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Ever Reach Group (Holdings) Company Limited

恒達集團（控股）有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 3616)

KEY FINDINGS OF THE INDEPENDENT INVESTIGATION AND CONTINUED SUSPENSION OF TRADING

INTRODUCTION

This announcement is made by Ever Reach Group (Holdings) Company Limited (the “**Company**”) pursuant to Rule 13.09 of 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).

Reference is made to (i) the announcements of the Company dated 28 March 2024, 2 April 2024, 12 April 2024, 14 May 2024, 28 June 2024, 27 September 2024, 30 December 2024, 31 March 2025 and 1 July 2025 in relation to, among others, the delay in publication of the 2023 and 2024 Annual Results, the Resumption Guidance and the establishment of the Special Investigation Committee; (ii) the announcement dated 12 August 2024 in relation to resignation of auditor; (iii) the announcement dated 23 August 2024 in relation to, among others, delay in publication of 2024 interim results and delay in despatch of 2024 interim report; and (iv) the announcement dated 25 September 2024 in relation to appointment of auditor (the “**Announcements**”). Unless otherwise defined, capitalized terms used in this announcement shall have the same meanings as those defined in the Announcements.

BACKGROUND

On 25 June 2024, the Company received a letter from the Stock Exchange setting out the guidance (the “**Resumption Guidance**”) for the resumption of trading in the shares of the Company on the Stock Exchange. Pursuant to the Resumption Guidance, the Company shall, among others, conduct an appropriate independent investigation into the Prepayments Issue, assess the impact on the Company’s business operation and financial position, announce the findings and take appropriate remedial actions.

As disclosed in the Announcements, the Board had resolved to establish the Special Investigation Committee comprising all independent non-executive Directors to undertake investigation on matters pertaining to the Prepayments Issue. In addition, on 5 June 2024, the Company has engaged Cheng & Cheng Risk Advisory Services Limited (the “**Investigation Firm**”), an independent third-party professional institute, to conduct an independent investigation into the Prepayments Issue and withdrawal and usage of the pre-sale proceeds in supervised accounts (the “**Investigation**”). On 24 June 2025, the Investigation Firm issued the report of the Investigation (the “**Investigation Report**”).

SCOPE OF THE INVESTIGATION

The scope of the Investigation includes but not limited to the following:

- (i) with regard to the Prepayments Issue, to:
 - a. obtain and review the main construction contracts and relevant supplementary agreements (if any), focusing on transaction terms, payment arrangements, and logistics arrangements, and review the construction progress, delivery processes, relevant supporting documents, as well as transaction records;
 - b. obtain and review the contracts entered into by the Group for real estate development loans, the vetting process for those loans, all relevant supporting documents, as well as the documents submitted by the Group for the purpose of applying for loan withdrawal;
 - c. obtain and review construction contracts and relevant supplementary agreements (if any), focusing on the transaction terms, payment and prepayment arrangements and logistic arrangements. Moreover, to review the construction progress, process of project delivery and the relevant supporting documents, as well as transaction records;
 - d. obtain and review the Group’s ledger of loan fund usage (unaudited);
 - e. obtain and review meeting records of the Board and/or management of the Group; and
 - f. obtain and review the Group’s internal control policies.
- (ii) with regard to the withdrawal and usage of pre-sale proceeds in supervised accounts, to:
 - a. examine and identify situations where, after application was made by the Group, the Group’s pre-sale proceeds in supervised accounts were transferred to the main contractors and subsequently refunded to the Group;

- b. obtain and review ledgers and information about the Group's supervised accounts of pre-sale proceeds;
 - c. obtain and review meeting records of the Board and/or management of the Group; and
 - d. obtain and review accounting entries of the Group.
- (iii) with regard to information received from third parties, to review the background information, including the business scope, size, legal representative and directors, of (a) the contractors; (b) the recipients of real estate development loan; and (c) the subsidiaries of the Company.

The Key Investigation Procedures

The key investigation procedures conducted by the Investigation Firm include but not limited to the following:

- (i) conducted interviews with the following people:
 - a. the Company's directors, staff of finance department and relevant senior executives, as well as staff who participated in, reviewed and approved the relevant construction projects;
 - b. responsible person or management of the relevant main contractors;
 - c. responsible person of the relevant banks; and
 - d. relevant government officials.
- (ii) sent enquiry letters to the following entities:
 - a. the relevant main contractors; and
 - b. the relevant banks.
- (iii) obtained legal advice from the Group's PRC legal adviser in relation to legality of bank loan procedures and the refund of pre-sale proceeds to the Group.

SUMMARY OF KEY INVESTIGATION FINDINGS

(i) Prepayment of RMB2.9 million to Supplier A in relation to Project C (Phase 2)

Since 2021, supplier A (“**Supplier A**”) has been engaged by Xuchang Dongheng for the construction of Project C (Phase 2). As of 31 December 2023, the total accounts payable (excluding tax) for the construction project amounted to RMB64.8 million.

PwC’s findings during the audit process

According to a letter from PwC dated 8 April 2024, as of 31 December 2023, Xuchang Dongheng had prepaid Supplier A RMB2.9 million.

The prepayment balance of RMB2.9 million reflects the prepayments (including tax) of RMB67.7 million paid to Supplier A, offset by the accounts payable to Supplier A (excluding tax) of RMB64.8 million.

Commercial rationale in relation to prepayment of RMB2.9 million to Supplier A in relation to Project C (Phase 2)

Based on the information and documents received by the Investigation Firm, the Investigation Firm reached the following opinions, which it believed may be relevant to assessing the commercial rationale of the transaction.

- a. It was confirmed that Supplier A is an independent third party. No shareholding relationship among Supplier A and Xuchang Dongheng was found and there was no evidence indicating that Supplier A has any relationship with Xuchang Dongheng or the shareholders and senior executives of the Company and its subsidiaries.
- b. It was noted that as of 31 December 2023, the prepayments (including tax) paid to Supplier A was RMB67.7 million and the accounts payables to Supplier A (excluding tax) was RMB64.8 million, which matches the information provided by the Group during an interview and therefore, the financial information of Project C (Phase 2) has been accurately recorded.
- c. After offsetting the amount of prepayments (including tax) by the account payables to Supplier A (including tax), it was noted that as of 31 December 2023, RMB3.0 million was payable by Xuchang Dongheng to Supplier A. This calculation considers both the tax-inclusive amounts of prepayments and payables, which matches the information provided by the Group during an interview and therefore, the financial information of Project C (Phase 2) has been accurately recorded.

- d. Based on the unaudited accounts as of 31 December 2024, there was no remaining prepayments balance of Xuchang Dongheng retained in Supplier A.
- e. The Investigation Firm obtained the unaudited financial information of Xuchang Dongheng as of 31 December 2023 and reviewed the accounting vouchers for the above-mentioned prepayments and accounts payable, bank payment receipts, tax invoices, supervision reports, and the construction contract for the Project C (Phase 2), confirming that as of 31 December 2023, Xuchang Dongheng's cumulative prepayments to Supplier A amounted to RMB67,685,627 (including tax) and accounts payable amounted to RMB64,832,884.39 (excluding tax). The Finance Department has recorded the balance of prepayments and accounts payable pursuant to the correct accounting process.

Conclusion

It was confirmed that as of 31 December 2023, the accounts payable to Supplier A by Xuchang Dongheng was RMB3.0 million and therefore there was no remaining prepayments balance of Xuchang Dongheng retained in Supplier A.

