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ARES ASIA LIMITED

安域亞洲有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 645)

RESULTS OF FOLLOW-UP INTERNAL CONTROL REVIEW

This announcement is made by Ares Asia Limited (the “**Company**”, together with its subsidiaries, the “**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 under the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

References are made to the announcements (the “**Announcements**”) of the Company dated 13 August 2021, 5 October 2021, 19 October 2021, 18 August 2022, 8 September 2022, 15 September 2022, 15 December 2022 and 30 December 2022 in relation to, among others, (i) the resignation of the auditor, (ii) the Resumption Guidance, (iii) the appointment of independent reviewer, (iv) the results of the Independent Review, (v) the Additional Resumption Guidance, (vi) the engagement of Crowe for the Internal Control Review, (vii) results of the Internal Control Review, and (viii) the quarterly updates on suspension of trading. Unless otherwise defined, capitalised terms used herein shall have the same meanings as defined in the Announcements.

COMPLETION OF INTERNAL CONTROL REVIEW

As disclosed in the announcement of the Company dated 15 December 2022, Crowe has completed the first stage of the Internal Control Review and has certain key findings and made certain recommendations. Crowe would conduct follow-up internal control review to confirm if the recommendations have been implemented and the deficiencies noted in the first stage of the Internal Control Review have been rectified. On 13 January 2023, Crowe

issued the final report of the Internal Control Review (the “**Internal Control Review Report**”). The status of remediation implementation for the internal control findings by the Crowe in the Internal Control Review are updated as follows:

1. Enhancement on implementation of code of conduct (risk level: medium)

(a) Commitment of compliance with the latest policies

Findings:

The Company adopted the “Model Code for Securities Transactions by Directors of Listed Issuers” set out in Appendix 10 to the Listing Rules. An annual written undertaking to adhere to the model code was signed by each Director, but the scope should be expanded to other code of conduct, for example, to adhere to the latest anti-fraud policy.

Recommendation:

The existing mechanism of annual written undertaking should be expanded to include ethical requirements.

(b) Implementation of control over conflict of interest

Findings:

A preventive control of managing conflict of interest is stipulated in the staff handbook that all executive Directors are required to sign declaration of any personal interests that raises conflict with their duties every six months. Returns are also required even if they have no interest to declare. Apart from a written declaration of conflict of interest made upon the Directors’ appointment, no biannual declaration has been signed.

Recommendation:

The existing mechanism for biannual declaration of conflict of interest by executive Directors should be properly implemented.

Status of Remediation Implementation:

Implemented. Code of Conduct and Integrity Management Policy has been recorded to provide more detailed requirements in order to make annual undertaking to adhere to code of ethics and biannual declaration of conflict of interest.

The annual written undertaking has been further expanded to include other ethical requirements as stated inside the latest set of policies. The written commitment after enhancement had been signed by directors and senior management on 8 December 2022.

Written declaration had been obtained from executive directors on 8 December 2022 for having no existing nor potential conflict.

2. Delegation, authorisation and reporting (risk level: medium)

Findings:

The Board delegated the day-to-day responsibilities to the senior management of the Company or its subsidiaries, while reserving certain key matters for the approval by the Board. As written delegation of authorities issued by the Board was not retained, it is uncertain whether the current delegation arrangement in practice (such as bank authorization and signing contract) was endorsed by the Board appropriately. In addition, the approval procedures and reporting protocol in terms of (i) approval authority by threshold for key operating procedures and (ii) key matters which need to be reported to the Board, have not been clearly defined in the existing policies and procedures.

Recommendation:

Written delegation to senior management of the Company or its subsidiaries with approval from the Board should be retained for certain key operating procedures. An authorisation matrix should be established to set out the thresholds in monetary amounts or criteria at each level of approval authority, and a reporting protocol should be established to facilitate the Board oversight to key operating activities.

Status of Remediation Implementation:

Implemented. Letter for delegation of authority has been retained to specify the delegated authorities from the Board to staff on key operating procedures and has been approved by the Board on 13 December 2022.

The thresholds and criteria for reporting matters to the senior management and the Board was set under the authorisation matrix.

3 Whistleblowing channel (risk level: low)

(a) Independence of whistleblowing channel

Findings:

As stated in the current whistleblowing policy, concerns over malpractice or impropriety can be raised and discussed with the head of division/department, chief operating officer, chief executive, chairman of the Company or the chairman of audit committee. It all depends on the position the person involved and the whistleblowers' preferences. However, according to the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 14 to the Listing Rules, concerns should be raised to the audit committee directly.

