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# 天喔國際控股有限公司 Tenwow International Holdings Limited

(In Provisional Liquidation)

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 01219)

## KEY PRELIMINARY FINDINGS OF THE INDEPENDENT FORENSIC INVESTIGATION

Reference is made to the announcements of Tenwow International Holdings Limited (the “**Company**”, which together with its subsidiaries, the “**Group**”) dated 10 May 2018, 29 June 2018, 17 August 2018, 27 August 2018, 12 February 2019, 1 March 2019, 13 May 2019, 2 July 2019, 12 August 2019 and 30 August 2019 in relation to, among other things, (i) provision of financial information of Nanpu to PRC authority; (ii) removal of Mr. Lin as executive director and chairman of the Board; (iii) the Financial Assistance, the Prepayment and the Purchase Agreement (together, the “**Transactions**”); (iv) the establishment of an independent committee of the Board comprising all independent non-executive directors of the Company (the “**IBC**”); (v) appointment of the Forensic Accountant; (vi) anticipated impairment provisions to be made in relation to the financial results of the Group for the year ended 31 December 2018; and (vii) publication of the unaudited consolidated financial information of the Company for the year ended 31 December 2018 (collectively, the “**Announcements**”). Unless otherwise stated, capitalised terms used herein shall have the same meanings as those defined in the Announcements.

### BACKGROUND

As set out in the announcement of the Company dated 10 May 2018, the Company had been unable to directly contact or reach Mr. Lin, a controlling Shareholder, and the then executive director and chairman of the Board. Based on the information then obtained from Mr. Lin’s family, Mr. Lin was assisting relevant authority of the PRC with its investigation. Such investigation was purportedly related to Nanpu. In the same announcement, the Company also announced that the Group had assisted in providing certain financial information relating to Nanpu to PRC authority. Nanpu (i) is owned as to 49% by the Group, and is being recorded as an investment in a joint venture in the financial statements of the Group; and (ii) was the then largest distributor of the Company. Pursuant to the announcement of the Company dated 29 June 2018, Mr. Lin was removed as, among other things, an executive director and chairman of the Board.

On 17 August 2018, the Company announced it had come to the attention of the Board regarding the Transactions comprising:

- (i) *the Financial Assistance* — pursuant to the Comprehensive Credit Line Contract entered into between (a) Tenwow Food (an indirect wholly-owned subsidiary of the Company) and (b) the Loan Bank (being Ningbo Tongshang Bank (寧波通商銀行)), (x) Tenwow Food agreed to allow Tiansheng Warehouse (a company purportedly ultimately owned as to more than 30% by Mr. Lin) to use the Credit Line, and (y) the Loan Bank had right to directly recover all loans from Tenwow Food upon any event of default, and to debit directly from Tenwow Food’s account to settle all debts relating thereto. The Board subsequently discovered an amount of RMB335,657,771 in the relevant accounts of Tenwow Food was deducted by the Loan Bank;
- (ii) *the Prepayment Agreements* — pursuant to seven series of goods purchase agreements (being the Prepayment Agreements) signed by six subsidiaries of the Company (the “**Six Subsidiaries**”) with two entities (the “**Suppliers**”), prepayment in the aggregate amount of approximately RMB1,684,853,063 was made by the Group, but no delivery of goods had been made, and
- (iii) *the Purchase Agreement* — pursuant to an alcoholic beverage purchase agreement (being the Purchase Agreement) entered into between (a) Nanpu Fine Wine (an indirect wholly-owned subsidiary of the Company) and (b) Remfly Investment, payment in the aggregate amount of HK\$60,000,000 was made by the Group, but no delivery of goods had been made.

The Forensic Accountant has been engaged by the solicitors representing the IBC to conduct forensic investigation (the “**Forensic Investigation**”) on the Transactions. The Board would like to update the Company’s shareholders and investors that draft reports of the Forensic Investigation have been submitted to the IBC to consider. The Board is also provided with a copy of the latest draft report. Set out below is a summary of the key preliminary findings as set out in the draft report.