(ii) Real estate development loan and prepayment to Supplier A in relation to Project A (Phase 1)

(A) *Real estate development loan and prepayment to Supplier A in the amount of RMB100.9 million*

Real Estate Development loan

On 26 March 2023 and 3 April 2023, Xuchang Hengrun entered into a provisional construction agreement and supplemental construction agreement with supplier B (“**Supplier B**”) for the purpose of Project A (Phase 1).

On 28 June 2023, Xuchang Hengrun entered into a loan agreement in the amount of RMB400.0 million with a bank for the purpose of Project A.

At the material time, it was discovered that Supplier B was involved in multiple lawsuits, which raised concerns as to (1) Supplier B's bank account being frozen after the Group made construction payments; and (2) Supplier B's ability to complete the project.

Subsequently, Xuchang Hengrun, Supplier A and Supplier B entered into a tripartite agreement (the “**Tripartite Agreement**”), pursuant to which Xuchang Hengrun shall directly pay the construction fee to Supplier A and that Supplier B would no longer be involved in the project.

Xuchang Hengrun then submitted to the relevant bank, the drawdown application, together with other documents (including, among others, the Tripartite Agreement and the planned project progress, i.e. the maximum project progress expected to be achieved on 30 June 2026, being the expiration date of the relevant loan agreement). On 30 June 2023, the bank transferred RMB100.9 million to Supplier A by way of entrusted payment.

Subsequently, the relevant government body informed Xuchang Hengrun that they did not recommend the change of construction party from Supplier B to Supplier A. The following were proposed by Xuchang Hengrun to a director of the Company thereafter:

- a. Supplier B would continue to perform the construction works under the provisional and supplemental construction agreements;
- b. to negotiate the termination of the Tripartite Agreement with Supplier A;
- c. a refund of RMB100.9 million from Supplier A be sought;
- d. the amount refunded by Supplier A shall be used to cover the construction fees of Supplier B; and
- e. to notify the relevant bank that Supplier B would remain as the construction party, as originally planned.

The above proposals were accepted by a director of the Company.

On 25 July 2023, Supplier A, Supplier B and Xuchang Hengrun entered into a termination agreement, pursuant to which the parties agreed to terminate the Tripartite Agreement. Supplier A agreed to return the RMB100.9 million to the Group.

On 27 July 2023, Xuchang Hengrun and Supplier B entered into the revised construction agreement in relation to Project A (Phase 1).

Supplier A fully returned the RMB100.9 million to Xuchang Hengrun in March 2024.

Other receivables of RMB100.9 million arisen from prepayment to Supplier A

As of 31 December 2023, Supplier A had yet to return the prepayment of RMB100.9 million to the Group. Starting from 4 March 2024, Supplier A began to repay the amount in instalments and as of 8 March 2024, the amount was fully repaid to Xuchang Hengrun.

Xuchang Hengrun began to make the first payment of construction fee in the amount of RMB700,000 to Supplier B on 17 August 2023. As of the end of December 2023 and as of 30 September 2024, Xuchang Hengrun has paid a total of RMB7.3 million and RMB28.8 million to Supplier B, respectively.

Commercial rationale in relation to the withdrawal of real estate development loan in the amount of RMB100.9 million

Based on the information and documents received, the Investigation Firm has formed the following opinions, which the Investigation Firm believes are relevant to the commercial rationale of the withdrawal of real estate development loan of RMB100.9 million:

- a. Supplier A is an independent third party. There is no evidence showing that Supplier A has any relationship with the shareholders and senior management of the Company and its subsidiaries.
- b. The Group's cash in 2023 was insufficient to pay its payables. At that time, Project A was included in the Xuchang Municipal Government's project whitelist, and thus qualified to apply for real estate development loans from banks. In view of this, the vice president of the Company has approved the submission of planned project progress of 80% to the relevant bank, which was the highest progress achievable for Project A (phase 1) on the expiration date of the relevant loan contract, in hope to obtain a higher amount of loan to cover financial needs of projects outside the whitelist. The relevant bank has approved the loan of RMB100.9 million.
- c. There is no evidence, as of the date of the Investigation Report, indicating that the Group has any unfinished or undeliverable projects. The Group's high amount of short-term loan and the associated high loan interests appear to be the result of funding arrangements made in response to the national policy of "guaranteeing the delivery of buildings" and to prevent projects from being left unfinished.
- d. The broadening of the Project A (Phase 1)'s scope of construction led to the increase in contract sum from RMB53.8 million to RMB126.1 million.
- e. The loan withdrawal was for the purpose of construction of Project A (Phase 1).
- f. After confirming with the relevant bank, it is noted that even the planned construction progress submitted to the bank did not match the actual construction progress, it would not constitute a loan default.

- g. In order to safeguard the loan funds and facilitate the progress of Project A (Phase1), it was decided to replace Supplier B with Supplier A, following the approval from a director of the Company.
- h. The reason for the prepayment is that according to the Interim Measures for Fixed Loans and the loan agreement, the bank must pay the loan directly to Supplier A through Xuchang Hengrun's bank account, by way of entrusted payment.
- i. As confirmed by relevant bank, the release of the loan to Supplier A would not constitute a loan default.
- j. The Group did not anticipate the failure to receive approval from the relevant government authority to switch the construction contractor. Consequently, with no other options, the construction work had to be continued by Supplier B, which had been approved by a director of the Company and Xuchang Hengda. Xuchang Hengrun has informed the bank of this decision and successfully recovered the full loan amount of RMB100.9 million from Supplier A. The bank has confirmed that the said decision does not constitute a loan default.
- k. Based on interview with a director of the Company and Xuchang Hengda, the management realized that the RMB100.9 million paid to Supplier A needed to be recovered immediately, and the corresponding funds have been recovered in full. After Xuchang Hengrun recovered the RMB100.9 million, the project continued to progress as of the date of Investigation Report, and as a measure to strengthen control of funds, no prepayment has been made to Supplier B.
- l. Based on news about the real estate industry in mainland China in 2023, the Investigation Firm noted that there was a wave of bankruptcies among domestic real estate companies. Given Supplier A's concerns about the Group's financial position, it seemed reasonable that it did not immediately return RMB100.9 million to Xuchang Hengrun.
- m. On 25 July 2023, Supplier A entered into a termination agreement with Xuchang Hengrun and Supplier B. Based on a confirmation letter received from Supplier A, it was noted that Supplier A agreed to return RMB100.9 million to Xuchang Hengrun and agreed that RMB100.9 million would not be used to settle the construction fees.

- n. Given that the RMB100.9 million was to be used for the construction of Project A (Phase 1), which was not constructed by Supplier A, Supplier A had no valid reason to withhold or use the funds. Further, if the Group failed to recover the RMB100.9 million, the Company's auditor would be unable to issue an audit report, putting the Group at risk of suspension. This would negatively affect the eight projects of the Group undertaken by Supplier A. Thus, it was reasonable for Supplier A to agree to fully return the RMB100.9 million to Xuchang Hengrun.
- o. It is noted that the returned funds from Supplier A were: 1. used to repay the development loan to the relevant bank; 2. used to settle the construction fee due to Supplier A and Supplier B in relation to Project A; and 3. transferred to the bank account of Xuchang Hengda which were then redistributed among the companies of the Group. As of 30 September 2024, the returned funds of the development loan of the Project A from Supplier A appear to remain in Xuchang Hengda's bank account.

