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**CONVOY GLOBAL HOLDINGS LIMITED**

**康宏環球控股有限公司**

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

**(Stock Code: 1019)**

## **KEY FINDINGS OF INDEPENDENT FORENSIC INVESTIGATION**

Reference is made to the announcements of Convoy Global Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) dated 1 August 2018, 1 November 2018, 1 February 2019, 30 April 2019, 1 August 2019 and 4 November 2019 (collectively the “**Announcements**”). Unless otherwise stated, capitalised terms used in this announcement shall have the same meanings as defined in the Announcements.

This announcement is made by the Company pursuant to Rule 13.09(2) of the Listing Rules of the Stock Exchange (the “**Listing Rules**”) and the Inside Information Provisions under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

### **INDEPENDENT FORENSIC INVESTIGATION**

In the Announcements, the Company previously announced that the independent board committee of the Company (the “**Independent Board Committee**”) was to conduct an independent review and investigation of any potential irregularities relating to the Company. In this connection, the Company has appointed FTI Consulting (Hong Kong) Limited (“**FTI**”) to conduct an independent forensic investigation (the “**Investigation**”).

FTI has completed the Investigation and the Independent Board Committee has submitted a final draft investigation report (the “**Investigation Report**”) to the Board for its final review.

In fulfilment of the First Resumption Conditions, the Board hereby summarises the background and scope of the Investigation, the key investigation procedures, limitations and the key investigation findings set forth in the Investigation Report, as follows. Given the privileged nature of the Investigation Report, the Company does not waive any and hereby retains all privileges attached to the Investigation Report by publishing the content of the Investigation Report in this announcement as required under the Listing Rules.

## **BACKGROUND AND SCOPE OF THE INVESTIGATION**

The Company was first alerted to potential wrongdoings in February 2016 when it received an inquiry from an authority. In or around June 2017, the Board became aware of certain suspected irregular transactions between the Group and a group of companies listed on the Stock Exchange, collectively known as the “Enigma Network Companies”. The Enigma Network Companies comprised 50 listed companies on the Main Board and GEM Board of the Stock Exchange, all of which were identified in a research report published by Mr. David Webb, an independent investment analyst, on 15 May 2017 titled “The Enigma Network: 50 stocks not to own” (“**Mr. Webb’s Research Report**”) on the “Enigma Network” which included the Company as one of the companies in the Enigma Network.

On 7 December 2017, the ICAC commenced a joint operation with the SFC to execute search warrants at office premises of the Group in eight locations, and the homes and offices of several of the Company’s former senior executives. As a consequence, the Company voluntarily requested that trading in the Company’s shares on the Stock Exchange be halted with effect from 7 December 2017.

Please refer to the announcement of the Company dated 4 November 2019 for more information of the background leading to the voluntary suspension of the shares of the Company on the Stock Exchange (the “**Suspension**”) on 7 December 2017 and the subsequent material litigation involving the Company and/or the New Management Team (the “**Litigation**”), which were also mentioned in the Company’s announcements dated between November 2017 and July 2018, covering the financial years ended 31 December 2014 to 31 December 2017 (the “**Relevant Period**”).

On 31 July 2018, the Independent Board Committee appointed FTI to undertake the Investigation on certain financial affairs of the Company and its subsidiaries, that is, to investigate the suspected irregularities identified in Mr. David Webb's Research Report and the events and circumstances leading to the Suspension. The objective of the Investigation is to ascertain the relevant facts and circumstances surrounding the suspected irregularities.

The Scope of the Investigation focused on the three major business segments of the Company namely (1) money lending; (2) proprietary investment; and (3) securities dealing.

## **KEY PROCEDURES ADOPTED IN THE INVESTIGATION**

Key procedures adopted by FTI in the Investigation include, *inter alia*, the following:

- (a) analysing the Group's accounting and financial records to identify any unusual transactional patterns and/or anomalies;
- (b) collating and reviewing relevant supporting documentation to independently ascertain the background to and commercial rationale of selected transactions;
- (c) acquiring, preserving and reviewing forensic electronic data (including email archives, shared network drives, computer hard disks and mobile devices) of selected employees and members of senior management;
- (d) obtaining and reviewing the Company's internal records and documents evidencing the approval and authorisation, where applicable, of the relevant transactions;
- (e) conducting investigative research to ascertain the identity of selected transacting parties;
- (f) performing targeted fund tracing analyses, where applicable, to ascertain the source and/or application of the Company's funds in connection with the suspected irregular transactions; and
- (g) discussion and enquiries with management to address, where applicable, any outstanding issues that may require further inquiry and explanation.

