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Sanai Health Industry Group Company Limited

三愛健康產業集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1889)

RESULTS OF INTERNAL CONTROL REVIEW

Reference is made to the regulatory news release published by The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 3 September 2020 (the “**News Release**”) and the announcement dated 17 September 2020 of Sanai Health Industry Group Company Limited (the “**Company**”, and together with its subsidiaries, the “**Group**”) in relation to the appointment of internal control adviser (the “**Announcement**”).

INTERNAL CONTROL REVIEW REPORT

As part of the remedial measures required by the Stock Exchange set out in the News Release to improve the internal control system, the Company has appointed Zhonghui Anda Risk Services Limited as the independent professional adviser of the Company on 17 September 2020 (the “**Internal Control Adviser**”) to conduct a thorough review of and make recommendations to improve the Company’s internal control system (the “**Internal Control Review**”). The purpose of the Internal Control Review is to review and improve the internal control system designed and implemented by the Company’s management to ensure compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

On 22 December 2020, the Company provided the Stock Exchange with a written report of the Internal Control Review with recommendations of the Internal Control Adviser. In response to the News Release that the Listing Committee found that the Company did not have adequate internal controls with respect to the compliance with Rule 13.49(1) of the Exchange Listing Rules, the Internal Control Adviser reviewed those issues, and made recommendations in point no. 1 to 4 below. The other key internal control deficiencies for the review period from 1 January 2019 to 31 December 2019 (the “**Review Period**”) found by Internal Control Adviser in the report of Internal Control Review and those recommendations are summarised and stated in point no. 5 to 10 as follows:

1. Financial information and approval process

The Group

Internal control deficiencies

The Company’s office manual including the sections describing financial and accounting procedures (except for fixed asset management) was over-generalised. Hence, the office manual was incapable of providing sufficient guidance to the relevant personnel of the Company for preparing the necessary financial and accounting information of the Group timely for the annual audit work.

In addition, the office manual was effective from 1 January 2015 but had not been revised since then, for the purposes of addressing the problems that causing the delay issue of annual reports of for the year ended 2015 and 2016.

Also, the monthly management accounts of the Company’s operating subsidiaries were only reviewed by the department head of each subsidiaries without reporting to any of the relevant directors.

Recommendation

The financial controller or company secretary of the Group should monitor and update the timetable of the monthly, quarterly and annually financial statements provided by the relevant subsidiaries in the office manual, in order to match the timeline for publication of annual results announcement and preparation of annual audit, which specify that the relevant financial information to be provided, including the financial and accounting information required for the preparation of consolidated financial statements of the Group.

The Company should also designate the financial controller or company secretary to be responsible for reminding the subsidiaries of the Group to submit the financial statements timely, by 3 days before the deadline of submission for the financial statements, to ensure that the Group has sufficient time to prepare the consolidated financial statements, coordinate with the annual audit work and to avoid any delay on release of annual results announcement.

Management response

The financial controller will update the office manual in December 2020, which including the schedule and deadline for submitting monthly, quarterly and annually financial statements from the subsidiaries, and specify the relevant financial and accounting information which is required for the preparation and presentation of the Company's consolidated financial statements. The updated office manual will be submitted to the board of Directors (the "**Board**") for approval. The implementation will begin from January 2021.

The company secretary will be responsible to remind the finance department of each subsidiary companies to provide the financial statements and relevant financial information by 3 days before the deadline and ensure that there is sufficient time for preparing the consolidated financial statements and fulfill the timeline of audit work from the auditor. The implementation will begin from January 2021.

2. Delay in publishing annual results announcements

The Group

Internal control deficiencies

The Company was found that there was no system in the Company to ensure that: (i) any material issues raised by the auditor should be reported to at least one of the Directors of the Board or the senior management (e.g. Financial Controller), make relevant person to pay attention and discuss the possible solutions; and (ii) any delay in the audit timetable should be reported to at least one of the directors or the audit committee of the board timely.

Recommendation

The financial controller or company secretary of the Group should update the office manual that the financial controller needs to communicate with the auditor regularly during the annual audit, and stipulate that if there are any major issues or audit matters that will delay the timetable of annual results announcement, the financial controller should notify to at least one of the executive directors and the audit committee of the Board within 3 days of awareness, and they should promptly communicate with the auditor and discuss with the management to formulate a feasible plan and carry out appropriate rectification actions.

