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Renco Holdings Group Limited
融科控股集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 2323)

UPDATED ON THE INTERNAL CONTROL REVIEW

This announcement is made by Renco Holdings Group Limited (the “**Company**”, together with its subsidiaries as the “**Group**”) pursuant to Code Provision D.2.4 of Appendix 14 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).

References are made to the announcements dated 18 January 2023, 30 March 2023, 28 April 2023, 9 May 2023, 30 August 2023 and 5 September 2023 (the “**Announcements**”). Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings as those defined in the Announcements. As disclosed in the Announcements, the Auditor continued to express the qualified opinion in the 2021 Annual Report and the 2022 Annual Report that there was a significant amount of impairment loss for debt investments in the treasury investment segment made by the Group since 2018.

In order to review, among others, it also included the effectiveness of the risk management and the internal control systems and the ratification of material internal control defects (if any). Accordingly, an independent investigation committee was formed by the Board of Directors with effect from 9 May 2023. The Company had conducted a comprehensive review of the internal control system concerning the audit qualifications and the relevant aspects of the Company’s debt investments of (1) the provision of financial assistance (2) business in the asset and shareholding restructuring business of the Company and (3) the subscriptions of interest in offshore private funds between the period from 2016 to 2023 (the “**Debt Investments**”). In addition, an outsourced internal control consultant, Roma Risk Advisory Limited (“**Roma**”), has been engaged to conduct an internal control review (the “**Internal Control Review**”) for the Company.

A. SCOPE AND STATUS OF THE INTERNAL CONTROL REVIEW

The scope of the Internal Control Review is divided into two phases, namely the “**Phase One Review**” and “**Phase Two Review**”. In essence, the Phase One Review focuses on the internal control issues relating to the Audit Qualifications of the Company and the internal control issues in relation to the Company’s Debt Investments (the “**Internal Control Review Results**”), while the Phase Two Review primarily involved follow-up review on certain issues identified during the Phase One Review.

As at the date of this announcement, Roma has completed the Phase One Review. Set out below is the summary of Roma’s findings and recommendations and the status of implementation of the actions taken by the Company based on the relevant recommendations to the risk management and internal control systems of the Company.

B. SUMMARY OF THE INTERNAL CONTROL REVIEW

(1) Phase One Review

During the Phase One Review, Roma identified five internal control issues in relation to the Audit Qualifications of the Company and 11 other issues relating to the Internal Control Review Results. Roma performed the review on the progress of remedial actions taken by the Company and only one internal control deficiency that had drawn Roma’s attention in the Phase One Review subsequently.

As at the date of this announcement, Roma is further reviewing and evaluating this internal control deficiency during the Phase Two Review.

(i) Audit Qualifications

Affected year	Issues identified	Remedial actions taken by the Company	Assessment conclusions by Roma
<u>1. Management of receivables – Loss allowance provisions and recoverability</u>			
2021-2022	The management of loss allowance provisions for the Company’s receivables, as well as the basis for recoverability, has not been sufficient and appropriate.	The Company has initiated a restructuring plan for its Debt Investments, management policy, structure, pre-investment management, loan approval process, loan monitoring process, loan collection process, and counter-measures in case of potential debt default.	Roma conducted an internal control review of the new measures for the Company’s Debt Investments. Please refer to Part (ii) - Internal Control Review Results of the announcement, “ Debt Investments ” for details.

