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CHINA SAITE GROUP COMPANY LIMITED

中國賽特集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 153)

FINDINGS OF THE INTERNAL CONTROL REVIEW REPORT

Reference is made to the announcement of China Saite Group Company Limited (the “**Company**”, together with its subsidiaries, collectively as the “**Group**”) dated 26 March 2021 (the “**Announcement**”). Unless otherwise specified, the abbreviations and definitions used herein shall have the same meanings as those used in the Announcement.

As set out in the Announcement, the board (the “**Board**”) of directors (the “**Directors**”) of the Company has engaged an internal control consultant, Azzura Corporate Advisory Limited (“**Azzura**”), to conduct an internal control review of the Company (the “**Internal Control Review**”) and to prepare an internal control review and follow-up report (the “**Internal Control Report**”).

As at the date of this announcement, the Company has reviewed the Internal Control Report issued by Azzura dated 1 May 2021. This announcement sets out, among other things, the findings of the Internal Control Report.

Set out below is a summary of the findings of the Internal Control Report by Azzura:

1. SCOPE OF REVIEW

The major scope and aspect of the review are as follows:

- Reviewed existing policies, procedures or controls applicable to three aspects: corporate level, financial reporting and disclosure, and capital and investment;
- Identified deficiencies in the Company's procedures, systems and controls relating to compliance with the Rules (the "**Listing Rules**") Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**");
- Made recommendations for improvement; and
- Communicated with the Company's management on the internal control assessment results and recommendations.

2. FINDINGS

Based on the results of the Internal Control Review, in the opinion of Azzura, the Company is required to enhance its existing control system in respect of compliance with Chapter 13, 14 and 14A of the Listing Rules and C.1.2 and F.1.1 of the Corporate Governance Code (the "**CG Code**"). Set out below are the key findings and issues identified:

- the following policies and procedures have not been established:
 - Policies on appointment of Directors;
 - Policies for preventing management override;
 - Policies and procedures for identifying and responding to environmental changes;
 - Policies and procedures for anti-fraud and reporting mechanism;
 - Business continuity and contingency plans;
 - Policies and procedures on environment, social and governance;
 - Loan guarantee review process;
 - Procedures on bond issuance and bond management;
 - Policies and procedures for litigation provision;
- A written policy to monitor and manage conflicts of interest between Directors and the Company has not been established, and there is no reporting mechanism for employees to make any declaration of conflicts of interest;

- No sufficient training has been provided to Directors and senior management, including training on Chapter 14 and 14A of the Listing Rules;
- The company secretary of the Company (the “**Company Secretary**”) has not been invited to participate in the discussion of all material events of the Company, including material investment and Director’s borrowings;
- The engagement requirements and procedures, resignation procedures and exit interviews for senior management have not been developed and regulated;
- No major findings and recommendations were specifically addressed in respect of the internal control and risk management review conducted by the Company in the past;
- A detailed list of related parties was not made;
- The provision of loan guarantees to companies outside the Group did not comply with the existing policies;
- No proper record of the submission of financial statements to the Board was maintained, resulting in breach of C.1.2 of the CG Code;
- In respect of the non-performing bank loans taken up by the Group and the loan guarantees provided to companies outside the Group, the Company did not hold a Board meeting, nor inform the then chief financial officer of the Group (the “**Chief Financial Officer**”) and Company Secretary, conduct size tests and consider the Listing Rules nor reflect its financial impact in the financial statements;
- There was a lack of comprehensive risk and compliance assessments prior to material investments, and there was no assurance that such material investments would be discussed and approved by the Board in a timely manner;
- No Board meetings were held to discuss and vote on the issue of the Director’s borrowings;
- There was no follow-up on the all recommendations made by the auditors in the management letter each year;
- No complete and accurate bond register has been properly maintained; and
- No cash flow budget statement and variance analysis have been prepared.

3. RECOMMENDATION

Set out below are the key recommendations made by Azzura:

- Relevant policies and procedures should be established, and submitted to the Board for approval. All policies and procedures should be reviewed and updated annually and the latest policies should be issued to relevant people in charge;
- Policies on conflict of interest should be established, providing clear guidelines to Directors and employees in identifying and managing conflict of interest, and annual declaration form for Directors and officers and conflict of interest declaration form for employees should be prepared, enabling them to declare conflict of interest;
- Regular training and guidance on the Listing Rules shall be provided to each Director and senior management at least once a year. Training on Chapter 14 “Notifiable Transactions” and Chapter 14A “connected transaction(s)” of the Listing Rules shall be provided at least once a year;
- To establish the requirements and procedures for hiring senior management to ensure that they meet the competencies and experience required by the Company;
- A full-time Company Secretary should be engaged to have close internal communication and to participate in the discussion of all material events of the Company;
- To establish severance procedures for senior management and arrange exit interviews, handover of the Group’s assets and works on hand so as to avoid discontinuity in the Group’s financial or material information and to avoid increasing the risk of errors in the financial statements;
- To ensure that the service providers responsible for internal control and risk management review meet the competencies and experience required by the Company;
- Pursuant to Chapter 14A of the Listing Rules Connected Transaction(s), a detailed list of related parties shall be prepared to explain the Group’s compliance with the disclosure requirements in respect of connected transactions under the Listing Rules;
- Careful consideration should be given to the provision of loan guarantees to companies outside the Group, and relevant financial management requirements shall be revised and a set of procedures to provide sufficient guidance shall be developed;

- According to the Listing Rules, updates and monthly financial statements shall be provided to the Directors within 60 days after the end of each month and proper records of the submission of financial statements shall be kept;
- Board meetings shall be convened, to discuss and vote on important issues such as non-performing loans of banks, important investments and loans to Directors, of which the Chief Financial Officer and the Company Secretary shall be notified;
- Before entering into any major investment memorandum of understanding, contract or agreement, a feasibility report shall be provided to the Chief Financial Officer for a size test calculation;
- Careful follow-up on the recommendations (if any) raised by the auditor in the annual management letter to improve internal control deficiencies and follow up on compliance matters as early as possible;
- To prepare and maintain the bond register, and to ensure adequate monitoring of the Group's debt payable to avoid overdue repayments, so as to avoid affecting the true status and accuracy of the Group's credit and financial statements, and even litigation and winding up petitions; and
- Cash flow budget statements shall be prepared and properly kept on a regular basis and the cash flow budget and actual net cash flow and be analysed to find out the reasons for the differences.

The Board agrees with the recommendations set out in the Internal Control Report. The Company has taken measures to address the deficiencies based on these recommendations, and is implementing improved internal control procedures and policies to ensure that the Company's internal control complies with the Listing Rules.

CONTINUED SUSPENSION OF TRADING

At the request of the Company, trading in the shares of the Company on the Stock Exchange was suspended with effect since 22 June 2020 and will continue to be suspended until further notice.

By Order of Board
China Saite Group Company Limited
Jiang Jianqiang
Chairman

Hong Kong, 7 May 2021

As at the date of this announcement, the executive Directors of the Company are Mr. Jiang Jianqiang, Mr. Shao Xiaoqiang, Mr. Xu Fanghua, Mr. Liu Zhibo and Mr. Hua Gang; and the independent non-executive Directors are Mr. Xu Jiaming, Mr. Yan Hualin, Mr. Wu Zhongxian, Mr. Choi Ho Yan and Mr. Siu Siu Ling, Robert.