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Vision Fame International Holding Limited

允升國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1315)

KEY FINDINGS OF THE FORENSIC REVIEW AND INTERNAL CONTROL REVIEW

Reference is made to (i) the announcements of the Company dated 16, 19 and 30 November 2018, 24 January 2019 and 23 August 2019 in relation to the pledge of bank deposit of Wuxi Taike in the sum of RMB100 million under the Deposit Pledge Contracts to guarantee the indebtedness of Jiangyin Youjia for the Opening Bank Acceptance Bill Contracts entered into between Jiangyin Youjia and the Pledgee Bank, (ii) the announcement of the Company dated 9 January 2019 (the “**Resumption Conditions Announcement**”) in relation to the conditions for the resumption of trading in the shares of the Company (“**Resumption Conditions**”), (iii) the announcements of the Company dated 8 March 2019, 6 and 13 June 2019, 3 September 2019, 3 December 2019 and 6 March 2020 in relation to the update on progress of the Resumption Conditions, (iv) the announcement of the Company dated 6 January 2020 in relation to the preliminary unaudited consolidated financial information of the Group for the year ended 31 March 2019, and (v) the announcements of the Company dated 20 and 22 January 2020 in relation to the disposal of the Target Company by the Group to an independent third party (together, the “**Prior Announcements**”).

Capitalised terms used herein shall have the same meanings as those defined in the Prior Announcements unless the context requires otherwise.

BACKGROUND AND OBJECTIVE OF THE FORENSIC REVIEW

As set out in the Resumption Conditions Announcement, one of the Resumption Conditions is for the Company to announce the findings of the forensic review conducted by PricewaterhouseCoopers Management Consulting (Shanghai) Limited (the “**Forensic Team**”) regarding, among other things, the incident relating to the Deposit Pledge Contracts and take appropriate remedial actions to address the findings.

The Forensic Team has submitted the forensic review report to the audit committee of the Company and the keys findings of the Forensic Team are summarised in this announcement.

KEY FINDINGS OF THE FORENSIC REVIEW

1. Relationship between Wuxi Taike and Jiangyin Youjia

Wuxi Taike's office is located in a building where the personnel of Jiangyin Youjia worked in. Wuxi Taike did not have any dedicated finance/accounting employees prior to December 2018, instead they shared a finance manager, Mr. Liu Yufeng (the "**Finance Manager**") and two accountants who were all employed and paid by Jiangyin Youjia with Jiangyin Youjia.

2. Deposit Pledge

Deposit Pledge at the Pledgee Bank

The information obtained from the Pledgee Bank showed that Jiangyin Youjia had issued a total of RMB100 million promissory notes under the credit facilities guaranteed by the Deposit Pledge Contracts totalling RMB100 million entered into by Wuxi Taike with the Pledgee Bank on 23 August 2018. This is consistent with what the Company noted in November 2018 regarding the Deposit Pledge Contracts.

Based on the information provided by the Pledgee Bank, Jiangyin Youjia previously had loans from another bank (the "**Second Pledgee Bank**") totalling RMB100 million, which was pledged by Wuxi Taike's deposit at the Second Pledgee Bank. The Pledgee Bank persuaded the Finance Manager to transfer Jiangyin Youjia's loan and Wuxi Taike's deposit at the Second Pledgee Bank to the Pledgee Bank.

Again based on information provided by the Pledgee Bank it appears that the Finance Manager had represented both Wuxi Taike and Jiangyin Youjia in the negotiation of the Deposit Pledge Contracts. Mr. Hu Jinqing, the former legal representative of Wuxi Taike, had signed on the Deposit Pledge Contracts on behalf of Wuxi Taike.

The Forensic Team was unable to identify the knowledge and/or involvement of Mr. Dai Jialong (who passed away), and Mr. Hu Jinqing (the former legal representative of Wuxi Taike) and the Finance Manager (who declined to attend an interview with them) in this matter.