Affected year	Issues identified	Remedial actions taken by the Company	Assessment conclusions by Roma
2.	<u>Prepayments, other receivables and other assets – Nature, recoverability and loss allowance provisions</u>		
2021	The natures, the loss allowance provisions for the Company’s prepayments and other receivables and other assets, as well as the basis for recoverability, has not been sufficient and appropriate. Some of the Company’s financial records are missing and the audit supporting documents are not comprehensive.	<p>The Company had re-organized its financial records and made loss allowance provisions for prepayments, other receivables and other assets according to the situation. The finance department of the Company has retrieved the relevant documents and submitted them to the Auditor for reviewing.</p> <p>The Company has established a new document management system, including the types of regulated documents and the criteria for confidential information, the timeliness and storage methods of document filing. The Company has also designated the responsible department and accountable personnel for document filing. If an employee fails to file documents according to the Company’s requirements or causes leakage of Company’s documents due to personal reasons, the Company will consider it a violation of the Company’s management system and hold the person involved accountable.</p>	<p>The finding had been rectified.</p> <p>Roma had reviewed the Company’s filing system and sample, and had checked the classification and maintenance of the financial records and approval records of loss allowance provisions, and confirmed that the financial records of the Company had been properly maintained and recorded in accordance with the procedures.</p>

Affected year	Issues identified	Remedial actions taken by the Company	Assessment conclusions by Roma
3.	<u>Other payables and accruals – Natures, obligations and written-back</u>		
2021-2022	Insufficient appropriate audit evidence to support the natures and obligations within other payables and accruals were provided by the Company. Some of the Company's financial records are missing and the audit supporting documents are not comprehensive.	<p>The Company has re-organized its financial records. The finance department of the Company has retrieved the relevant documents and submitted them to the Auditor for reviewing, signing waiver confirmation with the relevant employees and sending confirmation to third parties to confirm the loans interest payable.</p> <p>The Company has established a new document management system, including the types of regulated documents and the criteria for confidential information, the timeliness and storage methods of document filing. The Company has also designated the responsible department and accountable personnel for document filing. If an employee fails to file documents according to the Company's requirements or causes leakage of the Company's documents due to personal reasons, the Company will consider it a violation of the Company's management system and hold person involved accountable.</p>	<p>The finding had been rectified.</p> <p>Roma had reviewed the Company's filing system and sample, and had checked the classification and maintenance of the financial records for other payables and accruals, and confirmed the financial records of the Company had been properly maintained and recorded in accordance with the procedures.</p>

Affected year	Issues identified	Remedial actions taken by the Company	Assessment conclusions by Roma
<u>4. Management of deferred tax assets and expenses</u>			
2021-2022	Insufficient appropriate audit evidence to support the deferred tax assets and expenses was provided by the Company.	The Company had re-organised its financial records to enhance the preparation of audit trails.	<p>The finding had been rectified.</p> <p>Roma had reviewed the Company's filing system and sample, and had checked the classification and maintenance of the financial records, and confirmed that the financial records had been properly maintained and recorded in accordance with the procedures.</p>
<u>5. Recording of tax payables</u>			
2021-2022	Insufficient appropriate audit evidence to support the tax payables was provided by the subsidiaries of the Company.	All subsidiaries of the Company had written the reply letters and submitted the relevant tax computations to the Hong Kong Inland Revenue Department, and engaged two tax representatives to process the relevant Profits tax returns.	<p>The finding had been rectified.</p> <p>Roma had reviewed the relevant tax computations, reply letters and relevant Profits tax returns filed by the subsidiaries of the Company with the Hong Kong Inland Revenue Department and confirmed that they had been properly filed with the Hong Kong Inland Revenue Department.</p>

