

Report Date: August 18, 2021

Company: SGO CO Group, Ltd.

Ticker: SGOC US

Industry: Lending, Property Investment, Blockchain, “Big Data”, SaaS...

Stock Price (USD): \$6.85

Market Cap (USD, Millions): \$685.2

Disclosure: Wolfpack is short SGOC



SGOC: Multiple Arrests, Financial Fraud and Money Laundering

Introduction

In December 2020, three of SGOC’s key people and largest shareholders were arrested by the Hong Kong Police and were named as the “masterminds” in a HK\$475 million (approximately US\$61 million) international fund fraud **scheme involving SGOC**.¹ They have been charged by the HK Police with conspiracy to defraud and money laundering, along with 21 other suspects.²

According to the HK Police, reporters at Hong Kong Commercial Daily and the China Business Network, SGOC was being used as a conduit to drain the assets from the HKIF Fund, which is reportedly controlled by two of SGOC’s largest shareholders (arrested).³ What appeared at first to be constant M&A activity disclosed in SGOC’s SEC filings turned out to be a method for draining the assets of the HKIF Fund sold under AXA Insurance’s name to give it credibility. According to the Sing Pao Daily News, 11 insurance agents from AXA were also arrested for accepting bribes from these now arrested SGOC main shareholders for including the fraudulent HKIF Fund in AXA’s offering. According to the HK Police, the premiums these investors paid actually went directly into the bank and securities accounts of the arrested “masterminds” (i.e., the SGOC main shareholders) and other “fraud group” members, or the accounts of entities controlled by these “masterminds” and “fraud group” members.⁴

Based on the statements made by the HK Police, as well as SGOC’s own statements in its SEC filings, these guys appear to have been defrauding both the investors in the HKIF Fund and the shareholders of SGOC at the same time.

Second, although we spent numerous hours analyzing and reviewing SGOC’s financials, its revenues are negligible and the corresponding expenses simply do not add up to us. One of the most challenging parts of writing this report was trying to figure out what the bull case is for this company. We have been unable to find a reasonable fundamental long thesis for this stock:

- a. When we discovered that the assets from the HKIF Fund had been transferred to SGOC we thought that maybe those assets could generate some material revenue or profits for the company. Nope. **According to SGOC’s 2020 20-F, it recorded only ~\$4.3 million in revenue, had a -24.8% gross margin and a net loss of ~\$67.9 million in 2020.**⁵

¹ <http://www.cb.com.cn/index/show/zj/cv/cv13456531263/p/2.html>

² <http://www.singpao.com.hk/index.php?fi=news1&id=115891>

³ <http://www.singpao.com.hk/index.php?fi=news1&id=115891>; <https://finance.ifeng.com/c/7opeaDWqnKJ>; https://www.hkcd.com/content/2020-12/09/content_1234770.html; <http://www.cb.com.cn/index/show/zj/cv/cv13456531263/p/2.html>


⁴ https://www.hkcd.com/content/2020-12/09/content_1234770.html

⁵ SGOC 2020 20-F, p. F-7: “SGOCO Group, Ltd. and Subsidiaries Consolidated Statements of Comprehensive Loss”

- b. We checked the balance sheet to see if the assets that had been allegedly stolen from the HKIF had increased SGOC's book value substantially. Another miss there – **SGOC only had only ~\$3 million in cash at the end of 2020 and its total assets had decreased by more than 35% from the prior year to only \$90.13 million, while its total liabilities were effectively unchanged.**
- c. We also found that SGOC had recently [dismissed Centurion ZD](#) (“CZD”) as its auditor for 2020 – apparently the auditor that is willing to work with the likes of MOXC, YRIV, CBAT, WINS and LKNCY (Luckin Coffee post collapse) wasn't flexible enough for SGOC.⁶ SGOC narrowly avoided being delisted by filing its 20-F on July 7, 2020 (~3 months late).⁷ Maybe that's the bull case? If so... best of luck to you.

Third, we researched the possibility that large scale fund fraud could be SGOC's only real business:

- a. Many of SGOC's subsidiaries, per its 2020 20-F, are incorporated in known offshore tax havens (BVI, Cayman, Marshall Islands, Seychelles).⁸ According to China Business Network, many of these entities were used to transfer assets from the HKIF to SGOC. For example, SGOC's acquisition of “Paris Sky Limited” (a Seychelles corporation) via its wholly owned subsidiary Giant Connection Limited (also a Seychelles Corporation) transferred the First Asia Tower from The HKIF to SGOC.⁹ Further, Asia One, which was reportedly controlled by the Sun brothers¹⁰ before it was acquired by SGOC in the “Vision Lane Limited” (a BVI Corporation) deal, promoted and marketed the allegedly fraudulent HKIF fund (according AXA's official statement in 2019).¹¹ Meanwhile, according to Inspector Fang Hanhao of the Commercial Crime Bureau of the HK Police, the fund premiums were actually transferred to bank and securities accounts controlled by the “fraud group.”¹²
- b. Certain SGOC's US and PRC subsidiaries appear to be dormant shell companies:
 - (i) SGOC's USA entity (SGO Corporation) doesn't appear to have material operations. According to filings with the California Secretary of State, it sells computer monitors and “equipments” out of a residential address in Tracy, CA.

