

香港聯合交易所有限公司

(香港交易及結算所有限公司全資附屬公司)

THE STOCK EXCHANGE OF HONG KONG LIMITED

(A wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited)

**Delays in publishing financial results may lead to public reputational sanctions. Such delays prejudice the right of the investing public to receive timely information for the purposes of making informed investment decisions.**

**Securities listed on the Exchange should be continuously traded save in exceptional circumstances. Suspension in share trading due to delays in financial reporting denies reasonable access to the market and prevents its proper functioning.**

**Directors must use their best endeavours to ensure that listed issuers publish financial results within the timeframe prescribed under the Exchange Listing Rules and implement and maintain an effective internal control system in relation to financial reporting. Directors must take previous warnings and guidance from the Exchange seriously and develop and implement systems and controls to prevent the re-occurrence of similar events.**

**The Listing Committee of The Stock Exchange of Hong Kong Limited (the “Listing Committee”)**

#### **CENSURES:**

- (1) **Sanai Health Industry Group Company Limited** (the “**Company**” (Stock Code: 1889), and together with its subsidiaries, the “**Group**”) for breaching Rule 13.49(1) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Exchange Listing Rules**”) for failing to publish its preliminary results of the financial year ended 31 December 2017 (the “**FY2017**”) not later than three months after the end of the financial year;

#### **CRITICISES:**

- (2) **Mr Chen Cheng Qing** (“**Mr Chen**”), executive director (“**ED**”) of the Company;
- (3) **Mr Zhang Rong Qing** (“**Mr Zhang**”), ED of the Company;
- (4) **Ms Hung Hoi Lan** (“**Ms Hung**”), former ED of the Company;
- (5) **Mr Wang Zi Hao** (“**Mr Wang**”), independent non-executive director (“**INED**”) of the Company and the Chairman of the audit committee (the “**AC**”) of the Company; and

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(6) **Mr Tu Fang Kui (“Mr Tu”)**, former INED and former AC member of the Company,

for failing to use their best endeavours to procure the Company’s Exchange Listing Rule compliance, breaching their obligations under the Declarations and Undertakings with regard to Directors given to the Exchange in the form set out in Appendix 5B to the Exchange Listing Rules (the “**Undertakings**”).

(The directors identified at (2) to (6) above are collectively referred to as the “**Relevant Directors**”.)

For the avoidance of doubt, the Exchange confirms that the sanctions and directions in this news release apply only to the Company and the Relevant Directors, and not to any other past or present members of the board of directors of the Company.

## HEARING

On 22 June 2020, the Listing Committee conducted a hearing into the conduct of the Company and the Relevant Directors in relation to their obligations under the Exchange Listing Rules and the Undertakings.

## FACTS

The Company was late in publishing its FY2017 results (the “**FY2017 Delay**”). The due date required under Rule 13.49(1) was 31 March 2018. The Company only published them on 23 April 2018.

As a matter of background, the Company was also late in publishing the preliminary results for the year ended 31 December 2015 (the “**FY2015**”) and 31 December 2016 (the “**FY2016**”) (together with the FY2017 Delay collectively, the “**Delays**”). The Listing Division issued two warning letters to the Company for the FY2015 and FY2016 Delays. Mr Chen and Ms Hung were among the directors at that time who acknowledged receipt of the second warning letter.

Each of the Delays led to the suspension of trading in the Company’s shares:

| Financial year | Publication due date | Publication date | Duration of delay and trading suspension |
|----------------|----------------------|------------------|--|
| FY2015         | 31 March 2016        | 6 April 2016     | 6 days (3 trading days)                  |
| FY2016         | 31 March 2017        | 17 April 2017    | 17 days (12 trading days)                |
| FY2017         | 31 March 2018        | 23 April 2018    | 23 days (13 trading days)                |

According to the Company, it required more time to resolve certain non-recurring and not predictable audit issues (the “**Audit Issues**”) raised by its auditors. The Audit Issues were the basis for the FY2017 Delay.

The Company was late again in publishing its annual results for the financial year ended 31 December 2018 on 1 April 2019 (before trading hours), with a delay of one day (without trading suspension).

**EXCHANGE LISTING RULE REQUIREMENTS**

Rule 13.49(1) requires issuers to publish their preliminary results of a financial year not later than three months after the end of the financial year.

