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AOWEI HOLDING LIMITED

奧威控股有限公司

(incorporated in the British Virgin Islands and continued in the Cayman Islands with limited liability)

(Stock Code: 1370)

INSIDE INFORMATION MAJOR FINDINGS OF THE INDEPENDENT INVESTIGATION

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

Reference is made to (i) the announcement of the Company dated 29 March 2021 in relation to the delay in publication of the 2020 Annual Results, postponement of Board meeting and suspension of trading in the shares of the Company; (ii) the announcement of the Company dated 30 April 2021 in relation to, among other things, the receipt of a letter to the Company from the Stock Exchange setting out the Resumption Guidance for the Company and the establishment of the Independent Investigation Committee by the Company to conduct an independent investigation on the Audit Issues (the “**Resumption Conditions Announcement**”); (iii) the announcement of the Company dated 13 May 2021 in relation to the resignation of KPMG (the “**Former Auditor**”) as the auditor of the Company with effect from 13 May 2021; (iv) the announcement of the Company dated 21 May 2021 in relation to the appointment of an independent investigator by the Company to conduct the Independent Investigation on the Audit Issues and the appointment of Asian Alliance (HK) CPA Limited as the new auditor of the Company; and (v) the announcements of the Company dated 29 June 2021, 29 September 2021 and 15 October 2021 in relation to the quarterly update on suspension of trading (collectively, the “**Announcements**”). Unless otherwise defined herein, capitalized terms used in this announcement shall have the same meanings as those defined in the Announcements.

Background

As disclosed in the Resumption Conditions Announcement, one of the conditions of the Resumption Guidance is that the Company shall conduct an appropriate independent investigation into the Audit Issues, assess the impact on the Company’s business operation and financial position, disclose the findings and impact, and take appropriate remedial actions.

As stated in the Resumption Conditions Announcement, the Board established an Independent Investigation Committee comprising independent non-executive Directors on 28 April 2021 to carry out an investigation on relevant Audit Issues.

On 21 May 2021, the Independent Committee appointed an independent investigator to conduct the Independent Investigation on the Audit Issues.

The period of the Independent Investigation is from 1 January 2020 to 30 April 2021 (the “**Investigating Period**”), and its scope covered certain agreed-upon procedures in respect of: (i) the prepayments made by the Group to the four transportation companies; (ii) one of the Group’s customers’ trade receivables totalling RMB51,000,000; (iii) one of the Group’s suppliers’ procurement prepayment of RMB27,000,000; (iv) the time deposit and pledges of RMB300,000,000 placed by the Company with a bank; (v) the inability to obtain value-added tax invoices in relation to the transportation and loading and unloading leasing service fees of RMB380,000,000; (vi) the expenditure of RMB170,000,000 for green mines construction and cultivated land reclamation; and (vii) the legal validity of the stockyard lease agreements. The Independent Investigator has confirmed that the Independent Investigation has been fully completed in accordance with the agreed-upon procedures. Except for special remarks, Independent Investigator relies on the information provided by the Group. The Group has full responsibility on the accuracy of the information, the disclosure matters and declaration.

On 8 December 2021, the Independent Investigator issued a draft report in respect of the Independent Investigation to the Independent Investigation Committee (the “**Independent Investigation Report**”).

On 8 December 2021, the Independent Investigation Committee reported the findings of the Independent Investigation to the Board. The Board has reviewed and approved the Independent Investigation Report on 8 December 2021. The announcement summarizes the major findings of the Independent Investigation and the recommendations from the Independent Investigation Committee.

Summary of the Major Findings of the Independent Investigation

First Audit Issue – Prepayments Made by the Group to the Four Transportation Companies

Background

During the audit process for the year ended 31 December 2020 of the Group, the Former Auditor found that the Group had not provided sufficient and appropriate supporting documents or evidence for the prepayments to the four transportation companies to demonstrate the recoverability or make provision for doubtful and bad debts for the prepayments of approximately RMB286,000,000.

Major Findings

Reasons

The Independent Investigator has interviewed with relevant personnel of Aowei Group and four transportation companies and obtained relevant information to understand the reasons. The reasons for the first Audit Issue stated in the Independent Investigation Report are as follows:

There are few qualified suppliers engaged in the transportation of ore sand and capable of meeting the huge transport capacity demands of Aowei Group in the region where the mines held by Laiyuan County Jiheng Mining Co., Ltd.* (涇源縣冀恆礦業有限公司) (“**Jiheng Mining**”) and Laiyuan County Jingyuancheng Mining Co., Ltd.* (涇源縣京源城礦業有限公司) (“**Jingyuancheng Mining**”), Aowei Group’s subsidiaries, are located. With the establishment of Xiong’an New Area in 2017, a state-level new district under the jurisdiction of Hebei Province, spanning three counties of Xiong County, Rongcheng County, Anxin County and some

surrounding areas, the construction of Xiong'an New Area has a strong demand for slag cars. Local transportation companies tend to serve Xiong'an New Area for higher profits. Aowei Group relied on four transportation companies in terms of the short haul move of ores in the mining area and the transportation from the mining site to the wet processing plant (“**Backhauling**”) and sand and gravel materials transportation. After negotiating with the transportation companies, Aowei Group decided to pay them an upfront fee to support the business of the transportation companies, in an attempt to ensure the normal production of mines and effectively control costs and guarantee the transportation of new sand and gravel materials business. In this way, transportation companies can be involved in the business of Xiong'an New Area by acquiring new transportation vehicles, ensuring relatively stable transportation services and below market rate transportation charges so that Aowei Group's original business will not be affected.