11. STREET ADDRESS OF AGENT FOR SERVICE OF PROCESS IN CALIFORNIA, IF AN INDIVIDUAL		CITY	STATE	ZIP CODE
2463 LIMOGES STREET		TRACY	CA	95304
Type of Business				
12. DESCRIBE THE TYPE OF BUSINESS OF THE CORPORATION				
Sales of Computer Monitors and Equipments				
13. THE INFORMATION CONTAINED HEREIN IS TRUE AND CORRECT.				
3/14/2014	David Gulping Xu	President		
DATE	TYPE/PRINT NAME OF PERSON COMPLETING FORM	TITLE	SIGNATURE	
SI-350 (REV 01/2013)			APPROVED BY SECRETARY OF STATE	

⁶ <https://pcaobus.org/resources/auditorsearch/firms/?firmid=2769>

⁷ https://www.sec.gov/Archives/edgar/data/1412095/000110465921091708/tm2122078d1_6k.htm

⁸ SGOC 2020 20-F, p. 35: “Organizational Structure”

⁹ <http://www.cb.com.cn/index/show/zj/cv/cv13456531263/p/2.html>

¹⁰ <http://news.stcn.com/2019/0618/15192864.shtml>

¹¹ <https://www.axa.com.hk/zh/article/statement-may-2019>

¹² <https://posts.careerengine.us/p/5fd1fe87edba2c4235183ee9>

(ii) SGOCO's Beijing subsidiary 北京上为印象科技有限公司 ("SGOCO Beijing") was disclosed as operational in SGOC's 20-F filed in 2021. However, our research shows it was "canceled of registration" as of September 2020 by a severe Beijing government order for failure to start or continue operation.¹³

信 启信宝 Administrative penalty details X

Update time: 2020-11-05 Source: National and local credit information publicity system

Decision document number	Jingchao City Supervision Office (2020) No. D7619
Penalties	[010107] A company that has not opened business for more than 6 months without justifiable reasons after its establishment, or has ceased business by itself for more than 6 consecutive months after opening
Punishment agency	Beijing Municipal Administration of Market Supervision
Penalty date	2020-09-07
Publicity date	2020-09-14
Penalty content	Revoke the business license.
Basis for punishment	-

- c. Giant Financial Services Limited ("GFS"), a Samoan entity SGOC acquired in 2019 from a related party,¹⁴ Victor Or, was presented as one of SGOC's main "business lines" in its 2020 20-F.¹⁵ SGOC acquired GFS for 19.9% of SGOC's outstanding shares, \$21.79 million in cash and a promissory note, for total consideration of \$64.34 million.¹⁶ While SGOC describes GFS as *"an online financial marketplace connecting financial institutions and users worldwide via its unique mobile application which features state-of-the-art functions to boost financial accessibility to financial and insurance products and services."*¹⁷ We could not find meaningful data either in SGOC's SEC filings, or in our other research regarding any noteworthy history, customers or past revenues of GFS to justify such a significant acquisition price. Further, **SGOC's 2020 20-F shows that GFS generated only ~\$1.5 million in revenue resulting in a net loss of ~\$57.9 million in 2020.**¹⁸ We believe the true purpose of this acquisition was to funnel cash out of the publicly traded company to a related party.

All in all, what can investors realistically expect from a company controlled by alleged criminals and involved in a confirmed, widely reported criminal fund fraud? How could SGOC truly care about creating investor value while its major shareholders had reportedly been using SGOC for years to defraud 260 other investors in Hong Kong and Mainland China? With the HK Police investigation still ongoing, we think SGOC has even bigger problems ahead of it. We wouldn't touch this stock as an investment with a 100-foot pole.

¹³ <https://www.qixin.com/risk-self/5c44b4a1-3628-4a25-a380-eb4952f13d0f?type=self>

¹⁴ SGOC 2020 20-F, p. 56, 67: "Related Party Transactions"

¹⁵ SGOC 2020 20-F, p. 32: "Acquisition of Giant Financial Services Limited"

¹⁶ SGOC 2020 20-F, p. F-12

¹⁷ SGOC 2020 20-F, p. 39

¹⁸ SGOC 2020 20-F, p. F-46: "Note 19 – Segment Information"

Analysis

1. Three of SGOC's Key People and Major Shareholders are Confirmed to be Arrested by Hong Kong Police for the HKIF Fund Fraud Related to SGOC Committed Between 2013 to 2018:

- a. **Alan Sun** (申焯栢, or Shen Zhuobai). Let's call him Alan. He was a 36.4% shareholder of SGOC in 2018.¹⁹

Ricky Sun (申偉基, or Shen Weiji). Let's call him Ricky. He is reported to be Alan Sun's brother, also husband of Leung Iris Chi Yu (Iris) (see below)²⁰. Ricky was an HK qualified attorney,²¹ who could very well be the "master structurer" of utilizing AXA and SGOC in the fraudulent HKIF Fund.

Leung Iris Chi Yu (Chinese character name unknown). Let's call her Iris. She currently owns 22.81% of SGOC, according to SGOC's 20-F filed in 2021; 24.1% per SGOC's 20-F filed in 2020; and 28.9% per SGOC's 20-F filed in 2019. She also sold SGOC's key HK real estate, First Asia Tower (valued at \$53M), to SGOC, according to SGOC's 2020 20-F.²²

Luk Lai Ching Kimmy (陸麗貞, or Lu Lizhen). Let's call her Luk. She is the founder and served as the sole director for 2 important entities under SGOC: (1) SGOC's lending license holding entity, Giant Credit Limited, and (2) First Asia Finance Limited, which played a key role in promoting the HKIF Fund to investors, according to AXA Insurance.²³

- b. These four people appear to be most important to SGOC's operations (whatever you believe those may be), and "facilitated" or "signed" deals involving HKIF assets and SGOC. However, **Alan, Ricky and Luk were confirmed to be arrested by the HK Police in December 2020 for allegedly being the "masterminds" of a "fraud group" consisting of 24 people who, according to the HK Police, conspired to defraud fund investors and commit money laundering.** As a result, it appears that the most valuable assets on SGOC's balance sheet were acquired illegally and are under criminal investigation of the Hong Kong Police.
- c. The HK Police allege that this "fraud group" led by Alan, Ricky and Luk bribed insurance agents from multinational insurance firm AXA Financial in order to let them raise capital into a Hong Kong Investment Fund ("HKIF"), which they later transferred the management of to a Cayman entity. **The HKIF was promoted, issued and managed by related entities and significant shareholders of SGOC, involved about 260**

¹⁹ SGOC 2018 10-K, p. 49

²⁰ 成報 [SING PAO DAILY NEWS](https://www.singpaodailynews.com)

²¹ <https://finance.sina.cn/insurance/hydt/2020-12-10/detail-iiznezxs6138160.d.html>

²² SGOC 2020 20-F, p. F-33

²³ <https://www.axa.com.hk/en/article/statement-jun-2019>

“victim” investors, who invested a total of HK\$475 million (approximately **\$61 million**) into the (now liquidated) HKIF Fund.

