

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.



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)

KEY FINDINGS OF THE SECOND INTERNAL CONTROL REVIEW REPORT

This announcement is made by China Saite Group Company Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) pursuant to Rule 13.09 of the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”), the Inside Information Provisions (as defined under the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

References are made to the announcements of the Company dated 21 June 2020, 22 June 2020, 22 July 2020, 5 October 2020, 19 November 2020, 8 December 2020, 28 December 2020, 26 March 2021, 7 May 2021, 3 June 2021, 22 June 2021, 13 September 2021, 21 September 2021, 22 October 2021, 21 December 2021 and 4 February 2022 (the “**Announcements**”) in relation to, among others, the suspension of trading in the shares of the Company on the Stock Exchange pending the publication of the annual results of the Group for the years ended 31 December 2019 and 2020, the resumption guidance and additional resumption guidance issued by the Stock Exchange (the “**Resumption Guidance**”), the findings of the internal control report, the appointment of internal control consultants, the quarterly updates on the progress of fulfilling the Resumption Guidance and updates on the internal control review. Unless otherwise defined, capitalised terms used herein shall have the same meanings as those defined in the Announcements.

BACKGROUND

Trading of the shares of the Company has been suspended since 22 June 2020 pending release of its annual results for the financial year ended 31 December 2019. It is one of the Resumption Guidance stipulated by the Stock Exchange (details of which are set out in the announcement of the Company dated 22 July 2020) that the Company should conduct an independent internal control review and demonstrate that it has put in place adequate internal control and procedures to comply with the Listing Rules (the “**IC Guidance**”).

In order to fulfill the IC Guidance, the Company has engaged Azzura Corporate Advisory Limited in July 2020 to conduct the Internal Control Review and prepare the Internal Control Report, the findings of which were disclosed in the announcement of the Company dated 7 May 2021.

As disclosed in the announcement of the Company dated 13 September 2021, having considered the significance of maintaining an appropriate and effective internal control systems and in order to provide further assurance to the public that the Company is committed to fulfill the IC Guidance, the Board has engaged SHINEWING Risk Services Limited (“**Shinewing**”) on 31 August 2021 as its internal control consultant to conduct a second round of independent review of the internal control systems and procedures of the Group (“**2nd IC Review**”).

The 2nd IC Review and follow-up review have been conducted from October 2021 to January 2022 as part of the Company’s efforts to meet the Resumption Guidance of the Stock Exchange, in particular the IC Guidance.

THE 2ND IC REVIEW

The Group’s principal place of business is located in Bengbu City, Anhui Province, the PRC. The principal business operating entity after completion of the Group Reorganization and as at the date of this announcement is Anhui Dayu Construction Engineering Co., Ltd.* (安徽大禹建设工程有限公司) (“**Anhui Dayu Construction**”). Therefore, the scope of the 2nd IC Review covers the Company and Anhui Dayu Construction.

Shinewing has issued an internal control review report dated 22 February 2022 (the “**2nd Internal Control Review Report**”), which sets out (i) the deficiencies identified in the 2nd IC Review; (ii) the recommendations to the Company; and (iii) the result of follow-up review of the remedial measures taken by the Company and Anhui Dayu Construction as at 29 January 2022.

The current managements of the Company and Anhui Dayu Construction have taken actions and measures to rectify the deficiencies identified in internal control in accordance with the recommendations made by Shinewing for deficiencies identified in the 2nd IC Review. Shinewing has conducted a follow-up review of the rectification work up to 29 January 2022.

According to the 2nd Internal Control Review Report, the Company and Anhui Dayu Construction have fully implemented the recommendations made by the Shinewing and the identified internal control deficiencies have been rectified.

THE SCOPE AND PROCEDURES OF THE 2ND IC REVIEW

The scope of the 2nd IC Review includes the following:

- evaluating the existing policies, procedures or controls at the corporate level and business processes under the COSO internal control framework and identifying deficiencies based on the results of personnel interviews, walkthrough tests and test of effectiveness, and the review of the internal control policies and procedural guidelines obtained from the Company and Anhui Dayu Construction;
- identifying deficiencies in the relevant procedures, systems and controls for the Company's compliance with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules of the Stock Exchange and other Listing Rules and regulations including Chapter 13, 14, 14A of the Listing Rules and Part XIVA of SFO;
- making recommendations for improvement; and
- assessing whether the Company and Anhui Dayu Construction have taken adequate remedial measures to rectify the deficiencies by performing follow-up review.

