Janco Holdings Limited
駿高控股有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 8035)

KEY FINDINGS OF THE INDEPENDENT REVIEW AND UPDATE ON RECENT DEVELOPMENT OF SUSPENSION OF TRADING

This announcement is made by Janco Holdings Limited (the "**Company**", together with its subsidiaries, the "**Group**") pursuant to Rule 17.10 of the Rules Governing the Listing of Securities on GEM (the "**GEM Listing Rules**") of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") and the Inside Information Provisions under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

Reference are made to the announcements (the "**Announcements**") of the Company dated 27 March 2019, 10 May 2019, 16 May 2019 and 28 June 2019 with regard to, among others, (i) the Resumption Guidance and (ii) the Independent Review being conducted by Ernst & Young Advisory Services Limited ("**EY**"). Unless the context otherwise requires, the capitalised terms used therein shall have the same meanings as defined in the Announcements.

The Company wishes to update its Shareholders that EY has submitted a draft report of the Independent Review (the "**Report**") to the audit committee of the Company setting out its findings.

BACKGROUND AND SCOPE OF THE INDEPENDENT REVIEW

As disclosed in the Announcement dated 27 March 2019, some deficiencies in the Group's internal control system were identified and an adjustment was made to the unaudited consolidated results of the Group for the year ended 31 December 2018 to reverse revenue of approximately HK$19.4 million. The adjustment relates to certain transactions that were recognised as revenues by the Group where no direct costs were incurred with respect to such revenues (collectively, the "**Commission Transactions**"). These transactions were conducted between Janco Global Logistics Limited ("**JGL**"), a subsidiary of the Group, and JFX Holding Limited ("**JFX**"), Freight Concept Limited ("**FCL**"), a subsidiary of JFX and other subsidiaries (collectively "**JFX and its affiliates**").

EY has been engaged to conduct a forensic review covering the period from 1 January 2018 to 31 December 2018 into the following areas of focus (the "**Areas of Focus**"):

(a) the arrangements of the Commission Transactions;

(b) relationships between the Group and JFX and its affiliates;

(c) any other transactions relating to JFX and its affiliates, included but not limited to sales, cost of sales or commission income; and

(d) potential deficiencies of the internal policies, procedures and controls of the Group which might have resulted in the issue raised by the Group's auditors.

Based on the Report prepared by EY with respect to the Areas of Focus, the key findings are summarized below.

SUMMARY OF THE KEY FINDINGS OF THE REPORT

(a) The arrangements of Commission Transactions

The Commission Transactions were purportedly to be commission to be paid by JFX and its affiliates for the introduction of businesses. However, there are no supporting documents available to support the Commission Transactions other than 84 debit notes that were issued by the Group to JFX and its affiliates during October to December 2018.

In addition, based on the information made available by the Group, EY is unable to reconcile the total of these 84 debit notes in the aggregate amount of HK$24.6 million to the Commission Transactions that were included in the figure disclosed in the Group's announcement dated 27 March 2019 of HK$19.4 million, being the total amount that was erroneously recognised for the three months ended 31 March 2018, three months ended 30 June 2018 and three months ended 30 September 2018.

EY conducted interviews with certain staff members (including a former staff member) of the Company and was informed that the 84 debit notes totaling HK$24.6 million were raised at around mid-February 2019 in order to ensure that all the debit notes were entered into the system for the purpose of year-end closing and year-end audit. The HK$24.6 million represented the full amount of the sales in 2018 by FCL (a subsidiary of JFX) to 18 of its customers whose businesses were purportedly introduced to FCL by the Group.

EY noted that the amount of HK$24.6 million were subsequently removed from the books of the Group as JFX did not agree with the 84 debit notes relating to the Commission Transactions.

(b) Relationships between the Group and JFX and its affiliates

According to the prospectus of the Company dated 30 September 2016, Mr. Cheng Hon Yat Clarence, the Chief Executive Officer of the Company and Managing Director of JGL ("**Mr. Cheng**"), wholly owned the entire issued capital of JFX of 50,000 ordinary shares until 31 December 2015, after which he sold his holdings to an independent third party. EY notes that the independent third party is a company by the name of Sinolinks Inc. ("**Sinolinks**").

EY identified a version of the register of members for JFX which was attached to an email correspondence showing Mr. Cheng was a sole shareholder of JFX until 29 March 2018. This is different to the copy of JFX's register of members that was provided by the Group to EY during the course of EY's work which shows the transfer of shares from Mr. Cheng to Sinolinks on 31 December 2015.

EY was subsequently provided with the following documents in softcopy format by the Company:

(a) a certified true copy of the register of members of JFX (certified by Vistra (BVI) Limited on 16 July 2019) which shows Mr. Cheng as a sole shareholder of JFX until 31 December 2015 when the shares were transferred to Sinolinks, and Sinolinks subsequently transferred all of its shareholdings in JFX to Ms. Tai Kam Wan ("**Ms. Tai**") on 29 March 2018.

