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华润凤凰

CR Phoenix

## **China Resources Phoenix Healthcare Holdings Company Limited**

**華潤鳳凰醫療控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1515)**

### **INTERNAL CONTROL FOLLOW-UP REVIEW**

References are made to the announcement of China Resources Phoenix Healthcare Holdings Company Limited (the “**Company**”) dated November 3, 2017 in relation to the review of the Company’s internal control system for procuring compliance with Chapter 14A of the Listing Rules regarding the Group’s continuing connected transactions. Unless otherwise defined, capitalized terms herein shall have the same meanings as those defined in the said announcement.

The Company has implemented all the recommendations of the Internal Control Adviser as set out in the interim report on internal control review and the Internal Control Adviser has conducted a follow-up review on the Company’s internal control system (the “**Follow-up Review**”). The final report on internal control review has been issued by the Internal Control Adviser and been submitted to the Stock Exchange on December 21, 2017.

### **PROCEDURES OF THE FOLLOW-UP REVIEW**

The Follow-up Review is conducted by the Internal Control Adviser in accordance with the requirements under Chapter 14A of the Listing Rules. During the Follow-up Review, the Internal Control Adviser:

- Conducted interviews with the relevant management personnel and staff of the Company to obtain preliminary understanding on the basic information of the rectifications for the management of connected transaction;
- Obtained information of internal control systems and processes in relation to the rectifications for the management of connected transactions to conduct review;
- Conducted tests on the relevant internal control procedures and systems, in order to confirm the Internal Control Adviser’s understanding and whether the Company’s internal control operation meets the management’s requirements; and
- Evaluated the effectiveness of the rectification measures by the Company and issued review opinions based on the results of the above steps taken.

## **FINDINGS OF THE FOLLOW-UP REVIEW**

### **Issues regarding the design of review process on identifying new connected persons**

The Company has revised the “Implementation Rules for the Management of Connected Transactions of China Resources Phoenix Healthcare Holdings Company Limited (《華潤鳳凰醫療控股有限公司關連交易管理實施細則》)”, in which it clarifies the role of supply chain management department of the Company. Being the competent authority of the suppliers of the Company and its subsidiaries, it is responsible for determining whether a new supplier is a connected person and marking the same in the qualification checklist of new suppliers. If there is a new supplier who is a connected person, the supply chain management department of the Company shall inform the relevant subsidiaries and the finance department of the Company by email in a timely manner to update the statistical coverage of connected transactions. Relevant procedures relating to review on and filing of whether a new supplier is a connected person have also been formulated. The Company has issued an internal notice (CR Phoenix Tong Zi [2017] No. 47 (華潤鳳凰通字[2017]47號)) on November 10, 2017 to notify all its departments, member institutions and subsidiaries of the internal control system.

The Company added a checkbox option of “Connected person or not” in the new supplier review procedure under the supply chain management system. The quality control division of the supply chain management department shall check the box of “yes” or “no” when reviewing new suppliers. Such information shall be maintained in the supply chain management system while the finance department shall be granted access to it. In the Follow-up Review, the Internal Control Adviser has sampled two sets of review materials for the admittance approval of new suppliers. Upon inspection, review on whether the new suppliers are connected persons has been conducted.

The review records of the list of suppliers for November 2017 have been sampled. Financial officer of the supply chain management department shall, at the end of each month, derive the transaction data of the suppliers from the supply chain management system, categorise and consolidate the transaction data of suppliers who are connected and non-connected persons, and the financial officer in charge shall review and sign to confirm.

The rectification for such issue has been completed.

### **Issues regarding the reconciliation management of connected transactions**

The Company has revised the “Implementation Rules for the Management of Connected Transactions of China Resources Phoenix Healthcare Holdings Company Limited”, which specifies that the finance departments or relevant designated departments of the Company and each of its subsidiaries shall conduct reconciliation between the amounts of connected transactions and outstanding account receivables with connected persons at the end of each month and year, and maintain the relevant reconciliation records by mail or in written form. It is specifically required under the “Notice regarding the Rectifications of Connected Transactions (《關於關連交易整改的通知》)” issued by the finance department of the Company to each of the relevant departments on November 9, 2017 that the finance department of each member institution shall at least conduct reconciliation with connected persons by mail (or in other written form) at the beginning of each month and shall require feedback from the counterparty. Such mail or other written records shall be properly maintained for inspection. The finance department of each member institution shall back up the relevant records. At year-end, both parties shall provide signed written endorsement of the reconciliation records.

The reconciliation records between Beijing Wanrong, Wugang Hospital and their respective connected persons in November 2017 have been sampled for inspection. It is noted that Beijing Wanrong conducted reconciliation with its connected persons through sending the “Application Letter regarding the Reconciliation with Connected Persons (《關連方對賬申請函》)” by post and Wugang Hospital conducted reconciliation with its connected persons by “Reconciliation Report on Accounts Receivable and Accounts Payable (《往來款項對賬函》)” which is in written form with seal, and both of them maintained the relevant reconciliation records.

The rectification for such issue has been completed.

### **Issues regarding the management of connected transaction agreements**

The Company has revised the “Implementation Rules for the Management of Connected Transactions of China Resources Phoenix Healthcare Holdings Company Limited” in which it clarifies the Company shall enter into written agreements with its connected persons and shall explicitly mark the wording “connected transaction” on the cover page of the agreements.

The Company has revised the “Implementation Rules for the Management of Connected Transactions of China Resources Phoenix Healthcare Holdings Company” in which it clarifies the finance departments of the Company and its subsidiaries shall review the list of suppliers at the end of each month, and shall clearly mark the connected persons to ensure the completeness of identification of connected persons and report the same to the finance and legal departments of the Company. Should there be any abnormalities, they shall inform the finance department of the Company in a timely manner to update the statistics in relation to the connected persons. The lists of suppliers prepared by the finance departments of Huaikuang Hospital and Xukuang Hospital in November 2017 and the filing records thereof to the finance department of the Company have been sampled. Upon inspection, the connected persons in the list of suppliers have been marked and have been reported as required upon confirmation of the person who prepared the list and the financial officer.

The rectification for such issue in relation to establishment of management mechanism has been completed. The Internal Control Adviser understands that no new connected transaction agreement has been entered into during the period of the Follow-up Review, but all the executed connected transaction agreements have been affixed with the chop of “connected transaction”. The procurement agreement for 2017 entered into between the Company and China Resources Pharmaceutical Commercial Group Co., Ltd. (華潤醫藥商業集團有限公司) has been sampled for inspection, which has been affixed with the chop of “CR Phoenix Connected Person (for contracts)”.

Having considered the findings and results of the Follow-up Review, the Board concurs with the Internal Control Adviser's view and are of the view that the Group's internal control system for procuring compliance with Chapter 14A of the Listing Rules regarding the Group's continuing connected transactions are sufficient to meet the obligations under the Listing Rules.

By Order of the Board  
**China Resources Phoenix Healthcare Holdings Company Limited**  
**HAN Yuewei**  
*Executive Director & Chief Executive Officer*

Hong Kong, January 3, 2018

*As at the date of this announcement, the Board comprises Mr. WANG Yin and Mr. WANG Yan as non-executive Directors; Mr. CHENG Libing, Mr. HAN Yuewei, Ms. REN Yuan and Ms. FU Yanjun as executive Directors; Mr. KWONG Kwok Kong, Ms. CHENG Hong, Mr. SUN Jianhua and Mr. LEE Kar Chung Felix as independent non-executive Directors.*