Shinewing has taken the following steps and procedures during the 2nd IC Review:

- (a) Planning — conducting preliminary review to understand the background information and obtain relevant documents in relation to internal control, including organization, reporting structure, contact list and roles/responsibilities of relevant personnel and copies of policy and procedural documents.
- (b) Execution — performing the 2nd IC Review procedures including walkthrough tests and test of effectiveness in the form of interviews with relevant management and personnel, review of workflow and review of documentation relating to internal control. Based on these procedures, deficiencies were identified and recommendations for improvement were proposed.
- (c) Reporting and follow-up — preparing a discussion draft of the 2nd Internal Control Review Report setting out the major deficiencies of the internal control systems of the Company and Anhui Dayu Construction and providing recommendations, as well as discussing with the relevant management of the Company and Anhui Dayu Construction on the drafted reports and recommendations.
- (d) Implementation of follow-up review — directly discussing with the management who is responsible for the process, system and internal control related to the identified findings, understanding the measures taken by the Company and Anhui Dayu Construction to rectify the issues identified in (c) above, and determining whether the rectification measures in respect of the identified major deficiencies in internal control have been effectively implemented.
- (e) Reporting — communicating the result of the follow-up review with the Board and senior management of the Company and issuing the final 2nd Internal Control Review Report.

PROGRESS AND KEY FINDINGS OF THE 2ND IC REVIEW

The 2nd IC Review was conducted from October 2021 to January 2022 in two phases, namely the Initial Review and the follow-up review as follows:

1. **Initial Review:** Shinewing conducted a review of the internal control risks and deficiencies of the Company and Anhui Dayu Construction in October 2021 (the “**Initial Review**”). In the Initial Review, Shinewing has reviewed the internal control systems of the Company and Anhui Dayu Construction and identified deficiencies in areas including corporate level and business processes under the COSO internal control framework, compliance with the Corporate Governance Code under Appendix 14 of the Listing Rules of the Stock Exchange as well as other existing policies, procedures or controls under the Listing Rules and regulations. Shinewing has also provided recommendations to rectify such deficiencies.
2. **Follow-up Review:** Shinewing performed a follow-up review of the internal control systems of the Company and Anhui Dayu Construction during the period from 1 November 2021 to 29 January 2022 (the “**Follow-up Review**”) to follow up whether the Company and Anhui Dayu Construction had implemented remedial measures to rectify the deficiencies identified in the Initial Review.

KEY FINDINGS OF THE 2ND IC REVIEW

Key findings of the Initial Review

During the Initial Review, Shinewing has identified the following key observations in high priority risks (i.e. material internal control risks that require immediate attention and the finding of solutions at a high priority), medium priority risks (i.e. material internal control risks that require prompt attention and the finding of solutions as soon as possible) and low priority risks (i.e. immaterial internal control risks that do not require immediate attention but should be noted):

No.	Aspects	Scope of review	Observations	Recommendations
High Priority Risks				
1.	Business process of Anhui Dayu Construction	Policy and procedure	Internal control policies in certain aspects, including financial reporting, project management, supplier management, loan and guarantee, research and development, and payroll management, are not adequately established.	Relevant policies and procedures should be formulated and enhanced. Such policies and procedures should be strictly enforced by relevant staff and closely monitored by management as a measure of internal control.

No.	Aspects	Scope of review	Observations	Recommendations
2.	Business process of Anhui Dayu Construction	Accounting system management	The access privilege of accounting staff is granted with the same authority as finance manager in the accounting system. No documentation is maintained to record the regular review of user authority and chart of accounts in the accounting system.	Proper segregation of authority of the accounting system should be based on the functions of the finance department personnel. The authority of user rights and the setting of chart of accounts shall be regularly reviewed, and the relevant review result shall be properly recorded as an audit trail.

Medium Priority Risks

1.	Corporate level	Conflict of interest declaration mechanism	The directors and senior management did not declare personal conflicts of interest on an annual basis and when conflicts of interest arise.	The directors and senior management declare, fill in conflict of interest declaration form in a timely manner and properly file.
2.	Corporate level	Risk management mechanism	No risk management mechanism has been established.	Relevant policies shall be made in due course.
3.	Corporate level	Financial reporting	Policy and procedure of financial reporting have not been adequately established, and no monthly consolidated financial statements have been prepared since January 2020.	The financial reporting process shall be improved and relevant policy and procedure shall be enhanced.

No.	Aspects	Scope of review	Observations	Recommendations
4.	Corporate level	Management of external guarantees	Policy and procedure of external guarantee have not been adequately established. Some subsidiaries did not report to the board of directors of the listed company for approval before providing guarantees for third-party loans, and the listed company did not conduct size tests on the relevant loan guarantee transactions. The finance department did not follow the relevant procedures to prepare the risk analysis of the guarantee and the financial due diligence documents of the guaranteed party. The finance department did not prepare relevant analysis reports when assessing the financial information and audit reports of the guaranteed parties on a regular basis.	Relevant staff should strictly enforce the policy and procedure related to external guarantees, and prepare relevant risk analysis and due diligence report in a timely manner. Responsible staff should conduct size tests on relevant transactions and make timely disclosure in accordance with the requirements of the Listing Rules. In the event of any material deterioration in the repayment ability of the guaranteed party or other significant operational matters, the chief financial officer shall report to the management and the Board immediately and formulate timely response strategies.
5.	Corporate level	The directors' borrowings	The Company did not establish any relevant policy for the directors' borrowings. The Company did not keep original copy of loan contracts, and such contracts were not reported to the board of directors of the listed company for approval, nor did the listed company conduct size tests on the relevant transactions.	A directors' borrowing policy shall be established and the directors and shareholders are prohibited from borrowing from the Company.
6.	Corporate level	Loan and guarantee management	Due to the weaknesses in the Loan and Guarantee Review Process, the Company did not establish a policy and procedure for loan and guarantee management.	A sound loan and guarantee management policy and procedure shall be established and timely monitored by the management to prevent deviation.
7.	Corporate level	Management of reporting major transactions	No relevant policy and procedure has been established for reporting major transactions.	A reporting procedures of major transactions shall be established and timely monitored by the management to prevent deviation.