Management response

The financial controller will update the office manual in December 2020 and set out the duties and reporting procedures during the auditing period. The updated office manual will be submitted to the Board for approval and implementation. The implementation will begin from January 2021.

3. Communications with the board of Directors

The Group

Internal control deficiencies

Except for the interim and annual report, the directors had not received any monthly or regular management accounts from the operating subsidiaries. Only “significant issues” were required to report to the Directors. However, there was no guideline to define what constituted “Significant issues”.

Recommendation

The Board should define “Significant issues” for all of the operating subsidiaries in the office manual. In addition, when preparing and releasing the interim and annual results announcements and reports, the general manager or legal representative of the subsidiary companies should notify to the Board as soon as possible after identifying the matters affecting the continuing operations or legal compliance. The Board should respond on those matters in a timely manner, and make announcement timely in accordance with the requirements of the Listing Rules when necessary.

Management response

The chairman of the Group will update the office manual in December 2020, and define the matters that affecting the continuing operation or legal compliance operation, the general manager or legal representative of the subsidiaries will notify any executive director or company secretary in writing or by email within 3 days after awaring of the relevant matters. The executive directors or company secretary will consult the financial adviser or legal adviser on whether it is necessary to issue any announcement in accordance with the requirements of the Listing Rules.

Relevant amendments to the office manual will be submitted to the Board for approval and will be implemented on January 2021.

4. Management system of corporate governance

The Group

Internal control deficiencies

The written corporate governance practices and procedures of the Company were still under preparation and have not been approved by the Board.

Recommendation

The company secretary or representatives should prepare corporate governance practices and procedures as soon as possible, including but not limited to the “Corporate Governance Code”, “List of Powers and Authorizations”, “Management of Risk Assessment”, “Supervision of Notifiable Transactions and Connected Transactions”,

“Processing and Monitoring of Inside Information”, “Response to Regulatory Inquiries” and “Handling Price Sensitive Information”. Such policies should be submitted to the Board for approval and implementation as soon as possible.

Management response

The company secretary or representatives will finalize the written policies and procedures in relation to corporate governance of the Company in December 2020 and will submit to the Board for approval, which will be implemented on January 2021.

5. The roles of chairman and chief executive officer

The Group

Internal control deficiencies

According to code provision A.2.1 of the Code of Corporate Governance in Appendix 14 of the Listing Rules, the roles of chairman and chief executive officer should be separated and should not be performed by the same person. However, during the Review Period, both the chief executive officer and the chairman of the Board were held by the same person.

Recommendation

According to the requirements of A.2.1 of the Corporate Governance Code, the Group should appoint a chief executive officer as soon as possible, because the chairman and chief executive officer of the Group should not be concurrently assumed by the same person, and the responsibilities of the chairman and chief executive officer should be clearly separated.

Management response

The Board believes that Mr. Chen Chengqing has extensive experience and ability to serve as chairman and chief executive officer at the same time. In order to strengthen the corporate governance of the Group, the company secretary will arrange board meeting within 2 months and discuss whether it is necessary to find a suitable person to be appointed as chief executive officer.

6. The chairman hold meeting with the independent non-executive directors without the presence of other directors

The Group

Internal control deficiencies

According to code provision A.2.7 of the Corporate Governance Code in Appendix 14 of the Listing Rules, the chairman should hold a meeting with independent non-executive directors without the presence of other directors at least annually. However, during the Review Period, the Group did not hold such meeting.

Recommendation

The management should suggest the Board to comply with the code provision A.2.7 of the Corporate Governance Code. The chairman should hold a meeting with independent non-executive directors at least once a year without the presence of other directors.

Management response

The company secretary will convene the board meeting in December 2020 and a meeting with independent non-executive directors and keep with proper attendance records. The attendance records will be archived by the company secretary.

7. Management system for risks assessment

The Group

Internal control deficiencies

The Group has not established the relevant risk assessment management system written procedures to regulate the procedure for assessment, monitoring and follow-up of identified risks.

