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HANG YICK HOLDINGS COMPANY LIMITED

恒益控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1894)

KEY FINDINGS OF INDEPENDENT INVESTIGATION

This announcement is made by Hang Yick Holdings Company Limited (the “**Company**”, collectively with its subsidiaries, the “**Group**”) pursuant to Rule 13.09 of the Listing Rules 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 22 April 2021, 5 May 2021, 7 June 2021, 7 July 2021, 21 July 2021, 21 October 2021, 21 January 2022, 21 April 2022 and 21 July 2022 (together the “**Announcements**”) in relation to, among other matters, (i) the investigations by the Authorities, (ii) the suspension of trading in the Shares, (iii) the appointment of independent forensic accountant, (iv) the Resumption Guidance and (v) quarterly updates on the resumption progress. Capitalised terms used herein shall have the same meanings as defined in the Announcements unless otherwise stated.

BACKGROUND

As announced by the Company dated 22 April 2021 and 5 May 2021, the SFC and CCB attended the Company’s office premises in Hong Kong with search warrants and arrested the Involved Directors in relation to the Alleged Bogus Transactions (as defined below). The Involved Directors were released on police bail on 23 April 2021.

As announced by the Company dated 7 July 2021, SFC and ICAC attended the Company’s headquarters in Hong Kong with search warrants, and Mr. Lee Pui Sun and Mr. Lee Ka Ho, being two of the Involved Directors, were requested to assist ICAC for its investigation. Mr. Lee Pui Sun is arrested and is released on bail. Mr. Lee Ka Ho is not arrested and is also released.

Trading of the Company's shares has been suspended with effect from 9:00 a.m. on 22 April 2021. On 19 July 2021, the Company has been notified by the Stock Exchange of the Resumption Guidance, among others, to conduct an appropriate independent forensic investigation (the "**Independent Investigation**") into the underlying incidents of the investigations by the Authorities, assess the impact on the Company's business operation and financial position, announce the findings of the above investigations (including the Forensic Review) and take appropriate remedial actions.

As announced by the Company dated 7 June 2021, the SIC has engaged RSM as independent forensic accountant to conduct the Forensic Accounting Review in respect of the suspected and/or alleged misconduct of the Involved Directors.

RSM issued the report of the Independent Investigation dated 1 September 2022 (the "**Investigation Report**").

Scope of the Independent Investigation

The primary scope of the Independent Investigation includes identifying, preserving and reviewing evidence which were centred around the Involved Directors' alleged conspiracy to have used bogus transactions to embezzle funds of the Company (the "**Alleged Bogus Transactions**").

In the investigative process, RSM also discovered several payments of prepayments, deposits and advances ("**PPDA**") transactions that were greater than HK\$1 million in the 36 months up to 31 March 2021 and performing analytical review in relation to the PPDA balances that are over HK\$1 million as of 31 March 2021.

Major Investigation Procedure

The major investigation procedures conducted by RSM included, but not limited to, the following:

- (i) obtaining and reviewing electronic copy of documents of the Company in relation to the Alleged Bogus Transactions;
- (ii) identifying, preserving and reviewing evidence in relation to the PPDA transactions in the 36 months leading to 31 March 2021;
- (iii) performing analytical review on transactions over HK\$1 million relating to the outstanding balance of PPDA as of 31 March 2021;
- (iv) interviewing key individuals including, but not limited to, the Involved Directors, that were involved in the Alleged Bogus Transactions and the other directors of the Company;
- (v) obtaining and reviewing electronic data from various custodians' computer, email box and network folder subject to their relevancy and availability; and

- (vi) conducting background research into companies within the Group and certain companies that had previous or current business dealings with the Group.