- d. According to the HK Police, one of the more complex parts of this fraud was the HK\$200 million of real assets (properties) transferred out of the HKIF fund in exchange for convertible notes worth only HK\$13 million. As part of the arrests, HK\$370 million of real assets and HK\$50 million of bank deposits were criminally frozen.²⁴
- e. The media in Hong Kong and China have followed this case closely since the HKIF fund lost 95% of its value overnight around July 2018, costing many investors much of their life savings. Below are links to some particularly interesting articles regarding the case:
 - i. [成報 SING PAO DAILY NEWS](#); which reports that HK police arrested 24 people (with more arrests to come), out of which the 3 “main heads” of the “fraud group” are Alan, Ricky and Luk, in a criminal fraud and money laundering case involving AXA Insurance Hong Kong the HKIF Fund.
 - ii. [Sina Finance](#); This article details how the fraud was committed, calling out Alan Sun, SGOC and Iris (“Ms. Leung”) by name (in addition to identifying her as Ricky Sun’s wife) and includes numerous screenshots from SGOC’s SEC filings. The article further explains how SGOC’s controlling shareholders (i.e., the Sun brothers) used SGOC as a conduit to perpetrate this alleged fraud.
 - iii. [China Business Network](#); This article further details the Sun brothers’ involvement in the alleged fraud, explains how the deals disclosed in SGOC’s 20-Fs actually drained the fund’s assets and exposes Ms. Kwok Kai Kai Clara as a director of the second HKIF fund manager (“Worldwide Opportunities Fund SPC”), alongside Ricky Sun. Clara currently owns 28.7% of SGOC’s shares, through Prime Ocean Holdings Limited, the Seychelles corporation.²⁵ Given that the HK Police also announced 2 directors of the fraudulent fund were arrested, we believe Clara could have been arrested by the HK Police.

²⁴ <http://www.singpao.com.hk/index.php?fi=news1&id=115891>

²⁵ SGOC 2020 20-F, p. 66: “Share Ownership”

2. The HKIF Fund Scheme's Connection with SGOC

Below are the details of how the HKIF scheme originated and operated, as well as how it was intimately interconnected with SGOC:

The HKIF Scheme Part I: Changed fund No. and issuer, with the Same Fund Name without notice to investors

The Hong Kong Investment Fund (“HKIF”) was originally established under the Megatr8 Pere Opportunities Fund SPC in Cayman on January 11, 2013. It was offered as one of many options investors could choose to use as the reference instrument for an investment-linked life insurance product sold by AXA Insurance Hong Kong.²⁶ Between 2014 and 2016, dozens of investors noticed that their funds’ ISIN numbers had changed.²⁷ The original ISIN number for the fund was KYG596411119:

ISIN Information																							
ISIN: KYG596411119																							
Title: Hong Kong Investment Fund SP Class B																							
Description: Hong Kong Investment Fund SP Class B																							
Country: Singapore																							
Details																							
Master Data	Issuer Data																						
<table><tr><td>Name</td><td>Hong Kong Investment Fund SP Class B</td></tr><tr><td>Type</td><td>Equity</td></tr><tr><td>Denomination</td><td>10000</td></tr><tr><td>Issue Volume</td><td>60000</td></tr><tr><td>Issue Currency</td><td>HKD</td></tr><tr><td>Valuation Date</td><td>Mar and Sep</td></tr></table>	Name	Hong Kong Investment Fund SP Class B	Type	Equity	Denomination	10000	Issue Volume	60000	Issue Currency	HKD	Valuation Date	Mar and Sep	<table><tr><td>Issuer</td><td>Megatr8 Pere Opportunities Fund Spc</td></tr><tr><td>Address</td><td>7500A, Beach Road, #04-333 The Plaza Singapore 199591</td></tr><tr><td>Phone</td><td>(65) 63969193</td></tr><tr><td>Contact</td><td>info@megatr8.com</td></tr><tr><td>Internet</td><td>www.megatr8.com</td></tr></table>	Issuer	Megatr8 Pere Opportunities Fund Spc	Address	7500A, Beach Road, #04-333 The Plaza Singapore 199591	Phone	(65) 63969193	Contact	info@megatr8.com	Internet	www.megatr8.com
Name	Hong Kong Investment Fund SP Class B																						
Type	Equity																						
Denomination	10000																						
Issue Volume	60000																						
Issue Currency	HKD																						
Valuation Date	Mar and Sep																						
Issuer	Megatr8 Pere Opportunities Fund Spc																						
Address	7500A, Beach Road, #04-333 The Plaza Singapore 199591																						
Phone	(65) 63969193																						
Contact	info@megatr8.com																						
Internet	www.megatr8.com																						

While the name was still HKIF, the fund issuer had changed to “Worldwide Opportunities Fund SPC.” According to the webpage of the Cayman Financial Authority (CIMA), Worldwide Opportunities Fund SPC was officially established on July 21, 2015.²⁸

The new fund issuer’s ISIN number is KYG977791139. The average investor likely had no idea that even though the name of the fund was the same, it was not the same HKIF fund they had originally invested in; the terms and conditions of the fund had changed completely.²⁹

²⁶ <http://www.cb.com.cn/index/show/zj/cv/cv13456531263/p/2.html>

²⁷ 安盛香港 4 亿投连险巨亏调查：产品未在内地售卖 但九成投资人来自内地 凤凰网 (ifeng.com)

²⁸ <https://toutiaosg.com/>

²⁹ <https://www.isin.org/isin-database/>

ISIN Information					
ISIN: KYG977791139					
Title: Hong Kong Investment Fund SP					
Description:					
Country: Cayman Islands					
Details					
Master Data	Issuer Data				
<table border="1"> <tr> <td>Name</td> <td>Hong Kong Investment Fund SP</td> </tr> </table>	Name	Hong Kong Investment Fund SP	<table border="1"> <tr> <td>Issuer</td> <td>Worldwide Opportunities Fund SPC</td> </tr> </table>	Issuer	Worldwide Opportunities Fund SPC
Name	Hong Kong Investment Fund SP				
Issuer	Worldwide Opportunities Fund SPC				