(b) a certified true copy of the register of directors of JFX (certified by Vistra (BVI) Limited on 16 July 2019 which shows Mr. Cheng had ceased to be a director of JFX on 31 December 2015; and

(c) an instrument of transfer between Sinolinks and Ms. Tai dated 29 March 2018 (without any witness's signatories) which shows Sinolinks had transferred 50,000 JFX shares to Ms. Tai on 29 March 2018.

As represented to EY, Ms. Tai is the cousin of the wife of Mr. Cheng, and was also an employee of the Group until 31 December 2015 and is currently the operation manager of one of JFX's main entities.

(c) Air freight details for other transactions with JFX

EY further selected a sample of 25 other transactions with JFX and its affiliates for detailed review. During the course of review, EY has requested but was unable to obtain adequate details for 2 of the 25 samples of these selected transactions between the Group and JFX and its affiliates using open source information and through telephone enquiries with the respective airlines.

EY was subsequently provided with further documentation by JGL to confirm the details of these 2 samples with JGL's invoice number IA1804XXXX and CA1805XXXX as summarized below:

Invoice number IA1804XXXX

The first sample referred to JGL reportedly sold to JFX's affiliate an air freight space for the latter's air freight business. The revenue was recorded in JGL's ledger on 11 April 2018 in the amount of HKD268,130.80. The air freight space was sourced by JGL from Vendor A.

The further documentations that EY was subsequently provided by the Group with relating to invoice number IA1804XXXX are:

(a) Invoice from Vendor A to JGL dated 9 April 2018 in the amount of HK$286,185.70. EY notes that the details on this invoice including airway bill number, flight number, origin, destination, quantity and weight of cargo that agree with the supporting airway bill previously provided to EY. EY notes the invoice was not signed or stamped by Vendor A.

(b) Email chain dated 10 April 2018 between Vendor A and JGL confirming the airway bill number for the booking of the air shipment under the flight.

(c) Two emails between JGL and Vendor A, both dated 11 April 2018, between Vendor A and JGL attaching (i) cargo acceptance record dated 10 April (without the year) confirming the cargo has been delivered to and accepted by the air cargo terminal; and (ii) a flight delay notice with the name of the airline appearing at the top right hand corner of letter and signed by Vendor A as "GSA" of the airline noting that the flight on 11 April 2018 had been postponed to 12 April 2018 due to technical problem.

(d) Email chain dated 3 May 2018 between Vendor A and JGL with the contra statement of account issued by Vendor A showing a breakdown of the outstanding balances due from JGL as at 2 May 2018 totaling HK$873,157.20. Invoice dated 9 April 2018 in the amount of HK$286,185.70 formed part of this outstanding balance.

EY further noted from the ledgers of JGL and also obtained a copy of the Debit Advice issued by the bank showing that the amount of HK$873,157.20, i.e. the total balance in the contra statement of account which has been settled by JGL to Vendor A on 3 July 2018.

According to the ledgers of the Group, there was a total of 408 transactions between JGL and Vendor A (i.e. a vendor of JGL) during the Review Period, with a net total of approximately HK$3.5 million.

Invoice number CA1805XXXX

The second sample referred to JGL reportedly sourced air freight space from the JFX's affiliate for its air freight business. The cost was recorded in JGL's ledger on 1 May 2018 in the amount of HK$114,862.77. The air freight space was sold to Customer B by JGL, where Customer B sourced the air space for Party C to ship the latter's items.

The further documentations that EY was subsequently provided by the Group with relating to invoice number CA1805XXXX are:

(a) Email chain during 13 to 24 April 2018 between JGL and its customer, Customer B. Attached to this email chain was a correction letter from Customer B dated 19 April 2018 noting the change in address of the consignee for airway bill number XXX-51868585. The body of the email stated "Enclosed pls find our signed letter for correction AWB. Pls forward to Brazil for amendment of AWB. Thanks". The correction letter contained details such as airway bill number, airport of origin, airport of destination, quantity and weight of cargo which agreed with those on the airway bill that was previously provided to EY. The correction letter was issued by Customer B but was not addressed to any particular party.

(b) An undated shipper's air shipment instructions to arrange for the shipments of goods, a commercial invoice dated 1 April 2018 and two packing lists dated during 22 to 23 March 2018 from Party C. Although the documents contained details such as origin, the destination, quantity and type of goods which agreed with those on the airway bill that was previously provided to EY, EY notes that from the shipper's air shipment instructions to arrange for the shipments of goods:

- The document is unsigned.
- Different fonts are used in the content of the document.

(c) An email dated 17 July 2018 from Customer B indicating that a payment was deposited into the Company's bank USD account. A copy of a cheque deposit slip was attached to this email showing that cheque number 546921 in the amount of US$11,986.92 was the bank account on 16 July 2018 although the image of the cheque had the name of the payer and the signatory redacted. EY was subsequently provided a copy of a cheque number 546921 in the amount of US$11,986.92 with the name of the payer which is "Customer B".

(d) Email chain dated 26 July 2019 from Customer B to the Company: (a) confirming this transaction between JGL and Customer B and that the cheque payment in the amount of US$11,986.92 was made and deposited to JGL by Customer B and (b) indicating that they cannot spend more time dealing with enquiries on this transaction.

