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YONGAN HOLDINGS

浙江永安融通控股股份有限公司

ZHEJIANG YONGAN RONGTONG HOLDINGS CO., LTD.*

(a joint stock limited company incorporated in the People's Republic of China)

(Stock code: 8211)

RESULT OF THE INTERNAL CONTROL REVIEW

Reference is made to the announcements of Zhejiang Yongan Rongtong Holdings Co., Ltd.* (the “**Company**”) dated 31 March 2022 and 16 May 2022 and the circular of the Company dated 26 May 2022 (the “**Circular**”) in relation to the major transactions, continuing connected transaction and connected transaction in relation to the provision of financial assistance. Unless otherwise defined, capitalised terms used herein shall have the same meanings as those defined in the Circular.

In order to prevent the occurrence of similar non-compliance incident in the future and to comply with the requirements under the GEM Listing Rules, the Company has engaged Avista PRO-WIS Risk Advisory Limited (the “**Internal Control Consultant**”) to conduct an internal control review particularly in relation to the bank remittance and operation of bank accounts, the Revolving Loan and the Second Supplemental Debt Repayment Agreement and the procedures of connected transaction and notifiable transaction of the Company and implement the necessary measures to enhance the internal control of the Company.

The internal control deficiencies identified in the review and the recommendations of the Internal Control Consultant are summarised as follows:

1. THE REVOLVING LOAN AGREEMENT AND THE SECOND SUPPLEMENTAL DEBT REPAYMENT AGREEMENT

1.1 In the process of conducting the Revolving Loan, the Group failed to comply with the requirements of the relevant internal control procedures of the Group and did not have appropriate segregation of duties.

- (i) The then deputy general manager of the Company (from 1 January 2021 to 29 July 2021)/the Chairman and executive Director (since 30 July 2021) was responsible for negotiation of the terms, internal assessment and approval of the Revolving Loan with the relevant representatives of Zhejiang Yongli while the finance department and other Directors were not involved; and
- (ii) The then deputy general manager of the Company/Chairman and executive Director was responsible for the application and approval of the Revolving Loan. The approval process was not in accordance with the requirements of the relevant financial policy of the Group (“**Financial Policy**”). The cashier arranged remittance through online banking according to the written approval of the then deputy general manager/Chairman and executive Director.

Recommendations:

The Group is recommended to insert the following internal control procedures in respect of the loan transaction to the existing Financial Policy:

- 1. The Director responsible for negotiation of the loan should avoid the evaluation and review of the relevant loan transaction, and the finance manager and other Directors should evaluate and review the loan transaction to ensure the segregation of duties;
- 2. To protect the Group’s interest, before entering into the relevant agreement, the Group should seek legal advice on the terms of the relevant agreement;
- 3. All loan arrangements should be made in accordance with the approval requirements set out in the Financial Policy;
- 4. In addition, if the loan amount exceeds a specified amount (e.g. RMB2 million), the finance manager should inform the company secretary of the Company (the “**Company Secretary**”) in writing before signing the agreement in order to determine whether the loan transaction has any implications under GEM Listing Rules. If the Company Secretary has any questions about whether the transaction has any implications under GEM Listing Rules, she should seek legal advice in writing;
- 5. The cashier must check whether the “Application Form for Payment” has been approved in accordance with the requirements of the Financial Policy, and otherwise the payment should not be arranged;

6. The cashier should check whether the details of the relevant payment requirements (including but not limited to the payee, the payee's bank account and the payment amount) are consistent with the "Application Form for Payment" and there are sufficient supporting documents (such as agreement, application form) before online payment is made; and
7. Before the contract for the loan has been fixed with the company chop, the department and employee in charge of the company chop should ensure that the "Application Form for Company Chop" has been approved by the relevant personnel (including the finance manager).

The updated policy should be passed through appropriate authorization and approval procedures before it can be promulgated and implemented, and the relevant employees should be trained to ensure that they are clear and understand the Company's requirements. At the same time, the Company should regularly (e.g. every year) arrange for designated departments (such as the Internal Audit Department) to check the implementation of the relevant policy, understand whether there is a need for updates, and confirm that a sound and effective management system is maintained.

