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## **C Y FOUNDATION GROUP LIMITED**

*(Incorporated in Bermuda with limited liability)*

**(Stock code: 1182)**

### **FULFILLMENT OF THE RESUMPTION CONDITIONS AND RESUMPTION OF TRADING**

**Financial Adviser**



**博大資本國際有限公司  
Partners Capital International Limited**

#### **Fulfillment of the Resumption Conditions**

The Company is pleased to announce that all the Resumption Conditions as set out in the Stock Exchange's letter dated 25 June 2012 have been satisfied and fulfilled.

#### **Resumption of trading**

As all the Resumption Conditions have been satisfied and fulfilled, an application was made to the Stock Exchange for the resumption of trading in the Shares on the Stock Exchange with effect from 9:00 a.m. on Tuesday, 17 July 2012.

Reference is made to (i) the announcement of the Company dated 31 August 2010 to inform the Shareholders the Suspension; (ii) the announcements of the Company dated 13 September 2010, 7 October 2010, 7 March 2011 and 6 October 2011 in relation to, among other things, the ICAC Investigation; (iii) the announcement of the Company dated 26 April 2011 in relation to, among other things, the conditions for the Resumption as set out in the Stock Exchange's letter dated 6 April 2011; (iv) the announcement of the Company dated 16 June 2011 in relation to, among other things, the corporate development in respect of the control over the PRC Subsidiaries; and (v) the Announcement in relation to, among other things, the Resumption Conditions.

#### **INTRODUCTION**

Trading in the Shares on the Stock Exchange has been suspended at the request of the Company since 31 August 2010. On 6 April 2011, certain conditions on the Resumption were imposed by the Stock Exchange. The Company has subsequently made various announcements and submissions on, and submitted a proposal for the Resumption to the Stock Exchange since then.

## **THE ICAC INVESTIGATION**

As disclosed in the announcements of the Company dated 13 September 2010, 7 March 2011 and 6 October 2011, two members of the previous senior management of the Company were found involved in the ICAC Investigation. On 3 March 2011, Mr. Cheng, who used to be an executive Director of the Company, was charged by the ICAC with one count of fraud under section 16A of the Theft Ordinance, Cap.210. It was alleged that Mr. Cheng, one Chong Ching-lai and one Yu Philip had, between 2 April 2007 and 17 December 2007, defrauded the Company in relation to the acquisition by the Company of the Property. Duties of Mr. Cheng in the Company were suspended with effect from 8 April 2011 and his re-election as a director of the Company was voted down on 6 October 2011. Mr. Chong Ching-lai and Mr. Yu Philip had never officially joined the Company as employees. Please refer to the Company's announcements dated 13 September 2010 and 7 March 2011 for details.

The trial hearing in relation to the Property Transactions charged by the ICAC commenced at the District Court on 6 February 2012. The Board understands that the hearing has been adjourned recently and will continue on 23 August 2012 at the District Court.

## **ACTIONS TAKEN BY THE COMPANY SINCE THE ICAC INVESTIGATION**

The Company engaged KPMG to conduct investigation work on, among other things, the Property Transactions.

In April 2011, the Company appointed nine new Directors, five of whom are independent non-executive Directors, who have later on resolved to, inter alia, commence the legal proceedings against the then senior management and other related persons alleged in the ICAC investigation. The Company has also changed the composition of its audit committee by appointing three newly appointed independent non-executive Directors as committee members. In addition, the Company has also set up an investment committee with a majority of independent non-executive Directors to review and approve material investment with an aim to improve the internal control system. The Company has also set up an independent board committee comprising all three independent non-executive Directors for the purpose of discussing and reviewing legal matters, potential related party transactions, on-going investigations and litigations, and other major development and operational issues of the Company.

The Company also engaged Deloitte Touche Tohmatsu (“DTT”) to review the financial position of the Group as at 31 March 2011. Upon the completion of review by DTT, the Company was advised to look into the area of internal control systems and Frederick C.Y. Wong & Company was then engaged in July 2011 to conduct an independent review in this respect. Follow-up review was also conducted by Frederick C.Y. Wong & Company and it was concluded that the Group has adequate financial reporting system and internal control procedures.

