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Honworld Group Limited

老恒和釀造有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2226)

COMPLETION OF INTERNAL CONTROL REVIEW

References are made to the announcements (the “**Announcements**”) of Honworld Group Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) dated 29 March 2021, 22 June 2021, 29 June 2021, 23 July 2021, 16 August 2021, 29 September 2021, 10 November 2021, 29 December 2021, 29 March 2022, 11 May 2022, 30 May 2022, 29 June 2022, 19 July 2022, 3 August 2022 and 12 August 2022, in relation to, among other things, (i) the suspension of trading of shares of the Company; (ii) resumption guidance set forth by the Stock Exchange; (iii) the quarterly update on resumption progress, and (iv) the establishment of Independent Investigation Committee, and the appointments of Independent Forensic Accountant and internal control consultant and financial adviser, update on the Independent Investigation and the key findings of the Independent Investigation. Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings as those defined in the Announcements.

BACKGROUND

As set out in the announcement of the Company dated 16 August 2021, the Company has engaged an internal control consultant (the “**IC Consultant**”) to conduct a review of the internal control systems and procedures of the Company and its subsidiaries (the “**Group**”), identify any defects in the internal control systems and procedures of the Group and make recommendations accordingly (the “**Internal Control Review**”).

SCOPE OF INTERNAL CONTROL REVIEW

The Internal Control Review covers the period from 1 December 2020 to 30 November 2021 (the “**IC Assessment Period**”). The scope of internal control system assessment includes (i) an assessment of the internal controls at entity level covering control environment, risk assessment, control activities, information and communication and monitoring; and (ii) an assessment of the internal controls of the Group at process level including financial reporting and disclosure, sales and accounts receivable management, procurement and payment management, inventory management, cash and treasury management, fixed asset management, human resources and payroll management and tax management.

The IC Consultant has identified, during Internal Control Review, a number of weaknesses and deficiencies in the internal control system of the Group and has made relevant recommendations to the management of the Company accordingly.

The Company has formulated remedial action plans to address the internal control weaknesses and deficiencies as identified. Following the implementation of the remedial action plans, the IC Consultant conducted a follow-up review to walkthrough remediated internal control measures and reported on the remediation results.

COMPLETION OF THE INTERNAL CONTROL REVIEW

The Company is pleased to announce that all remediation work as recommended by the IC Consultant has been completed. The IC Consultant has accordingly issued the internal control review report (the “**Internal Control Review Report**”) following the follow-up assessment of remediation implemented by the Group.

SUMMARY OF KEY FINDINGS AND RESPECTIVE REMEDIATION ACTIONS TAKEN BY THE GROUP

Set out below is a summary of the key findings and respective remediation actions taken by the Group:

Internal control cycle and procedures

Summary of key findings

Corporate Governance

The Group did not establish formal written policy and procedures in respect of certain Listing Rules and corporate governance compliance matters, in particular:

- a. Directors' dealing of the Company's securities;
- b. Corporate governance policy;
- c. Connected transaction management policy; and
- d. Handling procedures for enquiry from regulators and media.

Remedial measures implemented by the management

The Group has fully implemented all the remedial measures with effect from August 2022, including:

- a. Director's dealing policy
 - The Company has adopted "Securities dealing policy for Directors, senior management and staff". All directors are required to provide annual confirmation on their compliance of respective requirements under Appendix 10 of the Listing Rules.
- b. Corporate governance policy
 - The Company has adopted the "Corporate governance policy" in accordance with requirements under Appendix 14 of the Listing Rules.
 - The Company has arranged training for Directors and senior management staff on compliance of corporate governance matters as required under the Listing Rules.

**Internal
control cycle
and procedures**

Summary of key findings

**Remedial measures implemented
by the management**

Corporate
Governance
(continued)

- c. Connected transaction management policy
- The Group has adopted “Connected transaction management policy” setting out detailed procedures to identify, monitor, approve and disclose connected transactions. The Group’s finance department is required to maintain a master list of connected persons (with update from time to time) for monitoring purposes;
 - Proposed connected transactions will be submitted to the Board for approval and the Group’s finance department will monitor and ensure the approved transactions are conducted within approval limit.
- d. Handling procedures for enquiries from regulators and media
- The Company has updated the “Information communication and disclosure policy” to cover the handling procedures for enquiries from the regulators and media in connection the requirement under Rule 13.10 of the Listing Rules.
 - The office of the Board will be responsible for handling the enquiry matters from the regulators and media; and all responses to enquiry should be made upon the Board’s approval.

**Internal
control cycle
and procedures**

Risk management

Summary of key findings

a. Risk management

The Company's management did not establish a formal risk assessment/management mechanism to identify, respond, report and follow up risks in term of the Group's strategy, operations, financials and compliance matters.

b. Internal audit function

The Group did not establish internal audit function to monitor and assess whether the Group's control activities are properly conducted.

