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## **China Vered Financial Holding Corporation Limited**

**中微金融控股有限公司**

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 245)**

### **KEY FINDINGS OF THE INDEPENDENT INVESTIGATION**

This announcement is made by China Vered Financial Holding Corporation Limited (the “**Company**”, together 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 Inside Information Provisions under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

References are made to the announcements of the Company dated 15, 18, 30 and 31 March 2022, 1 April 2022, 13 May 2022 and 30 June 2022 in relation to, among others, (i) the suspension of trading of the shares of the Company (the “**Shares**”) with effect from 9:00 a.m. on 1 April 2022; (ii) matters that PricewaterhouseCoopers, the auditor of the Company (the “**Auditor**”) considered as outstanding matters for the audit of the financial results for the year ended 31 December 2021; (iii) the formation of the Independent Investigation Committee; (iv) the engagement of the independent forensic accountant (the “**Independent Consultant**”); (v) the delay in publication of the 2021 Audited Annual Results; (vi) the Resumption Guidance; and (vii) the quarterly update on the progress of fulfilling the Resumption Guidance (collectively, the “**Announcements**”). Unless otherwise defined in this announcement, terms stated herein shall have the same meanings as defined in the Announcements.

The Company wishes to update the shareholders of the Company (the “**Shareholders**”) that the Independent Consultant has completed the Investigation and issued a report (the “**Report**”) setting out its findings. Key findings of the Investigation are set out below.

## SUMMARY OF THE INDEPENDENT CONSULTANT’S KEY FINDINGS

### (A) Scope of and procedures adopted in the Investigation

The Auditor requested that, among others, the Independent Investigation Committee shall, among others, appoint an independent professional advisor to conduct an independent investigation into (a) the investments in two subject funds (“**Subject Fund A**” and “**Subject Fund B**” respectively) by the Shareholder Value Offshore Fund (the “**Fund**”) through its master fund, Shareholder Value Fund (the “**Master Fund**”); and (b) the nature, existence and valuation of the underlying assets of such investments. Both the Fund and the Master Fund were managed by the Group’s asset management subsidiary, namely China Vered Asset Management (Hong Kong) Limited (“**CVAM**”).

On 30 March 2022, the Independent Investigation Committee resolved to engage the Independent Consultant to conduct an investigation (the “**Investigation**”).

During the Investigation, the Independent Consultant carried out procedures including but not limited to:

- (a) obtaining and reviewing relevant documents of the Company, CVAM, the Fund and the Master Fund;
- (b) conducting discussions and interviews with relevant employees of the Group and relevant external parties;
- (c) analysing the accounting records and bank documents of the Fund and Master Fund;
- (d) performing keyword searches on relevant electronic data to identify records in relation to the matters such as the investments in Subject Fund A and Subject Fund B and reviewing the same; and
- (e) performing background searches on relevant parties.

### (B) Factual background of the investments in Subject Fund A and Subject Fund B

On 1 April 2019, the former deputy CEO of the Company (who was also the former responsible officer and director of CVAM) (the “**Former Deputy CEO of the Company**”) joined the Company. On 16 June 2019, the former manager-in-charge of overall management oversight of CVAM (the “**Former OMO of CVAM**”) joined CVAM. The Former OMO of CVAM was also a former director and responsible officer of CVAM and a former director of the Fund and the Master Fund.

On 26 August 2019, the Former Deputy CEO of the Company delegated his role as the Chairman of Asset Management Committee of CVAM (the “**AMC**”) to the Former OMO of CVAM.

### *Investments in two leverage notes and the related “guarantee fee” arrangements*

On 27 August 2019, the AMC approved the Master Fund’s investment in a leverage note (the “**1<sup>st</sup> Leverage Note**”) issued by a third party issuer (the “**Issuer**”) linked with bonds issued by the Listed Property Developer.

On 2 September 2019, a major shareholder of the Listed Property Developer (the “**Personal Guarantor**”) signed a personal guarantee undertaking that he shall be liable for the loss of the Issuer under the 1<sup>st</sup> Leverage Note. The Master Fund agreed to pay “guarantee fees” of US\$135,000 to the Personal Guarantor in consideration of the aforesaid guarantee.