## **REVIEW BY KPMG**

KPMG was engaged (by the former management of the Company) in December 2010 after ICAC had commenced the ICAC Investigation and seized certain records and documents relating to the Property Transactions from the office of the Company.

It is a fact-finding exercise on, inter alia, the Property Transactions and other transactions of the Group in relation to Mr. Cheng and Ms. Leonora Yung (“Ms. Yung”). It is disclosed that a company controlled by Mr. Cheng appears to be a previous owner of the Property and internal control deficiencies are noted.

The review of KPMG was not completed as the Board considered that there is potential conflict of interest in relation to the review of KPMG due to the engagement by the former management of the Company.

## **REVIEW BY DTT**

### **Summary of the work**

In the light of the Property Transactions and the ICAC Investigation, the Company engaged DTT to conduct an independent review on, inter alia, (i) major items of the balance sheet of the Group as at 31 March 2011; (ii) identification of unusual or non-recurring items of assets and/or liabilities and explanations on such items as to the recoverability of certain assets; and (iii) recommendation on whether any provision/impairment in assets of the Group as at 31 March 2011 is required.

### **Result and status of the work**

- (1) Based on these findings and subsequent discussion between the Company and DTT, provision/impairment in assets, which appeared not related to the Property Transactions and the ICAC Investigation, was provided for the year ended 31 March 2011 according to the recommendations in its report.
- (2) Upon the completion of analysis, DTT has discussed with the Company and advised that the Company should look into the area of internal control systems. Frederick C.Y. Wong & Company was also engaged to conduct an independent review in this respect. The result of DTT’s analysis as set out in the report dated 28 June 2011 has been submitted to the Stock Exchange.

## **REVIEW BY FREDERICK C.Y. WONG & COMPANY**

According to the Internal Control Report dated 19 September 2011, Frederick C.Y. Wong & Company has reviewed and examined, among other matters, findings from the independent review, documents in relation to the Property Transactions and matters in relation to the loss of control over the PRC Subsidiaries. Nothing has come to Frederick C.Y. Wong & Company’s attention to indicate that there is significant deficiency in the financial reporting system and internal control procedures to enable the Group to meet its obligations and requirement under the Listing Rules for the first half of 2011, except for certain areas disclosed in the above-mentioned Internal

Control Report. Recommendation was also given to the Company to improve several major areas including but not limited to the implementation of (i) annual review on the internal control system; (ii) formal mechanism for monitoring related party transactions; (iii) comprehensive code of conduct to the Group's staff in the PRC; and (iv) formal policy and procedure in business operation.

Since the Board was newly constituted in April 2011, the Company has adopted the recommendations made by Frederick C.Y. Wong & Company and has implemented a series of measures to strengthen its internal control system and corporate governance, and regulate its investment decisions and related party transactions. In April 2012, a follow-up review on the Group's internal control system was conducted by Frederick C.Y. Wong & Company. Frederick C.Y. Wong & Company is in the opinion that the issues identified before have been fully addressed by the Group with relevant measures implemented and action properly taken and the Group has an established internal control policies and procedures in all material respects, which are in compliance with the requirements under the Code of Corporate Governance Practices as set out in Appendix 14 of the Listing Rules.

The Board is of the view that the above independent reviews have assisted the Company to sufficiently address the implications and internal control deficiencies in relation to the Property Transaction and the ICAC Investigation.

#### **FULFILLMENT OF THE RESUMPTION CONDITIONS**

As disclosed in the Announcement, the Resumption Conditions set out in the letter from the Stock Exchange dated 25 June 2012 are as follows:

##### **Condition (1): Provision of a confirmation from Frederick C.Y. Wong & Company that the Company has adequate financial reporting system and internal control procedures**

A letter from Frederick C.Y. Wong & Company confirming that the Company has adequate financial reporting system and internal control procedures together with Internal Control Reports have been submitted to the Stock Exchange.

