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## CHINA HUIYUAN JUICE GROUP LIMITED

中國滙源果汁集團有限公司\*

*(Incorporated in the Cayman Islands with Limited Liability)*

**(Stock Code: 1886)**

**(Debt Securities Stock Code: 5259)**

### KEY FINDINGS OF THE INDEPENDENT INVESTIGATION UPDATE ON THE INDEPENDENT INTERNAL CONTROL REVIEW AND UPDATE ON RECENT DEVELOPMENTS ON SUSPENSION OF TRADING

This announcement is made by the board (the “**Board**”) of directors (the “**Directors**”) of China Huiyuan Juice Group Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) pursuant to Rule 13.09 and Rule 13.24A of the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) and the provisions of inside information 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 29 March 2018 in respect of the loans provided by the Company to Beijing Huiyuan Beverage in the aggregate amount of approximately RMB4,282 million (the “**Relevant Loans**”), 3 April 2018 in respect the suspension of shares, 11 June 2018 in respect of the (i) conditions of resumption (ii) establishment of an independent board committee, (iii) independent forensic investigation; and (iv) internal control review, 24 October 2018 in respect of additional transactions identified during the independent forensic investigation, and various announcements of the Company containing updates on progress of fulfilment of resumption conditions respectively dated 1 August 2018, 31 August 2018, 28 September 2018, 6 November 2018, 1 February 2019, 7 May 2019, 6 August 2019 and 8 November 2019 (the “**Prior Announcements**”). Capitalised terms used but not otherwise defined herein shall have the same meaning as that ascribed to them in the Prior Announcements.

## BACKGROUND

On 29 March 2018, the Company published an announcement disclosing the relevant details about the Relevant Loans.

In that announcement, it was disclosed that *“during the period between 15 August 2017 to 29 March 2018, the Company provided the Relevant Loans as part of the arrangement between the Company and Beijing Huiyuan Beverage for the Group to provide short term loans to Beijing Huiyuan Beverage to meet the temporary working capital requirement of, and/or debt repayment by, Beijing Huiyuan Beverage.”*

On 29 March 2018, the Company requested a suspension in trading in the Shares and debt securities of the Company with effect from 9:00 am on 3 April 2018 as it was expected that the Company will not be able to (1) publish the 2017 Annual Results on or before 31 March 2018, and (2) there may also be a possible delay in the despatch its annual report for the financial year ended 31 December 2017 (the **“2017 Annual Report”**) by 30 April 2018.

On 4 June 2018, the Company received a letter from the Stock Exchange, in which the Stock Exchange imposed various Resumption Conditions on the Company. The Resumption Conditions would include (1) conduct a forensic investigation into the Relevant Loans, announce the findings and take appropriate remedial actions; and (2) conduct an independent internal control review and demonstrate that the Company has put in place adequate internal control systems; (3) demonstrate that there is no reasonable regulatory concern about management integrity; (4) publish all outstanding financial results and address any audit modifications; and (5) inform the market of all material information of the Company.

The Board established an independent board committee (the **“IBC”**) comprising its independent non-executive Directors for the purpose of investigating, among others, the matters relating to the Relevant Loans and the Company’s internal control systems on 7 June 2018.

In June 2018, through its legal advisor, the IBC appointed the Independent Forensic Accountant to conduct an independent investigation of the matters relating to the Relevant Loans (the **“Independent Investigation”**), and the Internal Control Consultant to conduct a review of the Company’s internal control systems (the **“Independent Internal Control Review”**).

In October 2018, the IBC informed the Company that the Independent Forensic Accountant, in its course of carrying out the Independent Investigation, discovered that other than the Relevant Loans, certain transactions may have been carried out between the Group and its connected persons during the period from 1 January 2017 to 31 December 2017 (the **“Possible Additional Transactions”**). The Board agreed to expand the IBC’s mandate to include the investigation of the Possible Additional Transactions to the scope of the Independent Investigation.

