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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 INTERNAL CONTROL REVIEW

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 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 & Food Group Co., Ltd in the aggregate amount of approximately RMB4,282 million (the “**Relevant Loans**”), 3 April 2018 in respect of the suspension of trading in shares of the Company, 11 June 2018 in respect of the (i) resumption conditions, (ii) establishment of an independent board committee (“**IBC**”), (iii) independent forensic investigation; and (iv) internal control review, 24 October 2018 in respect of additional transactions identified during the independent forensic investigation, 31 January 2020 in respect of the key findings of 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 4 June 2018, the Company received a letter from the Stock Exchange in which the Stock Exchange imposed various resumption conditions on the Company and one of the resumption conditions is that the Company conduct an independent internal control review and demonstrate that the Company has put in place adequate internal control systems.

In June 2018, the independent internal control consultant (the “**Independent Internal Control Consultant**”) was appointed by the IBC (via its then legal advisors) to conduct a review of the Company’s internal control systems (the “**Independent Internal Control Review**”).

This announcement outlines the key findings of the Independent Internal Control Review and the recommendations by the IBC.

KEY FINDINGS OF THE INDEPENDENT INTERNAL CONTROL REVIEW

The Independent Internal Control Consultant conducted the Independent Internal Control Review in relation to 4 key subsidiaries of the Company on the following 16 areas: “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 for insurance management”, “cycle for research & development and patent management”, “cycle for intellectual property and trademark management” and “cycle for information technology system risk management”.

The Independent Internal Control Review consists of two phases:

1. Phase 1 was to conduct the fieldwork for the internal control review. It took place from 8 June 2018 to 16 June 2018. The testing period of the internal control review covered the period from 1 January 2017 to 31 May 2018.
2. Phase 2 was to conduct follow-up review. The first follow-up review took place from 22 June 2018 to 29 June 2018, and the testing period of the first follow-up review covered the period from 16 June 2018 to 26 June 2018.
3. At the request of the IBC, the Independent Internal Control Consultant conducted the second follow-up review in the Group’s four key operating cycles (including “overall corporate governance environment”, “cycle for finance (including cash) management”, “cycle for financial report“ and “cycle for connected transactions and connected persons account management” etc.). The second follow-up review took place from 18 November 2019 to 10 January 2020, and the testing period of the second follow-up review covered the period from 27 June 2018 to 18 November 2019.

Below are the key findings of the Independent Internal Control Review:

1. So far as the Group’s “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 financial report”, “cycle for tax declaration and payment management”, “cycle for regulatory compliance and license management”, “cycle for insurance management”, “cycle for research & development and patent management”, “cycle for intellectual property and trademark management” and “cycle for information technology system risk management” are concerned, the Independent Internal Control Consultant identified no unusual or material internal control weaknesses.

2. As regards the Group’s “overall corporate governance environment”, “cycle for finance (including cash) management” and “cycle for connected transactions and connected persons account management”, the Independent Internal Control Consultant identified various internal control deficiencies in its review and considered the risk indexes for “overall corporate governance environment” regarding financial assistance to connected companies outside the Group, “cycle for finance (including cash) management” regarding potential breach of the terms of loan agreement and “cycle for connected transactions and connected persons account management” regarding procedures for connected persons management are “medium to high”.
3. According to its testing results, the Independent Internal Control Consultant is of the view that the management has established comprehensive internal control procedures in respect of the “overall corporate governance environment”, “cycle for finance (including cash) management” and “cycle for connected transactions and connected persons account management”, but there existed loopholes and/or mistakes in the implementation of the relevant internal control procedures.
4. For “overall corporate governance environment” regarding financial assistance to connected companies outside the Group, in the second follow-up review, the Independent Internal Control Consultant noted that there were 7 capital transactions, 4 non-capital procurement transactions and 4 non-capital sale transactions with connected persons (being associates of Mr. Zhu, the controlling shareholder and a former director of the Company) took place in the period between July 2018 and April 2019 in which the Company failed to comply with the Group’s fund management procedures and/or the requirements under the Listing Rules. The Independent Internal Control Consultant recommends the Group to: (i) formulate written guidelines to assist the relevant staff in recognizing and reporting possible connected transactions; (ii) formulate different approval procedures for connected transactions in accordance with the nature of transaction, namely capital and non-capital; (iii) require the internal audit and finance department to perform monthly internal control testing; (iv) require Directors and the senior executives of the Company to declare their interest to the Company on a regular basis; (v) provide trainings regarding the Listing Rules and compliance requirements to the management and staff in finance department and the Fund Management Centre semi-annually or annually; and (vi) ensure the proper execution of the relevant loan documentations before conducting any connected loan transactions.
5. For “cycle for finance (including cash) management” regarding potential breach of the terms of loan agreement, in the second follow-up review, the Independent Internal Control Consultant noted that there was no written record for the approval of the list of connected persons by the relevant responsible person; the updated list of connected persons was not circulated to all staff of the finance department at the beginning of each month; and the Company failed to supply written evidence required under a loan agreement with a creditor and failed to produce written documents regarding the negotiation and implementation of certain exemption in a loan agreement. The Independent Internal Control Consultant recommends the Group to: (i) assign a designated person to assess the background information of the connected parties prior to making any transfers and monitor the amount of funds transferred to connected parties; (ii) properly record and maintain a record of all the payment approval documentation; and (iii) appoint a designated person to monitor the Group’s performance of its obligations under loan agreements on a regular basis to avoid triggering of any default.