Conclusion

Based on the above background information, Xuchang Hengrun's reply and the Investigation Firm's review, the Investigation Firm confirmed that the prepayments made by Xuchang Hengrun to Supplier A originates from: (1) other receivables due to replacement of contractor for Project A (Phase 1, section 1), and (2) the decision made by the Director to balance the interests of the Group and to ensure the continuity of the Group's business operation. The Investigation Firm has not found any evidence suggesting that the prepayments made by Xuchang Hengrun to Supplier A lacked commercial justification or constituted lending.

Observation in relation to internal control

- a. Clause 9 of the relevant loan agreement stated that "except for the purposes agreed upon in this loan agreement, or with the consent of the lender, the borrower shall not transfer the loan funds under this loan agreement to any account under the name of the borrower or any related party." Consequently, Xuchang Hengrun is prohibited from requiring Supplier A to return the loan fund and retain the returned funds from Supplier A in its bank account.

- b. The relevant bank confirmed that the bank was aware of the aforesaid situation. The bank indicated that it did not intend to pursue any action in this regard.
- c. According to the relevant loan agreement, Xuchang Hengrun was required to apply for the loan in stages based on the actual construction progress. However, Xuchang Hengrun submitted the planned project progress to the relevant bank when withdrawing the loan, exposing the Group to the risk of breaching the loan agreement.
- d. According to the relevant loan agreement, the loan funds shall be used solely for the purpose of Project A. In response to the national policy of “guaranteed delivery of buildings,” the management of the Group had to raise funds for other projects. As a result, the loan intended for Project A was used for other projects, which may expose the Group to the risk of breaching the loan agreement.

(B) Real Estate Development Loan and prepayment to Supplier A in the amount of RMB10.0 million

Real estate development loan in the amount of RMB10.0 million

On 27 June 2023, Xuchang Hengrun entered into a construction contract with Supplier A in relation to block 19 of Project A (Phase 1).

Xuchang Hengrun submitted a drawdown application, together with other supporting documents to the relevant bank in November 2023. On 8 December 2023, according to Interim Measures for Fixed Loans, the relevant loan agreement and the documents submitted to the bank, the bank transferred RMB10.0 million to Supplier A’s bank account through Xuchang Hengrun’s account opened in the bank by way of entrusted payment.

Other receivables of RMB10.0 million arisen from prepayment to Supplier A

Since 31 January 2024, Supplier A started to repay the amount of RMB10.0 million in instalments to Xuchang Hengrun and as of 1 February 2024, the amount was fully repaid.

Observation of the Investigation Firm

The Investigation Firm has the following observations:

- a. During on-site visits, it is noted that as of 30 September 2024, the construction of block 19 of Project A (Phase 1) has yet to begun. Based on feedback from on-site sales staff, starting from 2023, customers became more inclined to purchase completed flats. In response to this trend, Xuchang Hengrun has modified its construction strategy in 2024 from simultaneous development of the entire site to a single building construction model. Such strategy shall enable early delivery of completed flats, which is expected to enhance sales, decrease inventory levels, and reduce the financial pressure on the Group.
- b. Based on confirmation letter sent to Supplier A and the reply from Supplier A, as of 1 February 2024, Supplier A has fully refunded the RMB10.0 million to the Group.
- c. Clause 9 of the relevant loan agreement states, “except for the purposes agreed upon in this loan agreement, or with the consent of the lender, the borrower shall not transfer the loan funds under this loan agreement to any account under the name of the borrower or any related party.” Consequently, Xuchang Hengrun is prohibited from requiring Supplier A to return the loan fund and retain the returned funds from Supplier A in its bank account.
- d. The Investigation Firm has reviewed the signed approval record of a director of Xuchang Hengda (parent company of Xuchang Hengrun) dated 9 January 2024, the content of which included the collection of prepayment in the amount of RMB10.0 million from Supplier A.
- e. Based on the copies of collection letters, collection records, and signed receipt acknowledgments related to the RMB10.0 million, it is confirmed that the Group have requested repayment from Supplier A.

Commercial rationale in relation to the withdrawal of loan in the amount of RMB10.0 million

Based on the information and documents received, the Investigation Firm has formed the following opinions, which the Investigation Firm believes are relevant to the commercial rationale of the withdrawal of real estate development loan in the amount of RMB10.0 million:

- a. Supplier A is an independent third party. There is no evidence showing that Supplier A has any relationship with the Company and Xuchang Hengrun's shareholders and senior management.
- b. The Group's cash in 2023 was insufficient to pay its payables. At that time, Project A was included in the Xuchang Municipal Government's project whitelist, and thus qualified to apply for development loans from banks. In view of this, the vice president of the Group has approved the submission of planned project progress of 60% to the relevant bank, which was the highest progress achievable for Block 19 of Project A (Phase 1) on the expiration date of the relevant loan contract, in hope to obtain a higher amount of loan to cover financial needs of projects outside the whitelist.
- c. Based on the Investigation Firm's investigation, including interviews with the executive director of the Company and Xuchang Hengda, a review of government policies, confirmation letters issued by the relevant bank, and financial records related to the return of development loans and the use of funds, there is no evidence, as of the date of the Investigation Report, indicating that the Group has any unfinished or undeliverable projects. The Group's high amount of short-term loan and the associated high loan interests appear to be the result of funding arrangements made in response to the national policy of "guaranteeing the delivery of buildings" and to prevent projects from being left unfinished.
- d. The reason for the prepayment is that according to the Interim Measures for Fixed Loans and the relevant loan agreement, the bank must pay the loan directly to Supplier A by way of entrusted payment.
- e. After confirming with the relevant bank, it is noted that even the planned construction progress submitted to the bank did not match the actual construction progress, it would not constitute a loan default.

- f. According to the relevant loan agreement, the loan fund paid to Supplier A cannot be returned to the Group. Nonetheless, to maintain control and ensure proper usage of the loan funds, Xuchang Hengrun has requested Supplier A to return the loan funds.
- g. Based on the Group's response, the reason for withdrawing the loan in the amount of RMB10.0 million was to finance the construction of block 19 of Project A (phase 1). It is noted that the construction period of site was from 16 July 2023 to 16 January 2025, which seemed to be reasonable. However, as of 30 September 2024, the aforesaid construction project was not yet commenced. Xuchang Hengrun continued to bear the interest on the above loan.
- h. As of 30 September 2024, the loan fund of RMB10.0 million seemed to still remain in the Group's bank account.

Conclusion

Based on Xuchang Hengrun's reply and the Investigation Firm's review, it was confirmed that the prepayments were made due to: (1) block 19 of Project A (Phase 1) and (2) the directors' decision to protect the Group's interests as a whole and ensure business continuity. The Investigation Firm found no lack of commercial justification for the prepayments and confirmed they do not constitute a loan default.

Observation in relation to internal control

- a. Clause 9 of the relevant loan agreement stated that "except for the purposes agreed upon in this loan agreement, or with the consent of the lender, the borrower shall not transfer the loan funds under this loan agreement to any account under the name of the borrower or any related party." Consequently, Xuchang Hengrun is prohibited from retaining the returned funds from Supplier A in its bank account.
- b. After confirming with the relevant bank, it is noted that the bank was aware of the aforesaid situation. The bank indicated that it did not intend to pursue any action in this regard.

