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GOLDBOND GROUP HOLDINGS LIMITED

金榜集團控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock code: 00172)

KEY FINDINGS OF THE SUPPLEMENTAL INVESTIGATION

This announcement is made by the board (the “**Board**”) of directors (the “**Directors**”) of Goldbond Group Holdings Limited (the “**Company**” and, collectively with its subsidiaries, the “**Group**”) pursuant to Rule 13.09 of the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) and the provisions of inside information under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

References are made to the announcements (collectively, the “**Announcements**”) of the Company dated 28 June 2019, 22 July 2019, 3 September 2019, 27 September 2019, 29 November 2019, 27 December 2019, 23 January 2020, 31 January 2020, 27 March 2020, 30 March 2020 and 26 June 2020 in relation to, among others, the delay in the publication of the 2019 Annual Results, 2019 Interim Results and 2020 Annual Results, the delay in despatch of the 2019 Annual Report, 2019 Interim Report and 2020 Annual Report, the suspension of trading of the shares of the Company on the Stock Exchange, the Initial Resumption Guidance, the quarterly updates on the business operations and resumption progress of the Company, the change of auditors of the Company, the key findings of the Investigation and the Additional Resumption Guidance. Capitalised terms used in this announcement shall bear the same meanings as those defined in the Announcements unless otherwise defined.

This announcement is supplemental to and should be read in conjunction with the announcement of the Company dated 31 January 2020 (the “**January Key Findings Announcement**”)¹.

¹ Reference is made to the January Key Findings Announcement. The Company wishes to clarify that references to “Mr. Jiang” in the following context of the January Key Findings Announcement shall refer to “Mr. Chang” instead: (page 5): “Ms. Shen is also the wife of **Mr. Jiang**”, (page 9): “According to **Mr. Jiang**, such payments were festive bonus and service fees paid to Mr. Liu. However, the description of those payments reflected in the Account Record was “consulting service fee for **Mr. Jiang**”.

THE SUPPLEMENTAL INVESTIGATION AND THE EXTENDED INVESTIGATION PROCEDURES

The Supplemental Investigation

As disclosed in the January Key Findings Announcement, despite having conducted the investigation procedures under the Investigation, the Independent Firm encountered a number of limitations and challenges which may have limited both the nature and extent of the Investigation. In view of the above, the Audit Committee engaged the Independent Firm to conduct certain extended procedures relevant to the Investigation (the “**Supplemental Investigation**”) on 19 March 2020 and the Independent Firm issued a final report on the Supplemental Investigation (the “**Supplemental Investigation Report**”) on 4 September 2020 to the Audit Committee.

Extended Investigation Procedures

The major extended investigation procedures planned to be conducted by the Independent Firm include, but are not limited to, the following:

1. performing electronic data collection and review of Mr. Chang’s (an independent consultant of Shanghai Goldbond) device;
2. conducting follow up interviews with (i) Mr. Chang; (ii) Ms. Shen (the general manager of Shanghai Goldbond and the spouse of Mr. Chang); and (iii) Ms. Landy Zhou (“**Ms. Zhou**”) (the finance manager of Shanghai Goldbond) to clarify certain details regarding the Company’s awareness of relationships among the Five Companies, the commercial substance of the Trading Transactions and the Account Record;
3. conducting interviews with (i) representatives of State-owned Enterprise A to obtain a better understanding of certain details in connection with the transfer of ownership of goods pertaining to the Trading Transactions; (ii) Mr. Jiang; and (iii) representatives of the suppliers, namely Gelong, Kubeike and Hangzhan (the “**Suppliers**”); and
4. conducting site visits to the Zhangjiagang Warehouse to retrieve (i) the downstream goods delivery information of Aer Bota and Hengxuan (the “**Customers**”); and (ii) the upstream goods delivery information regarding Gelong, Kubeike and Hangzhan.

During the performance of the above procedures, there were certain limitations encountered by the Independent Firm as more fully described in the below section headed “Limitations of the Supplemental Investigation”.