## **THE FORENSIC INVESTIGATION**

### **Summary of the key preliminary findings of the Forensic Accountant**

#### **A. *Financial Assistance***

1. On 23 August 2017, Tenwow Food signed the Comprehensive Credit Line Contract with the Loan Bank, being Ningbo Tongshang Bank (寧波通商銀行). Pursuant to the Comprehensive Credit Line Contract, the credit facility was in the amount of RMB450 million, of which Tenwow Food agreed to transfer RMB400 million of such credit amount to Tiansheng Warehouse with exposure amount of RMB340 million. Tenwow Food also agreed to guarantee and be jointly liable for all debts of Tiansheng Warehouse under the transferred credit line relating thereto. Tenwow Food’s company chop was used for the execution of such contract and its signatory was Mr. Lin. According to interviews with certain personnel of Tenwow Food, banking facility-related documents were all negotiated by Mr. Lin and/or Ms. LY, a former director and executive vice president of Tenwow Food. No internal approval documents relating to use of company chop could be provided to the Forensic Accountant;

2. between 23 August 2017 and 29 August 2017, seven loan agreements were signed between Tiansheng Warehouse and the Loan Bank amounting to loan amount of RMB340 million. Tiansheng Warehouse's company chop was used for execution of such agreements and its signatory was Mr. Z, the then legal representative of Tiansheng Warehouse;
3. during the period from 9 May 2018 to 18 May 2018, various deductions were made by the Loan Bank from the accounts of Tenwow Food in the aggregate amount of approximately RMB335 million, of which:
  - (i) a total of approximately RMB319 million appears to be mandatory deductions made by the Loan Bank (from Tenwow Food's accounts maintained with the Loan bank) pursuant to certain default provisions set out in the Comprehensive Credit Line Contract; and
  - (ii) a total of approximately RMB16 million were transferred from Tenwow Food's account maintained with another bank to Tenwow Food's account maintained with the Loan Bank on six different occasions during the period from 11 May 2018 to 18 May 2018, whereupon subsequently all such funds in Tenwow Food's account maintained with the Loan Bank were deducted on six different occasions by the Loan Bank on the day the respective transfers were made. No internal approval documents relating to such transfer between bank accounts of Tenwow Food maintained with different banks could be obtained during the course of the investigation. According to interview with the Group's personnel, transfer of this nature did not require internal approval. Such kind of transfer could be made at the direction of Mr. Lin or Ms. LY;
4. on 8 October 2018, Tenwow Food commenced legal proceedings against Tiansheng Warehouse claiming the amount of RMB335,657,761.09, being the amount that Tenwow Food had paid on behalf of Tiansheng Warehouse to the Loan Bank. On 26 November 2018, the Shanghai First Intermediate People's Court issued a civil mediation letter confirming that Tiansheng Warehouse had to repay a total of RMB335,657,761.09 to Tenwow Food by December 2018; Tiansheng Warehouse did not perform its obligation under the civil mediation letter. On 15 January 2019, the Shanghai First Intermediate People's Court issued an order to freeze assets of Tiansheng Warehouse. According to the court notice, certain land and property of Tiansheng Warehouse have entered the judicial auction process. However, Tenwow Food had not yet received any proceeds from Tiansheng Warehouse as a result of the enforcement actions;
5. it is noted from the background search that Tiansheng Warehouse is a wholly owned subsidiary of Nan Pu (Hong Kong) Investments Limited (南浦(香港)投資有限公司), which in turn is a company incorporated in Hong Kong and is held as to (a) 86.67% by Mr. Lin, (b) 10% by Mr. Lin's wife and (c) 3.33% by Mr. Z. An executive Director also serves as a director of Tiansheng Warehouse; and
6. it appears that the Loan Bank has no direct connection with the Company.

## ***B. The Prepayment***

1. In May 2018, the then chief financial officer of the Company notified the Board the amount of prepayments, amounting to approximately RMB2 billion, representing an abnormal year-on-year increase of approximately RMB860 million. He also noted certain of such prepayments were not supported by any contracts but rather, were supported only by internal approval forms. Accordingly, he took the view that the nature of such remittances should be treated as current accounts and be reclassified as other receivables;
2. it is noted:
  - (i) there was no prepayment requirement in some of the Prepayment Agreements; and
  - (ii) the Prepayment amount set out in the Company's announcement dated 17 August 2018 mainly resulted from the accounting adjustment of various current accounts (such as account payables and account receivables) as at the end of May 2018, but did not represent the sole amount in the prepayment account itself.

