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中核集团
CNNC

CNNC INTERNATIONAL LIMITED

中核國際有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2302)

INSIDE INFORMATION

MAJOR FINDINGS OF THE REVIEW, BACKGROUND INVESTIGATION AND INTERNAL CONTROL REVIEW

This announcement is made by CNNC International Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) pursuant to Rule 13.09(2)(a) of the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) and the Inside Information Provisions (as defined under the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the “**Securities and Futures Ordinance**”).

References are made to the announcements (the “**Announcements**”) of the Company dated (i) 31st March, 2021, 29th April, 2021, 30th April, 2021, 13th May, 2021, 30th June, 2022, 20th July, 2022 and 29th July, 2022 in relation to, amongst other matters, the delay in publication of the annual results of the Group for the years ended 31st December, 2020 (“**FY2020**”) and 31st December, 2021 (“**FY2021**”) and the suspension of trading of shares of the Company (the “**Shares**”); (ii) 28th May, 2021, 31st May, 2021, 24th June, 2021, 8th October, 2021, 27th October, 2021, 29th November, 2021 and 17th June, 2022 in relation to, amongst other matters, the Resumption Guidance and other inside information of the Company; (iii) 29th July, 2021, 31st August, 2021, 30th March, 2022 and 31st March, 2022, and the interim report of the Company for the six months ended 30th June, 2021 in relation to, amongst other matters, the unaudited consolidated results of the Group for the six months ended 30th June, 2021 and FY2021; and (iv) 29th July, 2021, 29th October, 2021, 28th January, 2022, 28th April, 2022 and 28th July, 2022 in relation to, amongst other matters, the quarterly updates on status of resumption of trading in the Shares. Unless otherwise defined, capitalised terms in this announcement shall have the same meanings as those defined in the Announcements.

BACKGROUND

Trading in the Shares has been suspended with effect from 9:00 a.m. on 30th April, 2021, pending the publication of the audited annual results of the Group for the financial year ended 31st December, 2020 (the “**2020 Annual Results**”). According to the announcement of the Company dated 29th April, 2021, the delay in publication of the 2020 Annual Results was due to the fact that the audit works had not been completed, which could only be completed upon the satisfactory completion of a comprehensive review on the impairment loss of inventory of approximately HK\$52,409,000 of the Company (the “**Impairment Loss**”).

According to the announcement of the Company dated 13th May, 2021, the Impairment Loss related to seven purchases of electronic parts and components (the “**Problematic Purchases**”) under the electronics products trading business (the “**Electronic Products Business**”), a sub-segment of the Group’s discontinued supply chain business once engaged by the Company which commenced in 2018 and had its last transaction entered into during 2020. The Problematic Purchases were made over a five-month period during October 2019 to February 2020 from three different suppliers (the “**Three Suppliers**”), which were intended for on-sale to two customers (the “**On-sale Customers**”) but which were subsequently not transacted, and were later found to include a mix of substandard or refurbished, and counterfeit goods (the “**Problem Goods**”). The Problem Goods, except for a relatively small portion having been repurchased by one of the Three Suppliers, remained as inventories of the Group and were written-off in full as at 31st December, 2020.

In March 2020, having evaluated, among other things, the financial and inventory risks involved in the Electronic Products Business particularly brought to light from incidents of the Problematic Purchases, and the uncertainties on the macro environment attributed by the COVID-19 pandemic, the management of the Company resolved to cease the Electronic Products Business.

Pursuant to the Auditors’ letter dated 14th May, 2021 addressed to the Audit Committee, the Auditors was concerned if the Problematic Purchases involved fraudulent act. The Auditors requested the Company to conduct an independent investigation into the Problematic Purchases, which was concurred by the Audit Committee, to:

- (i) understand the root cause(s) of the Problematic Purchases (the “**First Concern**”);
- (ii) verify if there existed any staff misconduct or transfer of benefits (the “**Second Concern**”); and
- (iii) ascertain if there was quality issue on other goods purchased from the Three Suppliers (the “**Third Concern**”, together with the First Concern and the Second Concern, the “**Three Concerns**”).

With a view to addressing, amongst others, the Three Concerns and ascertaining whether there are any internal control issues to be addressed (collectively referred to as the “**Issues**”), the Company, with the recommendations of the Audit Committee, engaged (i) the Independent

Expert to perform an independent review on the Issues (the “**Review**”); (ii) an independent corporate investigation and risk consulting firm (the “**Background Investigation Agent**”) to perform certain background investigation on the customers and suppliers of the Electronic Products Business, their directors and shareholders, and relevant personnel of the Group who were considered to have involved (in varying degrees and/or capacities) in the Electronic Products Business (the “**Background Investigation**”); and (iii) the Internal Control Consultant to perform a review on the Group’s existing internal control systems and procedures, and make recommendations on remedial actions (where applicable) in response to its findings (the “**Internal Control Review**”).

As at the date of this announcement, the Review have been substantially completed with the advanced draft of the report having been made available to the Company, whereas the Background Investigation and the Internal Control Review have been completed with their final reports having been made available to the Company. The purpose of this announcement is to provide a summary of the major findings of the Review, the Background Investigation and the Internal Control Review based on information available to the Board as at the date of this announcement.

