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鈞濠集團

鈞 濠 集 團 有 限 公 司 *

GRAND FIELD GROUP HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 115)

UPDATE ANNOUNCEMENT

Reference is made to the announcement (the "**Announcements**") of Grand Field Group Holdings Limited (the "**Company**", and together with its subsidiaries, the "**Group**") dated 24 March 2023 and 4 December 2023. Unless the context otherwise requires, capitalised terms used herein shall have the same meanings as those defined in the Announcements.

The board of directors (the "**Directors**") of the Company (the "**Board**") wishes to inform the shareholders of the Company (the "**Shareholders**") and potential investors of the latest status of the work of the SC and internal control consultant in relation to the Incident.

LATEST STATUS OF THE INCIDENT

Since the publication of the announcement dated 4 December 2023 (the "**December Announcement**") and up to the date of this Announcement, to the best knowledge and belief of the members of SC and having considered the findings of the IC Consultant (as defined below), (i) there had been no material new development in relation to the Incident; (ii) none of our Directors or employees of the Group had been arrested by the Police or subject to any charge laid by the Police in relation to the Incident; and (iii) the SC was not aware of any evidence suggesting that any of our Directors or employees of the Group was found to be criminally liable in the Incident.

* *For identification purpose only*

INTERNAL CONTROL REVIEW

As disclosed in the December Announcement, upon the recommendation of the SC, an internal control consultant will be engaged to conduct a review on, among others, internal procedures that are found to be relevant to the Incident with a view to minimising future occurrence of similar incidents. For this purpose, the Company engaged an internal control consultant (the "**IC Consultant**") to conduct a review on and prepare a report (the "**Report**") in respect of the internal control of the Subsidiary and the Incident, review scope of which include assessment of new business; sales and collection of receivables; sourcing and payments; funds and expense management; and financial reporting and disclosure and provide recommendations to the Board for enhancing the Group's overall risk management. During the review, the IC Consultant identified the following internal control deficiencies which are ranked "high" in terms of the priority of rectification and made the following recommendations:

Key findings	**Recommendations**
Assessment of New Business	
The Subsidiary did not appoint a person with extensive due diligence experience to conduct due diligence. The person responsible for due diligence is a member of the finance department, who does not have extensive due diligence experience and sufficient knowledge of the relevant industry and law, but only has financial knowledge.	1. For complex or highly-risky new business cooperation, due diligence experts with relevant industry, financial and legal knowledge shall be appointed or engaged to assist in internal assessment, so as to ensure a comprehensive and in-depth due diligence.
Conducting due diligence by a person without relevant extensive experience may result in the Subsidiary failing to fully identify the potential risks involved in the cooperation with the new partner, including but not limited to financial, operational, legal and reputational risks. This may affect the Company's business decisions and lead to business relationships with dishonest or unstable partners, which in turn may cause financial losses, legal proceedings or damage to brand reputation.	2. If due diligence is carried out by internal personnel of the Subsidiary, a project team shall be organized by selecting members with (or separately with) operational, financial and legal knowledge and a cross-department cooperation mechanism shall be established to ensure that professional advice and support in laws, finance and business operations can be provided for due diligence.

Key findings	Recommendations
Assessment of New Business	
	3. The Subsidiary shall provide necessary training to the project team in charge of due diligence, including but not limited to due diligence methods and procedures, planning, information collection, assessment and analysis and reporting, to keep them informed of the content and process of due diligence. In addition, the Subsidiary shall provide special anti-fraud training to team members participating in due diligence. 4. The project team shall devise detailed due diligence objectives and procedures, identify responsible persons, timetable and completion standards for each step, and submit them to the SC for approval.
As no in-depth analysis was carried out in the due diligence report, the Subsidiary may fail to fully identify the potential risks associated with the particular cooperation mode agreed upon with partners or fail to adequately verify the authenticity of the business and assets. In addition, due to the absence of in-depth analysis, particularly in identifying potential fraud and other types of fraud risks, the Subsidiary may not be able to identify potential partners with fraudulent purposes or other kinds of fraudsters. Such omission could result in the Subsidiary entering into business relationships with dishonest entities, and thus being exposed to the risks of suffering significant financial loss and reputational damage.	1. Enhance the measures adopted in the due diligence process to identify potential risks (particularly fraud risks), including financial irregularity analysis, historical background checks, and review of historical litigation and violations. 2. Verify the information provided by partners through third-party verification, analyse the data to identify unusual transaction modes and potential fraudulent conduct, and consider engaging external experts to conduct independent evaluations, if necessary, to enhance the ability to identify complex fraudulent means.