The Relevant Directors were obliged to, under their respective Undertakings, use their best endeavours to procure the Company's compliance with the Exchange Listing Rules.

**LISTING COMMITTEE'S FINDINGS OF BREACH**

The Listing Committee considered the written and/or oral submissions of the Listing Division, the Company and the Relevant Directors, and concluded as follows:

**Company's breach**

The Listing Committee found, and the Company admitted, that the Company breached Rule 13.49(1) as a result of the FY2017 Delay.

**Internal control deficiencies**

The Listing Committee also found that the Company did not have adequate internal controls with respect to compliance with Rule 13.49(1) of the Exchange Listing Rules which contributed to the Company's breach set out above:

- (a) The Company's office manual including the sections concerning financial and accounting aspects (except for fixed asset management) was over-generalised and, therefore, incapable of providing any meaningful guidance to the relevant personnel of the Company for preparing the necessary financial and accounting information of the Group readily available for the annual audit.
- (b) The office manual was effective from 1 January 2015 but had not been revised since then for the purposes of addressing the issues causing the FY2015 and FY2016 Delays.
- (c) There was no system in the Company to ensure that:
  - (i) any material issues raised by auditors would be escalated to at least one of the Relevant Directors or senior management (eg the CFO) for attention and discussion on possible solutions; and
  - (ii) any material delay in the audit timetable would be reported to at least a director or the AC.

No one reported the Audit Issues and the possibility of the FY2017 Delay to the AC or any of the Relevant Directors before the AC meeting held on 27 March 2018.

- (d) The directors of the Company ("**Directors**") had not received monthly or regular management accounts from the operating subsidiaries except interim and annual reporting. Only "significant issues" were required to be reported to the Directors. However, there was no guideline to the relevant staff members as to what constituted "significant issues".

The Company engaged an external professional consultant company to review its operating subsidiaries' risk management and internal control systems for FY2016 and FY2017 (the “**FY2016 Review**” and the “**FY2017 Review**” respectively). The FY2017 Review report issued by the consultant on 4 April 2018 revealed that a number of internal control issues identified in the FY2016 Review (of 27 April 2017) were yet to be fixed, including:

- (a) The Company's written corporate governance practices and procedures were still under preparation; and
- (b) The monthly management accounts of the Company's operating subsidiaries were only reviewed by the department head of each subsidiary without reporting to any of the Relevant Directors.

### **Relevant Directors' breaches**

Mr Chen and Ms Hung joined the Company on 17 February 2017 (ie less than two months before the FY2016 Results were due to be published). The remaining Relevant Directors joined the Company in June 2017, ie during the course of FY2017.

The relevant correspondence between the Company and its auditors showed that the Company Secretary was the key personnel for liaising with the auditors for the FY2017 audit. The Directors only became aware of the FY2017 Delay when they had the AC and the Board meetings to consider the FY2017 Results on 27 March 2018 (4 days before the deadline for publication).

The Listing Committee concluded that the Relevant Directors had breached their Undertakings to use their best endeavours to procure the Company to comply with the financial reporting obligations.

The Listing Committee took the view that the Relevant Directors should pay attention to the Company's affairs not only at formal meetings but take active interest in them, obtain a general understanding of its business, and take steps expeditiously to avoid the FY2017 Delay. Whilst delegation of their duties is permissible, it cannot absolve the Relevant Directors from their duties to ensure that the Company complies with its financial reporting obligations.

The Listing Committee also disagreed with the Company that the Audit Issues were unpredictable. Had the Relevant Directors used their best endeavours by:

- (a) taking proactive steps to closely monitor the Company's financial position (in particular, in respect of the maturity and renewal of loans falling due, and the financial performance of its business segments) and the audit progress;
- (b) making enquiry with the Company Secretary about the Group's financial information at the early stage; and
- (c) regularly liaising with the auditors on issues arising from the audit,

they would have been aware of the Audit Issues (such as the going concern issue) earlier and had more time to resolve them or would have expedited the Company's efforts to avoid the FY2017 Delay.

