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CHINA SUPPLY CHAIN HOLDINGS LIMITED

中國供應鏈產業集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3708)

KEY FINDINGS OF THE INDEPENDENT INTERNAL CONTROL REVIEW REPORT

This announcement is made by the Company pursuant to Rules 13.09(2)(a) of the Listing Rules 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 of the Company dated 30 September 2021, 29 October 2021 and 30 November 2021 in relation to, among other things, (i) the delay in the publication of the announcement of 2021 Annual Results and delay in despatch of the 2021 Annual Report; (ii) postponement of the Board Meeting; and (iii) suspension of trading in the shares of the Company on the Stock Exchange from 9:00 a.m. on 4 October 2021, as well as the Company's announcement dated 24 December 2021 containing the Resumption Guidance issued to the Company by the Stock Exchange.

According to the Resumption Guidance, the Company is required to:

- (i) publish all outstanding financial results required under the Listing Rules and address any audit modifications;
- (ii) demonstrate the Company's compliance with Rule 13.24 of the Listing Rules;
- (iii) conduct an appropriate independent investigation into the misappropriation of assets, announce the investigation findings, assess and announce the impact on the Company's business operation and financial position and take appropriate remedial actions;
- (iv) conduct an independent internal control review and demonstrate that the Company has in place adequate internal controls and procedures to meet obligations under the Listing Rules; and
- (v) announce all material information for the Company's shareholders and investors to appraise the Company's position.

Regarding Resumption Guidance (iv), the Company engaged the Consultant to conduct a review on its internal control systems. The Company has received the Internal Control Review Report dated 3 April 2023 issued by the Consultant and the key findings are summarised in this announcement.

BACKGROUND

The principal business of the Group is provision of Building Maintenance and Renovation Services in Hong Kong.

Sing Fat is the sole principal operating subsidiary of the Company's Building Maintenance and Renovation Services, which immediate holding company is ABO.

SCOPE OF WORK AND APPROACH FOR THE INTERNAL CONTROL REVIEW

The Review Period of the Consultant is from 1 July 2022 to 31 December 2022.

The Follow Up Review Period of the Consultant is from the date of implementation of remedial measures by the Group to 31 March 2023.

The Consultant focused its work on the in-scope processes as follow:

- 1) COSO framework with sub-processes as below:
 - Control environment
 - Risk assessments
 - Control activities
 - Information and communication
 - Monitoring
- 2) Compliance with Listing rules:
 - Appendix 14 — Corporate Governance Code
 - Chapter 14 — Notifiable Transactions
 - Chapter 14A — Connected Transactions
 - Securities and Futures Ordinance — Price sensitive information
- 3) Internal control over business cycle for the Reviewed Entities, including:
 - Revenue cycle
 - Procurement and cost management cycle
 - Expenditure cycle
 - Human resources and payroll cycle
 - Fixed assets cycle
 - Treasury cycle
 - Financial reporting cycle
 - Taxation cycle
 - Information technology general control cycle
- 4) Key internal control weakness leading to delay in 2021 Annual Results publication

SUMMARY OF THE MAJOR FINDINGS IN THE INTERNAL CONTROL REVIEW REPORT

1. COSO framework Internal Control Review

(a) Compliance with the Listing Rules

The Consultant DID NOT identify significant internal control deficiencies over compliance with the Listing Rules.