- c. According to the relevant loan agreement, Xuchang Hengrun was required to apply for the loan in stages based on the actual construction progress. However, Xuchang Hengrun submitted the planned project progress to the relevant bank when withdrawing the loan, exposing the Group to the risk of breaching the loan agreement.
- d. According to the relevant loan agreement, the loan funds shall be used solely for the purpose of Project A. In response to the national policy of “guaranteed delivery of buildings”, the management of the Group had to raise funds for other projects. As a result, the loan intended for Project A was used for other projects, which may expose the Group to the risk of breaching the loan agreement.
- e. Xuchang Hengrun did not withdraw development loans from the bank in batches according to the actual progress of the project. Instead, Xuchang Hengrun chose to make a single withdrawal of a substantial loan amount, which was then transferred to the construction party by way of entrusted payment. This approach resulted in Xuchang Hengrun accumulating a high level of prepayment, losing control over its funds, and incurring additional interest expenses.

(iii) Real estate development loan and payment to Supplier A in relation to Project A (Phase 2)

Real estate development loan in the amount of RMB106.0 million

In December 2023, Xuchang Hengrun submitted to the relevant bank, the drawdown application, together with other documents (including, among others, the planned project progress, the provisional construction agreement and supplemental construction agreement of Project A (Phase 2)).

On 10 January 2024, according to Interim Measures for Fixed Loans and the relevant loan agreement, the bank transferred RMB106.0 million to Supplier A’s bank account through Xuchang Hengrun’s account opened in the bank by way of entrusted payment.

The planned project progress submitted by Xuchang Hengrun to the bank was 70%, which was different to the actual project progress.

Other receivables of RMB106.0 million arisen from prepayment to Supplier A

On 10 January 2024, Supplier A received pre-paid construction fee amounting to RMB106.0 million.

Since 13 March 2024, Supplier A began to return the prepayment to Xuchang Hengrun. As of 30 June 2024, a total of RMB80.4 million had been returned to Xuchang Hengrun.

Commercial rationale

Based on the information and documents received, the Investigation Firm has formed the following opinions, which the Investigation Firm believes are relevant to the commercial rationale of the withdrawal of real estate development loan of RMB106.0 million:

- a. Supplier A is an independent third party. There is no evidence showing that Supplier A has any relationship with the Company and Xuchang Hengrun's shareholders and senior management.
- b. The Group's cash in 2023 was insufficient to pay its payables. At that time, Project A was included in the Xuchang Municipal Government's project whitelist, and thus qualified to apply for development loans from banks. In view of this, a director of Xuchang Hengda (parent company of Xuchang Hengrun), has approved the submission of planned project progress of 70% to the relevant bank, which was the highest progress achievable for Project A (Phase 2) on the expiration date of the relevant loan contract, in hope to obtain a higher amount of loan to cover financial needs of projects outside the whitelist.
- c. There is no evidence, as of the date of the Investigation Report, indicating that the Group has any unfinished or undeliverable projects. The Group's high amount of short-term loan and the associated high loan interests appear to be the result of funding arrangements made in response to the national policy of "guaranteeing the delivery of buildings" and to prevent projects from being left unfinished.
- d. The broadening of the Project A (Phase 2)'s scope of construction led to the increase in contract sum of the relevant construction contract from RMB56.0 million to RMB151.4 million.

- e. The reason for the prepayment is that according to the Interim Measures for Fixed Loans and the loan agreement, the bank must pay the loan directly to Supplier A by way of entrusted payment.
- f. Based on site visit conducted, as of 22 October 2024, the relevant project was still in progress.
- g. Based on information in relation to construction progress, the RMB106.0 million loan was returned to Xuchang Hengrun and used for the construction of Project A.
- h. As of 30 June 2024, a total of RMB80.4 million had been returned to the Group.
- i. After confirming with the relevant bank, it is noted that even the planned construction progress submitted to the bank did not match the actual construction progress, it would not constitute a loan default.
- j. It is noted that the returned funds from Supplier A were used to: 1. repay the development loan to the bank; 2. pay the construction fee due to Supplier A in relation to Project A; and 3. transferred to the account of Xuchang Hengda and subsequently distributed among the Group. As of 30 September 2024, the returned funds of the development loan of RMB80.4 million from Supplier A still appear to remain in the Group's bank account.

The Investigation Firm confirmed that the prepayments made by Xuchang Hengrun and Supplier A were due to (1) the prepayments related to the Project A (Phase 2) and (2) the decision of the Director to balance the interests of the Group and ensure the continuity of business operations. The Investigation Firm did not find that the commercial justifications for the above prepayments were insufficient, nor did the Investigation Firm finds that the above prepayments constituted lending.

Observation in relation to internal control

- a. The relevant loan agreement states that, “except for the purposes agreed upon in this contract, or with the consent of the lender, the borrower shall not transfer the loan funds under this contract to any account under the name of borrower or any related party.”

- b. Xuchang Hengrun's request to Supplier A to return the loan funds constituted a breach of contract. Based on interview with the relevant bank, it is noted that the bank was aware of the aforesaid situation. The bank indicated that it did not intend to pursue any action in this regard.
- c. Having reviewed the construction contract and other relevant documents related to the project, it is noted that there were no clear terms for the use of prepayments. It is also noted that the Group lacked supervision on the use of prepayments and that the prepayments may be used for unintended purposes.
- d. The Group did not withdraw development loans from the bank in batches according to the actual progress of the project. Instead, the Group chose to make a single withdrawal of a substantial loan amount, which was then transferred to the construction party by way of entrusted payment. This approach resulted in the Group accumulating a high level of prepayment, losing control over its funds, and incurring additional interest expenses.

(iv) Real estate development loan of RMB155.0 million and payment to Supplier A in relation to Project B (Phase 1)

Xuchang Hengrong entered into a loan agreement in the amount of RMB155.0 million with a bank on 30 November 2021.

Between the period from 14 January 2022 to 9 November 2022, the Group made prepayments in the amount of RMB155.0 million to Supplier A. From 20 January 2023 to 26 December 2023 and from 11 January 2024 to 8 February 2024, Supplier A has returned a total of RMB70.2 million and RMB6.2 million to Xuchang Hengrong, respectively.

As of 30 June 2024, Supplier A has returned RMB76.4 million in total to Xuchang Hengrong.

Commercial rationale

Based on the information and documents received, the Investigation Firm has formed the following opinions, which the Investigation Firm believes are relevant to the commercial rationale of the prepayments:

- a. There is no evidence showing any relationship between Supplier A and the shareholders and directors of Xuchang Hengrong or the Company and its subsidiaries.

- b. The (i) increase in unit price and (ii) broadening of the Project B (Phase 1)'s scope of construction led to the increase in contract sum of the relevant construction contract from RMB123.5 million to RMB201.2 million.
- c. Based on Xuchang Hengrong's statements and the documents provided to the Investigation Firm, it is confirmed that Xuchang Hengrong had borrowing needs due to construction projects, the impact of the epidemic and delivery pressure. In order to meet the pre-borrowing conditions, Xuchang Hengrong entered into the construction agreement for Project B (Phase 1) with Supplier A, obtained the construction permits for the construction of block 1, block 2, block 3, block 11, block 12, block 13 and block 15, and confirmed that the contractor is Supplier A. On this basis, the construction agreement seemed to be carried out in accordance with normal commercial terms.
- d. The prepayment balance exists because, according to the Interim Measures for Fixed Loans and the relevant loan agreement, the real estate development loan has to be paid directly to Supplier A by way of entrusted payment and Xuchang Hengrong does not have the power to object such arrangement.
- e. Based on information in relation to construction progress, it is noted that the RMB155.0 million borrowed from the bank was utilized for Project B (Phase 1).
- f. As requested by the Group, Supplier A has returned RMB76.4 million to the Group as of 30 June 2024, and the director of Xuchang Hengrong confirmed that this is to maintain control and ensure proper usage of the loan funds.
- g. After confirming with the relevant bank, it is confirmed that the discrepancy between the planned construction progress submitted to the bank and the actual construction progress will not result in breach of contract.
- h. According to the legal opinion provided by the PRC legal adviser of the Group, it is noted that given the above bank loan process and prepayment collection process in relation to Project B (Phase 1) were approved by the bank, and the bank confirmed that it was in line with the loan contract, the legal risk of Xuchang Hengrong breaching the loan contract was relatively small.
- i. Block 1, block 2, block 11, block 12 and block 19 (South Gate) of Project B (Phase 1) in relation to the loan have been assessed as completed and block 1, block 2, block 11 and block 12 has been delivered in June 2024. As of 30 June 2024, there is no remaining balance of prepayments to Supplier A in relation to Project B (Phase 1).

