

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

Tianyun International Holdings Limited

天韵國際控股有限公司

(Incorporated in the British Virgin Islands with limited liability)

(Stock Code: 6836)

KEY FINDINGS OF INTERNAL CONTROL REVIEW

This announcement is made by the board of directors (the “**Board**”) of Tianyun International Holdings Limited (the “**Company**” and, together with its subsidiaries, the “**Group**”) pursuant to Rule 13.09(2)(a) 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 Company’s announcements dated 31 March 2022 and 8 April 2022 in relation to the delay in publication of the unaudited and audited annual results of the Group for the year ended 31 December 2021 and suspension of trading in the Company’s shares (the “**Shares**”) since 1 April 2022; (ii) the Company’s announcement dated 29 April 2022 in relation to, amongst others, the establishment of an investigation committee to investigate into the unauthorized transaction(s); (iii) the Company’s announcement dated 12 May 2022 in relation to the Stock Exchange’s guidance to the Company for the resumption of trading in the Shares (the “**Resumption Guidance**”); (iv) the Company’s announcement dated 16 May 2022 in relation to the change of auditors of the Company; (v) the Company’s announcement dated 30 June 2022 in relation to quarterly update on the progress of resumption of trading in the Shares; and (vi) the Company’s announcement dated 29 July 2022 in relation to key findings of the independent forensic investigation and potential deconsolidation of subsidiaries (the “**Forensic Investigation Announcement**”) (collectively, the “**Previous Announcements**”).

Capitalised terms used in this announcement have the same meanings as defined in the Previous Announcements unless defined otherwise herein.

BACKGROUND

Trading of the Shares has been suspended since 1 April 2022 pending the release of the Company’s audited annual results for the financial year ended 31 December 2021 (“**FY2021 Audited Results**”). One of the Resumption Guidance stipulated by the Stock Exchange requires the Company to conduct an independent internal control review (“**IC Review**”) and demonstrate that the Company has in place adequate internal controls and procedures to meet its obligations under the Listing Rules.

In order to fulfil such resumption guidance, the Company engaged Elite Partners Risk Advisory Services Limited (“**Elite Partners Risk Advisory**”) on 18 May 2022 to conduct the IC Review and to prepare a report on the IC Review findings (“**IC Review Report**”). The IC Review covers the Group’s internal control systems for the period from 1 July 2021 to 30 June 2022.

On 5 August 2022, the audit committee of the Board (the “**Audit Committee**”) reported the results of the IC Review to the Board. The Board has reviewed and approved the IC Review report on the same day.

This announcement summarises the key findings of the IC Review and the views of the Audit Committee and the Board.

SCOPE OF THE IC REVIEW

The following set forth the scope of the IC Review performed by Elite Partners Risk Advisory:

- (i) reviewing the control policies and procedures over the subsidiaries of the Company;
- (ii) reviewing the control policies and procedures over the payment of the Group;
- (iii) reviewing the control policies and procedures over the financial reporting procedures of the Group; and
- (iv) reviewing crucial internal control procedures of the Group, namely risk management, corporate governance, financial recording procedures, investment procedures, treasury function, sales and receipts, capital expenditure and human resources management.

LIMITATION ON SCOPE OF THE IC REVIEW

The findings of the IC Review were subject to certain limitations. Elite Partners Risk Advisory was not provided with any documents or information related to Tiantong Food (Yichang) Limited* (天同食品(宜昌)有限公司) (“**Tiantong Yichang**”) and Tiantong Yichang’s wholly-owned subsidiary, Tiantong Food and Beverages (Yuanan) Limited* (天同食品飲料(遠安)有限公司) (“**Tiantong Yuanan**”) (collectively referred as the “**Subsidiaries**”) for review. As such, Elite Partners Risk Advisory was unable to assess any significant issues regarding the internal control of the Subsidiaries and the Subsidiaries were excluded from the scope of the IC Review.

As disclosed in the Forensic Investigation Announcement, the PRC Legal Adviser opined that the Company has lost control of the Subsidiaries from 23 December 2021 when Mr. Li, the then legal representative, director and general manager of the Subsidiaries, and the finance staff of the Subsidiaries blatantly ignored the Group’s internal control procedures and made the Unauthorized Transfer.