THE BACKGROUND INVESTIGATION

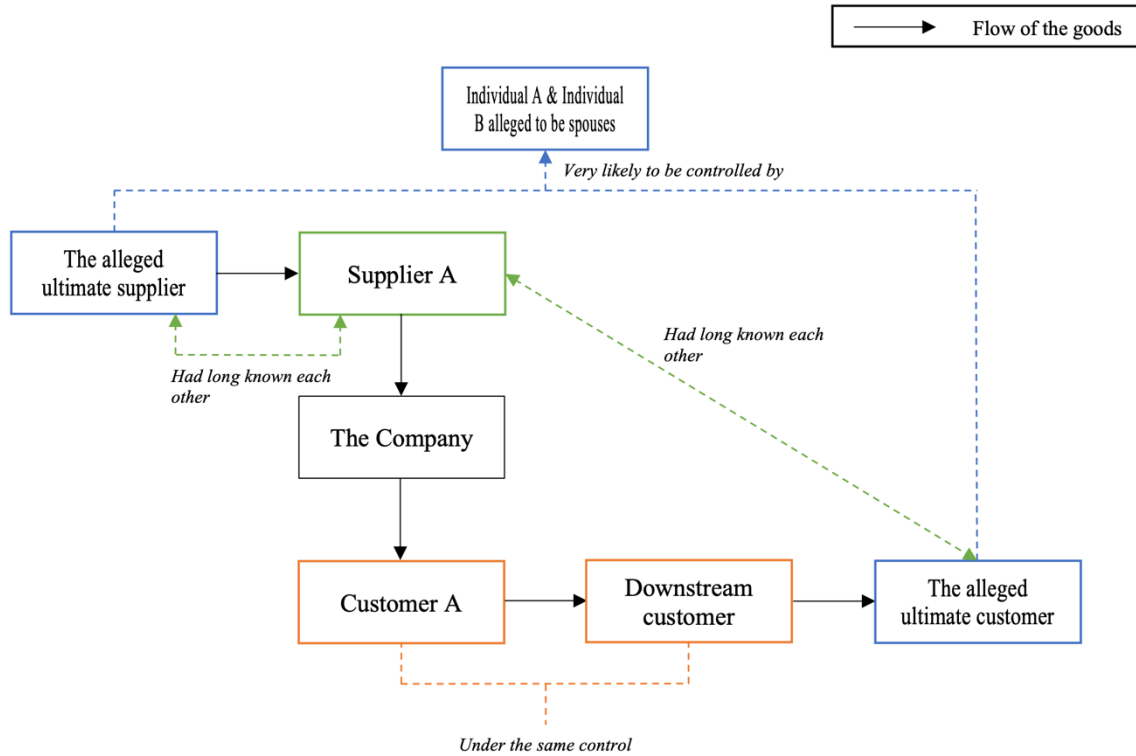
It was noted that three transaction relationships (the “**Transaction Relationship(s)**”) existed among the seven counts of Problematic Purchases, which involved the Three Suppliers who were respectively introduced to the Company by the two On-sale Customers (or their respective management or controller, as the case may be).

During the course of the Company’s continuous attempts to negotiate with the On-sale Customers and the Three Suppliers for refund or payments (as the case may be) concerning the Problem Goods, coupled with the internal investigation works conducted during such period, the Company came to the suspicion that the On-sale Customers (or their alleged ultimate customers) might have connections with the corresponding suppliers (or their alleged ultimate suppliers).

Against this background, and with a view to facilitating the Review in identifying the root cause(s) of the Problematic Purchases, the Company initiated the Background Investigation to look into the background of and relationships between the Three Suppliers and the On-sale Customers. The scope of the Background Investigation was designed to investigate, amongst others, (i) the suspected relationship between the customer and supplier (and their alleged controllers, as the case may be) under each of the three Transaction Relationships; (ii) whether there were collusion between the customer/supplier group under each of the three Transaction Relationships; and (iii) whether any of the then and existing Directors, management or employees of the Group who were responsible for the Electronic Products Business is/was related with the customers and/or suppliers of the Electronic Products Business.