According to the ledgers of the Group, there was only one transaction between JGL and Customer B during the Review Period.

EY further contacted Customer B to confirm the transaction by interview and by phone. The contact person of Customer B has not responded to EY's interview and declined phone request for the provision of transaction information. As of the date of this report, EY has not provided any direct confirmation from Customer B to confirm the transaction as well as the payment between the Group and Customer B.

(d) Potential deficiencies in the policies, procedures and controls

During the course of the review work, EY identified certain potential deficiencies of the internal policies, procedures and controls of the Group which might have resulted in the issue raised by the Group's auditors. These potential deficiencies are summarised as below:

(1) There is no policy to preserve the server emails and data from electronic device(s) of the resigned staff members.

(2) Policies and procedures around the revenue cycle is not strictly observed.

(3) Other than the void report generated from the system, no document trail are maintained to show the removal of entries from the accounting system, as well as the reviewer(s) and the approver(s) of the deletion.

(4) Preparation of draft statutory records and sale and purchase agreements for JFX and its affiliates, which do not form part of the Group, was done by the employees of the Group.

(5) Several employees from JFX and its affiliates have been using emails with the Group's email domain addresses. EY made enquiries and noted that this was done in the past in order to facilitate businesses with some of the long-term customers (i.e. those whom had been customers with the Group/JFX before the reported sale of JFX to Sinolinks in 2015), who still perceive the Group and JFX as being related.

(6) Employees of the Group are still being referred by third parties as a contact person for JFX and its affiliates, for example, with banks and auditors.

(7) JFX and its affiliates are included and referred to as part of the Group's subsidiaries in the rebate agreement with shipping carriers. As represented by the management of the Group, this conduct is due to the ability to negotiate and obtain a higher rate of rebate from the shipping carriers if JFX and its affiliates are seen as part of the Group's subsidiaries.

(8) Collection of account receivables balance on behalf of each other from mutual customers between the Group and JFX and its affiliates.

(9) Former employees of the Group remain as authorised signatories to the Group's bank accounts after their resignation.

In light of the deficiencies identified by EY in the internal policies, procedures and controls of the Group relevant to its investigation, EY has made certain recommendations which are summerised as below:

(1) Policies should be in place to ensure that the server emails and data from electronic device(s) of resigned staff members are retained for a specified period. This will ensure that no data and information of the Company would be lost upon the resignation of staff members.

(2) Policies and procedures should be observed and amended where necessary, including setting down pre-approved pricing/costing parameters for each sales transaction and different levels of review and approvals to be required for those transactions above the pre-approved parameters. The use of checklists may assist staff to ensure that the necessary procedures are being adhered to.

(3) Proper approval ladder should be in place for the removal/deletion of entries from the accounting system. A proper document trail should be maintained around the removal/deletion of entries from the accounting system, including but not limited to, the person requesting, approving and performing the removal/deletion, and the reason for the removal/deletion.

(4) In responding to the potential deficiencies no. (4) above, such practice should not continue in the future to avoid perceived non-arm's length relationship between JFX and its affiliates and the Group.

(5) Email addresses with the Group's email domain should only be used by management and employees of the Group. Any email addresses that had been issued to individuals outside the Group should be removed immediately.

(6) Immediate request should be made to JFX to remove any employees within the Group as a contact person for JFX and its affiliates.

(7) JFX and its affiliates should be removed as part of the Group's subsidiaries in the rebate agreement to avoid perceived non-arm's length relationship between JFX and its affiliates and the Group.

(8) In responding to the potential deficiencies no. (8) above, such practice should not continue in the future to avoid perceived non-arm's length relationship between JFX and its affiliates and the Group.

(9) The list of authorised signatories to the Group's bank accounts should be reviewed and updated regularly.

The Board has reviewed EY's findings and recommendations set out in the draft report with respect to the Areas of Focus, and will endeavour to implement the necessary remedial measures recommended by EY as soon as possible.

The Company wishes to update its shareholders (the "**Shareholders**") that the publication of the Outstanding Results is expected to be completed at middle to late October 2019. As at the date of this announcement, the audit procedures of the Outstanding Results are ongoing, the Company is in the process of providing documents to ZHONGHUI. Further announcement(s) will be made to inform the Shareholders when appropriate.

CONTINUED SUSPENSION OF TRADING

Trading in the Shares on the Stock Exchange has been suspended since 9:00 a.m. on 1 April 2019 and will continue to be suspended until further notice.

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

By Order of the Board
Janco Holdings Limited
Cheng Hon Yat
Chairman

Hong Kong, 13 September 2019

As at the date of this announcement, the executive Directors are Mr. Cheng Hon Yat, Mr. Chan Kwok Wai, Mr. Lo Wai Wah and Mr. Yau Sze Yeung; and the independent non-executive Directors are Mr. Siu Wing Hay, Mr. Wong Yee Lut Eliot, Mr. Luk Kin Ting and Mr. Lau Chi Kit.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

This announcement will remain on the GEM's website at www.hkgem.com on the "Latest Company Announcements" page for at least 7 days from the date of its posting and on the website of the Company at www.jancofreight.com.