In December 2019, the IBC directed the Independent Forensic Accountant to perform certain additional procedures to check whether there existed any unrecorded transactions in 2016 and from 1 January 2018 to 31 October 2019, and to check the loans granted to related parties in the period between 31 March 2018 and 31 October 2019 (the **“Additional Procedures”**).

On 13 January 2020, at the direction of the IBC, the Independent Forensic Accountant issued its report for the Independent Investigation to the IBC (the **“Independent Investigation Report”**).

This announcement outlines the key findings of the Independent Investigation and the recommendations of the IBC.

# KEY FINDINGS OF THE INDEPENDENT INVESTIGATION

The Independent Forensic Accountant conducted a forensic investigation in respect of the Relevant Loans and the Possible Additional Transactions. Subject to certain limitations, the Independent Forensic Accountant made the following key findings:

## Findings regarding the Relevant Loans

1. During the period between August 2017 and December 2017, and without obtaining any approval from the management, the fund management centre of the Group (the “**Fund Management Centre**”) transferred a total sum of RMB4,283,000,000 from nine bank accounts (the “**Relevant Accounts**”) held by four companies within the Group (the “**Relevant Companies**”) to four related companies (the “**Related Companies**”) in a total of 66 transactions. Interest income in the total sum of RMB9,564 was not yet recorded on the Group’s accounting record. The Relevant Companies include the Company, Luzhong Huiyuan Food & Beverage Co., Ltd., Beijing Huiyuan Food & Beverage Co., Ltd. (“**Huiyuan Food**”) and Shandong Yuanda Beverage Co., Ltd. The Related Companies include Beijing Huiyuan Beverage, China Deyuan Capital (Hong Kong) Co., Ltd., Beijing Junliu Trading Co., Ltd. (“**Beijing Junliu**”) and China Huiyuan Juice Holdings Co., Ltd (“**China Huiyuan Juice**”).
2. The Relevant Loans were discussed and agreed between the director of the Fund Management Centre at the time (Individual A), and the financial director of Beijing Huiyuan Beverage, a Related Company (Individual B). No written contract was signed at that time. The repayment date for the Relevant Loans was 31 December 2017, and the interest rate on the Relevant Loans was 10% per annum. The interest rate was determined based on the market interest rate and the interest rate offered by the Group to its distributors.
3. The Relevant Loans were approved by the person in charge of the Fund Management Centre. 62 out of 66 of the Relevant Loans were approved by Individual A. The remaining four Relevant Loans were approved by a former director of the Fund Management Centre (Individual C), or the finance manager of the Relevant Companies (Individual D).
4. Individual A categorized the Relevant Loans as internal bank transfers within the Group and considered that they did not require approval from the management of the Group but would only require approval from the person in charge of the Fund Management Centre of the Group. According to the fund approval procedures of the Group, internal bank transfers within the Group only required approval from the person in charge of the Fund Management Centre.
5. Prior to December 2017, the Relevant Loans were not recorded on the accounting records of the Group. According to Individual A, the reason was that he considered that the funds were still within his control and planned to record the Relevant Loans together with the related interest income on the accounting records of the Group after the Related Companies made repayment.
6. At the end of December 2017, when the Vice President (Finance) of the Group (Individual E) prepared a reconciliation of the year-end bank balance, he discovered that the bank balance shown on the management accounts and bank statements to be inconsistent and accordingly the Relevant Loans.

