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HUSCOKE HOLDINGS LIMITED

和嘉控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock code: 704)

INSIDE INFORMATION

IN RELATION TO

- (1) RESULTS OF INDEPENDENT INVESTIGATION
ON POSSIBLE LOAN;**
- (2) LEGAL OPINION ON THE INDEPENDENT INVESTIGATION;**
- (3) BOARD RESOLUTION AND RELATED MATTERS; AND**
- (4) CONTINUED SUSPENSION OF TRADING**

This announcement is made by Huscoke 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 under the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

References are made to the announcements of the Company dated 26 April 2021, 10 May 2021, 3 June 2021, 7 June 2021, 26 July 2021, 21 October 2021 and 28 December 2021 in relation to, among other things, the Possible Loan, the Resumption Guidance, the investigation on GRG Huscoke, the formation of an independent investigation committee, the preliminary findings, the litigation of GRG Huscoke and the quarterly update (the “**Announcement(s)**”). Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings as defined in the Announcements.

As mentioned in the announcements of the Company dated 26 July 2021 and 28 December 2021, Da Tong Law Office of Guang Dong (“**Da Tong**”), an independent PRC legal adviser, was engaged to investigate (the “**Investigation**”) the Possible Loan, the Loans and contingent liabilities (together, the “**Incident**”) and to provide its legal opinion pursuant to the laws of PRC on the Incident. Da Tong has submitted the independent investigation report (the “**Report**”) and its PRC legal opinion (the “**Legal Opinion**”) to the Independent Investigation Committee, and the Independent Investigation Committee has adopted the Report and the Legal Opinion and presented to the Board.

OVERVIEW OF THE BOARD

The Independent Investigation Committee received the Report and the Legal Opinion from Da Tong, along with the self-investigation report provided by GRG Huscoke and the corporate credit report (the “**Credit Report**”) issued by the Credit Reference Center of the People's Bank of China Xiaoyi Branch during the Investigation.

Since July 2012, the then management and relevant personnels of GRG Huscoke concealed the Company from the Incident and excluded the relevant loans from the financial statements of the Group. For nearly ten years, Xiaoyi Jinyan Electricity Coke Chemical Company Limited* (孝義市金岩電力煤化工有限公司) (“**Jinyan Electricity**”), being the 9% minority shareholder of GRG Huscoke, conspired with then directors and management of GRG Huscoke with the cooperation of Xiaoyi City Jianeng Coal Chemical Technology Development Company Limited*(孝義市嘉能煤化工科技開發有限公司), being the 1% minority shareholder of GRG Huscoke, deliberately ignored the formal approval process and financial control measures of the Group, leveraged the assets and credit of the Group to conduct loans from the banks without authorisation, and misappropriated of the major funds directly or indirectly used for the construction of 5 million tons of new coking and supportive production project of Jinyan Electricity.

Throughout the duration of the Incident, GRG Huscoke concealed the loan accounts systematically and continued to hide the Incident from the Company. None of Ernst & Young, being the auditor of the Company during the financial years between 2010 and 2017, Mazars CPA Limited, being the auditor for the financial year of 2018, and BDO Limited, being the auditor for the financial year of 2019 had discovered the Incident during the relevant financial years. In this regard, Da Tong has sent an inquiry letter (the “**Letter**”) to each of these previous auditors of the Company in respect of the Incident. Save for the reply from Mazars CPA Limited that it was unable to answer the Letter due to its internal policy, Da Tong has not received any reply from the other auditors as of the date of the Report.

In August 2020, the Company engaged Ernst & Young (China) Advisory Limited Beijing Branch (the “**Ernst & Young China**”) to conduct an internal audit of GRG Huscoke for the purpose of strengthening internal management of the Group, but the Incident was still not discovered.

During the course of audit for the financial year of 2020 in April 2021, the Company and Zhonghui Anda CPA Limited, being the current auditor of the Company, discovered that the Possible Loan was auctioned and disclosed as a non-performing loan on the public information platform of Taiyuan Public Resources Auction Center (the “**Shanxi Auction Center**”).

During the internal audit in 2020, the staff of GRG Huscoke accompanied the auditors of Ernst & Young China to retrieve the prepared corporate credit report (the “**2020 Credit Report**”) and account opening list from the People’s Bank of China Xiaoyi Branch (the “**People’s Bank**”). According to the 2020 Credit Report, GRG Huscoke did not have any loan record. Upon the discovery of the Incident in April 2021, the Company immediately assigned senior management personnel accompanying the staff of GRG Huscoke to print the corporate credit report (the “**2021 Credit Report**”) from the People’s Bank, which contained credit records including a significant number of loans and guarantees by GRG Huscoke. Consequently, on 6 September 2021, the Company sent a letter to the People’s Bank and requested for the verification of the fact that there were material differences between the 2020 Credit Report and the 2021 Credit Report, and the 2021 Credit Report was inconsistent with the audit results of the Company over the years. On 19 October 2021, the People’s Bank replied that the 2020 Credit Report was not provided by the People’s Bank after checking the staff retrieval log of the credit reference centre.