Accordingly, the Prepayment amount set out in the Company's announcement dated 17 August 2018 may not have direct relations to the Prepayment Agreements;

3. sampling check has been conducted on the current account movements (namely account receivables, account payables, advance from customer, prepayments, other receivables and other payables) between the Six Subsidiaries and the Suppliers for the period between 1 January 2016 and 30 June 2018. It is noted there were remittance of funds that was made without supporting contracts or purchase orders;
4. of the payments made to the Suppliers, they were only supported by bank payment receipts in general, with a small portion also being supported by payment application forms endorsed by Tenwow Food's former financial controller and Mr. Lin. Some of such payment application forms were signed by Mr. Lin Qi, an executive Director and the chairman of the Company. The Forensic Accountant was informed that Mr. Lin Qi usually signed such forms while Mr. Lin was away on business upon Mr. Lin's verbal instructions and after having obtained internal endorsement from Tenwow Food's former financial controller without specific enquiries into the payee identity and the payment purpose because Mr. Lin Qi was then responsible for marketing but not finance department of the Group;
5. from the analysis of the inflow and outflow of funds between the Six Subsidiaries and the Suppliers between early 2016 and late 2018, it is noted that the current account movements (i) significantly decreased at the end of June and December each year; and (ii) then significantly increased in the next following month. The cash inflow from the two Suppliers increased in the middle of and at the end of the year, while cash outflow to the Suppliers increased in the next following month;
6. during the first six months of 2018, the net cash outflow from the Six Subsidiaries to the Suppliers amounted to approximately RMB1.162 billion, appearing to have constituted the majority of the abnormal Prepayment amount;

7. as at 31 December 2018, the total amount payable by another 11 subsidiaries of the Company to the Suppliers amounted to approximately RMB40 million;
8. upon keyword search conducted on the ledgers of the Six Subsidiaries, it is noted two of the Six Subsidiaries recorded bills payable to a Supplier, being a bank acceptance bill (承兌匯票) in the amount of RMB57 million and another bank acceptance bill in the amount of RMB24 million; both having been defaulted in June 2018;
9. both Suppliers are companies established in the PRC:
  - (i) in relation to Supplier 1:
    - (a) it had jointly invested in another company with Tenwow Food in 2012, of which Supplier 1 held 21% and Tenwow Food held 39%;
    - (b) its current 70% shareholder is a 0.81% shareholder of a Tenwow Food non-wholly owned subsidiary;
    - (c) its legal representative (“**Mr. T**”) is (A) the husband of Mr. Lin’s wife’s niece, and also (B) a legal representative of Nanpu’s two branch companies (Nanpu being the joint venture in which the Group held 49%);
    - (d) Mr. Lin’s wife was a former shareholder holding 30% equity interest of Supplier 1;
    - (e) its former 70% shareholder is an employee of the Group; and
    - (f) its registered address is within Tenwow Food’s factory premises although there was no signage of Supplier 1 inside such premises;
  - (ii) in relation to Supplier 2:
    - (a) its legal representative and director are Mr. T;
    - (b) Mr. Z is a supervisor of Supplier 2;
    - (c) Mr. Z is a former director of the Supplier 2’s holding company;
    - (d) prior to its acquisition by the Group, Nanpu Fine Wine was a 40% shareholder of Supplier 2’s holding company, and Mr. Z was a former director and shareholder of Nanpu Fine Wine;
    - (e) a director and general manager of Tenwow Food is a director of Supplier 2’s subsidiary;
    - (f) Mr. Lin Qi is a director of Supplier 2’s subsidiary; As of the date of this announcement, the paid-in capital of this subsidiary is zero; and
    - (g) it has been jointly named as defendants with Tiansheng Warehouse (a party involved in the Financial Assistance) in various litigations;

