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## **FLYKE INTERNATIONAL HOLDINGS LTD.**

### **飛克國際控股有限公司**

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

**(Stock code: 01998)**

## **UPDATE ON RECENT DEVELOPMENT ON SUSPENSION OF TRADING – COMPLETION OF INVESTIGATION AND INTERNAL CONTROL REVIEW**

Reference is made to the announcements of Flyke International Holdings Ltd. (the “**Company**”) dated 1 April 2014, 30 April 2014, 7 May 2014, 26 May 2014, 11 July 2014, 29 July 2014, 29 September 2014, 31 October 2014, 4 December 2014 and 19 December 2014 (the “**Announcements**”). Unless the context otherwise requires, capitalised terms used in this announcement shall have the same meanings as defined in the Announcements.

### **OUTSTANDING AUDIT ISSUES**

In March and April 2014, the former auditors communicated to the Company the Outstanding Audit Issues which are summarized as follows:

1. Some of the audit confirmations to suppliers had not been returned as scheduled; while some of the returned audit confirmations contain information inconsistent with that provided by the Company or were collected by the same staff of the same courier company and were delivered at the same time, despite the suppliers are located at different regions. The former auditors contacted the staff of some of the suppliers by phone and some of the suppliers which had returned audit confirmations replied that they had not received any audit confirmation or not sure if there had been any business relationship with the Group. The former auditors were also not provided with the original business licence for inspection and could not find any business name plate and any operation of the supplier during the site visit of a supplier (the “**Supplier Issues**”);
2. One of the subsidiaries of the Company, 鑫威(福建)輕工有限公司(Xin Wei (Fujian) Light Industry Co., Ltd.\*) (“**Fujian XinWei**”), entered into an agreement to pledge the Company’s trademark in favour of Agricultural Bank of China in May 2009, but the Company did not provide the agreement to the former auditors until this year (the “**Trademark Issue**”);

3. Fujian XinWei entered into an agreement for provision of a guarantee of RMB35 million to 泉州彬威鞋業有限公司 (“泉州彬威”) in August 2012, but the agreement was not provided to the former auditors during the audit of the financial statements of the Group for the year ended 31 December 2012 (the “**Guarantee Issue**”);
4. Fujian XinWei had a legal dispute on a sale and purchase agreement. According to the summons filed by Jinjiang City People’s Court, the legal proceeding on the dispute has been commenced in October 2013, but the former auditors was not informed during the audit of the financial statements of the Group for the year ended 31 December 2013 (the “**Legal Dispute Issue**”).

To investigate the Outstanding Audit Issues, the Board has established the Special Investigation Committee. The Company has also appointed ZhongLei and PRO-WIS to assist the Special Investigation Committee in their investigation.

## **COMPLETION OF THE INVESTIGATION**

The Board would like to update the Shareholders that ZhongLei completed its performance of procedures agreed with the Special Investigation Committee in respect of the investigation into the Outstanding Audit Issues (the “**Investigation**”) and a report of the factual findings (the “**Factual Findings**”) was finalised and issued by ZhongLei on 29 December 2014.

### ***Summary of the Procedures Performed***

For the purpose of assisting the Special Investigation Committee to evaluate the validity of purchases of the Group from 17 suppliers (the “**Relevant Suppliers**”) during the year ended 31 December 2013 (the “**Relevant Period**”), ZhongLei performed the following major procedures:

1. Obtain documents in relation to the Outstanding Audit Issues from the management of the Group; meet with the audit committee of the Company, the Board and the former auditors to understand and obtain documents in relation to the Outstanding Audit Issues; and obtain written responses issued by the Company (or its representatives) in relation to the Outstanding Audit Issues;
2. Obtain from the management of the Company and review complete list of suppliers, purchases breakdown and ending balances of payables to all suppliers of the Group for the Relevant Period; and compare the information with the accounting records of the Group;
3. In respect of the Relevant Suppliers:
  - Obtain from the management of the Company and review breakdown of ending balances of payables to the Relevant Suppliers as at 31 December 2013 and compare the information with the accounting records of the Group;