7. The Fund Management Centre would conduct an independent reconciliation of accounts on a monthly basis. The Fund Management Centre was only required to submit its monthly statements to the management of the Group for reporting purposes and there was no requirement for the management of the Group to check the accounts. Hence, the management of the Group did not discover the Relevant Loans at the relevant time. Individual A and Individual B were both directly involved in the provision of the Relevant Loans.
8. While the Relevant Loans were provided to the Related Companies, Independent Forensic Accountant did not find any evidence showing that Zhu Xinli (“**Mr. Zhu**”), the chairman of the Group, the Directors of the Group and other management of the Group were involved in the provision of the Relevant Loans or that they were aware of the Relevant Loans at the relevant time.
9. Individual E discovered the Relevant Loans in or around the end of December 2017, the Accounting Department of the Group took steps to record the Relevant Loans on the accounting records of the Group. During the annual audit for 2017, the auditors found that the Group did not record the interest accrued on the Relevant Loans in the accounting records of the Group. At the suggestion of the auditors, the Group made certain late adjustments on its accounting records.
10. After the management of the Group discovered the Relevant Loans, the Group requested the Related Companies to repay the principal and interest on the Relevant Loans.
11. The Independent Forensic Accountant reviewed the relevant receipt vouchers and bank slips, performed confirmation procedures with the relevant banks and the Related Companies and confirmed that the Relevant Loans (both the principal and all the outstanding interest) were repaid on or before 29 March 2018.

### **Findings regarding the Possible Additional Transaction**

12. During the Independent Investigation, the Independent Forensic Accountant noted that the balance shown on the bank statements in relation to one of the bank accounts held by the Group to be inconsistent with the bank balance shown on the Company’s management accounts. The Independent Forensic Accountant considered that there may exist other unrecorded transactions. At the request of the IBC, the Independent Forensic Accountant expanded the scope of the Independent Investigation to include additional investigation procedures on the Relevant Accounts, with a view to ascertaining whether the Group had any unrecorded transactions in the period between January 2017 and December 2017.
13. The Independent Forensic Accountant reviewed and compared the relevant bank statements and the Group’s accounting records, and discovered that in the period between January 2017 and December 2017:
  - a. There were 156 instances where the Company and Huiyuan Food made payments (in a total sum of around RMB7.2 billion) to three of the Related Companies (namely Beijing Huiyuan Beverage, Beijing Junliu and China Huiyuan Juice), but these payments were not recorded on the accounting records of the Group. During the same period, there were 164 instances where Huiyuan Food received payments (in a total sum of around RMB7.2 billion) from three of the Related Companies (namely Beijing Huiyuan Beverage, Beijing Junliu and China Huiyuan Juice), and these receipts were also not recorded on the accounting records of the Group.

- b. There were 7 instances where Huiyuan Food made payments (in a total sum of RMB690 million) to the two subsidiaries of the Group (namely Tianjin Huiyuan Yijia Trading Co., Ltd. and Luzhong Huiyuan Food & Beverage Co., Ltd.), and these payments were not recorded on the accounting records of the Group. During the same period, there were 5 instances where Huiyuan Food received payments (in a total sum of RMB690 million) from the same two subsidiaries of the Group, and these receipts were also not recorded on the accounting records of the Group.
  - c. There were 2 instances where Huiyuan Food made payments (in a total sum of RMB52.3 million) to two third-party companies, and these payments were not recorded on the accounting records of the Group. During the same period, there were 3 instances where Huiyuan Food received payments (in a total sum of RMB52.3 million) from the same two third-party companies, and these receipts were also not recorded on the accounting records of the Group.
14. Based on relevant accounting vouchers reviewed, the Independent Forensic Accountant found that the majority of the above transactions were approved or reviewed by the person in charge of the Fund Management Centre at the time, Individual C and Individual A. The Fund Management Centre did not report or seek approval from the management of the Group with respect to the unrecorded transactions.
15. According to the directors of the Fund Management Centre of the Group at the time (Individual C and Individual A), they considered that it was not necessary to seek approval from the management of the Group and to record those transactions with the Related Companies and subsidiaries of the Group on the accounting records of the Group, because the purpose of these transactions (payments made and received) were to increase the volume of company statement transactions at the bank. As regards the two instances where payments were made to the third-party companies, one instance concerned a short-term loan provided to a third party and the accountant of the Group only recorded interest income for the loan but did not record the loan transactions on the accounting records of the Group; in the other instance, the Group was unable to confirm the nature and purpose of the transaction.
16. The Independent Forensic Accountant found that the nature of the unrecorded transactions might be “receivables from connected companies” or “loans” and the Fund Management Centre should have obtained the necessary approvals and recorded these transactions in a timely manner and in accordance with the relevant regulations.
17. The Fund Management Centre would conduct an independent reconciliation of accounts on a monthly basis. The Fund Management Centre was only required to submit its monthly statements to the management of the Group for reporting purposes. There was no requirement for the management of the Group to check their accounts. Hence, the management of the Group did not discover these unrecorded transactions at the relevant time.
18. While the payments were made to certain related companies, subsidiaries of the Group and third parties, the Independent Forensic Accountant did not find any evidence showing that Mr. Zhu, the Directors of the Group and other management of the Group were involved in the unrecorded transactions or became involved or were aware of those unrecorded transactions during the relevant investigation period.