Supplier 1 and Supplier 2 previously made joint investment in a now deregistered company;

10. other than the Suppliers, the Group also had prepayment of approximately RMB43.5 million as at 31 March 2018 made to another supplier, the recoverability of which is called into question. In relation to such supplier:
  - (i) its holding company is owned by Mr. Z;
  - (ii) it shares (a) the same registered address as Tiansheng Warehouse (a party involved in the Financial Assistance); and (b) the same office address as Supplier 2's holding company;
  - (iii) its wholly-owned subsidiary was a wholly-owned subsidiary of the Group prior to listing of the Company's shares; and
  - (iv) its supervisor is the supervisor of various Group companies and is the director and vice president of Tenwow Food, in charge of logistics, purchase and production department; and
11. no amount has yet been recovered by the Group from the Suppliers. No legal action has been taken by the Group, which according to the Group is due to the high upfront payment of legal fees (which pursuant to the relevant laws of PRC, the Group estimated to be not less than RMB22 million) given the enormous amount of claim and the financial difficulties now faced by the Group.

### ***C. The Purchase Agreement***

1. On 9 August 2017, the Purchase Agreement was signed by Remfly Investment and Nanpu Fine Wine for the sale and purchase of wine;
2. Nanpu Fine Wine paid HK\$13.5 million and HK\$46.5 million to Remfly Investment on 11 August 2017 and 28 August 2017 respectively, amounting to an aggregate payment of HK\$60 million. The applications for payment were approved by Mr. Lin;
3. Remfly Investment had not delivered the goods and was in breach of the Purchase Agreement thrice. When the initial two breaches occurred, upon further negotiations, two supplemental agreements were signed;
4. on 3 September 2018, solicitors representing Nanpu Fine Wine wrote to Remfly Investment stating repeated breaches of agreement by Remfly Investment, and demanded Remfly Investment to return the HK\$60 million prepayment together with interests within 7 days. On 9 October 2018, Nanpu Fine Wine commenced legal proceedings against Remfly Investment at the High Court of Hong Kong. On 18 December 2018, the High Court of Hong Kong granted leave to serve the writ on Remfly Investment via Macau lawyers. The writ was served on Remfly Investment by Nanpu Fine Wine on 2 May 2019.
5. it appears that Remfly Investment has no direct connection with the Company;

6. it is noted, however, Mr. Z is a former director and shareholder of Nanpu Fine Wine prior to its acquisition by the Group in 2014.

#### ***D. Recommendations by the Forensic Accountant***

##### *1. Internal control of the payment process*

During the investigation, it is noted that the Group had no written procedure for payment process. Whilst payment approval is mainly obtained through the circulation of payment application forms, the Forensic Accountant discovered that for some large sum payments, they were made without any approval. Neither the cashier nor the accounting department was aware of the purpose of such payments, and the internal auditor did not take notice of these transactions. It is considered the internal control of the Group is ineffective in this respect.

It is recommended that the Group shall improve and strictly implement its internal control system.

##### *2. Account book-keeping*

During the investigation, the following observations were noticed:

- (i) certain outward remittances without any approval documents were recorded as accounts payable, while some were recorded as prepayments;
- (ii) certain payments received were also recorded as prepayments and the relevant vouchers were not accompanied by documents specifying the reasons for accounting entry;
- (iii) certain vouchers for remittance adjustment had no supporting documents specifying the reason and calculation method for the adjustment; and
- (iv) certain vouchers were only marked as reviewed while voucher preparer and responsible accounting officer were left blank, indicating that these vouchers had not undergone the standard preparation, checking and review process but instead were all handled and booked by a single staff.

It is recommended that the following should be adopted:

- (i) for ordinary transactions, the Group should standardise the accounting classification;
- (ii) all vouchers should be accompanied by supporting documents for checking and review; and
- (iii) separation of duties shall be implemented strictly and the finance system should disallow any entry of vouchers which have not been independently checked and reviewed in order to minimise the risks of reporting errors in the financial statements or human errors.