METHODOLOGY AND PROCEDURE OF IC REVIEW

Elite Partners Risk Advisory undertook the following procedures and methodology for the IC Review:

- (i) understanding the operational, financial and compliance risks and risk management policy;
- (ii) understanding the control environment, risk assessment procedures, control activities, information and communication system and monitoring activities;
- (iii) understanding the internal control system;

- (iv) enquiring and interviewing the management or relevant employees;
- (v) observing and inspecting the actual control procedures;
- (vi) inspecting and reviewing the control documents;
- (vii) consolidating the observation and results of the IC Review; and
- (viii) discussing with the management and make recommendations.

Elite Partners Risk Advisory categorised the internal control deficiencies identified from the IC Review into high and medium risk levels. The internal control deficiencies were rated based on the deficiencies' adverse effect on the Group and the likelihood of resulting in significant financial risk to the Group. The following illustrates how the internal control deficiencies are categorised:

Risk Level	Effect and action required
High	The Company does not have main control over the internal control deficiency identified and immediate action is required to address the issue.
Medium	The Company should address the internal control deficiency to complete the internal control system. Actions should be taken to address the issue within reasonable time.

The purpose of the rating is to assist the Board with the formulation and implementation of the action plan to address the internal control deficiencies identified by setting the handling priority.

KEY FINDINGS OF THE IC REVIEW

Elite Partners Risk Advisory identified 7 key internal control deficiencies, with 2 deficiencies categorised as high risk and the remaining 6 deficiencies categorised as medium risk. As at the date of this announcement, the Company has already taken rectification measures to address the key internal control deficiencies.

Set out below is a summary of (i) the internal control deficiencies that Elite Partners Risk Advisory has identified; (ii) the implication of the internal control deficiencies identified; (iii) the recommendations for the rectification of the internal control deficiencies; (iv) the responses from the Company; and (v) the remedial status of the internal control deficiencies as at the date of this announcement.

High Risk Level Internal Control Deficiencies

1. Loss of Control of the Subsidiaries

Findings

The Company lost control of the Subsidiaries and information of the Subsidiaries was not provided to Elite Partners Risk Advisory. The legal representative, director and general manager of the Subsidiaries, Mr. Li, refused to cooperate with the management of the Company and he has significant influence over the local staff. Although the management of the Company has tried to reconnect with Mr. Li and the person in charge of the financial department of the Subsidiaries, no response was received by the Company.

Implications

Loss of control of major operating subsidiaries in the Group's principal business may cause significant damage to investors' interest. The Group may face potential going concern and insufficient operation issues.

Recommendations

The Company should improve its internal control system so that it can exercise control over all of its subsidiaries by ensuring that:

- (i) the legal representative of the PRC subsidiaries shall be a member of the Board of the Company;
- (ii) the financial department of the PRC subsidiaries shall directly report to the financial controller or chief financial officer of the Group;
- (iii) the Company shall consider any legal action against any of its significant personnel who violate their duties or responsibilities and has led to significant loss of the Group; and
- (iv) emergency procedures shall be established, such as setting up team of legal and financial experts, to prevent and control potential loss of control of subsidiaries.

Company's response

The Board agreed with the recommendations and would introduce the recommendations into its internal control system.

Remedial Status

Elite Partners Risk Advisory considered that the recommendation has been implemented. The legal representatives of major subsidiaries of the Company is a member of the Board of the Company. The financial department of major subsidiaries of the Company now directly report to the financial controller of the Company.

2. Non-Compliance with Listing Rules regarding publication of FY2021 Audited Results

Findings

The delay in the publication of the FY 2021 Audited Results have led to non-compliance with the Listing Rules. The delay is attributable to the unauthorized transfer and the loss of control over the Subsidiaries.

Implications

The delay in the publication of FY 2021 Audited Results led to the suspension of trading in the Shares since 1 April 2022.

Recommendations

Elite Partners Risk Advisory recommends the Company to establish certain mechanism to ensure adherence to the timing requirement of financial reporting under the Listing Rules.