SUMMARY OF THE KEY FINDINGS OF THE SUPPLEMENTAL INVESTIGATION

Subject to certain limitations of the Supplemental Investigation as further set out in the below section headed “Limitations of the Supplemental Investigation”, the Independent Firm has made the following key findings in relation to the transactions in chemical products between Shanghai Goldbond and the Five Companies (the “**Trading Transactions**”) and the Trading Business from the Supplemental Investigation:

(A) Relationships among the Five Companies and the Company’s acknowledgement

1. Reference is made to the section headed “Summary of the Key Findings of the Investigation – (A) Connections among the Five Companies” in the January Key Findings Announcement.
2. According to the second-round interviews conducted by the Independent Firm with Mr. Chang and Ms. Zhou in May 2020, Mr. Chang and Ms. Zhou represented that the Five Companies were initially introduced by Mr. Jiang via Mr. Chang to the Company and the company representatives of the Five Companies were known to each other and familiar with Mr. Jiang.
3. Ms. Zhou represented that she mainly contacted two finance staff during daily interactions with the Five Companies and such information was not explicitly reported by Ms. Zhou to Mr. Ding (the former chief executive officer of the Company and a former executive Director), Ms. Florence Chiu (“**Ms. Chiu**”, the former financial controller of the Company), Ms. Judy Zhu (“**Ms. Zhu**”, the former legal representative and director of Shanghai Goldbond) and Ms. Anna Xu (“**Ms. Xu**”, the legal representative and director of Shanghai Goldbond (since 1 September 2017)), who had the authority to approve the Trading Transactions.
4. Based on the findings of the second-round interviews, the Independent Firm summarised that the knowledge of the relationships among the Five Companies primarily rests with the working level personnel, including Mr. Chang and Ms. Zhou, but not Mr. Ding or Mr. Wong (the then deputy chairman and the current chairman of the Company).
5. The Independent Firm noted that the general lack of attention of Mr. Ding of the relationships among the Five Companies may in part due to the fact that Mr. Ding focused on the exposure to the parties who borrowed the funds from Shanghai Goldbond or introduced the business to Shanghai Goldbond (i.e. Mr. Jiang) and not on the parties pertaining to the underlying trading transactions (i.e. the Five Companies). The exposure on the borrowings was then mitigated to certain extent by the fact that two guarantee agreements were entered into by Mr. Jiang and Mr. Gu on 10 October 2017 and 1 August 2018 guaranteeing a maximum limit of RMB70 million in respect of the contracts between (a) Shanghai Goldbond and Aer Bota; and (b) Shanghai Goldbond and Hengxuan (the “**Guarantee Agreements**”), respectively.

(B) Upstream and downstream counterparties of the Trading Transactions

1. It was proposed as one of the extended investigation procedures that the Independent Firm shall conduct site visits to the Zhangjiagang Warehouse to retrieve the downstream goods delivery information of the Customers and the upstream goods delivery information regarding the Suppliers. However, Mr. Gu was unable to make the physical site visits to the Zhangjiagang Warehouse with the Independent Firm despite several rounds of communication during March to May 2020. Alternatively, the Independent Firm was further provided with certain transaction documents (the “**Supplemental Transaction Documents**”) by Mr. Gu via the Company relating to the transaction information of the Suppliers, which were reportedly as issued and stamped by the Zhangjiagang Warehouse.
2. Based on the matching of the good delivery or receipt quantities, transaction dates and weight of goods under the Supplemental Transaction Documents, it is noted by the Independent Firm that, during the period from 3 August 2018 to 13 December 2018, there were seven Trading Transactions with upstream and downstream counterparties being overlapped. Such finding was based on the available Supplier’s upstream information and Customer’s downstream information obtained by the Independent Firm.
3. During the second-round interview with Mr. Chang, Mr. Chang represented that he noted in around May 2019 that Mr. Jiang was using certain companies (including Shanghai Goldbond, the Five Companies, State-owned Enterprise A and a third party company which is one of the downstream customers in the Trading Transactions) to conduct transactions among themselves instead of selling the chemical products to an end customer. Mr. Chang represented that he was uncertain as to when this type of arrangement started, and speculated that such arrangement could have existed since the first half of 2018. Since Shanghai Goldbond has commenced legal proceedings in respect of the outstanding account receivable in 2019², Mr. Chang did not report the observation of such arrangement to Mr. Ding or Mr. Wong. The Independent Firm considered that the knowledge of the arrangement described above primarily rests with Mr. Jiang and Mr. Gu, and not Mr. Ding or Mr. Wong.