(b) Corporate Internal Control Review

| <i>Key findings</i> | <i>Recommendation(s) from the Consultant / Remedial actions taken by the Group as recommended by the Consultant</i> | <i>Follow-up Review result</i> |
|--|---|--------------------------------|
| (1) Lack of independent internal audit function | <i>Recommendation(s)</i> | (1) Remedied |
| (2) Yet to document its policies and procedures in a written manual for the Company and the Non-Operating Subsidiaries | (1) The Company should establish an independent internal audit function with written internal audit charter or appoint independent service provider to conduct evaluation on the risk management and internal control systems regularly. Findings and suggestions have to report directly to the Audit Committee regularly. | (2) Remedied |
| (3) Sing Fat yet to maintain minutes and risk register for the risks identified during its monthly meeting | (2) The Company and the Non-Operating Subsidiaries shall develop and document its policies and procedures of the following cycles in a separate written manual, which are tailor-made according to their actual situation. The policies and procedures shall be implemented after obtaining appropriate approval. | (3) Remedied |
| | (3) Sing Fat should assign designated personnel to document important matters as discussed in meeting in minutes. The minutes shall be circulated to all involved personnel for follow-up action. In addition, a risk register shall be established to help managers and companies document risks, track risks and address them through preventative controls and corrective actions. The minutes and risk register shall be submitted to the Directors regularly for ongoing monitoring over the major subsidiary. | |
| | <i>Remedial action(s)</i> | |
| | (1) Instead of establishing internal audit function internally, the Group has appointed an external independent service provider to provide an annual review of risk management and internal control system of the Group after resumed as an independent appraisal for the year ending 30 June 2023. | |
| | (2) The Company has tailor-made and adopted a separate internal control manual for the Company and the Non-Operating Subsidiaries (except ABO). The internal control manual of Sing Fat and ABO has also been updated. These two manuals have been approved by the Board for implementation. | |
| | (3) Sing Fat has fully adopted the recommendations of the Consultant. | |

2. Business cycle Internal Control Review

(a) Revenue cycle

| <i>Key findings</i> | <i>Recommendation(s) from the Consultant / Remedial actions taken by the Group as recommended by the Consultant</i> | <i>Follow-up Review result</i> |
|---|---|---|
| Sing Fat yet to document directors' joint approval for significant issues | <p><i>Recommendation(s)</i></p> <p>Sing Fat shall establish a log book/form for three directors to document their approval over significant issues. The authorized director shall only make such decision after receiving unanimously written consent from all directors. The log book/form shall be kept in a locked cabinet by another director that is not responsible to sign the contract.</p> <p><i>Remedial action(s)</i></p> <p>Due to the culture and efficient operation of Sing Fat, no detailed documentation is recorded for the significant business decision. Sing Fat concurs the importance of proper records for certain business issues like tender final bid. However, Sing Fat thinks there is no need to establish separate log book/form to record significant business decision. Sing Fat has prepared directors' resolutions/minutes as records. Such resolutions/minutes have to be signed by all directors as unanimous consent.</p> | Remedied, but with no occurrence during the Follow Up Review Period |

(b) Procurement and cost management cycle

| <i>Key findings</i> | <i>Recommendation(s) from the Consultant / Remedial actions taken by the Group as recommended by the Consultant</i> | <i>Follow-up Review result</i> |
|---|--|---|
| <p>(1) Sing Fat yet to maintain documentation for subcontractor acceptance</p> <p>(2) Sing Fat yet to arrange subcontractor to sign off confirmation upon completion of job order</p> | <p><i>Recommendation(s)</i></p> <p>(1) Sing Fat should update its policy and establish formal suppliers' selection procedures and establish a standard form to document the result. Also, subcontractors' contract shall be revised to include an independence clause for subcontractors to confirm.</p> <p>(2) Upon completion of job order, Account Department should send a confirmation to the subcontractor to sign off. The confirmation could include the details of the work orders/tasks, calculation details, settlement date and amount. The signed confirmation shall be kept properly in the accounting voucher.</p> <p><i>Remedial action(s)</i></p> <p>(1) Recommendations adopted.</p> <p>(2) Recommendations adopted.</p> | <p>(1) Remedied, but with no occurrence during the Follow Up Review Period</p> <p>(2) Remedied, but with no occurrence during the Follow Up Review Period</p> |