##### **Condition (2): Provision of a comfort letter from the Company's auditors or financial adviser confirming that the Company will have sufficient working capital for at least 12 months after resumption**

The Company's auditors, ANDA CPA Limited, have reviewed the working capital forecast of the Company. ANDA CPA Limited is of the opinion that, in the absence of unforeseeable circumstances, the Group would have sufficient working capital to finance its day-to-day operations for at least twelve months from the date of the Resumption. A comfort letter issued by ANDA CPA Limited has been submitted to the Stock Exchange.

##### **Condition (3)(i): Repossession of management control over the PRC Subsidiaries**

The PRC Subsidiaries remained dormant but the official chops and certain corporate documents of which were not in the possession or custody of the relevant PRC Subsidiaries upon the appointment of the new Directors on 6 April 2011.

PRC legal advisers have subsequently been engaged to assist the Company to take appropriate actions to repossess management control over the PRC Subsidiaries. During the period from December 2011 to March 2012, the Company has gradually resumed control of all the PRC Subsidiaries, except CYC Investment Consultancy (Wuxi) Limited. On 31 March 2012, five of the PRC Subsidiaries, including CYC Investment Consultancy (Wuxi) Limited, were disposed of by the Group to a third party independent of the Company and its connected persons (as defined under the Listing Rules) at a total consideration of US\$1. In respect of the remaining two PRC Subsidiaries, namely, Hainan Treasure Way Enterprises Limited and Shanghai Jifeng Investment Management Company Limited, the Group has secured control by being able to assign staff to monitor and supervise their day-to-day operation since December 2011 and March 2012 respectively.

### **Condition (3)(ii): Outstanding litigations**

As disclosed in the annual reports of the Company for each of the two years ended 31 March 2012, the Group was involved in seven litigations, details of which are reproduced and updated below:

#### **(a) The Company against Mr. Cheng, Ms. Yung and others**

In connection with the payment in the sum of HK\$9,306,500 (the “Payment”) made to Ms. Yung, the spouse of Mr. Cheng and a former employee of the Company, purportedly for legal fees and expenses incurred by Mr. Cheng and Ms. Yung in relation to (i) the ICAC Investigation, details of which were disclosed in the announcements of the Company dated 13 September 2010, 7 October 2010, 7 March 2011 and 6 October 2011; and (ii) petition under section 168A of the Hong Kong Companies Ordinance (“S168A Petition”), details of which were disclosed in the announcements of the Company dated 21 April 2010, 24 January 2011, 27 January 2011, 27 April 2012 and 11 May 2012. In relation to the Payment, on 14 April 2011, the Company, as plaintiff, has issued an originating summons in the Court of First Instance at the High Court of Hong Kong (the “High Court”) against Mr. Cheng, Ms. Yung, Mr. Ng Pui Lung (being a former Director), Mr. Wang Shanchuan (being a former Director) and Mr. Ho Chi Chung Joseph (being a former Director and the former acting chief executive officer of the Group).

Pursuant to the court order granted on 18 November 2011, a further hearing will be held on a day to be fixed by the court not earlier than two weeks after delivery of verdict in the criminal proceedings abovementioned for the charge of fraud against Mr. Cheng in relation to the Property Transactions.

#### **(b) The Company and Highsharp Investments Limited (“Highsharp”), as plaintiffs**

On 5 May 2011, the Company and Highsharp, a wholly owned subsidiary of the Company, as plaintiffs, issued a writ of summons in the High Court against, among others, Mr. Cheng, Ms. Yung, the personal representatives of Mr. Kok Teng Nam (deceased), Mr. Philip Yu and Augustus Investments Limited (“Augustus”).

The proceeding was stayed pending the conclusion of the criminal proceedings under District Court No. 476 of 2011. A directions hearing will be fixed within 14 days after delivery of the verdict in the said criminal proceedings. Augustus has failed to file any acknowledgement of service by 27 October 2011.

**(c) The Company and Ace Precise International Limited (“Ace Precise”), as plaintiffs**

On 6 May 2011, the Company and Ace Precise, a wholly owned subsidiary of the Company, as plaintiffs, issued a writ of summons in the High Court against Best Max Holdings Limited (“Best Max”), Mr. Lo Chun Cheong (being the sole director and registered shareholder of Best Max) (“Mr. Lo”), Mr. Cheng, Mr. Joseph Ho and Mr. Yeung Tak Hung Arthur (being the former chief operating officer of the Group).