Based on the above facts and findings on the Investigation by Da Tong, the Independent Investigation Committee believes that since July 2012 and even after the change of the substantial shareholder of the Company in November 2016 and the change to the existing board of directors and senior management of the Company, GRG Huscoke and Jinyan Electricity, had been continuing to ignore the standardized control measures formulated by the Company, and deliberately and systematically concealed credit information from the Company, and misappropriated and used funds without authorisation until the Company discovered the Possible Loan. The existing board of directors and senior management of the Company were not aware of, nor participated in or authorised the approval of the Incident.

After the existing Board were formed, given the principle of formulating rules is based on the trust of the management of GRG Huscoke and the fact that the chairman of GRG Huscoke was appointed by the Company, although (i) a series of control measures have been formulated to strengthen internal management; (ii) professional institution has been engaged to issue assessment reports on risk management and internal control every year; and (iii) Ernst & Young China has also been engaged to conduct internal audits, in the face of the relevant responsible parties' systematic and deliberate concealment through violations of laws and regulations, the Incident were not detected by the Company through the normal internal control measures. The Company attaches great importance to the Incident and immediately takes proactive measures to cease relevant violations of laws and regulations, including but not limited to, withdrawing the approval authority of the management and the implementation of the usage and control measures of common seal of GRG Huscoke. The Company will strengthen the normal internal control measures, and further enforce risk management system and crime prevention system of the subsidiaries in order to prevent similar violations of laws and regulations in the future.

The Independent Investigation Committee has adopted the Report and the Legal Opinion, and submitted them to the Board for its review. The Board has accepted the Report and the Legal Opinion and set out the summaries below in this announcement.

SUMMARY OF INVESTIGATION

The Incident

I. Possible Loan

According to the corporate credit report from the People's Bank, printed under witness by Da Tong, on 30 November 2021 (the “**Da Tong Credit Report**”) and the Investigation by Da Tong, on 15 October 2014, GRG Huscoke had the first credit transaction with Lüliang Rural Credit Union* (呂梁市農村信用合作社聯合社) (the “**Union**”), which was not recorded at the same time, the aggregate principal amount of the Possible Loan was RMB122,500,000, the borrowing period was from 20 April 2015 to 18 April 2016.

Based on the transfer announcement in Shanxi Auction Center made by China Cinda Asset Management Co., Ltd. Shanxi Branch (the “**Cinda Shanxi**”), as of 30 November 2020, the principal of debt to be assigned amounted to RMB122,500,000 and its interest amounted to RMB120,426,776.21, guaranteed by Shanxi Dongyi Coal Electric Aluminum Group Company Ltd* (山西東義煤電鋁集團有限公司) (the “**Dongyi Coal Electric Aluminum**”) with no litigation.

On the basis of the debt assignment agreement entered into between Cinda Shanxi and Shanxi Zhengbenyuan Trading Company Ltd* (山西正本源貿易有限公司) (the “**Zhengbenyuan**”) on 11 January 2021, Cinda Shanxi entrusted Shanxi Auction Center to conduct an auction of the debt of the Possible Loan on 6 January 2021 and the Possible Loan was successfully purchased by Zhengbenyuan in its bidding, with details of the debt assignment (as of the record date of 30 November 2020) as follows:

<u>Debtor</u>	<u>Guarantee</u>	<u>Principal of the Debt (RMB)</u>	<u>Interest of the Debt (RMB)</u>	<u>Total Amount of the Debt (RMB)</u>
GRG Huscoke	Guaranteed by Dongyi Coal Electric Aluminum	122,500,000	120,426,776.21	242,926,776.21

The Company estimated that as of 30 November 2021, the principal of Possible Loan amounted to RMB122,500,000 and its accrued interest amounted to approximately RMB143,000,000.

II. Outstanding Bank Loans

According to the Da Tong Credit Report, the total balance of outstanding bank loans of GRG Huscoke amounted to RMB297,807,000 (including borrowings from Hua Xia Bank Bank Co., Limited (the “**Hua Xia Bank**”) of RMB 197,837,000 and China Minsheng Banking Corp., Ltd. Lüliang Branch (the “**Minsheng Bank**”) of RMB 99,970,000) (the “**Outstanding Bank Loans**”), and relevant repayment responsibility borne for other borrowings amounted to RMB204,500,000 (the “**Contingent Liabilities**”).

