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S&T Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3928)

KEY FINDINGS OF INDEPENDENT REVIEW, INDEPENDENT FOLLOW-UP REVIEW AND INTERNAL CONTROL FOLLOW-UP REVIEW

This announcement is made by S&T Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) pursuant to Rule 13.09(2)(a) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) and the Inside Information Provisions under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

Reference is made to the announcements of the Company dated 31 December 2020, 4 January 2021, 12 January 2021, 14 January 2021, 19 January 2021, 25 January 2021, 29 January 2021, 8 April 2021, 30 April 2021, 12 May 2021, 26 May 2021, 30 June 2021, 2 August 2021, 30 September 2021, 26 November 2021 and 20 December 2021 (collectively, the “**Announcements**”) in relation to, among others, (i) publication of the unaudited annual results for the financial year ended 30 September 2020; (ii) the suspension of trading in the shares of the Company on the Stock Exchange; (iii) Resumption Guidance; (iv) the proposed meeting of the Board for approval of the 2020 Audited Annual Results; (v) the engagement of BT Corporate Governance Limited (the “**Independent Reviewer**”) to conduct the Independent Review; (vi) further delay in publication of the 2020 Audited Annual Results; (vii) delay in despatch of the 2020 Annual Report; (viii) quarterly updates on suspension of trading; (ix) change of auditor of the Company; (x) the proposed meeting of the Board for approval of the 2021 Interim Results; (xi) delay in publication of the 2021 Interim Results and despatch of the 2021 Interim Report; (xii) update on progress of resumption; (xiii) additional Resumption Guidance; (xiv) change of executive Director, chief executive officer and change in composition of Board committee; and (xv) the proposed meeting of the Board to be held on Friday, 31 December 2021 for approval of the 2020 Audited Annual Results, the 2021 Interim Results and the audited annual results for the year ended 30 September 2021. Unless otherwise stated, the capitalised terms used herein shall have the same meaning as defined in the Announcements.

BACKGROUND

As disclosed in the Company's announcement dated 31 December 2020, Deloitte & Touche LLP (the "**Former Auditor**"), the former auditor of the Company, raised the audit findings in relation to: (i) certain payment certificates ("**PCs**") being used for accrual of subcontract costs as at 30 September 2019 were subsequently revised to a lower certified value (the "**Over-Accrual**") (the "**Audit Finding 1**"); and (ii) the commercial substance and recoverability of the advance payments of approximately S\$4.7 million (the "**Advance Payments**") to certain subcontractors (the "**Subcontractors**") (the "**Audit Finding 2**") (Audit Finding 1 and Audit Finding 2 are collectively referred to as the "**Audit Findings**"). In relation to Audit Finding 1, the Company has made prior year adjustments in respect of the consolidated financial statements for the year ended 30 September 2019 ("**PYA**").

As disclosed in the Company's announcement dated 19 January 2021, the Company engaged the Independent Reviewer as the independent internal control adviser to conduct the Independent Review on the Audit Findings.

As disclosed in the Company's announcement dated 30 April 2021, the Former Auditor resigned as the auditor of the Company and HLB Hodgson Impey Cheng Limited ("**HLB**") was appointed as the new auditor of the Company. Following the appointment of HLB, the Independent Reviewer conducted an independent follow-up review (the "**Independent Follow-Up Review**") at the request of HLB. Subsequently, the Independent Reviewer conducted the internal control follow-up review (the "**Internal Control Follow-up Review**") to ascertain the status of implementation of the recommendations by the Independent Reviewer in respect of the Auditing Findings.

On 31 December 2021, the Independent Reviewer issued the final draft report (the "**Report**") in respect of the Independent Review, Independent Follow-Up Review and Internal Control Follow-Up Review to the Audit Committee and the Company.