(C) Business rationale and commercial substance of the Trading Transactions

1. Based on the review of the Trading Transactions and as disclosed in the January Key Findings Announcement, the Independent Firm noted that Shanghai Goldbond derived its income from two sources, namely (i) income from the trading price differences; and (ii) bank interest income. The bank interest income was derived from a structured deposit placed by Shanghai Goldbond at the beginning of each Trading Transaction at a bank with a period of six months. The structured deposit was used to serve as a “pledge” to support the issuance of bank notes for the settlement of payables due to the Suppliers of the Trading Transactions. On this basis, Shanghai Goldbond earned bank interest income generated from the structured deposit for a period of six months.

² For further details, please refer to the Company’s announcements of 2 January 2019 and 12 April 2019.

2. During the interview with Mr. Ding in August 2019, Mr. Ding represented that, among others: (i) he was aware that the majority of the profits of the Trading Transactions was derived from financing activities. The Company provided the cost of capital/business; and the trading model was premised based on the timing differences among the payment terms to the suppliers, settlement terms from the customers and the maturity period of the structural deposits; (ii) no counterparty risk assessment was performed by the Company and Shanghai Goldbond as the Five Companies were recommended by Mr. Chang and Mr. Jiang and the same business model was successfully adopted by State-owned Enterprise A; and (iii) the inherent business risk of the Trading Transactions was upon the parties who borrowed the money (i.e. Mr. Jiang and Mr. Gu, instead of the Five Companies) and accordingly, the Guarantee Agreements were signed to mitigate the risk associated with the increase in cost of capital/business.
3. During the second-round interviews, Mr. Chang represented that the Company commenced the Trading Business as the business model could increase the revenue of the Company, which would mainly be generated from bank interest income. Mr. Chang further represented that Mr. Ding was aware of the sources of income of the Trading Business as a feasibility assessment was performed and presented to him prior to the commencement of the Trading Business. Ms. Zhou represented that (i) the majority of the profits from the Trading Business were generated from the bank interest income, instead of the trading margin; and (ii) the reason for Shanghai Goldbond's involvement in the Trading Transactions was because the gaps in the payment terms of 60 days between suppliers and customers would tie up quite some capital to pursue trading margins.
4. The Independent Firm considered that the above reflected that the substance of the Trading Transactions was not primarily for trading purpose but as a part and partial arrangement aimed for earning finance income. The Independent Firm recommended that the Company and the Audit Committee may consider working with the Auditor to re-evaluate the implications of the substance of the Trading Transactions on the consolidated financial statements of the Company for the financial years ended 31 March 2017 and 2018.

(D) The Account Record

1. As disclosed in the January Key Findings Announcement, Shanghai Goldbond and Aer Bota (one of the Customers) agreed that for those Trading Transactions where Shanghai Goldbond paid the Suppliers by bank transfer instead of BA Bill, Aer Bota shall pay Shanghai Goldbond an amount equivalent to interests for two months as rebate. The rebates were either (i) reflected through the price differences in the Trading Transactions between Shanghai Goldbond and Aer Bota; or (ii) paid in cash by Ms. Cui Yin ("**Ms. Cui**"), the former legal representative and sole shareholder of Aer Bota, to the Personal Bank Account.
2. According to Ms. Zhou during the second-round interview, she recalled that either Mr. Ding or Ms. Chiu told her that the rebates could not be booked in the Company's bank account and she was asked to collect physical cash from Ms. Cui instead. As such, Ms. Zhou provided her personal bank account to Aer Bota for receiving such rebates.