Based on information from the Company, it has been informed by the Pledgee Bank on 23 August 2019 that the Deposit Pledge Contracts have expired and the deposit pledge in the sum of RMB100 million under the Deposit Pledge Contracts were released on the same day.

Deposit Pledge at the Second Pledgee Bank

The Forensic Team obtained four deposit pledge contracts entered into between Wuxi Taike and the Second Pledgee Bank, two of them dated August 2016 totalling RMB107 million and the other two dated August 2017 totalling RMB105.4 million, all of which have expired.

The aforesaid finding is inconsistent with the commercial credit report of Wuxi Taike (the “**Commercial Credit Report**”) obtained by the Forensic Team from the Credit Reference Centre of the People’s Bank of China (the “**PBOC**”) which identified only two pledge contracts dated 23 August 2018 totalling RMB100 million entered into by Wuxi Taike with the Pledgee Bank to guarantee the indebtedness of Jiangyin Youjia.

Based on the information provided by the PBOC Wuxi Branch, the Commercial Credit Report has already included all the historical and current records reported by banks in their system, if any; and the reasons for the missing information/records may have been caused by the failure of the relevant banks in reporting such transactions to the PBOC or the deletion of the relevant records by the relevant banks after uploading the transactions into the system.

The relevant officers of the Second Pledgee Bank claimed that they had already uploaded these deposit pledge contracts into the PBOC’s credit system and did not know why such transactions were not contained therein.

The Forensic Team was unable to identify the reasons which gave rise to the inconsistencies noted in the Commercial Credit Report. As the deposit pledge at the Second Pledgee Bank did not appear in the Commercial Credit Report, this casts doubt over the completeness of the information contained in the Commercial Credit Report.

Based on the representation from the Second Pledgee Bank, Mr. Dai Jialong had represented both Wuxi Taike and Jiangyin Youjia in the negotiation of the deposit pledge contracts with the Second Pledgee Bank.

Both the Finance Manager and a relevant officer of the Second Pledgee Bank claimed that they had observed Mr. Chau Chit, an executive Director, signing off a letter at Wuxi to authorize the Finance Manager to handle the relevant procedures relating to the deposit pledge contracts with the Second Pledgee Bank. However, neither of them could provide any evidence to substantiate their statements.

Mr. Chau Chit denied that he was at Wuxi, the PRC when the relevant authorization letter and deposit pledge contracts with the Second Pledgee Bank were signed with the support of the travel records which appears to be consistent with his claims. The relevant authorization letter was for the purpose of authorizing the Finance Manager to facilitate him in handling bank account opening, currency exchange settlement and credit facilities applications.

Although the Pledgee Bank and the Second Pledgee Bank provided resolutions of Wuxi Taike’s board of shareholders/directors, the Board was not aware of these deposit pledge contracts with the Pledgee Bank and the Second Pledgee Bank at the time of these transactions happened and hence they had never approved these resolutions.

3. Other Major Assets — Machinery

Wuxi Taike signed two procurement contracts with Wuxi Taiaoyi Trading Co., Ltd/無錫市泰奧益貿易有限公司 (“**Wuxi Taiaoyi**”) in 2017 for purchasing 70 sets of ultrasonic equipment totalling RMB27.79 million, while the inspection reports for these equipment were issued by another company named Wuxi Meiji Ultrasonic Equipment Co., Ltd/無錫市美極超聲設備有限公司 (“**Wuxi Meiji**”).

According to the official websites of State Administration for Market Regulation (the “**SAMR**”), it appears that Wuxi Taiaoyi shares the same phone number with Jiangyin Youjia and the same email address with Jiangyin Ruijia Mica Technologies Co., Ltd/江陰瑞加合成雲母科技有限公司 (“**Jiangyin Ruijia**”), which is the parent company of Jiangyin Youjia.