SCOPE AND MAJOR REVIEW PROCEDURES OF THE INDEPENDENT REVIEW, INDEPENDENT FOLLOW-UP REVIEW AND INTERNAL CONTROL FOLLOW-UP REVIEW

The Independent Review and Independent Follow-Up Review

The Independent Review covered the period from 1 July 2019 to 30 September 2020, and the Independent Follow-Up Review covered the period from 1 October 2020 to 31 March 2021. The key scope and major procedures of the Independent Review and Independent Follow-Up Review include the following:

Overall

- (1) Discuss with the key management of the Company to understand the Audit Findings as well as the concerns raised by the Former Auditor and HLB;

- (2) Identify possible deficiencies in the Company's internal policies, procedures and controls relating to the Audit Findings;
- (3) Report the findings to the Audit Committee, including:
 - (a) The root cause of errors for each of the initial PCs and reasons of revision for each of the revised PCs including how, when, by whom the errors in the initial PCs were discovered and the revised PCs were issued; and
 - (b) Conclusion on whether there is any management override of controls, non-compliance or irregularities (e.g., if there is any clear indication or concrete information that suggests collusion among the parties or fraudulence of the documents) that may need to be further investigated; and
- (4) Identify the responsible persons for Audit Findings as to whether the responsible persons were fully complying with the Group's policy and procedures.

Audit Finding 1

- (5) Understand and evaluate the policies, procedures and controls for the Company to process and approve payment certificates ("PCs") and record accrual of subcontract costs, including the operating and approval procedures as well as accounting entries of the transactions;
- (6) Conduct walk-through and testing of the revision of PCs and the recording of Over-Accrual of subcontract costs, and investigate whether there was any deviation from the Group's policies, procedures and controls in (5) above;
- (7) Investigate the reason(s) and backgrounds relating to all the initial PCs and the revised PCs which resulted in the prior year adjustments ("PYA"), covering:
 - (a) Each of the revised PCs that resulted in the PYA; and
 - (b) Each of the initial PCs, including the root cause (the cause of the errors in the initial PCs) and the reason that the initial PCs were prepared to serve for accounting purpose only and were not sent out to the subcontractors;
- (8) Ascertain the management's involvement/awareness in these initial PCs and revised PCs and the subsequent reversal of Over-Accrual as a result of the revision of the initial PCs; and
- (9) Interview certain personnel (including the executive Directors, the members of senior management, project quantity surveyors ("PQSs") who prepared the initial and revised PCs, key personal of the accrual team and settlement team of the finance department, and the selected subcontractors which the revised PCs were related).

Audit Finding 2

- (10) Understand and evaluate the policies, procedures and controls of the Company to source and engage subcontractors and making payments (including advances) to subcontractors, including the operating, approval and follow-up/monitoring procedures and accounting entries of transactions;
- (11) Conduct walk-through and testing of the Advance Payments and investigate whether there was any deviation from the Group's policies, procedures and controls in (10) above and any deviation from advances to other subcontractors;
- (12) Evaluate the commercial rationale and information (and documents involved) relating to the Advance Payments;
- (13) Review the Group's practice to ascertain if the provisions of Advance Payments by the Group to its subcontractors were common or not; and
- (14) Follow up the status of recovery of Advance Payments due by the Subcontractors.

Internal Control Follow-Up Review

The Internal Control Follow-Up Review covered the period from 1 August 2021 to 30 November 2021. The key scope and major procedures of the Internal Control Follow-Up Review include the following:

- (15) Follow up the status of implementation of the recommendations proposed by the Independent Reviewer;
- (16) Advise whether the Over-Accrual had any impact to the remuneration (e.g. performance bonus) of the involved personnel, who might be motivated to make the Over-Accrual; and
- (17) Advise the reasons why the Company failed to provide the Former Auditor with all the latest PCs throughout their audit.

SUMMARY OF THE KEY FINDINGS OF THE INDEPENDENT REVIEW AND THE INDEPENDENT FOLLOW-UP REVIEW

Audit Finding 1

The Independent Reviewer is of the view that the Over-Accrual appeared to be due to a chain of deficiencies among the staff from various functions. The PQSs who initiated the amount of accruals produced poor quality of work. The inaccurate accrual was then processed by the finance department, which was not provided with sufficient supporting documents to independently verify the amount of accruals. This issue was coupled with erroneous accounting treatment executed by the finance department in performing year-end accruals for subcontract costs that were not reversed when the actual or revised payment claims were prepared. Adding to the above deficiencies, there was insufficient management oversight and poor detective controls exercised by the contract manager, the project engineer, the general manager and the executive Directors.

