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SAMSON PAPER HOLDINGS LIMITED

森信紙業集團有限公司*

(Provisional Liquidators Appointed)

(For Restructuring Purposes Only)

(Incorporated in Bermuda with limited liability)

(Stock Code: 731)

RESULTS OF INTERNAL CONTROL REVIEW

This announcement is made by Samson Paper Holdings Limited (Provisional Liquidators Appointed) (For Restructuring Purposes Only) (the “**Company**”) pursuant to Rule 13.09(2) 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 under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

References are made to (i) the announcements of the Company dated 23 July 2020, 27 November 2020 and 18 June 2021 in relation to the resumption guidance issued by The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”), (ii) the announcements of the Company dated 30 September 2020, 4 January 2021, 8 April 2021, 7 July 2021 and 5 October 2021 in relation to the quarterly update on resumption progress of the Company, (iii) the announcement of the Company dated 20 September 2021 in relation to the appointment of internal control consultant, and (iv) the announcement of the Company dated 22 November 2021 in relation to the restructuring of the Company and its subsidiaries (collectively, the “**Group**”) (collectively, the “**Announcements**”). Unless otherwise stated, capitalised terms used herein shall have the same meanings as those defined in the Announcements.

RESULTS OF INTERNAL CONTROL REVIEW

As set out in the announcement of the Company dated 20 September 2021, in order to assist the Company in fulfilling the Resumption Guidance, on 16 September 2021, the Company engaged Pan-China Enterprise Risk Management Consulting Limited as its internal control consultant (the “**Internal Control Consultant**”) to conduct a comprehensive review of the internal control systems and procedures of the Group and to make recommendations accordingly (the “**Internal Control Review**”).

The Internal Control Review has been conducted for the period 1 August 2021 to 15 November 2021 as part of the Company’s efforts in the satisfying the Stock Exchange’s Resumption Guidance, under which the Company is required to demonstrate adequate internal control systems being put in place to meet the obligations under the Listing Rules.

As set out in the announcement of the Company dated 22 November 2021, the Group is undergoing a proposed Restructuring, and upon the successful completion of the proposed Restructuring of the Group, the Retained Group will only comprise the Company and its three wholly-owned subsidiaries, being SPV1, SPV2 and UPPSD. SPV1 and SPV2 are investment holding companies and were incorporated in May/June 2021 for the sole purpose of holding interests in UPPSD pursuant to the UPPSD Bankruptcy Reorganisation plan. Therefore, the scope of the Internal Control Review only covered the Company and UPPSD.

Furthermore, on 30 December 2020, the PRC Court accepted a bankruptcy application filed against UPPSD and appointed the UPPSD Bankruptcy Administrator to UPPSD. The UPPSD Bankruptcy Administrator took custody of UPPSD’s assets, books and records, and company chops. Operations of UPPSD continued under the supervision of the UPPSD Bankruptcy Administrator and the Entrusted Operation Agreement, which was extended by a supplemental agreement between UPPSD, the UPPSD Bankruptcy Administrator and Shandong Bairun. On 1 August 2021, the PRC Court approved the UPPSD Bankruptcy Reorganisation plan and discharged the UPPSD Bankruptcy Administrator. The Entrusted Operation Agreement and the Supplemental Agreement to the Entrusted Operation Agreement were terminated and UPPSD has resumed self operation with effect from 1 August 2021. Therefore, the scope of the Internal Control Review of UPPSD covered the period from 1 August 2021.

The Internal Control Consultant issued the interim internal control report dated 18 October 2021 (the “**Interim Internal Control Report**”) and the final internal control report dated 13 December 2021 (the “**Final Internal Control Report**”), setting out (i) the overall results of the Internal Control Review; (ii) the deficiencies identified during the Internal Control Review; and (iii) recommendations to the Company. The Final Internal Control Report was a follow-up on the rectification measures taken by the Company and UPPSD since the issuance of the Interim Internal Control Report.

In the Interim Internal Control Report, it was set out that the Company and UPPSD had established internal control systems for some area, while internal control systems for some other area would require further improvement. It was also noted that the implementation of the internal control systems has not been carried out in an adequately documented approach, causing internal control risks in areas including the organizational structure, human resources, fund and asset control. A number of low to high priority weaknesses were identified during the review process.

Following such recommendations in the Interim Internal Control Report, actions and steps were taken by the current management of the Company and UPPSD to rectify the internal control weaknesses identified. The Internal Control Consultant had conducted follow-up review on rectification work up to 15 November 2021 and issued the Final Internal Control Report.

Pursuant to the Final Internal Control Report, the identified internal control deficiencies have been rectified and the overall risk is now controlled at low priority weakness.