SUMMARY OF THE KEY FINDINGS OF THE INDEPENDENT INVESTIGATION

Background

1. The Alleged Bogus Transactions comprised two separate payments of deposits, which corresponded to two different purchase agreements with suppliers:
 - (i) On 10 March 2020, Hang Yick Gate Engineering Limited (“**HYGE**”), a subsidiary within the Group, and Golden Fort Trading Company Limited (“**Golden Fort**”) entered into an agreement for the procurement of machinery amounting to approximately HK\$23.8 million (the “**Golden Fort Agreement**”). On 18 March 2020, HYGE paid HK\$9.5 million to Golden Fort as a deposit.
 - (ii) On 11 March 2020, HYGE and EF Company Limited (“**EF**”) further entered into an agreement for the procurement of machinery amounting to approximately HK\$27.3 million (the “**EF Agreement**”). On 26 March 2020, HYGE paid HK\$9.6 million to EF as a deposit.
2. Between December 2018 and October 2019, there were seven substantial PPDA transactions exceeding HK\$1 million which were mainly related to the Group’s PRC business.
3. On 12 October 2018, the shares of the Company (“**Shares**”) were listed on the Stock Exchange.

Key findings of RSM

Based on the major investigative procedures as set out in the section headed “Major Investigation Procedures” above, RSM made the following key findings:

4. The Alleged Bogus Transactions were suspicious and did not appear to have been entered into after arm’s length negotiation. There are a number of indicators which suggest that the Alleged Bogus Transactions were suspicious, *inter alia*:
 - (i) The suppliers were not otherwise introduced by the staff of Huizhou Hengyi Wujin Zhipin Limited production plant which would be the place to house and use the new machineries.
 - (ii) The applied exchange rates of certain purchase prices of the machinery had more than 10% difference from the prevailing exchange rates at the material time of the transactions.

- (iii) Both Golden Fort and EF had failed to supply the machinery or refund the deposits to the Group. From background search and site visits, it did not suggest that Golden Fort or EF can supply the required machinery and/or they had any clear competitive advantage above other potential suppliers.
 - (iv) The EF Agreement, the Golden Fort Agreement and all cheques for payment of the deposits in respect of these two purchases were signed by the Involved Directors.
5. The Alleged Bogus Transactions were not entered into in compliance with the procurement process policy (“**PPE Policy**”), *inter alia* the required supplier’s selection process was not followed:
- (i) The formal approval documents had not been executed and/or maintained for the Alleged Bogus Transactions.
 - (ii) The required comparable quotations pursuant to the PPE Policy from suppliers other than Golden Fort and EF were outdated and were obtained during the IPO process which were at least 22 months before the Alleged Bogus Transactions took place.
6. From computer forensic review, certain agreements which may possibly be related to Golden Fort were revealed. However, no clear explanation could be obtained from Mr. Lee Ka Ho or Mr. Lee Pui Sun as to the background of these agreements. It cannot be ascertained, *inter alia*, when they first knew about Golden Fort and what business and other relationship Mr. Lee Pui Sun may have with Golden Fort before the machinery acquisition.
7. Notwithstanding that EF had failed to provide concrete and reasonable explanation on the delay in the delivery of the machinery, and no security or guarantee was provided in favour of HYGE, HYGE agreed to the proposed repayment schedule. When EF failed to refund the deposit by 30 November 2021 pursuant to a deed of settlement, the Group did not take any further recovery action until a writ of summons was issued in July 2022.
8. Besides, the PPDA transactions may not be entered into under normal commercial arrangement and/or appear to be suspicious. Among others, the following observations were made:
- (i) All the directors claimed that they had or have limited knowledge in respect of the relevant PRC contracts or projects, and they relied on a former senior management (“**Mr. A**”) and a former director (“**Mr. B**”) to handle the relevant due diligence, compliance, contract negotiation and execution and the management of the relevant projects.
 - (ii) Only two of the PPDA were tabled for the Board for approval.