Based on information obtained by the Forensic Team from the Finance Manager:

- (i) Wuxi Meiji was the manufacturer of these equipment and Wuxi Taiaoyi only acted as an intermediary for these transactions without charging any mark-ups;
- (ii) Mr. Dai Jialong intentionally put Wuxi Taiaoyi as an intermediary so as to maintain the confidentiality of the key technologies from the personnel of Wuxi Taike and Wuxi Meiji;
- (iii) Wuxi Taiaoyi was previously managed by Mr. Dai Jialong and it is currently managed by his daughter Ms. Dai Zhongqiu;
- (iv) The payment amount and payment method were decided by Mr. Dai Jialong and executed by the Finance Manager; and
- (v) The Finance Manager also admitted that he had recently taken up the role of overseeing the finance operations of Wuxi Taiaoyi.

Based on Wuxi Taike’s unaudited accounting records, a total of RMB25.68 million was paid for these two contracts, and no fapiao has been obtained while the Forensic Team was on site, of which:

- (i) RMB12.68 million was paid to Wuxi Meiji via bank transfers and promissory notes; and
- (ii) RMB13 million was paid to Wuxi Taiaoyi, which according to the General Manager of Wuxi Meiji, has not been received by Wuxi Meiji as of 6 March 2019. The General Manager of Wuxi Meiji advised that this amount should be payable by Wuxi Taike instead of Wuxi Taiaoyi, because Wuxi Taike was the buyer and Wuxi Taiaoyi was just an intermediary for these transactions. The Company believes that Wuxi Taike only had contractual relationship with Wuxi Taiaoyi and did not have any relationship with Wuxi Meiji.

The Finance Manager declined for an interview with the Forensic Team and he refused to provide the fund flow of the RMB13 million received by Wuxi Taiaoyi to the Forensic Team. Mr. Dai Jialong's daughter who currently manages Wuxi Taiaoyi also declined for an interview with the Forensic Team.

According to the Company, Wuxi Taike has received fapiaos for 63 sets of equipment totaling RMB25,011,000 as of the report date, which were issued by Wuxi Taiaoyi in December 2019. The Forensic Team tried to validate the fapiaos on the official websites of the tax bureau on 27 February 2020 and noted that these fapiaos were invalid. The Company contacted Wuxi Taiaoyi on 28 February 2020 and were told that these fapiaos had been cancelled by Wuxi Taiaoyi in January 2020 because they did not have funds for paying the taxes of these fapiaos. Wuxi Taiaoyi stated that they would re-issue the fapiaos once they have the funds for paying taxes.

There was no identification information marked on the equipment kept by Wuxi Taike as a result of instruction from Mr. Dai Jialong in order to maintain confidentiality. Accordingly the Forensic Team was not able to confirm whether the equipment were the same as those listed in the purchase contracts.

As the relevant company personnel involved in the matter had either declined to attend interview or was not available for interview, the Forensic Team was unable to obtain any further information relating to the matter.

4. Other Major Assets — Trade Payables and Receivables

Wuxi Taike's principal business activity during the review period from 1 April 2018 to 30 November 2018 was the trading of titanium dioxide powder. The major vendor and major customer of Wuxi Taike were Jiangyin Xinchashun Mica Productions Co., Ltd/江陰市新晁順雲母製品有限公司 (the "**Vendor**") and Wuxi Qikai Mica Material Co., Ltd/無錫奇凱雲母材料有限公司 (the "**Customer**").

The Forensic Team considered that the Vendor and the Customer appear to be related to Wuxi Taike and Jiangyin Youjia due to the following:

- (i) Based on the records of SAMR, the Vendor shares the same phone number with Wuxi Taike and the same email address with Jiangyin Ruijia, which is the parent company of Jiangyin Youjia; and
- (ii) The Customer's former contact number shown in records of SAMR belongs to the Finance Manager. However, this registered contact number was changed in 2016. The Finance Manager denied having any relationship with the Customer and claimed that he knew nothing about the Customer.