Recommendation:

All whistleblowing matters should be collected and investigated by audit committee of the Company directly and independently.

(b) Disclosure of anonymous whistleblowing channel

Findings:

The current whistleblowing policy is intended to assist individual employees to report for any malpractice or impropriety within the Group only. Whistleblowing can be made in person or in writing, employees are required to put their name on the written complaints as anonymous complaints would usually not be considered. According to the CG Code, a whistleblowing policy and system should be established to both employees and those who deal with the issuer. Concerns over malpractice or impropriety should be raised on an anonymous and confidential basis.

Recommendation:

An anonymous whistleblowing channel such as an email address should be established and made to public by placing it in the Company's website, annual report or any other external communication channel for both internal and external stakeholder.

Status of Remediation Implementation:

Implemented. An email address has been made to public in the Company's website on 5 December 2022 as an anonymous whistleblowing channel from both internal and external stakeholders. This email address can only be accessed by the chairman of audit committee. The chairman will review the complaint and decide how the investigation should be proceeded in a more independent manner.

4. Insurance coverage for directors' and officers' ("D&O") liabilities (risk level: low)

Findings:

Due to the suspension in the trading of the Shares, the Company has been unable to extend the D&O insurance, which expired in February 2022.

Recommendation:

The Company should procure D&O insurance to cover potential legal actions against its directors and officers upon approval of the resumption of trading of the Shares.

Status of Remediation Implementation:

In progress, subject to further follow-up action after resumption. D&O insurance will be procured upon approval of the resumption of trading of the Shares on the Stock Exchange.

5. Further enhancement of written policies and procedures (risk level: medium)

Findings:

The Group has been continuously establishing and enhancing its written policies and procedures at entity and operational level in the areas of (i) notifiable transaction, (ii) human resources, (iii) compliance management, (iv) terms of reference for audit committee, (v) shareholders' communication, (vi) financial reporting and disclosure, (vii) cash and cash advance, (viii) tax, and (ix) reporting and monitoring on connected transactions. The relevant existing mechanisms/procedures under implementation are to be recorded or enhanced in writing.

Recommendation:

Written policies and procedures should be recorded or enhanced in accordance with the abovementioned aspects. The updated written policies should be approved by the Board. A regular review of the written policies should be carried out by the management at least once a year to ensure their consistency with current operation and the effectiveness of the risk management and internal control system. Regular trainings should be arranged to ensure that employees are being notified and are familiar with the updated mechanism.

Status of Remediation Implementation:

Implemented. Written policies of the Group had been recorded and enhanced with respect to the abovementioned aspects. The policies had been reviewed and approved by the Board on 13 December 2022.

Management is committed to conduct a review of the written policies on an annual basis.

Trainings for employees on updated written policies of the Group were held on 13 December 2022.

6. Monitoring on cash flow and business performance (risk level: medium)

Findings:

At the beginning of each financial year, there is management forecast of cash flow for the coming financial year based on management understanding on repatriation of capital and profit from trade or the occurrence of routine operating expenditure. Documentation of the cash flow forecasts with approval from the Board was not generally retained.

For monitoring the profitability of business, the annual financial budgets of the Group for the coming financial year should be prepared by the finance department in Hong Kong and Singapore respectively in each December, and they should be approved by the finance director. After that, a monthly financial analysis and evaluation of business profitability should be prepared with a detailed comparison to the result of same period of last year. An annual working summary should be prepared to provide (i) the variance analysis between budgeted and actual figures and (ii) the financial analysis of annual results. However, due to the extra work and limited capacity of finance department during the suspension of trading in the Shares, the finance department ceased to perform the monthly financial analysis.

Recommendation:

Annual cash flow forecast should be documented and approved by the Board. The practice of monthly financial analysis and evaluation of business profitability should be resumed.

Status of Remediation Implementation:

Implemented. A cash flow forecast covering the period from October 2022 to March 2024 had been documented and approved by the Board in December 2022.

The practice of monthly financial analysis and evaluation of business profitability has been resumed. The analysis for the month ended 30 October 2022 had been approved by the finance director and circulated to the Board as reference on 2 December 2022.

7. Internet banking (risk level: medium)

Findings:

Limits on transaction amounts in internet banking under the subsidiaries of the Company have not been set up.

