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HUAZHANG TECHNOLOGY HOLDING LIMITED

華章科技控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1673)

KEY FINDINGS OF INTERNAL CONTROL REVIEW

Reference is made to the announcements of Huazhang Technology Holding Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) dated 26 October 2022 and 24 February 2023 in relation to, among others, the key findings of the independent forensic accounting review on the Subject Transactions and the Baoshan Paper Transactions, respectively (collectively, the “**Announcements**”). Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings as defined in the Announcements.

KEY FINDINGS OF THE INTERNAL CONTROL REVIEW

As disclosed in the Announcements, the Independent Forensic Accountant had identified certain deficiencies in the Group’s risk management and internal control systems during its forensic accounting review on the Subject Transactions and Baoshan Paper Transactions.

The Company has engaged Zhonghui Anda Risk Services Limited (the “**IC Adviser**”), as its independent internal control adviser to (i) conduct a comprehensive review (the “**Internal Control Review**”) of the internal control systems, policies and procedures of the Group; (ii) provide corresponding recommendations to the management (the “**Management**”) of the Company to rectify the deficiencies identified and to effectively prevent occurrence of the events similar to the transactions under forensic accounting review; and (iii) conduct a follow-up review on the status of the implementation of the remedial measures.

In light of the findings of the Internal Control Review and the implementation of the remedial measures, the Management, the Board and the audit committee to the Board (the “**Audit Committee**”) have assessed the adequacy and effectiveness of the Group’s internal control systems, including the financial reporting procedures.

The key findings (the “**Key Findings**”) of the internal control deficiencies identified during the Internal Control Review, corresponding recommendations for rectification, the Company’s response and the remedial status are summarised as follows:

Key Findings	Rectification Recommendations	Company’s response and remedial status
<p>1. A number of the Subject Transactions were not approved through the BPM system and not approved by the Board according to the monetary fund management system of the Group. No size test on such transactions had been conducted in accordance with the information disclosure system so as to ensure compliance with the Listing Rules.</p>	<p>It is recommended that the information disclosure system should be re-issued to each member of the Group.</p> <p>It is also recommended that the monetary fund management system should be improved and enhanced, in particular, set out clearly the payment approval procedures so as to timely publishing the announcement in compliance with the requirements under Chapter 13, 14 and 14A of the Listing Rules.</p>	<p>The information disclosure system had been re-issued to the members of the Group.</p> <p>The monetary fund management system had been revised and adopted by the Group, amongst which clearly set out the payment approval procedures, as recommended.</p> <p>In respect of the monetary fund management system, including Chapter 13, 14 and 14A of the Listing Rules, a training had been arranged for and attended by the Board and the relevant departments of the major subsidiaries of the Company, the attendance records were properly kept.</p>
<p>2. The previous legal representative of Baoshan Paper was the previous financial controller of Zhejiang Huazhang during the period from April 2018 to November 2019 and the Group had entered into the Baoshan Paper Transactions during the said period.</p> <p>The Group had no clear code of employees’ conduct and sufficient system to mitigate/avoid the risk of conflict of interest between the employees and the Company.</p>	<p>It is recommended that the Group should enhance the code of employees’ conduct.</p> <p>It is also recommended that the Group should establish a reporting system for reporting conflict of interest in order to mitigate/avoid the risk of conflict of interest between the employees and the Company.</p>	<p>The Group has revised its code of employees’ conduct.</p> <p>The Group has established a reporting system as recommended.</p>
<p>3. The Company did not publish its annual results for the year ended 30 June 2022 within the time as required under the Listing Rules.</p>	<p>The Company should publish the annual results for the year ended 30 June 2022 as soon as possible in order to comply with the requirements under the Listing Rules.</p>	<p>The Company published the relevant annual results on 2 January 2023.</p>