19. The Independent Forensic Accountant examined the statements of the relevant bank accounts and management accounts for the period from 1 January 2017 to 31 December 2017, and confirmed that there are no discrepancies as to the opening balance as at 1 January 2017 and the closing balance as at 31 December 2017 respectively as shown in the relevant bank statements and the accounting records of the Group. All unrecorded payments made by the Group had been off-set by unrecorded receipts of the Group in the relevant period.
20. The Independent Forensic Accountant also confirmed the bank balances recorded on the bank statements of the Group as at 1 January 2017 and 31 December 2017.

## **INTERNAL CONTROL WEAKNESSES IDENTIFIED BY THE INDEPENDENT FORENSIC ACCOUNTANT**

The Independent Forensic Accountant identified the following internal control weaknesses during the Independent Investigation:

1. The Group did not formulate procedures for approval of loans made to companies within the Group or outside the Group: the Group did not issue any internal control procedures in relation to loans made to companies within the Group or outside the Group. As a result, the employees do not have a procedure to follow, and do not know the correct way to handle documents.
2. The funding approval procedures of the Group do not provide adequate directions, resulting in the staff wrongly considered that before the remittance of the Relevant Loans, only approval from the Fund Management Centre was required and no approval from the management of the Group was needed.
3. The upper limit for making payments on the online banking system were either too high or without limitation.
4. Certain individuals of the Group's Finance Department were not familiar with the approval procedures for fund transfers and lacked relevant training (including training in relation to the Listing Rules and/or internal control).

## **LIMITATIONS OF THE INDEPENDENT INVESTIGATION**

The findings of the Independent Forensic Accountants are subject to certain limitations. The key limitations would include (1) the Independent Forensic Accountant was not able to interview, or to complete the interview of, certain employees who have left the employ of the Group; (2) the Independent Forensic Accountant was not able to interview the auditors and the customer managers of certain banks; (3) the Independent Forensic Accountant was not able to confirm the completeness of certain electronic data; and (4) the Independent Forensic Accountant was not able to obtain certain information and/or supporting documents regarding the unrecorded transactions from the Company and/or the Related Companies.

## CONCLUSIONS AND REMEDIAL MEASURES

The IBC has carefully considered the findings of the Independent Forensic Accountant and endorsed the same.