On 27 March 2020, the AMC approved the Master Fund’s investment in another leverage note issued by the Issuer linked with bonds issued by the Listed Property Developer (the “**2<sup>nd</sup> Leverage Note**”).

On 31 March 2020, the Personal Guarantor undertook that he shall be liable for the amount claimed by the Issuer against the Master Fund under the 2<sup>nd</sup> Leverage Note. In consideration of this guarantee, the Master Fund agreed to pay “guarantee fees” of US\$830,000 to the Personal Guarantor.

### *Disposal of the Listed Auto Dealer shares*

In June and July 2020, the Master Fund subscribed shares of the Listed Auto Dealer. Between November 2020 and February 2021, the Master Fund disposed of its shareholding in the Listed Auto Dealer. The sale proceeds were utilised to acquire shares of various listed companies in Hong Kong (“**HK Listco Shares**”) in January and February 2021.

### *Subscription of Subject Fund A and Subject Fund B*

On 14 December 2020, the AMC approved the Master Fund’s subscription of Subject Fund A. On 30 December 2020, the 1<sup>st</sup> Leverage Note and the 2<sup>nd</sup> Leverage Note were transferred to Subject Fund A. The subscription of Subject Fund A was completed on 4 January 2021.

On 1 March 2021, the AMC approved the subscription of Subject Fund B in kind. A portion of the HK Listco Shares were transferred to Subject Fund B as subscription price. The subscription of Subject Fund B was completed on 12 March 2021.

Subsequent to the aforesaid approvals by the AMC, the Fund (through the Master Fund) invested into Subject Fund A and Subject Fund B. Both Subject Fund A and Subject Fund B were managed by a licensed corporation which is authorised to carry out Type 4 (advising on securities) and Type 9 (asset management) regulated activities under the SFO and is an independent third party of the Company (the “**Third Party Manager**”).

In May 2021, CVAM received a redemption request and was aware that the Master Fund’s liquidity was insufficient to meet such redemption request due to the lock-up restrictions in Subject Fund A and Subject Fund B.

**(C) Key findings of issues relating to the investments in Subject Fund A and Subject Fund B**

***(i) Issues with the approval process for investing in the 1<sup>st</sup> Leverage Note and 2<sup>nd</sup> Leverage Note***

The Independent Consultant noted that the subscription of the 1<sup>st</sup> Leverage Note and 2<sup>nd</sup> Leverage Note was approved by the AMC, but it observed the following issues with the approval process:

- (a) The information provided at the AMC meeting approving the 1<sup>st</sup> Leverage Note was incomplete.
- (b) With respect to the 2<sup>nd</sup> Leverage Note, an investment proposal and a voting form were circulated to the members of the AMC for review and signature. However, no AMC meeting was held which appeared to be not in line with the internal policy of CVAM.

***(ii) Uncommon terms of Subject Fund A and Subject Fund B and rationale for investing in Subject Fund A and Subject Fund B are not able to be independently verified***

Based on the discussion with a former employee of CVAM (the “**Former Employee of CVAM**”), the Independent Consultant noted that the Former OMO of CVAM was the key personnel responsible for initiating the investments in Subject Fund A and Subject Fund B and negotiating with the external parties.

The Independent Consultant was of the view that:

- (a) The terms of Subject Fund A and Subject Fund B were uncommon compared to another fund invested by the Master Fund. The Independent Consultant noted the following uncommon terms:
  - (i) the performance fee charged by Subject Fund A (60%) and Subject Fund B (40%) are significantly higher than those charged by the other fund (20%); and
  - (ii) the lock-up period for Subject Fund A (three years with one or two consecutive additional lock-up period(s) of three years) and Subject Fund B (seven years with one additional lock-up period of three years) are significantly longer than that imposed in the other fund (two years).
- (b) The Independent Consultant considered that the alleged rationale for the investments in Subject Fund A and Subject Fund B were not supported by documentary evidence. None of the alleged rationale could be independently verified as a sufficient ground for the investments in Subject Fund A and Subject Fund B.