By the court order granted on 23 November 2011, the time for Mr. Lo to comply with unless order dated 28 October 2011 for filing and service of Defence was extended until two weeks after disposal of Mr. Lo’s summons for striking out. The hearing of Mr. Lo’s striking out summons was heard on 7 February 2012 and the Company is now awaiting court judgment.

**(d) Subsidiaries of the Company against Mr. Cheng**

On 11 June 2011, the Company, together with certain of its wholly-owned subsidiaries, namely CYC Investments Limited, Sincere Land Holdings Limited, Hainan Treasure Way Enterprises Limited, Hainan Jiaying Internet Technology Company Limited, Suzhou C Y Foundation Entertainment and Investment Management Limited, CYC Investment Consultancy (Wuxi) Limited and Longpin Investment Consultancy (Shanghai) Company Limited, as plaintiffs, issued an originating summons in the High Court to claim against Mr. Cheng.

The hearing of Mr. Cheng’s summons dated 19 December 2011 for striking out was heard on 15 May 2012 and the Company is now awaiting court judgment.

**(e) The Company against former management and employees**

On 3 June 2011, the Company, as plaintiff, issued a writ of summons in the High Court against, among others, Mr. Cheng, Ms. Yung, Mr. Joseph Ho, Mr. Arthur Yeung, Ms. Kwok Pui Hung (being a former director of human resources of the Group), Mr. Tsang Heung Yip (being a former financial controller of the Group) and other six former employees (collectively referred to as the “Defendants”).

A mediation notice was filed by the Company on 12 January 2012 to attempt mediation to resolve all of its disputes with the Defendants. All the Defendants agree with the mediation and the first joint mediation session will be held on 19 July 2012.

**(f) A subsidiary of the Company against Ms. Yung**

Ms. Yung and Kingbox (Asia) Limited (“Kingbox”) (an indirect wholly-owned subsidiary of the Company) entered into supplemental agreement dated 4 January 2010 (the “Supplemental Agreement”) which provides that Kingbox would pay to Ms. Yung upon her termination of employment a remunerative payment which equaled her annual salary income multiplied by two years (the total amount should not exceed 28 months’ salary). On 17 August 2011, Kingbox, as plaintiff, commenced a legal proceeding in the High Court against Ms. Yung, as defendant, in respect of the Supplemental Agreement.

Both Kingbox and Ms. Yung agree for mediation. The first joint mediation session was held on 30 April 2012 but ended on 7 May 2012, as Kingbox and Ms. Yung were not able to reach an agreement to settle the dispute.

Each party is preparing relevant documents and affirmations for court submissions before any hearing date can be fixed.

**(g) Section 168A Petition (Luck Continent against Mr. Cheng and the Company)**

On 14 April 2010, the Company was served, among other respondents, with a petition issued pursuant to S168A Petition by Luck Continent, a substantial shareholder of the Company (the “Petitioner”). Under the S168A Petition, the Petitioner is seeking from the court, among other things, an order against the Company requiring it to amend its bye-law 86(4) such that the Company may by ordinary resolution remove a director at any time before the expiration of his period of office provided that a statement of the intention to remove a director be served on such director 14 days before the meeting.

The judgment (the “Judgment”) for the S168A Petition hearing was handed down on 25 April 2012. It was mentioned in the Judgment that: (i) the consequence of the various respondents (other than the Company) voting against the resolution for the bye-law amendment at the general meetings held by the Company in the past was that the Company thereby failed to amend its bye-laws so as to bring them into line with the requirements of paragraph 4(3) of Appendix 3 of the Listing Rules; and (ii) the failure of the Company to amend its bye-law to allow for removal of director by ordinary resolution was a matter which was unfair and prejudicial in the sense required by section 168A of the Hong Kong Companies Ordinance. Accordingly, an order was handed down that the bye-laws of the Company be amended so as to enable a Director to be removed by an ordinary resolution. Details of the Judgment were disclosed in the Company’s announcements dated 27 April 2012 and 11 May 2012. The respondents (other than the Company) appealed the Judgment.

The respondents (other than the Company) filed the notice of appeal on 23 May 2012. The Board understands that the appeal will be heard at the end of May 2013.