The IBC has the following observations on the findings:

1. Individual A and Individual C were wrong in failing to obtain approval from the management and independent shareholders, and to comply with all relevant legal, accounting and internal control requirements, before carrying out any of the Relevant Loans and the Possible Additional Transactions. In particular, they failed to record the Relevant Loans and the Possible Additional Transactions in the Company's accounting records at all or on a timely basis. The IBC is of the view that they have committed serious mistakes in relation to the Relevant Loans and the Possible Additional Transactions and that these mistakes are unacceptable. Individual A has been removed from his office and Individual C has resigned, and if it was not the case, the IBC would have recommended the Board to summarily dismiss them.
2. The directors and senior management should be familiar with the business and the financial aspects of the Group. While no issue relating to management integrity was identified during the Independent Investigation, the failure in identifying the errors committed by Individual A and Individual C by the directors and senior management on a timely basis would suggest that they might not have properly discharged their duties. The IBC recommends that all directors and senior management at the time be required to attend trainings on Listing Rules compliance and directors' duties (including training on notifiable and connected transactions) to remind them of their respective duties.
3. The performance of various other staff in the Finance Department/Fund Management Centre is also unsatisfactory. Based on the results of the Independent Investigation, they were not familiar with the procedures in relation to the Group's fund management procedures. The IBC recommends that training be provided to the Finance Department staff in relation to the fund management policy of the Group and on the Listing Rules compliance, and that any unsatisfactory performance be taken into account in the annual performance review of the staff.
4. Individual E, being the person in charge of the Finance Department at the relevant time, should have actively monitored the fund management of the Group to ensure that all fund management procedures and policies are properly complied with. Individual E no longer held any office at the Company since August 2018.

As noted above, in December 2019, the IBC directed the Independent Forensic Accountant to perform certain additional procedures to investigate whether any unrecorded transactions existed in 2016 and between 1 January 2018 and 31 October 2019, and to review the loans granted to related parties (if any) in the period between 31 March 2018 and 31 October 2019. As at the date of this announcement, the Independent Forensic Accountant has yet to issue its report regarding their findings on such additional procedures. The IBC will report to the Board once the findings are available. The IBC wishes to note that the findings of the Independent Forensic Accountant should be considered in conjunction with the findings of the Additional Procedures, and hence, depending on the findings of the Additional Procedures, the IBC may revisit the findings of the Independent Forensic Accountant if necessary.

The IBC noted that the following remedial measures have been implemented by the Group:

1. The Group has appointed Zhai Suoguo as the director of the Fund Management Centre of the Group to replace Individual A.
2. The Group issued revised procedures in relation to application of funds for making payments and required employees to strictly comply with the revised procedures. The revised manual for managing non-continuous connected transactions was also issued on 28 January 2018 and employees were required to strictly comply with such manual.

The IBC recommends the following further remedial measures to be implemented by the Company:

1. The Company should consult the auditors to ensure that the Relevant Loans and the Possible Additional Transactions are properly accounted for in the financial statements.
2. The Company should consult the auditors as to the implications of the Relevant Loans and the Possible Additional Transactions to the audit opinions to be issued by the auditors for the financial years ended 31 December 2017 and 2018.
3. The Company should consider appointing individuals with accounting and/or legal background to the Board, and one of the directors as the Chief Risk Officer of the Group.
4. The Company should consider engaging a compliance advisor for advice regarding compliance with the Listing Rules.
5. The internal audit department of the Group should perform regular review of the fund management procedures and policies and reports on such reviews should be made to the audit committee of the Company.
6. Training on fund management procedures and policies and Listing Rule compliance be provided to the staff of the Fund Management Centre. Training on Listing Rules compliance and directors' duties (including training on notifiable and connected transactions) should be provided to the directors and senior management.
7. The Board should establish an independent review committee comprising all independent non-executive directors of the Company to monitor and review the progress for the implementation of the remedial measures that are approved by the Board.

The IBC has recommended the Board to endorse the findings of the Independent Investigation and the remedial measures recommended by the IBC.

The Board has considered the findings of the Independent Investigation. The Board endorses findings of the Independent Investigation and has also agreed with the recommendations of the IBC.

The Board has resolved that the recommendations of the IBC be implemented as soon as practicable.



## UPDATE ON THE INDEPENDENT INTERNAL CONTROL REVIEW

As mentioned above, the Company has engaged the Internal Control Consultant to conduct a review of the Company's internal control systems.