- (iii) There has been a total lack of monitoring of the status and/or progress of the PPDA transactions. There is no information available which suggests that the directors had regular enquiry and discussion in the board meeting in respect of the PPDA transactions although there had been significant delay on the projects as asserted and/or the refund of the deposit and/or the payment of loan interest had been long overdue.
9. In respect of PPDA transactions related to a company, which was introduced by Mr. A to the Company, the following observations were made:
- (i) Mr. Lee Ka Ho has failed to report to the Board and/or conduct investigation in respect of the suspected funds embezzlements perpetrated by Mr. A and Mr. B of the Group, after he received a confession message in August 2020.
 - (ii) Mr. Lee Ka Ho noted that a suspected refund of the deposit paid by the Group was paid to a company apparently controlled by Mr. B and a former employee at that time. Having considered the confession message as mentioned, such payment would be particularly suspicious. However, Mr. Lee Ka Ho did not report the matter to the Board or follow up with or take any steps to confirm the outstanding amount of the deposit.

Limitations of the Independent Investigation

RSM encountered certain limitations (the “**Investigative Limitations**”) during the investigation process which may have limited the extent of the Independent Investigation including the following:

- (i) The Investigation Report only covers information that RSM have received up to 16 August 2022.
- (ii) Mr. Lee Pui Sun and Ms. Lau Lai Ching were interviewed by RSM. The lawyer acting for them claimed that section 378 of the Securities and Futures Ordinance (Cap. 571) which imposes an obligation of secrecy upon his clients, and therefore they were unable to disclose any information in relation to the SFC investigations.
- (iii) Mr. A is another key personnel relevant to the Alleged Bogus Transactions as well as certain PPDA transactions. However, Mr. A declined RSM’s interview invitations and the computer used by Mr. A was not made available for RSM to perform computer forensic review as the Company claimed that the computer was found to be lost.
- (iv) With respect to the PPDA transactions, RSM had issued letters of information request to parties most closely related to the relevant construction projects. However, they were unable to issue a letter to one of the parties due to the lack of a valid address. They have not received any information or replies from any other parties either.

OPINIONS OF THE SPECIAL INVESTIGATION COMMITTEE

The SIC has reviewed and considered the Investigation Report. Subject to the various limitations which RSM encountered or observed as reported in the Investigation Report, the SIC is of the view that RSM had performed appropriate and comprehensive procedures in respect of the Independent Investigation.

In light of the aforesaid, the SIC has the following recommendations:

Seeking professional advice

1. The Board shall seek legal or other professional advice on the following:
 - (i) whether to report to the police in respect of the suspected fund embezzlements through the Alleged Bogus Transactions and the PPDA transactions;
 - (ii) the available legal remedy to recover the outstanding amount of the deposits and loans paid by the Group in the Alleged Bogus Transactions and the PPDA transactions;
 - (iii) the possible claim(s) by the Company and/or its subsidiaries and associates against Mr. A, Mr. B, a former employee and others, for the suspected participation in the suspected fund embezzlements or those PPDA transactions; and
 - (iv) the possible claim(s) by the Company against the relevant directors of the Company for the incompliance of the PPE Policy, approving or allowing the payments in respect of the Alleged Bogus Transactions and the PPDA transactions and/or the failure to take appropriate steps to recover the same in a timely manner.

Re-organisation of the senior management

2. The Board may consider the re-organisation of the senior management of the Company, including the necessity of management and Board clean-up and the appointment of new officers.

Enhancement of internal corporate governance

3. The Board may implement effective corporate governance structure at the senior levels of the Company, such as the appointment of suitably qualified personnel to advise the relevant senior management of the Group with regard to the compliance with the relevant regulatory requirements in all of the Company's business endeavours.