- Obtain from the management of the Group all supporting documents in relation to purchases from the Relevant Suppliers, including quotations, purchase orders, taxed invoices, delivery notes and supporting documents of settlement and select a sample of 10 transactions per each Relevant Supplier and compare the supporting documents with the accounting records of the Group;
- Issue confirmation letters to the Relevant Suppliers (the “**Confirmation Letters**”) by post to confirm the ending balances of payables and the total amount of purchases by the Group for the Relevant Period;
- Perform company searches on the Relevant Suppliers through agent and obtain background information including shareholding, management team and principal business;
- Conduct site visits and meetings with the Relevant Suppliers;
- Deposit RMB1 to the bank accounts of the Relevant Suppliers that were used to deal with transactions with the Group;
- Sample check 3 taxed invoices issued by each of the Relevant Suppliers against the online taxed invoices verification system of the State Administration of Taxation (“**SAT**”);
- Attend the Fujian Provincial Office, SAT (“**Fujian SAT**”) or Xiamen Municipal Office, SAT (“**Xiamen SAT**”) or other Provincial/Municipal Offices of SAT for verification of the sample taxed invoices;
- Attend the major banks of the Group and obtained copy of all bank documents of the Group, such as, bank statements and loan documents and compare with the accounting records of the Group; and
- Obtain copy of tax return filed by the Group with the SAT and compare them with the records on the Group’s online tax return system for the Relevant Period.

## ***Summary of Factual Findings***

A summary of key Factual Findings of the procedures performed by ZhongLei is set out below:

- 1. Obtain documents in relation to the Outstanding Audit Issues from the management of the Group; meet with the audit committee of the Company, the Board and the former auditors to understand and obtain documents in relation to the Outstanding Audit Issues; and obtain written responses issued by the Company (or its representatives) in relation to the Outstanding Audit Issues***

ZhongLei obtained some documents in relation to the Outstanding Audit Issues from the management of the Group. A telephone conference was held between, *inter alia*, the Group, the audit committee of the Group and the former auditors for the purpose of enabling ZhongLei to obtain more information from the former auditors in relation to the Outstanding Audit Issues and to obtain comments from the former auditors on the procedures to be performed by ZhongLei. During the telephone conference, the former auditors requested, *inter alia*, that an investigation (by an independent forensic accountant) into the Outstanding Audit Issues should be performed. The former auditors indicated that they were not in an appropriate position to give comments on the proposed agreed-upon procedures.

ZhongLei requested the former auditors (through the Company) to provide further documentation in relation to the Outstanding Audit Issues, including but not limited to, copies of the confirmation letters sent to the Relevant Suppliers, the respective signed confirmation letters received by the former auditors and courier covers which stated 9 returned confirmations were sent from the same place and time. However, the Company confirmed that they were unable to obtain the requested documentation from the former auditors.

- 2. Obtain from the management of the Company and review complete list of suppliers, purchases breakdown and ending balances of payables to all suppliers of the Group for the Relevant Period; and compare the information with the accounting records of the Group***

The management of the Group provided to ZhongLei soft copies (in excel format) of general ledger and payables sub-ledger of 福建省飛克體育用品有限公司 (Flyke Sports Products Co., Ltd.\*) (“**Fujian Flyke**”) and Fujian XinWei, the wholly-owned subsidiaries of the Company, for the Relevant Period. As such, no comparison was required to be performed against the accounting records of the Group.

The total opening balance of the payables of Fujian Flyke and Fujian XinWei (as per the ledgers provided by the management of the Company after audit adjustments) does agree with the “Trade Payables” figures as stated in “Note 21” of the Consolidated Statements of Financial Position of the Company’s Annual Report 2012.

ZhongLei further confirmed with the management of the Group that the general ledgers and payables sub-ledgers provided are the same (without any subsequent adjustments) as the information provided to the former auditors during the 2013 annual audit of the Group in and around February 2014.

**3. *Obtain from the management of the Company and review breakdown of ending balances of payables to the Relevant Suppliers as at 31 December 2013 and compare the information with the accounting records of the Group***

Based on the accounts payable sub-ledger, the ending balances (in terms of total amount of transactions occurred and ending balance due to individual supplier for the Relevant Period) of each of the Relevant Suppliers agree with the figures used by the former auditors for the confirmation letters sent to the suppliers of the Group in February and March 2014 respectively during their 2013 annual audit.

**4. *Obtain from the management of the Group all supporting documents in relation to purchases from the Relevant Suppliers, including quotations, purchase orders, taxed invoices, delivery notes and supporting documents of settlement and select a sample of 10 transactions per each Relevant Supplier during the Relevant Period and compare the supporting documents with the accounting records of the Group***

The sample selection criterion was based on transaction amount and 10 largest transactions with each Relevant Supplier during the Relevant Period were selected by ZhongLei. As certain Relevant Suppliers had less than 10 transactions with the Group during the Relevant Period, a total of 145 sample transactions has been selected and reviewed by ZhongLei (the “**Sample Transactions**”). In order to understand the purchase cycle of the Group, ZhongLei had various meetings with the management of the Company, the Finance Department, Procurement Department and Warehouse Management Department of the Company. The management of the Company also provided a Procurement Control Policy to ZhongLei.