No.	Aspects	Scope of review	Observations	Recommendations
8.	Corporate level	Litigation management	The policy and process of litigation provision is not adequately established and there is no list of litigation cases to monitor the status of the litigation cases.	Policies and procedures should be established to enhance the process of litigation provision, and designated personnel should be assigned to follow up the progress of litigation cases.
9.	Corporate level	Bond Management	No policy and procedure has been formulated for the bond redemption and payment of bond interests, and no schedule for the bond redemption and payment of bond interests has been prepared, resulting in a failure to repay principal and pay interests as scheduled.	Relevant procedures shall be incorporated into the policy, requiring the finance department to establish a bond redemption and interest payment schedule, and assigning personnel to regularly monitor the bond redemption and bond interest payment.
10.	Corporate level	Seal Management	No relevant policy and procedure has been established for the management of the use of seal, and the relevant departments have not regularly reported the record for the use of seal to the management of the listed company.	A policy and procedure for the use of seal management process shall be established.
11.	“Corporate Governance Code” as set out in Appendix 14 to the Listing Rules	Corporate governance	Four regular meetings of the board of directors in 2021 have not been convened with at least 14 days’ prior written notice. The directors were not requested to sign the relevant confirmation letters after reading the continuous professional development training documents. Monthly updates on financial and business reports were not provided to all directors. Specific procedures that requires directors to regularly attend training relevant to the Listing Rules and directors’ responsibilities, and to seek advice from independent professionals are not included in the Corporate Governance Manual.	The Corporate Governance Manual shall be supplemented and refined, and shall be implemented in strict compliance with the “Corporate Governance Code”, the Listing Rules and relevant regulatory requirements.

No.	Aspects	Scope of review	Observations	Recommendations
12.	Listing Rules and other regulations	Policy and procedure	The Company's External Communications and Inside Information Disclosure Policy does not set out in detail the working procedures for the circumstances specified in Chapter 13 of the Listing Rules regarding the "Continuing Obligations".	A compliance procedure for Chapter 13 of the Listing Rules shall be formulated.
13.	Listing Rules and other regulations	Connected party survey and connected transactions	Connected party survey is not conducted on a regular basis and the Connected Relationship Survey Form is not prepared. The finance departments of each subsidiary did not prepare the Summary Table of Connected Transactions on a monthly basis and submit it to the finance department of the Company for collection.	Survey on connected parties is regularly initiated and the Connected Relationship Survey Form is prepared. Each subsidiary regularly prepares the Summary Table of Connected Transactions and submits it to the finance department of the Company.

Low Priority Risks

1.	Corporate level	Succession planning for senior management and directors	There is no succession plan for senior management and directors.	Succession plans for senior management and directors are established to illustrate the succession of each position.
2.	Corporate level	Internal audit policy	No complete internal audit policy has been established to specify the supervision process, authority and reporting relationship of the risk management and internal control system.	Relevant policies shall be made in due course.
3.	Corporate level	Loan management	After review and approval of the bank loans by the board of directors of a subsidiary, the latest status of bank loans was not regularly summarised and reported to the board of directors of the listed company.	The finance department of each subsidiary is required to regularly summarise the latest status of bank loans and report to the listed company.

Shinewing has advised the Company and Anhui Dayu Construction to remediate the internal control deficiencies identified.

The management of the Company and Anhui Dayu Construction have responded to these deficiencies identified and carried out rectification procedures accordingly. As at the date of the 2nd Internal Control Review Report, all recommended rectification measures have been implemented.

Result of the Follow-up Review

Shinewing completed the Follow-up Review on the rectification of the findings of the Initial Review on 29 January 2022 and nothing has come to its attention which make it believe that there is any material deficiencies identified in the internal control system of the Group upon the completion of Follow-up Review.

As at the date of this announcement, the management of the Company and Anhui Dayu Construction confirmed that all deficiencies as stated in the 2nd Internal Control Review Report have been rectified.

Views of the Audit Committee and the Board

Having considered the findings of the 2nd IC Review, the audit committee of the Company and the Board are of the view that the remedial measures implemented by the Company are adequate and sufficient to address all findings of the 2nd IC Review. The Group's enhanced internal control system is sufficient to discharge the Company's obligations and safeguard its interests under 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.

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
China Saite Group Company Limited
Li Xulin
Chairman

Hong Kong, 23 February 2022

As at the date of this announcement, the executive Directors are Mr. Li Xulin, Mr. Xu Fanghua, Mr. Liu Zhibo, Mr. Hua Gang, Mr. Shan Hu and Mr. Zhang Tianbo; 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.