Strengthening internal control

4. The Board may implement enhancements to the Company's internal controls designed to address and resolve all loopholes, weaknesses or issues identified in the course of the Company's continuous efforts on reviewing and enhancing its internal controls, in particular, the following:
 - (1) strengthen the payment authorization processes and the internal compliance with its PPE policy;
 - (2) supervise material contract approval and signing, and segregate the approval and supervision thereof;
 - (3) strengthen governance and operational control over the supervision of the office operations and the Group. In particular, (i) policies, protocols and supervision at the listed company level and the operational companies' levels must be consistent with one another and allow for review and monitoring of all applicable areas, (ii) there ought to be formal requirements for record-keeping, including the retention of relevant supporting materials; and (iii) adequacy of compliance with formal record-keeping requirements to be monitored on an ongoing or regular basis; and
 - (4) designate the roles and responsibilities within senior executive management and the Board as to particular areas of focus for each member or class of members.

OPINIONS OF THE BOARD

The Board has reviewed the content and the findings of the Independent Investigation in the Investigation Report. The Board is of the view that despite the limitations as set forth above, the content and the findings of the Independent Investigation in the Investigation Report are reasonable and acceptable.

In the assessment of the Board, the Board is of the view that the Alleged Bogus Transactions do not have material adverse impact on the business operation and financial position of the Group as those transactions concerned two standalone purchase agreements which are not significant to the day-to-day operation of the Company. Also, the PPDA transactions only concern the Group's PRC business, not its principal business in Hong Kong. The Group's business operations have continued as usual despite the suspension of trading in the Shares since 22 April 2021.

Based on the recommendations of the SIC, the Board will take all necessary remedial actions to safeguard the interests of the Company and its shareholders in timely manner, in light of the issues identified. The remedial actions involved include but are not limited to the following:

1. The Board will seek legal advice and continue to expend efforts on all available methods to exercise its rights in relation to the recovery of the outstanding amounts and pursue damages in relation to the relevant individuals' wrongdoing.
2. The Board will seriously consider the suitability of the Involved Directors in holding any position within the Group. To the knowledge of the Directors, the Involved Directors are willing to cooperate with and follow the Board's directions and its efforts to demonstrate that there is no reasonable regulatory concern about management integrity with the Company.
3. To strengthen the management of the Company, the Board will look for appropriate experienced personnel to join the Board and designate the roles and responsibilities within senior management and the Board as to particular areas of focus for each member or class of members.
4. The Company will enhance its internal controls measures to address and resolve all issues identified in the course of the Company's continuous efforts on reviewing and enhancing its internal controls.
5. The Company will implement measures to strengthen the internal compliance with its PPE policy, with new checks and balances to be installed to ensure due supervision, authorization and approval.
6. The Company will implement measures to segregate the approval and supervision process for material contract approval and signing.
7. The Company will implement measures to strengthen its governance and operational control over the supervision of its office operations and the Group.
8. The Company will explore if a group restructuring is necessary to streamline the organization and group structures.

BUSINESS UPDATE

As at the date of this announcement, the business operations of the Group are continuing as usual in all material respects. The Board will continue to assess and monitor the impact of the suspension of trading (if any) on the operations and financial performance of the Company.

CONTINUED SUSPENSION OF TRADING OF THE SHARES

Trading in the shares of the Company on the Stock Exchange has been halted with effect from 9:00 a.m. on 22 April 2021 and shall remain halted until further notice.

In the meantime, shareholders and potential investors of the Company are advised to exercise caution when dealing in shares of the Company.

By order of the Board
Hang Yick Holdings Company Limited
Lee Ka Chun Benny
Interim Chairman

Hong Kong, 2 September 2022

As at the date of this announcement, the Board comprises Mr. Lee Pui Sun, Ms. Lau Lai Ching, Mr. Lee Ka Ho and Mr. Sin Kwok Chi Stephen as executive Directors, Mr. Lee Ka Chun Benny as non-executive Director, and Mr. Au Yeung Wai Key, Mr. Tse Ka Ching Justin and Mr. Cheung Chun Man Anthony as independent non-executive Directors. The duties of Mr. Lee Pui Sun, Ms. Lau Lai Ching and Mr. Lee Ka Ho are suspended.