XINGDA
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XINGDA INTERNATIONAL HOLDINGS LIMITED
興達國際控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 1899)

RESULTS OF INTERNAL CONTROL REVIEW

Reference is made to (i) the supplemental announcement of Xingda International Holdings Limited (the "**Company**", together with its subsidiaries, the "**Group**") dated 23 June 2021 (the "**Announcement**") in relation to the annual results announcement and the annual report of the Company for the year ended 31 December 2020 and (ii) the announcements dated 7 October 2021 and 31 December 2021 on the update of the status of the internal control review (the "**Update Announcements**").

Unless otherwise defined, terms used herein shall bear the same meanings as defined in the Announcement and the Update Announcements.

INTERNAL CONTROL REVIEW REPORT

The Company has engaged an independent professional internal control consultant to assist in assessing, reviewing and improving the Group's internal control on accounting system. The Internal Control Consultant has completed the review on the Company and the major operating subsidiaries including (i) 江蘇興達鋼簾線股份有限公司 (Jiangsu Xingda Steel Tyre Cord Co. Ltd.*)("**Jiangsu Xingda**"), (ii) 山東興達鋼簾線有限公司 (Shandong Xingda Steel Tyre Cord Co., Ltd.*)("**Shandong Xingda**"), and (iii) Xingda Steel Cord (Thailand) Company Limited ("**Thailand Xingda**") in respect of the following operation cycles:

A. the recognition of sales and transportation costs; and

B. financial reporting.

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

A. The recognition of sales and transportation costs

I. Failure to establish written policies and systems for recognition of sales and transportation expenses before June 2021

Entities

(i) Jiangsu Xingda;

(ii) Shandong Xingda; and

(iii) Thailand Xingda

Findings of the Review

The relevant entities have established internal policies to standardise the procedures for recognising the transfer of control over goods and the corresponding sales revenue under different shipping terms (the "**Accounting Policies for Recognition of Sales**"). The Accounting Policies for Recognition of Sales sets out the timing to recognise sales under different sale models. These sale models are distinguished by Incoterms that describe various shipping terms, including:

(a) FOB (Free on Board), CIF (Cost, Insurance and Freight), CFR (Cost and Freight), where control over the goods are transferred after they are loaded onto freight ("**Category 1 Shipping Terms**");

(b) DAP (Delivered-at-Place), DAT (Delivered-at-Terminal), DDP (Delivered Duty Paid), DPU (Delivered at Place Unloaded), DES (Delivered Ex Ship), where control over the goods are transferred after they are delivered to a destination designated (for customers who does not have their own overseas warehouse arrangements) or are picked up by a customer (who has their own overseas warehouse arrangements) ("**Category 2 Shipping Terms**"); and

(c) DDP (Delivered Duty Paid) at a designated destination, DAP (Delivered-at-Place) with transit port arrangement, DDU (Delivered Duty Unpaid) at a designated destination etc., where control over the goods are transferred at a designated destination without handling import procedures or unload the goods from vehicles for customers ("**Category 3 Shipping Terms**").

The relevant entities have also established internal policies to standardise the recognition of transportation expenses (the "**Accounting Policies for Recognition of Transportation Expenses**"). The Accounting Policies for Recognition of Transportation Expenses require that the transportation expenses should be recognised when the transportation service provider has fulfilled its obligation. The Accounting Policies for Recognition of Transportation Expenses also set out the timing, procedures and standards for recognising national and international transportation expenses.

The Accounting Policies for Recognition of Sales and the Accounting Policies for Recognition of Transportation Expenses only became effective from 23 June 2021. Prior to 23 June 2021, the relevant entities did not draw up any written policy or procedure for recognition of sales and transportation expenses which led to the Prior Year Adjustments as detailed in the 2020 Annual Report and 2020 Interim Report.

Recommendations

The Accounting Policies for Recognition of Sales and the Accounting Policies for Recognition of Transportation Expenses have become effective since 23 June 2021. The Internal Control Consultant do not have any recommendation.