The Company should ensure that:

- (i) monthly management account of each subsidiary is obtained;
- (ii) analysis of variance in the key financial items of the major operating subsidiaries must be performed;
- (iii) the Company communicates with the management of the major operating subsidiaries; and
- (iv) representative(s) of the Company regularly visit the major operating subsidiaries to make sure that the necessary accounting records are well maintained.

The Company should implement the following procedures for the occurrence of extreme event:

- (i) inform the Audit Committee immediately upon occurrence of the extreme event;
- (ii) consult legal and compliance advisor for potential solutions of the extreme event;
- (iii) appoint independent third parties to verify the situation and assess the effect of the extreme event;
- (iv) communicate with Audit Committee for implementation of the solution; and
- (v) issuance of Annual Report.

Company's response

The Board agreed with the recommendations and will introduce the recommended mechanisms and procedures into the financial reporting policies and procedures of the Group.

Remedial Status

Elite Partners Risk Advisory has reviewed the updated financial reporting policy adopted by the Group and considered its recommendation to have been implemented.

Medium Risk Level Internal Control Deficiencies

3. High reliance on external leadership on risk management

Findings

The Company has appointed reputable external third party to perform review on the risk management and internal control system of the Group each year. The external third party had issued report which include risks associated with the Group's business and operations and the findings of internal control review.

Except for appointing the external third party to perform annual review, the Company did not adequately implement risk and control leadership internally and the current approach of risk management remain at top management level but not down to the operation level.

Implications

External professional consultant can assist the Company to address the major risks and internal control weakness on a regular basis. The management shall have the primary responsibility to promote or develop risks and controls leadership internally to avoid over reliance on external professional consultant.

Recommendations

The top management of the Group shall develop internal risks assessment procedures to identify risks and develop controls leadership with an emphasis on the importance of risks management and internal control. In particular, the Company shall adopt the following procedures:

- (i) update the leadership of risks management and controls in the staff manual of the Group;
- (ii) provide training or briefings to the newly appointed staff regarding the requirement of risk management and internal control; and
- (iii) address the reporting line if the staff notes any irregular activities during their normal work.

Company's response

The Board accepted the recommendations and will promote and enhance the risk managements and internal control systems of the Group. The Board would like to address that the Group has sound internal control system in place.

Remedial Status

Elite Partners Risk Advisory considered that the Group has implemented the recommendations after reviewing the updated staff manual of the Group and circulated internally within the Group.

4. Absence of Corporate Governance Manual and Comprehensive Induction Package for newly appointed directors

Findings

The Company did not establish a corporate governance manual in accordance with the Listing Rules and did not provide a comprehensive, formal and tailored induction upon the appointment of new directors and such briefing and professional development as is necessary thereafter in accordance with Code provision C.1.1 of the Corporate Governance Code.

Implications

The Company faced difficulties in ensuring that every newly appointed director of the Company has a proper understanding of the Company, the business and governance policies of the Company and their duties as directors under the relevant legal and regulatory requirements.

Recommendations

Elite Partners Risk Advisory recommends the Company to establish and properly circulate to the Board, management and all staff a corporate governance manual and policy and produce a comprehensive induction package for directors in accordance with Appendix 14 to the Listing Rules.

Company's response

The Board agreed with the recommendations and will establish corporate governance manual and produce a comprehensive induction package for orientating the new directors, which covers the duties and responsibilities of the directors under relevant laws and regulations and an introduction of the business and operations of the Company.

Remedial Status

Corporate governance manual and policy and comprehensive induction package for directors have been established and circulated to relevant directors and staff on 4 August 2022.

5. Lack of regular updates on the internal control manual

Findings

The internal control manual and policies of the Group have not been reviewed and updated properly. Such manual and policies only cover the Company and three other subsidiaries of the Group, which does not include the Subsidiaries.

Implications

The internal control procedures may not be followed by the Group and any significant weakness may result in financial losses of the Group.

Recommendations

The Company should review and update its internal control manual and policies at least once a year and provide training to the relevant staff to ensure their knowledge of the change of control procedures. For newly acquired business, the Company shall also provide training to relevant staffs to ensure their understanding on the requirement on a listed company.

