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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 Caymans Islands with limited liability)
(Stock Code: 1370)

RESULTS OF INTERNAL CONTROL REVIEW

This announcement is made by Aowei Holding Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) pursuant to Rule 13.09(2)(a) 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 announcements of the Company dated 30 April 2021 and 10 May 2021 in relation to the publication of the unaudited management accounts of the Company for the year ended 31 December 2020, the Initial Resumption Guidance for the Company and the formation of the Independent Investigation Committee by the Company; (iii) the announcement of the Company dated 13 May 2021 in relation to the resignation of the auditor of the Company; (iv) the announcement of the Company dated 21 May 2021 in relation to the appointment of the Independent Investigator and the appointment of the new auditor of the Company; (v) the announcements of the Company dated 29 June 2021, 29 September 2021, 15 October 2021, 29 December 2021, 29 March 2022 and 29 June 2022 in relation to, among other things, the quarterly update on the suspension of trading; (vi) the announcements of the Company dated 8 December 2021 and 4 March 2022 in relation to the key findings of the Independent Investigation; (vii) the announcement of the Company dated 16 December 2021 in relation to the Additional Resumption Guidance; (viii) the announcement of the Company dated 27 January 2022 in relation to the appointment of the Internal Control Consultant; (ix) the announcement of the Company dated 29 August 2022 in relation to delay in publication of the 2022 Interim Results and update on progress of resumption of the Company; (x) the announcement of the Company dated 9 September 2022 in relation to the key findings of the Supplementary Independent Investigation; and (xi) the announcement of the Company dated 9 September 2022 in relation to the provision of Deposit Pledge and provision of Loan to an entity (collectively, the “**Announcements**”). Unless otherwise defined herein, capitalised terms used in this announcement shall have the same meanings as those defined in the Announcements.

BACKGROUND

On 14 December 2021, the Company received additional resumption guidance from the Stock Exchange that, in addition to the Initial Resumption Guidance, the Company is required to conduct an independent internal control review and demonstrate that the Company has in place adequate internal controls and procedures to comply with the Listing Rules.

On 27 January 2022, the Company engaged Avista PRO-WIS Risk Advisory Limited as the Internal Control Consultant to conduct a review on the internal control systems and procedures of the Group and to make rectification recommendations (the “**Internal Control Review**”).

On 21 September 2022, the Internal Control Consultant issued a report of the Internal Control Review (the “**Internal Control Review Report**”). The summary of (i) the key internal control findings identified by the Internal Control Consultant in the Internal Control Review Report; (ii) the recommendations for improvement; and (iii) the Company’s response and remediation status are as follows:

1. AUDIT ISSUES

(i) **First Audit Issue – Prepayments Made by the Group to the Four Transportation Companies**

Major internal control deficiencies

1. The Group’s settlement price for the four transportation companies of Aotong Transportation, Huiguang Logistics, Ruitong Transportation and Ronghui Logistics (the “**Four Transportation Companies**”) was only through verbal inquiry and verbal negotiation. The Group did not have a price comparison procedure and approval mechanism.
2. The preferential policies of settlement price in the cooperation agreements entered into between the Group and the Four Transportation Companies were not regularly evaluated to assess the difference between the current settlement price and the market price level.
3. The Group did not conduct regular risk assessment on the credit limits of the Four Transportation Companies to assess whether their solvency matches the credit limits granted to them. Prior to grant of prepayments, the Group focused on its actual operation needs and the daily operation situation and capabilities of the Four Transportation Companies, rather than performing comprehensive due diligence (including detailed financial information).
4. The 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.

5. During the approval for the prepayments agreed-upon procedures, the Independent Investigator found that (i) some samples of the Group were lack of signature of approval personnel; and (ii) all samples are lack of sufficient documentation in the process.

