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JIANDE INTERNATIONAL HOLDINGS LIMITED

建德國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 865)

UPDATE ON THE SUSPECTED MISAPPROPRIATION OF FUNDS OF A SUBSIDIARY OF THE COMPANY

This announcement is made by Jiande International Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) pursuant to Rule 13.09 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Inside Information Provisions (as defined therein) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

Reference is made to (i) the announcement of the Company dated 7 October 2022 in relation to the suspected misappropriation of funds of Hui An China General Real Estate Development Company Limited* (惠安中總房地產開發有限公司) (“**Hui An China General**”), a subsidiary of the Company, by a former treasurer (the “**Former Treasurer**”) of Hui An China General between 2019 and 2022 (the “**Misappropriation**”); and (ii) the announcement of the Company dated 19 December 2022 in relation to the engagement of RSM Corporate Advisory (Hong Kong) Limited (“**RSM**”) as independent forensic accountant to, among other things, conduct an independent forensic accounting review in respect of the Misappropriation, review the risk management and internal control systems of the Group and make rectification and improvement recommendations to the board (the “**Board**”) of directors (the “**Directors**”) of the Company (the “**Independent Review**”).

KEY FINDINGS OF THE INDEPENDENT REVIEW

Background

As disclosed in the announcement of the Company date 7 October 2022, the management of the Company has discovered and reported to the Board that the Former Treasurer was suspected to have misappropriated in aggregate approximately RMB24.98 million of Hui An China General between 2019 and 2022. After discovering the suspected Misappropriation and conducting preliminary internal investigations, the management of Hui An China General has reported the suspected Misappropriation to the public security bureau in the People’s Republic of China (the “**PRC**”) in September 2022.

On 13 December 2022, the Company has engaged RSM to conduct the Independent Review.

On 28 March 2023, RSM issued a report of the Independent Review.

Findings

As at the date of this announcement, RSM has completed the Independent Review procedures to the extent possible and this announcement discloses the key findings of the Independent Review together with the responses of the Company.

The summary of the key findings of the Independent Review is set out below:

1. RSM reviewed and compared the accounting records of Hui An China General in relation to its 14 bank accounts between 1 January 2019 and 30 September 2022 (the “**Review Period**”) and obtained the corresponding bank statements directly from the banks, and a material discrepancy of approximately RMB2.0 million, RMB10.7 million and RMB20.7 million was identified and quantified in one bank account as at 31 December 2019, 2020 and 2021, respectively. Moreover, a material discrepancy of approximately RMB25.0 million was identified and quantified in two bank accounts as at 31 August 2022.
2. RSM also reviewed the completeness and accuracy of transactions in four bank accounts and approximately 1,100 unrecorded transactions and fictitious transactions during the Review Period were identified and quantified. Such unrecorded transactions and fictitious transactions involved net outflow of unauthorised transfers of approximately RMB22.0 million from four bank accounts of Hui An China General and cash of approximately RMB3.0 million was collected from customers of Hui An China General but was not deposited into the bank accounts of Hui An China General.
3. Hui An China General maintained 14 active bank accounts (excluding time deposit accounts) in the PRC. RSM has independently confirmed that there was misappropriation of funds took place in the four bank accounts as mentioned above and RSM was not aware of any misappropriation of funds in the remaining 10 active bank accounts of Hui An China General.
4. Based on the Independent Review, the Former Treasurer has misappropriated funds of the Group of an aggregate amount of approximately RMB24.98 million during the Review Period. A net amount of approximately RMB22.0 million was transferred to four bank accounts. And, they are bank accounts of the Former Treasurer, the then financial manager of Hui An China General (the “**Former Financial Manager**”) and two other independent third parties of the Company. All these four bank accounts were suspected to be controlled by the Former Treasurer and approximately RMB0.5 million was transferred to the bank account of the Former Financial Manager during the Review Period. According to the PRC public security bureau, the misappropriated funds in these bank accounts were used by the Former Treasurer for online gambling in the PRC.
5. The Misappropriation was only discovered by the management of Hui An China General in September 2022 primarily due to the followings:
 - (a) most of the unauthorised bank transfers were in an individual amount of less than RMB50,000 per transfer, which evaded the banks’ alert to high-value transactions;

- (b) the Former Treasurer was able to access two sets of internet banking tokens and passwords required to be used simultaneously to make payment, one of which was under her custody and the other ordinarily under the custody of the Former Financial Manager. Furthermore, the Former Financial Manager failed to request the Former Treasurer to hand over the internet banking tokens and passwords after the cessation of employment of the Former Treasurer in March 2022, resulting in continual access to the bank accounts by the Former Treasurer until September 2022 after the Company discovered the Misappropriation; and
- (c) the Former Treasurer was responsible for obtaining bank receipts and bank statements from the banks for Hui An China General's books and records and for the other finance staff to perform bank reconciliations. It appears that the Former Treasurer fabricated certain bank receipts and bank statements to conceal the unauthorised transactions and, in some cases, created fictitious transactions or modified transactions. The Former Treasurer also intercepted and forged certain audit confirmations to banks during the Review Period.

Company's responses

The Company has ascertained a total net loss as a result of the Misappropriation to be approximately RMB24.98 million. Relevant adjustments to the financial statements of Hui An China General have been made accordingly and would be disclosed in the results announcement of the Group for the year ended 31 December 2022.

Hui An China General suspended the duties of the Former Financial Manager and the accountant of Hui An China General in September 2022 in view of its further internal investigations. As at the date of this announcement, the employment of the Former Financial Manager has been terminated and the accountant of Hui An China General was reinstated.

The findings of the Independent Review also revealed that the Company could enhance its internal control systems in various areas. The Board has taken or is in the process of taking remedial actions to address these concerns. Please refer to the section headed "Remedial actions taken or to be taken by the Company" below for details.