Based on ZhongLei’s understanding of the purchase cycle, all originals or original carbon copies of the following documents (except for the Monthly Payable Balance Confirmation only copies have been reviewed as the originals have been sent to the suppliers) in relation to the Sample Transactions have been reviewed and copies have been obtained:

- Application Form for Procurement
- Quotations Approval Form
- Procurement Contracts Approval Form
- Procurement Contract
- Suppliers’ Delivery Note
- Suppliers’ Receipt

- Stock-in Records
- Taxed Invoice
- Monthly Payable Balance Confirmation
- Bank Advice for payment
- Payment Application Form
- Vouchers

ZhongLei noted that the effectiveness / representativeness of the results from performing the procedure stated in this section may be affected as they encountered difficulties when matching individual payment with individual taxed invoice. Generally, a “First-in-First-out” approach was adopted by the management of the Group when collating supporting documents for the Sample Transactions.

ZhongLei noted the following abnormalities of documents obtained:

- The paper, font size and colour of 2 taxed invoices are different from other taxed invoices reviewed by ZhongLei;
- The tax file number stated on taxed invoices issued by one of the Relevant Suppliers during the Relevant Period is different from that of the independent company search results;
- In one of the Sample Transactions, the date of application form for a procurement was 12 December 2012 which is later than that of the relevant quotations approval form (30 November 2012); and
- In one of the Sample Transactions, the material size on the application form for a procurement was 54” but the relevant suppliers’ delivery note was 57”.

**5. *Issue Confirmation Letters to the Relevant Suppliers by post to confirm the ending balances of payables and the total amount of purchases by the Group for the Relevant Period***

Two (2) batches of confirmation together with a reply envelope printed with the address of ZhongLei in Hong Kong were sent to the Relevant Suppliers.

ZhongLei was able to obtain an affirmative reply from each of the Relevant Suppliers confirming the balance of payables as at 31 December 2013 and the total sales amount from the Relevant Suppliers to the Group during the Relevant Period except for one Relevant Supplier.

**6. *Perform company searches on the Relevant Suppliers through agent and obtain background information including shareholding, management team and principal business***

Independent company search has been performed in May 2014 on each of the Relevant Suppliers through a business information agent. Based on the company search results, ZhongLei noted inconsistencies between certain suppliers' information provided by the management of Company and from the company search results, including inconsistencies in address, tax file number and name.

For Relevant Suppliers with inconsistencies in their addresses, separate Confirmation Letters were sent by ZhongLei to each of the Relevant Suppliers' addresses as identified by ZhongLei.

**7. *Conduct site visits and meetings with the Relevant Suppliers***

During the period from 29 May 2014 to 4 July 2014, ZhongLei conducted site visits to the Relevant Suppliers and have meeting with representative(s) of the Relevant Suppliers in order to obtain various information on the Relevant Suppliers and transactions between either Fujian Flyke or Fujian XinWei or both and the Relevant Suppliers during the Relevant Period.

There are occasions no street name / industrial area name are available to confirm the exact address of the site. So ZhongLei was unable to confirm whether or not the site visits were conducted in the registered addresses of some of the Relevant Suppliers.

During the meeting, ZhongLei would go through and complete a "Questionnaire" with the interviewee. The interviewee is requested to review, sign and chop on the last page of the completed "Questionnaire" as confirmation of the contents.

The interviewees would also be invited to review, check and confirm the accuracy and completeness of copy of a set of documents in relation to the purchase from the individual supplier by either Fujian Flyke or Fujian XinWei, particularly the company chops on the procurement contract(s), delivery note(s), taxed invoice(s) and bank account details stated in bank advice(s) for settlement, by signing and/or chop on copy of the said documents.

Furthermore, a third set of Confirmation Letters were delivered to the Relevant Suppliers for their execution during the site visits.

During the site visits, ZhongLei was not provided with the originals of certain corporate documents of some of the Relevant Suppliers for verification and ZhongLei discovered that there were typos on the name cards of some of the interviewees. The site visits of one of the Relevant Suppliers were not conducted in its registered address.

8. ***Deposit RMB1 to the bank accounts of the Relevant Suppliers that were used to deal with transactions with the Group***

A list of 19 bank accounts of the Relevant Suppliers is compiled based on the information obtained from reviewing the supporting documents of payments to the Relevant Suppliers by Fujian Flyke and Fujian XinWei during the Relevant period and through the site visit meetings between ZhongLei and the Relevant Suppliers.

2 out of the 19 of the transmissions to the Relevant Suppliers were unsuccessful.