Major recommendations

1. Documents need to be prepared for record purpose during the inquiry process and proper approval is required before acceptance of the quotation.
2. Regular market research is required and properly documented to understand the market level of relevant costs.
3. The level of prepayments to each supplier needs to be regularly reviewed and must be evaluated and reviewed by the management of the Group (the “**Management**”). Any significant deviation of the level of prepayments from the credit limit by suppliers must be filed with relevant reasonable explanation and supporting documents for its recoverability.
4. Improving internal approval mechanism and conducting regular control to ensure it is implemented in strict accordance with the procedure.

Company’s response and remediation status

1. The Company has required the relevant department to compare the quotations of different suppliers/service providers and improved the approval procedures. The Group will conduct review annually.
2. The Group has improved the control system of credit limit and will assess the credit limits of customers and suppliers annually, taking into account their solvency and transaction amounts before deciding on the credit limits to avoid excessive credit. The Group has also specified the maximum credit limit. If the credit limit exceeds a specific amount for a period, approval shall be obtained from the Board before signing the contract and making payment. Furthermore, due diligent procedures shall be conducted for new customers or suppliers or for credit line applications involving credit limits exceeding a specific amount. The Group’s projected operations, transportation and financial situation will be reviewed at least semi-annually to adjust and request for refund of the prepayment if necessary.
3. The internal control department shall keep randomly checking the implementation of the system and report the result to the general manager of the Group (the “**General Manager**”) and the audit committee of the Group semi-annually.

(ii) Second Audit Issue – Trade Receivables in Relation to One of the Group’s Customers Amounted to RMB51,000,000

Major internal control deficiencies

1. The Group did not take measures for the Iron Ore Concentrates Customer’s outstanding balance exceeding its credit limit.

Major recommendations

1. Assessment of the recoverability of customers’ accounts shall be made from time to time and determining whether provision for doubtful and bad debts is required.

Company’s response and remediation status

1. In order to strengthen the management of customer credit lines, the Company has established a system to record, *inter alia*, details of the sales customers/ suppliers regarding their credit period, credit limit, estimated time required to consume the credit line, used and remaining credit line, average monthly amount of service transactions used during the year up to the cut-off date. The finance department will be responsible for the continuous monitoring on a monthly basis. As for assessing the recoverability of customer payments, the Group will treat receivables (including prepayments) that are assuredly irrecoverable as bad debts losses in due course.

(iii) Third Audit Issue – Procurement Prepayments in relation to One of the Group’s Suppliers Amounted to RMB27,000,000

Major internal control deficiencies

1. The Iron Ore Preliminary Concentrates Supplier has not supplied for a long time after signing the agreement with the Group, and the Group has not taken further measures in a timely manner.
2. In 2021, the Iron Ore Preliminary Concentrates Supplier renegotiated a new supply price with the Group by way of the supplemental agreement, and its supply price has also increased, but the Group has not conducted relevant market price comparison procedure.

Major recommendations

1. The supply by each supplier shall be inspected on a regular basis after signing the agreement, and to establish the contingency plan system to deal with the problem of non-supply.
2. Conduct regular market price comparison procedure to ensure the reasonableness of the supply price.

Company's response and remediation status

1. In order to deal with the problem of non-delivery, the Group has set up a record system to register the details of the orders. If the goods do not arrive on the agreed date, the purchasing department will contact the supplier to confirm the specific reasons and report to the General Manager.
2. The Group will conduct review annually, by comparing the price and cost, qualification and service quality of each supplier to ensure the reasonableness of the transaction price.

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

Major internal control deficiencies

1. The pledge of the Time Deposit Certificates of Bank of Nanjing of RMB300,000,000 has not gone through the approval process of the Group's internal fund management system.

Major recommendations

1. Improving the internal control management and training mechanism of the Group to ensure that employees and Management master the requirements of the internal control system in a timely manner.

Company's response and remediation status

1. The Company has established and reviewed the applicability of the existing systems and made the corresponding improvements, organised regular in-depth study of the Company's rules and regulations/Listing Rules for Management and staff to improve their knowledge in relevant internal control system and the Listing Rules and reporting procedures with written training records. The internal control department shall keep randomly checking the implementation of the system and report the result to the General Manager and the audit committee of the Group semi-annually.