II. Failure to account for sales revenue in the proper accounting period

Entities

(i) Jiangsu Xingda; and

(ii) Thailand Xingda

Findings of the Review

The recognition of sales should correspond with the timing of the transfer of control over goods to the customers. In addition, according to the Accounting Standards for Enterprises No. 14 – Revenues (《企業會計準則第14號-收入》) (the "**Accounting Standards 14**") issued by the Ministry of Finance of the People's Republic of China (the "**PRC**"), sales of goods should be recognised after the entity has fulfilled its contractual duty, in other words, after a customer obtains control over the goods. When a customer obtains control over the goods is dictated by the shipping terms. In particular, sales that take place under Category 1 Shipping Terms should be recognised after the goods are loaded onto freight, which are evident from issuance of export customs declaration clearance or bill of lading, whereas sales under Category 2 Shipping Terms are recognised after the goods are received by customers and, depending on the shipping term, handled, which are evident from acknowledgement of receipt by customers.

During the period from 1 December 2020 to 30 June 2021 (the "**Initial Review Period**"), there were instances where sales of goods was recognised prematurely before or belatedly after the control over the goods was transferred to the customers. This impacted the accuracy of the sales revenue during the relevant financial period and that of the Group's financial statements. The relevant entities that operate in the PRC also risked being penalized by relevant regulatory authorities for non-compliance with the Accounting Standards 14.

Recommendations and the result of the internal control follow-up review

The relevant entities were recommended to recognise sales revenue according to the timing of when the control over goods is transferred to the customers in accordance with the shipping terms and the various supporting documents (e.g. bill of lading, acknowledgement of receipt of goods). The management of the relevant entities was recommended to appoint a person in charge to review the revenue recognised each month and to adjust the sales that is erroneously recognised or is yet recognised. The relevant adjustments should be submitted to be approved before being accounted for in the monthly accounts.

The relevant entities have partially implemented the recommendations of the Internal Control Consultant. A financial manager has been hired in August 2021 to review the sales recognition and carry out relevant adjustments quarterly to ensure that sales is being recognised according to the shipping terms and the timing of the transfer of control over goods. The adjustments will be submitted to the company secretary to be approved before being accounted for in the accounts. The relevant entities are in the process of implementing the Enhanced Computerized Module to upgrade the systems for financial reporting such that sales is recognised more timely and efficiently. The implementation of the Enhanced Computerized Module is being delayed. As such, sales revenue is still not being recognised timely in the proper accounting period according to the transfer of control over goods. The relevant entities need to rely on the review and adjustments that are being carried out quarterly. The relevant entities are recommended to complete the implementation of the Enhanced Computerized Module as soon as possible such that sales could be recognised in the month when it should be recognised.

III. Failure to account for transportation expenses in the appropriate accounting period

Entity

Jiangsu Xingda

Result of the review

During the Initial Review Period, the relevant entity recognised transportation expenses when it received and confirmed the relevant invoices issued by their transportation service providers, which are generally issued a month after the relevant services are provided. As such, the recognition of transportation expenses was delayed and did not take place during the month of the provision of transportation service and correspond with the timing when the related sales should be recognised according to the relevant shipping terms and the transferal of control over the goods. This resulted in adverse impact over the accuracy of the amount of transportation expenses reflected in the financial statements.

Recommendations and the result of the internal control follow-up review

The relevant entity was recommended to carry out the recognition of transportation expenses by making accruals after the transportation services have been provided, when the corresponding sales is being recognised. After the relevant invoice is received from the transportation service providers, the relevant entity should compare the same against the accruals made and make any adjustment as appropriate.

The management of the relevant entity has implemented the recommendations of the Internal Control Consultant. The financial manager of the entity is responsible for adjusting and making accruals for the relevant transportation expenses quarterly according to the shipment tracking summary provided by the logistics department. A list of transportation accruals is prepared and submitted for the company secretary's approval before being accounted for in the accounts. The relevant entities are in the process of implementing the Enhanced Computerized Module to upgrade the systems for financing reporting such that transportation expenses could be recognised more timely and efficiently. The implementation of the Enhanced Computerized Module is being delayed. The relevant entity is recommended to complete the implementation of the Enhanced Computerized Module as soon as possible such that transportation expenses is recognised in the month when it should be recognised.