According to the Da Tong Credit Report, GRG Huscoke had the first loan transaction with the Hua Xia Bank on 27 June 2012, and the first unrecorded borrowing occurred on 17 September 2013. As of 30 November 2021, its outstanding balance amounted to RMB197,837,000, details of the latest loans are as follows:

<u>Lending Institution</u>	<u>Borrowing Date</u>	<u>Maturity Date</u>	<u>Balance (RMB)</u>
Hua Xia Bank	22 March 2019	22 March 2022	44,780,000
Hua Xia Bank	26 December 2018	26 October 2021	29,910,000
Hua Xia Bank	26 December 2018	26 October 2021	29,910,000
Hua Xia Bank	22 March 2019	22 March 2022	25,902,000
Hua Xia Bank	26 December 2018	26 October 2021	19,910,000
Hua Xia Bank	26 December 2018	26 October 2021	19,910,000
Hua Xia Bank	29 March 2019	29 March 2022	7,375,000
Hua Xia Bank	17 December 2019	17 December 2021	5,155,000
Hua Xia Bank	17 December 2019	17 December 2021	4,995,000
Hua Xia Bank	17 December 2019	17 December 2021	4,995,000
Hua Xia Bank	17 December 2019	17 December 2021	4,995,000

The Company estimated that as of 30 November 2021, the principal balance of loans from Hua Xia Bank amounted to RMB197,837,000 and its accrued interest amounted to approximately RMB26,200,000.

According to the Da Tong Credit Report, GRG Huscoke had the first loan transaction with Minsheng Bank on 27 May 2011, and the first unrecorded borrowing occurred on 15 October 2012. As of 30 November 2021, its outstanding balance amounted to RMB 99,970,000, details are as follows:

<u>Lending Institution</u>	<u>Borrowing Date</u>	<u>Maturity Date</u>	<u>Balance (RMB)</u>
Minsheng Bank	31 March 2017	31 March 2018	99,970,000

The Company estimated that as of 30 November 2021, the principal of loans from Minsheng Bank amounted to RMB99,970,000 and its accrued interest amounted to approximately RMB27,400,000.

III. Contingent Liabilities

According to the Da Tong Credit Report, the contingent liabilities occurred in 2016 and 2020 respectively and the aggregate amount of the contingent liabilities undertaken by GRG Huscoke amounted to RMB204,500,000, with details as follows:

<u>Credit Granting Institution</u>	<u>Opening Date</u>	<u>Maturity Date</u>	<u>Amount (RMB)</u>
China Minsheng Banking Corp., Ltd. Taiyuan Dayingpan Branch	23 December 2016	25 May 2023	200,000,000
Lüliang Xiaoyi Huitong Country Banking Corp., Ltd.	30 November 2020	10 November 2021	4,500,000

Then Management

Based on the findings on the Investigation, GRG Huscoke conducted the first loan transaction in the year of 2009, and first borrowing not been recorded occurred on 10 July 2012 with the credit granted by Industrial and Commercial Bank of China Co., Ltd. (“**ICBC Xiaoyi**”). GRG Huscoke had fully settled such loan from ICBC Xiaoyi on 26 September 2014. The then members of the board of directors of GRG Huscoke were Yang Ge* (楊戈), Li Baoqi (李寶琦), Gao Jianguo (高建國), He Youlong* (賀有龍) and Zhang Wenjun* (張文俊). The then legal representative was Yang Ge* (楊戈). The then board of directors of the Company were Wu Jixian (吳際賢), Li Baoqi(李寶琦), Gao Jianguo (高建國), Lam Hoy Lee, Laurie (林開利) and To Wing Tim, Paddy (杜永添).

Motivations of the Incident

Based on the findings on the Investigation, the motivation of the Incident was that in 2011, being affected by the disadvantaging domestic and international market, GRG Huscoke met a difficulty in operation, shortage of cash flows and turnover of working capital. Meanwhile, according to the National Twelfth Five-Year Plan, Shanxi Province commenced the adjustment and structure optimism of the coking industry in 2009. Jinyan Electricity, was committed to pursue a coking and supportive production project with capacity of 5 million tons (the “**Five Million Tons Project**”). In September 2010, GRG Huscoke entered into a memorandum of understanding in relation to “Building the New Coking Plant with Annual Coke Production Capacity of Two Million Tons Together” (the “**Two Million Tons Project**”), which was unable to meet the construction funding needs.