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

Major internal control deficiencies

1. The Group has not formulated a response mechanism for the issue of not obtaining VAT invoices of RMB380,000,000.

Major recommendations

1. Improve the internal control system and establish the contingency plan system and process for special matters to deal with and effectively solve the problems arising from reasons not due to the Group itself or lower the risks.

Company's response and remediation status

1. In order to monitor the failure to obtain VAT invoices for reasons not due to the Group itself, the tax management system has been improved including:
 - (a) The financial controller of the Group (the “**Financial Controller**”) continuously monitors the matters relating to service providers not issuing VAT invoices. If the outstanding VAT invoices from any supplier has exceeded the received service from that supplier for the past six months, a report shall be made to the Financial Controller and General Manager to assess the impact on the Group and to formulate a feasible contingency plan.
 - (b) The finance department shall regularly compile statistics on the amount of outstanding VAT invoices and communicate with the service providers to confirm the reasons and progress of issuance, and assess the impact on cash flow and solutions before reporting to the Financial Controller and General Manager.
 - (c) The management of operation shall ensure that service providers agree and sign undertakings to clarify that they are aware of the relevant unissued invoice matters and undertake to issue the VAT invoices before a deadline and the service providers will continue to provide transportation, loading and unloading services. The Company shall be entitled to claim for tax-related losses caused by the service providers delaying the issuance of the VAT invoices.
- (vi) **Sixth Audit Issue – Expenditure for Green Mines Construction and Cultivated Land Reclamation Amounted to RMB170,000,000**

Major internal control deficiencies

1. The Group did not appoint a supervision company to monitor the progress of work and lack of third-party documentation supporting the progress of works as a result.

Major recommendations

1. Improve the internal control system to strengthen the monitoring procedures of the progress of works.

Company's response and remediation status

1. In order to strengthen the monitoring procedures of the progress of works, the Company has revised the relevant manual to engage a supervision entity or establish a project monitoring team to control the progress, schedule, quality and safety with proper documentations.

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

Major internal control deficiencies

1. The Group failed to properly conduct due diligence before entering into lease agreements or material agreements.

Major recommendations

1. Improve the internal control system and establish an appropriate due diligence and approval mechanism.

Company's response and remediation status

1. The Group has adopted relevant measures and will conduct appropriate due diligence and record the relevant results and the information of the lessor, with adequate approval procedures before entering into any lease agreement.

2. LISTING RULES

(i) Failure to disclose financial statements in a timely manner in accordance with the requirements of the Listing Rules

Findings

In accordance with Rule 13.49(1) and Rule 13.46(2)(a) of the Listing Rules, the Company is required to publish its 2021 annual results on or before 31 March 2022, and despatch its 2021 annual report to the Shareholders on or before 30 April 2022. However, as the 2020 annual results are yet to be published and the 2020 annual report is yet to be despatched, the Company is unable to disclose its financial results and report in a timely manner.

Major Recommendations

The Management shall coordinate with the finance staff to provide sufficient information to the Auditor to publish all outstanding financial results as required by the Listing Rules and resolve the Audit Issues.

Company's response and remediation status

The Management is proactively coordinating with the finance staff to provide sufficient information to the Auditor. The 2020 annual results announcement was published on 20 September 2022 and the 2020 annual report is expected to be published by the end of September 2022. It is also expected that other outstanding financial reports up to 2022 interim report will be published by the end of October 2022.

(ii) Failure to adequately disclose the notifiable transactions

Findings

Reference is made to the announcement of the Company dated 9 September 2022. Each of the provision of the Deposit Pledge and the provision of the Loan (i) constituted a notifiable transaction of the Company and was therefore subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules; and (ii) was also subject to the general disclosure obligations under Rule 13.15 of the Listing Rules. In both cases, the Company was not able to report and announce the transactions mentioned above as soon as possible after the terms of the transactions have been finalised and thus is in breach of the Listing Rules.