Therefore, Aowei Group has successively prepaid for the services offered by relevant transportation companies since 2017. As at 31 December 2020, Aowei Group's balance of prepayments with the four transportation companies of Laiyuan County Aotong Transportation Co., Ltd.* (涇源縣奧通運輸有限公司) (“**Aotong Transportation**”), Laiyuan County Huiguang Logistics Co., Ltd.* (涇源縣匯廣物流有限公司) (“**Huiguang Logistics**”), Laiyuan County Ruitong Transportation Co., Ltd.* (涇源縣瑞通貨物運輸有限公司) (“**Ruitong Transportation**”) and Rongcheng County Ronghui Logistics Co., Ltd.* (容城縣融匯物流有限公司) (“**Ronghui Logistics**”) was approximately RMB286,000,000.

In December 2020, Aowei Group entered into a repayment agreement and a mortgage agreement with Aotong Transportation, Huiguang Logistics and Ronghui Logistics in relation to relevant prepayment, respectively.

Investigation Result

According to the agreed-upon procedures conducted by the Independent Investigator, its major findings are as follows:

1. Confirmation procedures have been carried out and the current account vouchers and attachments related to the first Audit Issue have been checked, and it has been confirmed that the prepayment balance of the confirmation letter is consistent with the internal records provided by Aowei Group and no abnormalities have been found in the inspection results.
2. The account of Aowei Group's prepayment has been reviewed, and the vouchers and source documents have been sampling inspected. Except for some payment approvals that are not strictly implemented in accordance with the approval process, no abnormalities have been found.
3. The background and contents of the cooperation agreements of the four transportation companies have been investigated, including (i) review of the cooperation agreements entered into between the four transportation companies and Aowei Group, including the new agreements entered into between Aowei Group, Aotong Transportation and Huiguang Logistics, with no abnormalities found; (ii) comparison of the prepayment balances of the four transportation companies as at 31 December 2020 with the upper limit of the prepayment amount in the cooperation agreements, understanding that the balance of these prepayments does not exceed the upper limit determined in the cooperation agreements as at 31 December 2020; and (iii) independent search of the four transportation companies to understand their business, shareholders and directors' backgrounds, understanding that the four transportation companies' businesses are consistent with the information provided by Aowei Group, and the shareholders and directors of the four transportation companies are not directors, shareholders or senior executives of Aowei Group.

4. The repayment agreements entered into between Aotong Transportation, Huiguang Logistics, Ronghui Logistics and Aowei Group has been reviewed (the terms of the repayment agreement are based on the fact that if a transportation company fails to provide sufficient transportation services, the transportation company and the relevant guarantor shall return such prepayment). As the four transportation companies have been providing normal transportation services during the Investigating Period, no repayment obligations under the repayment agreements are triggered.
5. As Aowei Group did not conduct price comparison procedures when entering into agreements with the four transportation companies, the Independent Investigator fails to understand the market price at the time of entering into the agreements. Aowei Group provided two quotation documents of two transportation companies in the market on 6 July 2021 to the Independent Investigator, showing that prices are higher than those offered by the four transportation companies.
6. The agreed-upon procedures for reasonableness and recoverability of the prepayment of the four transportation companies as at 31 December 2020 has been carried out. The relevant working procedures and results are as follows:

➤ ***Reasonableness of Prepayments***

(i) *Market Analysis*

Aowei Group engaged an independent market research agency, BMI Corporate Advisory (Xiamen) Limited (“**BMI**”) to conduct a regional market survey on the transportation industry and road transportation service enterprises in Laiyuan County. According to the market survey report provided by BMI, there are regional problems in automobile cargo freight. Intra-city transportation is mainly undertaken by local vehicles, and it is hard for non-local vehicles to enter the market. Moreover, few local enterprises are able to meet the requirements of Aowei Group for mining operations and transport capacity. Only 14 local enterprises are qualified to engage in mining transportation, which control more than 90% of the vehicles and drivers, accounting for more than 90% of the overall transport capacity of Laiyuan County. According to the market research report, having considered the factors such as the number of drivers, the number of vehicles and the amount of paid-in capital, the size of the four transportation companies is larger than that of other local comparable companies. As the management of Aowei Group seeks to engage the four transportation companies in order to obtain more stable transportation services, the reasons are consistent with the market research results.

(ii) *Analysis of the Expected Time Required to Consume the Prepayments*

The rationality analysis set out below was made with respect to the prepayments provided by the four transportation companies as at 31 December 2020:

	Net remaining balance of prepayments as at 31 December 2020 (A) (Unaudited) RMB'0,000	Settled transportation fee from January to April 2021 (B) (Unaudited) RMB'0,000	Average monthly settlement amount (C)=(B)/4 (Unaudited) RMB'0,000	Time required to consume the prepayments (A)/(C) (Unaudited) (Month)
Aotong Transportation	9,611.34	4,886.86	1,221.72	7.87
Huiguang Logistics	15,968.61	4,375.32	1,093.83	14.60
Ruitong Transportation	(872.93)	4,716.24	1,179.06	–
Ronghui Logistics	3,882.72	335.09	83.77	46.35
Total	<u>28,589.74</u>	<u>14,313.51</u>	<u>3,578.38</u>	

Assuming that Aowei Group maintains the project transportation expenses on the basis set between January to April 2021 in the future, it will take approximately 8 months for Aowei Group to consume the remaining balance of the prepayment as at 31 December 2020 while it will take as long as approximately 47 months for Ronghui Logistics to consume the balance of its prepayment. The management of Aowei Group explained that under the influence of the COVID-19 pandemic and the unstable production capacity of Aowei Group's production line for sand and gravel materials which was officially put into operation in early 2020, hence, the Aowei Group's 2020 actual transportation services consumption with Ronghui Logistics was below the initially expected demand for 2020 transportation services for sand and gravel materials. The management of Aowei Group expected that the demand in the surrounding sand and gravel market will grow significantly in the future. Aowei Group officially purchased a new production line for sand and gravel materials in July 2021 and put it into production. Aowei Group expects to significantly increase the demand for the transportation services for sand and gravel production and the transportation fees incurred in providing transportation services by Ronghui Logistics will consume the corresponding prepayments in the next 12 months.