As the Independent Consultant could not conduct interviews with the Former OMO of CVAM and the relevant external parties during the Investigation, the Independent Consultant was unable to (i) understand the historical business

considerations for investing in Subject Fund A and Subject Fund B; and (ii) further assess the reasons and the decisions for the investments in Subject Fund A and Subject Fund B and their rationale.

***(iii) The value and existence of the underlying assets of Subject Fund A and Subject Fund B could not be assessed.***

The Independent Consultant noted that the Group was unable to obtain the details of the Subject Fund A and Subject Fund B as at 31 December 2021 from the Third Party Manager. As such, the Independent Consultant could not independently confirm the value and existence of the underlying assets of Subject Fund A and Subject Fund B.

***(iv) The high concentration of investments in Subject Fund A and Subject Fund B did not appear to be consistent with the Master Fund and the Fund's investment objective.***

The Independent Consultant was of the view that the high concentration of investments in Subject Fund A and Subject Fund B did not appear to be consistent with the investment objective of the Fund and the Master Fund.

According to the Private Placement Memorandum of the Fund, the objective of the Fund was to achieve consistent and long-term capital appreciation through a portfolio of equity and debt securities. Where deemed appropriate, the Master Fund might also invest in other alternative investment funds provided that they constituted no more than 20% of the net asset value of the Master Fund at any time.

Further, the Independent Consultant was unable to locate any evidence suggesting that prior notice had been provided to the investors of the Fund in relation to its investments in Subject Fund A and Subject Fund B.

***(v) Uncommon "guarantee fee" arrangement with the Personal Guarantor***

Based on the interviews with the personnel of CVAM, the Former OMO of CVAM was solely responsible for handling such guarantee arrangement. The actual amount of the "guarantee fee" paid by the Master Fund to the Personal Guarantor in relation to the Leverage Notes was US\$723,622.22 instead of the alleged US\$1.1 million.

The Independent Consultant noted that there was no documentary evidence explaining the reason(s) for the Personal Guarantor to enter into such arrangement with the Master Fund. The Former Employee of CVAM explained that the Personal Guarantee reduced the risk borne by the Master Fund in subscribing for the Leverage Notes.

Having considered the purported asset composition of the Personal Guarantor and his other personal guarantee arrangement, the Independent Consultant was of the view that the Personal Guarantor's assets might not be sufficient to cover the Personal Guarantee if the Listed Property Developer defaulted on its debts.

*(vi) Suspected misconduct of the Former OMO of CVAM and the Former Deputy CEO of the Company*

*(1) Alleged misrepresentation of information regarding sale of shares of Listed Auto Dealer*

The Master Fund disposed of all its shares in Listed Auto Dealer by early February 2021. However, it appeared that personnel of CVAM continued to represent to other departments of the Group that the shares were still subject to sales restriction at least until early March 2021.

According to the interview with the Former Employee of CVAM, the misrepresentation was made based on the instruction of the Former OMO of CVAM.

*(2) Unexplained delegation of chairmanship of AMC*

The Independent Consultant could not ascertain the reason for such delegation.

That said, there was no indication that the delegation of the chairmanship of the AMC was associated with any specific investments of the Master Fund (including Subject Fund A and Subject Fund B).

*(3) Removal of documents from the Company and CVAM's offices*

The CCTV footage captured by a camera at the lift lobby of CVAM's office showed that the Former OMO of CVAM took away certain items from CVAM's office on the day of his dismissal.

The Former OMO of CVAM subsequently returned certain documents to CVAM. The Independent Consultant reviewed the returned documents and was unable to comment on the completeness of the documents returned. CVAM and the Group did not note any material documents missing.

The Independent Consultant noted that the returned documents were confidential business and customer records which should be kept properly. Such conduct of the Former OMO of CVAM constituted non-compliance with the confidentiality requirements in the Company's employee handbook.

Further, according to the CCTV footage captured by a camera at the Company's office, the Former Deputy CEO of the Company took away shredded paper from a shredder in the office.

The Independent Consultant was unable to conduct an interview with the Former Deputy CEO to understand his motive to take away the shredded paper and confirm the types of shredded documents. The Independent Consultant was unable to comment on whether a bag taken away by the Former Deputy CEO of the Company indeed contained the shredded paper.



