CHIGO

CHIGO HOLDING LIMITED
志高控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 449)

INSIDE INFORMATION KEY FINDINGS OF THE INDEPENDENT FORENSIC INVESTIGATION

This announcement is made by the board (the "**Board**") of directors (the "**Directors**") of Chigo Holding Limited (the "**Company**", together with its subsidiaries, the "**Group**") pursuant to Rule 13.09(2)(a) 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).

BACKGROUND

Reference is made to the announcement of the Company dated 14 May 2020 (the "**Announcement**") in respect of certain issues raised by Messrs. Deloitte Touche Tohmatsu ("**Deloitte**"), the Company's former auditors, concerning certain findings they had during their audit process in respect of the Group's financial statements for the year ended 31 December 2019.

As disclosed in the announcements of the Company dated 15 June 2020 and 1 December 2020, one of the conditions for the Company to resume the trading of its shares on the Stock Exchange is to conduct an appropriate independent forensic investigation into the audit issues identified by Deloitte, announce the findings and take appropriate remedial actions.

The audit committee of the Company (the "**Audit Committee**") engaged Elite Partners Risk Advisory Services Limited (the "**Independent Accountant**") and Mazars Certified Public Accountants LLP (the "**IT Forensic Accountant**") to carry out the relevant independent investigation and forensic investigation in relation to the issues raised by the Deloitte as disclosed in announcement of the Company dated 14 May 2020 (the "**Audit Issues**").

(A) KEY FINDINGS OF THE INDEPENDENT INVESTIGATION AND THE COMPANY'S RESPONSE

A final report on the independent investigation carried out by the Independent Accountant (the "**Independent Investigation**") was issued by the Independent Accountant on 5 January 2022 (the "**Independent Investigation Report**"). The Company would like to announce the key findings of the Independent Investigation contained in the Independent Investigation Report together with the Company's response, as set out below.

1. Recipients and addresses on confirmation letters to miscellaneous customers and vendors ("Audit Issue 1")

Background

During the course of the audit work performed by Deloitte, Deloitte sample checked certain customers and suppliers who had balances with the Group and were provided with the names of the contact persons for the purpose of sending third party confirmation letters. Deloitte noted instances where the recipients of the confirmation letters related to the 2019 audit had the same name as certain employees of the Group and also noted that the postal addresses of some recipients appeared to be residential rather than business premises. Deloitte was also notified by one of the Group's vendors that the recipient on the confirmation letter provided by the Group was not their employee and the address provided by the Company was not associated with them.

The confirmation letters related to a total of 35 customers and suppliers of the Group. The total outstanding balance as at 31 December 2019 under these confirmation letters was approximately RMB373.5 million, representing approximately 5.36% of the unaudited total assets of the Group as at 31 December 2019.

Summary of the Independent Accountant's findings

Procedures adopted by the Independent Accountant

In the course of the Independent Accountant's on-site visit, the Independent Accountant conducted an analysis in respect of 15 sampled customers and suppliers of the Group amongst the 35 customers and suppliers identified by Deloitte as mentioned above, representing approximately 70% of the amount in relation to the confirmation letters in question, as the confirmation letters are identical in nature. Interviews were conducted by the Independent Accountant with certain members of the finance department of the Group, including existing and former employees of the Group and certain non-employee party/-ies, to understand the arrangements in respect of issuing the relevant third party confirmation letters. Independent background searches were also conducted by the Independent Accountant in respect of the customers and suppliers of the Group related to Audit Issue 1.

Limitations on the relevant Independent Investigation

A significant number of employees of the Group who handled the confirmation letters had ceased to be employees of the Group. Further, while phone interviews have been conducted with some of the 15 sampled customers and suppliers, the customers and suppliers, who were recipients of the relevant confirmation letters, did not make themselves available to attend the in-person interviews requested by the Independent Accountant. The Independent Accountant also did not receive any response to the confirmation letters it sent to the relevant customers and suppliers.