9. ***Sample check 3 taxed invoices issued by each of the Relevant Suppliers against the online taxed invoices verification system of the SAT; and attend the Fujian SAT or Xiamen SAT or other Provincial/Municipal Offices of SAT for verification of the sample taxed invoices***

Three (3) sample taxed invoices issued by the Relevant Suppliers were randomly selected from the Sample Transactions (the “**Sample Taxed Invoices**”) and check against the online taxed invoices verification system of the SAT in various provincial / municipal of the Mainland China.

ZhongLei has viewed and printed from the Fujian SAT Website a list of taxed invoices submitted by Fujian Flyke and Fujian XinWei which were verified by the SAT during 2013.

ZhongLei has also checked the Sample Taxed Invoices against the said list and confirm that all the Sample Taxed Invoices are included in the said list of taxed invoices which has been verified by the SAT.

ZhongLei attended Jinjiang Municipal Office, SAT (“**Jinjiang SAT**”) twice with the original Sample Taxed Invoices for verification. However, according to the officers at the Jinjiang SAT, generally, if a taxed invoice has been verified by the SAT once, the SAT would not perform the verification for a second time, unless on the requests of the tax payer.

As such, ZhongLei was only able to obtain printouts of the verification results provided by the Jinjian SAT rather than perform a separate verification of the original Sample Taxed Invoices.

In summary, all Sample Taxed Invoices are able to be verified via i) the online taxed invoices verification system of the SAT in various provincial / municipal of the Mainland China; ii) the verification records printed from the Fujian SAT Website; and iii) the verification provided by the Jinjiang SAT.



**10. Attend the major banks of the Group and obtained copy of all bank documents of the Group, such as, bank statements and loan documents and compare with the accounting records of the Group**

According to the breakdown of the audited Consolidated Statement of Financial Position of the Company as at 31 December 2012 provided by the management of the Company, the balance of “Bank Balance and Cash” was RMB289,078,000 as at 31 December 2012 which consisted of RMB245,044,357 and RMB42,180,683 from Fujian Flyke and Fujian XinWei respectively, which in turn agreed with the opening ledger balances of “Cash in Hand” and “Cash at Bank” of Fujian Flyke and Fujian XinWei for the Relevant Period except there for a slight exchange difference for the Hong Kong dollars bank account(s).

ZhongLei obtained bank statements or credit reports issued by the relevant banks in respect of all active bank accounts of Fujian Flyke and 5 out of 6 active bank accounts of Fujian XinWei. ZhongLei was able to obtain supporting documents for 2 out of 6 closed bank accounts of Fujian Flyke and 3 out of 5 closed bank account of Fujian XinWei.

**11. Obtain copy of tax return filed by the Group with the SAT and compare them with the records on the Group’s online tax return system for the Relevant Period**

According to the management of the Company, Fujian Flyke and Fujian XinWei have both adopted “E-filing” of interim returns (for both income tax and value-added-tax) to the SAT. 79 Copies of the printout of interim returns filed by Fujian Flyke and Fujian XinWei for the Relevant Period via “E-filing” to the SAT are provided by the management of the Group to ZhongLei.

ZhongLei has viewed and printed from the online enquiries system of the Fujian SAT Website a set of interim returns filed by Fujian Flyke and Fujian XinWei respectively for the Relevant Period which are identical to the copies provided by the management of the Group.

With regard to the final annual income tax return which is required to be filed with the SAT by the end of May each year, the management of the Group has provided ZhongLei with copy of the final annual income tax return (with the Jinjiang SAT’s chop) in respect of Fujian Flyke and Fujian Xinwei respectively. The said copies of final annual income tax returns has been shown to the Jinjiang SAT for verification but the officers at the Jinjiang SAT could only verbally confirm the chops on the returns are valid but not the contents of the returns. ZhongLei was further informed by the management of the Group that only physical paper filing has been done for the final annual income tax returns. As such, ZhongLei was unable to compare the said physical paper returns provided against the records on the Group’s online tax return system for the year ended 31 December 2013.

The sales figures as stated in the said returns (both interim and final) do agree with the figures as recorded in the general ledgers of Fujian Flyke and Fujian XinWei (under Turnover and Other Income). However, ZhongLei was unable to reconcile the costs of sales figure as stated in the said returns with the purchases as stated in the management accounts of the Group.

### ***Limitations on the Investigation***

The Investigation was subject to significant limitations which include:

- Majority of the Factual Findings are limited to the Sample Transactions selected of Fujian Flyke and Fujian XinWei with the Relevant Suppliers.
- Majority of the documents and information being used for preparing the Factual Findings are prepared, collated and provided by the management of the Company, no independent verification of information is performed.