Based on the above agreed-upon procedures results, in regarding Aowei Group prepaying the four transportation companies in exchange for the stable services from the suppliers, no material unreasonability was found.

➤ ***Prepayment's recoverability***

The following is a breakdown of net balances of the prepayment of the four transportation companies as at 31 December 2020 and 31 July 2021 provided by Aowei Group:

	Net remaining balance of prepayments as at 31 December 2020 (Unaudited) RMB (100 million)	Net remaining balance of prepayments as at 31 July 2021 (Unaudited) RMB (100 million)
Aotong Transportation	0.96	0.48
Huiguang Logistics	1.60	0.92
Ruitong Transportation	(0.09)	(0.83)
Ronghui Logistics	0.39	0.37
	<hr/>	<hr/>
	2.86	0.94
	<hr/> <hr/>	<hr/> <hr/>

As noted from the table above, the overall prepayment amount of Aowei Group decreased from approximately RMB286,000,000 as at 31 December 2020 to approximately RMB94,000,000 as at 31 July 2021. During the period from 1 January 2021 to 31 July 2021, the prepayments under Aowei Group's accounts were mainly the transportation services fees provided by the four companies. The prepayments provided by Aowei Group to Aotong Transportation, Huiguang Logistics and Ronghui Logistics were used to set off the transportation services fees to be incurred in the future. The Independent Investigator conducted sampling inspection on the prepayment transactions from 1 January 2021 to 31 July 2021 and inspected the accounting records, and found no cash repayment status. Besides, the four transportation companies were able to provide normal transportation services on an ongoing basis, no material issues, therefore, were found as to recoverability in these prepayments.

Second Audit Issue – Trade Receivables in Relation to One of the Group's Customers Amounted to RMB51,000,000

Background

During the audit process for the year ended 31 December 2020 of the Group, the Former Auditor found that the Group had not provided sufficient and appropriate supporting documents or evidence for the closing balance of the trade receivables to one of its customers to demonstrate the recoverability or make provision for doubtful and bad debts of approximately RMB51,000,000.

Major findings

Reasons

The Independent Investigator has interviewed with relevant personnel of Aowei Group and the customer involved and obtained relevant information to understand the reasons. The reasons for the second Audit Issue stated in the Independent Investigation Report are as follows:

The customer involved is Aowei Group's major sales customer for iron ore concentrates (the "**Iron Ore Concentrates Customer**") with a good reputation and stable purchase volume. Therefore, Aowei Group has granted a credit limit of RMB50,000,000 to its Iron Ore Concentrates Customer since 2016. However, in the first half of 2020, due to the impact of the COVID-19 pandemic, the local government's policy to strictly control the circulation of personnel and vehicles into Laiyuan County has affected the Aowei Group's external sales of iron concentrates. Therefore, the main sales customers of Aowei Group are customers from Laiyuan County. The sales proportion of Iron Ore Concentrates Customer, as local enterprises, increased to 70% as compared to that of other overseas customers in the same period in 2019.

As the COVID-19 pandemic eased in July 2020, Aowei Group has adopted a variety of sales channels to reduce the sales risk caused by a single major customer and suspended the sales of iron concentrates to Iron Ore Concentrates Customer. Since then, Aowei Group has been urging for the collection of payment from Iron Ore Concentrates Customer from August to December 2020. In the second half of the year, Aowei Group no longer sold iron concentrates to the Iron Ore Concentrates Customer, who delayed its payment of the goods in return due to its dissatisfaction with the changes in cooperation status between the two parties.

Investigation Result

According to the agreed-upon procedures conducted by the Independent Investigator, its major findings are as follows:

1. having reviewed the iron concentrate sales agreement signed by the Iron Ore Concentrate Customer and Jingyuancheng Mining, the credit limit approval form and the repayment agreement of the Iron Ore Concentrate Customer, and found that (1) the approvals of the sales agreement and the sales pricing are in compliance with the requirements of the internal control system; and (2) trade receivables from sales to the Iron Ore Concentrate Customer have exceeded the credit limit of RMB50,000,000.
2. Confirmation procedures of accounts between the Iron Ore Concentrates Customer and Aowei Group have been carried out, and confirmed that the content of the reply is consistent with Aowei Group's record.
3. having reviewed the implementation of the repayment agreement signed by the Iron Ore Concentrate Customer and Jingyuancheng Mining on 15 April 2021, and found that the Iron Ore Concentrate Customer failed to make the repayment as scheduled in the repayment agreement, subsequent to the Investigation Period, namely for the period from April 2021 to 19 November 2021, all trade receivables of Jingyuancheng Mining were settled by the Iron Ore Concentrates Customer. So no material issues were found as to recoverability in these receivables.

Third Audit Issue – Procurement Prepayments in relation to One of the Group's Suppliers Amounted to RMB27,000,000

Background

During the audit process for the year ended 31 December 2020 of the Group, the Former Auditor found that the Group had not provided sufficient and appropriate supporting documents or evidence for the closing balance of the procurement prepayments to one of its suppliers to demonstrate the recoverability of the prepayments or make provision for doubtful and bad debts of approximately RMB27,000,000.

