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Suoxinda Holdings Limited

索信达控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3680)

Financial adviser to the Company



禹銘投資管理有限公司
YU MING INVESTMENT MANAGEMENT LIMITED

KEY FINDINGS OF THE INVESTIGATION

This announcement is made by Suoxinda Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) pursuant to Rule 13.09(2)(a) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and the Inside Information Provisions (as defined in the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the “**SFO**”).

Reference is made to the announcements of the Company dated 30 March 2021, 31 March 2021, 1 April 2021, 15 April 2021, 26 May 2021, 28 June 2021, 30 June 2021, 19 August 2021 and 31 August 2021 (the “**Prior Announcements**”) in relation to, among others, (i) the delay in publication of the 2020 Annual Results and the 2021 Interim Results; (ii) the suspension of trading in shares of the Company; (iii) the Resumption Guidance issued by the Stock Exchange; (iv) the change of auditor of the Company; (v) the quarterly update on the resumption progress, business operations and financial position of the Company; and (vi) the profit warning of the Company for the six months ended 30 June 2021. Capitalised terms used herein shall have the same meanings as those defined in the Prior Announcements unless otherwise stated herein.

BACKGROUND, SCOPE AND MAJOR INVESTIGATION PROCEDURES OF THE INVESTIGATION

Background

As disclosed in the announcement of the Company dated 30 March 2021, PwC, the former auditor of the Company, requested, among others, the Board to form an independent investigation committee to commission an independent investigation (the “**Investigation**”) on the transaction contemplated under a consultancy services agreement (the “**Agreement**”) entered into between the Company and a service provider (the “**Service Provider**”) pursuant to which the Company made a payment of HK\$8 million to the Service Provider (the “**Transaction**”). On 30 March 2021, an independent board committee of the Board (the “**IBC**”) comprising all independent non-executive Directors was established.

On 7 June 2021, Grant Thornton Advisory Services Limited (the “**Investigation Firm**”) was engaged to conduct the Investigation on the Transaction.

On 24 June 2021, PwC resigned as auditor of the Company. In its Resignation Letter, PwC has also suggested that the scope of the Investigation should also cover transactions with heightened risk features, such as those transactions solely approved by the chairman of the Board, carried out in Hong Kong and not being considered as part of the ordinary course of business of the Group (the “**Subject Transactions**”).

On 16 July 2021, a supplemental mandate was signed between the Company and the Investigation Firm to extend the scope of the Investigation to cover the Subject Transactions.

On 8 September 2021, the Investigation Firm issued the final report on the Investigation (the “**Report**”) to the IBC.

Scope of the Investigation

The primary scope of the Investigation are as follows:

1. Part I — on the Agreement and the Transaction relating to the issues raised by PwC, including:
 - (i) details of background of the Service Provider and its role and involvement in the Company’s IPO, if any, and its relationship with the Company, its shareholders and the management;
 - (ii) the commercial substance and business rationale of the Transaction;
 - (iii) details of due diligence, service procurement and vendor selection procedures, internal controls and approval procedures conducted and proposals/materials considered before the Company engaged the Service Provider;

- (iv) whether the level of service fees and payment terms in respect of the Transaction as contemplated under the Agreement are comparable to the market;
- (v) whether the payment to the Service Provider represents listing expenses, if not, whether such payment represents use of the Group's IPO proceeds and whether it is in accordance with the planned use of proceeds as stated in the IPO prospectus of the Company; and
- (vi) details and supporting documents in respect of the services provided by the Service Provider to the Company.

The review period for Part I of the Investigation is from 1 June 2019 to 31 December 2020.

- 2. Part II — on the Subject Transactions of the Company conducted during the period from 13 December 2019 (i.e. the date of listing of the Company's shares on the Stock Exchange) to 30 June 2021.