**Remedial measures implemented
by the management**

a. Risk management

- With effect from August 2022, the Group has updated "Risk assessment and management policy" to enhance the risk management process (covering various aspects including risk identification, evaluation, control, monitoring and follow-up); and set up risk management department to handle the Group's risk assessment and management tasks on annual basis.
- The risk assessment report will be submitted to the Company's management for their review and approval for appropriate course of actions (if any).

b. Internal audit function

- With effect from August 2022, the Company's audit committee has resolved to establish internal audit department and to be staffed with experienced internal audit personnel in discharging the Group's internal audit function; and adopted the "Internal audit policy and audit methodology";
- The Company has also resolved to appoint an external consultant to conduct an internal control review for the Group on an annual basis on the effectiveness of the Group's internal control system.

Internal control cycle and procedures

Management authority and approval right

Financial reporting and disclosure

Summary of key findings

The Group did not establish internal policy to clearly define the management authority in respect of the level of business decision and transaction approval limit in its management structure. It may pose the risk that unauthorised transactions are conducted without being detected; and any problem caused by such transaction can not be rectified in time.

a. IT system security issue

The Group did not maintain sufficient control over access rights to the Group's bookkeeping and accounting system among different level of staff.

For example, all the finance staff had the access right to amend and modify the chart of accounts. Senior finance staff had the rights to prepare and approve accounting transactions and it appeared to be lack of segregation of duties.

b. Financial budget & analysis

The Group's finance department did not prepare formal annual master financial budget in accordance with the Group's budgeting policy to monitor the Group's business plan and performance.

The Group's finance department only held internal discussion meeting to review operational goals and plans.

The Group's finance department did not prepare financial analysis (such as comparative figures and key financial ratios) to compare the actual business performance between current and comparative period.

Remedial measures implemented by the management

The Group has adopted the "Approval right management policy" setting out (i) the approval policy and procedures; and (ii) the management's authority and approval limit for business transactions and other non-monetary decision making affairs.

a. IT system security issue

With effect from August 2022, the Group has reassigned the access rights in bookkeeping and accounting system to different level of staff in accordance with the Group's ERP management policy.

b. Financial budget & analysis

The Group has fully implemented all the remedial measures, with effect from July 2022, including:

- The Group has prepared annual and quarterly master budget and monthly departmental budget.
- The Group has prepared monthly variance analysis to compare and investigate the difference between actual business performance and the monthly budget.
- The Group has prepared financial analysis (with key financial ratios) with interim consolidated financial statements for business performance review.

**Internal
control cycle
and procedures**

Sales and accounts
receivable

Summary of key findings

a. Deficiency in goods return policy

According to the Group's goods return policy, customers should submit written goods return request for processing and approval of goods return.

In practice, customers only informed the customer service centre for goods return via telephone or messaging software. The customer service centre did not record the return request in writing and accepted the goods return without formal approval.

b. Accounts receivable management

As the Group made most of its sales order with prepayment from customers and only a few sales were made on credit term, the Company's staff only monitored the status of accounts receivable in the Group's accounting system but did not prepare aging analysis for detailed review. The Group also did not maintain written record for assessment of bad debt provision.

In addition, the Group's sales staff only followed up overdue accounts receivable collection with phone call and no written collection record was retained.

c. Reconciliation of sales orders and payment with customers

The prepayment made by customers for their purchase is on rolling basis and the payment amounts did not correspond to the individual sales order. The Group's sales staff only reconciled the sales amounts and the payments with customers in phone call or messaging software. No reconciliation statement was issued to customers to confirm the transaction amounts in accordance with the sales agreement.

**Remedial measures implemented
by the management**

a. Update on goods return policy

With effect from August 2022, the Group has requested the customers to submit goods return request in writing; and the customer service, production department and quality control centre process the goods return request in accordance with the Group's return policy. The Group's stock balance is updated upon completion of goods return accordingly.

b. Accounts receivable management

With effect from July 2022, the Group has prepared accounts receivable aging analysis on half-yearly basis and performed assessment on bad debt provision. Such aging analysis and assessment on bad debt provision is properly reviewed by the Group's senior finance staff.

The Group has prepared and issued written payment notice in email to customers for collection of overdue accounts receivable.

c. Reconciliation of sales orders and payment with customers

With effect from July 2022, the Group has prepared and issued reconciliation statements to customers on monthly basis to confirm the transactions and account balances with customers.