Recommendation:

To better protect cash at bank accounts, apart from the segregation of duties over bank payment procedures, an additional control shall be set up by establishing the transaction limits of internet banking, such as maximum transaction amount or daily withdrawal limits, with reference to the size of routine transactions, frequency of transaction and the use of bank account. The limits should be reviewed by the management on a regular and ongoing basis. Board approval should be obtained whenever there are changes for the limits.

Status of Remediation Implementation:

In progress, only subject to confirmation of limit setting from the bank for AAR. With reference to the size of routine transactions, frequency of transaction and the use of bank account, the Company proposed transaction limit for internet banking to be US\$20 million per transaction for each bank account. The limit had been stipulated in the written policy and had been approved by the Board on 13 December 2022.

Transaction limit for internet banking of each account in ARL had been set. AAR is applying to set the limit. Management is committed to set the transaction limit accordingly and review the appropriateness of the limit on a regular and ongoing basis.

8. Cash advance and reimbursement (risk level: low)

Findings:

Cash advances are issued to employees for travel expenses and purchase of miscellaneous items; however, no threshold of cash advance was set up to restrict usage of cash advance, and no limits nor restriction on reimbursement for travel expenses, including entertainment expenses, was determined.

Recommendation:

The Group should establish thresholds for the requisition and approval of the cash advance, and limits on reimbursement for travel expenses, including entertainment expenses, should be determined.

Status of Remediation Implementation:

Implemented. Threshold of cash advance and limits on reimbursement for executive directors and senior management had been established and stipulated in the cash and cash advance policy.

9. Connected transaction and notifiable transaction management (risk level: medium)

(a) Connected transactions

Findings:

The policy on connected transactions specifies that the finance director of the Company is responsible for identifying and reporting all connected transactions to the company secretarial division and the Board. A quarterly report should be prepared to summarise (i) connected transactions entered during the quarter; and (ii) connected transactions that are likely to be executed in the coming quarter. The internal control procedures should be further enhanced in effective compliance with Chapter 14A of the Listing Rules.

Recommendation:

It is recommended that:—

- (i) written declarations of interest and connected persons should be signed by newly appointed directors and senior executives of the Company at the date of commencement of their appointment;
- (ii) written declarations of interest and connected persons should be signed by all existing Directors and senior executives of the Company at least annually;
- (iii) a list of connected persons should be maintained and it should be promptly circulated to subsidiaries if there has been any update; and
- (iv) all responsible parties should be trained on managing connected transactions for ensuring disclosures or approvals are timely made.

(b) Notifiable transactions

Findings:

The finance director would be responsible for identifying and reporting notifiable transactions. However, there was no written policies and procedures for identifying, reporting and executing the notifiable transactions in compliance with the requirements under Chapter 14 of the Listing Rules.

Recommendation:

It is recommended that:—

- (i) a policy of managing notifiable transactions should be recorded. It should clearly define the responsibilities and duties for different departments of the Group on identifying, classifying, reporting and disclosing notifiable transactions based on the calculation of several percentage ratios testing;
- (ii) a clear transaction threshold based on business development should be established and approved by the Board at least annually to define significant transactions. The threshold should be stated clearly inside the written policy and all subsidiaries should be notified. All significant transactions should be reported to the finance director to confirm whether those transactions should be disclosed and these transactions should be subject to Board approval; and
- (iii) all responsible parties should be trained on managing notifiable transactions for ensuring disclosures or approvals are timely made.

Status of Remediation Implementation:

Implemented.

The written policy of connected transaction had been enhanced:

- Written declarations of connected persons had been obtained from existing directors of the Company;
- Declarations are required to be obtained from directors and senior management at the date of commencement of their appointment and at the end of each financial year; and
- A list of connected persons has been maintained in order to assist the finance director to identify connected transactions.

The written policy of notifiable transactions had been recorded:

- The responsibilities and duties for different departments of the Group had been determined on identifying, classifying, reporting and disclosing notifiable transactions based on the calculation of several percentage ratios testing; and
- A clear threshold of HK\$5 million has been defined as significant transactions which should be reported to the finance director to confirm whether those transactions should be disclosed as notifiable transactions and subject to Board approval.

All responsible parties, including staff of trading and finance departments, had received training in the enhanced control mechanism on managing connected transactions and notifiable transaction on 13 December 2022.

Result of implementation status of the remedial action undertaken by the Group on the internal control weaknesses identified from the Independent Review

Reference is made to the announcement of the Company dated 15 September 2022 and 15 December 2022. In respect of the following observations under the Independent Review, Crowe has reviewed and updated the implementation status of the remedial actions to the observations by the Group as follows:

1. Lack of guidance in 2020 Trading Policy and documentation

Implemented.