According to an article from China Business Network, the 2016 HKIF Fund PPM (Proposal Prospectus) included a statement in its “risk factors” section which state that although the company (Worldwide Opportunities Fund SPC) is a mutual fund regulated by the Mutual Fund Law, *the company does not need and does not intend to follow legal registration in other jurisdictions*. Therefore, the securities laws of the Cayman Islands and other jurisdictions (which may provide investors with certain regulatory protections) generally do not apply. The 2016 HKIF Fund listed Ricky Sun and Kwok Kai Kai Clara as the fund’s directors.³⁰

According to the same article from China Business Network, in 2017 a secret recording of a private meeting supposedly with Alan Sun was circulated on YouTube (however, HK Police were unable to confirm with certainty that the voice in the recording was, in fact, that of Alan Sun). In the recording, the man suspected to be Alan Sun discussed the thought process behind the structure of the fund:

*“AXA is the world’s largest insurance company. China Eastern Finance has a background as a central enterprise. Private equity funds that were previously less popular can be sold in the name of AXA. **Customers pay insurance premiums by swiping their cards at AXA, but all their money is invested into his own fund, and finally into his own pocket.**”³¹*

We want to reiterate that the HK Police were unable to officially confirm that the voice in the recording was that of Alan Sun, so investors reading the quote above should take this into consideration. However, we are inclined to believe that the voice in this recording was that of either Alan Sun or someone else with inside knowledge of the HKIF fund’s scheme, given the events that happened shortly after this recording was posted, as detailed below.

³⁰ <https://finance.sina.com.cn/roll/2019-08-03/doc-ihytcitm6570613.shtml>

³¹ <http://www.cb.com.cn/index/show/zj/cv/cv13456531263/p/2.html>

HKIF Scheme Part II: Changed fund manager, auditors and investment directions, with the Same Fund Name without providing notice to investors

According to China Business Network, in May 2018, the fund manager for the HKIF Fund was changed from “*China Eastern Financial Hong Kong*” to “*China Eastern Financial Cayman*.” China Eastern Financial Cayman has no connection with the well-known and credible China Eastern Financial Hong Kong and its parent company China Eastern Airlines, one of the largest and most profitable airlines in China, according to an official statement issued by China Eastern.³² In addition, the administrative managers, fund auditors and fund investment directions of the HKIF Fund had all changed.³³

HKIF Scheme Part III: Transfer of assets out of the Fund without investor approval

According to the HK Police, **the underlying assets of the fund were gradually transferred out; according to SGOC’s SEC filings and various reporters such as China Business Network, these assets were transferred to SGOC** (*i.e.*, the assets were transferred from the HKIF to SGOC).

The first asset to be transferred to SGOC from the HKIF was the fund’s key asset: the Hong Kong First Asia Tower, located at No. 8 Fui Yiu Kok Street, Tsuen Wan, New Territories, Hong Kong:



This was accomplished by SGOC via its June 2018 acquisition of “*Paris Sky Limited*” which the HKIF had apparently transferred ownership of the building to prior to the acquisition. The sole shareholder of Paris Sky Limited was **Leung Iris Chi Yu** (*i.e.*, Iris, Ricky Sun’s wife) and the sole director was **Luk Lai Ching Kimmy** (“Luk” as we call her).³⁴

³² <http://www.cb.com.cn/index/show/zj/cv/cv13456531263/p/2.html>;

<http://www.cb.com.cn/index/show/zj/cv/cv13456531263/p/2.html>

³³ <http://www.cb.com.cn/index/show/zj/cv/cv13456531263/p/2.html>

³⁴ SGOC 2020 20-F, p. F-32

This means that SGOC acquired the key asset of the HKIF and issued additional shares of the company to Ricky Sun's wife, siphon \$3.47 million out of SGOC to Iris (and, therefore, her husband, Ricky Sun) via the promissory note, as well as transfer 49% of two previously acquired companies to them. According to the Hong Kong Police, in July 2018, immediately after the key HKIF Fund assets were transferred out to SGOC, the HKIF Fund dropped 93% in value overnight.³⁵ In February 2019, the Fund filed for liquidation.

Further, \$27.61 million of the \$53 million value of the building was pledged against the banking facilities of “*a company beneficially owned by [Luk].*” In our opinion, this whole transaction was a sham, defrauding both investors in the HKIF and SGOC's.³⁶

(d) Acquisition of Paris Sky Limited

On June 7, 2018, the Company's wholly-owned subsidiary, Giant Connection Limited closed a Share Exchange Agreement for the entire issued share capital of Paris Sky Limited, whose then sole shareholder and sole director were Leung Iris Chi Yu (“Ms. Leung”) and Luk Lai Ching Kimmy (see (d) above, respectively. In consideration for (1) the allotment of 3,889,050 ordinary shares of the Company to Leung Iris Chi Yu (“Ms. Leung”), at an initial agreed value of HK\$30.33 million (\$3.89 million), the fair value of the 3,889,050 ordinary shares was \$4.78 million, which was calculated based on the stock price of \$1.23 per share on June 7, 2018, (2) the transfer of a 49% interest in CSL at an agreed value of HK\$126.13 million (\$16.17 million), (3) the transfer of a 49% interest in Boca at an agreed value of HK\$184.84 million (\$23.70 million), and (4) the issuance of a promissory note to Ms. Leung in the principal amount of HK\$27.10 million (\$3.47 million), bearing a 8% interest per annum, by Giant Connection Limited, the Company acquired 100% of the issued share capital of Paris Sky Limited, an investment holding company which, through its wholly owned subsidiary, Suns Tower Limited, owns a property located at No. 8 Fui Yiu Kok Street, Tsuen Wan, New Territories, Hong Kong. The Company repaid the promissory note in full on August 22, 2018.