The Forensic Team noted that the Customer's registered address on the records of SAMR appears to be located in a village without any detailed address (no street name or number was provided) and hence were unable to identify its exact location. The Forensic Team visited the Customer in

January 2019 according to the office address provided by the Company and found the “office” was empty — with no people or furniture inside. Subsequently, the Forensic Team contacted the legal representative of the Customer via telephone and requested for a site visit to the office, but their request was declined. Based on the interview with the legal representative of the Customer at Wuxi Taike’s office on 17 January 2019, the Customer was operating at its registered address on the records of SAMR, and the second “office” which the Forensic Team visited was still rented by the Customer.

Since the Customer did not cooperate with the Forensic Team, based on the information available, the Forensic Team could not ascertain if the Customer has any operations.

5. Rental agreements

Wuxi Taike entered into a rental agreement dated 15 March 2016 (“**Rental Agreement**”) with the government of Zhutang County. Wuxi Taike later entered into an undated supplemental rental agreement with Jiangyin Zhutang Investment Co., Ltd (江陰市祝塘投資有限公司) (“**Jiangyin Zhutang**”), which is wholly owned by the government of Zhutang County (the “**Supplemental Rental Agreement**”). The Supplemental Rental Agreement was signed by Mr. Hu Jinqing on behalf of Wuxi Taike. According to the Rental Agreement, the rental from 15 March 2016 to 14 March 2018 was for free and market rental shall be charged after the rent-free period. According to the Supplemental Rental Agreement, the annual rental fee amounted to RMB14.5 million for the period from 15 March 2018 to 14 March 2021. The Supplemental Rental Agreement also states that rental fee shall be paid to Jiangyin Youjiu Investment Co., Ltd (江陰攸久投資有限公司) (“**Jiangyin Youjiu**”), which is owned by Yan Wei (identity unknown) and Ms. Liu (the Accountant of Jiangyin Youjia) according to SAMR. Based on the Forensic Team’s review of Wuxi Taike’s bank ledger, it has paid a total of RMB9.5 million to Jiangyin Youjiu.

Based on information obtained by the Forensic Team:

- (i) the office building and plant of Wuxi Taike was in fact owned by Jiangyin Ruijia, the parent company of Jiangyin Youjia, according to the property ownership certificates provided by the Company;
- (ii) Jiangyin Youjiu was controlled by a friend of Mr. Dai Jialong and it did not have any relationship with Ms. Liu Yena (the accountant of Jiangyin Youjia) based on the representation from the Finance Manager;
- (iii) the purpose for involving Jiangyin Youjiu and the government of Zhutang County in the agreement was to avoid the rental fee payments being treated as related party transactions based on the representation from the Finance Manager;
- (iv) Jiangying Zhutang has agreed to terminate the Supplemental Rental Agreement with Wuxi Taike on 1 October 2018 and confirmed that the rental fee for the period of 15 March 2018 to 30 September 2018 was waived; and

- (v) Wuxi Taike signed a supplemental rental agreement with Jiangyin Youjia on 20 August 2019 at an annual rental fee of RMB14.5 million from 1 October 2018 to 30 September 2020.

6. Status of Assets other than Bank deposits

According to the unaudited accounting records of Wuxi Taike, the ending balances of assets (before impairment) of Wuxi Taike as of 30 November 2018 mainly composed of deposits (which were pledged at the Pledgee Bank), receivables, prepayment and fixed assets and construction in progress (mostly machineries).

The guarantees made with financial institutions in Mainland China would have been incorporated in the PBOC Commercial Credit Reports. For guarantees made with non-financial institutions, the Forensic Team performed searches on the official websites of the SAMR on 18 April 2019 and did not note Wuxi Taike having any records of guarantees. However, it's not mandatory for Chinese companies to report their guarantees to the Administration for Industry and Commerce. Therefore, the Forensic Team was unable to confirm whether Wuxi Taike has made any other guarantees other than those noted from their review.