SCOPE AND PROCEDURES OF INTERNAL CONTROL REVIEW

The scope of the Internal Control Review includes without limitation, the following:

- Assessing the internal control systems based on internal control policies and procedure guidelines obtained from the Company and UPPSD and results of walkthrough tests;
- Identifying weaknesses or deficiencies in internal control systems and recommending remedial measures to strengthen the internal control systems including formulating and enhancing the Company's and UPPSD's internal control procedures, communicating with and providing training to staff members, ensuring implementation of the internal control systems and procedures in business activities;
- Reporting the results after the first round of review and confirming whether enough corrective measures have been carried out by the Company and UPPSD to remedy the deficiencies;
- In case the corrective measures carried out by the Company and UPPSD are yet to satisfy the requirements of the Listing Rules, issuing an interim report to allow time for the management to take further remediation; and
- Conducting a second round of review around 2 weeks after the interim report to assess further measures taken by the Company and UPPSD and adequacy of such measures.

The following steps have been taken by the Internal Control Consultant during the Internal Control Review:

Initial Internal Control Review

- (a) Planning — conducting a preliminary review to understand the internal control systems of the Company and UPPSD and obtaining documents, including, *inter alia*, organizational and reporting structure of the Company and UPPSD, roles and responsibilities of relevant personnel and the policies and procedure guidelines of the Company and UPPSD.
- (b) Review — conducting a walkthrough test of the internal control systems, including interviewing and meeting with relevant management and personnel, conducting site visits and other substantive procedures (including sampling and compliance review).
- (c) Report and follow up — issuing a report setting out material deficiencies in the internal control system of the Company and UPPSD and to provide recommendations. Discussing the report and recommendations with relevant management of the Company and UPPSD.

Follow-up Internal Control Review

- (d) Executing the follow-up review — meeting up with relevant management to understand the measures taken to rectify the problems identified in (c) above. Conducting a walkthrough test to confirm the execution of the measures.
- (e) Report — issuing a follow-up internal control review report to address the effectiveness of the rectification measures carried out by the Company and UPPSD and discussing the report with the Board.

PROGRESS AND RESULTS OF INTERNAL CONTROL REVIEW

The Internal Control Review during the period 1 August 2021 to 15 November 2021 has been carried out in two phases (i.e. the initial review and the follow-up review) as follows:

1. Initial Review: the Internal Control Consultant carried out an assessment of the internal control risks and deficiencies of the Company and UPPSD for the period 1 August 2021 to 30 September 2021 (the “**Initial Review**”). In the Initial Review, the Internal Control Consultant assessed the internal control system of the Company and UPPSD, and identified weaknesses in area including, *inter alia*, the comprehensiveness of the internal control design, sales management, fund management, organizational structure and human recourses, stock management and contract management. The Internal Control Consultant also provided recommendations and suggestions to rectify such deficiencies.

2. Follow-up Review: the Internal Control Consultant carried out a follow up review of the internal control systems of the Company and UPPSD for the period 1 August 2021 to 15 November 2021 (the “**Follow-up Review**”) to follow up on whether the Company and UPPSD have implemented remedial measures to rectify the deficiencies identified in the Initial Review.

RESULTS OF THE INTERNAL CONTROL REVIEW

Results of the Initial Review

In the Initial Review, the Internal Control Consultant identified high-priority weaknesses (i.e. material internal control weaknesses that require immediate rectification), medium priority weaknesses (i.e. moderate or less than material weaknesses that require rectification) and low priority weaknesses (i.e. weaknesses to be addressed to enhance the overall internal control to best practice) as follows:

| Module | Area of Review | Weaknesses | Recommendations |
|----------------------|---------------------------------|--|--|
| High Priority | | | |
| 1. Internal Control | Comprehensiveness of the policy | Lack of policies for certain area of the internal control. | Policies should be supplemented in due course. |
| 2. Sales Control | Orders and receipt of goods | Orders were confirmed verbally or through WeChat without any proper written evidence. Information on sales contracts did not agree with those on sales orders which were not signed. No proper record for the receipt of goods after the goods were received by the customers. | To improve on the execution procedures, including to confirm the exact orders placed, to retain original signed receipt of goods from customers. |
| 3. Control of funds | Cheque management | Blank cheques were affixed with company chop. | To forbid affixing company chop on blank cheques. |

| Module | Area of Review | Weaknesses | Recommendations |
|-----------------------------|--------------------------|---|---|
| Medium Priority | | | |
| 1. Organizational Structure | Organizational Structure | Revision to organizational structure of UPPSD in August 2020 were not adequately recorded and circulated timely. | To issue an official notice to inform management and staff of the latest organizational structure of UPPSD. |
| 2. Human Resources | Process of recruitment | 5 employees under probation have not signed employment contract. | All employees, including those under probation, should enter into employment contracts timely. |
| 3. Stock Management | Warehousing procedures | The preparation and review of stock-in list were prepared and approved by the warehouse personnel, instead of being prepared by warehouse personnel and approved by the procurement manager as stipulated in the procedure guidelines. There were no segregation of duties. | Segregation of duties to be implemented for the control on stock-in. |
| 4. Control of Contracts | Contract Management | No consecutive nor unified numbering of contracts. There occurred to be instances where the date of final approval of the contract was subsequent to the execution date of such contract. The process for approving the contracts were not followed strictly. | To refine the process of executing contracts, and to execute in accordance with the policies and authorization. To confirm the department in charge of contract management and to number the contracts consecutively. |