Major Investigation Procedures

The major investigation procedures conducted by the Investigation Firm include, but not limited to, the following:

Part I

- 1. obtaining and reviewing relevant documents and correspondences relating to the Agreement and the Transaction (including but not limited to the Agreement, correspondences between the Group and the Service Provider, internal records of the Company, bank documentation and Transaction deliverables);
- 2. reviewing the internal control policies and procedures of the Group in relation to service procurement and vendor selection and conducting interviews with the relevant personnel of the Group who are responsible for carrying out such procedures;
- 3. conducting interviews with relevant personnel of the Group (including executive Directors, management, employees from the finance department and other relevant personnel) to understand, among others, the circumstances leading to the entering of the Agreement (including the approval procedures as well as the service procurement and vendor selection procedures conducted by the Company), as well as its commercial substance and business rationale;
- 4. conducting interviews with representatives of the Service Provider to understand, among others, the service scope under the Agreement, the basis of the service fee, the payment terms and whether they are in line with comparable transactions in the market;

5. conducting interviews with representatives of certain working parties to the Company's IPO to understand if the Service Provider has taken any part or assume any role in the Company's IPO, and whether the payment of service fee to the Service Provider pursuant to the Agreement represents the listing expenses or the use of the IPO proceeds by the Company;
6. issuing independent requisition letters to the relevant bank and the Service Provider to verify the payment of service fee by the Company pursuant to the Agreement;
7. conducting independent background check on the executive Directors and management of the Company, as well as on the Service Provider and one of the underwriters to the Company's IPO (the "Underwriter") to ascertain their relationships among each other (if any);
8. performing preservation on electronic data under the custody of relevant personnel of the Group, develop search terms pertaining to the Agreement and the Transaction and review electronic data (including but not limited to emails, Word, Excel or PDF documents, instant messages and images) with responsive hits of the search terms;

Part II

9. obtaining and reviewing relevant documents of the Group (including financial statements, bank documentation and records, payment records and list of payees) to identify the Subject Transactions for the period from 13 December 2019 to 30 June 2021;
10. obtaining and reviewing the internal approval and payment records of the Subject Transactions;
11. conducting interviews with the executive Directors, management, employees of the finance department and other relevant personnel to understand the relevant internal control policies, approval procedures and payment arrangement of the Group with regard to the Subject Transactions; and
12. performing preservation on electronic data under the custody of relevant personnel of the Group, develop search terms pertaining to the Subject Transactions, review electronic data with responsive hits of the search terms and perform analysis on payment records.

SUMMARY OF THE KEY FINDINGS OF THE INVESTIGATION

Part I — the Agreement and the Transaction

Based on the major investigation procedures as set out in the section headed “Major Investigation Procedures” in this announcement, the Investigation Firm has made the following key findings in relation to the Agreement and the Transaction:

Circumstances leading to the entering of the Agreement, its commercial substance and business rationale

1. At an internal meeting of the Company held in April 2019, a preliminary fundraising target of RMB800 million was set down by the management of the Company in the next four years for the Company’s business development. Based on the then valuation of the Company, the management understood that it would not be able to achieve such fundraising target through the Company’s IPO alone. As such, the management considered the Company would need further fundraising in the future.
2. In view of the above, the management considered the Company needed an experienced management personnel familiar with the Hong Kong capital market to prepare for and assist the Company’s future fundraising activities. Due to the fact that the Company was unable to recruit such personnel at the time, it was discussed at the above meeting that the Company may explore the alternative of engaging an external financial consultancy company to provide financial consultancy services in such connection.
3. In or about June 2019, Mr. Song Hongtao, an executive Director and the Chairman of the Board (“**Mr. Song**”) was introduced through an acquaintance to a Mr. Chan, who was the chairman and a director of the Service Provider. Mr. Chan has also been the chairman and a director of the Underwriter since November 2019. During his various meetings with Mr. Song, Mr. Wu Xiaohua, an executive Director (“**Mr. Wu**”), the deputy director of finance and the manager to the office of the Board (the “**Board Manager**”), Mr. Chan represented that the Service Provider could provide long-term financial consultancy services to the Company; while the Underwriter could provide underwriting services to the Company at its IPO.
4. The Underwriter was appointed by the Company as one of the joint bookrunners, joint lead managers and underwriters for its IPO. Given the fact that the Underwriter managed to underwrite a substantial portion of the IPO shares, the Company recognised Mr. Chan’s ability through the positive working experience with him during the IPO and accepted his recommendation to engage the Service Provider for provision of financial consultancy services to the Company. Having considered the above (and the basis of the service fee, as more particularly described in the paragraphs headed “Basis of service fee and payment terms” below), the Company entered into the Agreement with the Service Provider on 15 December 2019.