Major Findings

Reasons

The Independent Investigator has interviewed with relevant personnel of Aowei Group and the supplier involved and obtained relevant information to understand the reasons. The reasons for the third Audit Issue stated in the Independent Investigation Report are as follows:

Due to the impact of the Sino-U.S. trade war and the subsequent political trade turmoil between Australia and China, the supply of domestic iron ore was hindered. Considering the domestic demand for iron ore will experience an increase, Jingyuancheng Mining signed an iron ore preliminary concentrates procurement agreement in advance with an iron ore preliminary concentrates supplier (the “**Iron Ore Preliminary Concentrates Supplier**”) on 15 May 2019, the latter was also located at Laiyuan County, with mineral resources. In addition, the agreement price is RMB32,205,000 with 190,000 tonnes of the purchase quantity. However, the Iron Ore Preliminary Concentrates Supplier was still in the process of rectification. Jingyuancheng Mining required that the Iron Ore Preliminary Concentrates Supplier shall sell its iron ore preliminary concentrates processed since the completion of mining rectification to them in order to address the problem of idle production capacity in the wet processing plant of Jingyuancheng Mining to ultimately achieve maximum capacity utilization. Pursuant to the procurement agreement, Jingyuancheng Mining made a prepayment of RMB27,000,000 to the Iron Ore Preliminary Concentrates Supplier in May 2019.

In 2020, the local government delayed the introduction of policies due to the COVID-19 pandemic. As a result, the Iron Ore Preliminary Concentrates Supplier failed to supply iron ore preliminary concentrates as required by Jingyuancheng Mining as at 31 December 2020 and Jingyuancheng Mining also failed to collect such prepayment.

Investigation Result

Based on the agreed-upon procedures conducted by the Independent Investigator, its major findings are as follows:

1. Confirmation procedures have been carried out and the accounting vouchers and attachments related to the third Audit Issue have been checked to confirm that the prepayment balance in the reply letter is in accordance with Aowei Group’s record and no abnormalities were found in the inspection results.
2. The implementation of the iron ore preliminary concentrates procurement agreement signed by Jingyuancheng Mining and the Iron Ore Preliminary Concentrates Supplier on 15 May 2019 and the three supplemental procurement agreements signed by both parties afterwards have been examined. It was found that the Iron Ore Preliminary Concentrates Supplier failed to supply iron ore preliminary concentrates to Jingyuancheng Mining in time before 31 December 2020. However, as of 31 July 2021, the Iron Ore Preliminary Concentrates Supplier has completed the supply of sufficient deductible prepayment of RMB27,000,000, and therefore no problems with the recoverability of the prepayment paid to the Iron Ore Preliminary Concentrates Supplier by Jingyuancheng Mining have been identified.

Fourth Audit Issue – Time Deposit and Pledge of RMB300,000,000 Placed by the Company with a Bank

Background

During the audit process for the year ended 31 December 2020 of the Group, the Former Auditor found that as at 31 December 2020, the balance of the Group's bank deposit amounted to approximately RMB320,000,000, with RMB300,000,000 deposited by Jingyuancheng Mining at Nantong Port Branch of Bank of Nanjing (the "**Bank of Nanjing**"). Jingyuancheng Mining's account with the Bank of Nanjing (the "**Nanjing Bank Account**") was opened on 21 December 2020. On 22 December 2020, the Nanjing Bank Account received a transportation charge of RMB300,000,000 repaid by Ruitong Transportation, which was transferred by Jingyuancheng Mining to the time deposit account in the Bank of Nanjing for 6 months, with 22 June 2021 as the maturity date and the annual interest rate is 1.846%, at the same day. The Group failed to provide the original copy of the account opening certificate for the RMB300,000,000 time deposit placed in the Bank of Nanjing, nor did it provide sufficient and appropriate supporting documents in respect of the existence, ownership and pledge of such time deposit.

Major Findings

Reasons

Independent Investigator has interviewed with relevant personnel of Aowei Group and Ruitong Transportation and obtained relevant information to understand the reasons. The causes for the fourth Audit Issue mentioned in the Independent Investigation Report are as follows:

1. From September to December 2020, the legal representative of Jingyuancheng Mining (the "**Former Legal Person**") has communicated with Ruitong Transportation several times regarding the repayment of the transportation service fee prepayment of RMB300,000,000. However, due to the shortage of funds of Ruitong Transportation in which it was unable to make repayment at that time, the two parties agreed that the two sand and gravel production lines Ruitong Transportation claimed to own would be transferred to Aowei Group to offset the prepayment. Aowei Group expected that the acquisition cycle of the sand and gravel production lines would be more than half a year, therefore in order to ensure the security of such prepayment, Former Legal Person requested Ruitong Transportation to provide detailed and feasible repayment protection measures. As a result, Ruitong Transportation undertook the Former Legal Person that before the completion of the acquisition of the sand and gravel production lines, it would borrow RMB300,000,000 to return the prepayment to Jingyuancheng Mining's Nanjing Bank Account, provided that Jingyuancheng Mining needed to deposit the amount for a fixed term of six months at the request of the funder for a pledge to safeguard the interest of the funder. The Former Legal Person agreed and implemented this plan, and Jingyuancheng Mining returned the amount to Ruitong Transportation after the completion of the acquisition of the sand and gravel production lines. As a result, Jingyuancheng Mining opened a new Nanjing Bank Account with the Bank of Nanjing on 21 December 2020 and completed a deposit business with the Bank of Nanjing to meet the conditions of the loan application, thereby acquiring the sand and gravel production lines claimed to be owned by Ruitong Transportation. On 22 December 2020, Jingyuancheng Mining received RMB300,000,000 in cash repaid by Ruitong Transportation and deposited the amount in the Nanjing Bank Account in the form of time deposit with a term of 6 months and collateralized for the time deposit certificate (the "**Time Deposit Certificate**").

- The Former Legal Person took office in May 2019 (whom was removed by Aowei Group as the legal representative of Jingyuancheng Mining in April 2021), who did not have a full understanding to the requirements of the Listing Rules. At that time, the Former Legal Person considered that the amount of RMB300,000,000 repaid by Ruitong Transportation would ultimately need to be offset by the sand and gravel production lines, which was only temporary in nature, and believed that the mortgage would not cause any asset or economic loss to Aowei Group. Hence, the Former Legal Person completed the mortgage without reporting the arrangement to the Board of Directors (the “**Unauthorized Mortgage**”).