Property, plant and equipment acquired included leasehold land and buildings with a value of \$53.00 million at the date of acquisition which are pledged against the banking facilities of HK\$215.32 million (\$27.61 million) of a company beneficially owned by Kimmy Lai Ching Luk (see (c) above). The property pledge (allowance on guarantee) was valued on the basis of estimation of the probability that the borrower would be unable to either repay the loan or fulfil the loan contract terms (the default risk) and the amount that would be recovered at events of default (the recovery rate).

Third, SGOC also signed an LOI for its next acquisition, “*Vision Lane Limited*” on October 3, 2018, just three months after the HKIF Fund lost 93% of its value following SGOC's Paris Sky Acquisition. SGOC paid Kwok Man Yee Elvis (yes, that is his real name) for total consideration of \$12.74 million for Vision Lane, split between \$7.46 million in cash and 4,519,347 SGOC shares.³⁷

How was Vision Lane related to the HKIF Fund scheme? Vision Lane is a BVI holding company which owns 100% of First Asia Finance Limited (“First Asia”).³⁸ First Asia reportedly controls Asia One, the main insurance broker selling the HKIF Fund to investors as the reference fund in AXA's investment-linked life insurance product, according to AXA Insurance Hong Kong's official statement, released on May 16, 2019.³⁹

³⁵ <http://www.singpao.com.hk/index.php?fi=news1&id=115891>

³⁶ SGOC 2020 20-F, p. F-33

³⁷ SGOC 2020 20-F, p. F-34

³⁸ SGOC 2020 20-F, p. F-33

³⁹ <https://www.axa.com.hk/zh/article/statement-may-2019>

Part IV: The Collapse of the HKIF Scheme

According to the Hong Kong Police, in July 2018 the HKIF Fund fell 93% overnight and subsequently filed for liquidation in February 2019. The fund was officially liquidated in May 2019. On May 16, 2019, AXA Insurance Hong Kong issued a statement after receiving many complaints from policyholders who lost HK\$475 million due to this scheme. It referenced Asia One as the insurance broker of the HKIF Fund and pointed out potential fraud and inappropriate actions by the HKIF Fund's management:⁴⁰

“Among the more than 1,000 different assets currently deployed through Evolution, the Hong Kong Investment Fund SP (hereinafter referred to as “the fund”) under the Worldwide Opportunities Fund SPC is selected by about 200 clients. The fund is managed by China Eastern Airlines International Finance (Cayman Islands) Co., Ltd., not AXA. The value of the fund has experienced significant declines in recent months. Investors have recently been notified of their intention to forcibly redeem all shareholder investments and liquidate the fund. Most of the Evolution insurance policies that use this fund as the allocation reference fund are distributed by independent insurance broker Asia One.

We are also concerned about the development of the incident and believe that fraud may be involved. Therefore, we are taking appropriate actions to thoroughly investigate the incident and try to recover the assets. We appointed external legal counsel and proposed to the Grand Court of the Cayman Islands to appoint an independent joint liquidator for the fund. The Great Court approved our petition on May 16. The liquidator appointed by the court now has full control over the fund’s affairs and will have extensive powers to investigate a series of events that led to the fall in the value of the fund’s investment in order to determine whether the fund is under management Bad and inappropriate behavior.”

The ensuing investigation by the Hong Kong Police resulted in the 24 arrests mentioned earlier, including 11 individual insurance broker agents, with the possibility of additional arrests as the investigation continues. We believe it is worth noting that the Hong Kong Police's statement that the arrests included “two directors of overseas investment fund management companies” implies that the HKIF Fund's other director, Kwok Kai Kai Clara, who currently owns 28.7% of SGOC,⁴¹ has likely been arrested as well.⁴²

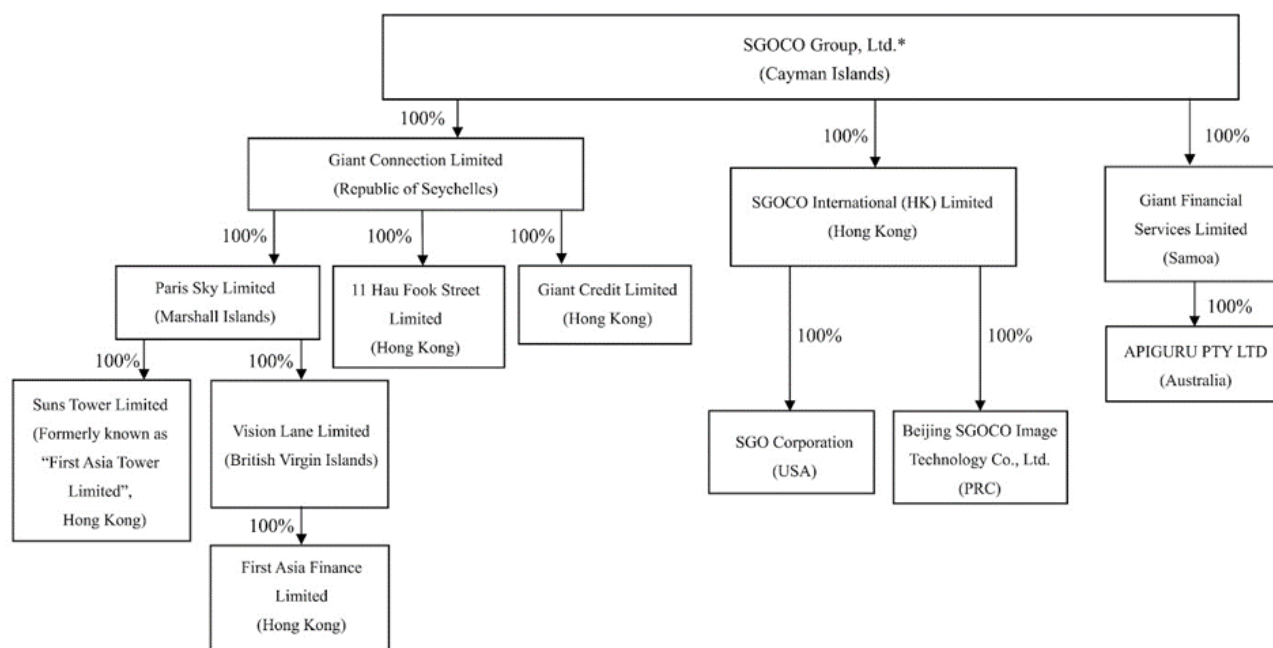
⁴⁰ <https://www.axa.com.hk/zh/article/statement-may-2019>