### 3. *Management for the use of chops*

- (i) Tenwow Food established the administrative regulations for the use of chops in 2008. However, the relevant regulations have not been strictly implemented. For instance, the administrative regulations for the use of chops require “the department chops be kept properly by the personnel designated by the department manager, and the chop for financial affairs and name chops of the management shall be kept by the finance department manager and the cashier respectively”. In reality, the chop for financial affairs is controlled by the treasury department and the company chop and name chops of the legal representatives are solely handled by a staff of the administrative department; and
- (ii) while the administrative regulations for the use of chops “requires completed ‘declaration and approval form for the use of chops’ to be numbered for filing on a monthly basis”; in reality, as handover exercise of exiting staff was not comprehensive, there were incomplete chop usage records. The management was unable to confirm whether certain documents stamped with the company chop had been approved properly.

It is recommended that the Group should establish and strictly implement the management system for the use of chops, and conduct regular spot checks.

### 4. *The independence of the internal audit*

- (i) The Group appeared to have made frequent and large amount transfers to the Suppliers in the absence of supporting documents since 2016. However such practice was not reflected in the annual risks report of the Group; and
- (ii) according to interview with the person-in-charge of Tenwow Food’s internal audit, his reporting line was to Ms. LY. Any transactions approved by Ms. LY or Mr. Lin were not included in the scope of internal audit.

It is recommended that internal audit department should report directly to the Board or audit committee to ensure the effectiveness and independence of internal audit work.

## **E. *Limitations of the Forensic Investigation***

The work performed by the Forensic Accountant during the Forensic Investigation was subject to the following limitations:

1. inability to obtain certain corporate and financial information of the Group, including but not limited to (i) group and organisation structure, complete list of departed employees, bank reconciliation statements, full sets of internal policies relating to payment, internal approvals relating to current accounts; (ii) Tenwow Food’s corporate credit report, certain shareholders and directors’ resolutions, other internal approval documents relating to bank transfers, records relating to use of company chops. No computer forensic and discovery procedures had been performed by the Forensic Accountant;



2. inability to obtain information relating to the Group's counterparties, including but not limited to (i) as regards the Financial Assistance, Tiansheng Warehouse's financial records and bank ledgers; (ii) as regards the Prepayment, the Suppliers' financial records and bank ledgers, as well as the delivery logistics information; and
3. inability to conduct interview with a number of key personnel relating to the Transactions including (i) Mr. Lin, certain former Directors, other directors, senior management, and finance personnel who have left their positions with the Group; and (ii) personnel of Tiansheng Warehouse, the Loan Bank and the Suppliers.

## **CONSIDERATIONS OF THE IBC**

The IBC is still in the course of considering the draft report of the Forensic Accountant and will have discussion with the Forensic Accountant (if necessary) before finalising the report. The Company will make further announcements in relation to any material development and progress as and when appropriate.

## **CONTINUED SUSPENSION OF TRADING**

All dealings in the shares of the Company have been suspended with effect from 9:00 a.m. on 13 August 2018. Trading in the shares of the Company will remain suspended until further notice pending fulfilment of the Resumption Conditions and such other further conditions that may be imposed by the Stock Exchange. The Company will keep its shareholders and the public informed of the latest developments by making further announcement(s) as and when appropriate.

**Subject to the application and grant of a validation order, any transfer of the Company's shares may be restricted as Hong Kong Securities Clearing Company Limited may at any time, and without notice, exercise its powers to temporarily suspend any of its services in respect of the Company's shares, including the suspension of acceptance of deposits of share certificates of the Company into CCASS. Shareholders and potential investors of the Company should exercise caution when they deal or contemplate dealing in the shares or other securities of the Company.**

By Order of the Board  
**Tenwow International Holdings Limited**  
*(in Provisional Liquidation)*  
**Ho Wing Yan**  
*Company Secretary*

Hong Kong, 20 September 2019

*As at the date of this announcement, the executive directors of the Company are Mr. Lin Qi and Mr. Yeung Yue Ming; the non-executive directors of the Company are Mr. Liu Zhao and Mr. Hu Hongwei; and the independent non-executive directors of the Company are Mr. Lam Tin Faat, Mr. Lau Fai Lawrence and Ms. Shen Congju.*