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## **BRIGHTOIL PETROLEUM (HOLDINGS) LIMITED**

光匯石油（控股）有限公司\*

*(Incorporated in Bermuda with limited liability)*

(Stock code: 933)

### **KEY FINDINGS OF THE SUPPLEMENTAL FORENSIC REVIEW REPORT**

This announcement is made by Brightoil Petroleum (Holdings) Limited pursuant to Rule 13.09 of the Listing Rules and the Inside Information Provisions (as defined in the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

Reference is made to the announcement of the Company dated 31 January 2020 in relation to Key Findings of the Forensic Review (“**Announcement**”). Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings as those defined in the Announcement.

#### **BACKGROUND**

On 21 July 2020, RSM was further instructed by the Independent Control Committee pursuant to a supplemental engagement letter to extend its period of investigation in relation to various trading and sales transactions conducted by BOPS during the financial year ended 30 June 2018 and prepare a supplemental forensic investigation report (“**Supplemental Report**”). The Supplemental Report builds upon the knowledge and findings of the primary forensic investigation report dated 31 January 2020 (the “**Primary Report**”). The summary of the findings of the Supplemental Report is set out below.

#### **SUPPLEMENTAL REPORT**

##### **1 Review approach**

In order to ascertain the nature and/or the business rationale of the transactions conducted between BOPS, the Subject Customers and Subject Suppliers during the financial year ended 30 June 2018 (“**Subject Transactions**”), RSM focused on reviewing the supporting documents and the electronic data in relation to the Subject Transactions and/or the Subject Suppliers and transactions that had similar nature to those of the Subject Transactions. In particular, RSM’s review covered the following areas:

- (1) electronic copy of documents from the finance team supporting the Subject Transactions and other transactions of similar nature;
- (2) electronic data obtained from various custodians' computer, email box and network folder subject to their availability; and
- (3) electronic data of trades exported from the Openlink system (a commodities trading and risk management platform).

## **2 Trade analysis**

RSM obtained sales and purchase transaction data of BOPS directly from the Openlink, and had performed trade analysis on sales and purchase transaction data for the financial year ended 30 June 2018. From these transactions, RSM have identified 50 Subject Transactions by matching the product grade, quantity, vessel, deal numbers and transaction description.

Amongst the 50 Subject Transactions between BOPS, the Subject Suppliers and Subject Customers, 45 of which were supplied by SZBO, and SZBO had provided discounts ranging from 4.5% to 5.0% for each of the 45 transactions. RSM noted that none of the Subject Transactions was profitable before the discount provided by SZBO. When the Subject Transactions were stratified according to their margin before the discount, 39 out of 50 Subject Transactions had minor loss (up to USD25,000) and SZBO was the supplier in all of these Subject Transactions. The loss from the remaining 11 Subject Transactions were greater, but the suppliers in these Subject Transactions were not SZBO.

When these Subject Transactions were categorised according to their invoicing month, the Subject Transactions involving one Subject Customer showed an aggregated loss of approximately USD420,000. Such aggregated loss was consistent with the trend mentioned in the Primary Report (the last occurrence of such loss was in June 2017).

## **3 Key Findings**

### ***1. Credit limit of the Subject Customers***

One of the fundamental issues that gave rise to PwC's concern was the outstanding accounts receivable as at 30 June 2017 of BOPS, the total amount of which was approximately US\$1.309 billion (equivalent to approximately HK\$10.210 billion). The outstanding accounts receivable as at 30 June 2018 of BOPS was approximately US\$1.342 billion (equivalent to approximately HK\$10.468 billion) which were due from 6 of the Subject Customers.

RSM noted further that the subject transactions that gave rise to the outstanding receivables as at 30 June 2018 were all dated between June 2017 to August 2017. Thus these accounts receivable amounts had been outstanding for at least 10 months by 30 June 2018 and were on open credit.