(c) Expenditure cycle

| <i>Key findings</i> | <i>Recommendation(s) from the Consultant / Remedial actions taken by the Group as recommended by the Consultant</i> | <i>Follow-up Review result</i> |
|---|---|---|
| (1) Sing Fat lack of authorization letter for the staff to enter agreements for motor vehicle disposal and mobile service on behalf of Sing Fat | <i>Recommendation(s)</i> (1) Authorization letter shall be established and signed by director to detail the authorization details. The signed authorization letter shall be properly filed by Account Department for future checking. If no authorization letter has been maintained, all agreement shall only be signed by director. | (1) Remedied (2) Remedied, but with no occurrence during the Follow Up Review Period |
| (2) The Company and the Non-Operating Subsidiaries yet to document an approval matrix for contracts | (2) The companies shall establish approval matrix to clearly designate who is in charge of approving what and when. <i>Remedial action(s)</i> (1) Recommendations adopted. (2) Recommendations adopted and a separate “Internal Control Manual” has been prepared and adopted for the Company and the Non-Operating Subsidiaries (except ABO) to specify the approval matrix. This manual has been approved by the Board for implementation. | |

(d) Human resources and payroll cycle

| <i>Key findings</i> | <i>Recommendation(s) from the Consultant / Remedial actions taken by the Group as recommended by the Consultant</i> | <i>Follow-up Review result</i> |
|---|---|---|
| (1) Sing Fat yet to obtain independence declaration from staff | <i>Recommendation(s)</i> (1) Sing Fat could include an independence declaration clause in its Job Application Form. Human Resources Department shall report any potential conflict of interests to the director for impact assessment. | (1) Remedied, but with no occurrence during the Follow Up Review Period |
| (2) Sing Fat and Richwise yet to file IR56E/IR56F form regarding commencement/resignation of employment | (2) Sing Fat and Richwise shall update its internal control manual and remind Human Resources Department to duly file IR56E/IR56F form within the prescribed time limit. | (2) Remedied, but with no occurrence during the Follow Up Review Period |
| (3) Sing Fat yet to maintain training summary | (3) Sing Fat shall update its internal control manual and assign designated personnel to keep training summary, such as staff name (gender and employee category), training date, topic and duration. | |
| (4) Non-compliance with the Mandatory Provident Fund (“MPF”) Ordinance by the Company as the Company’s MPF account was frozen by the MPF service provider | (4) The Company shall assign designated personnel to liaise with MPF service provider to resume the MPF account as soon as possible. <i>Remedial action(s)</i> (1) Recommendations adopted. (2) For Sing Fat, recommendations adopted and IR56E form has been filed for new employees during the Follow Up Review Period. For Richwise, the Company has adopted the “Internal Control Manual” to include the tax filing requirement for IR56E and IR56F. This manual has been approved by the Board for implementation. (3) Recommendations adopted. (4) The Company has remedied this by opening a new MPF account and it has made MPF contribution accordingly. | (3) Remedied (4) Remedied |

(e) Fixed assets cycle

The Consultant DID NOT identify significant internal control deficiencies over the fixed assets cycle.

(f) Treasury cycle

| <i>Key findings</i> | <i>Recommendation(s) from the Consultant / Remedial actions taken by the Group as recommended by the Consultant</i> | <i>Follow-up Review result</i> |
|---|--|--------------------------------|
| (1) Sing Fat yet to prepare cash flow forecast | <i>Recommendation(s)</i> (1) Sing Fat shall update its policy and assign Accounts Department to prepare cash flow forecast regularly and submit to the key management for review and monitoring purpose. | (1) Remedied (2) Remedied |
| (2) Sing Fat had inconsistencies between actual practice and policy in relation to petty cash control | (2) Sing Fat shall assign designated personnel to review and consider if it is appropriate to update the policy regularly. The updated policies and procedures shall be implemented after obtaining appropriate approval. | (3) Remedied |
| (3) Sing Fat's cheque for petty cash reimbursement was not payable to the custodian of petty cash | (3) Human Resources and Administration Manager and Office Assistant shall sign an instruction letter and provide to Account Department to confirm the arrangement. Also, Office Assistant shall ask Human Resources and Administration Manager to sign receipt upon returning of petty cash to Human Resources and Administration Manager. | |
| | <i>Remedial action(s)</i> (1) Recommendations adopted and Sing Fat has updated and implemented its internal control manual. (2) Recommendations adopted and Sing Fat has updated and implemented its internal control manual. (3) Recommendations adopted. | |