1.2 Certain procedures of the Revolving Loan were not recorded in writing

- (i) Before the loan was granted, the terms of the Revolving Loan were confirmed verbally;
- (ii) The finance staff regularly reconciled verbally with Zhejiang Yongli on the approved amount of the Revolving Loan, the monthly amount of loan interest receivable, the repayment amount, and the outstanding amount of the Revolving Loan;
- (iii) Due to changes in finance staff in 2021, the remittance of funds related to the Revolving Loan were not recorded in real time, so that the management and the Company Secretary could not be informed of the arrangement with Zhejiang Yongli of the Revolving loan; and
- (iv) The amount of the Revolving Loan granted, the monthly amount of the loan interest receivable, the repayment amount and the outstanding amount of the Revolving Loan were not formulated in a loan summary table (the "**Loan Summary Table**"). The Loan Summary Table of the Revolving Loan was formulated in 2022 when the Company conducted 2021 annual audit.

Recommendations:

The Group is recommended to establish a separate Loan Summary Table for each loan and include but not limited to the following information:

1. Borrowing date
2. Loan amount
3. Borrower's name
4. Repayment date
5. Repayment amount
6. The name of the repaying party and the relationship with the borrower, if the repaying party is not the borrower
7. The amount of monthly/daily interest
8. Current accumulated loan balance

For all borrowing arrangements, the Group is also recommended to further revise the Financial Policy to include the following internal control procedures:

1. The finance department should base on the Loan Summary Table to record each loan;
2. The finance staff should check with the Company's accounting records on a regular basis (e.g. monthly) to ensure that the information of the Loan Summary Table are correct, and then submit it to the finance manager for review and signature for verification.

The updated policy should be passed through appropriate authorization and approval procedures before it can be promulgated and implemented, and the relevant employees should be trained to ensure that the employees are clear and understand the Company's requirements. At the same time, the Group should regularly (e.g. every year) arrange for the designated departments (such as the Internal Audit Department) to check the implementation of the relevant policy, understand whether there is a need for updates, and confirm that a sound and effective management system is maintained.

1.3 The Group did not record the interest generated by the Revolving Loan in a timely manner

The Group did not make real-time accounting for the interest generated by the Revolving Loan accumulated to approximately RMB1,144,756 for the period from 1 January 2021 to 31 March 2022 because the Revolving Loan was a major transaction and a continuing connected transaction. In accordance with the requirements of the GEM Listing Rules, independent shareholder's approval at the general meeting should be obtained. Therefore, the loan interest receivable has not been recorded when the Company conducted the 2021 annual audit.

Recommendations:

The Group is recommended to follow the reviewed Loan Summary Table on a regular basis (e.g. monthly) to calculate the interest receivable for each loan and arrange for bookkeeping in the current month.

1.4 The Revolving Loan approval and assessment process was not comprehensive

Before arranging the Revolving Loan to Zhejiang Yongli, the then deputy general manager/the Chairman and executive Director only reviewed the following factors to determine whether the loan was suitable:

1. The Company's debt to Guizhou Yongli as at 31 December 2020 was approximately RMB210 million;
2. The reason and rationality of the borrower's borrowing;
3. The bank balance and the liquidity of the Group at that time;
4. The rationality of the interest generated by the loan; and
5. Assessment of the status of the Group's trade receivables and trade payables at that time, and whether the sufficiency of the Group's cash after the loan had been granted.

The following factors had not been included in the assessment process of approval of the loan:

1. Whether the nature and amount of the transactions would have any implications under GEM Listing Rules; and
2. Once the borrower failed to repay the loan on time, the impact on the Group's overall cash liquidity.

In addition, the Company did not prepare written record of the above-mentioned evaluation results.

Recommendations:

Before signing any major agreements, including loan agreements, the Group is recommended to arrange for the finance manager and the Company Secretary to assess whether the relevant agreements will have any implications under GEM Listing Rules. If necessary, the Company may consider seeking additional professional or legal advice.

In addition, the Group is recommended to clearly indicate the considerations when making loan arrangements in the Financial Policy, including but not limited to:

1. The reason and rationality of the borrower's borrowing;
2. The bank balances and the liquidity of funds of the Group at that time (including visible reasonable expenses and visible bank loans, and predictable future loans that have signed loan contract);
3. The rationality of the interest generated by the loan;
4. Assessment of the status of the Group's trade receivables and trade payables at that time, and whether the Group's cashflow is sufficient after the loan is granted;
5. Whether it has any implications under GEM Listing Rules; and
6. Once the borrower fails to repay the loan on time, the impact on the Group's overall cashflow.

The above-mentioned evaluation results should be recorded in writing and submitted to the designated personnel for signature and approval, and the designated personnel (e.g. the finance manager) should keep the relevant assessment and approval records properly.