3. Regarding the outflow payments in an aggregate amount of RMB448,050 (equivalent to approximately HK\$503,000) made from the Personal Bank Account to Mr. Liu Yongning (“**Mr. Liu**”), the brother-in-law of Ms. Shen, in the Account Record, Ms. Shen represented in her interview that she was the ultimate beneficiary of such payments. Such payments were actually Ms. Shen’s monthly rental allowance and other reimbursements and Mr. Liu helped her to collect them. According to Mr. Chang, Mr. Wong and Mr. Ding were aware that a monthly salary/compensation of RMB34,150 was offered to Ms. Shen, including RMB12,500 (as provided in the relevant employment agreement) and RMB21,650 provided via the Personal Bank Account. Such arrangement was for the purpose of mitigating the individual income tax exposure of Ms. Shen. The Audit Committee has made separate enquiries with Mr. Wong regarding such arrangement, and Mr. Wong represented to the Audit Committee that he did not have any knowledge of and he did not approve such off-book transactions.
4. Regarding Ms. Shen’s role in Shanghai Goldbond, Mr. Chang and Ms. Shen represented that Mr. Chang, the spouse of Ms. Shen, was the de-facto general manager of Shanghai Goldbond.
5. Ms. Shen resigned her position as the general manager of Shanghai Goldbond with effect from 1 June 2020 and since then, Ms. Shen does not have any role in the Group.

To the best of the information and knowledge of the Directors having made all reasonable enquiries, each of Mr. Chang, Mr. Jiang, Mr. Gu, Mr. Liu and Ms. Cui is a party independent of the Company and its connected persons (as defined under the Listing Rules).

LIMITATIONS OF THE SUPPLEMENTAL INVESTIGATION

The Independent Firm encountered a number of limitations and challenges during the performance of the extended procedures, which heavily relied on the willingness of third parties to provide information or support and is beyond the control of the Company or Shanghai Goldbond. The main limitations are set out below:

1. the Independent Firm proposed to conduct interviews with (i) State-owned Enterprise A to obtain its acknowledgment of certain details of transfer of ownership of goods and (ii) with Mr. Jiang to further obtain information in connection with the background of the Trading Transactions, and the repayment of the overdue accounts receivable, but it was unable to conduct such interviews as (i) as represented by the Company, State-owned Enterprise A was a third party and was unwilling to participate in the interview; and (ii) as represented by the Company, Mr. Jiang was unreachable and supposedly has fled to Canada; and
2. the Independent Firm has requested the Company to coordinate and provide (i) the delivery details to Kubeike, Gelong and Hangzhan in relation to 31 out of 38 Trading Transactions; and (ii) the delivery details of Aer Bota and Hengxuan in relation to 28 out of 38 Trading Transactions. As represented by the Company, such delivery details were not available to be provided to the Independent Firm as they were based on third party warehouse information and could only be retrieved with the presentation of, among others, the company chop of the relevant Suppliers and Customers.

VIEWS AND RECOMMENDATIONS OF THE AUDIT COMMITTEE

The Audit Committee has carefully considered the key findings of the Supplemental Investigation Report and has formed the following views:

1. Roles of the Company and other respective parties relating to the Trading Business

- (a) *The Company* – Since 2013, one of the Company’s subsidiaries, Yancheng Goldbond Technology Small Loan Company Limited (鹽城市金榜科技小額貸款有限公司) (“**Yancheng Goldbond**”) had carried on the business of providing small loan financing service. However, since around 2014 and 2015, income generated by Yancheng Goldbond’s small loan financing service had been decreasing and the quality of its small loan portfolio had been deteriorating. It became difficult for Yancheng Goldbond to identify good and credible customers in a scalable manner. In view of such circumstances, the Company had decided to adjust its business strategy so as to better manage the risk of its business portfolio. In or about February 2015, to support small loan companies in the Jiangsu Province, the relevant local authority reduced the registered capital requirement for small loan financing companies in the province. Yancheng Goldbond took the opportunity and initiated an application for a capital reduction in October 2015, the purpose of which was to free up financial resources in order to explore other more viable and lucrative business with better growth potential. In February 2016, Yancheng Goldbond had successfully implemented its first capital reduction of USD14.7 million (the registered share capital decreased from USD30 million to USD15.3 million). As a result, the Company had decided to set up a subsidiary in Shanghai and utilise the financial resources from the capital reduction to engage in a trading business instead. It provides capital and the through the trading transactions they are supportive to the generation of finance income. It was against such background that Shanghai Goldbond was established to conduct the Trading Business.
- (b) *The Board* – As the initial amount of investment into Shanghai Goldbond (in the sum of RMB10 million) was insignificant (less than approximately 4%) when compared with the then lending portfolio (net of impairments) of the Group (i.e. approximately HK\$293,055,000 as at 30 September 2016), the Board delegated the management of Shanghai Goldbond to the senior management members (namely, Mr. Ding and Ms. Chiu). The Board was not directly involved in the day-to-day operation and business of Shanghai Goldbond. When the size of business of Shanghai Goldbond gradually grew, the Board was aware that the Guarantee Agreements were signed to mitigate the risk associated with the increase in cost of capital/business.

- (c) *Senior management members* – The senior management members (including Mr. Ding and Ms. Chiu) were involved in the day-to-day operation of Shanghai Goldbond and were responsible for the execution of the Trading Transactions. In particular, Mr. Ding joined the Company in January 2004. He was the chief executive officer of the Company from 1 April 2010 to 30 April 2019 and an executive Director for the period from 1 June 2005 to 30 April 2019. The day-to-day management functions of the Group during the above periods rested with Mr. Ding who was responsible for the formulation of business directions and operational decisions of the management and performance of the Group. Mr. Ding reported to the Board as the then chief executive officer of the Company with delegated authority.
- (d) *Working level employees* – The working level employees of Shanghai Goldbond (including but not limited to Ms. Zhou, Ms. Shen, Ms. Xu and Ms. Zhu) were involved in the initiations of the Trading Transactions as well as maintaining contacts with the relevant parties for purpose of conducting the Trading Business in accordance with the directions and instructions of the senior management members.
- (e) *Consultant* – Mr. Chang was the independent consultant of Shanghai Goldbond and he introduced the business opportunity in trading of chemical products to Mr. Ding.

2. **Reasons for the close relationships among the various parties involved in the Trading Business** – the Audit Committee was first aware of the close relationships among the various parties involved in the Trading Business when the Former Auditor brought this into light in its letter of 25 June 2019 to the Audit Committee requesting the Audit Committee to undertake the Investigation in respect of the Trading Transactions. The Audit Committee further learnt the details of such relationships from the Investigation Report issued by the Independent Firm on 31 January 2020. Prior to all these, members of the Audit Committee had no knowledge of such relationships among the parties in the Trading Business. Based on the current findings of the Investigation Report and the Supplemental Investigation Report, the Audit Committee concluded that there has been no concrete evidence suggesting that Mr. Wong and Mr. Ding had any knowledge of such relationships among the parties involved in the Trading Business. Further, the Audit Committee was of the view that the lack of knowledge of the Board in relation to the close relationships among the parties involved in the Trading Business was due to certain internal control and reporting deficiencies of the Group, in particular, the relationships among the Five Companies and the fact that the upstream and downstream counterparties were overlapped in certain Trading Transactions were not properly reported to the Board and/or the senior management members by the working level employees.

3. **The Trading Business** – The Audit Committee, after having considered the findings of the Investigation Report and the Supplemental Investigation Report, as well as the legal opinion of its PRC legal advisers (the “**PRC Legal Opinion**”), was of the view that , save for the Trading Transactions involving overlapping upstream and downstream counterparties which render the commercial substance and genuineness of those transactions questionable, the Trading Transactions were legitimate and genuine. It also agreed that the substance of the Trading Transactions was not primarily and solely for trading purpose but as a part and partial arrangement aimed for earning finance income. The Audit Committee considered that the findings of the Investigation Report and the Supplemental Investigation Report supported that the Trading Transactions were conducted mainly for purpose of earning finance income, and as advised by the PRC legal advisers, such income complies with the PRC laws.