Major findings of the Background Investigation

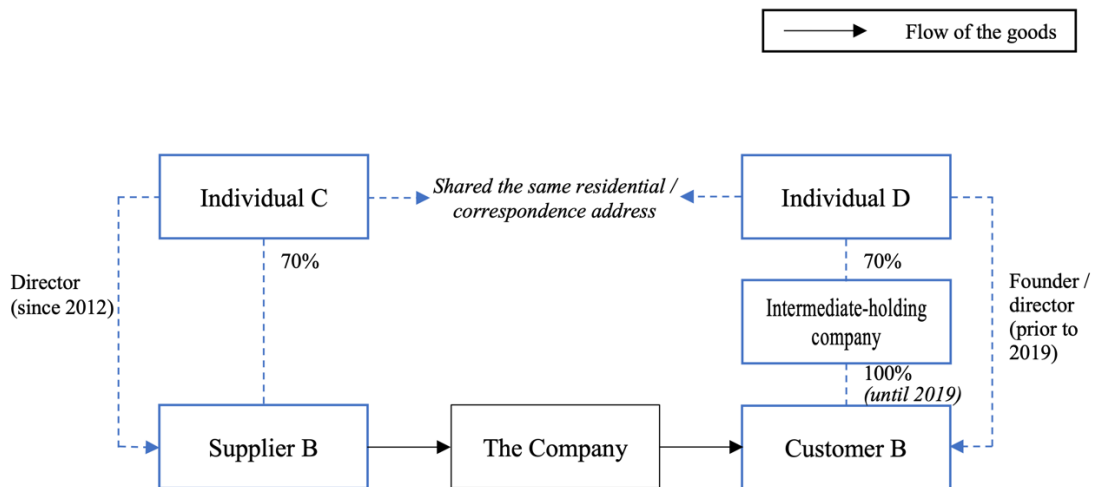
Transaction Relationship 1



In one of the Transaction Relationships (“**Transaction Relationship 1**”), based on the Background Investigation, it was very likely that (i) the alleged ultimate supplier and the alleged ultimate customer of Transaction Relationship 1 shared the same ultimate beneficial owners (“**Individual A and Individual B**”); (ii) the direct supplier of Transaction Relationship 1 (“**Supplier A**”) has long known the alleged ultimate beneficial owners of the alleged ultimate supplier and the alleged ultimate customer, and was an agent for the products of the alleged ultimate supplier; and (iii) the direct customer of Transaction Relationship 1 (“**Customer A**”) and its immediate downstream customer (the “**Downstream Customer**”) were under the same controller.

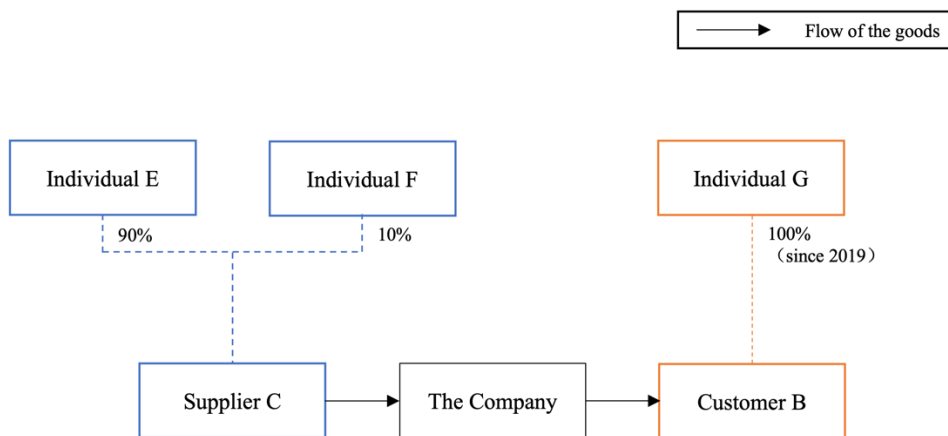
Accordingly, connections could be reasonably established or justifiably believed (i) among the alleged ultimate supplier, the alleged ultimate customer and Supplier A; and (ii) between Customer A and the Downstream Customer. However, no obvious connection was identified from the Background Investigation between alleged ultimate supplier, the alleged ultimate customer and Supplier A on the one hand, and Customer A and the Downstream Customer on the other hand, other than a mere assertion that their respective alleged ultimate controllers were acquainted, in Transaction Relationship 1.

Transaction Relationship 2



In another Transaction Relationship (“**Transaction Relationship 2**”), based on the Background Investigation, it was identified that one of the ultimate controllers of each of the direct supplier of Transaction Relationship 2 (“**Supplier B**”) and the direct customer of Transaction Relationship 2 (“**Customer B**”) shared the same correspondence / residential address. Accordingly, it was very likely that Supplier B and Customer B were related.

Transaction Relationship 3



In the last Transaction Relationship (“**Transaction Relationship 3**”), based on the Background Investigation, no connection was identified or established between the direct supplier and the direct customer of Transaction Relationship 3.

Relationship(s) between the Group's personnel and the customers and/or suppliers of the Electronic Products Business

No suspicious connection between the Directors, management or employees of the Group who were responsible for or involved (in varying degrees and/or capacities) in the Electronic Products Business on the one hand, and the customers and suppliers of the Electronic Products Business on the other hand was identified in the Background Investigation.

THE REVIEW

Scope of the Review

The Independent Expert, SHINEWING Financial Advisory Services Limited, has conducted the following review procedures during the Review to assess the Issues and the Three Concerns, including but not limited to:

- (i) the review of the procurement procedures and inventory management procedures of the Electronic Products Business, and the measures taken by the Company in relation to the Impairment Loss;
- (ii) the review of commercial justifications and internal policies and procedures for the Electronic Products Business segment, including to conduct interviews with the management and person-in-charge of each function in the sales and procurement cycle of the Electronic Products Business, and to identify if there are any potential wrongdoer(s);
- (iii) the performance of extended procedures on the Three Suppliers and the corresponding On-sale Customers, as well as the other suppliers and customers of the Electronic Products Business, and historical transactions of the Electronic Products Business, with the aim of understanding and confirming, among other things, the transaction details, terms and settlement status with the customers and suppliers of the Electronic Products Business on the historical transactions, and to identify if there were unusual fluctuations or discrepancies between transactions concerning the Three Suppliers and the On-Sale Customers on the one hand and other customers and suppliers on the other hand, which included, amongst others:
 - issuing confirmation letters to the suppliers and customers of the Electronic Products Business segment (including the Three Suppliers and the On-sale Customers) to confirm the transaction details, terms and settlement status;
 - conducting interviews with the management of the suppliers and customers of the Electronic Products Business segment (including the Three Suppliers and the On-sale Customers) to understand their relationships, the transaction details, terms and settlement status;