Due diligence and internal control

5. It was the findings of the Investigation Firm that, while the Group has adopted various internal control procedures and policies with regard to service procurement and vendor selection, such procedures and policies were not strictly followed when the Company engaged the Service Provider. This was mainly due to the fact that the Company already had a successful working experience with Mr. Chan during the IPO and recognised his ability as discussed above and did not consider it necessary to conduct further due diligence on the Service Provider at the time. Also, the Company considered that it would be difficult to compare solely the service fee under the Agreement with fee quotes from other financial consultancy companies without understanding their capabilities, and the Company considered that fundraising capability is the key determining factor to decide on which service provider to engage. The Underwriter, as led by Mr. Chan and his team, has demonstrated such capability at the Company's IPO and the Company regarded this as part of the due diligence conducted in practice.
6. Based on the interviews conducted, the Company has reached out to two other external financial advisory firms to discuss possible engagement of financial consultancy services. However, no agreement was reached at the end as there was no opportunity for the Company to ascertain the two service providers' actual capabilities and successful cases.

Background of the Service Provider, the Underwriter and their relationships with the Group

7. The Service Provider is a company incorporated in Hong Kong on 12 January 2009. It is licensed to carry out Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO. As represented by Mr. Chan, he was the ultimate beneficial controlling shareholder of the Service Provider. As at 30 June 2021, the Service Provider held approximately 0.37% of the shares of the Company. Based on the best information and knowledge of the Directors, such shares are held by the Service Provider as nominee for and on behalf of its customers.
8. Based on the review of the website of the Service Provider, the Investigation Firm found that the Service Provider has listed out its services provided under its licences for Types 1, 4, 6 and 9 regulated activities under the SFO. However, no information relating to its other past transactions were provided on its website. According to the interviews conducted by the Investigation Firm, Mr. Chan represented that the Service Provider has provided services similar to the Transaction in the past. Based on various interviews conducted, the Investigation Firm has also not found any information to suggest that the Service Provider has played any role in the Company's IPO.

9. The Underwriter is a company incorporated in Hong Kong on 30 December 2008. It is licensed to carry out Type 1 (dealing in securities) and Type 2 (dealing in futures contracts) regulated activities under the SFO. The Investigation Firm noted that the Underwriter has past credential in providing corporate finance services to clients (such as acting as placing agent, making mandatory cash general offers) from its website.
10. Mr. Chan has been the chairman and a director of the Service Provider since 8 March 2016; and a director of the Underwriter since 11 November 2019. Mr. Lam is the chief executive officer of the Service Provider. As represented by Mr. Chan, while he is a shareholder of both companies, the Service Provider and the Underwriter are two companies operating independently of each other.
11. Based on the independent investigation conducted by the Investigation Firm, save for being parties to the Agreement and that the Service Provider holds shares of the Company, there was nothing to suggest that there is any relationship between the shareholders, directors and key management of the Service Provider with the Company, the shareholders of the Company and its management.

Basis of service fee and payment terms

12. The Service Provider originally quoted a fee of HK\$12 million for the provision of services under the Agreement to the Company, and such fee was subsequently reduced to HK\$8 million on the basis that it would be paid upfront, with the payment being one-off and non-refundable, in return for the reduced fee. Based on the interview with the management of the Service Provider, the service fee was determined mainly based on the costs of the Service Provider in providing relevant services and client's acceptance level instead of making reference to any market price, and was comparable to the fees of other projects of the Service Provider in the past which only require the issue of market analysis reports. Mr. Chan requested that a one-off, non-refundable prepayment shall be made after having considered the interest of the Service Provider, as it may utilise such upfront payment for generating interest income. The parties to the Agreement finally agreed the service fee to be HK\$8 million, and to be paid in full by 31 January 2020.
13. Mr. Chan also represented that the Agreement was for a term of four years as this would allow time for the Service Provider to introduce investors to the Company.
14. As represented by Mr. Song, the Company lacked senior management with capital market experience. However, as the Company could not identify the right candidate with relevant experience, it decided to engage an external financial consultancy company for the provision of such services. It is the estimate of the Company that if it were to recruit relevant personnel with experience in the Hong Kong capital market, the relevant expenses would be approximately HK\$2 million to HK\$3 million per year. Having considered the above and the future fundraising needs, the Directors and management of the Company considered that the revised fee quote of HK\$8 million