Key Findings

The Independent Accountant has considered the explanation provided by the Company. Namely, how certain employees of the finance department of the Group sought to implement a practical arrangement to facilitate the delivery of the confirmation letters to relevant customers and suppliers during COVID-19 lockdowns. Based on the Independent Investigation performed, the Independent Accountant was of the view that there existed deliberate interference or arrangement by certain employees of the finance department of the Group in respect of confirmation letters in connection with audit work for the year ended 31 December 2019. Names and addresses of certain employees of the Group were used to receive the confirmation letters issued by Deloitte, and a number of former employees of the Group confirmed, at the interview with the Independent Accountant, that they had forwarded the confirmation letters to the relevant customers or suppliers upon receipt.

The Company's response

Based on the findings of the Independent Accountant, the Company believes that the abovementioned interference or arrangement by certain employees of the finance department of the Group in respect of certain confirmation letters in connection with audit work for the year ended 31 December 2019 were administrative in nature and were carried out to facilitate the delivery of the said confirmation letters to the relevant customers and suppliers, especially in view of the difficulty in communications and travel restrictions experienced during the COVID-19 lockdowns.

The Board has taken remedial actions to ensure the accuracy of the information to be provided to the auditors in respect of the confirmation letters and to avoid interference in respect of such confirmation letters in the future. Please refer to the section headed "Remedial Actions" below for details.

2. Differences between sales summary and VAT system-generated invoice summary by certain individual customers ("Audit Issue 2")

Background

During the course of the audit work performed by Deloitte, Deloitte compared the sales summary provided by the Group in respect of individual customers with information generated from the VAT system maintained by the State Taxation Administration of the PRC and found certain differences. In most cases, Deloitte found that the balances in the sales summary provided by the Group in respect of individual customers were larger than those identified in the VAT invoice summary. Based on Deloitte's understanding of the Group's accounting operations, they believed that the sales summary by individual customers and the VAT invoice summary should match, and Deloitte considered that they had not been provided with valid explanations for the differences.

Findings

Procedures adopted by the Independent Accountant

In the course of the Independent Accountant's on-site visit, the Independent Accountant obtained and examined the data generated from the VAT system and the sales records from the Group's accounting system, and conducted a reconciliation. The Independent Accountant also checked samples from the sales and discount ledgers of the Group for March, June, September and December 2019 (the "**Quarterly Sales Records**") and compared against the data generated from the VAT systems. In addition, interviews were conducted by the Independent Accountant with a representative of the sales management department of the Group to understand the operations of the sales business, and with a former member of the finance centre of the Group to understand the differences between the Group's sales ledgers and the VAT system-generated invoice records. Independent background searches were further conducted by the Independent Accountant in respect of a sample of customers whose balance in the Company's sales ledgers did not match their respective VAT invoice records.

Regarding the invoices allegedly issued to customers but were not recorded in the Group's sales summary, the Independent Accountant conducted an analysis on a sample of customers representing 63% of the amount of the invoices in question to ascertain whether their invoices were recorded in the Group's sales summary.

Limitations on the relevant Independent Investigation

Despite being notified and with assistance from the Company, the customers selected by the Independent Accountant for interviews (so as to ascertain their relationships with the Group) did not make themselves available, and the Independent Accountant also did not receive response from such customers in respect of the confirmation letters issued by the Independent Accountant. The Independent Accountant, however, did interview two sales agents of the Group and they confirmed the relevant figures.

Key Findings

Based on the Independent Investigation performed, the Independent Accountant noted that the data it obtained from the VAT system were not all the same as those Deloitte set out in their letter. The Independent Accountant was of the view that the main reason behind the differences between the Group's sales records and the VAT system-generated invoice records of certain individual customers was that the records from the VAT system included the sales discount amounts in the form of negative invoices (i.e. they were gross figures), whereas the Group's sales summary did not include these sales discount amounts (i.e. they were net figures). If the sales discounts were to be deducted from the VAT system-generated invoice summary, its outcome would basically be consistent with that in the Group's sales records.