- reviewing all matched sales and purchase transactions conducted with the suppliers and customers of the Electronic Products Business segment (including the Three Suppliers and the On-sale Customers) and examine all related documentations;
 - performing analytical review on all historical sales and purchases transactions to identify any unusual fluctuations, including the terms and arrangement of the transactions related to the Three Suppliers and the On-sale Customers;
 - reviewing reports of the Background Investigation on the suppliers and customers of the Electronic Products Business segment (including the Three Suppliers and the On-sale Customers) and certain entities suspected / alleged to have inter-relationships; and
 - obtaining reasons from the management of the Group for any discrepancies between the findings of above review and the related records or internal procedures of the Group; and
- (iv) the performance of computer inspection of all personnel involved (in varying degrees and/or capacities) in the operation of Electronic Products Business with a view to identifying any suspicious activities and/or communications (the “**Computer Inspection**”).

Major findings of the Review

Based on the scope of the Review as set out above, the Independent Expert has the following major findings:

The First Concern – Root cause(s) leading to the Problematic Purchases

(1) Imprudent business planning and design

According to the business model of the Electronic Products Business, the Company generally requested a deposit of only 20% of the estimated product sales amount from its customers, whereas the Company would settle the corresponding product purchase amount in full to the supplier within a stipulated period after the receipt of goods by the Company. The balance of the remaining 80% of the sales amount would be settled by the customer typically after the Company paid to the suppliers, which implied that the Company would bear, at a minimum, inventory risk, product quality risk and credit risk, before the customer collects the goods and settles the balance.

While it was generally provided in the master sales contracts that, in case the customer failed to settle the 80% remaining sale amount, the Company could forfeit the deposit received and resell the goods to other alternative customers, the Independent Expert nevertheless considered that, with hindsight, the product quality risk of the goods was

not properly considered, and no written policies and measures were implemented (at least up to the later part of 2019) to address such risk.

Although the initial business proposal has considered certain risks arisen from the business model, the Independent Expert noted that the Company did not place any measures to tackle other risks, including inventory risk and quality risk, and underestimated the potential effects of such risks since the planning stage of the Electronic Products Business.

Therefore, the Independent Expert considered that the above imprudent business planning and design of the Electronic Products Business right from the beginning contributed as one of the root causes leading to the Problematic Purchases.

(2) *Weak governance and control environment*

The Independent Expert identified the responsible personnel for the executive and decision-making functions of the Electronic Products Business throughout its operation from 2018 to 2020 to comprise four personnel, including two former chief executive officers, the former chief operating officer and the former head of Business Department of the Company (collectively, the “**Operation Team**”).

Having studied the management discussions on the business design and planning before the commencement of Electronic Products Business, apart from the failure to place any risk-tackling measure on the inventory risk and quality risk mentioned above, the Independent Expert was also unable to identify any management with electronic products-related expertise assigned to the management structure before and after the commencement of Electronic Products Business.

From the background and past work experience of the staff whosoever participated in any of the decision-making, operation, review and approval processes of the Electronic Products Business, the Independent Expert noted that the main expertise deployed to the Electronic Products Business was more related to finance and accounting, supply-chain management and uranium trading.

In addition, the Independent Expert noticed that the risk management department of the Company (the “**Risk Management Department**”) alerted the then Operation Team and the management of the Company in multiple occasions about its concerns on the operation of Electronic Products Business. Such concerns include concerns over goods obsolescence, the authenticity of the goods, and the financial standing and credibility of specific suppliers and customers. Some of the concerns were also concurred by management of other departments of the Company involved in the transaction approval process (such as finance and accounting and company secretary). However, such risk management alerts were either not positively responded, or worse, ignored, by the Operation Team and, in case where any follow-up actions were taken, they were not taken in a way that indicate due care, which ultimately led to the Problematic Purchases.

The Independent Expert considered that the Problematic Purchases demonstrated major concerns over, without limitation, (i) the quality of the purchased goods; (ii) the source of the goods; and (iii) the credibility of the suppliers and customers, including the Three Suppliers and the On-Sale Customers, of the Electronic Products Business.

According to the Review, the lack of staff competency, ignorance of red flags of operation risks and lack of prudent approval procedures demonstrated weak governance and control environment on the Electronic Products Business, and contributed as one of the root causes leading to the Problematic Purchases.

(3) *Internal control deficiencies*

Aside from the lack of management expertise, the Independent Expert also noticed that such deficiency was not made good by the internal control system and procedures. All in all, a series of internal control deficiencies were identified as follows:

- (a) **incomprehensive inspection policy established but not followed** – an “Electronic Product Inspection Policy” was only formally established by the Company in November 2019 (more than one and half year since the commencement of the Electronic Products Business). Even so, relevant procedural guidelines as well as the inspection checklist were not stipulated to govern the quality check process in detail. Also, it was noted that the inspection policy was not fully complied with, more particularly the requirement to inspect and test incoming goods (notwithstanding the absence of relevant procedural guidelines), and, in the case where there were any practical difficulties, the requirement to complete physical verification;
- (b) **no independent inspection organisation was engaged by the Company for product verification** – it was noted that no independent inspection organisation had been shortlisted for the arrangement prescribed in the “Electronic Product Inspection Policy” to verify whether the technical details of the products align with the specifications. Despite so, the Independent Expert also conceded that there were no qualified third-party testing service providers being reasonably identified in Hong Kong;
- (c) **no proofs of originality of suppliers were obtained for verification** – as per the selected samples of the Independent Expert, it was noted that relevant proofs of originality of some vendors were not obtained for verification;
- (d) **no regular suppliers’ evaluation was conducted to assess the performance of suppliers** – it was noted that regular suppliers’ evaluation is not conducted to assess the performance of suppliers;
- (e) **no authenticity verification documents were obtained to avoid counterfeit products** – despite research regarding the prevailing market price would be performed to assess the reasonableness of the offering price of the products in

question, as per the selected samples of the Independent Expert, it was noted that relevant authenticity verification documents were not obtained to avoid counterfeit products;

- (f) **lack of comparison of business plan** – that the actual operation of the Electronic Products Business was different from the business plan, which was approved by the Board, whereas these deviations from the business plan were not formally reported to and approved by the Board;
- (g) **ignorance of red flags from the Risk Management Department of the Company** – that there were several risk alerts raised by the Risk Management Department in the course of the conducting of the Electronic Products Business. However, the Operation Team disregarded the risk alerts and continued to carry out business without formal explanations and justifications; and
- (h) **lack of due care on the part of the Operation Team** – that the Operating Team was not electronic products experts, who relied on the customers’ recommendations on the choice of suppliers. Lack of proper quotation process, failure to conduct proper quality test on the products, and the non-appointment of testing services providers by the Operation Team were noted. As a result, the Group failed to identify the substandard or refurbished products in a timely manner.

(4) *Implications on incompetency and lack of due care and skill on the part of management and staff of the Company*

Based on the above findings, the Independent Expert believed that the Operation Team generally lacks the competency relevant to the Electronic Products Business, and carried out their duties and responsibilities without sufficient due care and skills, particularly towards proper and/or balanced risk management considerations, ultimately allowing for the purchase of refurbished and counterfeit products, namely, the Problematic Purchases, and the entering into of transactions involving suspected colluding customers and suppliers. For further details on the suspected connections between the customers and suppliers, please refer to “The Background Investigation — Major findings of the Background Investigation” in this announcement below.

The Independent Expert also noted the Company’s view that a lax risk management approach was allowed to persist in favour of business growth during the course of the Electronic Products Business, which prompted the relevant operational management and personnel to take advantage to downplay legitimate risk management concerns, to the extent that risk concerns raised and advices given by the Risk Management Department were at times sidestepped and neglected by the Operation Team.

The lack of experience and expertise of the Operation Team in the industry also contributed to the problems as an aggravating factor, to the effect that, in several occasions even when Operation Team tried to address the concerns raised by the Risk

Management Department, no proper due diligence or no proper follow-up actions were taken to support their responses. Such lack of skill and competency, coupled with the lack of due care when conducting the business, are considered to be one of the major root causes leading to the Problematic Purchases.

The Second Concern – Whether there existed any staff misconduct or transfer of benefits

According to the findings from the Background Investigation and the investigation works conducted under the Review, the Independent Expert was not aware of (i) any employee of the Company having involved in any fraudulent activities or misconduct behaviour that led to the Problematic Purchases; (ii) any suspicious connection between Company's employees and the On-sale Customers and other customers of the Electronic Products Business; or (iii) any suspicious connection between Company's employees and the Three Suppliers and other suppliers of the Electronic Products Business.

The Independent Expert also was not aware of (i) any material difference in conducting business and transactions within the Transaction Relationships against those in other transactions of the Electronic Products Business; (ii) any material difference in conducting business with the Three Suppliers and the On-sale Customers against that with other customers and suppliers; (iii) any material difference in the terms of transactions between the Problematic Purchases and other transactions of the Electronic Products Business; and (iv) any material unexplained difference in gross profit margin in general between transactions with the On-sale Customers/Three Suppliers and other transactions of the Electronic Products Business.

The Third Concern – Whether there was quality issue on other goods purchased from the Three Suppliers

Procedures have been performed by the Independent Expert, including the attempts to confirm the transaction details, terms and settlement status with the customers and suppliers of the Electronic Products Business on the historical transactions by way of interviews and confirmation letters. However, due to the extended lapse of time from the cessation of entire Electronic Products Business, no positive feedbacks have been received save for the feedbacks from five customers/suppliers who (i) did not suggest there were any relationships between their respective companies and the Company (other than the business relationship arising from the Electronic Products Business); and (ii) did not suggest there were any fraudulent activities committed by the employees of the Group.

Despite the unsuccessful attempts, the Independent Expert carried out alternative procedures, including the review of all matched sales and purchase transactions conducted with the Three Suppliers or the On-sale Customers and examine all related documentations, the performance of analytical review on all historical sales and purchases transactions to identify any material discrepancies, including the terms and arrangement of the transactions related to the Three Suppliers and the On-sale Customers, and the review of all matched sales and purchase transactions conducted with other suppliers and customers (other than the Three Suppliers and On-sale Customers) to compare and contrast the key terms and arrangement. Based on the alternative procedures, the Independent Expert was not aware of, amongst others, any material

difference in the terms of transactions between the Problematic Purchases and other transactions of the Electronic Products Business.