(ii) Debt Investments

Affected year	Issues identified	Remedial actions taken by the Company	Assessment conclusions by Roma
<u>1. Management policy of the Debt Investments</u>			
2016-2021	No written policies and procedures were set out for loan recovery, measures of debt collection and potential defaults by the investment committee in the “Company Management Policy”.	<p>The Company had initiated a restructuring plan for its Debt Investments management policy, including procedures for debt recovery, measures of debt collection and potential defaults, etc.</p> <p>Besides, the Company had adopted the new “Long-term Equity Investment Business Management Policy” to replace the “Company Management Policy” afterwards.</p>	<p>The finding had been rectified.</p> <p>Roma reviewed the above policy and confirmed that the Company had optimized the relevant procedures, and the investment management personnel had confirmed compliance with the new investment management procedures.</p>
<u>2. Structure and segregation of duties of the Debt Investments</u>			
2016-2021	No segregation of duties had been maintained between the approval of investment projects and pre-investment due diligence by the investment management personnel.	<p>The Company had restructured the Debt Investments, including restructuring the management structure and responsibilities of the Debt Investments. The corresponding investment management personnel and other investment management team members resigned and had been replaced. The investment management team is responsible for preparing pre-investment due diligence.</p> <p>The Executive Committee and the Board are responsible for approving investment projects.</p> <p>The governance of the Board of Directors for the Debt Investments had been strengthened.</p>	<p>The finding had been rectified.</p> <p>Roma reviewed the “Rules of the Executive Committee”, the “Long-term Equity Investment Business Management Policy” and the approval records of the investment management team, and confirmed that the Company has maintained the segregation of duties.</p> <p>As at the date of this announcement, the Company has suspended the Debt Investments and has not approved new transaction of the Debt Investments since January 2021.</p>

Affected year	Issues identified	Remedial actions taken by the Company	Assessment conclusions by Roma
3. <u>Analysis of customer repayment capacity and due diligence of the Debt Investments</u>			
2016-2021	No records of due diligence such as feasibility analysis reports, customer repayment capacity, etc. of some transactions in the Debt Investments had been maintained.	<p>The corresponding investment management personnel resigned and had been replaced.</p> <p>In addition, the Company has issued the “Long-term Equity Investment Business Management Policy”, which stipulates that the investment management team must complete the feasibility analysis reports and relevant due diligence works. If the project is a major investment, it must be submitted to the Board for discussion and seeking assistance from professionals.</p>	<p>Roma reviewed the “Long-term Equity Investment Business Management Policy” and the approval records of the investment management team, and confirmed that the Company had regulated the investment management team to perform the feasibility analysis reports and relevant due diligence works.</p> <p>As at the date of this announcement, the Company has suspended the Debt Investments, and has not approved new transaction of the Debt Investments since January 2021; therefore, Roma cannot assess the execution of the above-mentioned procedures.</p>

Affected year	Issues identified	Remedial actions taken by the Company	Assessment conclusions by Roma
4. <u>Computation and approval of interest rates and repayment schedule of the Debt Investments</u>			
2016-2021	No records of relevant opinions or inquiry records on interest rate determination had been maintained.	<p data-bbox="847 271 1161 891">The Company has established the “Long-term Equity Investment Business Management Policy”, which stipulates that the investment management team must clearly list the requirements for the implementation of the investment projects, the expected benefits of the project, the scope and objectives of the project, the specific cost/benefit analysis, key performance indicators, etc.</p> <p data-bbox="847 927 1161 1200">Afterwards, Interest rates are formulated by the investment management team and then submitted to the Executive Committee of the Board for review and approval.</p> <p data-bbox="847 1236 1161 1612">The Executive Committee of the Board will then review the loans on a case-by-case basis, adjust those factors that are specific to each borrower or to make adjustments on the size, duration and interest rate of the loans prior to granting the loans.</p>	<p data-bbox="1190 271 1505 748">Roma reviewed the “Long-term Equity Investment Business Management Policy” and the approval records of the investment management team, and confirmed that the Company had regulated the investment management team to perform the assessment with relevant documents.</p> <p data-bbox="1190 784 1505 1236">As at the date of this announcement, the Company has suspended the Debt Investments, and has not approved new transaction of the Debt Investments since January 2021; therefore, Roma cannot assess the execution of the above-mentioned procedures.</p>