When the Independent Accountant checked samples from the Quarterly Sales Records and compared them with the data generated from the VAT systems as abovementioned, it noted that the main difference was due to the Group having used estimated sales figures in March.

In respect of the issue where Deloitte could not understand why there were customers to whom invoices were issued but were not identified in the Group's sales records, whilst the relevant amount identified by the Independent Accountant differed from the aforementioned amount identified by Deloitte by 0.2%, the Independent Accountant considers that this was because while the revenue from such sales invoices were recorded in the Group's system, when Deloitte picked out certain of such invoices for sample checking, Deloitte could not find them in the Group's sales ledgers, and the Independent Accountant noted that, based on the supporting documents it reviewed, the relevant VAT system-generated invoices of these customers could actually be identified. When the Group recorded the sales from "散户" (individual customers), those customers' names were not registered in the Group's system and were grouped together under generic descriptions based on sales channels, geographical regions, etc. Some of the sales were also booked under "other income" (i.e. not under "principal business") and the customers' names were likewise not registered in the Group's system.

Having taken into account the relevant investigation work conducted, the Independent Accountant was of the view that there did not exist any circumstances whereby invoices were issued but not recorded in the Group's accounts.

The two customers, which the Independent Accountant was able to interview, confirmed that they are the Group's agents for regional sales. They have also given positive confirmation in response to the confirmation letters issued by the Independent Accountant.

The Company’s response

The Company considers that the Independent Accountant’s findings as mentioned above are consistent with the Company’s understanding. With regard to the Group’s use of estimated sales figures for March in the Quarterly Sales Records as noted in the Key Findings above, the Company has also confirmed that, in view of the then prospective change (reduction) in VAT rate, at the request of one of its key customers, the Group accrued its sales to that customer in March (where, normally, without such tax change, the Group would not accrue such sales, and would issue its invoice after performing the reconciliation of sales against and the delivery records with the relevant customer), and then after the aforesaid reconciliation exercise was completed, the Group issued the invoice to that key customer in April. The Company has further confirmed that the aforesaid arrangements were carried out only after having first consulted the relevant tax authority.

The Company has also confirmed that, with regard to those sales booked under “other income” (as referred to in Key Findings above), they were so categorized because those were sales of spare parts and components for repair purposes, etc., hence they were not in the principal business of the Group.

Nevertheless, the Company acknowledges that the Group’s current practice of grouping the individual customers together under generic descriptions based on sales channels, geographical regions, etc. can be subject to further enhancements to avoid unnecessary confusion and has since implemented the internal control measures detailed in the section headed “Remedial Actions” below.

3. Accounts receivable ledger balance movements between 2018 and 2019 in relation to certain miscellaneous customers (“Audit Issue 3”)

Background

During the course of the audit work performed by Deloitte, Deloitte compared the 2018 and 2019 closing balances of selected customers and noted that in respect of 35 customers, there were year-on-year movements in multiples of RMB100,000. However, upon review of the requested documents, Deloitte noted that no sales were made to these customers during the year of 2019, and some relevant corporate records of these customers also indicated that the registration status of some of these customers were “deregistered” or “revoked”.

The total net difference between the accounts receivable balances as at 31 December 2018 and 2019 was approximately RMB37.4 million, representing approximately 0.54% of the unaudited total assets of the Group as at 31 December 2019 of approximately RMB6.97 billion.

Findings

Procedures adopted by the Independent Accountant

The Independent Accountant obtained and examined the ageing analyses in respect of the closing balances of 2019 and opening balances of 2020 of the relevant accounts receivables of the Group respectively. In addition, interviews were conducted by the Independent Accountant with the chief financial officer of the Group's finance centre to understand the reasons for the movements in the accounts receivables of the customers identified by Deloitte to whom no apparent sales were made. Independent background searches were also conducted by the Independent Accountant in respect of certain of these customers.