Key Findings	Rectification Recommendations	Company's response and remedial status
<p>4. HZ Hangzhou, Zhejiang Huazhang and Jintaisheng, as the relevant subsidiaries of the Company had not adequately made an assessment or conducted a review timely on the customer's (Baoshan Paper) financial capability before and after entering the Baoshan Paper Transactions.</p> <p>The relevant subsidiaries had not timely taken action for collection of the outstanding receivables from Baoshan Paper and had not retained the relevant collection records.</p>	<p>It is recommended that the relevant subsidiaries should establish a detailed customers' credit management systems in writing, including but not limited to:</p> <ul style="list-style-type: none"> (i) procedures of background check and financial position check against the customers. (ii) keep the complete documentation of due diligence and approvals relating to the customers. (iii) procedures of collection of the outstanding receivables. (iv) measures immediately taken against the customers with deteriorating credit standing. <p>It is also recommended that a qualified guarantor and/or collateral must be provided by the customers before the Group provided a guarantee to the customers or made an advanced payment to/for the customers so as to ensure the guarantee and advanced payments are enforceable and recoverable.</p>	<p>The Group, including the relevant subsidiaries of the Company, have set up a detailed customers' credit management systems in writing and the administrative department would keep all documents/records regarding (i) the customers' background check; (ii) the assessment on the customers' financial capability; and (iii) actions taken for collection of the outstanding receivables.</p>
<p>5. The policy and procedures of the relevant companies (Zhejiang Huazhang, HZ Hangzhou, Jintaisheng) on the management of receivables have not clearly set out, including but not limited to procedures for collection of the receivables and maintaining the relevant collection records, mechanism for making provisions for the receivables and write-off of receivables.</p>	<p>It is recommended that the relevant companies should enhance their respective policy and procedures on management of receivables, including but not limited to:</p> <ul style="list-style-type: none"> (i) appoint a specific department to responsible for collection of the receivables and monitoring the collection of the outstanding receivables; (ii) clearly set out collection process; (iii) keep documentation regarding the collection of the outstanding receivables; (iv) clearly set out conditions for making provision of the outstanding receivables; and (v) establish the mechanism for write-off of the outstanding receivables. 	<p>The relevant companies agreed with and enhanced their respective policy and procedures on management of receivables as recommended.</p>

Key Findings	Rectification Recommendations	Company's response and remedial status
6. Several fund transfers under the Subject Transactions which had no proper approvals and no supporting documents.	<p>It is recommended that the external payment approval procedures under the monetary fund management system should be enhanced, the financial department must obtain the approval through the process of the Company's BPM system and then obtain the authorisation from the relevant person-in-charge before making the external payment, all approvals/authorisations must be properly recorded.</p> <p>It is also recommended that:</p> <ul style="list-style-type: none"> (i) the loans provided by the Group to associates, joint ventures and third parties must be subject to loan agreements clearly set out the contractual terms, including interest rates, repayment methods, maturity dates and collaterals (if any); and (ii) the loan agreements must be subject to the approval of the management committee of the PRC (the "PRC Management Committee"), if the loan is constituted as notifiable transaction under the Listing Rules, then entering into of the relevant loan agreement shall be subject to the approval of the Board or even together with the approval of the Shareholders as required under the relevant Listing Rules. 	<p>The Company has revised the monetary fund management system mainly included the approval procedures on prepayment, external loans and external guarantees.</p>

Key Findings	Rectification Recommendations	Company's response and remedial status
<p>7. Under the Subject Transactions, Ms. Zhu, the then financial controller of Zhejiang Huazhang, instructed the accounting staff to make or withhold accounting entries which thwarted the financial reporting process. It was lack of control over accounting entries.</p>	<p>It is recommended that the Group should strengthen the policy and procedures on control over the accounting entries to ensure the financial reporting process would not be thwarted, including:</p> <ul style="list-style-type: none"> (i) the right of use/access to the accounting system shall be given to an employee according to his/her roles and responsibilities. (ii) the right to change of the accounting vouchers or general ledger after closing should only be given to the PRC chief financial officer or the chief financial officer of the Company. (iii) conducting internal monthly random check on the bank statements of the bank accounts held by the major subsidiaries of the Company so as to check whether the recipient and the payer of the bank transactions are consistent with the accounting records and to identify any abnormal transaction records. (iv) engaging an external professional service providers to review the bank statements of the bank accounts of the major subsidiaries of the Company on a quarterly basis, to check whether the recipient and the payer of the bank transactions are consistent with the accounting records, and to identify any abnormal transaction records. If any inconsistency or abnormality identified, the details of which shall notify the PRC Management Committee for follow-up in a timely manner. <p>It is also recommended that the Group should establish a whistleblowing mechanism.</p>	<p>The Company agreed with the rectification recommendations.</p> <p>The accounting systems (including the policy and procedures on control over the accounting entries) has been enhanced as recommended.</p> <p>The internal monthly random check on the bank statements of the bank accounts held by the major subsidiaries of the Company had been conducted in November 2022, December 2022 and January 2023.</p> <p>The Group was negotiating the contractual terms with the potential candidates during the Internal Control Review. The Group had engaged an external professional service providers to review the bank statements of the bank accounts of the major subsidiaries of the Company as at the date of this announcement.</p> <p>The Group has set up suggestion boxes as communication and reporting channels in the whistleblowing mechanism.</p>
<p>8. Zhejiang Huazhang, in the Subject Transactions, failed:</p> <ul style="list-style-type: none"> (i) to collect the relevant information as required in the then BPM system; (ii) to conduct detailed background checks on the supplier's legal representatives, directors, general managers, shareholders and ultimate beneficial owner; and (iii) to obtain the relevant approval before transacting with the supplier. 	<p>It is recommended that, prior to transaction with the new/qualified supplier, Zhejiang Huazhang must:</p> <ul style="list-style-type: none"> (a) conduct a detailed background check on the legal representative, director, general manager, shareholder and ultimate beneficial owner of the new/qualified supplier so as to determining whether the supplier is regarded as a related party and/or connected person (as defined under the Listing Rules). (b) collect all the relevant information as required in the BPM system, including supply capacity, industry qualifications and goodwill, etc. (c) obtain the relevant internal approvals. 	<p>The Company agreed with and has implemented the rectification recommendations.</p> <p>The IC Adviser had reviewed the relevant prescribed forms in the BPM system, including the approval records for selection of the supplier by Zhejiang Huazhang, which had been gone through the approval procedures as recommended.</p>