The Audit Committee has also carefully considered the limitations of the Supplemental Investigation and was of the view that such limitations would not render the Supplemental Investigation materially incomplete or unreliable for the following reasons:

1. The Supplemental Investigation was supplemental to the Investigation Report and conducted for the purpose of following up and clarifying certain details regarding the Company's awareness of the relationships among the Five Companies, the commercial substance of the Trading Transactions and the Account Record. The Audit Committee considered that the information obtained during the Supplemental Investigation are sufficient for such purpose.
2. The Audit Committee also considered that practicable steps have been taken by the Independent Firm, the Company and/or Shanghai Goldbond to reach out to parties who were required to be contacted for purpose of the Supplemental Investigation but remained to be uncontactable.

In view of the above, in addition to the recommendations made by the Audit Committee as set out in the January Key Findings Announcement, the Audit Committee has further recommended the Board to consider disposing of the Trading Business with a view to terminate the Trading Business and for the Group to focus on its principal businesses.

The Audit Committee will also communicate with the Auditor, in respect of the key findings of the Supplemental Investigation and business substance of the Trading Business for the purpose of (i) audit work and preparation of the 2019 Annual Results and 2020 Annual Results, review work and preparation of the 2019 Interim Results; and (ii) re-evaluation of the implications of the substance of the Trading Transactions on the consolidated financial statements of the Company for the financial years ended 31 March 2017 and 2018.

REMEDIAL ACTIONS TO BE TAKEN

The Supplemental Investigation Report and the views and recommendations from the Audit Committee have been reviewed, considered and endorsed by the Board. With the recommendation from the Audit Committee, the Board has resolved to take appropriate actions in order to dispose of the Trading Business, including conducting restructuring and seeking potential purchaser(s). As at the date of this announcement, no definitive agreement has been entered into by the Group in this regard. Further announcement will be made by the Company if the proposed disposal materialises in compliance with the Listing Rules.

As at the date of this announcement, the Company has engaged an independent internal control consultant to perform a review on the internal control system of certain processes of the Company and the selected subsidiaries newly-acquired/established by the Company (“**Internal Control Review**”) and a draft report of the results of the Internal Control Review is expected to be available by the end of September 2020. Also, the Company is in the progress of carrying out certain restructuring steps for purpose of the proposed disposal of the Trading Business. The Company will proactively communicate with the relevant parties and the Stock Exchange in respect of the remedial actions to be taken in view of the key findings of the Supplemental Investigation Report, and will make further announcement(s) on any material developments as and when appropriate.

CONTINUED SUSPENSION OF TRADING

Trading in the shares of the Company on the Stock Exchange has been suspended with effect from 9:00 a.m. on 28 June 2019 and will remain suspended until further notice.

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

By order of the Board of
Goldbond Group Holdings Limited
Wong Yu Lung, Charles
Chairman

Hong Kong, 4 September 2020

As at the date of this announcement, the Board comprises Mr. Wong Yu Lung, Charles and Ms. Wong, Michelle Yatyee (all being executive Directors), Mr. Ma Ho Fai GBS JP, Mr. Cheng Yuk Wo and Mr. Yeh Shing Hang Kevin Arthur (all being independent non-executive Directors).

* *English translated name is for identification purpose only*

Unless otherwise indicated, for the purpose of this announcement and for the purpose of illustration only, amounts in RMB have been translated into HK\$ using the following rates:

- for transactions during the period from December 2016 to August 2017, at the rate of RMB1: HK\$0.89;*
- for transactions during the period from September 2017 to January 2018, at the rate of RMB1: HK\$0.84;*
- for transactions during the period from February 2018 to July 2018, at the rate of RMB1: HK\$0.81; and*
- for transactions during the period from August 2018 to December 2018, at the rate of RMB1: HK\$0.88.*