6. For “cycle for connected transactions and connected persons account management” regarding procedures for connected persons management, in the second follow-up review, the Independent Internal Control Consultant noted that there was no written record for the approval of the list of connected persons by the relevant responsible person; and the updated list of connected persons was not circulated to all staff of the finance department at the beginning of each month. The Independent Internal Control Consultant recommends the Group to: (i) assign a designated person to update the list of connected parties on a monthly basis to ensure that all connected parties are included accurately and timely; and (ii) circulate the updated list to all employees of the finance department of the Group and relevant personnel in the approval process, and the relevant personnel must confirm upon receipt of such list.

The Independent Internal Control Consultant has recommended various remedial measures to the Company to address the internal control weaknesses identified by them and has discussed those remedial measures with the management of the Company. The management of the Company has agreed to implement the remedial measures recommended by the Independent Internal Control Consultant and has taken steps to implement the same.

CONCLUSIONS AND FURTHER REMEDIAL MEASURES

The IBC has carefully considered the findings and recommendations of the Independent Internal Control Consultant and endorsed the same.

The IBC has the following observations and recommendations:

1. The IBC noted that the Independent Internal Control Consultant found that there were 7 capital transactions with connected persons (being associates of Mr. Zhu, the controlling shareholder and a former director of the Company) took place in the period between July 2018 and April 2019 in which the Company failed to comply with the Group’s fund management procedures and the requirements under the Listing Rules.
2. The IBC considers that any breach of the Company’s fund management procedures and breach of the Listing Rules are very serious matters, mindful of (in particular) the findings of the Independent Investigation with respect to the Relevant Loans and the Possible Additional Transactions.
3. The IBC considers that it is important that any potential breaches of the fund management procedures and breach of the Listing Rules must be properly investigated and that any persons responsible for the breaches should be punished.
4. The IBC noted that the Independent Forensic Accountant has already been instructed by the IBC to conduct the Additional Procedures to check, among other matters, the loans granted to connected parties in the period between 31 March 2018 and 31 October 2019, and that such Additional Procedures have yet to complete. The IBC noted that the capital transactions identified by the Independent Internal Control Consultant which failed to comply with the fund management procedures and the requirements of the Listing Rules fall within the scope of the Additional Procedures.

5. The IBC has recommended the following to the Board:
- a. Independent Forensic Accountant review those transactions identified by the Independent Internal Control Consultant which failed to comply with the fund management procedures and the requirements of the Listing Rules as part of the Additional Procedures, and depending on the outcomes of the Additional Procedures, the Company should consider taking appropriate legal and disciplinary actions against any persons responsible for the wrongdoing.
 - b. Remedial measures recommended by the Independent Internal Control Consultant be implemented as soon as practicable, and the Board shall establish an independent review committee comprising all independent non-executive directors of the Company to monitor and review the progress for the implementation of such remedial measures;
 - c. The person-in-charge of the finance department shall take all necessary steps to ensure that the fund management procedures shall be strictly complied with by all employees of the Group.

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

The Board has considered the findings of the Independent Internal Control Consultant and the recommendations of the IBC. The Board endorses findings of the Independent Internal Control Review 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.

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
Ju Xinyan

Beijing, 28 February 2020

As at the date of this announcement, the directors of the Company are Ms. JU Xinyan and Mr. WANG Xinnong as the executive directors, and Mr. SONG Quanhou, Mr. PAK Wai Keung Martin and Mr. LEE Wen-Chieh as independent non-executive directors.

* *For identification purposes only*