## LIMITATION OF THE INVESTIGATION

As mentioned in the Investigation Report, the Investigation was limited by, *inter alia*, the following:

- (a) *Access to records and documents* – FTI did not have access to all record and documents due to a number of reasons, such as, lack of a formal document retention policy during the Relevant Period, loss or misplacement of documentation, inconsistent quality and adequacy of the documentation available, loss of internal knowledge due to high turnover of staff and certain documentation having been seized by the SFC and the ICAC;
- (b) *Significant staff and management attrition* – a significant number of staff have resigned and are no longer employees of the Group. As a consequence, the contemporaneous knowledge of the Company’s current management of the suspected irregular transactions has been limited. Such staff included a number of former executive Directors and senior executives of the Company. FTI did not contact any of the staff who are the defendants in the Litigation;
- (c) *Involvement of purported third parties* – any connection(s) identified by FTI in the Investigation Report between the Group and any purported third parties, including but not limited to Enigma Network Companies and/or their associates, may be incomplete.
- (d) *Complexity of the transactions identified* – the precise nature, substance and commercial rationale behind many of the transactions identified by FTI are difficult to explain and determine on the basis of the available documents and information as the transactions were either not supported by any documentary evidence, or were supported by documentary evidence that was incomplete, unclear or ambiguous.

The above have in some respects, limited the nature and extent of the investigation procedures FTI was able to undertake and complete.

## KEY FINDINGS OF THE INVESTIGATION

The following is a summary of the key findings of the Investigation Report.

### (1) **The open offer to the then existing shareholders for an issuance of 1.8 billion offer shares of the Company which was completed on 11 May 2015**

Reference is made to the Company's announcement dated 8 May 2015 regarding the Company's open offer (the "**2015 Open Offer**").

Based on the Investigation Report, FTI identified the following main issues in relation to the 2015 Open Offer:

- the 2015 Open Offer was completed on 11 May 2015 whereby the then shareholders as at 15 April 2015 were given the option to subscribe for three Offer Shares at HK\$0.25 per share (i.e. at 71.3% discount) for each then existing share. Among the subscribers, two of them were Mr. Wong Lee Man (executive Director of the Company whose duties have been suspended) and Mr. Mak Kwong Yiu (former executive Director of the Company), who subscribed for a total of approximately 199 million new shares of the Company at a discounted price.
- Mr. Wong Lee Man and Mr. Mak Kwong Yiu disposed of all their shares within a week after 15 April 2015 at around HK\$0.9 per share. Similarly, Town Health International Medical Group Limited (HKEx Stock Code: 3886) subscribed for 390 million shares through the 2015 Open Offer and subsequently disposed of most of its shareholding within two months of the completion of the 2015 Open Offer. According to the Investigation, the 2015 Open Offer might not have been carried out in the genuine interest of the Company but with the objective of achieving personal financial gains through the subscription of shares at discounted prices for disposal on the market within a short period of time.

The issues and facts as identified by FTI under this category have been the subject of the litigation commenced by the Company in HCA 2922/2017.

In addition, according to the Investigation Report, FTI's main observations in relation to the 2015 Open Offer included, *inter alia*, the following:

- the “independent financial adviser” in the 2015 Open Offer was indirectly owned by companies which were connected with the Enigma Network and Mr. Mak Kwong Yiu;
- the 2015 Open Offer raised a total of HK\$442.8 million in cash proceeds. A majority of the proceeds was transferred to Convoy Collateral Limited (“CCL”) in May and June 2015, which in turn provided funding to various Enigma Network Companies and/or their associates; and
- not less than 45% of the shares issued in the 2015 Open Offer, where traceable, were subscribed by parties that were connected with the Enigma Network, comprising a number of substantial shareholders, directors and senior executives of the Company and ten other Enigma Network Companies.

**(2) The issuance of 7.5 billion new shares on 29 October 2015 by the Company**

Reference is made to the Company's announcement dated 29 October 2015 regarding the Company's placing and subscriptions of new shares (the “**2015 October Share Placement**”).

Based on the Investigation Report, the 2015 October Share Placement was facilitated by placement agents, underwriters and financial advisors that were connected with the Enigma Network Companies. Majority of the placees identified were also connected with the Enigma Network. After the 2015 October Share Placement, majority of the share placement proceeds were remitted to two wholly-owned subsidiaries of the Company, namely CCL and CSL Securities Limited (“CSL”), which in turn provided funding to various Enigma Network Companies and/or their associates.

The issues and facts as identified by FTI under this category have been the subject of the litigation commenced by the Company in HCA 2922/2017.