| Module | Area of Review | Weaknesses | Recommendations |
|-----------------------------------|---|--|--|
| Low Priority | | | |
| 1. Organizational Structure | Description of role and responsibilities | The description was outdated. The description for some positions were missing following the change in the organisation structure of UPPSD in 2020. | To update, review and finalize the descriptions of responsibilities for all levels in a timely manner. |
| 2. Human recourses Control | Process of hiring, retaining, training | Application forms for hiring were not approved before the hiring was completed. Passing of probation were approved verbally. Also, there were no assessment on the result of training provided to the employees. | To strictly adhere to policies on documentation. |
| 3. Purchase and Supply Management | Suppliers management, purchases, price quote management | The purchase request of the spare parts were communicated on WeChat. The approval for purchase of spare parts were not adhere to the policies. The policies required approval from the engineers only but not the department heads. Assessment on capabilities of suppliers were not fully implemented in accordance with the guideline. | To strictly adhere to policies on purchase and supply. |
| 4. Control of Funds | Reimbursement and payment process | A small number of payment application forms were not approved according to policies. Supporting documents of a few payments were missing. | To strictly adhere to policies on payment approval. |
| 5. Control of Funds | Bank account management | No reconciliation of bank statement. | To perform bank statement reconciliation in strict compliance of standard financial practices. |
| 6. Assets Control | Assets management | The stock-take record of certain fixed assets were not signed. Lack of unified numbering for assets of administrative use. Labelling of machineries and equipment were not updated to same form as those used for newly acquired machineries and equipment. | To unify the numbering of assets of administrative use, to maintain complete list of stock-take of assets. |

The Internal Control Consultant provided suggestions for remedying the internal control risks faced by the Company and UPPSD.

The management of the Company and UPPSD responded to the defects and commenced rectification procedures accordingly. At the date of issuance of the Interim Internal Control Report, 10 rectification measures had already been completed, and 10 measures were in progress, with the target for completion on or before 31 October 2021.

Results of the Follow-up Review

The following table represents a summary of the deficiencies, which were all low-priority weaknesses, identified in the Follow-up Review and recommendations for further rectification in the Final Internal Review Report:

| Module | Area of Review | Weaknesses | Recommendations |
|---|------------------------------|---|--|
| Low Priority — market best practices recommendations | | | |
| 1. Sales Control | Confirmation of orders | Certain orders were not confirmed by signing the sales orders but via Wechat. Furthermore, there were only copies for certain receipt of goods, but not the original. | To improve on the execution procedures, including written confirmation of the sales orders, to retain original signed receipts of goods. |
| 2. Purchase and Supply Management | Purchase requisition control | Discrepancy was noted between the purchase requisition and actual purchase of the spare part, due to the buffer of safety stock. | To strictly adhere to policies on purchase and supply. |
| 3. Control of Funds | Reimbursement and payment | A few payment forms were not approved according to policies. | To strictly adhere to policies on payment. |
| 4. Control of Contracts | Numbering of contracts | A few contracts were not numbered consecutively. | To confirm the department in charge of contract management and to number the contracts consecutively. |

The Internal Control Consultant has adopted the same definitions of high, medium and low-priority weaknesses as in the Interim Internal Control Report.

As at the date of this announcement, the management of the Company and UPPSD confirms that all the deficiencies as referred in the Final Internal Review Report have been controlled at low-priority weakness, which represents deficiencies from the market best practices only.

VIEWS OF THE INTERNAL CONTROL CONSULTANT

It is the Internal Control Consultant's view that the Company and UPPSD have, at the date of this announcement, maintained effective internal control in all material aspects in accordance with the relevant requirements of an established corporate internal control system.

VIEWS OF THE AUDIT COMMITTEE AND THE BOARD

Having considered the results of the Internal Control Review, the Audit Committee and the Board of the Company are of the view that the remedial measures implemented by the Company are sufficient and adequate to address all the findings of the Internal Control Review. The Group's enhanced internal control systems are sufficient to meet the obligations of the Company under the Listing Rules and to safeguard its interest.

CONTINUED SUSPENSION OF TRADING

Trading in the shares of the Company on the Stock Exchange has been suspended with effect from 9:00 a.m. on 2 July 2020 and will remain suspended until further notice. The Company will keep its shareholders and the public informed of the latest development by making further announcement(s) as and when appropriate.

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

By Order of the Board
SAMSON PAPER HOLDINGS LIMITED
(Provisional Liquidators Appointed)
(For Restructuring Purposes Only)
YU Ngai
Company Secretary

Hong Kong, 13 December 2021

As at the date of this announcement, the Board comprises two executive Directors, namely Mr. CHOI Wai Hong, Clifford and Mr. LAU Wai Leung, Alfred; and one independent non-executive Director, namely Mr. LEUNG Vincent Gar-gene.

* *for identification purposes only*