Explicit guidance has been established under the revised trading policy. Prepayment is allowed under back-to-back basis. In the event that there is prepayment made to supplier by using company's own funding, additional preventive and detective controls procedures should be followed to mitigate the credit risk. The procedures have included (a) trading staff should conduct background search to ensure sufficient financial capability and acceptable shipment status/ track records/inventory turnover day of supplier; (b) prepayment to the value exceeds 35% of total cargo value is required for approval from the Board and the audit committee; (c) the chief executive officer (the "CEO") (after the Head of Trading Department checks and reports to the CEO) is responsible for monitoring (with the aid of a trade approval form) new trade in compliance with the trading policy during approval of application for new trade. During the course of the Internal Control Review, there were no prepayments made to supplier by using company's own funding. The management of the Company is committed to follow the additional controls procedures in case of such prepayments in future.

The revised trading policy has been enhanced and it stipulated that all transactions must conduct a background search to review and evaluate the credit status of customer and supplier annually. If supplier is unable to provide relevant information for background search, sufficient and appropriate evaluation should be provided to the Board for approval. The trading department has retained approved customer and supplier evaluation forms in the server, whereas the finance department is required to check the archive at least annually.

2. Incomplete or unsigned contracts

Implemented.

A trade list has been established by the trading department to monitor the status of each contract:

- a) Contracts have been checked whether they were properly uploaded in cloud and centrally filed in cabinet; and
- b) An executive Director is responsible for reviewing original contracts for signature and stamp to ensure that contracts are properly authorised and approved before execution.

Filing of important documents (including contracts, invoices, shipping documents) has been enhanced. Trading executive/manager is required to file the respective documents in server and cloud upon completion of trade.

3. Payee was different from the contracting party

Implemented.

The revised trading policy has required that the trading department should notify the finance department for any payments or receipts that are not made to/from contracting party. Preventive and detective control procedures for handling such payment and receipt are also stipulated inside the policy. The procedures have included (a) to request for confirmation of payments/receipts from contracting party through email or written instruction; (b) to request for declaration of relationship between contracting party and payee/payer. Finance department has checked the payee/payer against contracting party on the bank records for monitoring. In case of any inconsistency, the finance department will alert and ask the trading department on a timely basis to perform the procedures of item (a) and (b) above accordingly. During the course of the Internal Control Review, there were no payments made to/from non-contracting party. The management of the Company is committed to follow the additional controls procedures in case of such payments in future.

A training session has been conducted to provide the finance and trading department a guidance on the revised trading policy.

Crowe confirmed that the remediation actions of the findings identified in the Independent Review report have been satisfactorily implemented based on the abovementioned result of its follow-up review.

VIEW OF THE BOARD AND THE AUDIT COMMITTEE

Having considered (i) the remedial actions taken by the Group, and, in particular, the above key internal control deficiencies have been remedied based upon a follow-up review performed by Crowe with the exception of abovementioned items 4 and 7, which is subject to the approval of the resumption or the confirmation of the bank and requires no further action from the Company; and (ii) Crowe formed the view under the Internal Control Review Report that the Company has possessed adequate and reliable corporate governance, internal controls and financial reporting systems to meet the obligations under the Listing Rules as at the completion date of the follow-up review (i.e. 23 December 2022), the Audit Committee and the Board are of the view that the remedial measures implemented by the Company are adequate and sufficient to address the key findings of the Internal Control Review Report, and the Company has in place adequate internal controls and procedures to meet its obligations under the Listing Rules.

CONTINUED SUSPENSION OF TRADING

In accordance with Rule 13.50 of the Listing Rules, trading in the shares of the Company on the Stock Exchange has been suspended with effect from 9:00 a.m. on 2 July 2021 and will remain suspended until further notice.

Shareholders and potential investors of the Company should exercise caution when dealing in the shares of the Company.

By Order of the Board
ARES ASIA LIMITED
LAI Yi-Chun
(also known as Robert LAI)
Chairman

Hong Kong, 20 January 2023

As at the date of this announcement, the Board comprises two executive Directors, namely Mr. LAI Yi-Chun (also known as Mr. Robert LAI) (Chairman) and Mr. LUO Xiao; one non-executive Director, namely Ms. RUAYRUNGRUANG Woraphanit; and three independent non-executive Directors, namely Mr. CHANG Jesse, Mr. YEUNG Kin Bond, Sydney and Mr. LIU Ji.