⁴¹ SGOC 2020 20-F, p. 66

⁴² <http://www.singpao.com.hk/index.php?fi=news1&id=115891>

3. Various subsidiaries of SGOC seem to be non-operative shells or canceled, with no real business:

The Corporate Structure Diagram in SGOC’s 2020 20-F appears to show the three branches of the ListCo (SGOCO Group Ltd. (Cayman Islands)). The ListCo has three direct wholly owned subsidiaries, each of which has subsidiaries of their own. These three groups of subsidiaries appear to serve different purposes for SGOC:⁴³



- a. **Giant Connection Limited (Seychelles)** and its subsidiaries appear to be the main instruments used by the “fraud group” to transfer assets from the HKIF Fund to SGOC:⁴⁴

(i) Giant Connection’s subsidiary *Paris Sky Limited* holds the HKIF Fund’s former key asset, the First Asia Tower via its subsidiary *Suns Tower Limited*. Paris Sky also owns *Vision Lane Limited*, whose subsidiary *First Asia Finance* reportedly controls Asia One, the main broker who misled investors into choosing the HKIF Fund according to the statement from AXA.⁴⁵ Please refer to the previous section “[*HKIF Scheme Part III*](#)” for additional details of the transactions between these SGOC subsidiaries and the HKIF Fund.

⁴³ SGOC 2020 20-F, p. 35: “Organizational Structure”

⁴⁴ SGOC 2020 20-F, pp. 31-32 and p. F-32

⁴⁵ <https://www.axa.com.hk/zh/article/statement-may-2019>

(ii) *Giant Credit Limited (Hong Kong)* (“GCL”) was acquired by SGOC from Kimmy Luk (arrested) for \$2.35 Million worth of SGOC shares in December 2017, and appears to be the entity SGOC uses to make loans to SGOC’s related parties. It also owns one property in Hong Kong, according to SGOC’s 2020 20-F.⁴⁶

(c) **Acquisition of Giant Credit Limited**

On December 22, 2017, Giant Connection Limited, a wholly-owned subsidiary of SGOCO, completed the acquisition of Giant Credit Limited (“GCL”) contemplated by the Share Exchange Agreement entered into by Luk Lai Ching Kimmy (as vendor) and the Company in consideration for HK\$19.60 million (\$2.35 million), which was satisfied by the allotment and issuance of 2,220,283 ordinary shares of the Company. GCL holds a Money Lenders License and engages in money lending business in Hong Kong. The fair value of the shares was \$1.06 per share on December 26, 2017.

After the completion of the acquisition, GCL became a wholly owned subsidiary of the Company.

The Company completed the valuations necessary to assess the fair values of the tangible assets acquired and liabilities assumed, resulting from which the amount of goodwill was determined and recognized as of the respective acquisition date. The following table summarizes the estimated aggregate fair values of the assets acquired and liabilities assumed as of the closing date, December 22, 2017.

Net assets acquired (including cash of \$943, loans receivable of \$670, interest receivables of \$6, property, plant and equipment of \$508 and income tax payable of \$14)	\$	2,113
Goodwill		248
Deferred tax liabilities		(7)
Total	\$	<u>2,354</u>
Total purchase price comprised of:		
— share-based consideration	\$	2,354
Total	\$	<u>2,354</u>

See [Section 3\(c\)\(i\)](#) below for a list of disclosed loans GCL has made to related parties of SGOC.⁴⁷

⁴⁶ SGOC 2020 20-F, p. F-32: “*Acquisition of Giant Credit Limited*”

⁴⁷ Details in [Section 3\(c\)\(i\)](#) below, from SGOC’s 2020 20-F p. 56: “*Related Party Transactions*”

b. **SGOCO International (HK) Limited** and its subsidiaries appear to be mostly dormant entities left over from the original hardware business that emerged from SGOC's RTO listing back in 2011:

(i) Our research shows that Beijing SGOCO Image Technology Co., Ltd. 北京上为印象科技有限公司 ("SGOC Beijing") was "canceled of registration" as of September 2020. SGOC Beijing was effectively "cancelled" directly by a Beijing government order for "failure to start operation for six months or more without justification" or "operation ceased for more than six months." This is a "severe" administrative order, according to Chinese database Qichacha, as well as our discussions with Chinese attorneys;

启信宝

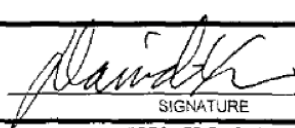
Administrative penalty details

Update time: 2020-11-05

Source: National and local credit information publicity system

Decision document number	Jingchao City Supervision Office (2020) No. D7619
Penalties	[010107] A company that has not opened business for more than 6 months without justifiable reasons after its establishment, or has ceased business by itself for more than 6 consecutive months after opening
Punishment agency	Beijing Municipal Administration of Market Supervision
Penalty date	2020-09-07
Publicity date	2020-09-14
Penalty content	Revoke the business license.
Basis for punishment	-

(ii) there was little information available on its U.S. Subsidiary "SGO Corporation" aside from filings with the State of California which state that it sells computer monitors and equipment from a residential address, [according to Zillow](#):