(covering a service period of four years) from the Service Provider to be reasonable. The Company agreed the one-off, upfront and non-refundable payment arrangement for Hong Kong profits tax reason as claimed by the Service Provider.

15. Based on the review of relevant bank records, the Company paid the service fee of HK\$8 million to a Hong Kong bank account of the Service Provider on 13 January 2020.

Payment of service fee and use of IPO proceeds

16. Based on the interviews conducted, the Investigation Firm noted that the service fee under the Agreement did not form part of the listing expenses and did not represent the use of the IPO proceeds. The service fee was settled by internal resources of the Group.

Provision of services by the Service Provider

17. The Board Manager was the person primarily responsible for following up with the Transaction with the Service Provider. Shortly after the signing of the Agreement, it was the Chinese New Year holiday, following which was the outbreak of the novel coronavirus (“COVID-19”). Many companies and institutions adopted the work from home arrangement and the Company only resumed its normal work arrangement in mid-April 2020. Also, under the COVID-19 backdrop, the Hang Seng Index has dropped and the general market sentiment was cautious and conservative at the time. In light of the travel restrictions imposed due to COVID-19, it was impractical to arrange any investor site visits at the time. While some online investor relationship activities had been conducted by the Company, no feedback was received from potential investors. As such, it is the view of the Company that the provision of services by the Service Provider was impeded due to the outbreak of COVID-19. In mid-2020, the Company has also established its own investment department responsible for identifying potential investors in the PRC.
18. Mr. Chan represented that while he had been in continuous contacts with potential investors, due to the conservative market sentiment as a result of COVID-19 at the time and the decrease in financial performance of the Company as a result of its expansion, the Service Provider would have to wait for appropriate timing before it could line up and introduce investors to the Company.
19. As a result of the above, it is the understanding of the Service Provider and the Company that the relevant services to be provided under the Agreement would be temporarily postponed until the market sentiment improves.
20. Save for the provision of a few market research reports and limited contact information of potential investors, no other specific services have been provided by the Service Provider to the Company pursuant to the Agreement. Having reviewed the market

analysis reports provided by the Service Provider, the Investigation Firm noted that these reports provide information and analysis on the capital market, with information and analysis related to the PRC Fintech industry as well as the banking and securities wealth management industry, which includes one of the Company's major customers. The Investigation Firm noted that major customers of the Company include banks and securities companies.

21. Against the above background, on 2 August 2021, a termination agreement was signed between the Company and the Service Provider upon arm's length negotiation, pursuant to which the parties agreed to terminate the Agreement and the Service Provider agreed to refund an amount of HK\$4.8 million (the "Refund") to the Company (representing approximately the service fee for the period from 1 August 2021 to 31 December 2023). The Refund was received by the Company in full on 24 August 2021.

Part II — the Subject Transactions

Based on the major investigation procedures as set out in the section headed "Major Investigation Procedures" in this announcement, the Investigation Firm has made the following key findings in relation to the Subject Transactions:

1. The Investigation Firm identified 35 transactions of the Group (being transactions which were not intra-group transactions and carried out through the Group's bank accounts in Hong Kong with transaction amount over RMB330,000) which took place between 13 December 2019 to 30 June 2021. Of these 35 transactions:
 - (i) the payment of seven transactions were approved by two relevant personnel (being one approval from the finance department and one approval from an executive Director, being either Mr. Song or Mr. Wu);
 - (ii) the payment of 27 transactions were approved by more than two relevant personnel; and
 - (iii) for the remaining one transaction, given that it was a bank security deposit and bank fee charge transaction and was not related to any procurement made by the Group, it was not subject to the same approval process as the other transactions.
2. The Investigation Firm did not identify any transaction out of the above 35 transactions which was solely approved by Mr. Song.
3. Regarding the nature of the 35 transactions, they involved fees paid to professional parties in relation to the Company's IPO and resumption works, data technology fee, fund transfer for purpose of wealth management, miscellaneous service fees, acquisition of motor vehicles, fees paid to the Service Provider pursuant to the Agreement and Hong Kong profits tax payment.

Others

4. After having performed all the investigation procedures as set out in the section headed “Major Investigation Procedures” in this announcement, the Investigation Firm did not have any finding which is materially inconsistent with the representations made by the interviewees or the Company (both in relation to Part I and Part II of the Investigation).

LIMITATIONS OF THE INVESTIGATION

Certain limitations the Investigation Firm encountered during the Investigation process which may have limited the extent of the Investigation are set out below:

1. PwC declined to attend interviews with the Investigation Firm as it considered (i) it has already set out the relevant issues relating to the Agreement, the Transaction and the Subject Transactions in its letter to the Audit Committee dated 30 March 2021 and in the Resignation Letter; and (ii) it has resigned as auditor of the Company. As such, the Investigation Firm could not find out and understand from PwC in an interview the detailed basis for raising the issues relating to the Agreement, the Transaction and the Subject Transactions.
2. The Investigation largely relied on the voluntary cooperation of the Group as well as other relevant third parties. The Investigation Firm was not in a position to fully verify the representations made by the interviewees or ensure that the Investigation findings were without errors.

OPINIONS OF THE IBC AND THE BOARD

The IBC and the Board are of the view that the content of and findings in the Report are reasonable and acceptable, and the Board is of the view that the Report has adequately addressed the concerns raised by PwC.

The Board is also of the view that the findings identified in the Report do not affect the business operation and financial position of the Group. The Group’s business operation continues as usual despite the suspension of trading in the Company’s shares since 1 April 2021.

However, the IBC and the Board consider that there is room for improvement in the Group’s internal control systems and procedures. At the recommendation of the IBC, the Board will take the following actions:

1. optimize and improve the corporate governance mechanism under the guidance of the Board, enhance the approval procedures by providing quantitative and qualitative guidance so that a wider scope of significant matters could be reported to the Board for review; improve and enhance the corporate governance procedures in relation to internal control, operational and financial reporting matters to the Board on an expanded and regular basis;

2. restructure the Company's existing internal control team to an independently operated internal control department to enhance the independence and professionalism of internal audit function, expand the terms of reference on risk control and audit functions of the internal control department; increase the frequency of regular internal control review so as to identify and take remedial measures against potential internal control issues on a timely manner; provide regular trainings for management personnel of the Group in this regard; and
3. improve the procurement policies and procedures of the Group, including but not limited to, suppliers selection, service progress monitoring, service deliverable verification, and service assessment procedures.

CONTINUED SUSPENSION OF TRADING

At the request of the Company, trading in the shares of the Company on the Stock Exchange has been suspended with effect from 9:00 a.m. on 1 April 2021 pending the publication of the 2020 Annual Results by the Company and will remain suspended until the Company fulfills the Resumption Guidance.

The Company will publish further announcement(s) and quarterly updates to keep its Shareholders and potential investors informed of the latest resumption progress and other update and development of the Company as and when appropriate.

Shareholders and potential investors of the Company are advised to exercise caution when dealing in the shares of the Company.

By Order of the Board
Suoxinda Holdings Limited
Song Hongtao
Chairman of the Board

Hong Kong, 9 September 2021

As at the date of this announcement, the Board comprises four executive Directors, namely Mr. Song Hongtao, Mr. Wu Xiaohua, Mr. Lam Chun Hung Stanley and Ms. Wang Jing; and three independent non-executive Directors, namely Mr. Tu Xinchun, Ms. Zhang Yahan and Dr. Qiao Zhonghua.