Key Findings	Rectification Recommendations	Company's response and remedial status
<p>9. There were two password keys for the online banking system of each bank account held by Zhejiang Huazhang, one of which is kept by the cashier and the other is kept by the financial officer in charge.</p> <p>For each online payment initiated by the cashier, the financial officer in charge shall use the password key to review and approve before completing the online payment.</p> <p>However, all online payments, regardless of the amount, were arranged as above, which could not be effectively monitored.</p>	<p>It is recommended that the members of the Group should strengthen the bank account control policy instructing their banks to build in a notification mechanism in the online banking system of each bank account, it would notify (by way of sending cell phone messages) the relevant cashier, PRC chief financial officer and one of the members of the PRC Management Committee when each external payment is made so as to mutually supervise the password key holders and detect the abnormal payments in timely manner.</p>	<p>The Company agreed with the rectification recommendations.</p> <p>The relevant companies (the Company, Zhejiang Huazhang, HZ Hangzhou and Jintaisheng) had changed the financial manager or PRC chief financial officer to keep the password key for review and approval on the online payments.</p> <p>The online banking system of bank accounts held by the relevant companies (which could set up) had set up the notification mechanism as recommended.</p>
<p>10. Zhejiang Huazhang received 3 payments from Hangzhou Taige, which had no business dealings with Zhejiang Huazhang and had not entered into any contract in relation to such payments, but being booked to the accounts payable with Yuxin Electric.</p> <p>The policy and procedure of Zhejiang Huazhang on management of the receiving payments and supervision of the receivables are required to improve.</p>	<p>It is recommended that Zhejiang Huazhang should improve its policy and procedure on management of the receiving payments and supervision of the receivables as below:</p> <p>(i) identity of the paying party and reason of payment must be identified before making accounting entry.</p> <p>(ii) the payment arrangement without business relationship must be conducted according to the contract with the counterparties and prior to entering of such type of contract, approval from the PRC Management Committee must be obtained in writing, such written approval must duly be recorded.</p> <p>(iii) conduct internal monthly random check on the accounting records and bank statements, any abnormal finding must be reported to the PRC Management Committee for follow-up.</p> <p>(iv) engage a professional service provider to conduct quarterly review on the bank statements of the bank accounts, all inconsistent accounting records and/or abnormal transactions identified must be reported to the PRC Management Committee for timely follow-up.</p>	<p>Zhejiang Huazhang had improved its policy and procedure on management of the receiving payments and supervision of the receivables as recommended.</p> <p>The Group was negotiating the contractual terms with the potential candidates during the Internal Control Review and had engaged an external professional service providers to review the bank statements of the bank accounts of the major subsidiaries as at the date of this announcement.</p>

RESULTS OF THE INTERNAL CONTROL REVIEW

The internal Control Review had been completed by the IC Adviser. Having considered the results of the Internal Control Review, the IC Adviser are of the view that, save and except for the internal control matters which did not occur during the follow-up review, the Group has adopted and implemented the recommended remedial measures and has rectified the internal control deficiencies identified by the IC Adviser and accordingly the Group is in principle in compliance with the requirements of the relevant Listing Rules.

VIEWS OF THE AUDIT COMMITTEE AND THE BOARD

Having considered the report of the Internal Control Review and the remedial actions taken by the Group, both 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. The Company will continue to monitor the effectiveness of the Group's internal control systems and procedures so as to meet its obligations under the Listing Rules.

CONTINUED SUSPENSION OF TRADING

At the request of the Company, trading in its shares on the Stock Exchange has been suspended with effect from 9:00 a.m. on 3 October 2022 and will remain suspended until the Company fulfils the resumption guidance disclosed in its announcement dated 28 November 2022.

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

By order of the Board
Huazhang Technology Holding Limited
Fang Hui
Executive Director

Hong Kong, 12 May 2023

As at the date of this announcement, the executive Directors are Mr. Fang Hui and Mr. Chen Hongwei, the non-executive Director is Mr. Shi Chenghu and the independent non-executive Directors are Mr. Heng, Keith Kai Neng, Mr. Yao Yang Yang and Ms. Zhang Dong Fang.

** For the identification purposes only*