(g) Financial reporting cycle

| <i>Key findings</i> | <i>Recommendation(s) from the Consultant / Remedial actions taken by the Group as recommended by the Consultant</i> | <i>Follow-up Review result</i> |
|---|--|---|
| (1) The Company and the Non-Operating Subsidiaries had deficiencies relating to document keeping | <i>Recommendation(s)</i> (1) There should be designated personnel to check if those personnels have keep/return the work to head office promptly. Also, the Company shall consider to own a remote file server to encourage personnels to upload files promptly. Furthermore, Financial Controller shall provide both MYOB readable and excel format of accounting record to the companies for keeping. | (1) Remedied (2) Remedied (3) Remedied, but with no occurrence during the Follow Up Review Period |
| (2) The Group yet to document the review of financial information and the provision of monthly updates to the Board | (2) The Group Executive Director shall sign on the monthly management accounts after review. | |
| (3) The Company and Richwise did not have handover procedures with the resigned staff | China Supply Chain The Company shall assign personnel to circulate and document the circulation of monthly update of the Group, such as summary of financial performance and management account, to the Board on monthly basis. Sing Fat Senior Accounting Manager shall also submit the monthly management account together with adjustment calculation to Financial Controller for review. After the review, Financial Controller shall sign on the management account accordingly. | |
| | (3) A handover checklist shall be maintained to record the work tasks and documents by the resigned staff, to ensure the handover procedures are properly performed. The resigned staff and handover staff should sign on the checklist as acknowledgement. Also, China Supply Chain shall consider to own a file server to allow the staff to upload files, to avoid the loss of documents due to the improper handover procedures. | |
| | <i>Remedial action(s)</i> (1) Recommendations adopted. The Company has subscribed for the remote (cloud) server service, which allows the Company to set different level of authorities for users. That remote server service is being used by a number of well known multi-national enterprises, Personnels are to upload files to the remote server promptly. The Financial Controller has adopted the recommendations and provides both MYOB readable and excel format of accounting record for keeping. (2) Recommendations adopted. Monthly update has been prepared and circulated to the Board through email since February 2023. Financial Controller and the Executive Director have to sign on the monthly financial information after review. (3) Recommendations adopted. The Company has adopted the “Internal Control Manual” for the Company and the Non-Operating Subsidiaries (except ABO) to specify that the handover task shall be documented on the handover checklist and pass to the Department Head and Human Resources personnel for checking. The Company has also subscribed for the remote (cloud) server service. Personnels are required to upload files to the remote server promptly. | |

(h) Taxation cycle

| <i>Key findings</i> | <i>Recommendation(s) from the Consultant / Remedial actions taken by the Group as recommended by the Consultant</i> | <i>Follow-up Review result</i> |
|---|--|---|
| The Company yet to file the profits tax returns | <p><i>Recommendation(s)</i></p> <p>The Company should assign designated personnel to liaise with the auditor to complete the audit and tax filing for the years ended 30 June 2021 and 2022 as soon as possible.</p> <p><i>Remedial action(s)</i></p> <p>The tax returns for the year of assessment 2020/21 and 2021/22 would be submitted after the audit and financial statements for 2020/21 and 2021/22 are completed.</p> | Not yet remedied because as at 31 March 2023, the end of the Follow Up Review Period, audit has not been completed. |