### **COMPLETION OF THE INTERNAL CONTROL REVIEW**

The Board would like to update the Shareholders that PRO-WIS completed its review of the internal control procedures on selected areas of the Group (the “**Internal Control Review**”) and a report containing the findings of the Internal Control Review and the recommendations to the Special Investigation Committee to address and rectify the weaknesses identified was finalised and issued by PRO-WIS on 9 January 2015.

### ***Summary of Findings of the Internal Control Review***

PRO-WIS noted certain major weaknesses in the Group’s internal control procedures which are summarized as follows:

#### **1. Procedures in respect of bank borrowing, guarantee, pledge, mortgage and charge**

- Insufficient details of procedures were included in the procedure manual
- Lack of written records documenting the applications and approvals for bank borrowing, guarantee, pledge, mortgage, charge and repayment transmissions
- Insufficient document filing, referencing and custody system; some of the original banking documents and written records could not be located
- No written record for the hand-over of tasks for departing staff in the Finance Department and for the review results of contractual provisions
- No segregation of duties in respect of the custody of the finance chops, legal representative chops and the company chops

**2. Procedures in respect of financial settlement, reporting and disclosure**

- Insufficient details of procedures were included in the procedure manual and inconsistencies between procedure manual and actual practice
- Lack of written records documenting the review results

**3. Management procedures in respect of contractual dispute and litigation**

- Insufficient details of procedures were included in the flow chart in respect of contractual dispute and litigation
- No control master table in respect of contractual dispute and litigation
- Lack of a centralized unit for managing the documents regarding contractual dispute and litigation

**4. Procedures to ensure compliance with Rule 13.09, Chapter 14 and Chapter 14A of the Listing Rules**

- Lack of written comprehensive procedures and systems setting out in details each step that need to be fulfilled or followed by the responsible departments or officers to ensure compliance with Rule 13.09, Chapter 14 and Chapter 14A of the Listing Rules
- Some of the personnel responsible for ensuring compliance with the disclosure requirements under Rule 13.09 of the Listing Rules have not acknowledged in writing that they understand and agree to comply with the internal policies
- Insufficient record keeping system; some of the relevant documents and written records throughout the control activities of the Company were not kept properly
- Inconsistencies between the written guidelines and the actual practice for some of the procedures adopted by the Company

**5. Others**

- Lack of formal training in respect of compliance with requirements under the Listing Rules has been organized for senior management responsible for executing the control activities of the Company
- No written terms of reference for the company secretary and the chief financial officer of the Company

PRO-WIS has reviewed to the disclosure of the extracts of the findings of the Internal Control Review as set out above.

## **PRELIMINARY VIEWS OF THE SPECIAL INVESTIGATION COMMITTEE AND THE BOARD ON THE FACTUAL FINDINGS OF THE INVESTIGATION, THE FINDINGS OF THE INTERNAL CONTROL REVIEW**

The Factual Findings of the Investigation and the findings of the Internal Control Review had been considered and accepted by the Special Investigation Committee and the Board respectively.

In respect of the Factual Findings of the Investigation, the Special Investigation Committee had come up with the following preliminary views:

1. The Special Investigation Committee noted that ZhongLei was unable to obtain from the former auditors the documentation in relation to the Outstanding Audit Issues. However, as ZhongLei has performed the agreed-upon procedures for the Investigation and has concluded the Factual Findings, the Special Investigation Committee is satisfied that ZhongLei had conducted an independent study which covers the Outstanding Audit Issues and had used its best efforts to perform its responsibilities in the Investigation.
2. The Special Investigation Committee noted the abnormality of certain documents obtained during the Investigation as mentioned in paragraph 4 under the section headed “Summary of Factual Findings” above and is of the view that (i) as the data contained in the tax invoices had been verified via the online taxation system of SAT, any doubt towards the genuineness of the relevant tax invoices should be cleared; and (ii) it is not unusual in the daily course of business for the application form for a procurement be dated after the approval date or its information being inconsistent with the information contained in the delivery note as the information contained in the application form for a procurement can be subsequently revised to meet the actual requirement. On this basis, the Special Investigation Committee recommended that better control measures should be put in place to ensure proper written records would be kept to avoid any inconsistency in the documentation.

The Special Investigation Committee had also obtained and reviewed the abovementioned documents, and had verified the data in the tax invoices during the Relevant Period with the relevant suppliers via the online taxation system of SAT, with no irregularity noted.

3. With regard to the failure to obtain an affirmative reply to the Confirmation Letter by post from one of the Relevant Suppliers as mentioned in paragraph 5 under the section headed “Summary of Factual Findings” above, the Special Investigation Committee noted that affirmative replies have been obtained from all the Relevant Suppliers during site visits and is of the view that the genuineness and validity of the business relationship and the purchases for the Relevant Period with this relevant supplier should not be doubted.