11. STREET ADDRESS OF AGENT FOR SERVICE OF PROCESS IN CALIFORNIA, IF AN INDIVIDUAL CITY		STATE	ZIP CODE
2463 LIMOGES STREET		TRACY	CA 95304
Type of Business			
12. DESCRIBE THE TYPE OF BUSINESS OF THE CORPORATION		Sales of Computer Monitors and Equipments	
13. THE INFORMATION CONTAINED HEREIN IS TRUE AND CORRECT.			
3/14/2014	David Guiping Xu	President	
DATE	TYPE/PRINT NAME OF PERSON COMPLETING FORM	TITLE	SIGNATURE
SI-350 (REV 01/2013)			APPROVED BY SECRETARY OF STATE



Zillow

[Edit](#) [Save](#) [Share](#) [More](#)

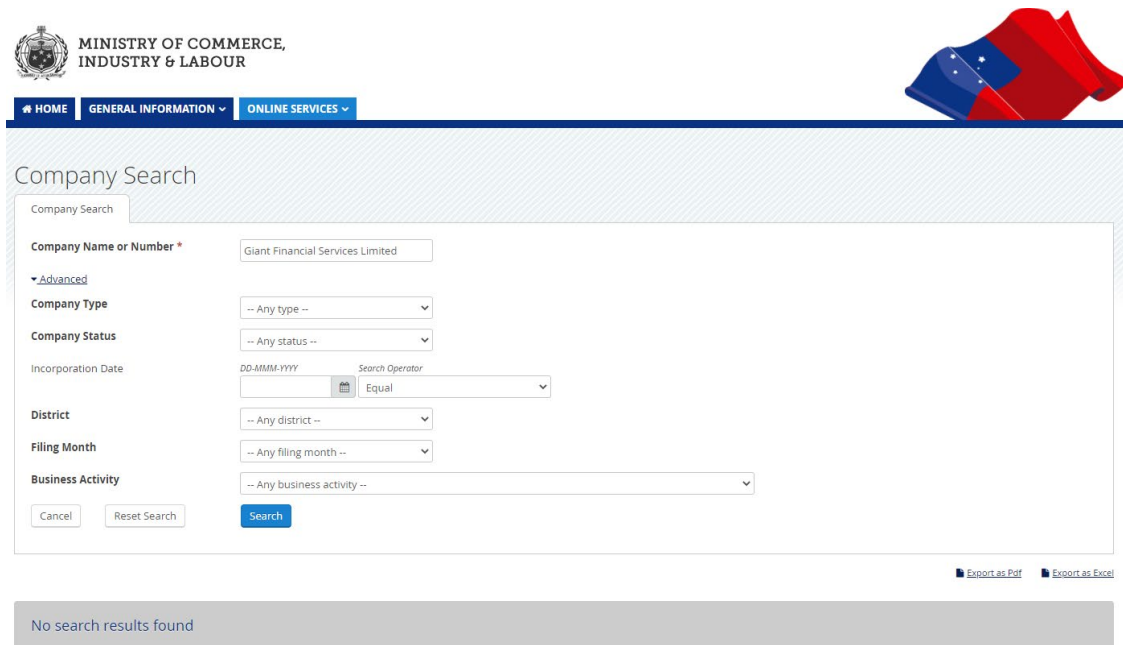
4 bd | 4 ba | 3,698 sqft
2463 Limoges St, Tracy, CA 95304

● Off market | Zestimate®: \$1,041,300 | Rent Zestimate®: \$3,499/mo

Est. refi payment: \$4,613/mo [Refinance your loan](#)

[Home value](#) [Owner tools](#) [Home details](#) [Neighborhood details](#)

- c. **Giant Financial Services Limited (Samoa)** – SGOC purchased Giant Financial Services (“GFS”) from a related party⁴⁸ for \$64.34 million in January 2020.⁴⁹ However, we were unable to find this entity on the Samoan Ministry of Commerce, Industry and Labour business search website. We tried every permutation of this name that we could think of, and every one came back with “No search results found”:⁵⁰



MINISTRY OF COMMERCE,
INDUSTRY & LABOUR

HOME GENERAL INFORMATION ONLINE SERVICES

Company Search

Company Search

Company Name or Number * Giant Financial Services Limited

Advanced

Company Type -- Any type --

Company Status -- Any status --

Incorporation Date DD-MMM-YYYY Search Operator Equal

District -- Any district --

Filing Month -- Any filing month --

Business Activity -- Any business activity --

Cancel Reset Search Search

Export as Pdf Export as Excel

No search results found

- (i) SGOC’s disclosed loans and bank deposits to a related party, namely, Mr. Or, the seller of GFS to SGOC are not “arms-length” in our view due to the lack of loan collateral or interest on cash deposits:⁵¹

Related Party Transactions

Victor OR (“Mr. Or”) is the seller of GFS (note 7(f)), and a shareholder of the Company who was holding 15.7% of the Company’s ordinary shares from January 13 to October 10, 2020, and 2.3% and 2.3% of the Company’s ordinary shares as of December 31, 2020 and June 20, 2021.

On December 23, 2019, the Company entered into a Share Exchange Agreement with Mr. Or for the purchase and sale of the entire equity interest in GFS. As part of consideration, the promissory note was issued to Mr. Or on January 31, 2020. The face value (principal) amount of \$28.47 million is repayable by January 31, 2025, and bearing fixed interest at a rate of eight percent (8%) per annum. The Company has repaid the promissory note by several payments during 2020 and 2021, and it was fully settled by March 30, 2021 (note 7(f)).

On September 26, 2018, GCL entered into a mortgage loan agreement to provide a loan to Mr. Or and two other unrelated parties in the amount of HK\$11.50 million (\$1.47 million), which was secured by residential property of Mr. Or, maturing on September 25, 2019, and bearing interest at 8% per annum. On September 25, 2019, GCL agreed to extend the term of the loan to September 25, 2020. On March 1, 2021, Mr. Or and two unrelated parties fully repaid HK\$11.50 million (\$1.47 million) to the Company.