The Company will issue further announcements to update the status of the above outstanding litigations when appropriate.

In light of the above, the Directors are of the view that all the Resumption Conditions have been fully complied with and satisfied by the Company.

## RESUMPTION OF TRADING

Trading in the Shares has been suspended since 9:30 a.m. on 31 August 2010 at the request of the Company. As all the Resumption Conditions have been satisfied and fulfilled, an application was made to the Stock Exchange for the resumption of trading in the Shares on the Stock Exchange with effect from 9:00 a.m. on Tuesday, 17 July 2012.

## DEFINITIONS

“Announcement”	the announcement of the Company dated 26 June 2012 to inform the market, among other things, the imposition of the Resumption Conditions by the Stock Exchange
“Board”	the board of Directors, comprising certain Directors appointed pursuant to the annual general meeting of the Company held on 6 April 2011 and the Ancillary Order from the Supreme Court of Bermuda dated 7 April 2011
“Company”	C Y Foundation Group Limited, a company incorporated in Bermuda with limited liability, whose issued shares are listed on the Main Board of the Stock Exchange
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“ICAC”	Hong Kong Independent Commission Against Corruption
“ICAC Investigation”	the investigation as carried out by the ICAC against Mr. Cheng and others in relation to their alleged criminal acts on the Property Transactions
“Internal Control Reports”	the internal control reports dated 19 September 2011 and 4 June 2012 prepared by Frederick C.Y. Wong & Company
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Cheng”	Mr. Cheng Chee Tock Theodore, being the former chairman, former Director and a substantial Shareholder

“PRC”	The People’s Republic of China, which for the sole purpose of this announcement shall exclude Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“PRC Subsidiaries”	the two subsidiaries and five previous subsidiaries of the Company incorporated in the PRC of which effective control had been lost including (i) Hainan Treasure Way Enterprises Limited (海南寶瀛實業有限公司); (ii) 海南佳瀛網絡科技有限公司 (Hainan Jiaying Internet Technology Company Limited*); (iii) Suzhou C Y Foundation Entertainment and Investment Management Limited (蘇州中青基業娛樂投資管理有限公司); (iv) CYC Investment Consultancy (Wuxi) Limited (中青投資諮詢(無錫)有限公司); (v) 龍品投資諮詢(上海)有限公司 (Longpin Investment Consultancy (Shanghai) Company Limited*); (vi) 上海巨豐網絡科技有限公司 (Shanghai Jufeng Internet Technology Company Limited*); and (vii) 上海基豐投資管理有限公司 (Shanghai Jifeng Investment Management Company Limited*), five of which (i.e. companies (ii), (iii), (iv), (v) and (vi)) have been disposed of by the Company
“Property”	Units 1701 and 1702, 17th Floor, The Sun’s Group Centre, No. 200 Gloucester Road, Wanchai, Hong Kong which was acquired by the Group in around October 2007 and disposed of by the Group in December 2010
“Property Transactions”	the transactions relating to the Property which the Group has disposed of and certain members of the ex-senior management of the Company were subsequently charged by the ICAC for conspiracy to defraud the Company and the Shareholders
“Resumption”	resumption of the trading of the Shares on the Stock Exchange
“Resumption Conditions”	the conditions for the Resumption as set out in the Stock Exchange’s letter to the Company dated 25 June 2012
“Shareholders”	holders of the Shares
“Shares”	ordinary shares of HK\$0.001 each in the share capital of the Company

“Stock Exchange”

The Stock Exchange of Hong Kong Limited

“Suspension”

suspension of trading in the Shares of the Company  
on the Stock Exchange

By order of the Board

**SNEAH Kar Loon**

*Chairman*

Hong Kong, 13 July 2012

*As at the date of this announcement, the executive Directors of the Company are Mr. SNEAH Kar Loon and Mr. SIK Siu Kwan, the non-executive Director is Mr. NG Kwok Lun, the independent non-executive Directors are Mr. LAI Hock Meng, Mr. BALAKRISHNAN Narayanan, Mr. YONG Peng Tak and Mr. IO Rudy Cheok Kei.*

\* *For identification purpose only*