In view of the FY2015 and FY2016 Delays, the Relevant Directors, who joined the Company on or after 17 February 2017, and in particular, Mr Chen and Ms Hung who acknowledged receipt of the previous warning letter, should have also used their best endeavours to:

- (a) review the Company's Rule non-compliance history before or shortly after they joined the Company as directors, and ensure they understood the causes contributing to the previous delays;
- (b) review the Company's internal control system governing its financial and accounting procedures, in particular in the light of the findings and recommendations of the FY2016 and the FY2017 Reviews, and thereafter taken steps to enhance the system accordingly; and
- (c) ensure that the FY2017 audit would be dealt with expeditiously and that the FY2017 Results would have been published on time.

As a result, Mr Wang and Mr Tu who were Chairman/member of the AC of the Company at the material time, failed to discharge the AC's duties set out in the AC's Terms of Reference in place at the material time.

Although the FY2017 Review report noted a number of improvements in the Group's internal controls implemented after the FY2016 Review, the relevant deficiencies identified were subsisting during FY2016 and FY2017. As all the Relevant Directors joined the Board in February or June 2017, the Listing Committee concluded that the Relevant Directors failed to use their best endeavours to procure the Company to fix the relevant internal control deficiencies which contributed to the FY2017 Delay.

## **REGULATORY CONCERN**

The Listing Committee regards the breaches in this matter as serious:

- (1) Securities listed on the Exchange should be continuously traded save in exceptional circumstances. Trading suspensions due to issuers' delay in financial reporting deny reasonable access to the market and prevent its proper functioning.
- (2) The interest of the investing public had been prejudiced in terms of their right to timely receipt of information relating to the Company which is necessary to enable them to appraise the Company's position for making informed investment decisions.
- (3) There were material deficiencies in the Company's internal controls for procuring the Company's compliance with Rule 13.49(1) which contributed to the Company's breach.

## **SANCTIONS**

Having made the findings of breaches stated above, the Listing Committee decided to:

- (1) Censure the Company for its breach of Rule 13.49(1) of the Exchange Listing Rules; and
- (2) Criticise the Relevant Directors for breach of their Undertakings.

The Listing Committee further directs:

Internal control review

- (3) The Company to retain an independent professional adviser satisfactory to the Listing Division (the "**Adviser**") to conduct a thorough review of and make recommendations to improve the Company's internal controls to ensure compliance with the Exchange Listing Rules, within two weeks from the date of publication of this news release; and provide the Listing Division with the written report of the Adviser containing such recommendations within two months from the publication of this news release. The Company is to submit the proposed scope of retainer to the Listing Division for comment before appointment of the Adviser.
- (4) The Company to furnish the Listing Division with the Adviser's written report on the Company's full implementation of the Adviser's recommendations within a further period of two months.

Director training

- (5) The Relevant Directors (except Ms Hung and Mr Tu) to each (a) attend 18 hours of training on Exchange Listing Rule compliance and director's duties, including at least 4 hours of training on the requirements under the Exchange Listing Rules in respect of director's duties and 4 hours on corporate governance (the "**Training**"), to be provided by institutions such as the Hong Kong Institute of Chartered Secretaries, the Hong Kong Institute of Directors or other course providers approved by the Listing Division. The Training is to be completed within 90 days from the publication of this news release; and (b) provide the Listing Division with the training provider's written certification of full compliance within two weeks after Training completion.
- (6) As a pre-requisite for any future appointment as a director of any company listed on the Exchange, Ms Hung and Mr Tu, who are not currently a director of any other company listed on the Exchange, (a) to attend the Training as a pre-requisite of any future appointment as a director of any company listed on the Exchange. The Training is to be completed before the effective date of any such appointment; and (b) to provide the Listing Division with the training provider's written certification of full compliance.
- (7) The Company is to publish an announcement to confirm that each of the directions in paragraphs (3) to (5) above has been fully complied with within two weeks after the fulfillment of each direction. The last announcement required to be published under this requirement is to include a confirmation that all directions in paragraphs (3) to (5) above have been complied with.
- (8) The Company is to submit the draft announcements referred to in (7) above for the Listing Division's comment and may only publish the announcements after the Listing Division has confirmed it has no further comment on each of them.
- (9) Following the publication of this news release, any changes necessary and any administrative matters which may emerge in the management and operation of any of the directions set out in paragraphs (3) to (8) above are to be directed to the Listing Division for consideration and approval. The Listing Division should refer any matters of concern to the Listing Committee for determination.