B. Financial reporting

I. Failure to review qualification and experience of financial team regularly

Entities

(i) the Company;

(ii) Jiangsu Xingda;

(iii) Shandong Xingda; and

(iv) Thailand Xingda

Result of the review

The finance departments of the operating entities (i.e. Jiangsu Xingda, Shandong Xingda and Thailand Xingda) are responsible for daily financial and accounting matters, while that of the Company is responsible for the Group's overall financial management and preparation of the consolidated financial statements. However, during the Initial Review Period, the relevant entities do not review the qualification and experience of their financial teams regularly. This casts doubt on the competency of the financial team and their ability to handle the financial-related matters of the relevant entities.

Recommendations and the result of the internal control follow-up review

The relevant entities were recommended to regularly review the qualification and experience of the relevant personnel and the written record for which should be submitted for approval and reported in the annual Board meeting. Further, when a key financial personnel leaves, the management of the relevant entities should be informed as soon as possible such that the vacancy could be filled promptly.

The recommendation of the Internal Control Consultant has been implemented. The resumes and supporting documents of the key financial personnel have been submitted to the company secretary who has compiled a summary for the Directors. The Directors have discussed, reviewed and approved the summary in November 2021 during the Board meeting.

II. Failure to provide training to financial personnel regarding sales revenue and transportation expenses recognition procedures under different modes of sales and transportation

Entities

(i) the Company;

(ii) Jiangsu Xingda;

(iii) Shandong Xingda; and

(iv) Thailand Xingda

Result of the review

While the relevant entities do provide training in relation to financial and accounting matters for the finance department, prior to and during the Initial Review Period, no training had been provided on the recognition procedure of sales revenue and transportation expenses under different modes of sales and transportation. This led to higher risks of errors in relation recognition of sales revenue and transportation expenses.

Recommendation and the result of the internal control follow-up review

The relevant entities were recommended to give trainings to their finance departments on the procedures of sales and transportation expenses recognition under different modes of sales.

The relevant entities have implemented the recommendation of the Internal Control Consultant. An accounting firm was engaged to give a training in August 2021 on recognition of sales and transportation expenses, which included introduction and application of International Financial Reporting Standard 15 – Revenue from Contracts with Customers and the Accounting Standards.

III. The procedure of accounting voucher issuance for recognition of sales and transportation expenses needs to be improved

Entities

(i) Jiangsu Xingda;

(ii) Shandong Xingda; and

(iii) Thailand Xingda

Result of the review

During the Initial Review Period, the relevant entities carried out the following procedures in relation to issuance of accounting voucher: (i) the finance department inputs the daily transaction records into the financial system for accounting and issuance of vouchers, (ii) the finance department prints out the accounting vouchers monthly and attaches the supporting documents to the printed vouchers for record, (iii) the financial manager reviews the vouchers in the system and notify the finance department to rectify any mistake, (iv) the financial manager confirms the voucher in the system, and (v) after the vouchers are confirmed, the financial manager carries out monthly accounting procedures for the previous month in the system in the beginning of every month. However, the sales records in the financial system, irrespective of the shipping terms of the sales, are being input based on the Category 1 Shipping Terms. On the other hand, the transportation expenses are being input based on the issuance of invoice by the transportation service providers, rather than following the recognition of the corresponding sales. Despite this, the financial manager still confirmed the relevant vouchers. This impacted the accuracy of the financial statements and resulted in the Prior Year Adjustments.

Recommendations and the result of the internal control follow-up review

The relevant entities were recommended to appoint a person in charge to review the vouchers in relation to sales and transportation expenses in the financial system. The person in charge should possess the knowledge about recognition of sales according to Intercoms and shipping terms and be able to timely recognise transportation expenses according to the recognition of the corresponding sales. Relevant supporting documents should be attached to the vouchers and should include written proof showing transfer of control over goods.

