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Sterling Group Holdings Limited

美臻集團控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1825)

KEY FINDINGS OF INTERNAL CONTROL REVIEW REPORT

References are made to the announcements of Sterling Group Holdings Limited (the “**Company**”, and together with its subsidiaries, the “**Group**”) dated 24 November 2023 and 3 June 2024 in relation to, among other things, the making of the Santai Advances, the continuing connected transaction, the connected transaction, the major transaction and the discloseable and connected transactions (collectively, the “**Announcements**”). Unless otherwise stated, capitalised terms used in this announcement shall have the same meanings as those defined in the Announcements.

BACKGROUND

As disclosed in the Announcements, the Company has engaged an internal control consultant, GRC Chamber Limited (“**GRC**”), to (i) prepare the fact-finding report under the Specific IC Review in relation to the incident relating to the Santai Advances, the First Letter of Support, the Letters of Support, the Novation Agreements and the financial assistance provided by SAL to Ms. Wong and Mr. Siu (the “**Subject Incidents**”); and (ii) conduct an internal control review particularly in relation to the advances made by the Group and make recommendations to the Company on implementation of the necessary measures to enhance the internal control of the Company (the “**Specific IC Review**”).

GRC performed the Specific IC Review from 12 December 2023 to 3 February 2024 of the agreed scope with focus placed on the Company and its major operating subsidiary, Sterling Apparel Limited. Subsequent to the Company putting in place relevant new and remedial measures in response to the findings and recommendations made by GRC, GRC performed a follow-up review for the period from 1 January 2024 to 10 June 2024. The internal control review report (the “**Specific IC Report**”) was issued by GRC on 23 June 2024.

KEY FINDINGS OF FACT-FINDING REPORT

GRC prepared a fact-finding report under the Specific IC Review summarising the key facts and information relevant to the Subject Incidents. During the Specific IC Review, it is also noted that the Group has obtained bank lines which are secured by personal guarantees of Ms. Wong Mei Wai Alice (“**Ms. Wong**”) up to the maximum amount of approximately HK\$129 million and a collateral of 2 office floors beneficially owned by Ms. Wong (with the then value of approximately HK\$120 million). The key facts and information relevant to the Subject Incidents are already disclosed in the announcement of the Company dated 3 June 2024. It is also revealed in the Specific IC Report that:

- For the Santai Advances, it is not noted in the board minutes of the Company that Santai Advances were reported to or approved by the Board. Ms. Wong and Mr. Chung Sam Kwok Wai (“**Mr. Chung**”) confirmed that the payments were of business nature in their belief and hence were not escalated to the Board for discussion or approval. The then independent non-executive Directors made representation that they held no knowledge of the payments which were not reported to them until the first draft of the announcement of the Company was circulated to them on 23 November 2023.
- For the Novation Agreements, it is not revealed in the board minutes of the Company that the first two novation were reported to or approved by the Board. Ms. Wong and Mr. Chung confirmed that the novation were of business nature in their belief and hence were not escalated to the Board for discussion or approval. The then independent non-executive Directors made representation that they held no knowledge of the novation.
- For the First Letter of Support and the Letters of Support (save for the last letter of support dated December 2023), it is not revealed in the board minutes of the Company that the First Letter of Support and the Letters of Support (save for the last letter of support dated December 2023) were reported to or approved by the Board. Ms. Wong and Mr. Chung confirmed that the First Letter of Support and the Letters of Support (save for the last letter of support dated December 2023) were of business nature in their belief and hence were not escalated to the Board for discussion or approval. The then independent non-executive Directors made representation that they held no knowledge of the First Letter of Support and the Letters of Support (save for the last letter of support dated December 2023). For the last letter of support dated December 2023, a board meeting was held to discuss about the last letter of support dated December 2023. It is noted that it was unanimously resolved that the Company would provide such letter of support on a condition that it would not result in any further liabilities or commitment for the Company and would not violate any listing rules.

KEY FINDINGS OF INTERNAL CONTROL ASSESSMENT AND FOLLOW-UP REVIEW

INTERNAL CONTROL ASSESSMENT

During the Specific IC Review, it is observed that the Company has put in place relevant internal control policies and procedures, which are considered, individually and collectively, designed for the purposing of managing relevant risks arising from matters in same or similar nature of the Subject Incidents and they have been generally applied to the operation of the Company.

However, it is also observed that, for matters in relation to the Subject Incidents, these internal controls appear to be impaired in the way that relevant internal control policies and procedures are not reasonably followed, interpreted or presented. It leads to an internal control assessment result where the Company has the following internal control operating ineffectiveness.

1. Putting the matters reserved for the Board policy into better practice
2. Enriching the monthly management report
3. Assessment over the extent of connected transactions
4. Constructing the terms & conditions and assigning the ownership of debts for the advances
5. Devising a recovery plan based on updated credit risk assessment
6. Enhancing the declaration of interests system
7. Avoiding of payments for non-business reasons

These internal control operating ineffectiveness are considered material as relevant risks or effects have already materialised and are large in amount or principle.

FOLLOW-UP REVIEW

Based on the result of follow-up review, it is noted that the Company has implemented several enhanced internal controls in May and June 2024. These enhanced internal controls appear to address the previously identified risks and weaknesses at design level. However, to ensure their operating effectiveness, it is essential that these controls, together with existing ones, are consistently executed and monitored by the Company's oversight functions. Furthermore, the anticipated outcomes of certain internal controls, particularly "constructing the terms & conditions and assigning the ownership of debts for the advances" and "devising a recovery plan based on updated credit risk assessment", are dependent on various future events and development, such as shareholders' approval and risks and uncertainties the counterparties may present.

It is recommended by GRC that the Board should continue to diligently monitor the overall effectiveness of the adopted controls and update them when necessary to ensure they achieve the desired results.

With reference to the Company's announcement on 3 June 2024, the Company is still negotiating with counterparties to enter into contracts for the subject matters. These contracts will be subject to the advice of financial adviser, approval of an independent board committee and the shareholders of the Company. Given the evolving uncertainties of the counterparties, including the progress of the IPO of JPO, it is considered that the adopted measure represents merely a starting point for remediation. The Board will continue to monitor future events related to the subject matters and relevant risks on an ongoing basis.

The Board and the Compliance Committee are not aware of any internal control deficiencies of the Group in relation to the Subject Incidents other than those identified in the Specific IC Report, and they will use their best endeavours to enter into the agreements to rectify the non-compliance with the Listing Rules.

By order of the Board
Sterling Group Holdings Limited
美臻集團控股有限公司*
Wong Mei Wai Alice
Executive Director and Chief Executive Officer

Hong Kong, 16 July 2024

As at the date of this announcement, Ms. Wong Mei Wai Alice is the executive Director and Chairperson, Mr. Siu Yik Ming, Mr. Chung Sam Kwok Wai, Mr. Leung Ka Wai and Mr. Ma Jian are the executive Directors, and Ms. Zhang Lingling and Mr. Chow Yun Cheung are the independent non-executive Directors.

* *For identification purpose only*