(i) Information technology general controls cycle

| <i>Key findings</i> | <i>Recommendation(s) from the Consultant / Remedial actions taken by the Group as recommended by the Consultant</i> | <i>Follow-up Review result</i> |
|---|---|--------------------------------|
| (1) Sing Fat yet to update the software inventory list | <p><i>Recommendation(s)</i></p> <p>(1) Sing Fat shall update its policy and remind Human Resources and Administration Officer to update software inventory list regularly. The list shall include software name, activation key, the serial number of the computers installed etc.</p> | (1) Remedied |
| (2) Sing Fat yet to follow-up backup alert on back up of its server | <p>(2) Sing Fat shall update its policy and remind Human Resources and Administration Officer to follow-up with the information technology service provider whenever receiving the backup alert.</p> | (2) Remedied |
| (3) The Company yet to have company email address | <p>(3) The companies shall provide company email address to all of its personnels so that they must use company email address to handle companies' matters.</p> <p><i>Remedial action(s)</i></p> <p>(1) Recommendations adopted.</p> <p>(2) Recommendations adopted.</p> <p>(3) Recommendations adopted. The Company's email accounts were setup in early February 2023 and an announcement was published on 8 February 2023 notifying the general public of the Company's updated contact email and other contact information. Company email accounts have been in use compulsorily since February 2023.</p> | (3) Remedied |

(4) Key internal control weakness leading to delay in 2021 Annual Results publication

| <i>Key findings</i> | <i>Recommendation(s) from the Consultant / Remedial actions taken by the Group as recommended by the Consultant</i> | <i>Follow-up Review result</i> |
|--|---|---|
| <p>(1) Unable to prepare and provide the draft consolidated accounts to auditor on time</p> <p>(2) Communication breakdown between the PRC Executive Directors and the Former Employees</p> <p>(3) Lack of handover procedures with the Former Employees</p> <p>(4) Insufficient safeguard of document</p> | <p><i>Recommendation(s)</i></p> <p>(1) The Group shall assign designated personnel (i.e. to prepare consolidated management account and submit to the Board for review and approve on time.</p> <p>(2) To prevent communication breakdown between the staff and PRC Executive Directors, the Company shall consider appointing an executive director that normally reside in Hong Kong to facilitate the communication.</p> <p>(3) A handover checklist shall be maintained to record the work tasks and documents by the resigned staff, to ensure the handover procedures are properly performed. The resigned staff and handover staff should sign on the checklist as acknowledgement. Also, the Company shall consider to own a file server to allow the staff to upload files, to avoid the loss of documents due to the improper handover procedures.</p> <p>(4) In order to better safeguard of document, the Group shall establish a policy to request all relevant document shall also be scanned and uploaded to company server, in which the company server shall be backup regularly.</p> <p><i>Remedial action(s)</i></p> <p>(1) Recommendations adopted. The Company has adopted a separate tailor-made “Internal Control Manual” for the Company and the Non-Operating Subsidiaries and to assign Financial Controller to prepare and submit to the Board, financial information on monthly basis and consolidated management accounts on half-yearly basis. The manual has been approved by the Board for implementation.</p> <p>(2) Recommendations adopted. To prevent communication breakdown between the staff and PRC Executive Director, an executive director in Hong Kong has been appointed to the Board since April 2022 to prevent communication breakdown in future.</p> <p>(3) Recommendations adopted. The Company has subscribed for a remote (cloud) server service whereby documents are required to be scanned and uploaded to the Company’s remote server as per the manual approved by the Board.</p> <p>(4) Recommendations adopted. The Company has adopted a separate tailor-made “Internal Control Manual” for the Company and the Non-Operating Subsidiaries (except ABO), it mentioned that a copy of transaction document shall be scanned and uploaded to company server. This manual has been approved by the Board for implementation.</p> | <p>(1) Remedied, but with no occurrence during the Follow Up Review Period</p> <p>(2) Remedied, but with no occurrence during the Follow Up Review Period</p> <p>(3) Remedied, but with no occurrence during the Follow Up Review Period</p> <p>(4) Remedied, but with no occurrence during the Follow Up Review Period</p> |

CONCLUSION OF THE CONSULTANT AFTER THE FOLLOW-UP REVIEW

According to the Internal Control Review Report, based on the results of the follow up review, nothing comes to the attention of the Consultant that the Company does not put in place adequate internal controls and procedures to meet its obligations under the Listing Rules.

RESPONSE OF THE BOARD

Regarding the internal control deficiencies identified by the Consultant and in order to cater for the needs of different members of the Group, the Group has, instead of using one internal control manual for all members of the Group historically, adopted two different internal control manuals in the Follow Up Review Period.