The relevant entities have implemented the recommendations from the Internal Control Consultant. A financial manager who has previously performed financial and accounting work at a listed company that had export businesses has been hired in August 2021. The new financial manager is responsible for work related to the recognition of sales and transportation expenses of the relevant entities. The financial manager will check the sales records of the finance departments against the shipping terms quarterly and prepare a list of adjustments for sales for the quarter. The new financial manager will also check the records of transportation expenses against the actual transportation situation of each sales provided by the logistics department and prepare a list of accruals and adjustments for transportation expenses. The list of adjustments for sales and the list of accruals and adjustments for transportation expenses will be submitted to and reviewed by the company secretary who is a Certified Public Accountant in Hong Kong. The relevant vouchers for the adjustments will be issued after the lists are reviewed and approved by the company secretary.

IV. Failure to carry out reconciliation procedures regularly between Group subsidiaries

Entities

(i) the Company;

(ii) Jiangsu Xingda;

(iii) Shandong Xingda; and

(iv) Thailand Xingda

Result of the review

During the Initial Review Period, the finance departments of the relevant entities settled and prepared their own financial accounts monthly. However, the relevant entities did not regularly carry out reconciliation with other Group subsidiaries regarding inter-Group transactions. In the absence of regular reconciliation exercise, the management of the relevant entities risked not being able to detect any errors or differences in the inter-Group transactions in time which could affect the accuracy of the financial statements.

Recommendations and the result of the internal control follow-up review

The relevant entities were recommended to carry out reconciliation every month with other Group subsidiaries regarding inter-Group transactions. The reconciliation statement should be reviewed by a person in charge. The written record of the review should be kept properly.

The relevant entities have implemented the recommendations of the Internal Control Consultant. Reconciliation on inter-Group transactions is being carried out monthly.

V. Lack of written review records for accounting adjustments

Entities

(i) Jiangsu Xingda;

(ii) Shandong Xingda; and

(iii) Thailand Xingda

Result of the review

During the Initial Review Period, the finance department of the relevant entities made accounting adjustments in the system after the adjustments are reviewed and approved by the chief financial officer. However, there was a lack of written proof of the review and approval by the chief financial officer.

Recommendations and the result of the internal control follow-up review

The relevant entities were recommended to keep written records of reviews and approvals of the relevant accounting adjustments. The finance department of the relevant entities should submit the amount, breakdown and reasons for the adjustments to the relevant personnel and obtain written approval before making any adjustments in the system. The written record should be kept properly for future reference.

The recommendation from the Internal Control Consultant has been implemented by the relevant entities. Finance department is responsible for preparing details regarding the accounting adjustments to be made which will be submitted to and approved by the financial manager.

OPINIONS OF THE AUDIT COMMITTEE AND THE BOARD OF DIRECTORS

After considering the Internal Control Review report and the actions that the Group has taken/to be taken, subject to the implementation of the Enhanced Computerized Module, both the Audit Committee and the board of Directors consider that the measures recommended by the Company are adequate and sufficient to deal with the findings of the Internal Control Review report and that the Group will formulate an adequate internal control system to meet its obligations under the Listing Rules.

IMPLEMENTATION AND REVIEW OF THE ENHANCED COMPUTERIZED MODULE

The Company is in the process of implementing the Enhanced Computerized Module. After the full implementation of the Enhanced Computerized Module which is expected to be by the end of first quarter of 2022, the Internal Control Consultant will be further engaged to conduct a review of the effectiveness of the Enhanced Computerized Module in recognising sales and transportation expenses. The result of the review of the Enhanced Computerized Module will be published as and when appropriate.

By Order of the Board of
Xingda International Holdings Limited
Liu Jinlan
Chairman of the Board

Shanghai, the PRC, 17 January 2022

As at the date of this announcement, the executive Directors are Mr. LIU Jinlan, Mr. LIU Xiang, Mr. TAO Jinxiang and Mr. ZHANG Yuxiao and the independent non-executive Directors are Mr. KOO Fook Sun, Louis, Mr. William John SHARP and Ms. XU Chunhua.