The Independent Internal Control Consultant conducted the Independent Internal Control Review in relation to four key subsidiaries of the Group on the following matters: “overall corporate governance environment”, “cycle from sales to receiving payments”, “cycle from procurement to making payment”, “cycle for inventory management”, “cycle for fixed asset management”, “cycle from expense to payment”, “cycle for human resources and wages management”, “cycle for finance (including cash) management”, “cycle for financial report”, “cycle for tax declaration and payment management”, “cycle for connected transactions and connected persons account management”, “cycle for regulatory compliance and license management cycle”, “cycle for insurance management”, “cycle for research & development and patent management”, “cycle for intellectual property and trademark management cycle” and “cycle for information technology system risk management”.

The Company wishes to update the shareholders that the IBC has received an updated draft report of the Internal Control Consultant in January 2020 (the “**Draft Report**”).

According to the Draft Report:

1. So far as “overall corporate governance environment”, “cycle for finance (including cash) management” and “cycle for connected transactions and connected persons account management” are concerned, the Independent Internal Control Consultant is of the view that the management has established comprehensive internal control procedures, but there existed loopholes/mistakes in the implementation of the relevant internal control procedures. The loopholes/mistakes include, among others, certain transactions involving connected persons in the period between July 2018 and April 2019 that the Company failed to comply with the Group's fund management procedures.
2. As regards the remaining 13 areas, the Independent Internal Control Consultant identified no unusual or material internal control weaknesses.

In the Draft Report, the Independent Internal Control Consultant has recommended various remedial measures to the Company to improve its internal control. The Company has agreed, and has taken steps, to implement the recommendations of the Independent Internal Control Consultant.

The Company will make a separate announcement on the key findings of the Independent Internal Control Review in due course.

## **EXPECTED TIMETABLE TOWARDS FULFILLING RESUMPTION CONDITIONS**

The Company would like to provide shareholders and potential investors with updates of the Company's current status and expected timetable towards satisfying the Resumption Conditions, in particular, in relation to (1) the Additional Procedures; (2) the Independent Internal Control Review; and (3) the publication of the outstanding financial statements.

The expected timetable is set out as below:

1. **Additional Procedures:** It is anticipated that subject to the availability of the relevant information, the Independent Forensic Accountant will be able to submit a draft report about the Additional Procedures to the IBC around end of February 2020.
2. **Independent Internal Control Review:** It is anticipated that the Internal Control Consultant would be in a position to issue its report in or around mid-February 2020 to the IBC.
3. **Outstanding financial results:** Auditors are not able to commit to any deadline for completion and publication of the audited account for the financial years ended 31 December 2017, 2018 and 2019. The Company has requested the Auditors to complete their audit for the financial years ended 31 December 2017, 2018 and 2019 as soon as possible, and to seek to complete their audit for the financial year ended 31 December 2017 by 31 March 2020, and their audit for the financial years ended 31 December 2018 and 2019 by 31 May 2020.

The Company is committed to fulfilling the Resumption Conditions to achieve the resumption of trading of its shares on the Stock Exchange. In case of any material changes, further announcement(s) will be made by the Company as and when appropriate.

## **CONTINUED SUSPENSION OF TRADING**

At the request of the Company, trading in the shares and debt securities of the Company on the Stock Exchange has been halted since 9:00 a.m. on 3 April 2018 (and automatically converted to suspension thereafter) and will remain suspended until further notice.

**The 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  
**China Huiyuan Juice Group Limited**  
Chairman  
**Zhu Xinli**

Beijing, 5 February 2020

*As at the date of this announcement, the directors of the Company are Mr. ZHU Xinli, Ms. ZHU Shengqin and Ms. JU Xinyan as executive directors, Mr. SONG Quanhong, Mr. WANG Wei, Mr. PAK Wai Keung Martin and Mr. LEE Wen-Chieh as independent non-executive directors.*

\* For identification purposes only