Affected year	Issues identified	Remedial actions taken by the Company	Assessment conclusions by Roma
5. <u>Approval of the contracts of the Debt Investments – Lack of representation in the Executive Committee</u>			
2016-2021	The execution right had been dominated by the investment management personnel in the Executive Committee of the Board.	<p>The corresponding investment management personnel resigned and had been replaced.</p> <p>For the purpose of enhancing the participation of the Board in reviewing projects, the Company has issued the “Long-term Equity Investment Business Management Policy”, which stipulates that general investments (i.e., any one of the five ratios is less than 5% and the investment amount is less than HKD 10 million) shall be approved by the Executive Committee of the Board, and major investments (i.e., any one of the five ratios is higher than 5% or the investment amount is greater than HKD 10 million) shall also be discussed, deliberated and approved by the Board.</p>	As at the date of this announcement, the Company has suspended the Debt Investments, and has not approved new transaction of the Debt Investments since January 2021; therefore, Roma cannot assess the execution of the above-mentioned procedures.
6. <u>Approval of the contracts of the Debt Investments – Absence of consultation with the Board’s opinions</u>			
2016-2021	No invitation had been provided to participate in investment decision-making meetings with the Board except the Executive Committee which had performed this function.	The Company has issued the “Long-term Equity Investment Business Management Policy”, which stipulates that the investment projects should be approved by corresponding persons followed by the threshold to enhance the participation of the Board.	At present, the Company has suspended the Debt Investments and has not approved new transaction of the Debt Investments since January 2021; therefore, Roma cannot assess the execution of the above-mentioned procedures.

Affected year	Issues identified	Remedial actions taken by the Company	Assessment conclusions by Roma
7. <u>Approval of the contracts of the Debt Investments – Approval records</u>			
2016-2021	No proper approval records of investment projects had been maintained.	<p>The new filing requirements for the Company’s documents are as follows:</p> <p>All internal affairs of the Company, investment projects, documents and files, accounting books and reports, the Company and the customers’ correspondence materials are confidential information of the Company and must be properly kept.</p> <p>Including but not limited to the above, documents’ filing requirements must be saved and filed in a timely manner to the Company’s shared network disk, and the original and copies of documents should be handed over to the person in charge of the corresponding department for proper safekeeping.</p>	<p>The Company’s investment approval process under the “Long-term Equity Investment Business Management Policy” is divided into several steps: Firstly, the investment management team proposes investment recommendations and project opinions. Secondly, the Executive Committee conducts preliminary project approval and requests for further due diligence plans. Thirdly, the investment management team conducts due diligence based on the project situation and due diligence plan and submits a due diligence report. The Executive Committee reviews it and makes investment recommendations. Fourthly, based on decision-making authority, the due diligence results and investment recommendations are approved by the Executive Committee or the Board.</p> <p>At present, the Company has suspended the Debt Investments and has not approved new transaction of the Debt Investments since January 2021; therefore, Roma cannot assess the execution of the above-mentioned procedures.</p>

Affected year	Issues identified	Remedial actions taken by the Company	Assessment conclusions by Roma
<u>8. Supervision and reporting process of the Debt Investments – Risk responses</u>			
2018-2021	No execution of the risk responses had been performed timely.	The Company has issued the “Long-term Equity Investment Business Management Policy”, which stipulates that the investment management team should timely perform the risk assessment and execute risk responses such as the execution of selling pledged assets.	At present, the Company has suspended the Debt Investments and has not approved new transaction of the Debt Investments since January 2021; therefore, Roma cannot assess the execution of the above-mentioned procedures.
<u>9. Supervision and reporting process of the Debt Investments – Post-investment reporting process</u>			
2016-2021	The “Company Management Policy” stipulates that the investment management team is responsible for preparing monthly risk reports, reporting on the overall situation of projects carried out in that month, capital recovery status, project classification distribution status. However, in practice, the investment management team only prepared a report on the basic situation and recovery progress of investment projects every quarter and reports to the Board on the financial status and recovery progress of each project.	<p>The Company has issued the “Long-term Equity Investment Business Management Policy”, which stipulates that the investment management team tracks and manages investment projects and needs to cooperate with other relevant personnel assigned by the Company to regularly analyze investment quality, analyze important indicators such as the financial situation, operating conditions, and cash flow of the invested company, and write analysis reports.</p> <p>The investment management team should report significant events occurring in the invested company to the Executive Committee in a timely manner to facilitate the Company’s disposal of long-term equity investments and to ensure the safety and effectiveness of long-term equity investment business.</p>	<p>Roma suggested that the Company should implement the reporting process in accordance with the new “Long-term Equity Investment Business Management Policy”.</p> <p>Any deficiency in supervision and reporting process will be further reviewed and evaluated during the Phase Two Review.</p>