1.5 Certain terms of the Revolving Loan were not clearly stated in the agreement

The Revolving Loan Agreement that was signed on 31 March 2022 did not include repayment arrangements, overdue repayment arrangements and termination terms because when considering to grant the Revolving Loan, the Company still owed Guizhou Yongli approximately RMB210 million. If the borrower fails to repay the loan on time in the future, the Group could net off the loan receivable with the loan payable from each other, so the Company did not discuss the repayment details with the borrower.

Recommendations:

The Group is recommended that before signing the Loan Agreement in the future, the repayment arrangement and the terms of the overdue repayment arrangement should be clearly entered into the agreement.

1.6 Failure to regularly evaluate the Company's cash flow

The then deputy general manager/Chairman and executive Director assessed the Company's current financial situation before the grant of the Revolving Loan but did not regularly review the Company's financial position and cashflow to assess whether the revolving loan should be continued.

Recommendations:

The Group is recommended that after confirming the loan arrangement, the Group should arrange designated personnel (e.g. finance manager) regularly (e.g. monthly) to check whether the Company's financial position and cashflow are suitable for continuing the Revolving Loan arrangement and a written record of the results of the review should be submitted to the Board for review and signature. If there are signs of tight funds/cashflow shortage, the finance manager should notify the Board in writing as soon as possible to take appropriate measures.

2. NOTIFIABLE TRANSACTIONS AND CONNECTED TRANSACTIONS

2.1 The internal control policies of Chapters 19 and 20 of the GEM Listing Rules were not comprehensive

The existing internal control and monitoring policies of Chapters 19 and 20 of the GEM Listing Rules did not include the procedures of the following areas:

1. Arranged for designated personnel to review and update the policies;
2. Circulated the policies to the relevant personnel of the Group, including but not limited to the finance manager, Director, and administrative officer;
3. Policies review date and expiration date; and
4. Designated personnel regularly (e.g. monthly) to review various transactions to meet the requirements of the GEM Listing Rules.

Recommendations:

The Group is recommended to supplement, revise and update the relevant policies as soon as possible in response to the above-mentioned internal control findings, and assign designated personnel to review and revise the policies on a regular basis (e.g. yearly). The updated policies should be passed through appropriate authorization and approval procedures before it can be promulgated and implemented, and the relevant employees should be trained to ensure that the employees are clear and understand the Company's requirements. At the same time, the Company should regularly (e.g. every year) arrange for designated departments (such as the Internal Audit Department) to check the implementation of the relevant policies, understand whether there is a need for updates, and confirm that a sound and effective management system is maintained.

2.2 Failure to conduct regular training on GEM Listing Rules in accordance with the requirements of the policies

During the review period from 1 January 2021 to 31 March 2022 (the “**Review Period**”), the Group conducted training for Directors and senior management. The training content covered the responsibilities and requirements of directors of Hong Kong listed companies, the position and performance of independent non-executive directors, the disclosure of inside information, and the introduction and issuance system of the “Special Purpose Acquisition Company” (the “**SPAC**”). However, the contents of the notifiable transactions and connected transactions were not covered.

In addition, during the Review Period, the Group engaged lawyer to explain the contents of the “Directors’ Declaration, Undertaking and Acknowledgement” of form B/confirmation letter for newly appointed Directors and independent non-executive Directors, but did not further arrange training on other listing regulations for newly appointed board members.

Recommendations:

The Group is recommended to update the relevant policies to include training on the rules of the Stock Exchange for newly appointed employees and Board members, including the notifiable transactions and the connected transactions, as mandatory on-boarding requirements. In addition, the Company is recommended to arrange for a training for relevant employees (including but not limited to the finance manager, the administrative officer) and the Directors on the GEM Listing Rules, including the notifiable transactions and the connected transactions, as soon as possible. The Group is also recommended to have an annual training plan to ensure that regular training on the rules of the Stock Exchange, including updates to the GEM Listing Rules is conducted to the Directors and related employees.

2.3 The Group did not engage legal retainer services

The Group did not engage legal retainer services. Zhejiang Yongli’s legal retainer will provide advice on whether the Group’s daily operating transactions and other arrangements would constitute any legal risks/have any implications under GEM Listing Rules when necessary. However, the Company did not sign any written agreement with Zhejiang Yongli or Zhejiang Yongli’s legal retainer.

Recommendations:

The Group is recommended to engage its own legal retainer or signing any written agreement with Zhejiang Yongli or Zhejiang Yongli’s legal retainer, requiring the lawyer to participate in the review over the daily transaction, and provide written legal opinions and signatures on the “Approval Form” so that the Group can obtain available legal opinions in a timely manner before signing any major agreements and when facing possible legal and regulatory issues.