The main contents of the pledge agreement are as follows:

Date	Signatory	Content of Agreement	Collateral	Term
22 December 2020	Bank of Nanjing and Jingyuancheng Mining	Jingyuancheng Mining provided pledge guarantee to Bank of Nanjing for an electromechanical equipment company (“ Electromechanical Equipment Company ”), and Bank of Nanjing provided credit business with a credit amount of RMB300,000,000.	Time Deposit Certificate	6 months

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, the Electromechanical Equipment Company is a third party independent of the Company and its connected persons. The Group has never had any business dealings with the Electromechanical Equipment Company.

- Due to the above reasons, the Former Legal Person has not delivered the original copy of Time Deposit Certificate to the finance department of Aowei Group and has not notified the finance department of Aowei Group that the Time Deposit Certificate has been pledged. Therefore, the current auditor requested Aowei to provide the original copy of the Time Deposit Certificate of RMB300,000,000, which Aowei Group’s relevant personnel were unable to provide. Subsequently, Aowei Group cooperated with the Former Auditor’s request to check the original copy of the Time Deposit Certificate at the Bank of Nanjing and was informed by the staff of the Bank of Nanjing that, after checking the system record, such bank deposit was pledged. Upon deep understanding was achieved, the Board found that the time deposit of RMB300,000,000 in the Nanjing Bank Account had been pledged without authorization by the Former Legal Person. The Directors voluntarily explained to the Former Auditor that there was a pledge of RMB300,000,000 time deposit in the Nanjing Bank Account, and requested the Former Legal Person to accompany the Former Auditor to the Bank of Nanjing to inquire about the mortgage status. The relevant personnel of the Bank of Nanjing advised that the time deposit of RMB300,000,000 had been pledged.

Investigation Result

Based on the agreed-upon procedures conducted by the Independent Investigator, its major findings are as follows:

1. Aowei Group has provided the accounting vouchers and attachments of the Time Deposit Certificate of RMB300,000,000, the bank statement slips, the time deposit account opening certificate, the internal approval information for the opening of the bank account in the Bank of Nanjing and the pledge agreement, to certify that the existence of the above time deposits on 31 December 2020, the ownership and the fact that it had been pledged to the Electromechanical Equipment Company.
2. The Independent Investigator went to the Bank of Nanjing in person to obtain bank confirmation, the results of which(including balance of time deposit and pledge status) were consistent with the accounting record kept by Aowei Group.
3. The Independent Investigator understood the approval process and implementation of the mortgage guarantee of Aowei Group, and found that the above mortgage had not been approved through a proper approval process, and there was a deficiency in internal control.
4. The Independent Investigator reminded Aowei Group that, as Aowei Group pledged its time deposit of RMB300,000,000 for Electromechanical Equipment Company on 22 December 2020 for the facilities granted, this transaction may be subject to reporting and disclosure requirements under Chapter 14 of the Listing Rules. It is recommended to engage a professional consultant to assist Aowei Group to follow up the issue as soon as possible.
5. Aowei Group found that Ruitong Transportation was not the owner of the production lines for sand and gravel materials, so Jingyuancheng Mining released and withdrew the 6-month Time Deposit Certificate of RMB300,000,000 on 4 March 2021, and refunded the aforesaid amount to Ruitong Transportation on the same day. As at 30 April 2021, the accounting record after the refund showed that the amount owed by Ruitong Transportation to Aowei Group was RMB300,000,000. Subsequent to the Investigation Period, Aowei Group confirmed the receipt of the above amount owed by Ruitong Transportation. The Independent Investigator reminded Aowei Group that, as Aowei Group provided RMB300,000,000 to Ruitong Transportation on 4 March 2021, this transaction may be subject to reporting and disclosure requirements under Chapter 14 of the Listing Rules. It is recommended to engage a professional consultant to assist Aowei Group to follow up the issue as soon as possible.
6. Aowei Group has removed the Former Legal Person from the position of the legal representative of Jingyuancheng Mining in April 2021.

Fifth Audit Issue – Transportation and Loading and Unloading Leasing Service Expenses of RMB380,000,000 Having Not Been Issued with Value-Added Tax Invoices

Background

During the audit process for the year ended 31 December 2020 of the Group, the Former Auditor found that the total transportation and loading and unloading leasing service expenses of the Group in 2020 amounted to approximately RMB380,000,000, but the relevant transportation companies have not yet issued value-added tax invoices to the Group. The Group has yet to provide sufficient supporting documents or evidence to demonstrate whether the transportation and loading and unloading leasing services provided by the transportation companies without issuing value-added tax invoices have a reasonable commercial substance or whether it is subject to the tax agreement between the transportation companies and the local tax bureau.

Major findings

Reasons

The Independent Investigator has interviewed with Aowei Group and relevant personnel of the four transportation companies and obtained relevant information to understand the reasons. The reasons for the fifth Audit Issue stated in the Independent Investigation Report are as follows:

Aotong Transportation, Ruitong Transportation and Huiguang Logistics had been maintaining long term and stable cooperation relationship with Aowei Group, and in regarding the financial settlement, Aowei Group paid them the relevant fee. The above-mentioned transportation companies issued value-added tax invoices to Aowei Group in a timely manner based on their size and in accordance with their circumstances. However, since the above three transportation companies have limited monthly value-added tax invoice quota and cannot grant all the value-added tax invoice quota to Aowei Group, there will be unbilled value-added tax invoices regarding transportation and loading and unloading fees at the end of each year. The unbilled invoice amount was approximately RMB100,000,000 at the end of 2019. In 2020, due to the preliminary works of green mines construction and reclamation carried out by Aowei Group, Aowei Group engaged the above three transportation companies to provide backhauling and loading and unloading services for the green mines construction project, which involved a large amount of waste backhauling works, resulting in a significant increase in the business volume of the above three transportation companies. However, since the above three transportation companies have limited monthly value-added tax invoice quota and cannot grant all billing invoice quota to Aowei Group, the unbilled invoice amount resulting thereon increased in a faster pace as compared to 2019, leading to unbilled value-added tax invoice amount of RMB380,000,000 being recorded under the freight and excavator fee from the transportation companies as at the end of 2020.