Capital Flow and Reason for Failing to Disclose

In the context of the Two Million Tons Project, the cooperative loan with Jinyan Electricity was suggested by the then management of GRG Huscoke and approved by the then board of GRG Huscoke. Jinyan Electricity was responsible for negotiating loan plans and guaranteed measures with the banks, and the banks granted certain credit facility to GRG Huscoke. GRG Huscoke conducted loan transactions within its granted credit facility, and transferred the relevant amount to Jinyan Electricity for the construction of Five Million Tons Project. Therefore, Wang Zhengyu* (王正瑜), the financial controller of GRG Huscoke, stated during the interview with Da Tong that the motivation and reason for failing to disclose was that it was believed that the repayment responsibility and financial expenses of the loans were all borne by the actual user, being Jinyan Electricity. While Yang Ge*(楊戈) stated during the interview with Da Tong that the motivation and reason for failing

to disclose the Incident to the Company was that he was not aware of the need to report to the Company at the material time.

Internal Approval

Based on the findings on the Investigation, Wu Jixian*(吳際賢), Yang Ge*(楊戈) and Lei Zhiyuan*(雷志遠), the handling staff, had signed the loan contracts. As at the date of the Report, Wu Jixian *(吳際賢), had not been interviewed by Da Tong, both Yang Ge*(楊戈) and Lei Zhiyuan*(雷志遠), stated during the interview with Da Tong that they personally handled and signed loan and guarantee contracts.

During the interview with Da Tong, Yang Ge*(楊戈) stated that each loan must have been approved by board resolutions of GRG Huscoke, these resolutions were approved by more than two-thirds of the members of the board of directors of GRG Huscoke and signed by him, but he could not remember who signed the specific resolutions. GRG Huscoke has no internal record of these resolutions. As of the date of the Report, Yang Ge*(楊戈) and Lei Zhiyuan*(雷志遠) had failed to provide the legal authorisation approval documents for signing the loans contracts, Da Tong believes that the possibility of Yang Ge*(楊戈) and Lei Zhiyuan*(雷志遠) signing the loan contracts without legal authorisation cannot be ruled out.

According to Yang Ge's *(楊戈) statement, he or GRG Huscoke did not report to the Company before the publication of the announcement of the Company dated 26 April 2021, nor receive any authorisation or approval from the Company to himself or GRG Huscoke in relation to the Incident, such matters were the decision made by the board of GRG Huscoke. As of the date of this announcement, Da Tong has not received any information and documents in relation to the authorisation to approve the Incident made by GRG Huscoke; nor discovered relevant documents in respect of the Incident from the Group to authorise or approve the Incident made by GRG Huscoke; and no relevant documents were found in relation to the Incident from GRG Huscoke to be reported to the Group before the year of 2021.

Credit Reference Center Reports

In August 2020, Ernst & Young China conducted internal audits of GRG Huscoke, and the staff of GRG Huscoke accompanied the auditors of Ernst & Young China to the People's Bank on 23 October 2020 and 24 October 2020 respectively to submit the application and retrieve the 2020 Credit Report prepared by the People's Bank and account opening list. Ernst & Young China proposed to witness the printing process of the corporate credit report and the account opening list but did not obtain the consent of GRG Huscoke. According to the 2020 Credit Report, GRG Huscoke did not have any records of the loan transaction reflecting the Incident.

In May 2021, after noticing the Possible Loan, the Company assigned senior management personnel to accompany the staff of GRG Huscoke to print out the 2021 Credit Report from the People's Bank, which contained credit records including a significant number of loans and guarantees by GRG Huscoke.

On 6 September 2021, the Company sent a letter to the People's Bank and requested for the verification of the fact that there were material differences between the 2020 Credit Report and the 2021 Credit Report, and the 2021 Credit Report was inconsistent with the audit results of the Company over the years. On 19 October 2021, the People's Bank replied that the 2020 Credit Report was not provided by the People's Bank after checking the staff retrieval log of the credit reference centre.

RECOMMENDATIONS BY DA TONG

In view of the above findings on the Investigation, Da Tong provided the following recommendations in the Report:

- (1) to improve or reorganise senior management of GRG Huscoke by dismissal and/or suspension of duties for different responsible personnels pursuant to laws and regulations;
- (2) to designate specific personnel assigned by the Company for management of the company seal of GRG Huscoke and execute the effective management of the usage of the company seal, pursuant to laws and regulations, company's articles of association and requirement of operation and management of GRG Huscoke; and
- (3) to designate specific personnel assigned by the Company to obtain credit reports from People's Bank to verify credit transactions of GRG Huscoke, pursuant to company's articles of association and requirement of operation and management.