Key findings	Recommendations
Assessment of New Business	
	3. Define potential fraudulent conduct (e.g. recurring delinquencies) and establish an internal reporting system to ensure that the management and, if necessary, the Board will be promptly notified when potential fraud is detected. 4. Establish a follow-up process for following up on completed due diligence to ensure that all material risks have been properly identified and addressed.
The due diligence report did not contain a risk analysis, e.g. risk assessment relating to the partner's employees with dishonesty records, or an analysis of whether the cooperation mode of business (where the partner has complete operational control while the Subsidiary solely manages finances) would pose a high-risk scenario. As a result, there were no corresponding internal control measures in place to adequately manage these risks. The Subsidiary neither clearly set boundaries for acceptable risk nor conducted a comprehensive assessment of potential risks in the new business, making it challenging to establish effective and appropriate internal control measures to minimise risk to an acceptable level.	1. The Subsidiary shall clearly set boundaries for acceptable risk such as specifying required due diligence, establishing thresholds for loss notification to the board of directors of the Group, and determining permissible investments in high-risk new ventures. 2. The due diligence report, or its follow-up reports, shall include an evaluation of the identification of potential risks (particularly fraud risks), along with corresponding countermeasures. 3. According to the risk assessment, the Subsidiary shall establish internal control measures to mitigate risk to an acceptable level, such as the maximum amount for simultaneous procurement investments.

Key findings	Recommendations
Assessment of New Business	
	4. Regularly monitor the effectiveness of internal controls to ensure all significant risks are properly identified and addressed.
Sales and Collection of Receivables	
The Subsidiary failed to quantify the acceptable level of risks and therefore failed to report the non-routine high-risk transactions to the board of directors of the Group. In addition, the Subsidiary only monitored the payment collection based on the breakdown of receipt and payment, and did not set a credit limit or develop a clear procedure for dealing with bad/defaulted debts, relying only on the personal judgment of the chief financial officer. Therefore, the Subsidiary failed to prevent the further transactions in a timely manner and also failed to report the defaults to the board of directors of the Group.	1. Clearly quantify the level of risks: The Board shall set a level of risks acceptable to the Subsidiary and shall understand that the resumption of a discontinued business shall not be considered as a regular transaction and shall be reported to the Board, so as to allow the Board to set appropriate measures for risk management. 2. Develop a process for credit risk management: a comprehensive process for credit risk management shall be developed, including but not limited to setting credit limits, periodic credit assessments, and timely monitoring and reporting credit risks.

Key findings	Recommendations
Sales and Collection of Receivables	
The Subsidiary may be exposed to significant credit risk due to the failure of quantifying the acceptable level of risks and lack of procedures for managing the credit risk. Thus, the likelihood of financial losses resulting from bad credit increased and liquidity issues may arise due to high-risk transactions. Failure to comply with the terms of fund recovery as set out in the cooperation agreement also showed the inadequate credit management and risk prevention of the Subsidiary. In addition, failure to report the non-routine transactions and defaults to the board of directors of the Group may lead to the fact that the management is not able to make timely and proper business decisions.	3. Develop a clear process for dealing with bad and doubtful debts/defaulted debts: clear procedures for dealing with bad and doubtful debts and defaulted debts shall be developed and implemented to reduce the financial impact on the Company. Such procedures shall include enforcing the terms as set out in the cooperation agreement in respect of defaults to ensure that appropriate measures for risk control have been taken within the specified timeframe, such as terminating further transactions and procurement.
Funds and Expense Management	
In conducting due diligence, the risks related to capital requirements were not considered, and only the amount of funds required were considered without assessing in detail the risks brought about by the cash outflow generated by the cooperation mode. The funds invested by the Group can be fully remitted in a very short period of time, and it will incur a very high risk in case of default by customers. The Group's funds may all flow out in a very short period of time due to lack of consideration for the inflow and outflow of funds, making it falling into the dilemma of insufficient liquidity.	In conducting due diligence, the Subsidiary shall prepare a cash flow forecast statement which takes into account the risks brought about by the cash outflow and the default by customers, so as to judge the risk level of the project as a major consideration in whether to accept the project, and avoid overvaluing the profit factor and neglecting the liquidity risk.

VIEWS OF THE SC AND THE BOARD

Having reviewed the Report, the SC and the Board are of the view that the findings of the IC Consultant are reasonable and acceptable. The Board is of the view that the Report has adequately addressed the concerns in relation to the Group's internal control weaknesses associate with the Incident and suggested practicable rectification measures to minimise future occurrence of similar incidents. The Board expects that the implementation of the rectification measures as recommended by the IC Consultant will be completed by June 2024.

The Board (including the SC) continues to monitor the situation and the Company will make further announcement(s) as appropriate when there is a significant development in respect of the Incident.

By order of the Board
Grand Field Group Holdings Limited
Ma Xuemian
Chairman

Hong Kong, 5 February 2024

As at the date of this announcement, the Board comprises four executive Directors, namely, Mr. Ma Xuemian, Mr. Kwok Siu Bun, Ms. Chow Kwai Wa Charmaine and Ms. Kwok Siu Wa Alison; and three independent non-executive Directors, namely, Mr. Hui Pui Wai Kimber, Mr. Liu Chaodong and Mr. Tsui Matthew Mo Kan.