Investigation Result

According to the agreed-upon procedures conducted by the Independent Investigator, its major findings are as follows:

1. Aowei Group had urged Aotong Transportation, Ruitong Transportation and Huiguang Logistics to increase the value-added tax invoice quota for several times, and to complete the issuance of value-added tax invoices owed to Aowei Group as soon as possible. However, Aotong Transportation, Ruitong Transportation and Huiguang Logistics have limited monthly value-added tax invoice quota and cannot grant all value-added tax invoice quota to Aowei Group. Therefore, there are objective factors that Aotong Transportation, Ruitong Transportation and Huiguang Logistics failed to obtain value-added tax invoices in a timely manner, which is not the issue of Aowei Group itself.
2. Having reviewed the transportation agreements entered into between Aotong Transportation, Ruitong Transportation and Huiguang Logistics and the Group, and based on the statistics on relative transportation and loading and unloading fee, random sampling select part of evidence from Jiheng Mining and Jingyuancheng Mining to check the original information, covering freight, excavator leasing fee and contents of green mines operation, and no material commercial substances were found.
3. Aowei Group provided (i) income tax settlement information for 2020; (ii) income tax payment certificates of Jiheng Mining and Jingyuancheng Mining; and (iii) the certificates of violating any national tax laws and regulations of Jiheng Mining and Jingyuancheng Mining had not been found. The Independent Investigator inspected these documents and found no material non-compliance on tax in relation to the failure to obtain tax invoices.

Sixth Audit Issue – Expenditure for Green Mines Construction and Cultivated Land Reclamation Amounted to RMB170,000,000

Background

During the audit process for the year ended 31 December 2020 of the Group, the Former Auditor found that the Group's expenditure related to green mines construction and cultivated land reclamation amounted to approximately RMB170,000,000. The Group has yet to provide each specific construction's design and construction drawings, estimated stage of completion and calculation process, unit price and information relating to confirmation of unit price, on-site drawings and related information for each green mine construction and cultivated land reclamation project to support the claimed completion progress of green mines construction and cultivated land reclamation.

Major findings

Reasons

The Independent Investigator has interviewed with the relevant personnel of Aowei Group, the transportation companies undertaking to provide backhauling and loading and unloading services for the green mining construction of Aowei Group, namely Aotong Transportation, Ruitong Transportation and Huiguang Logistics and an engineering construction supervision company subsequently employed by Aowei Group in March 2021 and obtained relevant information to understand the reasons. The reasons for the sixth Audit Issue stated in the Independent Investigation Report are as follows:

In 2019, in order to accelerate the construction of green mines, the government promulgated a number of preferential policies to encourage mining enterprises to implement the construction and transformation of green mines and set a goal of achieving the green mines standards by 2025 for large and medium-sized solid mines in the province. The management of Aowei Group is of the view that: (i) it is beneficial to the long-term development of Aowei Group to accelerate the construction and transformation of green mines to enjoy the preferential policies; and (ii) Jiheng Ming, a subsidiary of Aowei Group, will have its mining license expired in April 2022, so the construction and transformation of green mines must be completed at the end of 2021, while Jingyuancheng Mining will have its mining license expired in January 2023, so the construction and transformation of green mines must be completed by September 2022. Therefore, Aowei Group sped up the green mines construction as it will affect the license renewal if it does not implement the plan of construction and transformation of green mines.

In February 2020, Aowei Group made an arrangement and deployment of preliminary works for green mines construction and cultivated land reclamation and formulated a preliminary plan. Aowei Group first conducted necessary preliminary works such as waste slag backhauling, and land levelling from March 2020 to June 2021. As at the end of 2020, the costs recorded referred to preliminary expenditure for backhauling and levelling.

As Aowei Group did not engage an engineering construction supervision company to supervise the green mines construction, Aowei Group can not provide adequate and valid evidence to support the claimed completion progress of this project.

Investigation Result

According to the agreed-upon procedures conducted by the Independent Investigator, its major findings are as follows:

1. Aowei Group provided (i) detailed accounts and original voucher relating to green mines; (ii) the mining license held by Aowei Group; (iii) the documents on the filing of the Aowei Group's green mines construction proposal to the relevant government authorities and (iv) the relevant supervision report issued by the independent engineering construction supervision company (the "**Supervision Company**") appointed in March 2021. The Independent Investigator compared the contents of all the above documents and found that the supervision report supported Aowei Group's internal records.

Seventh Audit Issue – The Legal Validity of the Stockyard Leasing Agreement

Background

During the audit process for the year ended 31 December 2020 of the Group, the Former Auditor found that the Group had yet to provide adequate and appropriate supporting documents or evidence to demonstrate the legal validity for a newly signed lease agreement with a lease term of 4 years and an annual rent of RMB5,000,000.

Major findings

Reasons

The Independent Investigator has interviewed with Aowei Group and relevant personnel of Ronghui Logistics, the lessor and obtained relevant information to understand the reasons. The reasons for the seventh Audit Issue stated in the Independent Investigation Report are as follows:

The vehicles used by Jiheng Mining to transport sand and gravel materials have to pass through many villages such as Futuyu* (浮圖峪), Yangjiazhuang* (楊家莊), Mujicun* (木吉村) and Zhijiazhuang* (支家莊), and there are many transport vehicles, which will definitely have some effects on the environmental protection, livelihood and safety of those villages during the transportation process. Therefore, in order to better solve the issues caused by transportation of sand and gravel materials, Jiheng Mining leased from Ronghui Logistics a transfer site for sand and gravel materials in Xiaohecun, Laiyuan County (the “**Xiaohecun Stockyard**”) in November 2020, and entered into a lease agreement so as to facilitate the backhauling, loading and unloading of sand and gravel materials. During the audit process for the year ended 31 December 2020 of the Group, the Former Auditor found that Ronghui Logistics did not hold the ownership of Xiaohecun Stockyard and Aowei Group had yet to provide adequate and appropriate supporting documents or evidence to demonstrate the legal validity for the leasing agreement of Xiaohecun Stockyard.