Limitations of the Review

A summary of the major limitations encountered by the Independent Expert in its Review is set out below:

- (i) The Independent Expert was unable to interview all the selected suppliers and customers, including but not limited to two of the Three Suppliers and all of the On-Sale Customers. All of them did not respond to the interview invitations. The Independent Expert was unable to perform any alternative procedure on obtaining first-hand data and information from the selected suppliers and customers as a result of such limitation.
- (ii) The Independent Expert was unable to complete the circularisation procedures with all selected suppliers and customers, including but not limited to all of the Three Suppliers and all of the On-Sale Customers. Most of the confirmations sent to the selected suppliers and customers were either failed to be delivered or no returned confirmation received. The Independent Expert was unable to perform any alternative procedure on obtaining first-hand data and information from the selected suppliers and customers as a result of such limitation.
- (iii) The Independent Expert was unable to obtain sufficient industry information that was comparable to the Group's business model.
- (iv) The Independent Expert was unable to conduct data imaging and preservation of the server emails since (a) the email server of the Company was operated by an external service provider who restricted the performance of data imaging and preservation of such data; and (b) the backup of the server emails would only be kept for 30 days such that the backup would not cover any data generated during the review period. As an alternative procedure, the Independent Expert conducted data imaging and preservation of the archived emails stored in selected staff's computer devices, however, the archived email may not be complete due to possible issues of user deletion, failure in synchronisation with email server or individual hardware failure. In addition, this alternative procedure could not allow the Independent Expert to obtain the server emails of all users of the Company. Despite such limitation, the Independent Expert had conducted the aforesaid procedures to the extent feasible and practicable on the review coverage on the Computer Inspection.
- (v) The Independent Expert was unable to trace back to the goods dispatched and goods received for 12 transactions out of 354 transactions due to missing records.

THE INTERNAL CONTROL REVIEW

The objectives and scope of the Internal Control Review

The key objectives of the Internal Control Review are to assess and identify significant weaknesses in the relevant procedures, systems and controls of the Group in relation to its existing business operations, and to report findings and make recommendations for the enhancement of the internal control of the Group.

The scope of work of the Internal Control Review includes, amongst others, evaluation of the existing policies, procedures or control at both the entity level, the activity level and on the compliance of certain Listing Rules and regulations over selected process of the Group to identify weaknesses in the relevant procedures, make recommendations for improvement and assessing whether the Company have taken adequate remedial measures to rectify the weaknesses by performing the internal control follow-up review of the Group.

The Internal Control Review covers, amongst others, the following aspect of the Group for the period from 1st January, 2021 to 31st December, 2021 (with a follow-up review from 1st January, 2022 to 5th July, 2022 for assessing the remediation status of the deficiencies identified):

- Entity-level review under the internal control framework issued by the Committee of Sponsoring Organisation of the Treadway Commission: control environment, risk assessment, control activities, information and communication, and monitoring;
- Activity-level review: financial close reporting process, revenue and accounts receivable management, cost of services and other operating expenses, inventory management, bank and cash management, fixed assets management, human resources and payroll process, taxation, insurance, and review on information technology general controls; and
- Review of compliance procedures of certain Listing Rules and regulations: Chapter 13 (continuing obligations), Chapter 14 (notifiable transactions), Chapter 14A (connected transactions), Appendix 14 (corporate governance code), Appendix 16 (financial information) of the Listing Rules, and Part XIVA of the Securities and Futures Ordinance (disclosure of inside information).

Major findings of the Internal Control Review

Based on the Internal Control Review, 15 internal control deficiencies have been identified, which included deficiencies on the existing business segment and the internal control system and procedures of the Group. The breakdown of the 15 internal control deficiencies in terms of risk ratings is as follows:

Review process	Risk rating			Total
	High	Medium	Low	
Entity-level review		– (Note 1)		4
Activity-level review	1	4	3	8
Review of compliance procedures of certain Listing Rules and regulations		– (Note 1)		3
				15

As regards the four internal control deficiencies identified under entity-level review, two were related to control environment deficiencies, which included (i) absence of policies and procedures for conflict of interests and failure to declare potential conflict of interests on an annual basis; and (ii) lack of a formalised succession plan for key management functions, while the remaining two were related to control activity deficiencies, more specifically (iii) lack of written policies and procedures to provide employees with relevant references and procedural guidelines in certain areas (*Note 2*); and (iv) failure to formalise relevant approval processes effected under the Company's office automation system into comprehensive written policies and the lack of a whistle-blowing mechanism.

On the other hand, a total of eight internal control deficiencies were identified under activity-level review, including one categorised as high risk (which concerned information technology general control on accounting system management (*Note 3*)), four categorised as medium risk (relating to financial closing processes (*Note 4*), bank management (*Note 5*), IT management (*Note 6*), and staff recruitment and resignation (*Note 7*), and three categorised as low risk (relating to the absence of regular assessment on the existing clients, lack of proper tagging system for fixed assets, failure to submit tax computation to financial controller for review before filing, and failure to retain tax computation with evidence of review).