Limitations on the relevant Independent Investigation

The ageing analysis of the relevant account receivable was prepared by the Group's sales centre, which is not located at the Group's headquarters. Also, the employees who managed the accounts receivable had ceased to be under the Group's employ, and, despite being notified and with assistance from the Company, such former employees did not make themselves available to attend interviews with the Independent Accountant. As the Group was also unable to obtain supporting documents from such former employees, with regrets, the Group was unable to understand or explain the abovementioned movements in the Group's accounts receivable balances.

Key Findings

Based on the Independent Investigation performed, the Independent Accountant noted that the ageing analysis in respect of the accounts receivable of the Group for the year ended 31 December 2019 demonstrated the same issue as identified by Deloitte. It was discovered that in the Group's accounting system, the Group's relevant accounts receivable balance for the year ended 31 December 2019 was consistent with the Group's accounts receivable balances for the years ended 31 December 2018 and the opening balances of 2020, respectively. The Independent Accountant also did not find any sales or repayment records for 2019 relevant to the 35 customers with respect to Audit Issue 3. However, the Group's accounts receivable balance for the year ended 31 December 2019 did not match the Group's ageing analysis for the same period. Although the Group did consider that some of its customers and the Group might have entered into tri-parte arrangements (which behavior was not uncommon in the PRC) whereby a customer would agree to settle certain accounts receivable of another customer due to the

Group (such that the total accounts receivable due to the Group would remain unchanged), after further investigation, and as the Group was unable to interview or access its former employees as abovementioned, the Group could not obtain or provide such tri-parte agreements. Whilst the Independent Accountant noted the Group's explanation that the ageing analysis was a ledger manually prepared and compiled by the relevant accounting personnel, hence the relevant issue was probably due to human error on the part of the accounting personnel who prepared the ageing analysis, as the source of the aging analysis provided by the Group to Deloitte could not be ascertained, the Independent Accountant could not ascertain the reason of the abovementioned movements in the Group's accounts receivable ageing analysis.

The Company's response

The Company considers that the abovementioned movements in the Group's accounts receivable balances were likely to be the result of human error on the part of the accounting personnel who prepared the ageing analysis. The fact that the relevant finance staff left the Group in 2019 and 2020 without proper handover arrangements has potentially exacerbated the likelihood of error in preparing the ageing analysis. Further, with the departure of the said finance staff, the Group was unable to provide the source of the ageing analysis as mentioned above.

Although the impact of the abovementioned movements in the Group's accounts receivable ledger balance represented only approximately 0.54% of the unaudited total assets of the Group as at 31 December 2019, the Board has taken the matter seriously and has implemented a protocol to ensure that proper handover is made and documented in the event of a departure of staff, and also to require that the ageing analysis be sample checked by the accounting personal of the Company's internal audit department or a professional accounting personal to the agreed with the Internal Control Adviser later. Please refer to the section headed "Remedial Actions" below for details.

4. Certain fund flows of unidentified nature ("Audit Issue 4")

Background

During the course of the audit work performed by Deloitte, Deloitte observed differences in the computer typing fonts used to record certain transactions in the sub-ledger provided by the Group in the relevant electronic spreadsheets. Deloitte inspected samples of the physical bank vouchers for these transactions and found that certain manuscript remarks containing reference to SDCIC Construction Group Co., Ltd., a company controlled by the Group's controlling shareholder, were erased. Deloitte also noted instances of funds being repeatedly moved between several debtors of the Group (the "**Fund Flow Debtors**"). Deloitte was of the view that the Group would receive settlement payments from them after their receipt of goods from the Group, but was unable to obtain sufficient information to understand the nature of these transactions.