The Independent Reviewer is of the view that the above factors represent deviations from the requirements of the established policies and procedures of the Group and reflect a low level of operating effectiveness of the internal controls (i.e. poor execution of the internal control procedures). The nature of the Over-Accrual varied and the errors were made by different PQSs. The Independent Reviewer found that the Over-Accrual resulted from any one of or a combination of the following:

- (1) Cause 1: Accruals were made without reference to subcontractor claims, resulting in inaccurate amounts
- (2) Cause 2: Accruals were made without supporting documents and drawings in sufficient details
- (3) Cause 3: Accruals in respect of the initial PCs were made for the wrong period
- (4) Cause 4: Changes to the arrangement of procurement of materials or progress milestones were made subsequent to accrual of the costs

However, the Independent Reviewer noted that there was no evidence to suggest that the Over-Accrual was directed by the executive Directors or the senior management. The Independent Reviewer concludes that nothing has come to its attention to suggest that there is evidence of: (i) management override of controls, and (ii) collusion among management and employees of the Group.

The Independent Reviewer is aware that the Over-Accrual overstated the revenue and profit for the year ended 30 September 2019. However, based the work performed, the Independent Reviewer found no evidence to suggest that the Over-Accrual was motivated by discretionary bonus. Based on the Company's annual report for the year ended 30 September 2019, the Independent Reviewer understands that (i) discretionary bonus may be awarded to employees

according to the assessment of individual performance and market situation; and (ii) the discretionary bonus for the executive Directors was determined by reference to the duties and responsibilities of the relevant individuals within the Group and the Group's operating performance. In addition, the Independent Reviewer was advised that the emoluments of the Directors have been reviewed by the remuneration committee of the Company, by reference to the Company's operating results, market competitiveness, individual performance and achievement, and approved by the Board. Furthermore, the Group's operating performance is not the only criterion for determining the discretionary bonus. As mentioned above, the Over-Accrual involved a combination of internal control deficiencies among the PQSs, the finance department and the executive Directors. Since the Independent Reviewer found no evidence of management override of controls and collusion among management and employees of the Group, the Independent Reviewer concluded that nothing has come to its attention that the Over-Accrual was motivated by discretionary bonus.

The Independent Reviewer also found no evidence to suggest that the Company deliberately concealed the accrual adjustments from the Former Auditor. In particular, the Independent Reviewer noted that during the audit for the year ended 30 September 2019, the Company had provided the monthly management accounts for October 2019 and November 2019 (the "**Subsequent Management Accounts**") to the Former Auditor prior to the audit completion as requested by the Former Auditor. The Independent Reviewer further noted that (i) the Subsequent Management Accounts took into account the adjustments of accruals based on the then available revised PCs; and (ii) the Subsequent Management Accounts contained the general ledgers which showed that the Company put through some adjustments in October and November 2019 in relation to the accrued subcontract cost as at 30 September 2019 (whereas the accrued subcontract cost as at 30 September 2019 was then determined based on the initial PCs).

Audit Finding 2

The Independent Reviewer noted that the Advance Payments to the Subcontractors appeared to be due to the confluence of the following factors:

- (1) Lack of supporting documents to substantiate performance of tendering/quotation procedures by the Company for the contracts pertaining to the Advance Payments to the Subcontractors;
- (2) Evaluation of the work performance and financial standing of the Subcontractors not performed on a timely basis;
- (3) Lack of delegation of authority by the Board for substantial amounts of payments, as the Independent Reviewer was informed by the executive Directors that there was currently no delegation of authority stipulated by the Board. As a result, the executive Directors were not required to seek for the approval of the Board for the disbursement of funds, regardless of the amount and nature (be it advances or otherwise);

- (4) Internal control policy and procedures for payments were not strictly adhered to; and
- (5) Inadequate monitoring by the finance department during the course of processing the Advance Payments without reviewing and checking the relevant supporting documents.

The above factors suggest that there were deficiencies in the system implementation of the internal control mechanism, and reflect a low level of operating effectiveness of the internal controls which indicate poor implementation of, and, in many cases, deviations from, the internal control policy and procedures by both the management and staff. Taking into consideration the context within which the Advance Payments were made to the Subcontractors, and the lack of documentation to support the Advance Payments, even the management finds it extremely difficult to refer to the facts to explain the event, and for the Independent Reviewer, it is also difficult to verify the background of the event in hindsight. The Independent Reviewer is, thus, of the opinion that there is an indicator of management override of controls by Mr. Teo Teck Thye (“**Mr. Teo**”), the then executive Director, for the approval of the Advance Payments. The Independent Reviewer noted that all the Advance Payments of approximately S\$4.7 million had been repaid by the Subcontractors. The Independent Reviewer further noted that the Company made an announcement on 26 November 2021 which states that Mr. Teo resigned as an executive Director and the chief executive officer of the Company with effect from 26 November 2021.