The Special Investigation Committee had also obtained and reviewed the relevant purchase records with the relevant supplier, and had verified the data in all the tax invoices with the relevant supplier during the Relevant Period via the online taxation system of SAT, with no irregularity noted.

4. With regard to not being able to verify that the site visits of some the Relevant Suppliers were conducted in their respective registered addresses as there were no street name or industrial area name for ZhongLei to confirm the exact addresses of the sites as mentioned in paragraph 7 under the section headed “Summary of Factual Findings” above, the Special Investigation Committee is of view that this is mainly due to the unsatisfactory urban planning and management of the areas concerned which is not uncommon in suburban or rural regions in the PRC. As for the site visits of one of the Relevant Suppliers which were not conducted in its registered address, and that during the site visits, ZhongLei was not provided with the originals of certain corporate documents of some of the Relevant Suppliers for verification and ZhongLei discovered that there were typos on the name cards of some of the interviewees, the Special Investigation Committee is of the view that these are mainly due to the refusal of cooperation by the Relevant Supplier which is out of the control of either ZhongLei or the Company. Special Investigation Committee opined that the abovementioned incidents should not be interpreted as any irregularity that would cast any suspicion towards the genuineness of the business relationship with the Relevant Suppliers concerned.

With regard to not being able to verify the addresses of the site visits, the Special Investigation Committee had obtained several government announcements regarding change of name of streets in different PRC city of Jinjiang, and is of the view that change of name of streets is not uncommon in suburban or rural regions in the PRC. For the inability to obtain the originals of certain corporate documents of some of the Relevant Suppliers, the Special Investigation Committee had reviewed the corporate information of the relevant suppliers and had further confirmed the genuineness of the business relationship with the relevant suppliers through inquiries with their agent.

5. With regard to the failure to deposit RMB1 to the bank accounts of two of the Relevant Suppliers as mentioned in paragraph 8 under the section headed “Summary of Factual Findings” above, the Special Investigation Committee noted from the management that, the relevant accounts are no longer operative. It is also noted that, while the relevant suppliers refused to provide the Group with supporting documents regarding the closure of the two bank accounts, amounts transacted during the Relevant Period with these relevant suppliers through the two bank accounts were minor when compared to the total amounts transacted during the Relevant Period with these relevant suppliers through their other accounts, to which the deposits made by ZhongLei were all successful.

The Special Investigation Committee had reviewed all bank payment slips for the respective amounts transacted during the Relevant Period with these relevant suppliers to the two bank accounts, and compared these bank payment slips with samples of other bank payment slips of the same bank account during the Relevant Period and concluded that no suspicion can be drawn from the incidents.

6. The Special Investigation Committee noted that ZhongLei was unable to reconcile the costs of sales figure as stated in the tax returns with the purchases as stated in the management accounts of the Group as mentioned in paragraph 11 under the section headed “Summary of Factual Findings” above. The management had explained that this is due to certain adjustments made to the purchases after the tax returns had been filed. The Special Investigation Committee accepted that this is a minor technical issue and is of the view that this would not affect the accuracy and completeness of the Group’s financial information.

The Special Investigation Committee had obtained and reviewed the respective annual tax returns and the management accounts and concluded that the difference between the costs of sales figure as stated in the tax returns and the purchases as stated in the management accounts is due to certain adjustments being made in the management accounts.

The Special Investigation Committee recommends the Board and the management to review the adjustments made to the management accounts of the Group and work closely with the auditors to ensure the cost of sales and all financial information of the Group are recorded and presented in accordance with the accounting policies adopted by the Company.

The Special Investigation Committee agrees with PRO-WIS for the major internal control weaknesses and recommended the Company to implement the enhancement measures suggested by PRO-WIS which include:

**1. Procedures in respect of bank borrowing, guarantee, pledge, mortgage and charge**

- Written comprehensive procedures setting out in details each step that need to be fulfilled or followed by the responsible departments or officers when handling bank borrowing, guarantee, pledge, mortgage, charge and repayment transmissions should be implemented
- Systems of written records documenting the applications and approvals for bank borrowing, guarantee, pledge, mortgage, charge and repayment transmissions should be put in place
- Referencing system in respect of application reports for working capital loan should be set up
- Enhanced custody system in respect of application reports for working capital loan and resolutions of the board of directors should be set up
- Referencing system in respect of bank facilities and loan agreements should be put in place
- Systems of written records documenting the review results of contractual provisions should be put in place