Recommendation

The management should establish a written procedure for risk assessment management system, the Group should conduct a risk assessment at least once a year, and take the results into a risk assessment report and archive it. Subject to the approval of the management, the written procedures of risk assessment management system should be circulated to department heads and be implemented strictly.

Management response

The company secretary and the chairman of the Group will establish a written procedure for the risk assessment management in December 2020 and will consider to appoint an independent risk assessment consultant to assess the risks of the group after the end of financial year. The financial controller will review the assessment report and submit to the Board for approval.

8. Issue of annual reports and results announcements

The Group

Internal control deficiencies

As at the year ended 31 December 2019, the Group fails to meet the requirements of Rules 13.49(1) and 13.46(2)(a) of the Listing Rules that the annual results announcement and annual report for the year 2019 should be published within the specified period after the end of the year 2019.

As at the period ended 30 June 2020, The Group fails to meet the requirements of Rules 13.49(6) and 13.48(1) of the Listing Rules that the interim results announcement and interim report for the year 2020 should be published within the specified period after the end of the period 30 June 2020.

Recommendation

The Group should publish the annual results announcement and annual report for the year ended 31 December 2019 as soon as possible to meet the financial information disclosure requirements of the Listing Rules.

The Group should publish the interim results announcement and interim report for the period ended 30 June 2020 as soon as possible to meet the financial information disclosure requirements of the Listing Rules.

Management response

The financial controller estimates that the auditor will complete the audit work and publish the annual results announcement for the year ended 31 December 2019 by February 2021, and publish the annual report 2019 within one month after the publication of the results announcement.

The financial controller estimates that once completion of the audit work for the year ended 31 December 2019 and the publication of the annual results announcement and annual results report, the Company will arrange the publication of the interim results announcement and interim report as at 30 June 2020 as soon as possible.

9. Lack of policy on signed contracts and management of service contract

Fujian Zhixin Medicine Co., Limited

Internal control deficiencies

Among the samples obtained on the internal control review, contracts of several companies cannot be obtained and proper control measures cannot be determined.

Recommendation

The management should consider the templates of sales contracts shall be reviewed and approved by directors and the legal adviser of the Company. In addition, the Company should consider that all contracts should be properly kept in place with the general manager or head of sales department of relevant companies.

Management response

The general manager of relevant companies will establish a written procedure for the “Sales Operation Management and Supervision System” in December 2020, and submit the procedures to the Board for approval, which will be implemented on January 2021.

10. GMP license from The Food and Drug Administration of Fujian Province

Fujian Yongchun Pharmaceutical Company Limited

Internal control deficiencies

According to record of 福建省食品藥品監督管理局, which reviewed the operation of the company of Fujian Yongchun Pharmaceutical Company Limited in June 2019, certain products produced by that company did not meet the Good Manufacturing Practices (“GMP”) regulations requirements. The Food and Drug Administration of Fujian Province notified that company was no longer to grant the GMP license to produce products on 4 September 2019.

Recommendation

The management should randomly check and ensure the quality of the products during the production process to meet GMP management requirements and avoid being withdrawn from the 福建省食品藥品監督管理局 again.

In case of encountering matters related business licenses, the company must immediately report the Board and the company secretary in order to make an assessment of business strategy and the Group’s sustainability. Also, the management should ensure to issue announcements (if necessary) timely in order to comply with the Listing Rules.

Management response

The management of the relevant subsidiary accepted those recommendations and will consider the policy of costs and benefits in the coming year and also consider to purchase of products or service liability insurance.

CONTINUED SUSPENSION OF TRADING

At the request of the Company, trading in the shares of the Company on the Stock Exchange has been suspended with effect from 9:00 a.m. on Friday, 24 January 2020 and will remain suspended until the Company fulfills the Resumption Conditions.

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

By order of the Board
Sanai Health Industry Group Company Limited
Chen Chengqing
Chairman

Hong Kong, 22 December 2020

As at the date of this announcement, the Board comprises five executive directors, namely, Mr. Chen Chengqing (Chairman), Mr. Gao Borui, Mr. Yuan Chaoyang, Professor Zhang Rongqing and Mr. She Hao and one non-executive director, namely, Mr. Xiu Yuan.