As for whether there is commercial rationale of making the Advance Payments to the Subcontractors, by reference to the industry report prepared by an industry expert and based upon the analysis of the underlying causes of making the Advance Payments to the Subcontractors, the Independent Reviewer’s observations, and discussions with management who represented that (i) the management had grounds to be confident that the relevant projects to which the Advance Payments were related (the “**Relevant Projects**”) would be awarded; and (ii) Mr. Teo had grounds to believe that it was necessary to provide sufficient funds to the Subcontractors before the Group securing the Relevant Projects in order for the Subcontractors to prepare for the project upfront costs. In addition, the Independent Reviewer noted that (i) under the operating circumstances at the material time, it was the Company’s commercial decision to provide the Advance Payments to the Subcontractors; and (ii) the management represented that making such Advance Payments would be in the best interest of the Company and of the shareholders of the Company in view of the prospect of the Relevant Projects. While the Independent Reviewer understands from the representation of the senior management that there was commercial rationale as to the quantum of the cash advances from the angle of commercial operations and business development, the Independent Reviewer is not in the right position to comment on the reasonableness of the quantum of the cash advances, which is the result of a commercial decision.

In addition, the Independent Reviewer (i) did not note any conclusive evidence of fraud committed by management of the Company; and (ii) nothing has come to its attention which suggests that there is evidence of collusion among management and employees of the Group as well as the Subcontractors.

KEY INTERNAL CONTROL WEAKNESS AND REMEDIAL ACTIONS

The key internal control weaknesses identified, the corresponding recommendations for rectification and the remediation status are summarised as follows:

Main issues identified	Remedial actions recommended	Status of implementation of remedial actions
<i>Audit Finding 1</i>		
1. Initial PCs not reviewed in detail	The Group should ensure that all PCs are prepared in line with the applicable financial reporting standards with adequate supporting documentation including details of computation of costs prior to the review and approval by the responsible personnel.	The management has implemented the recommendation by the Independent Reviewer. The Independent Reviewer found that the PCs were prepared with adequate supporting documentation including details of computation of costs prepared by the PQSs and subcontractors' claims prior to the review and approval by the contract manager, assistant general manager, general manager and executive Director.
2. Insufficient management oversight as to the total amount of subcontractor claims	The Group should assign designated responsible personnel who should maintain control and oversight of the entirety of the subcontract costs on a regular basis. A monthly project progress report, which includes the total certified claims for each project and the paid amount by each subcontractor, should be prepared, and reviewed by the contract manager, project engineer/ project manager, general manager and executive Director.	The management has implemented our recommendation. The responsible PQSs for each project was responsible for maintaining a monthly project progress report which lists out the total contract sum, total certified claim amount and current payable amount, and is subsequently submitted to assistant general manager (for verification), general manager (for review) and executive Director (for approval).

Main issues identified	Remedial actions recommended	Status of implementation of remedial actions
3. Absence of sufficient supporting documents other than the payment response forms submitted to the finance department	The Independent Reviewer recommends that the finance department only performs cost accruals based on the full set of supporting documents, including the subcontractor claims, etc., attached to the Payment Response forms which have been approved by the contract manager, the project engineer/ project manager and the executive Director. Also, to ensure correctness of cost accruals, in case revised PCs were subsequently required to be prepared and verified before the year-end accounts closing process, the finance department should amend the accrual amount based on the latest updated PCs, and inform the external auditor about the change in the accrual amount.	The management has implemented the recommendation by the Independent Reviewer. The approved payment response forms were submitted together with the subcontractor claims and/ or independent consultant's interim certificates to the finance department for cost accrual.
4. Lack of comprehensive written policy to formalise the procedures for accruals recognition	The Group should set up a comprehensive written policy to formalise the procedures for accruals recognition. The policy and procedures for accruals recognition should be properly communicated to the relevant employees to ensure that there is a set of rules to be followed and relied upon by the responsible staff so as to minimise discrepancies of project cost accruals.	The management has implemented the Independent Reviewer's recommendation by establishing the Group's standard operating procedures, which were effective from 1 September 2021 to ensure that project cost accruals are properly recognised, and the relevant internal procedures were made known to relevant staff.