Observation in relation to internal control

- a. Based on the findings from the Investigation Firm, it is noted that Xuchang Hengrong did not have a written agreement regarding the use of prepayments but instead relied on a verbal agreement with Supplier A regarding the use of funds. This lack of formal documentation may complicate the auditing and monitoring of project finances and hinder effective tracking of fund flows. Should legal disputes arise from the improper use of funds, the Group could be exposed to legal liabilities.
- b. The Investigation revealed that the relevant construction contract did not state the signing date, leading to difficulties in determining the starting date of the contract, managing project progress and allocation of resources.
- c. Xuchang Hengrong did not withdraw development loans from the bank in batches according to the actual progress of the project. Instead, Xuchang Hengrong chose to make a single withdrawal of a substantial loan amount, which was then transferred to the construction party by way of entrusted payment. This approach resulted in Xuchang Hengrong accumulating a high level of prepayment, losing control over its funds, and incurring additional interest expenses.
- d. Xuchang Hengrong submitted the planned project progress for loan purposes, which may constitute a violation of the terms of the loan contract. Under loan contract it is stated that: “2.3 Before each withdrawal, in addition to meeting the prerequisites for the first withdrawal, the borrower must also meet the following prerequisites: (2) The project progress has been completed as planned, and the actual progress of the project matches the amount of investment.”

(v) Prepayments of RMB24.6 million in relation to Project B

On 10 April 2023, the relevant bank issued a loan of RMB24.6 million to Xuchang Hengrong.

On 11 April 2023, Xuchang Hengrong paid the full amount of RMB24.6 million to Supplier A, the relevant contractor, in the form of prepayment.

Commercial rationale

Based on the information and documents received, the Investigation Firm has formed the following opinions, which the Investigation Firm believes are relevant to the commercial rationale of the prepayments in the amount of RMB24.6 million:

- a. Supplier A is an independent third party. There is no relationship between the shareholders and senior management of the Company and its subsidiaries and Supplier A.
- b. The broadening of the Project B (Phase 2)'s scope of construction led to the increase in contract sum of the relevant construction contract from RMB75.9 million to RMB150.0 million.
- c. Based on statements and the documents provided by Xuchang Hengrong to fulfill the prerequisites for obtaining a loan, Xuchang Hengrong entered into the construction contract for Project B (Phase 2) with Supplier A and at the same time, the Group also obtained the construction permit for the construction of block 7, block 8, block 9, block 10, block 16, block 17 and block 19, and the underground garage before the construction began, and the construction contractor was Supplier A. Based on the aforesaid, the contracting of construction project seems to be carried out in accordance with normal commercial terms.
- d. It is noted that pursuant to the Interim Measures for Fixed Loans and the relevant loan agreement, the real estate development loan has been paid directly to Supplier A by way of entrusted payment and Xuchang Hengrong does not have the power to object such arrangement.
- e. Based on the information regarding the construction progress obtained, it is noted that the RMB24.6 million borrowed from the bank was utilized for Project B (Phase 2).
- f. The relevant bank confirmed that the discrepancies between the planned construction progress and actual construction progress would not constitute a default under the loan agreement.
- g. Based on legal opinion provided by the PRC legal adviser of the Group, given the loan withdrawal amount and the act of loan withdrawal were approved by the bank, the bank is aware of Xuchang Hengrong retaining the real estate development loan funds returned by Supplier A in its own account, the change of collaterals, and the bank confirmed that it was in line with the loan contract, the legal risk of Xuchang Hengrong breaching the loan contract was relatively small.

- h. It is noted that as of 30 June 2024, there was no remaining prepayment balance to Supplier A in relation to Project B (Phase 2).

Conclusion

The Investigation Firm confirmed that the prepayments made by Xuchang Hengrong and Supplier A were due to: (1) prepayments related to construction of Project B, and (2) the decision of the directors of Xuchang Hengda to balance the interests of the Group and ensure the continued operation of the business. The Investigation Firm did not find that the above prepayments had insufficient commercial justifications, nor did the Investigation Firm find that the above prepayments constituted lending.

Observation in relation to internal control

- a. Based on the findings of the Investigation Firm, it is noted that Xuchang Hengrong did not have a written agreement regarding the use of prepayments but instead relied on a verbal agreement with Supplier A regarding the use of funds. This lack of formal documentation may complicate the auditing and monitoring of project finances and hinder effective tracking of fund flows. Should legal disputes arise from the improper use of funds, the Group could be exposed to legal liabilities.
- b. The Investigation revealed that the relevant construction contract did not state the signing date, leading to difficulties in determining the starting date of the contract, managing project progress and allocation of resources.
- c. Xuchang Hengrong did not withdraw development loans from the bank in batches according to the actual progress of the project. Instead, Xuchang Hengrong chose to make a single withdrawal of a substantial loan amount, which was then transferred to the construction party by way of entrusted payment. This approach resulted in Xuchang Hengrong accumulating a high level of prepayment, losing control over its funds, and incurring additional interest expenses.
- d. Xuchang Hengrong submitted the planned project progress for loan purposes, which may constitute a violation of the terms of the loan contract. Under the loan contract it is stated that: “2.3 Before each withdrawal, in addition to meeting the prerequisites for the first withdrawal, the borrower must also meet the following prerequisites: (2) The project progress has been completed as planned, and the actual progress of the project matches the amount of investment.”

(vi) Prepayments of RMB45.0 million in relation to Project B

On 31 July 2023, the bank issued a loan of RMB45.0 million to Xuchang Hengrong.

On 1 August 2023, Xuchang Hengrong paid the full amount to the relevant contractor Supplier A in the form of prepayment.

Commercial rationale in relation to the prepayment in the amount of RMB45.0 million

Based on the information and documents received, the Investigation Firm has formed the following opinions, which the Investigation Firm believes are relevant to the commercial rationale of the prepayment amounting to RMB45.0 million:

- a. Based on information obtained by Investigation Firm, Supplier A is an independent third party. There is no relationship between the shareholders and senior management of the Company and its subsidiaries and Supplier A.
- b. Based on the construction agreement in relation to Project B (Phase 2) and the construction permit obtained for block 7, block 16 and block 17 of Project B (Phase 2) on 4 April 2023, the construction contractor was Supplier A. Based on the aforesaid, the contracting of construction project appears to have been carried out on normal commercial terms.
- c. It is noted that pursuant to the Interim Measures for Fixed Loans and the relevant loan agreement, the real estate development loan has been paid directly to Supplier A by way of entrusted payment and Xuchang Hengrong does not have the power to object such arrangement.
- d. Based on the information regarding the construction progress obtained, it is noted that the RMB45.0 million borrowed from the bank was utilized for Project B (Phase 2).
- e. As requested by the Xuchang Hengrong, Supplier A has returned RMB76.4 million as of 30 June 2024, Xuchang Hengrong replied that this is to maintain control and ensure proper usage of the loan funds.
- f. After confirming with the relevant bank, it is noted that the discrepancies between the planned construction progress and actual construction progress would not constitute a default under the loan agreement.