As mentioned in the Primary Report, RSM found a PDF file named “KPMG-Credit Application Form.pdf” which showed that these Subject Customers had credit limit of USD200 million approved in September 2017. In September 2017, the respective outstanding receivable of 3 of the Subject Customers exceeded USD200 million (5 Subject Customers exceeding USD200 million as at 30 June 2017) and it was non-intuitive that the approver(s) of these credit applications did not consider the outstanding receivable amount at that point in time.

## ***II. Structured/financing deal arrangement***

During the electronic data review, RSM came across various mentions of the phrase “structured deal” in the Primary Report and RSM noted the use of an alternative phrase “financing deal” in the Supplemental Report (i.e. post 30 June 2017 transactions).

### ***a) Several observations from the contents of some emails correspondence between BOPS, trading team, operation team, finance team and treasury team***

RSM observed from the contents of some emails correspondence between BOPS, trading team, operation team, finance team, and treasury team as follows:

- Financing deals had clearly distinct nature from conventional trade;
- Many members of BOPS were or had been aware of financing deals, including trading team, operation team, finance team and treasury team;
- The phrases “structured deals” and “financing deals” are effectively synonyms of each other;
- Operating flow of financing deals is different with conventional trades; and
- The counterparties of financing deals were unlikely to be impersonated by members of BOPS. Otherwise, there would not be any difficulties in the operating flow.

### ***b) Observations from other working paper from trader(s) or operation team***

RSM observed that certain trader(s) had access to trading information, including transaction flow, unit price and payment terms, of transactions in which BOPS was not a party. It was unclear as to why some trader(s) had knowledge about other parties’ transactions. This was consistent with RSM’s findings in the Primary Report.

### ***c) Observations from email relate to deal approvals***

RSM had observed from email correspondence related to trader seeking for approval from ex-Chairman, Dr. Sit Kwong Lam (“**Dr. Sit**”), for a deal closed by “Chairman himself”. According to Dr. Sit’s own description of responsibilities which consisted of strategy planning and business development but not daily operations, it was unclear whether this case was a standalone event and the reason(s) for the ex-Chairman’s involvement.

### ***III. Shareholders of two Subject Customers***

As mentioned in the Primary Report, the names of certain shareholders and administrators of two Subject Customers were found to be similar to the names of some individuals working in the SZBO Group, but both do not have outstanding accounts receivable as at 30 June 2018.

## **4 Key observations and conclusions**

In this review, RSM sought the additional available information with respect to the financial year ended 30 June 2018 from the current management of the Group to arrive at the findings and observations that was discussed in the Supplemental Report. Given the circumstances as described below, RSM believes these additional findings and observations did not lead to any determination and/or comment about the Subject Transactions and other back-to-back transactions more conclusive than that mentioned in the Primary Report.

First, the outstanding receivables due from the Subject Customers of USD1.34 billion were still substantial as at 30 June 2018, which was higher than USD1.309 billion as at 30 June 2017. Even though settlement was recorded for some of the outstanding receivables of the Subject Customers as at 30 June 2017, BOPS continued trading with 6 of the Subject Customers during the second half of 2017 and hence the situation of the doubtful receivables did not improve at all.

Secondly, RSM noted the phrase “financing deals” was used interchangeably with the phrase “structured deals”. In particular, as discussed in the Supplemental Report, RSM noted that: i) financing deals were financing related, ii) financing deals could be differentiated from normal trading deals, iii) attempts were made to mimic operational arrangement of normal trading deals in financing deals, and iv) there could be no intention to take physical possession of cargo in financing deals; but it is unclear whether this meant paperwork-only trade as well as whether there would be any change on beneficial ownership. Together, from the description of the structured/financing deals, there were various characteristics of trading of financial instruments rather than the intention to take physical delivery in the trading of tangible products. Alternatively, these observations raised further doubts as to the difference as well as objective between these structured/financing deals and the “real” trades of oil products in the normal course of business of an oil trading company.