Investigation Result

According to the agreed-upon procedures conducted by the Independent Investigator, its major findings are as follows:

1. Aowei Group has provided the lease agreement signed on 1 November 2020.
2. Aowei Group also provided the lease release agreement which was subsequently entered into on 26 February 2021, which Aowei Group believed that the relevant lease agreement had been released and the subsequent legal risks may have been eliminated at that time.
3. During the period from the entering into the lease agreement to the entering into the lease release agreement, Aowei Group’s legal risks and retrospectivity were uncertain. The Independent Investigator reminded Aowei Group to engage a PRC legal adviser to consult on the leasing of stockyards.

4. The leasing price for leasing Xiaohecun Stockyard by Jiheng Mining was determined after the negotiation between the parties, and as Jiheng Mining did not conduct price comparison procedure, no price comparison procedure and approval mechanism in regarding to the leasing price had been established.
5. Aowei Group lacked efficiency in providing adequate and appropriate supporting documents or evidence to demonstrate its legal validity.

Internal Control Deficiencies and Recommendations

The internal control deficiencies of Aowei Group were identified by the Independent Investigator in the Independent Investigation Report and part of improvement suggestions were proposed to the management of Aowei Group, and major internal control deficiencies as well as the corresponding rectification recommendations are summarized as follows:

Audit Issue	Major Internal Control Deficiencies	Rectification Recommendations
(1)	<ul style="list-style-type: none"> (i) Aowei Group's settlement price for the four transportation companies is only through verbal inquiry and verbal negotiation, and Aowei Group does not have a price comparison procedure and approval mechanism; (ii) The preferential policies of settlement price in the cooperation agreements entered into between Aowei Group and the four transportation companies are not regularly evaluated to assess the difference between the current settlement price and the market price level; (iii) Aowei Group did not conduct regular risk assessment on the credit limits of the four transportation companies; (iv) Aowei Group did not regularly review and revise the credit limits for the four transportation companies according to business changes, so the prepayments of the four transportation companies as at 31 December 2020 were far below the credit limit granted; (v) During the agreed-upon procedures, the Independent Investigator found that some samples of Aowei Group lack the signature of approval personnel in the process. 	<p>Management should consider:</p> <ul style="list-style-type: none"> (i) Documents need to be prepared for record purpose during the inquiry process and proper approval is required before acceptance of the quotation; (ii) Regular market research is required and properly documented to understand the market level of relevant costs; (iii) The level of prepayments to each supplier need to be regularly reviewed and must be evaluated and reviewed by the management. Any significant deviation from the credit limit by suppliers must be filed with relevant reasonable explanation and supporting documents for its recoverability; (iv) Improving internal approval mechanism and conducting regularly control to ensure whether it is implemented in strict accordance with the procedure.

Audit Issue	Major Internal Control Deficiencies	Rectification Recommendations
(2)	(i) Aowei Group did not take measures for the Iron Ore Concentrates Customer's outstanding balance exceeding its credit limit;	<p>Management should consider:</p> <ul style="list-style-type: none"> (i) Assessing the recoverability of customers' accounts from time to time and determining whether provision for doubtful and bad debts is required; (ii) Strengthening the management of customers' credit limits, and setting up early warnings of over credit through relevant software to implement real-time control when necessary.
(3)	<ul style="list-style-type: none"> (i) The Iron Ore Preliminary Concentrates Supplier has not supplied for a long time after signing the agreement with Aowei Group, and Aowei Group has not taken further measures in a timely manner; (ii) In 2021, the Iron Ore Preliminary Concentrates Supplier renegotiated a new supply price with Aowei Group by way of the supplemental agreement, and its supply price has also increased, but Aowei Group has not conducted relevant market price comparison procedure. 	<p>Management should consider:</p> <ul style="list-style-type: none"> (i) Inspecting the supply of each supplier on a regular basis after signing the agreement, and establishing a contingency plan system to deal with the problem of non-supply; (ii) Selecting the suppliers by way of tender and conducting regular market price comparison procedure to ensure the reasonableness of the supply price.
(4)	<ul style="list-style-type: none"> (i) The pledge of Time Deposit Certificates of Bank of Nanjing of RMB300,000,000 has not gone through the approval process of Aowei Group's internal Fund Management System; (ii) For setting limits and defining approval requirements for each type of transaction, Aowei Group failed to develop a matrix of work responsibilities and authorities and did not update an employee handbook. 	<p>Management should consider:</p> <ul style="list-style-type: none"> (i) Establishing a matrix of work responsibilities and permissions within Aowei Group and updating an employee handbook as soon as possible for employees to circulate and learn the policies and procedures, in particular, setting limits and defining approval requirements for each type of transaction. (ii) Improving the internal control management and training mechanism to ensure that employees and management master the requirements of the internal control system in a timely manner.