7. Limitations of the Forensic Review

The Forensic Review is subject to certain limitations with respect to scope, performance and access to information which are mainly as follows:

- (i) The Forensic Team was unable to gain access to the computers and/other electronic devices used by eight relevant personnel who may have involvement and/or knowledge of the matter and their server emails (if any) to identify any information relating to the matter. The eight relevant personnel were Mr. Dai Jialong (former executive Director), Mr. Hu Jinqing (former legal representative), Mr. Dai Jiang (deputy general manager), Ms. Dai Zhongqiu (legal representative), the Finance Manager, Ms. Liu Yena (accountant), Mr. Gu Dongliang (accountant), and Ms. Cao Xiwei (accountant). The Forensic Team was advised by the Company that the computers and/or other electronic devices used by these individuals do not belong to Wuxi Taike;
- (ii) Wuxi Taike does not have a computer server for hosting company emails. Instead, it has applied for free corporate email accounts for certain employees provided by Aliyun.com. The Forensic Team requested for the list of employees that have been provided corporate email accounts but were not provided with such information; and
- (iii) The Forensic Team was unable to interview with the former legal representative of Wuxi Taike and four relevant personnel of Jiangyin Youjia (the Finance Manager, Mr. Gu Dongliang, Ms. Liu Yena, and Ms. Dai Zhongqiu) to understand their involvement and/or knowledge of the matter and seek explanations/clarifications for any issues noted from our review.

8. Other Observations

The Forensic Team noted that Wuxi Taike has very limited dedicated employees and most of its daily operations (including finance function) appear to be run/managed by Jiangyin Youjia's personnel. In addition, the daily operations of Wuxi Taike appeared to have been dominated by Mr. Dai Jialong. The way that the business of Wuxi Taike was managed appears to give rise to an inherent conflicts of interest and management override and it also limits the Company's access to critical information such as relevant individuals' computers and relevant individuals who were involved in running the Company's daily operations.

The Forensic Team recommended the Company should consider undergoing a structural change to have a complete separation of Wuxi Taike's business/operations from any other companies e.g. assigning dedicated employees and computers to Wuxi Taike and ensure that proper controls are put in place to prevent similar matters from happening again in the future.

REMEDIAL ACTIONS

(1) Internal Control

The findings of the Forensic Review revealed concerns in the Company's internal control system.

On 24 May 2019, the Company engaged an internal control consultant (the “**Internal Control Consultant**”) to conduct an internal control review on the Company's risk management process; the entity level control environment; resources, qualification, and experience of staff of accounting, internal audit and financial reporting functions; and Wuxi Taike's sales process, procurement process, cash management process, bank borrowing management process and property, plant and equipment management process from 1 January 2019 to 30 April 2019. Following this review, the Company is in the process to implement a number of internal control measures to enhance the Company's internal control systems. The audit committee of the Company will discuss with the Internal Control Consultant as to the scope of the follow up review on the remedial actions taken by the Company.

The table below summarises the material findings of review conducted by the Internal Control Consultant on the Company and the remedial actions in current stage taken by the Company.

Material findings

A well-defined entity-wide risk management process was not established and applied.

Remedial actions currently taken

An entity-wide risk management policy to identify relevant risks at both the entity level and the process activity level, perform risk assessment and provide a basis for managing the risks has been prepared and is under review.

Material findings

Comprehensive and consistent corporate governance policies and procedures applicable to Hong Kong, Singapore and Mainland China operations were not established for employees to follow.

Comprehensive policies and procedures on preventing and detecting management overriding established controls were not in place.

A compliance officer was not appointed and policies and procedures on compliance function were not documented.

Monitoring activities of subsidiaries or business units with documentation needed to be enhanced.

Policies and procedures on anti-fraud, anti-money laundering, anti-corruption mechanism, including whistleblower program, were not documented.

Policies and procedures to identify and report connected persons and connected transactions were not documented.

The table below summarises the material findings of review conducted by the Internal Control Consultant on Wuxi Taike. Since Wuxi Taike was disposed of to an independent third party as announced by the Company on 20 and 22 January 2020, for the existing members of the Company or potential new business, management will implement the remedial actions.