Thirdly, RSM noted that BOPS entered into various back-to-back transactions with each of the 12 Subject Customers, which were later known to us as structured/financing deals. These structured/financing deals were, majority if not all, loss-making before taking into account the discounts provided by SZBO. RSM found evidences that some of these structured/financing deals were conducted for financial arrangement purposes but, unfortunately, there were no precise indications as to which parties enjoyed direct benefits from such arrangements. In addition, owing to the pre-arranged and back-to-back nature of the transaction flow in structured/financing deals, the management could have presumed that the exposure to credit (and legal) risks in these structured/financing deals would be minimal, and hence allowing unsecured but high open credit to these customers. The credit risks finally turned out to be significant which resulted in substantial receivable amount long outstanding as at 30 June 2018. RSM raised a further question as to what had gone wrong and caused the deviation(s) from the structured plan and arrangement including but not limited to which parties held onto the monies which were supposed to flow in the structured/financing deals and why a customer would fail to make settlements in structured/financing deals as “structured”.

Finally, RSM considered that there were still significant limitations associated with the investigation, such as the lack of communication with the relevant counterparties and former employees of BOPS, the scope of this review was limited to the available information and documents provided by the current members of the Group. Should additional information become available in the future, considerable amendments to the Primary Report and/or the Supplemental Report may be required.

## **REMEDIAL ACTIONS TAKEN OR TO BE TAKEN BY THE BOARD**

The Board will continue with the remedial actions as stated in the Announcement. So far, the Company has published the management accounts for the financial years ended 30 June 2017, 2018 and 2019, and for the six months ended 31 December 2017 and 2018 on 31 January 2020. The Company has announced its annual results for the financial year ended 30 June 2017 on 13 August 2020 and will announce the interim results for the six months ended 31 December 2017 on or around 17 September 2020 and expects all the outstanding audited financial statements to be published in due course.

## **IMPACT ON THE GROUP'S BUSINESS OPERATIONS, FINANCIAL POSITIONS AND CONTINGENT LIABILITIES**

The Board (including the Audit Committee) is of the view that the Subject Transactions and the other issues identified in the Supplemental Report do not impose a material adverse impact on the Group's current business operations and financial positions. In particular:

- (i) the Group continues its operation on the upstream business, which generated revenue of approximately HK\$2.031 billion for the year ended 30 June 2017; and
- (ii) the findings and observations did not lead to any conclusive determination and/or comment about the Subject Transactions which were conducted solely by BOPS that is no longer carrying out any trading business, there would be no material adverse change in the Group's current financial position.

## **INTEGRITY OF DIRECTORS**

The Board continues to maintain the view referred to the Announcement.

## **VIEW OF THE INDEPENDENT CONTROL COMMITTEE**

The Independent Control Committee has reviewed the Supplemental Report prepared by RSM and continues to maintain the same view towards the Primary Report as stated in the Announcement.

## CONTINUED SUSPENSION OF TRADING

Trading in the Company's shares on the Stock Exchange has been suspended since 3 October 2017, and will remain suspended until further notice. The Company will make further announcement(s) as and when appropriate.

By Order of the Board  
**Brightoil Petroleum (Holdings) Limited**  
**Tang Bo**  
*Chairman*

Hong Kong, 17 September 2020

*As at the date of this announcement, the Board comprises (i) one executive director, namely Mr. Tang Bo; (ii) two non-executive directors, namely Mr. Dai Zhujiang and Mr. Zhao Liguu; and (iii) three Independent non-executive directors, namely Dr. Lo Wing Yan William, JP, Mr. Wang Tian and Mr. Chan Wai Leung.*

*The Directors jointly and severally accept full responsibility for the accuracy of information contained in this announcement and confirm, having made all reasonable enquiries, to the best of their knowledge, opinions expressed in this announcement have been arrived at after due and careful consideration and there are no other facts not contained in this announcement the omission of which would make any statement in this announcement misleading.*

*\* For identification purposes only*