Internal control cycle and procedures

Procurement and payment

Summary of key findings

a. Formulation of procurement plan

Procurement request was prepared based on sales quantity from customer's sales orders and was not in accordance with the Group's policy which required the procurement staff to formulate procurement plan according to Group's monthly production plan and inventory level.

b. Maintaining safety stock level

The Group did not maintain the safety stock level for the ingredients and packaging materials other than the direct materials in accordance the Group's inventory control policy.

Cash and treasury management

a. Deficiencies in cash and treasury management policy

The Group's cash and treasury management policy did not cover: receipt from electronic payment service for e-commerce sales and Company's chop management.

b. Bank account management

Request to change of the Group's bank accounts (including opening, alternation and cancellation of bank accounts) were not formally made to the finance department and approved by finance department head and the chairman according to the Group's bank account management policy and no written record was retained.

Remedial measures implemented by the management

a. Formulation of procurement plan

With effect from August 2022, the Group has prepared the procurement plan in accordance with monthly production plan and inventory level. Such procurement plan is reviewed and approved by planning department supervisor and warehouse manager; and is retained in record by sales planning department.

b. Maintaining safety stock level

With effect from August 2022, the Group has maintained safety stock level with calculation formula in accordance with the Group's inventory control policy; and monitor inventory level to ensure uninterrupted production and sales of goods.

a. Update on the Group's cash and treasury management policy

With effect from August 2022, the Group has adopted relevant cash and treasury management policy to monitor and manage the following:

- Receipt from electronic payment service for e-commerce sales (including reconciliation of funds receipt and revenue recognition); and
- Company's chop management (including application and registration for use of the Company's chop).

b. Bank account management policy

With effect from August 2022, any change of the Group's bank accounts should be made in accordance with the Group's bank account management policy including change request should be made in writing to finance department; and management approval must be obtained before making the application procedures with banks.

**Internal
control cycle
and procedures**

Summary of key findings

c. Bank reconciliation

The Group's cashier did not prepare monthly bank reconciliation in accordance with the Group's bank account management policy, and the Group did not obtain the monthly bank statements for certain inactive bank accounts of certain subsidiaries.

**Fixed asset
management**

a. Fixed asset count

Fixed asset count was not arranged regularly and no count record was retained according to the Group's fixed asset management policy.

b. Depreciation policy

Different estimated useful lives were assigned to the same class of fixed assets, which did not fully comply with the Group's depreciation policy. In addition, the Group's depreciation policy did not specify the estimated useful lives for property and fixture.

Tax management

The Group's tax management policy did not cover the tax dispute handling procedures.

**Remedial measures implemented
by the management**

c. Bank reconciliation

With effect from July 2022, the Group's cashier are required to prepare monthly bank reconciliation with the Group's bank ledgers and the bank statements if there is variance between the two. The reconciliation and bank statements are reviewed by senior finance staff and retained in record.

a. Fixed asset count

The Company's management has revised and updated the Group's fixed asset management policy. With effect from August 2022, the policy stipulates that the administrative department, finance department and (fixed asset) user department should arrange periodical fixed asset count. The fixed asset count should be monitored by independent departments (i.e. administrative and finance department) and count record should be properly retained.

b. Depreciation policy

The Company's management has revised the depreciation policy to re-define/add different class of fixed assets with the assigned estimated useful lives. With effect from August 2022, newly acquired facility/equipment is assigned to appropriate class of fixed assets for depreciation calculation in the Group's accounting system.

With effect from August 2022, the Group has updated the tax management policy to include handling procedures for tax disputes or issues and has enhanced the monitoring of the Group's tax filing and reporting affairs.

VIEWS OF THE AUDIT COMMITTEE AND THE BOARD

Based on the follow-up assessment on remediation results for enhancement of the Group's internal control system, the IC Consultant did not identify any further internal control weaknesses and deficiencies nor make any further recommendations on the Group's internal control system.

Having considered the Internal Control Review Report and the remedial measures taken by the Group, the Audit Committee and the Board are of the view that the remedial measures implemented by the Group are adequate and sufficient to address the key findings of the Internal Control Review and the enhanced internal control system can facilitate the Group to manage the related risks at a reasonable level. As such, the Board is of the view that the Company has now in place adequate internal control systems to meet the obligations under the Listing Rules.

CONTINUED SUSPENSION OF TRADING

At the request of the Company, trading in the shares of the Company on The Stock Exchange of Hong Kong Limited has been suspended with effect from 9:00 a.m. on 30 March 2021 and will remain suspended until the Company fulfils the Resumption Guidance.

By order of the Board
Honworld Group Limited
Chen Wei
Chairman

Hong Kong, 27 September 2022

As at the date of this announcement, the executive directors of the Company are Chen Wei and Liu Jianbin; the non-executive director of the Company is Gu Wei; and the independent non-executive directors of the Company are Shen Zhenchang, Ng Wing Fai and Sun Jiong.

* *For identification purposes only*