Company's Response

The Board agreed with the recommendations and will review the current internal control manual and policies to fulfil the requirement of the relevant listing rules.

Remedial Status

Elite Partners Risk Advisory conducted a follow up review on the updated internal control manual of the Company and considered that the recommendations have been implemented.

6. Comprehensive investment policies and procedures are required to improve the investment decision

Findings

Although no investment was made by the Group during the year ended 31 December 2021 and the Company maintains a simple investment policy, the implementation of post-investment monitoring and controlling measures was insufficient.

Implications

The management of the Group may make investments that deviate from the business strategy of the Group, leading to financial losses in such investments.

Recommendations

Elite Partners Risk Advisory suggests the Company to establish a formal and comprehensive investment policies and procedures in relation to investment activities of different sizes by the Group, covering the following control areas:

- (i) risk assessment;
- (ii) pre-investment due diligence;
- (iii) investment price and terms negotiation;
- (iv) approval procedures of investment; and
- (v) post-investment monitoring activities.

The Company should also ensure that all investments made by the Company be properly approved by the board of directors and documented by the company secretary in the board meeting minutes register.

Company's response

The Board agreed with the recommendation and a written policy setting out the investment procedures of the Group will be updated.

Remedial Status

Elite Partners Risk Advisory reviewed the updated investment policy and procedures adopted by the management of the Company and considered that the recommendations have been implemented.

7. Insufficient segregation of duty to process payments of significant amounts

Findings

Persons who simultaneously act as the legal representative, director and general manager of a subsidiary of the Group had the power to override the formal procedures of the Group. Consequently, doubts were casted on the authorization of certain payments made by the legal representative and director of the subsidiaries to an individual.

Implications

Due to the lack of segregation of duties in approving the payment and design of control over the financial department of the subsidiaries, the management may override proper authorization procedures in payments made by the subsidiaries and cause financial loss to the Group.

Recommendations

The Company should establish financial control policy that involves a financial controller or the chief financial officer in the authorization of payment arrangement of the Group. Such financial controller or chief financial officer shall exercise their skepticism in unusual payments of significant amounts and perform the necessary enquiry and investigation on such payment. The Company should also redesign a direct reporting line between the subsidiaries in the PRC and the management in Hong Kong.

Company's response

The Board agreed with the recommendations and will update the treasury policy and procedures to include the financial department in the payment approval process.

Remedial Status

Elite Partners Risk Advisory considers that the recommendations have been implemented after reviewing the updated treasury policy and procedures of the Group.

VIEWS OF THE AUDIT COMMITTEE AND THE BOARD

Having considered the IC Review Report and the remedial actions taken by the Group, in particular, Elite Partners Risk Advisory had performed follow-up reviews on the enhanced internal control measures adopted by the Group, the Audit Committee and the Board are of the view that (i) the above key internal control deficiencies have been remediated and the related risks have been managed to a reasonable level; and (ii) the remedial actions and improvement measures implemented by the Company are adequate and sufficient to address the key findings of the IC Review Report and the internal control concerns raise by PwC.

CONTINUED TRADING SUSPENSION OF THE SHARES OF THE COMPANY

Trading in the Shares on the Stock Exchange has been suspended with effect from 9:00 am on 1 April 2022 as required under Rule 13.50 of the Listing Rules and will remain suspended until further notice.

The Company will make further announcement(s) to keep its shareholders and potential investors informed of any progress on the fulfilment of the Resumption Guidance as and when appropriate.

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

By Order of the Board
Tianyun International Holdings Limited
Yang Ziyuan
Chairman and Executive Director

Hong Kong, 5 August 2022

As at the date of this announcement, the Board comprises (i) Mr. Yang Ziyuan, Mr. Sun Xingyu and Mr. Yeung Wan Yiu as the executive Directors; (ii) Ms. Chu Yinghong and Mr. Wong Yim Pan as the non-executive Directors; and (iii) Mr. Liang Zhongkang, Mr. Shiu Shu Ming and Prof. Ye Xingqian as the independent non-executive Directors.

** For identification purposes only*