LEGAL OPINION

Da Tong also expressed the Legal Opinion to the Board as follows:

- (1) Legal actions could be considered to take against the responsible party, including potential civil liability and suspected criminal responsibilities, if the party and its liabilities could be clarified through further verification of the evidence and facts;
- (2) The Company to comprehensively consider the loss, and could negotiate remedial measures and compensation plans with GRG Huscoke, Jinyan Electricity and relevant responsible parties;
- (3) The Company to comprehensively consider the cost-effectiveness of remedial measures, compensation plans and legal actions; and
- (4) The Company to reserve all the rights to take legal actions against relevant responsible parties.

OPINIONS FROM INDEPENDENT INVESTIGATION COMMITTEE AND THE BOARD ON THE REPORT

As at the date of this announcement, the Independent Investigation Committee and the Board have reviewed the Report and believed that the conclusions of the Report are acceptable, and agreed to the recommendations made by Da Tong in the Report. The Board believes that the Report clearly reflects that the Incident had been continuing for almost 10 years, involving some staff of GRG Huscoke, Jinyan Electricity and the relevant responsible parties jointly deceived, damaged and encroached on the rights and interests of the shareholders of the Company. Since the first loan transaction without formal approval process occurred in July 2012, the fund was used by GRG Huscoke without authorisation and it was not recorded in its accounts. Subsequently, it systematically concealed the Company by including but not limited to issuing false credit reports. As a minority shareholder of GRG Huscoke, Jinyan Electricity, in conjunction with the management of GRG Huscoke, made unauthorised use of their property and credit of the Company to make loans, used and controlled the proceeds of funds illegally. The relevant responsible parties and the responsible personnel should bear significant civil liability and possible criminal responsibilities.

BOARD RESOLUTIONS AND RELATED MATTERS

After considerable discussions, the Board agreed and accepted the Legal Opinion from Da Tong. In order to protect and maximize the shareholders' rights and interests of the Company, within the framework permitted by law, the Board has decided to request GRG Huscoke, Jinyan Electricity and relevant responsible parties to complete the proper compliance treatment of GRG Huscoke's accounting record and propose remedial measures and compensation plans for the Incident by 31 January 2022.

Relevant responsible parties have expressed their entreaty to actively remedy and to compensate the Company, and have committed to implement remedial measures and compensation plans to the Company as soon as practicable. The Company reserves all the rights to take legal actions against relevant responsible parties. On the premise of complying with the PRC law and following the principle of maximizing the rights and interests of the Company and shareholders, the Company will evaluate the relevant remedial measures and compensation plan and its implementation to decide whether to take further legal actions. The Company will make further announcement(s) in accordance with the Listing Rules.

IMPACT ON THE BUSINESS OPERATION AND FINANCIAL POSITION OF THE GROUP

As of the date of this announcement, the total amount of the principal of the loans involved in the Incident, which was not recorded in the accounts of the Group during the relevant years was estimated to be RMB420,307,000 and the total amount of accrued interest was estimated to be approximately RMB 196,600,000, and the total amount of the contingent liabilities was estimated to be RMB 204,500,000. The amounts of the principal, interest and contingent liabilities are subject to verification by the auditor of the Company. Relevant responsible parties are proposing remedial measures and and compensation plans for the Incident, the impact of which on the business operating and financial condition of the Company is subject to further assessment.

The Company will discuss with the auditor of the Group, in relation to the corresponding adjustments of the loans involved in the Incident in the consolidated financial statements in conformity with Hong Kong Financial Reporting Standards. The Company has urged the auditor to complete its audit work on 2020 and 2021 annual results as soon as possible.

CONTINUED SUSPENSION OF TRADING

At the request of the Company, trading in the shares of the Company on the Stock Exchange has been suspended from 9:00 a.m. on 29 March 2021, and will remain suspended until further notice.

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

By order of the Board
Huscoke Holdings Limited
Au Wing Sze
Company Secretary

Hong Kong, 18 January 2022

As at the date of this announcement, the Board comprises Mr. Zhao Xu Guang (Chairman) and Mr. Wang Yijun as executive Directors; Mr. Wong Siu Hung, Patrick, Mr. Huang Man Yem and Mr. Jiang Jiansheng as non-executive Directors; Mr. Lam Hoy Lee, Laurie, Mr. To Wing Tim, Paddy and Dr. Wang Wei Hsin as independent non-executive Directors.

** For identification purposes only*