Main issues identified	Remedial actions recommended	Status of implementation of remedial actions
<i>Audit Finding 2</i>		
1. Absence of authorisation matrix for approval over contract management	The Group should set up formal written authorisation matrix for contract management.	The management has implemented the Independent Reviewer's recommendations by updating the Group's standard operating procedures which were effective from 1 November 2021 and were made known to relevant staff.
2. Absence of authorisation matrix over budgeting and cost control management	The Group should set up formal written authorisation matrix for budgeting and cost control management.	The management has implemented the Independent Reviewer's recommendations by updating the Group's standard operating procedures which were effective from 1 November 2021 and were made known to relevant staff.
3. Absence of policies and procedures on advance payments to subcontractors	The Group should set up formal written policy and procedures by laying down details of the advance payment requisition process, the authorisation matrix for the cash advances and the monitoring mechanism as for the follow-up of recovery of the advance payments.	The management has implemented the Independent Reviewer's recommendations by updating the Group's standard operating procedures which were effective from 1 November 2021 and were made known to relevant staff.

Main issues identified	Remedial actions recommended	Status of implementation of remedial actions
<i>Internal Control</i>		
1. Poor execution of stipulated internal controls	<p>There were deviations from the procedures of the accruing of subcontract costs and the provision of Advance Payments to the Subcontractors.</p> <p>The Group should ensure that reinforcement training be conducted for its staff.</p>	<p>The management has implemented the Independent Reviewer’s recommendation by establishing a set of comprehensive standard operating procedures, with respect to accrued subcontracting fee, advance payment, contract management, budgetary control, suppliers/subcontractors’ management, and cheque collection, etc., to govern the daily operations and the relevant standard operating procedures were made known to its staff.</p>
2. Absence of performance of annual financial budget and corresponding monthly budgetary variance analysis	<p>It is recommended that an annual financial budget should be prepared for the Company. Moreover, corresponding monthly budgetary variance analysis relating to the financial budget and actual operating results should be conducted and reviewed by management.</p>	<p>The management has implemented the Independent Reviewer’s recommendation by preparing annual financial budget for the Group for the year ending 30 September 2022. Also, the relevant internal procedure has been updated, whereby the corresponding budgetary variance analysis relating to the financial budget and the actual operating results would be prepared quarterly and reviewed by the executive Directors.</p>

The Independent Reviewer noted that the Group has already implemented its recommendations in regard to accruals of subcontracting costs and advances to subcontractors.

VIEWS OF THE AUDIT COMMITTEE AND THE BOARD

The Audit Committee and the Board are of the view that the content of and findings in the Report are reasonable and acceptable, and the Board is of the view that the Report has adequately addressed the concerns raised by the Former Auditor and HLB.

The Board is also of the view that the findings identified in the Report do not affect the business operation and financial position of the Group. The Group's business operation continues as usual despite the suspension of trading in the Company's shares since 4 January 2021.

Having considered the Report and the remediated actions taken by the Group, the Audit Committee and the Board are of the view that the remedial and improvement measures implemented by the Company are adequate and sufficient to address the internal control weaknesses identified in light of the Audit Findings and that the improved internal controls provide reasonable assurance that the root causes leading to the Audit Findings will not recur.

CONTINUED SUSPENSION OF TRADING

At the request of the Company, trading in the shares of the Company (the "**Shares**") on the Stock Exchange has been suspended with effect from 9:00 a.m. on Monday, 4 January 2021 and will remain suspended pending fulfilment of the resumption conditions and such further conditions that may be imposed by the Stock Exchange.

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

By Order of the Board
S&T Holdings Limited
Poon Soon Huat
Chairman and Executive Director

Hong Kong, 31 December 2021

As at the date of this announcement, the Board comprises two executive Directors, namely Mr. Poon Soon Huat and Mr. Koh Chew Chiang (alias Xu Zhouchang) (formerly known as Faris Koh); and three independent non-executive Directors, namely Mr. Chan Kwok Wing Kelvin, Mr. Tam Hon Fai and Mr. Wong Ka Bo Jimmy.