- System should be put in place for the safe keeping of the original banking documents
- Control master document list in respect of documents filed in the data room should be established
- System of written record for the hand-over of tasks for departing staff in the Finance Department should be set up
- Control master document list in respect of banking facilities and loan agreements should be put in place
- System of written record for approval of repayment transmission should be set up
- System should be put in place to ensure that all repayments should be supported with the repayment receipt confirmations issued by the relevant banks
- System should be put in place to ensure that all repayment confirmations should be supported with supporting documents
- System should be put in place to ensure that the finance chops, legal representative chops and the company chops should be properly kept by different personnel to ensure segregation of duties

## **2. Procedures in respect of financial settlement, reporting and disclosure**

- Written comprehensive procedures setting out in details each step that need to be fulfilled or followed by the responsible departments or officers in respect of financial settlement, reporting and disclosure should be implemented
- System should be put in place to ensure that all financial statements should be signed by the reviewing officer
- System of written records documenting the review results of the disclosure requirements in the annual and interim reports should be set up

## **3. Management procedures in respect of contractual dispute and litigation**

- Written systems or procedures for handling and reporting contractual dispute and litigation should be established
- Control master table in respect of contractual dispute and litigation should be put in place
- Assignment of administrative staff specializing in managing documentation regarding contractual dispute and litigation

#### **4. Procedures to ensure compliance with Rule 13.09, Chapter 14 and Chapter 14A of the Listing Rules**

- Written comprehensive procedures and systems setting out in details each step that need to be fulfilled or followed by the responsible departments or officers to ensure compliance with Rule 13.09, Chapter 14 and Chapter 14A of the Listing Rules should be implemented
- System should be put in place to ensure that personnel responsible for ensuring compliance with the disclosure requirements under Rule 13.09 of the Listing Rules should acknowledge in writing that they understand the relevant systems implemented and agree to comply with them
- Proper record keeping systems for documentation relating to control activities of the Company should be set out
- Systems should be put in place to ensure that the written guidelines would be consistently adhered to within the Group

#### **5. Others**

- Formal training in respect of compliance with requirements under the Listing Rules should be organized for senior management responsible for executing the control activities of the Company
- Written terms of reference for the company secretary and chief financial officer of the Company should be implemented

Upon the Special Investigation Committee expressing its views on the Factual Findings of the Investigation and the findings of the Internal Control Review, its duties have been completed. The Special Investigation Committee recommended the Board to perform a follow up review on the internal control of the Group and that periodic reviews should be carried out in order to make sure the recommended measures are in place.

The Board accepted and concurred with the views of the Special Investigation Committee. Accordingly, the Company will proceed to take steps for the implementation of the enhancement measures recommended by PRO-WIS and to engage a professional advisor to perform a follow up review in the future. The management of the Company is also considering necessary appropriate disciplinary measures to relevant personnel that are responsible to the internal control deficiencies identified. Further announcement(s) will be made by the Company in this regard as and when appropriate.



## **PRELIMINARY CONCLUSION OF THE SPECIAL INVESTIGATION COMMITTEE AND THE BOARD ON THE INVESTIGATION OF OUTSTANDING AUDIT ISSUES**

In addition to the agreed procedures performed by ZhongLei and the review of internal control procedures completed by PRO-WIS, the Special Investigation Committee and the Company had also performed other procedures. The description and result of the investigation are set out as follows:

### **1. The Supplier Issues**

With regard to the issue that some of the returned audit confirmations were collected by the same staff of the same courier company and were delivered at the same time, the Special Investigation Committee had inquired the management of the Company and the Relevant Suppliers, who explained that those confirmations were gathered and sent in a batch to the former auditors after a regular meeting between the suppliers and the Company. Through the issuing confirmations to and conducting site visits with the Relevant Suppliers through the Confirmation Letters, ZhongLei was able to obtain an affirmative reply from each of the Relevant Suppliers except for one Relevant Supplier which ZhongLei was only able to obtain confirmation during site visit, indicating that doubts towards the genuineness of the audit confirmations should be cleared. With regard to other Supplier Issues, in addition to the agreed procedures performed by ZhongLei, the Special Investigation Committee had also inquired with the management of the Company and the Relevant Suppliers, and had reviewed relevant documents in relation to the transactions with the Relevant Suppliers, including but not limited to sales and purchase agreements, invoices, goods delivery notes and bank payment slips. Based on the review, the Board and the Special Investigation Committee believe that the existence of the suppliers and the accuracy of their transactions with the Company stated in the audit confirmations are reasonably explained.

### **2. The Trademark Issue**

In addition to the review of internal control procedures completed by PRO-WIS, the Special Investigation Committee had inquired with the management and the PRC lawyer of the Company, and had obtained legal opinion regarding the impact of the pledge on the use of trademark by the Company.