Findings

Procedures adopted by the Independent Accountant

The Independent Accountant obtained and examined the supporting documents in respect of the non-trade cash inflows and outflows. Interviews were conducted by the Independent Accountant with the chief financial officer of the Group's finance centre and independent background searches were also conducted by the Independent Accountant in respect of the relevant Fund Flow Debtors. In addition, the Independent Accountant interviewed five of the Fund Flow Debtors and issued confirmation letters to the relevant Fund Flow Debtors to ascertain the fund flow amounts and the balances.

Limitations on the relevant Independent Investigation

The employees who handled the above transactions had left the Group, and, despite being notified and with assistance from the Company, they did not make themselves available to attend interviews with the Independent Accountant. The Group was unable to provide supporting documents to confirm the fund flow amounts and the balances.

Key Findings

The Independent Accountant noted from its interview with the chief financial officer of the Group's finance centre that, upon reviewing the accounting records, the relevant accounting personnel of the Group noted from the physical bank vouchers that the relevant parties involved in the relevant transactions should be third parties (instead of SDCIC Construction Group Co., Ltd.).

Further, based on the Independent Investigation performed, in respect of the Fund Flow Debtors, the Independent Accountant noted that amongst the 14 Fund Flow Debtors, six had deregistered and three had ceased operations or had no staff at the production facilities. Pursuant to the interviews conducted by the Independent Accountant with the management of the Group and the remaining five Fund Flow Debtors, it was indicated to the Independent Accountant that the fund flows were part of the bill financing banking facilities for the Group's internal financing and working capital requirement purposes. The Independent Accountant also noted from the search results that, to which the management of the Group confirmed, two of the Fund Flow Debtors were held and operated by the staff of the treasury department of the Group's finance centre for the Group's internal financing and working capital requirement purposes. However, no supporting documents were obtained in respect of such internal financing arrangements and working capital requirement purposes and given that the Independent Accountant only received five sets of response in respect of its confirmation letters issued to the Fund Flow Debtors, and only one of which gave positive confirmation, the Independent Accountant was unable to ascertain the fund flow amounts and the balances between the Group and the Fund Flow Debtors.

The Company's response

The Company believes that the findings of the Independent Accountant are consistent with the Company's understanding that the fund flow arrangements were made for the Group's internal financing and working capital requirement purposes, hence unidentifiable nature with no connection or balances with outside parties. Such financing practice is not uncommon in the industry where the relevant bank facility's stated use (for example, in the case of the Group, say, for the sourcing of raw materials) would be applied for other corporate purposes (for example, general working capital purposes such as paying salaries of factory workers). All such bank borrowings have been serviced or repaid in accordance with the loan agreements. Since 2020, the Group has increased the use of working capital loans in place of the said bill financing method. Of the 9 banks with which the Group previously had used such bill financing method, the Group has repaid the relevant facilities to 8 of them (and these banking facilities accounted for approximately 98.4% of the Group's total available loan facilities as of end of November 2021). The Company has confirmed that the banking facility with the single remaining bank will be phased out upon maturity and thereupon the Group will have completely discontinued such practice.

5. Differences in the amounts of outstanding trade payables disclosed by suppliers in litigation claims and those recorded by the Group ("Audit Issue 5")

Background

During the course of the audit work performed by Deloitte, Deloitte noted that the Group was involved in multiple litigation claims filed by certain of its suppliers. Based on the litigation records, Deloitte noticed that the balances recorded in nine litigation claims were materially larger than the corresponding trade payables recorded in the books of the relevant Group companies as at 31 December 2019. Deloitte considered that they had not been provided with valid explanations for the material discrepancies between the trade balances disclosed in the litigation claims and those in the book of the relevant Group companies.

The litigation claims filed by the suppliers concerned their demands to the Group to settle payments for materials/goods they allegedly supplied to the Group. The aggregate value of the materials or goods kept at the Group's custodian warehouse (which was not recognised as the Group's inventories as explained below) in connection with the relevant litigation claims amounted to approximately RMB22.6 million, representing approximately 0.3% of the unaudited total assets of the Company as at 31 December 2019. The aggregate interests claimed by the relevant suppliers pursuant to the litigation claims (but excluding those related to the withdrawn litigation claims) amounted to approximately RMB1.2 million, representing approximately 0.02% of the unaudited total assets of the Company as at 31 December 2019.

