidents, which stated that (i) the Group is currently not involved in certain crime; and (ii) the Criminal Case would not have material adverse impact on the Group's financial position and business operation.

In summary, there is no evidence that the Criminal Case has a significant impact on the Group's financial position and business operation.

Remedial Actions

Having considered the findings of the Independent Investigation, the Board has taken, or is taking, the following remedial actions:

- (i) the Company has liaised with the auditor of the Company to confirm that the findings of the Independent Investigation has addressed their concerns and enable them to complete the audit of the 2022 Audited Annual Results;
- (ii) the Company is considering the feasibility of taking legal actions, whether contractual, breach of duties or otherwise, against any person(s) in relation to the Incidents. The Company is consulting its PRC legal advisors for a legal opinion on the possible causes of actions and the strategy to be adopted;
- (iii) the Company has designated a specific working group to be responsible for monitoring the investee companies of the Group so as to identify if there is any non-compliance circumstance in the business and daily operation of those investee companies and take appropriate remedial actions;
- (iv) the Company will institute training programs to strengthen legal and compliance awareness among all staff. These training sessions will be conducted on a regular basis to instill and reinforce a culture of adherence to laws, regulations, and internal policies across the Company;
- (v) the Company engaged the Internal Control Consultant to conduct an internal control review in light of the issues identified in the Independent Investigation, and adopted any appropriate recommendations from the Internal Control Consultant in respect of the internal control system of the Group; and

(vi) the Company will fully cooperate with the relevant government authority on the Criminal Case.

The Board believes that, through the implementation of the remedial actions outlined, the Company will be able to effectively monitor and manage investment risks moving forward and to prevent a recurrence of similar incidents in the future.

OPINIONS OF THE AUDIT COMMITTEE AND THE BOARD

The Audit Committee and the Board have reviewed the content and the findings of the Independent Investigation in the Investigation Report. The Audit Committee and the Board are of the view that the Investigation has assessed the impact of the Incidents on the Company's business operation and financial position to the extent that is practicable, and that the content and the findings of the Independent Investigation in the Investigation Report are reasonable and acceptable.

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 from 9:00 a.m. on April 3, 2023 pending the publication of the 2022 Audited Annual Results, and will remain suspended until the Company fulfils the Resumption Guidance and any supplement or modification thereto. The Company will publish further announcement(s) to inform the shareholders of the Company of its progress in complying with the Resumption Guidance as and when appropriate, as well as quarterly updates on its development pursuant to Rule 13.24A of the Listing Rules.

Shareholders and potential investors of the Company should exercise caution when dealing in the securities of the Company.

By order of the Board
Huafang Group Inc.
花房集团公司
Mr. ZHOU Hongyi
Chairman

Hong Kong, February 23, 2024

As at the date of this announcement, the Board comprises Ms. YU Dan as executive director; Mr. ZHOU Hongyi, Mr. CHEN Shengmin and Mr. ZHAO Dan as non-executive directors; and Mr. CHEN Weiguang, Mr. LI Bing and Ms. QIAN Aimin as independent non-executive directors.