⁴⁸ SGOC 2020 20-F, p. 56, p. 67: “Related Party Transactions”

⁴⁹ SGOC 2020 20-F, p. F-12

⁵⁰ <https://www.businessregistries.gov.ws/samoa-br-companies/viewInstance/view.html?id=3729e4694ccc83de20eb808637ff90e2806898e9ada4de7376ca8edab8b5d8bf×tamp=1009970283888783>

⁵¹ SGOC 2020 20-F, p. 56, 67: “Related Party Transactions”

On October 3, 2018, GCL entered into a loan agreement to provide a loan to Mr. Or and two other unrelated parties in the amount of HK\$20.00 million (\$2.56 million), which was not with any collateral, the repayment of which was guaranteed by Mr. Or and two other unrelated parties, maturing on December 2, 2018 and bearing interest at 8% per annum. On December 2, 2018, GCL agreed to extend the term of the loan to March 2, 2019. On March 1, 2019, Mr. Or and two unrelated parties fully repaid HK\$20.00 million (\$2.56 million) to the Company.

On March 14, 2019, GCL entered into a loan agreement to provide a loan to Mr. Or in the amount of HK\$7.00 million (\$0.90 million), which was not with any collateral, the repayment of which was guaranteed by Mr. Or, maturing on March 13, 2020 and bearing interest at 8% per annum. On September 30, 2019, Mr. Or fully repaid HK\$7.00 million (\$0.90 million) to the Company.

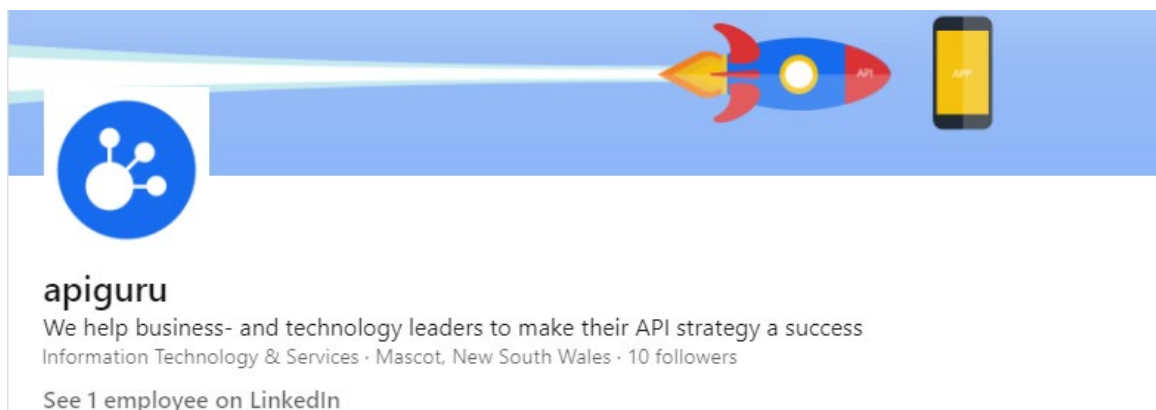
On November 1, 2019, GCL entered into a loan agreement to provide a loan to Mr. Or in the amount of HK\$38.00 million (\$4.87 million), which was not with any collateral, the repayment of which was guaranteed by Mr. Or, maturing on October 31, 2020 and bearing interest at 6% per annum. On April 8, 2020, Mr. Or fully repaid HK\$38.00 million (\$4.87 million) to the Company.

As of December 31, 2020 and 2019, loans receivables due from Mr. Or and two other unrelated parties totaled HK\$73.84 million (\$9.47 million) and HK\$166.00 million (\$21.28 million) remained outstanding, respectively. On February 9, 2021, one of the loans receivables due from Mr. Or and two unrelated third parties were assigned to an unrelated party, Brilliant Jade Group Limited, in consideration of HK\$62.34 million (\$8.00 million) in which the relevant outstanding loan balance was HK\$62.34 million (\$8.00 million) as of the date of assignment. No interest receivable is accrued as of the date of assignment according to the contract term. During the years ended December 31, 2020 and 2019, interest income of \$nil and \$1.10 million have been earned on these loans. As of December 31, 2020, and 2019, accrued interest receivable on these loans amounted to \$0.09 million and \$0.98 million, respectively.

Mr. Or owned 75% of Alpen Baruch Bank Limited which is an international bank situated in Vanuatu. As of December 31, 2020 and June 30, 2021, the Company had HK\$6.74 million (\$0.86 million) and HK\$8.17 million (\$1.05 million) cash deposited in Alpen Baruch Bank Limited. As of June 30, 2021 and December 31, 2020, there was no any interest income from Alpen Baruch Bank Limited, and bank charge paid to Alpen Baruch Bank Limited were immaterial.

SGOC loans detailed above to Mr. Or, and SGOC's deposits to the bank 75% owned by Mr. Or do not appear to us to have been made on arms-length terms. SGOC's loans to Mr. Or were in significant amounts (almost \$15 million in total) but often required no collateral, adverse to typical bank lending practices to individuals. SGOC's deposits to Mr. Or's 75% owned bank do not appear to be arms-length either (almost \$2 million in cash deposits but accruing no interest income to SGOC)?

(ii) GFS's sole subsidiary, APIGURU PTY LTD (Australia) was also very difficult to find documentation for. We were only able to find a [website](#) which is full of boilerplate language about the implementation of API for business systems, as well as a [LinkedIn page](#) which describes the company as a sole proprietorship owned by Damian Thurnheer, an entrepreneur from Switzerland. We were unable to find any mention of GFS or SGOC on either page, which leaves us with many questions about this "acquisition."




Overview

Damian Thurnheer is an entrepreneur from Switzerland, who has defined and implemented the API programs for the biggest telecom service provider in Switzerland and the largest investment bank of Australia with success.

Before he has started his own consulting business, he worked for Google and helped on behalf of Google many companies to become successful with their API strategies.

Damian helps business and technology leaders to accelerate and maximize the success of their API missions by offering guidance and best practice examples that have proven themselves in hundreds of API strategies.

Website	https://www.apiguru.com
Phone	+61 498350060
Industry	Information Technology & Services
Company size	2-10 employees 1 on LinkedIn 
Headquarters	Mascot, New South Wales
Type	Self-Employed
Founded	2018
Specialties	API Strategy, API Management, and API

Financial Disclaimer

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