2.4 Failed to update the list of connected parties and report transaction information in accordance with the requirements of the policies

The Group did not update the list of connected parties and report transaction information during the Review Period due to changes in personnel during the Review Period and the lack of understanding of the policies by the relevant employees caused the relevant procedures not be implemented.

Recommendations:

The Group is recommended to update the existing policies and clearly indicate that the head of various departments should fill in the list of new counterparties (if any) monthly and submit it to the Secretary of the Board or the administrative officer of the Group and the Company Secretary for review and determine whether there are connected parties and require relevant employees (e.g. administrative officer) regularly update the existing list of connected parties. The updated list of connected parties is recommended to be circulated to the relevant persons in real time, including but not limited to the finance manager and Directors, for the purpose of identifying connected parties. The updated policies is recommended to be passed through appropriate authorization and approval procedures before it can be promulgated and implemented, and the relevant employees, especially newly employed department heads, should be trained to ensure that the employees are clear and understand the Company's requirements.

3. BANK ACCOUNT AND REMITTANCE MANAGEMENT

3.1 The Group had not set approval authority for different payment types and amounts

The current Financial Policy did not set hierarchical approval authority for different payment types and amounts. It also did not set authority for online banking payments.

Recommendations:

The Group is recommended to set up an appropriate approval authority table according to the nature and amount of payment and insert the relevant payment approval authority to the Financial Policy. The updated policy should be passed through appropriate authorization and approval procedures before it can be promulgated and implemented, and the relevant employees, especially new employees, should be trained to ensure that employees are clear and understand the Company's requirements.

3.2 Lack of adequate internal control procedures for the management of contract seal, official seal and financial seal

According to the Financial Policy, all seals were kept by the finance department, and the custody and usage of each seal had not been specified in detail. In addition, the Company's contract seal, official seal and financial seal were currently kept by the finance manager.

Recommendations:

The Company is recommended to rearrange the custodians of the contract seal, official seal and financial seal. The Company is also recommended to revise the Financial Policy to list the custody and usage management procedures of each seal. The updated policy should be passed through appropriate authorization and approval procedures before it can be promulgated and implemented, and the relevant employees, especially new employees, should be trained to ensure that employees are clear and understand the Company's requirements.

3.3 No written record for the application and approval for cancellation of bank account

The Company cancelled the bank account that was no longer in use in January 2022. The relevant personnel had verbally explained to the management the reasons for the cancellation of the relevant bank account and obtained the verbal approval from the management. No written record of the application and approval procedures had been formed.

Recommendations:

The Group is recommended to formulate a standardized "Cancellation of Bank Account Application Form" to specify the details and reasons for the cancellation of the bank account for reference when the management approves it. The standardized "Application Form for Cancellation of Bank Account" should be inserted to the Financial Policy. The updated policy should be passed through appropriate authorization and approval procedures before it can be promulgated and implemented, and the relevant employees, especially new employees, are trained to ensure that employees are clear and understand the Company's requirements.

3.4 No written record of the bank reconciliation

The cashier reconciled the bank statements and the balances on the accounting records monthly. After completing the verification process, no written record was submitted from the cashier to the finance manager for approval.

Recommendations:

The Group is recommended to revise the existing Financial Policy to require the finance department to check the bank balance monthly and prepare “Bank Reconciliation Statements”, and arrange designated personnel such as the finance manager to conduct the review procedures and keep relevant approval records. The updated policy should be passed through appropriate authorization and approval procedures before it can be promulgated and implemented, and the relevant employees, especially the new employees, should be trained to ensure that employees are clear and understand the Company’s requirements.

The Internal Control Consultant has completed the follow up review of the above-mentioned recommendations and confirmed that the Company has adopted the above-mentioned recommendations. All the Directors, including the independent non-executive Directors have reviewed the report of the internal control review which included the result of the first review and the follow up review as provided by the Internal Control Consultant.

By order of the Board
Zhejiang Yongan Rongtong Holdings Co., Ltd.*
Lou Lijiang
Chairman and executive Director

Zhejiang Province, the PRC, 1 August 2022

As at the date of this announcement, the executive Directors are Mr. Lou Lijiang (Chairman), Ms. He Lianfeng (Chief Executive Officer) and Mr. Hu Hua Jun; the non-executive Director is Mr. Xia Zhenbo (Deputy Chairman); and the independent non-executive Directors are Mr. Yu Weidong, Mr. Yuan Lingfeng and Mr. Zhang Jianyong.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

This announcement will remain on the “Latest Listed Company Information” page of the GEM website at www.hkgem.com for at least 7 days from the date of its posting and on the Company’s website at www.zj-yongan.com.

* For identification purpose only