Affected year	Issues identified	Remedial actions taken by the Company	Assessment conclusions by Roma
<u>10. Management of communication channels for customers of the Debt Investments</u>			
2020-2023	No proper records of contacts being maintained for some investment projects.	The Company has issued the “Long-term Equity Investment Business Management Policy”, which stipulates that the investment management team should timely perform post-investment follow-up management including analysis reports of the financial status of relevant investments, etc.	<p>The Company has continuously contacted the former investment management team members to obtain the contact details of those investment projects.</p> <p>Roma reviewed the “Long-term Equity Investment Business Management Policy” and the approval records of the investment management team, and confirmed that the Company has regulated the above-mentioned procedures.</p>

Affected year	Issues identified	Remedial actions taken by the Company	Assessment conclusions by Roma
<u>11. Management of the extension of the Debt Investments</u>			
2016-2021	No notices and approval seeking from the Board for the extension of the Debt Investments had been performed.	<p>The corresponding investment management personnel resigned and had been replaced.</p> <p>The authority of the Executive Committee of the Board had been restructured and the participation of the Board had been increased.</p> <p>The Company has issued the “Long-term Equity Investment Business Management Policy”, which regulates the defaults of debts.</p>	<p>The Company’s approval for the extension process of the Debt Investments under the “Long-term Equity Investment Business Management Policy” is divided into several steps: Firstly, the investment management team proposes the recommendations and opinions for the extension of the Debt Investments. Secondly, the Executive Committee conducts preliminary approval for the extension of the Debt Investments and request for further due diligence plans. Thirdly, the investment management team conducts due diligence based on the financial situation and due diligence plan of the Debt Investments and submits a due diligence report. The Executive Committee reviews it and makes the recommendations for the extension of Debt Investments. Fourthly, based on decision-making authority, the due diligence results and the recommendations for the extension of the Debt Investments are approved by the Executive Committee or the Board.</p> <p>At present, the Company has suspended the Debt Investments, and has not approved new transaction of the Debt Investments since January 2021; therefore, Roma cannot assess the execution of the above-mentioned procedures.</p>

(2) Phase Two Report

As at the date of this announcement, Roma is still conducting the Phase Two Review. It is expected to be completed by the end of September 2023. Further announcement(s) will be made by the Company regarding any further material development of the Internal Control Review as and when appropriate and necessary.

C. VIEWS OF ROMA, THE AUDIT COMMITTEE AND THE BOARD

As set out in the Phase One Report, prior to the Internal Control Review, the Group has already taken certain remedial actions in response to the issues identified in relation to the internal control issues as set out above. As at the date of this announcement, the deficiencies that has been brought to Roma's attention in its Phase One Review is being reviewed and evaluated during the Phase Two Review.

Having considered the above deficiencies reported from the Internal Control Review and taken into account that all internal control deficiencies have been addressed, the Board of Directors and the Audit Committee of the Company acknowledge and agree with the deficiencies identified by Roma and believe that the measures recommended by Roma are adequate and sufficient to deal with the deficiencies to the extent that, the aforesaid deficiencies should be rectified once such measures are fully implemented whereas Roma is still conducting the Phase Two Review for follow-up review which is expected to be completed by the end of September 2023.

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

By order of the Board
Renco Holdings Group Limited
Su Zhiyang
Company Secretary

Hong Kong, 11 September 2023

As at the date of this announcement, the Board comprises Mr. Li Yongjun (chairman of the Board), Mr. Cheok Ho Fung, Mr. Hung Yeung Alvin and Ms. Xing Mengwei being executive Directors; and Mr. Lau Fai Lawrence, Mr. Mak Kwok Kei and Mr. Xu Xinwei being independent non-executive Directors.