### (3) The Group's money lending business during the Relevant Period

Based on the Investigation Report, FTI identified the following main issues in relation to the money lending business of the Company during the Relevant Period, which mainly related to the loans advanced by CCL during the Relevant Period:

- during the Relevant Period, the Group's money lending business, which involved the provision of loans, was predominantly conducted through CCL. The Group acquired CCL from its immediate holding company in March 2013. FTI was not able to identify any contemporaneous documentation to explain the background to and commercial rationale, if any, for the acquisition;
- FTI noted that immediately after the acquisition of CCL, a number of associates of the Enigma Network were appointed directors and/or senior officers of CCL, thereby being delegated the authority to approve loan applications;
- FTI has identified, *inter alia*, the following main issues arising from loans advanced by CCL during the Relevant Period:
  - (i) CCL's loan portfolio since 2013 (including the Relevant Period) comprised predominantly loan advances to borrowers that were directly or indirectly connected with the Enigma Network;
  - (ii) there was unexplained business substance and commercial rationale for CCL's loan advances to the Enigma Network Companies and/or their associates;
  - (iii) there were limited supporting documentations to substantiate the business substance and commercial rationale of loan advances and lack of evidence of detailed due diligence of any borrowers' credit worthiness and repayment ability;
  - (iv) there were large number of instances of ex post facto preparation of internal lending reports after the CCL's then management had instructed the preparation of loan drawdowns to the borrowers;

- (v) significant number of loan advances were outstanding or overdue after maturity dates, and when these loans were extended by CCL, it was done so without any proper documented reasons; and
- (vi) loans were advanced without security or adequate security or at instances without collateral assets even when the loan advances were described as “secured loans”.

In terms of direct monetary loss incurred by CCL due to the non-payment of outstanding loans, CCL has commenced legal proceedings in HCA 399/2018 (in relation to CCL’s loss in the loan to Athena Power Limited) and HCA 1228/2019 (in relation to the outstanding loan due from Blue Farm Limited). Insofar as the main issues identified by FTI are concerned, these have been incorporated in both HCA 2922/2017 and HCA 399/2018 to support the Company’s claims against the past management for their breach of fiduciary duties to the Company and CCL.

#### **(4) The Group’s proprietary investments business during the Relevant Period**

Based on the Investigation Report, FTI identified the following main issues in relation to the proprietary investments business of the Company during the Relevant Period:

- the proprietary investments made by the Group during the Relevant Period were predominantly held by CCL and included investments in listed equities, corporate bonds, funds and other proprietary investments. The main issues identified are:
  - (i) the Group’s proprietary investment business was launched at or around the same time as the inception of the money lending business in early 2013. A number of associates of Enigma Network Companies were appointed directors and/or senior officers of the relevant operating subsidiaries of the Group, thereby being delegated the authority to assess and approve prospective investment;
  - (ii) there was no or limited contemporaneous documentation to confirm the Group’s compliance with its formal investment policy;



- (iii) there was insufficient supporting documentation to ascertain the substance, commercial rationale and purpose of investments, including lack of records in the assessment, basis of valuation, due diligence, independent verification and management approval;
- (iv) there was excessive concentration of listed equities investment in shares issued by a number of Enigma Network Companies;
- (v) there were excessive portfolio investments which were connected with the Enigma Network; and
- (vi) in multiple instances, investments made by the Group in listed equities and corporate bonds were made in violation of the Group's prevalent internal trading restrictions.

Insofar as the main issues identified by FTI, the Company has identified monetary loss in (1) the acquisition of shares in First Credit Finance Group Limited; (2) the restructuring of the convertible notes issued by China Green (Holdings) Limited; (3) the acquisition of True Surplus International Investment Limited (“**True Surplus**”) and the (4) the investment in the Cassia Fund, and have taken out legal proceedings against the relevant wrongdoers in HCA 399/2018 and HCA 1228/2019. Further, in connection to the acquisition of True Surplus, the ICAC has charged Dr. Roy Cho Kwai Chee (former executive Director of the Company), Mr. Tan Ye Kai, Byron (former executive Director of the Company) and Ms. Chan Lai Yee (executive Director of the Company whose duties have been suspended) for conspiracy to defraud the Company and the Stock Exchange.

#### **(5) The securities dealing business of the Company during the Relevant Period**

Based on the Investigation Report, FTI has identified the following main issues arising from the securities dealing business of the Company during the Relevant Period which mainly related to the margin finance loans advanced by CSL:

- CSL commenced its securities margin finance business operations in October 2015, the timing of which coincided with the 2015 October Share Placement as described above;