*(4) Suspected undisclosed relationship between the Former OMO of CVAM, the Former Deputy CEO of the Company, the Third Party Manager and the Listed Property Developer*

The Independent Consultant noted that the Former OMO of CVAM and the Former Deputy CEO of the Company were closely connected with the Third Party Manager and the Listed Property Developer.

However, the Independent Consultant did not note any direct evidence indicating potential collusion between the Former OMO of CVAM, the Former Deputy CEO of the Company and the relevant personnel of the Third Party Manager and the Listed Property Developer in relation to the set-up of investment arrangements for an improper purpose.

**(D) Other observations noted in the Investigation**

*(i) Payment of an investment advisory service fee to the Third Party Manager*

In December 2020, a fund managed by CVAM (in which the Company does not have any proprietary interest) entered into an investment advisory service agreement with the Third Party Manager. An investment advisory service fee of US\$140,000 was paid to the Third Party Manager.

Based on the interview with the Former Employee of CVAM, the decision to engage the investment advisory service was made by the Former Deputy CEO of the Company and the Former OMO of CVAM. Having considered the available evidence, the Independent Consultant was unable to ascertain the commercial benefits to the fund in return for the investment advisory service fee paid to the Third Party Manager.

*(ii) Investments in other funds*

In the course of the Investigation, the Independent Consultant also investigated the Group's investments in three funds managed by external fund managers (which were not subsidiaries of the Company). The Independent Consultant noted issues including the investments and loans made by these funds not aligning with their investment objectives, the failure to execute exit plan or stop loss or the lack of close monitoring of the funds' performance.

The Independent Consultant had the following observations in relation to one of the three funds:

- (a) The underlying assets of the fund consisted of loans advanced to two borrowers representing 85% of its total portfolio value as of 28 February 2022, which did not appear to be consistent with the fund's investment strategy.
- (b) It was questionable whether the borrowing terms were at arm's length as they appeared to be too favourable to the borrowers. One of the borrowers was related to the fund manager of the fund, and the other borrower was related to a former director of the fund.

- (c) There was no indication that the investment in the fund had been initiated or managed by the Former Deputy CEO of the Company and/or the Former OMO of CVAM.

***(iii) Whistleblowing emails***

During the electronic discovery exercise in the Investigation, the Independent Consultant also considered four whistleblowing emails alleging potential misconduct of certain management personnel of the Group sent in 2021. Three out of four emails were sent by the Former OMO of CVAM in May and June 2021. The other email was sent by an unknown party in May 2021.

The Independent Consultant investigated the matters raised in the whistleblowing emails and concluded that all allegations were unsubstantiated.

**(E) Conclusion of the Independent Consultant**

In summary, during the Investigation, the Independent Consultant noted that there were irregularities and anomalies in the investments in Subject Fund A and Subject Fund B for which the Former Deputy CEO of the Company and the Former OMO of CVAM were responsible.

Based on the information available to and the work performed by the Independent Consultant, the Independent Consultant did not identify any direct evidence indicating that other management personnel of the Company had colluded with the Former Deputy CEO of the Company and the Former OMO of CVAM.

Except for the records identified and obtained during the Investigation, the Independent Consultant did not identify any records indicating that there were undisclosed agreements or arrangements entered into between the Company's current or former employees and external parties regarding the outstanding matters for the audit of the financial results for the year ended 31 December 2021.

**VIEWS OF THE INDEPENDENT INVESTIGATION COMMITTEE AND THE BOARD**

The Independent Investigation Committee and the Board have reviewed the contents of the Report and consider that adequate investigative procedures have been carried out by the Independent Consultant to address the Auditor's concerns, subject to certain limitations as highlighted in this announcement.

Having considered the findings and recommendations set forth in the Report, the Board has taken or will take the following actions:

- (a) report the matter to the relevant authorities including the Hong Kong Police;
- (b) seek legal advice to determine and formulate the actions to be taken against the relevant former employees of the Company/CVAM (including the Former OMO of CVAM and the Former Deputy CEO of the Company);



- (c) seek legal advice and consider whether to take actions against the relevant parties in relation to Subject Fund A and Subject Fund B;
- (d) stringent control measures have been put in place to monitor the use, retention and destruction of the Company’s and CVAM’s records; and
- (e) engage an independent specialist to carry out an internal control review to ensure appropriate measures are put in place to prevent occurrence of similar incidents.