Limitations of the Independent Review

The Independent Review is subject to certain limitations with respect to the scope, performance and access to information, which include mainly:

- (a) interviews could not be conducted with persons who are under police detention or otherwise cannot be located, including the Former Treasurer and the Former Financial Manager, and the interview requests were refused by certain third parties, such as two banks relevant to the Misappropriation; and
- (b) no steps could potentially interfere with any ongoing police investigations could be performed, in particular, no access was given to the documents/computers held by the PRC public security bureau.

POLICE INVESTIGATION

As at the date of this announcement, criminal investigation performed by the PRC public security bureau in respect of the Misappropriation has completed and the matter has been presented to the People's Procuratorate for prosecution of the Former Treasurer. The Former Treasurer is currently detained in the detention center in the PRC. No criminal proceeding was initiated against the Former Financial Manager as at the date of this announcement.

REMEDIAL ACTIONS TAKEN OR TO BE TAKEN BY THE COMPANY

The findings of the Independent Review revealed that the Company could enhance its internal control systems in areas including control over the Company's internet banking tokens and passwords, audit procedures, management of cash and idle funds and internal audit.

The Board has taken or is in the process of taking the following remedial actions to address such internal control concerns:

(1) Implementation of an enhanced bank accounts management system

The Company has implemented an enhanced bank accounts management system of Hui An China General. Three sets of internet banking tokens and passwords are now set up and separately controlled by the new treasurer and the accountant of Hui An China General and the financial officer of the Group. Notifications of any movements in the bank accounts of Hui An China General will be sent to five personnel, being the new treasurer, the accountant and the general manager of Hui An China General, the financial officer of the Group and Mr. Wu Zhisong, an executive Director. The policy of maintaining three sets of tokens and passwords for internet banking has also been adopted by other subsidiaries of the Company.

The duty of collecting bank statements directly from banks and/or downloading bank statements via internet banking in respect of the major bank accounts has been separated from the treasurer and assigned to the accountant or the financial manager of each subsidiary of the Company.

(2) Audit procedures

The Board and the audit committee (the "**Audit Committee**") of the Company have discussed with the auditor of the Company, HLB Hodgson Impey Cheng Limited ("**HLB**"), regarding the auditing standards and audit procedures, in particular those in relation to the audit of the bank accounts of the Group.

The Audit Committee and HLB shall review the key audit matters every year and formulate appropriate audit procedures for high-risk items.

(3) Internal audit function

The Company has formed an internal audit department to review and supervise various departments of the Company and its subsidiaries in order to timely identify any internal control issues within the Group and cooperate with the internal control adviser of the Company to review and assess of the risk management and internal control systems. The Board strives to disseminate a good internal control and risk management culture of the Group and would identify and assess various operational risks from time to time. They would review and enhance internal control measures of the Group for minimising and eliminating identified risks.

(4) Management of cash and idle funds

The Group has enhanced the management of its cash and idle funds of the Group to reduce the risk of misappropriation. The staff shall avoid collecting payments from the customers in cash and request the customers to directly deposit their payments into the Group's bank accounts instead, or otherwise, the staff shall make clear remarks as to the source of fund at the time of deposit for review and verification by the finance department. The management of the Group shall review the idle funds of each subsidiary of the Company every six months and the results of which shall be reviewed and approved by two executive Directors.

IMPACT ON THE GROUP'S BUSINESS OPERATIONS AND FINANCIAL POSITIONS

The Board (including the Audit Committee) is of the view that the Misappropriation does not impose a material adverse impact on the Group's day-to-day operations. In particular, (a) the Group has sufficient cashflows to maintain its normal business operations notwithstanding the Misappropriation; (b) the financial impact of the Misappropriation has been quantified as a total net loss of approximately RMB24.98 million; and (c) no unauthorised contingent liability has been identified in the Independent Review.

The Company will continue to review its existing businesses from time to time and make further announcement as and when appropriate.

INTEGRITY OF EXECUTIVE DIRECTORS

The Board is of the view that the Independent Review was carried out comprehensively by RSM and, as advised by RSM, such review has been completed to the extent that is presently possible except for information relating to the police investigations. The investigative steps taken include, but are not limited to, interviews conducted with the officer from the PRC public security bureau who was in charge of the criminal investigation in respect of the Misappropriation, the accountant of Hui An China General, the current Directors and two banks relevant to the Misappropriation, extensive inspection on relevant bank statements and ledgers of Hui An China General for the Review Period, forensic investigation on the computers used by the executive Directors and the finance department of Hui An China General (except for one computer which was previously used by the Former Treasurer and is currently retained by the PRC public security bureau) as well as other forensic procedures. Full cooperation was given and no limitations were imposed by the Company to RSM during the Independent Review. Concurrent with the Independent

Review, independent criminal investigations were also conducted by the PRC public security bureau which, compared to RSM, are subject to less limitations in terms of access to relevant documentary records and persons involved.

Pursuant to the steps taken in the Independent Review as aforesaid and the police criminal investigations, there are no evidence to date implicating any of the executive Directors involved in the Misappropriation. The executive Directors together with the Group's management are also committed to carrying on the Group's business in an environment with effective and adequate internal control.

Accordingly, the Board remains confident about the integrity of the executive Directors and the continuing operations of the Group under its existing leadership.

By order of the Board
Jiande International Holdings Limited
Shie Tak Chung
Chairman

Hong Kong, 28 March 2023

As at the date of this announcement, the executive Directors are Mr. Shie Tak Chung, Mr. Tsoi Kin Sze and Mr. Wu Zhisong and the independent non-executive Directors are Mr. Ma Sai Yam, Mr. Zhang Senquan and Mr. Yang Quan.

* *For identification purpose only*