Moreover, from the review on compliance procedures of certain Listing Rules requirements and requirements under the Securities and Futures Ordinance, three deficiencies in the areas of corporate governance framework, compliance procedures and related party/connected transactions were identified. Findings under these deficiencies included, amongst others, failure to send meeting agenda and accompanying board papers to all directors at least three days prior to board meetings, failure to enter into service agreement with two non-executive directors, failure to timely update the corporate governance policies and procedures, an absence of formal and written policies and procedures for compliance with the Listing Rules requirements and the requirements under the Securities and Futures Ordinance, and absence of a related party list and formal mechanism to identify, report and approve the related party/ connected transactions. Despite such findings, the Internal Control Consultant observed that, prior to the Internal

Control Review and the establishment of the written policies as recommended by the Internal Control Review, the Group engaged an external legal adviser for advice-seeking over continuing compliance obligations and relied on the knowledge and experience of the Company Secretary of the Company, Mr. Philip Li (who has assumed such position since November 2008), to comply with all the requirements of the Listing Rules and the continuing obligations of the Company. Mr. Philip Li is a fellow member of the Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Certified Public Accountants, and has over 30 years of experience in financial management.

Notes:

1. No risk ratings have been assigned to such review processes.
2. Namely, (i) financial close reporting process; (ii) revenue and accounts receivable management; (iii) cost of services and other operating expenses; (iv) inventory management; (v) human resources and payroll process; (vi) taxation; and (vii) review on information technology general control.
3. Mainly (i) access right in accounting system not properly granted according to the personnel's respective roles and responsibilities; and (ii) no written evidence retained for the requisition and approval for amendments to chart of accounts in the accounting system.
4. Namely, (i) the failure in establishing a formal timetable and checklist to specify the month-end financial closing procedures and the corresponding person-in-charge to standardise the procedures; (ii) the failure in carrying out system closing after month-end closing procedures to prevent unauthorised change; (iii) the absence of evidence of review by financial controller in relation to some accounting vouchers; and (iv) the failure to record some of the expenses in accrual basis.
5. Namely, (i) the failure to prepare reconciliation statements and keep audit trail in case where there was no variance noted between the bank balances in the accounting system and the bank statements; and (ii) the failure to retain voided cheques and keep audit trail.
6. Namely, (i) the non-establishment of an IT department; (ii) the failure to maintain problem log is maintained for tracing the issues encountered and recording the status of maintenance; (iii) the failure to keep written evidence of initiation and approval for the creation or modification of user accounts in accounting system; (iv) the failure to perform periodic review performed on the user rights of all systems; (v) the failure to retain data restoration testing record on the back-up system; (vi) the failure to set restrictions for staff to download the software/ applications from the Internet; and (vii) the failure to maintain a software list to record the details of all licensed software acquired.
7. Namely, (i) the failure to file Form IR56E (Notification by an employer of an employee who commences to be employed) to the Inland Revenue Department of Hong Kong within the stipulated timeframe; and (ii) the failure to obtain acknowledgment from the resigning staff on the amount of final payment and its release day.

Results of the Internal Control Review

The management of the Company acknowledged and agreed with the review results of the Internal Control Review. Immediate actions have been taken to address the internal control deficiencies, and as at the date of this announcement, all internal control deficiencies have been fully rectified by the Company. The rectification measures aimed at reducing the related risks

to a reasonable level, which include, but are not limited to, the set-up or enhancement of internal control policies and manuals, performance of periodic review of the policies and procedures, refiling of statutory forms, reassignment of access rights in the systems, and enhancement of the staff training system and policy.

OVERALL RESPONSES OF THE BOARD, THE AUDIT COMMITTEE AND THE INDEPENDENT DIRECTOR COMMITTEE

The Board, the Audit Committee and the Independent Director Committee have reviewed the content and the findings of (i) the Review; (ii) the Background Investigation; and (iii) the Internal Control Review, in their corresponding reports (collectively, the “**Investigation Reports**”).

The Independent Director Committee is of the view, which the Audit Committee and the Board concurred, that, having taken into account the practical limitations not controllable by the Company (e.g., the time lapse since the occurrence of the Problematic Purchases, the uncooperative customers and suppliers) encountered by the Review, the Review represented a best-effort attempt, having carried out appropriate and reasonably practicable procedures and having the full support and cooperation by the Company, and has investigated into the Issues, and that the content and the findings of the Investigation Reports are reasonable and acceptable.

The Independent Director Committee is of the view, which the Audit Committee and the Board concurred, that, based on the findings available from the Investigation Reports, (i) there were significant internal control weaknesses, in terms of both the control environment and the implementation, concerning the Electronic Products Business; (ii) there were obvious downplaying (and at times disregard) on risk management and lack of due care and skills involved on the part of the Operation Team; and (iii) the combination of system and human factors was the principal root causes leading to the Problematic Purchases, which together contributed to the failure on the part of the Company to detect and identify the Problematic Purchases, and ultimately led to the happening of the Problematic Purchases and the involvement of the Company in transactions that were of doubtful commercial substance.

In relation to the four personnel of the Operation Team identified in the Review, the two former chief executive officers of the Company have resigned as of the date of this announcement, both due to the policy of regular rotation of managerial personnel of the Group, whilst the Group has terminated the employment of the other two personnel of the Operation Team with effect from July 2022, due to the findings from the Review, and has since been removed from all positions of the Group (the “**Employment Termination**”). The Independent Director Committee is of the view, which the Audit Committee and the Board concurred, the Employment Termination is appropriate and proportionate to the magnitude and seriousness of the lack of due care and skills during their services with the Group that ultimately led to the Problematic Purchases and the consequential Impairment Loss, and is satisfied that such course of action taken was reasonable in the circumstances.