Audit Issue	Major Internal Control Deficiencies	Rectification Recommendations
(5)	<ul style="list-style-type: none"> (i) Aowei Group failed to obtain all the value-added tax invoices from the three transportation companies, resulting in Aowei Group's non-obtainable portion of the freight expenses which could not be deducted before income tax in the annual final settlement; (ii) Aowei Group has not formulated a response mechanism for the issue of not obtaining value-added tax invoices of RMB380,000,000. 	<p>Management should consider:</p> <ul style="list-style-type: none"> (i) Improving the internal control system and establishing the contingency plan system and process for special matters to deal with and effectively solve the problems arising from non-Aowei Group's own reasons or lower the risks.
(6)	<ul style="list-style-type: none"> (i) Aowei Group did not appointed a supervision company to monitor the progress of work in the past, lack of third-party supporting as a result. 	<p>Management should consider:</p> <ul style="list-style-type: none"> (i) Improving the internal control system to monitor the progress of works.
(7)	<ul style="list-style-type: none"> (i) Aowei Group failed to properly conduct due diligence investigation before entering into lease agreements or material agreements. 	<p>Management should consider:</p> <ul style="list-style-type: none"> (i) Improving the internal control system and establishing an appropriate due diligence and approval mechanism.

The above internal control deficiencies identified and rectification recommendations are only attached by the agreed-upon procedures of the Independent Investigation and do not constitute a comprehensive internal control review. The Independent Investigator reminded Aowei Group to engage an internal control consultant to follow up the issues as soon as possible.

Opinions From the Independent Investigation Committee and the Board on the Independent Investigation Report

The Independent Investigation Committee has reviewed the Independent Investigation Report and believed that the Independent Investigator has sufficiently investigated the issues involved in the Audit Issues and the conclusions of the Independent Investigation Report are reasonable and acceptable. The Independent Investigation Committee has also reviewed and consented to the recommendations by the Independent Investigator regarding the Independent Investigation. In addition, the Independent Investigation Committee agreed with the observations by the Independent Investigator, considering inadequate execution, review and update, or deficiency existed in the internal control of the Group.

In light of the above, the Independent Investigation Committee has made the following recommendations to the Board:

- (i) to appoint an internal control consultant to review the Group's internal control system and procedures as soon as possible and make corresponding rectification recommendations to address all internal control deficiencies identified by the Independent Investigator in the Independent Investigation Report and improve the internal control procedures of the Company; and
- (ii) to appoint a PRC legal adviser as soon as possible to consult on the legal risks of the leasing of the Xiaohecun Stockyard to the Group.

The Board has reviewed the Independent Investigation Report and considered such report has sufficiently investigated the Audit Issues. The Board has also reviewed and agreed with the recommendations by the Independent Investigation Committee on the Independent Investigation that the Group's internal control has not been properly implemented, reviewed and updated or is defective.

In addition, the Board noted that the Independent Investigator reminded the Company in the Independent Investigation Report that the Unauthorized Mortgage and the provision of RMB300,000,000 by the Group to Ruitong Transportation on 4 March 2021 (the "**Provision of Fund**") may be subject to the reporting and disclosure requirements under Chapter 14 of the Listing Rules. The Company, after consulting with the Company's advisers team, became aware of and accepted (i) the Unauthorized Mortgage constitutes a financial assistance provided by Aowei Group to Electromechanical Equipment Company under Chapter 14 of the Listing Rules. As one or more of the applicable percentage ratios of the Unauthorized Mortgage is more than 5% but less than 25%, the Unauthorized Mortgage constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules and is subject to the notification and publication requirements under the Listing Rules. In addition, as the amount involved in the Unauthorized Mortgage exceeds 8% based on the asset ratio as defined under Rule 13.13 of the Listing Rules, the Unauthorized Mortgage is also subject to the general disclosure obligation under Rule 13.15 of the Listing Rules and (ii) since the purpose of the Provision of Fund is not for making prepayment for the transportation service fees like the Company usually would have done in the past, and it involves the agreement of Ruitong Transportation to make repayment by the end of 2021, the nature of which is not a prepayment and constitutes a financial assistance provided by Aowei Group to Ruitong Transportation under Chapter 14 of the Listing Rules. As one or more of the applicable percentage ratios for the Provision of Fund is more than 5% but less than 25%, the Provision of Fund constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules and is subject to the notification and publication requirements under the Listing Rules. In addition, as the amount involved in the Provision of Fund exceeds 8% based on the asset ratio as defined under Rule 13.13 of the Listing Rules, the Provision of Fund is also subject to the general disclosure obligation under Rule 13.15 of the Listing Rules. The Company is aware that such Unauthorized Mortgage and Provision of Fund constitute a late announcement in relation to the notifiable transaction under the Listing Rules.

The details of the Unauthorized Mortgage and the Provision of Fund have been disclosed in the section headed "Fourth Audit Issue – Time Deposit and Pledge of RMB300,000,000 Placed by the Company with a Bank" and the above paragraph in this announcement. The Company emphasizes that as of the date of this announcement, the Unauthorized Mortgage has been released and the amount of RMB300,000,000 has been fully repaid by Ruitong Transportation to the Group, and the financial impact and risk of the Unauthorized Mortgage and the Provision of Fund on the Group have been eliminated.

To the best knowledge, information and belief of the Board, the Company has complied with the requirements under Rule 14.34 of the Listing Rules, except for the Unauthorized Mortgage and the Provision of Fund.

The Board is of the view that the issues identified in the Independent Investigation Report have no material adverse impact on the Group's business operations. The business operation of the Group continues to proceed as usual even though the trading in the shares of the Company was suspended from 29 March 2021. Also, the Company is proactively seeking internal control consultant to address all identified internal control deficiencies. The Company will make announcement in relation to any significant progress in due course.

Continued Suspension of Trading

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

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

By order of the Board
Aowei Holding Limited
Mr. Li Yanjun
Chairman

Beijing, the PRC, 8 December 2021

As at the date of this announcement, the executive Directors of the Company are Mr. Li Yanjun, Mr. Li Ziwei, Mr. Sun Jianhua, and Mr. Tu Quanping and the independent non-executive Directors of the Company are Mr. Wong Sze Lok, Mr. Ge Xinjian and Mr. Meng Likun.