Remedial actions currently taken

Comprehensive corporate governance policies and procedures to be made available to all employees have been prepared and is under review.

The risk management policy to address the areas mentioned is under review.

The management team has decided to take further action according to the Board's suggestion, such as hiring or outsourcing a compliance officer.

The Company further defined the roles of responsible parties within the structure to help monitoring activities of subsidiaries or business.

A standalone comprehensive code of conduct for employees to address the areas mentioned is under review and will be adopted.

A standalone comprehensive code of conduct for employees to address the areas mentioned has been prepared and is under review.

The connected transaction policies have been prepared and are under review. A summary of connected persons would be distributed to relevant heads of business units as soon as possible.

Material findings

Remedial actions to be taken

Accounts receivable aging of Wuxi Taike was not prepared and allowance for expected credit loss was not assessed and provided for. Wuxi Taike also failed to document the policies and procedures on collection of receivable.

Policies and procedures to address the areas mentioned would be prepared and adopted to avoid the similar issues mentioned.

Certain payments were not paid by Wuxi Taike directly to a supplier or persons on the payroll list, instead they were paid by Jiangyin Youjia on behalf of Wuxi Taike.

Measures would be adopted on the payments to suppliers or persons on the payroll list directly by the Company.

Wuxi Taike did not establish policies and procedures to safeguard cash.

Policies and procedures to safeguard cash, including preventing unauthorized persons from accessing bank accounts, forging the entity's chops, and obtaining bank documents or information in connection with the entity would be adopted.

Wuxi Taike did not establish policies and procedures on bank borrowings, pledges and guarantees.

Policies and procedures on bank borrowings, pledges, and guarantees would be adopted.

(2) Litigation in respect of the trade receivables

As disclosed in the Company's announcements dated 3 September 2019 and 20 January 2020, the Group has commenced legal proceeding against the Customer. Following the commencement of legal proceeding at the Jiangyin City People's Court (江陰市人民法院) (the "**Court**") on 27 August 2019, the Customer did not attend the court hearing or defend the legal proceeding. On 21 February 2020, a judgment was handed down by the Court which was received by the Company on 6 March 2020 (the "**Judgment**"). Pursuant to the Judgment, Wuxi Taike succeeded in its claim and it was held that the Customer is ordered to pay the trade receivables of RMB62.1 million together with interests to Wuxi Taike within 10 days of the date of the Judgment. As at the date of this announcement, Wuxi Taike has not received any payment from the Customer.

OTHER MATTERS

Disposal of Wuxi Taike

Reference is made to the announcements of the Company dated 20 and 22 January 2020. The Company entered into a sale and purchase agreement with an independent third party on 20 January 2020 in relation to the disposal of the entire issued share capital of the holding company of Wuxi Taike (the “**Disposal**”). Completion of the Disposal had already taken place on 28 February 2020.

Potential notifiable transactions and/or connected transactions

The Board is assessing certain transactions entered into between Wuxi Taike and Jiangyin Youjia other than the provision of Deposit Pledge. If any of those transactions constitute notifiable transactions and/or connected transactions, appropriate announcement will be made by the Company.

CONTINUED SUSPENSION OF TRADING

All dealing in the Shares has been suspended since 3 December 2018. Trading in the Shares will remain suspended until further notice pending fulfilment of the conditions stated in the resumption guidance and such other further conditions that may be imposed by the Stock Exchange. The Company will keep the Shareholders and the public informed of the latest developments by making further announcement(s) as and when appropriate.

By order of the Board
Vision Fame International Holding Limited
Chau Chit
Chairman and Chief Executive Officer

Hong Kong, 13 March 2020

As at the date of this announcement, the Board comprises three executive Directors, namely Mr. Chau Chit, Mr. Xie Xiaotao and Mr. Zhu Xiaodong; and three independent non-executive Directors, namely Mr. Tam Tak Kei Raymond, Mr. Wong Kai Tung Simon and Mr. Wong Wai Kwan.