The Company will make announcements to update the Shareholders and potential investors on any substantial development of the above actions as and when appropriate.

## **CONTINUED SUSPENSION OF TRADING**

At the request of the Company, trading in the Shares on the Stock Exchange has been suspended with effect from 9:00 a.m. on 1 April 2022 and will remain suspended until the Company fulfils the Resumption Guidance.

**Shareholders and potential investors of the Company are advised to exercise caution when dealing with the Shares.**

## **DEFINITIONS**

“1 <sup>st</sup> Leverage Note”	the first leverage note linked with the Listed Property Developer bonds invested by the Master Fund
“2 <sup>nd</sup> Leverage Note”	the second leverage note linked with the Listed Property Developer bonds invested by the Master Fund
“AMC”	the Asset Management Committee of CVAM
“Announcements”	the announcements of the Company dated 15, 18, 30 and 31 March 2022, 1 April 2022, 13 May 2022 and 30 June 2022
“Auditor”	PricewaterhouseCoopers
“Board”	the board of directors of the Company
“Company”	China Vered Financial Holding Corporation Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the main board of the Stock Exchange (stock code: 245)
“CVAM”	China Vered Assets Management (Hong Kong) Limited, an indirect wholly-owned subsidiary of the Company
“Former Deputy CEO of the Company”	a former deputy CEO of the Company, who was also a former responsible officer and a former director of CVAM and was dismissed in July 2021

“Former OMO of CVAM”	a former manager-in-charge of overall management oversight of CVAM, who was also a former director and responsible officer of CVAM and a former director of the Fund and the Master Fund and was dismissed in May 2021
“Former Employee of CVAM”	A former employee and responsible officer of CVAM
“Fund”	Shareholder Value Offshore Fund
“Group”	the Company and its subsidiaries
“Independent Consultant”	the independent forensic consultant engaged by the Independent Investigation Committee to conduct the Investigation
“Independent Investigation Committee”	the independent investigation committee comprising all independent non-executive directors of the Company
“Investigation”	the investigation carried out by the Independent Consultant
“Issuer”	the issuer of the 1 <sup>st</sup> Leverage Note and the 2 <sup>nd</sup> Leverage Note
“Listed Auto Dealer”	a company incorporated in Cayman Islands with limited liability, the issued shares of which are listed on the Nasdaq Stock Market and is primarily engaged in the sales of domestic and imported automobile in the PRC
“Listed Property Developer”	a company incorporated in Bermuda with limited liability, the issued shares of which are listed on the main board of the Stock Exchange and its subsidiaries are principally engaged in the property developments, property investments, property management and commercial operations
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Master Fund”	Shareholder Value Fund
“Personal Guarantor”	a major shareholder of the Listed Property Developer who provided personal guarantee in favour of the Issuer
“PRC”	the People’s Republic of China
“Report”	the independent investigation report issued by the Independent Consultant
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

“Shares”	share(s) of the Company
“Shareholders”	shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subject Fund A”	a fund which the Fund invested in, through the Master Fund
“Subject Fund B”	a fund which the Fund invested in, through the Master Fund
“Third Party Manager”	the fund manager of Subject Fund A and Subject Fund B, a licensed corporation which is authorised to carry out Type 4 (advising on securities) and Type 9 (asset management) regulated activities under the SFO and is an independent third party of the Company
“%”	per cent

On behalf of the Board  
**China Vered Financial Holding Corporation Limited**  
**Tomohiko Watanabe**  
*Chairman*

Hong Kong, 13 September 2022

*As at the date of this announcement, the Board comprises (1) Mr. Tomohiko Watanabe, Mr. Li Feng, Mr. Ni Xinguang, and Ms. Li Wei as executive directors of the Company; (2) Mr. Zhang Boyang as non-executive director of the Company; and (3) Mr. Wen Yuanhua, Ms. Zhou Hui and Mr. Dong Hao as independent non-executive directors of the Company.*