CHINA TANGSHANG HOLDINGS LIMITED
中國唐商控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 674)

RESULTS OF INTERNAL CONTROL REVIEW

Reference is made to the news release published by The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 14 April 2021 (the "**News Release**") and the announcement of China Tangshang Holdings Limited (the "**Company**", and together with its subsidiaries, the "**Group**") dated 29 April 2021 (the "**Announcement**") in relation to, among other things, the appointment of internal control adviser to conduct a thorough review of and make recommendations to improve the Company's internal controls and to ensure compliance with Chapters 13 and 14 of the Rules Governing the Listing of Securities on the Stock Exchange ("**Listing Rules**").

INTERNAL CONTROL REVIEW REPORT

The Company has appointed Zewada Risk Advisory Limited (the "**Internal Control Adviser**") as its independent professional adviser to conduct a thorough review (the "**Internal Control Review**") of and make recommendations to improve the Company's internal controls and to ensure compliance with Chapters 13 and 14 of the Listing Rules.

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

A. Entity Level

1. Disclosure event identification and handling procedures were too brief and did not communicate effectively to business units (Risk level: Medium)

The Company established a few disclosure handling procedures, including "Financial Reporting and Disclosure Monitoring Procedure"(財務報告及披露監控管理制度), "Information Disclosure Policy" (信息披露政策) and "Risk Investment Management Procedure" (風險投資管理辦法), the procedures required the management of the business units to report transactions or business development activities, which are potentially require disclosure, to the regulation committee and the holding company. However, it is noticed that the procedures are not clear enough to elaborate on matters such as who should be responsible for the reporting procedure and in what situation the responsible person should report an event. Currently, those details are communicated with staff at the business unit level verbally or informally by chief financial officer and the financial manager and company secretary only.

Recommendations:

The Internal Control Adviser recommended the management of the Company to:

(a) review and update the procedures, include assigning responsible staff, specifying when the procedures should be executed and indicating what should be done. The procedures should also be aligned regularly with the up-to-date disclosure requirements.

(b) review the local policy of business units to identify conflicts with the updated procedures. In case of conflict exists, the local policy should be updated promptly.

(c) distribute and clearly communicate the updated procedures (and if necessary, the updated local policy of business units) to all responsible staff and ensure they fully understand their duties and the consequence of failing to fulfil their reporting duties.

B. Process Level — Disclosure event identification and handling procedures

1. Irrelevant/incomplete guideline provided to staffs in business units for identifying disclosure event (Risk level: High)

An internal guideline "List of the type of events or circumstances which might constitute inside information" (可能構成內幕消息的事項清單) was formulated to guide staff on what should be reported to the holding company for disclosure. However, the guideline was based on the "Guidelines on Disclosure of Inside Information" issued by the Securities and Futures Commission, which is not designed for fulfilling disclosure requirements under the Listing Rules. The Company also provided another list to the staffs of business units for identifying disclosure events. However, the list contains only a few scenarios which is insufficient to identify all events that potentially require disclosure under the Listing Rules. It is also noticed that no formal training is provided to the staffs at the business units level regarding how to identify events require disclosure.

Recommendations:

The management of the Company is recommended to update the internal guideline to cover all scenarios that require disclosure or actions to be taken by the holding company under the Listing Rules. Training should be provided to all relevant staffs of business units to make sure they understand their responsibility and who should the events be reported to.

2. The authorization level for the contract approval process did not set properly (Risk level: High)

Even though the regulation committee plays an essential role in ensuring timely disclosure and ensure the Company takes proper actions according to the Listing Rules, the contract approval process did not require to go through the regulation committee and seek their approval, instead, it only requires informing the regulation committee.

Recommendations:

The management of the Company is recommended to update the contract approval procedure of business units and include the responsible person of the regulation committee in the approval process, the responsible person shall not approve the contract until all requirements under the Listing Rules are fulfilled.

3. ***Absent of formal documentation to clarify the responsibility of members in regulation committee and the arrangement while the responsible person is in vacancy (Risk level: High)***

The responsible person of the regulation committee is responsible for informing the holding company to trigger the disclosure process, including the appointment of legal counsel to reconfirm the need for disclosure and arrange disclosure or other necessary actions, when the discloseable events are known. However, there is no formal documentation to specify which members in the regulation committee should take up the responsibility of the responsible person if it is in vacancy.

Recommendation

The management of the Company is recommended to establish a term of reference for the regulation committee, the term of reference document should clarify the responsibility of the committee members and responsible person. It should also indicate who should be responsible to take up the role of the responsible person when it is in vacancy. It is also recommended that the responsible person should receive sufficient training to carry out his/her duties.

4. ***No master list of contracts at business unit level to enable monitoring control activities (Risk level: Medium)***

There is no master list of contracts prepared at the business unit level, the holding company cannot establish effective detective control activities to identify missing disclosure incident.

Recommendation

The management of the Company is recommended to establish a master list of all contracts for each business unit, indicating the nature and amount of each contract and all necessary information to enable detection of missing disclosure.

5. ***The finance department of the holding company did not implement control activity for ongoing monitoring purpose (Risk level: Medium)***

The finance department of the holding company did not involve in the contract formulating and approval process, and only passively receive notification from business unit when a transaction that might require disclosure is occurred.

Recommendation

The management of the Company is recommended to establish an ongoing monitoring procedure to actively detect a potential delay in disclosure by requesting a list of contracts from all business units on regular basis. The list should include the nature and amount of the contract such that the reviewer can determine if the contract constitutes disclosure obligation.

The board of Directors (the "**Board**") confirmed that the Board agrees to implement all recommendations of the Internal Control Adviser. Pursuant to the directions of the Listing Committee of the Stock Exchange, the Company has submitted the written report of the Internal Control Adviser containing its recommendations to the Listing Division of the Stock Exchange (the "**Listing Division**") within two months from the date of the News Release and will furnish the Listing Division with the Internal Control Adviser's written report on the Company's full implementation of the said recommendations within a further period of two months.

By Order of the Board
China Tangshang Holdings Limited
Chen Weiwu
Chairman

Hong Kong, 24 June 2021

As at the date of this announcement, the executive Directors are Mr. Chen Weiwu (Chairman) and Mr. Zhou Houjie; and the independent non-executive Directors are Mr. Chen Youchun, Ms. Lui Mei Ka and Mr. Zhou Xin.