- g. Based on legal opinion provided by the PRC legal adviser of the Group, given the loan withdrawal amount and the act of loan withdrawal were approved by the bank, the bank is aware of Xuchang Hengrong retaining the real estate development loan funds returned by Supplier A in its own account, the change of collaterals, and the bank confirmed that it was in line with the loan contract, the legal risk of Xuchang Hengrong breaching the loan contract was relatively small.
- h. It is noted that as of 30 June 2024, there was no remaining prepayment balance to Supplier A in relation to Project B (Phase 2).

Conclusion

The Investigation Firm confirmed that the prepayments made by Xuchang Hengrong and Supplier A were due to: (1) prepayments related to construction of Project B, and (2) the decision of the Director to balance the interests of the Group and ensure the continued operation of the business. The Investigation Firm did not find that the above prepayments had insufficient commercial justifications, nor did the Investigation Firm find that the above prepayments constituted lending.

Observation in relation to internal control

- a. Based on the findings from the Investigation Firm, it is noted that Xuchang Hengrong did not have a written agreement regarding the use of prepayments but instead relied on a verbal agreement with Supplier A regarding the use of funds. This lack of formal documentation may complicate the auditing and monitoring of project finances and hinder effective tracking of fund flows. Should legal disputes arise from the improper use of funds, the Group could be exposed to legal liabilities.
- b. The Investigation revealed that the relevant construction contract did not state the signing date, leading to difficulties in determining the starting date of the contract, managing project progress and allocation of resources.
- c. Xuchang Hengrong did not withdraw development loans from the bank in batches according to the actual progress of the project. Instead, Xuchang Hengrong chose to make a single withdrawal of a substantial loan amount, which was then transferred to the construction party by way of entrusted payment. This approach resulted in Xuchang Hengrong accumulating a high level of prepayment, losing control over its funds, and incurring additional interest expenses.

- d. Xuchang Hengrong submitted the planned project progress for loan purposes, which may constitute a violation of the terms of the loan contract. Under the loan contract, it is noted that “2.3 Before each withdrawal, in addition to meeting the prerequisites for the first withdrawal, the borrower must also meet the following prerequisites: (2) The project progress has been completed as planned, and the actual progress of the project matches the amount of investment.”

(vii) Prepayments of RMB20.0 million made to Supplier D

On 6 September 2023, Songji Dadi entered into a sales contract for purchase of steel materials with supplier D (“**Supplier D**”). Subsequently, Songji Dadi entered into a loan contract with a bank on 25 October 2023.

Based on the aforesaid sales contract and the withdrawal request of Songji Dadi, the relevant bank transferred RMB20.0 million to Supplier D by way of entrusted payment.

Commercial rationale for prepayments of RMB20.0 million to Supplier D

- a. No shareholding relationship among Supplier D and Songji Dadi was found and there was no evidence indicating that Supplier D has any relationship with Songji Dadi or the shareholders and senior management of the Company and its subsidiaries.
- b. According to Article 7 of the relevant sales contract, the steel materials are to be dispatched upon receipt of payment from Songji Dadi. Therefore, Supplier D’s request for prepayments from Songji Dadi seems reasonable.
- c. Since the relevant loan agreement does not require the entire loan amount to be withdrawn at once, it appears that the loan can be withdrawn in batches.
- d. Songji Dadi’s current purchase and borrowing threshold requiring approval is RMB40.0 million. Considering that this accounts for less than 5% of the Group’s overall construction costs and capitalized expenditures, the approval limit seems reasonable.
- e. The Group’s decision to terminate the sales contract with Supplier D and recover the prepayments seems reasonable, as the Board has confirmed that Supplier D was unable to fulfill the contract. Additionally, the prepayment has been held by Supplier D for an extended period, and Songji Dadi has incurred additional interest costs.

- f. Based on meeting minutes and interview with people in charge of Songji Dadi, it is noted that since Supplier D failed to find a suitable supplier of relevant steel materials in October 2023, the management has taken immediate action to recover the prepayment of RMB20.0 million from Supplier D. As of 26 October 2023, Supplier D has refunded the total amount of RMB20.0 million.
- g. Based on meeting minutes and interview with people in charge of Songji Dadi, it is noted that subsequently, Songji Dadi made a prepayment of RMB20.0 million to Supplier D again, for procurement purpose, which was in line with commercial rationale.
- h. Based on interview with the person in charge of Songji Dadi and the 2024 procurement plans of Songji Dadi, it is noted that the intended use of the relevant loan remained unchanged. However, Songji Dadi has not made any purchases from Supplier D as of the first half of 2024, which was due to factors such as Supplier D's higher price compared with other suppliers, inconsistent product quality and disagreements over delivery time of the steel materials. Consequently, the person in charge of Songji Dadi discussed the termination of the sales contract with the person in charge of Supplier D. After negotiation, Supplier D agreed to refund the purchase price of RMB20.0 million.
- i. Based on meeting minutes and interview with people in charge of Songji Dadi, it is noted that the project companies of each project can purchase steel on their own in the market at a lower price than that offered by Supplier D and the management has taken immediate action to recover the prepayment of RMB20.0 million from Supplier D. Supplier D has returned the full amount of RMB20.0 million from 11 October 2024 and 12 October 2024.
- j. According to the legal opinion provided by the PRC legal adviser of the Group, the legal adviser has interviewed the relevant bank, which stated that Songji Dadi's withdrawals complied with the requirements of the relevant loan agreement, the bank knew the purpose of its borrowings and the return of prepayments from Supplier D and that Songji Dadi's behavior did not violate the terms of the loan agreement. Therefore, the breach of legal risks involved are relatively small.

Conclusion

Based on the above background information, Songji Dadi's reply and the Investigation Firm's investigation, it is noted that the prepayments of RMB20.0 million did not constitute lending.

Internal Control Findings

- a. Since the loan contract between Songji Dadi and the bank did not specify a limit on the number of withdrawals, the loan could potentially be withdrawn in installments. However, Songji Dadi's decision to withdraw a large sum in a single transaction may result in the group incurring significant interest charges, amounting to as much as RMB1,484,252.22.
- b. It is noted that Songji Dadi had conducted a basic qualification review of Supplier D, but did not conduct an in-depth assessment of the supplier's qualification procurement capabilities, delivery time and inventory management capabilities, resulting in the supplier's inability to deliver products on time.
- c. Songji Dadi's borrowing threshold requiring authorization is noted to be RMB40.0 million. For amounts below this threshold, it is not necessary to submit the corresponding loan application to the Group's management for approval. However, even if Songji Dadi's purchase and sales contract accounted for less than 5% of the Group's construction costs and capitalized expenditures, it still resulted in the Group losing control over these funds for up to 10 months, which highlights potential weaknesses in the Group's oversight of its subsidiaries and reflects a failure to effectively supervise and manage subsidiaries.

(viii) Prepayments of RMB0.3 million made to Supplier D

On 24 November 2023, Xinyang Hengda entered into a contract with Supplier D for renovation works.

During the period from 27 November 2023 to 25 December 2023, Xinyang Hengda prepaid RMB0.5 million using its own funds. On 22 December 2023, Xinyang Hengda received invoice in the amount of RMB0.2 million from Supplier D. As of 31 December 2023, the remaining prepayment balance was RMB0.3 million.