Details are set out in the announcement of the Company dated 9 September 2022.

Major Recommendations

With regard to the above issue, the Group shall conduct the following measures as soon as possible:

- 1) Prepare and publish announcement(s) in respect of the abovementioned discloseable transactions to fulfil the requirements of the Listing Rules for providing adequate information to the Shareholders and potential investors of the Company.
- 2) Impose penalty on the staff who has seriously violated the rules and regulations of the Company to demonstrate the high attention paid by the Management for this issue.
- 3) Provide regular training in relation to regulatory compliance matters about notifiable transactions to the Directors, the Management and the personnel-in-charge, to ensure that they fully understand the regulations under the Listing Rules and the importance of determining whether a particular transaction constitutes a notifiable transaction before execution.
- 4) Consult external legal adviser, financial adviser and/or other professionals as and when appropriate and necessary before entering into any possible notifiable transaction or making any payment regarding the possible notifiable transactions.

- 5) Re-examine the current system of the Company in relation to compliance with the Listing Rules, in order to ensure the system can provide detailed guidance for the Directors and the Management, and to strengthen and consolidate their understanding on notifiable transactions and their ability to identify potential issues as soon as possible.

Company's response and remediation status

The Group has implemented the following rectification work according to the above recommendations:

- 1) The announcement in relation to discloseable transactions was published on 9 September 2022.
- 2) The Company has terminated the employment with the person who initiated the Deposit Pledge.
- 3) The Directors and major relevant Management have participated in a Listing Rules training session focusing on Chapter 13 and Chapter 14 of the Listing Rules. The Company has also amended its internal disclosure management system, which stipulates that regular trainings shall be held in relation to the Company's rules and regulations/Listing Rules.
- 4) The amended internal disclosure management system also stipulates that, when in doubt, the manager of investor relations department (the "**IR Manager**") and the Financial Controller may consult a financial adviser, legal adviser and/or other professionals before entering into any possible notifiable transaction or making any payment regarding the possible notifiable transactions.
- 5) Other improved internal measures of the Group include but are not limited to the following.
 - (i) Update the triggering amount for size tests calculations according to latest consolidated financial statements semi-annually;
 - (ii) With regard to any transaction with contract amount exceeding the updated triggering amount, all relevant documents must be emailed to the IR Manager to check whether it constitutes a notifiable transaction. No agreements shall be entered into before obtaining approvals from the IR Manager and the Financial Controller.
 - (iii) With regard to all material transactions, the IR Manager must obtain the written independence confirmation from each Director before entering into relevant agreements.
 - (iv) The internal control department shall keep randomly checking the implementation of the system and report the result to the General Manager and the audit committee of the Group semi-annually.

REMEDIATION STATUS OF THE INTERNAL CONTROL REVIEW

The Internal Control Consultant had advised the Company to remediate the internal control deficiencies identified and the Group has responded to the deficiencies identified and carried out rectification procedures accordingly. As at the date of the Internal Control Report, save for publishing all the outstanding financial results of the Group while the Group has already worked out an expected timetable with the Auditor as mentioned above, all the recommended rectification measures provided by the Internal Control Consultant under the Internal Control Review have been adopted. Based on the results of the Internal Control Review, the Internal Control Consultant is of the view that the Company has in place adequate corporate governance, internal control and financial reporting systems to discharge the Company's obligations under the Listing Rules.

OPINIONS FROM THE BOARD

After considering the Internal Control Review Report and the recommendations thereunder, the Board is of the view that the remedial measures implemented by the Group are adequate and sufficient to address all the key findings in the internal control systems and procedures of the Group as identified by the Internal Control Consultant. The Board considers that the Group's enhanced internal control system and procedures are sufficient to discharge the Company's obligations under the Listing Rules and safeguard its interests and the interests of the Shareholders.

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, 21 September 2022

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