One manual is specifically for Sing Fat and its holding company, ABO, because the workflow and operations of Sing Fat, which is principally engaged in Building Maintenance and Renovation Services, are much more complicated and are very different from those companies not involving in such business.

The second manual is for the Company and the Non-Operating Subsidiaries (excluding ABO), which has more emphasis on compliance with the Listing Rules and the workflow and procedures contained in the manual are less complicated.

The Board has reviewed the Internal Control Review Report prepared by the Consultant and considers that (i) the Internal Control Review Report has adequately assessed the effectiveness of the internal controls of the Group and ascertained certain internal control deficiencies; (ii) the identified internal control deficiencies have been remediated in the Follow Up Review Period; and (iii) the remedial actions and improvement measures implemented by the Group are adequate and sufficient to address the identified internal control deficiencies.

CONTINUED SUSPENSION OF TRADING

At the request of the Company, trading in the shares of the Company on the Stock Exchange has been suspended with effect from since 9:00 a.m. on 4 October 2021 and will remain in suspension until further notice.

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

DEFINITIONS

In this announcement, unless the context otherwise requires, the following words and expressions shall have the following meanings when used herein:

| | |
|--|---|
| “2021 Annual Results” | audited annual results of the Group for the year ended 30 June 2021 |
| “ABO” | ABO Group Limited, a subsidiary of the Company and an immediate holding company of Sing Fat |
| “Board” | the board of directors of the Company |
| “Building Maintenance and Renovation Services” | provision of building maintenance and renovation services, being the principal businesses of the Group conducted by Sing Fat since the track record period of Company’s initial public offering in early 2015 |
| “Company” | China Supply Chain Holdings Limited |
| “Consultant” | an independent consultant engaged by the Company to carry out the Internal Control Review pursuant to Resumption Guidance (iv) |
| “COSO” | Committee of Sponsoring Organizations of the Treadway Commission |
| “Executive Director(s)” | executive director(s) of the Company |
| “Follow Up Review Period” | from the date of implementation of the remedial measures to 31 March 2023 |
| “Former Employees” | a group of former employees of Richwise |
| “Group” | the Company and its subsidiaries |
| “Internal Control Review” | review of the internal control system of the Reviewed Entities |
| “Internal Control Review Report” | report of the Consultant on the Internal Control Review |
| “Listing Rules” | the Rules Governing the Listing of the Securities on the Stock Exchange |
| “Non-operating subsidiaries” | subsidiaries of the Company which are inactive and do not have any business operation |
| “PRC Executive Directors” | executive directors of the Company resided in the PRC |
| “Resumption Guidance” | resumption guidance from the Stock Exchange |
| “Review Period” | 1 July 2022 to 31 December 2022 |

| | |
|---------------------|--|
| “Reviewed Entities” | all members of the Group during the Review Period |
| “Richwise” | Richwise Power Investment Limited, an indirect wholly owned subsidiary of the Company. It was the employer of the Former Employee and it has minimal operation and mainly serves as major cost centre of the non-Building Maintenance and Renovation Services sector of the Group. |
| “Sing Fat” | Sing Fat Construction Company Limited, the sole principal operating subsidiary of the Company for the Building Management and Renovation Services, indirectly held via ABO |
| “Stock Exchange” | The Hong Kong Stock Exchange Limited |
| “Suspension” | suspension in trading of the shares of the Company on the Stock Exchange on 4 October 2021 |

By order of the Board
China Supply Chain Holdings Limited
Ma Huijun
Chairman

Hong Kong, 5 May 2023

As at the date of this announcement, the Board comprises four executive Directors, namely Ms. Ma Huijun (Chairman), Mr. Dai Jian (Vice Chairman and Chief Executive Officer), Mr. Lai Aizhong and Mr. Wong Ka Shing; and three independent non-executive Directors, namely Mr. Huang Shuhui, Ms. Wang Ying and Mr. Liew Swee Yean.