Findings

Procedures adopted by the Independent Accountant

The Independent Accountant obtained and reviewed the legal documents including the supply contracts entered into between the Group and the suppliers and the documents in respect of the legal proceedings for the four largest relevant litigation claims by claim amounts. Interviews were conducted by the Independent Accountant with the chief financial officer of the Group's finance centre and independent background searches were also conducted by the Independent Accountant in respect of the suppliers concerned (the "**Relevant Suppliers**"). In addition, the Independent Accountant interviewed one of the Relevant Suppliers.

Limitations on the relevant Independent Investigation

Save in respect of one of the sampled Relevant Suppliers, the other three Relevant Suppliers did not make themselves available to attend interviews with the Independent Accountant. Further, the Group did not possess proof of the inventory in respect of such goods or materials that did not belong to the Group (although stored in the Group's custodian warehouses as explained below), and therefore the Independent Accountant was unable to ascertain the actual amount of inventory maintained in the Group's custodian warehouses.

Key Findings

The Independent Accountant noted that the supply contracts entered into between the Group and the suppliers contained a clause providing that the ownership of the goods or materials supplied would only be transferred to the Group upon such goods or materials having been used by the Group, and considered that this was the basis on which the Group would only recognise those materials/goods in its financial records when they had actually been used by the Group. Since the Group would only need to recognise as costs the materials consumed, the Group did not have to maintain records of, hence did not possess proof of, the amount of inventory of such goods or materials that did not belong to the Group. Further, based on the independent background search results, the Relevant Suppliers were not related to the Group.

Based on the Independent Investigation performed, the Independent Accountant concluded that the discrepancies between the amounts of outstanding trade payables disclosed by the Relevant Suppliers in the litigation claims and those recorded by the Group were a result of: (a) certain of the Group's payment records were incomplete and invalid, because the supplier did not sign on the receipts and they also were not bank records, and (b) the Group only recognised those materials/goods that had actually been used by the Group as the amount of materials/goods accepted, but the Relevant Suppliers considered and claimed that all the materials/goods that were delivered to the Group as the amount of materials/goods accepted.

Further, in respect of one of the Relevant Suppliers, based on the Independent Accountant's interview with such Relevant Supplier, the Independent Accountant noted that there was a possibility that such Relevant Supplier, in agreement with the Group, deliberately filed a litigation proceeding (which was subsequently revoked) against the Group as an attempt to assist the Group in resisting the resumption of its land by the local authority. The Independent Accountant also noted that certain of the Relevant Suppliers had subsequently reached settlement with and withdrawn their legal proceedings against the Group.

The Company's response

The Company considers that the Independent Accountant's findings as mentioned above are consistent with the Company's understanding, and that, in accordance with the applicable accounting standards, claims for relevant interests, expenses and penalties made by the Relevant Suppliers under the litigation claims should not be recognised, because (i) as mentioned above, the Company does not accept the principal amount of the payables as set out in the suppliers' claims (as their claims were not supported by the contracts), (ii) no judgment has been entered into and the exact amount of liability (in particular, in respect of the relevant expenses and penalties) cannot be ascertained, and (iii) in respect of the amount of interests, in the opinion of the management, the relevant amount was of a contingent nature and not significant.

(B) KEY FINDINGS OF THE IT FORENSIC INVESTIGATION

The IT Forensic Accountant, as an independent IT forensics expert, was appointed by the Audit Committee on 24 June 2021 at the request of the Independent Accountant to conduct a forensic analysis of the data from the computers and email database for the purpose of identifying any potential information and documents relevant to the investigation into the Audit Issues (the "**IT Forensic Investigation**"). The IT Forensic Accountant completed the relevant IT Forensic Investigation and issued a digital forensic review report (the "**Digital Forensic Review Report**") on 19 September 2021.