Commercial rationale for prepayments of RMB0.3 million to Supplier D

- a. Based on information obtained by Investigation Firm, Supplier D is an independent third party. There is no relationship between the shareholders and senior management of the Company and its subsidiaries and their immediate family member and Supplier D.
- b. Based on public information, it is noted that the costs for renovation in the relevant district ranged from RMB1,000 to RMB2,000 per square meter. Based on the aforesaid, it seemed that price of the contract was determined with reference to the prevailing market price.

- c. It is noted that the prepayment has been approved by the Group's management.
- d. It is noted that the Group did not make payment according to the relevant contract, which stipulated that "Supplier D must provide invoice with an amount matching the project payment". Nevertheless, the prepayment has been approved by the Group's management.
- e. The project was successfully completed on 26 January 2024. From February to April 2024, Xinyang Hengda received the outstanding invoices from Supplier D, confirming that both parties have fulfilled their contractual obligations.

Conclusion

Based on the above background information, it is noted that the prepayment made by Xinyang Hengda to Supplier D does not lack sufficient commercial rationale and does not constitute lending.

(ix) Prepayment of RMB15.0 million to supplier C

On 8 July 2022, Yuzhou Hengda entered into a contract with supplier C ("**Supplier C**") for procurement of steel materials.

Yuzhou Hengda entered into a loan agreement with a credit cooperative (合作聯社) on 12 August 2022 and subsequently the loan fund of RMB28.0 million was transferred to Supplier C by way of entrusted payment.

After the loan of RMB28.0 million and the accrued interests in 2022 was fully repaid by the Group to the credit cooperative on 7 August 2023, Yuzhou Hengda entered into a new procurement contract with Supplier C on 12 July 2023.

Subsequently, on 10 August 2023, Yuzhou Hengda obtained another loan in the amount of RMB28.0 million from the same credit cooperative for the procurement of another types of steel materials and the same amount was transferred to Supplier C on the same date by way of entrusted payment.

It is noted that as of 11 October 2024 the remaining prepayment balance has been fully refunded by Supplier C.

Commercial rationale for prepayments to Supplier C

- a. Based on search conducted by the Investigation Firm, no shareholding relationship among Supplier C and the Company was found and there was no evidence indicating that Supplier C has any relationship with the Company or Yuzhou Hengda's shareholders and senior executives.
- b. It is noted that the prepayment of RMB28.0 million was made pursuant to the Interim Measures for Fixed Loans and the relevant contract by way of entrusted payment.
- c. The remaining balance of prepayments to Supplier C has been fully settled as of 11 October 2024.
- d. Based on interview with the Yuzhou Hengda's management, it is noted that Yuzhou Hengda decided to recover the prepayment as Supplier C failed to perform the contract.
- e. No default by Yuzhou Hengda under the relevant loan contracts was found.
- f. Based on legal opinion provided by the PRC legal adviser of the Group, given that the credit cooperative was aware of the purpose of the loan and the repayment of the prepayment to the Group, and confirmed Yuzhou Hengda's behavior did not violate the relevant matters of the bank loan contract, the legal risk of Yuzhou Hengda being found to be in breach of contract is small.

Internal Control Finding

- a. Since the loan contract between Yuzhou Hengda and the credit cooperative did not specify a limit on the number of withdrawals, the loan could potentially be withdrawn in installments. However, Yuzhou Hengda's decision to withdraw a large sum in a single transaction may result in the group incurring significant interest charges, amounting to as much as RMB271,911.
- b. It is noted that Yuzhou Hengda had conducted a basic qualification review of Supplier C, but did not conduct an in-depth assessment of the supplier's qualification procurement capabilities, delivery time and inventory management capabilities, resulting in the supplier's inability to deliver products on time.
- c. It is noted that Yuzhou Hengda, despite Supplier C failing to fully fulfill the previous sales and purchase contract, selected Supplier C as its supplier again without adequately assessing its delivery capacity. This decision led to the failure to complete the procurement plan and resulted in greater financial losses.

- d. Yuzhou Hengda's borrowing threshold requiring authorization is noted to be RMB40.0 million. For amounts below this threshold, it is not necessary to submit the corresponding loan application to the Group's management for approval. However, even if Yuzhou Hengda's purchase and sales contract accounted for less than 5% of the Group's construction costs and capitalized expenses, it still resulted in the Group losing control over these funds for up to 10 months, which highlights potential weaknesses in the Group's oversight of its subsidiaries and reflects a failure to effectively supervise and manage subsidiaries.

(x) Prepayment of RMB28.0 million to supplier E

On 16 November 2023, Yuzhou Hengda entered into a contract with supplier E ("**Supplier E**") to procure various construction materials, including waterproof materials and stone coating.

Based on the said contract and a loan agreement entered into with a credit cooperative on 12 August 2022, the credit cooperative paid RMB28.0 million to Supplier E.

Commercial rationale for prepayments to Supplier E

- a. Based on public information, Supplier E is a subsidiary of the Group which was incorporated in the PRC.
- b. According to the procurement plan and supporting documents in relation to Supplier E's procurement, Yuzhou Hengda and Supplier E seem to be conducting normal business activities.
- c. Based on the relevant loan contract and the purchase records of Supplier E, it is noted that the purchased materials did not violate the purpose of the loan stipulated in the loan contract, and therefore did not constitute a breach of the loan contract.
- d. Based on meeting minutes and interview with the Board, Yuzhou Hengda transferred the prepayment amounting to RMB28.0 million to the bank account of Supplier E for the purpose of purchasing the materials, which was consistent with commercial reasons.

Conclusion

It was noted that the prepayments made by Yuzhou Hengda to Supplier E does not lack commercial justification, and the Investigation Firm did not find evidence, which suggest that the prepayments constituted lending.

(xi) Withdrawal, actual usage and bank balance of pre-sale proceeds under supervision

For the year ended 31 December 2023, out of 18 companies within the Group with supervised bank accounts, 13 companies had instances where supervised pre-sale funds were returned to the Group, amounting to a total of RMB932.3 million.

For the year ended 31 December 2024, out of 17 companies within the Group with supervised bank accounts, 11 companies had instances where supervised pre-sale proceeds were returned to the Group, amounting to a total of RMB801.2 million.

Commercial rationale for withdrawal and actual usage of pre-sale proceeds under supervision

- a. The Investigation Firm has reviewed both the old and revised versions of the “Pre-Sale Proceeds Supervised Account Policy” and the relevant approval records and confirmed that the policy was drafted by the vice president of the Group and approved by the president of the Group.
- b. The Group was aware of the compliance risks associated with the return of pre-sale proceeds. Although such actions may violate the policies regulating pre-sale proceeds, the relevant government bodies responsible for supervision of pre-sale proceeds have issued confirmation letters, which indicated their knowledge of the Group’s non-compliance in relation to return of pre-sale proceeds and the use of such proceeds for other construction projects. The government bodies have approved the withdrawal and use of Group’s pre-sale proceeds during the years of 2023 and 2024.
- c. The Group implemented its payment schedule for construction funds according to the contract terms, which did not align with the regulations governing the issuance of pre-sale funds. If there was no amount due to a construction party, any withdrawal and subsequent release of pre-sale funds to such construction party would be considered as prepayments. The Board’s decision to have the construction party return the pre-sale funds appears to be a strategy to prevent large prepayment to individual construction parties and to uphold the principle of fund management control.