- there was high credit exposure by excessive concentration of margin financing advanced to a small number of clients as well as groups of related clients connected with the Enigma Network;
- there was excessive concentration of securities collaterals provided by CSL's clients on non-index shares which included shares issued by Enigma Network Companies and/or other companies listed on the GEM Board of the Stock Exchange which were subject to high correlation risk, low turnover and market volatility;
- the practices of the securities margin finance business of CSL were inconsistent with the principles of prudent lending practices required under the relevant regulatory framework, including but not limited to, the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission issued by the SFC. In particular:
  - (i) there was insufficient independent assessment of the clients' financial capacity, both upon initial account opening and on an ongoing basis;
  - (ii) the credit committee of CSL regularly approved clients' requests for increases in margin loan ratio(s) and/or margin loan limit(s), although the related documentation for approval provided little substantiation of the consideration and commercial rationale, if any, behind these requests;
  - (iii) CSL's margin clients regularly obtained substantial securities margin loans from CSL for amounts that were significantly higher than the default credit limits set out in the applicable internal policies and procedures of CSL;
  - (iv) a number of CSL's margin clients were able to draw cash advances against their margin accounts for unknown and/or undocumented purposes, contrary to the purpose and commercial rationale of the credit facilities of securities margin financing. Some of the securities margin loans drawn by CSL's margin clients have been identified to be unrelated to the purposes of acquisition of securities;

- (v) there was insufficient documentation on the execution of margin calls to facilitate management review and oversight on the margin collection process; and
- (vi) CSL's share placing activities were dominated by Enigma Network Companies and/or their associates.

Insofar as the main issues identified by FTI are concerned, these have been incorporated in both HCA 2922/2017 and HCA 399/2018 to support the Company's claims against the Previous Management for their breach of fiduciary duties to the Company and CSL.

#### **(6) The payment of sub-placing commission to CIS**

Based on the Investigation Report, FTI identified that:

- During the Relevant Period, certain investors subscribed the Company's seven-year corporate bonds;
- the seven-year corporate bonds were offered during the period between July 2014 and January 2015, through six placement tranches ("**Bond Issue**");
- the Company engaged a placing agent for the Bond Issue, with placing commission payable to the placing agent on successful placing of bonds;
- the main issues identified by FTI in relation to the Bond Issue and the payment of sub-placing commission to CIS are:
  - (i) CIS was a "connected person" of the Company under the Listing Rules, and its substantial shareholders included Mr. Wong Lee Man, Mr. Mak Kwong Yiu and Ms. Fong Sut Sam (executive Director of the Company whose duties have been suspended) who collectively owned an approximately 28% indirect interest in CIS.

- (ii) CIS was engaged as the purported sub-placing agent in three of the six placement tranches of the Bond Issue and received a substantial part of the placing commissions. In addition, in the engagement of placing agent during the Relevant Period, there was insufficient documentary evidence in respect of any formal selection of the placing agent and there was no contemporaneous documentation to explain the basis of the determination of placing fees; and
- (iii) The appointment of CIS as a sub-placing agent for the Bond Issue was undisclosed to the Company. There was potential breach of the connected party transaction requirements under the Listing Rules as the involvement of CIS as a connected party to the Company had not been disclosed.

The issues and facts as identified by FTI under this category have been the subject of the litigation commenced by the Company in HCA 3001/2017. Further, Mr. Mark Mak Kwong Yiu and Ms. Christie Chan Lai Yee (executive Director of the Company whose duties have been suspended) have been charged by the ICAC in July 2019 for conspiracy to defraud the Company and the Stock Exchange arising from the payment of these placing commissions.

## **REDEMIAL ACTION**

As mentioned in our announcement dated 4 November 2019, the New Management Team has been putting in substantial amount of time and resources in strengthening the Company's business and management including but not limited to the total revamp of corporate organization, restructurizing the Company's long-term business vision, and strengthening corporate governance and control of the Company. Please refer to the said announcement for the details of the remedial actions taken by the Company under the New Management Team in relation to the fulfillment of the First Resumption Condition.

## **CONTINUED SUSPENSION OF TRADING**

At the request of the Company, trading in the shares of the Company on the Stock Exchange was halted from 11:04 a.m. on 7 December 2017 (automatically converted to "being suspended" thereafter), and will remain suspended until further notice. The Company will keep the public informed of the latest developments by making further announcement(s) as and when appropriate.

**Shareholders and potential investors should note that the resumption of trading in the shares on the Stock Exchange is subject to various conditions which may or may not be fulfilled. There is no guarantee that resumption of trading in the shares will take place. Shareholders and potential investors of the Company are reminded to exercise caution when dealing with the shares.**

By Order of the Board  
**CONVOY GLOBAL HOLDINGS LIMITED**  
**Johnny Chen**  
*Chairman and Executive Director*

Hong Kong, 24 January 2020

*As at the date of this announcement, the executive Directors are Mr. Johnny Chen (Chairman), Mr. Ng Wing Fai, Mr. Yap E Hock and Mr. Shin Kin Man; the non-executive Director is Mr. Chen Shih-pin; and the independent non-executive Directors are Mr. Pun Tit Shan, Mrs. Fu Kwong Wing Ting, Francine, Mr. Pak Wai Keung, Martin and Mr. Yan Tat Wah. The duties of the executive Directors namely Mr. Wong Lee Man, Ms. Fong Sut Sam and Ms. Chan Lai Yee have been suspended since 8 December 2017.*