Procedures adopted by the IT Forensic Accountant in the IT Forensic Investigation

The IT Forensic Accountant visited two offices of the Group and created mirror images of the hard disks of the company computers of eight relevant employees of the Group. Further, the IT Forensic Accountant obtained backup data of email servers from the IT department of the Group in respect of seven relevant personnel (comprising six employees and one former employee) of the Group. Forensic examinations were then conducted by the IT Forensic Accountant in respect of the said files obtained.

Limitations on the relevant IT Forensic Investigation

Due to restrictions in respect of the Group's email servers, the IT Forensic Accountant was unable to obtain all of the email data in respect of all 24 target personnel of the Group. This was due to reasons including (i) the inexistence of user account, or (ii) the inability to recover relevant data that had been deleted upon resignation of the relevant employee, which deletion was made in accordance with the Group's internal policy.

Key Findings

Based on the Digital Forensic Review Report, the IT Forensic Accountant made no adverse finding in respect of the Audit Issues identified by Deloitte.

OPINION OF THE AUDIT COMMITTEE AND THE BOARD

The Audit Committee and the Board have reviewed the findings of the Independent Investigation and the IT Forensic Investigation and are of the view that the Independent Accountant and the IT Forensic Accountant have exploited all reasonably practicable means to conduct their investigations. Due to the nature of the limitations faced by the Independent Accountant and the IT Forensic Accountant, which were out of the control of the Group (as explained above), the Audit Committee and the Board considered that any further investigations by the Independent Accountant and the IT Forensic Accountant are not expected to reveal additional findings or provide any additional insights on the Audit Issues.

The Audit Committee and the Board further consider that, during the Independent Investigation and the IT Forensic Investigation, the Company cooperated fully with the Independent Accountant and the IT Forensic Accountant in all aspects and offered complete, authentic and unreserved information and support. Accordingly, the Audit Committee and the Board consider that the Independent Investigation and the IT Forensic Investigation have been thoroughly conducted by the Independent Accountant and the IT Forensic Accountant, and have comprehensively investigated into the Audit Issues raised by Deloitte to the extent practicable.

Although the Audit Committee and the Board are also of the view that the issues identified in the Independent Investigation do not impose any material adverse impact on the Group's business operation, financial position or contingent liabilities, the Audit Committee has advised the Company to rectify the relevant Audit Issues with reference to the Independent Investigation Report in order to minimise the impact on the Company. Also, the Company is advised to take preventive measures to strengthen the Group's corporate governance and internal control system.

An independent internal control adviser, Mazars Risk Advisory Services Limited ("**Mazars RAS**" or the "**Internal Control Adviser**"), was appointed by the Company on 14 December 2021 to conduct an internal control review over the internal control mechanism relating to the Announcement in respect of the Audit Issues.

REMEDIAL ACTIONS

(i) Strengthening of internal control measures of the Group and reviewing of the Group's internal control system

The findings of the Independent Investigation have revealed concerns in the Company's internal control system in certain areas, and the Company has taken corrective and preventive measures (which may be further supplemented, subject to any further recommendations from the Internal Control Adviser), as follows.

	Corrective/preventive measure, if any and if applicable
Audit Issue 1	The Company has issued an internal circular to members of the finance department of the Group stressing the importance of third-party confirmation letter in the relevant audit procedures, and emphasising and directing that the correct way of assisting in the audit procedures is through expending time and effort in following up with the customers and suppliers to ensure that they return the confirmation letter (as opposed to having the Group's staff help to deliver the confirmation letter to the customers and suppliers).
Audit Issue 2	As explained above, this issue arose due to the insufficient details with regard to "散户" (individual customers) in the Group's sales ledgers (while the sales were actually recorded in the Group's accounting system), the Group has implemented a procedure involving performance of regular reconciliation between the VAT system, sales ledger and sales discount ledger, which procedure will be performed by finance staff of the Group and reviewed by the designated accounts manager of the Group.
Audit Issue 3	The Company is aware of the adverse effect caused by the unavailability of the former employees to assist in the interviews and help both the Independent Accountant and the Group understand the information in the accounting ledgers and the lack of supporting documents, as indicated by the Independent Investigation.