Provided the fact that (i) the Electronic Products Business has completely ceased; (ii) the relevant four personnel principally responsible for the Electronic Products Business at the

relevant time, being the Operation Team, has either been resigned or removed from all positions of the Group; and (iii) the internal control deficiencies identified in the Internal Control Review have been rectified, with enhancement measures taken to improve the internal control environment, the Independent Director Committee is of the view, which the Audit Committee and the Board concurred, that the Company has sufficiently rectified the root causes leading to the Problematic Purchases to the extent possible, and is satisfied that there exists sufficient safeguards and measures to avoid events similar to the Problematic Purchases from happening again in the continuing business(es) of the Group.

The First Concern

Regarding the First Concern, the Independent Director Committee is of the view, which the Audit Committee and the Board concurred, that the root causes of the Problematic Purchases were, as identified in the Review, the substantial weaknesses in internal control and procedures in terms of both the control environment and the implementation of the internal control and risk management measures, coupled with the lax risk management approach towards the Electronic Products Business, the failure to exercise due care and skill by the Operation Team and their generally un-attentive attitude towards risk management in conducting the business.

Such internal control deficiencies gave rise to a loosely-monitored environment for the Operation Team to continue their substandard practices, whereas the lax risk management approach also gave rise to the failure to maintain a proper check and balance. The combination of such system and human factors was then exploited by the colluded customers and suppliers of the Company to conduct transactions with suspicious commercial rationale through the Company, leading to the Problematic Purchases.

The Second Concern

As supported by the Review and the Background Investigation, the Independent Director Committee is of the view, which the Audit Committee and the Board concurred, that, save for the failure on the part of the four personnel of the Operation Team in enforcing proper risk management system and operational environment while pursuing business growth, and in exercising sufficient due care and demonstrating proper attitude towards risk management when conducting the business, as well as their lack of skills and requisite competency, there is no suggestion of fraudulent acts, nor intentional misconduct, nor transfer of benefits by the members of the Board, the management or the employees of the Group relating to the Problematic Purchases.

The Third Concern

Since all products, other than the Problem Goods and certain quality allegations with no further follow-up actions taken against the Group, ever purchased from the Three Suppliers were duly sold and collected by customers without receiving material claims for damages in respect of the quality of the goods, and the Problem Goods from the Problematic Purchases represented all the inventory of the Electronic Products Business left with the Company, it was considered not

feasible to conduct product inspection on the other sold products which have long been sold and collected by customers.

Having considered that the alternative procedures carried out to remedy the failure in conducting interviews and/or seeking confirmations from the suppliers and customers of the Electronic Products Business, the Independent Director Committee is of the view, which the Audit Committee and the Board concurred, that it is reasonable to draw the conclusion that there was no suggestions of quality issue on other goods purchased from the Three Suppliers, which the limitations in failing to conduct interviews and/or seeking confirmations would not affect the conclusion of the findings.

Views on whether the Three Concerns have been addressed

Due to the bases set out above, the Independent Director Committee is of the view, which the Audit Committee and the Board concurred, that the Review has demonstrated the best efforts to address, and has addressed, the Three Concerns to the extent possible and practicable.

The Internal Control Review

The Independent Director Committee is of the view, which the Audit Committee and the Board concurred, that (i) all the internal control deficiencies identified in the Internal Control Review have been fully remediated and the related risks have been managed to an acceptable level; (ii) the remedial actions and enhancement measures implemented by the Group are adequate and sufficient; and (iii) the Company has in place adequate internal controls and procedures to meet the obligations under the Listing Rules.

Impact on the Company's business operation and financial position

As the Electronic Products Business has been ceased entirely, and per the Internal Control Review, all the internal control deficiencies of the Company identified have been fully rectified, whereas enhancement measures have also been in place to improve the internal control environment, the Board considered that no material adverse impact has been brought by the Problematic Purchases onto the continuing business operation of the Company. The Board also considered that, other than the Impairment Loss, which was one-off in nature, no material adverse impact has been brought by the Problematic Purchases onto the financial position of the Company.

CONTINUED SUSPENSION OF TRADING

Pursuant to Rule 13.50 of the Listing Rules, the Stock Exchange will normally require suspension of trading in an issuer's securities if an issuer fails to publish periodic financial information in accordance with the Listing Rules, and the suspension will normally remain in force until the issuer publishes the requisite financial information. At the request of the Company, trading in the Shares on the Stock Exchange has been suspended with effect from 9:00 a.m. on 30th April, 2021, and will remain suspended until further notice.

The Company will publish further announcement(s) to keep the Shareholders and potential investors informed of the status and development of the Company as and when appropriate, as well as announce quarterly updates on its development pursuant to Rule 13.24A of the Listing Rules.

By order of the Board
CNNC International Limited
中核國際有限公司
Li Philip Sau Yan
Company Secretary

Hong Kong, 15th August, 2022

As at the date of this announcement, the Board comprises non-executive director and chairman, namely Mr. Zhong Jie, executive director and chief executive officer, namely, Mr. Zhang Yi, non-executive director, namely, Mr. Wu Ge and independent non- executive directors, namely, Mr. Cui Ligu, Mr. Zhang Lei and Mr. Chan Yee Hoi.