- d. Based on the data in relation to the Group's completed and delivered projects for 2023 and 2024, as well as the utilization of pre-sale proceeds, it was noted that most of the returned pre-sale funds were used for the Group's construction projects, and there is no evidence that the returned pre-sale funds have been appropriated unreasonably.
- e. Therefore, the Group's above-mentioned decision seems to be to reasonably allocate funds to support the allocation of resources to different projects of the Group and to prevent the risk of unfinished buildings due to the lack of funding.
- f. The Group's policy in respect of returning pre-sale funds has not led to any unfinished buildings so far.
- g. The Group's allocation of funds among various projects using the returned pre-sale funds does not seem to have affected the progress and delivery plans of the various projects. Furthermore, there have been no litigation disputes between the construction parties and the Group.
- h. Pre-sale funds are generally returned to the Group within 1 to 4 weeks after being disbursed by the bank. Therefore, the Investigation Firm believes that the situation of suppliers occupying key supervision funds of Group's subsidiaries for a long time does not exist.

Confirmation from the relevant government body regarding construction progress

Regarding the release of pre-sale proceeds by banks to contractors, the Investigation Firm have obtained and reviewed the accounting vouchers, relevant construction contracts, the "notice on the use of pre-sale proceeds" issued by the relevant government body responsible for supervision of pre-sale proceeds, and the bank receipts for the transfer of pre-sale proceeds from supervised account, and confirmed that the Group has obtained the confirmation of the construction progress from the government body, and the government body has instructed the relevant bank to release pre-sale proceeds to the relevant contractors.

Measures to ensure the return of pre-sale proceeds by contractors

During 2023 and 2024, none of the contractors retained the Group's pre-sale proceeds for an extended period. As of June 2025, no legal actions have been initiated by construction parties involved in return of pre-sale proceeds against the Group to recover outstanding arrears.

Conclusion

Based on the background information provided, the responses from the Group's directors, and the Investigation Firm's own findings, it is confirmed that the policy regarding the return of pre-sale proceeds was a decision made by the Group's directors to balance the interests of the Group and ensure the continuity of business operations.

The Investigation Firm did not find any evidence which suggest that the prepayments lacked sufficient commercial justification. It was noted that the pre-sale proceeds were generally returned to the Company within 1 to 4 weeks after being disbursed by the bank. Furthermore, the Investigation Firm found no evidence to suggest that contractors retained the Company's pre-sale proceeds for an extended period, nor that the prepayments constituted a loan.

(xii) Whether the return of pre-sale proceeds aligns with the practices of industry peers

Based on the information provided by the Group's construction contractors, including bank transaction records related to the return of pre-sale proceeds to other real estate companies in the Xuchang region, as well as interviews with the contractors, the Investigation Firm noted that requesting the return of pre-sale proceeds from contractors is a common practice among real estate companies in Henan Province.

Conclusion

The practice of requesting the return of pre-sale proceeds from contractors is common among other real estate companies in Henan Province, as they adopted this approach to address challenges posed by the downturn in the real estate market. Since April 2025, the Group has discontinued this practice. Going forward, the Group will apply for bank loans and obtain other sources of funding to ensure sustainable operations while adhering to regulatory requirements.

VIEWS OF THE SPECIAL INVESTIGATION COMMITTEE AND THE BOARD ON THE INVESTIGATION

Having reviewed the contents of the Investigation Report, the Special Investigation Committee is of the view that the contents and findings in the Investigation Report are reasonable, and the Investigation Report has adequately addressed each of the Prepayments Issue and the withdrawal and usage of pre-sales proceeds. Accordingly, the Special Investigation Committee has recommended the Board to adopt the findings in the Investigation Report.

The Board concurs with the Special Investigation Committee that the contents and findings in the Investigation Report are reasonable and the Investigation Report has adequately addressed each of the Prepayments Issue and the withdrawal and usage of pre-sales proceeds. The Board has adopted the findings of the Investigation and is of the view that the issues identified in the Investigation Report do not have a material impact on the business operations of the Group. The Group's business operations continue as usual in all material respects despite the suspension of trading of shares of the Company since 2 April 2024.

In response to certain deficiencies in the Group's internal control system identified during the independent investigations and in order to prevent the recurrence of similar incidents in the future, the Group has engaged Ranger Advisory Co. Limited ("**Ranger**"), an internal control advisor, to review the internal control of the Group and provide suggestions on remedial measures to the Group. As at the date of this announcement, the internal control review has been completed in principle, and Ranger is in the course of finalizing the report.

CONTINUED SUSPENSION OF TRADING

Trading in the shares of the Company on the Stock Exchange has been suspended with effect from 9:00 a.m. on 2 April 2024 and is currently expected to remain suspended until the Company fulfills the Resumption Guidance.

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

DEFINITIONS

Unless the context requires otherwise, capitalized terms in this announcement shall have the meanings set out below:

"Board" the board of directors of the Company;

“Company”	Ever Reach Group (Holdings) Company Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the main board of the Stock Exchange (Stock Code: 3616);
“connected person”	has the meaning ascribed to it under the Listing Rules;
“Director(s)”	the director(s) of the Company;
“Group”	the Company and its subsidiaries;
“Interim Measures for Fixed Loans”	the Interim Measures for the Administration of Fixed Asset Loans (《固定資產貸款管理暫行辦法》) promulgated by the former China Banking Regulatory Commission (中國銀行業監督管理委員會) on 23 July 2009;
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange;
“PRC”	the People’s Republic of China;
“PwC”	PricewaterhouseCoopers, the previous auditor of the Company;
“RMB”	Renminbi, the lawful currency of the PRC;
“Songji Dadi”	Xuchang Songji Dadi Property Company Limited (許昌宋基大地置業有限公司), a limited liability company established in the PRC on 7 November 2007 and an indirect wholl-owned subsidiary of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“subsidiaries”	has the meaning ascribed to it under the Listing Rules;
“Xinyang Hengda”	Xinyang Hengda Property Development Company Limited (信陽恒達房地產開發有限公司), a limited liability company established in the PRC and an indirect non-wholly owned subsidiary of the Company;

“Xuchang Dongheng”	Xuchang Dongheng Property Development Company Limited (許昌東恒房地產開發有限公司), a limited liability company established in the PRC and an indirect wholly-owned subsidiary of the Company;
“Xuchang Hengda”	Xuchang Hengda Property Group Company Limited (許昌恒達房地產集團有限公司), a limited liability company established in the PRC and an indirect wholly-owned subsidiary of the Company;
“Xuchang Hengrong”	Xuchang Hengrong Real Estate Development Company Limited (許昌市恒榮房地產開發有限公司), a limited liability company established in the PRC and an indirect non-wholly owned subsidiary of the Company;
“Xuchang Hengrun”	Xuchang Hengrun Real Estate Company Limited (許昌市恒潤置業有限公司), a limited liability company established in the PRC and a non-wholly owned subsidiary of the Company;
“Yuzhou Hengda”	Yuzhou City Hengda Property Company Limited (禹州市恒達房地產有限責任公司), a limited liability company established in the PRC and an indirect wholly owned subsidiary of the Company;
“%”	per cent.

By Order of the Board
Ever Reach Group (Holdings) Company Limited
LI Xiaobing
Chairman and Executive Director

Hong Kong, 16 July 2025

As at the date of this announcement, the executive Directors are Mr. Li Xiaobing, Mr. Wang Zhenfeng, Ms. Qi Chunfeng and Mr. Wang Quan; and the independent non-executive Directors are Mr. Lee Kwok Lun, Mr. Wei Jian and Mr. Fang Cheng.