Although the impact of the relevant movements in the Group's accounts receivable balances represented only approximately 0.54% of the unaudited total assets of the Group as at 31 December 2019, the Board has taken the matter seriously and has implemented a protocol to ensure that proper handover is made and documented in the event of a departure of the relevant staff, and also to require that the ageing analysis be sample checked by a designated accounts manager whose sole function is to perform this task. Furthermore, with a view to increasing the efficiency and effectiveness of the Group's financial control system, the Company is looking into the possibility of deploying an ERP system in at the end of the first half of 2022.

Audit Issue 4 As explained above, the relevant fund flows were made as part of the Group's bill financing arrangements for the Group's internal financing and working capital requirement purposes, hence unidentifiable nature with no connection or balances with outside parties. Since 2020, the Group has increased the use of working capital loans in place of the said bill financing method. Of the 9 banks with which the Group previously had used such bill financing method, the Group has repaid the relevant facilities to 8 of them (and these banking facilities accounted for approximately 98.4% of the Group's total available loan facilities as of end of November 2021). The Company has confirmed that the banking facility with the single remaining bank will be phased out upon maturity and thereupon the Group will have completely discontinued such practice.

Audit Issue 5 The Company considers that its approach to and treatment of these litigation disputes were consistent with the relevant contracts and accounting standards, hence no further work is necessary.

Since the Company is committed to take all necessary remedial measures to rectify the potential internal control deficiencies and to ensure that all deficiencies identified in the Independent Accountant's findings are fully addressed, the Company has, therefore, on 14 December 2021, engaged Mazars RAS as its independent internal control adviser to conduct a comprehensive review of the internal control system, policies and procedures of the Group and to provide corresponding recommendations for rectification to the management of the Group in light of the five issues raised by Deloitte, whilst having taken into account the issues identified in the Independent Investigation Report.

Based on the Company's communications with Mazars RAS, the relevant internal control review is expected to complete by the end of January 2022, and thereafter, the Company will publish an announcement to disclose the key findings of such internal control review and details of the further remedial actions taken by the Company, if any. Follow-up internal control reviews for the further remedial actions taken by the Company, if any, is expected to complete by the end of March or early April 2022.

Elite Partners CPA, the current auditors of the Company, has also reviewed the above scope of work of Mazars RAS as an independent internal control adviser and agrees with the same.

(ii) Audit work to be conducted by Elite Partners CPA

Having consulted with Elite Partners CPA, the current auditors of the Company, the Board was advised that following its review of the Independent Investigation Report, Elite Partners CPA considers that, subject to the completion of the audit procedures of the 2019 Annual Results, further work will be needed to assess the impact (if any) of the issues identified in the Independent Investigation Report on the audit and the Company's financial statements.

The intended (and estimated) timetable for the Company on the publication of the outstanding financial information as set out in the Company's announcement dated 19 November 2021 remains unchanged.

CONTINUED SUSPENSION OF TRADING

At the request of the Company, trading in the shares of the Company on the Stock Exchange has been suspended with effect from 9:00 a.m. on 15 May 2020. Pending the fulfilment of the Stock Exchange's resumption guidance, the trading in the shares of the Company will continue to be suspended until further notice.

Shareholders and potential investors of the Company are advised to exercise caution when dealing in the shares of the Company.

By order of the Board
Chigo Holding Limited
Li Xinghao
Chairman

Hong Kong, 5 January 2022

As at the date of this announcement, the executive Directors are Li Xinghao, Li Xiuhui and Huang Guijian, and the independent non-executive Directors are Wang Manping, Pan Mingjun and Peng Ciguang.