The pledge does not materially affect the Group's ownership and usage of the trademark so long as there is no actual borrowing of the Group from the bank. The management confirmed that there was no actual borrowing of the Group from Agricultural Bank of China in effect during the period between the execution of the pledge agreement and the year ended 31 December 2012. The pledge agreement was provided to the former auditors during the audit for the year ended 31 December 2013, during which borrowing occurred between the Group and Agricultural Bank of China.

The Special Investigation Committee had also obtained and reviewed the borrowing card information of the two companies in person, with the assistance of responsible staff, from the People's Bank of China on 16 January 2015. No other irregularity was noted.

After review of the abovementioned documents and information, the Board and the Special Investigation Committee believe that the pledge does not significantly increase the risks and liabilities of the Group. However, the failure to inform the former auditors about the pledge agreement in previous years indicates an internal control deficiency. The Company will proceed to take steps for the implementation of the enhancement measures recommended by PRO-WIS.

The Special Investigation Committee had also received from each of the 4 executive Directors of the Company a written confirmation that the Company has in record all the agreements in respect of bank borrowing, guarantee and pledge of the Group during the period from 1 January 2013 to 31 December 2014 that were executed by or known to them.

### **3. The Guarantee Issue**

In addition to the review of internal control procedures completed by PRO-WIS, the Special Investigation Committee had inquired with the management of the Company. The management of the Company confirms that 泉州彬威 is an independent third party, and indicated that while Fujian Xinwei provides a guarantee of RMB35 million to 泉州彬威, 泉州彬威 in turn provides a guarantee of RMB60 million to Fujian Xinwei. The Special Investigation Committee had further obtained the respective two guarantee agreements and the borrowing history of 泉州彬威.

After investigation, the Board and the Special Investigation Committee believe that the guarantee does not significantly increase the risks and liabilities of the Company. However, the failure to inform the former auditors about the guarantee in a timely manner indicates an internal control deficiency. The Company will proceed to take steps for the implementation of the enhancement measures recommended by PRO-WIS.

The Special Investigation Committee had also obtained and reviewed the borrowing card information of the two companies in person, with the assistance of responsible staff, from the People's Bank of China on 16 January 2015. No other irregularity was noted.

The Special Investigation Committee had also received from each of the 4 executive Directors of the Company a written confirmation stating that the executive Directors, to the best of their knowledge, had disclosed to the Special Investigation Committee all the agreements in respect of bank borrowing, guarantee and pledge of the Group during the period from 1 January 2013 to 31 December 2014.

#### 4. The Legal Dispute Issue

In addition to the review of internal control procedures completed by PRO-WIS, the Special Investigation Committee had inquired with the management and the lawyer of the Company with regard to a legal proceeding against Fujian Xinwei. Investigation indicated the following facts:

- The litigation in concern is regarding a trade dispute between Fujian Xinwei by a third party of the Group;
- Legal proceeding was brought to the People's Court of Jinjiang (晉江人民法院) on 25 October 2013 by the third party against Fujian Xinwei;
- The dispute involved a claim of RMB304,500 of goods supplied to Fujian Xinwei;
- The trade dispute was aroused in the ordinary course of the business of Fujian Xinwei;
- The former auditors performed litigation search and became aware of the litigation, which was verbally confirmed by the management.

After investigation and reviewing legal advice previously obtained by the Group, the Special Investigation Committee believe that the possibility of losing the legal proceeding is remote and the claimed amount is small when compared to the size of the operation of Fujian Xinwei. However, the failure to inform the former auditors about the legal proceeding in a timely manner indicates an internal control deficiency. The Company will proceed to take steps for the implementation of the enhancement measures recommended by PRO-WIS.

#### GENERAL

At the request of the Company, trading in the Shares on the Stock Exchange has been suspended from 9:00 a.m. on 31 March 2014 pending the publication of the annual results announcement for the year ended 31 December 2013. Trading in the Shares will continue to suspend until further notice and full satisfaction of the Resumption Conditions and such other further conditions that may be imposed by the Stock Exchange.

By Order of the Board  
**Flyke International Holdings Ltd.**  
**LIN Wenjian**  
*Chairman*

Hong Kong, 28 January 2015

*As of the date of this announcement, the executive Directors are Mr. LIN Wenjian (Chairman and Chief Executive), Mr. LIN Mingxu, Mr. LIN Wenzu and Mr. LI Yong, the non-executive Director is Lei Gengqiang and the independent nonexecutive Directors are Mr. CHU Kin Wang, Peleus, Mr. WANG Dong and Mr. ZHU Guohe.*

*\* For identification purpose only*