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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)**

### INSIDE INFORMATION

### KEY FINDINGS OF THE ADDITIONAL PROCEDURES

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 the Disclosures 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 the suspension of shares of the Company, 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, 31 January 2020 in respect of the key findings of the independent forensic investigation, 28 February 2020 in respect of the key findings of the internal control review, 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, 8 November 2019 and 31 January 2020 (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

As disclosed in the announcement dated 31 January 2020, the IBC, having considered the draft report of the Independent Forensic Accountant and having consulted its advisors and auditors, directed the Independent Forensic Accountant to perform the Additional Procedures in December 2019 to assess whether there existed any unrecorded transactions in 2016 and from 1 January 2018 to 31 October 2019, and to assess the loans granted to related parties in the period between 1 April 2018 and 31 October 2019.

This announcement outlines the key findings of the Additional Procedures and the recommendations of the IBC.

## **KEY FINDINGS OF ADDITIONAL PROCEDURES**

In the Additional Procedures, the Independent Forensic Accountant conducted the following procedures:

1. assess whether there is any inconsistency between the statements of the Relevant Accounts and the Group's accounting records regarding bank balance for the period from 1 January 2016 to 31 December 2016 and from 1 January 2018 to 31 October 2019, and confirm whether there were any unrecorded transactions in respect of the Relevant Accounts during those periods of time.
2. assess how the loans provided to the related parties (as shown in the Group's accounting records) were granted in the period between 1 April 2018 and 31 October 2019, including when the loans were granted, details of the loans, who approved the loans and whether the loans were repaid.

The Independent Forensic Accountant has following key findings:

### **Key findings regarding unrecorded transactions**

1. The Independent Forensic Accountant examined the relevant bank statements and the Group's accounting records in respect of the Relevant Accounts for the period from 1 January 2018 to 31 October 2019. The Independent Forensic Accountant did not identify any unrecorded transactions with the Related Companies, but noted that certain transactions with the Related Companies in a total sum of RMB106.5 million were recorded after the transaction date (with a delay of around two months to six months).
2. For the period from 1 September 2016 to 31 December 2016:
  - a. The Independent Forensic Accountant examined the relevant bank statements and the Group's accounting records in respect of three of the Relevant Accounts, and did not identify any unrecorded transactions involving any of the Related Companies in that period of time.
  - b. As regards the remaining Relevant Accounts, the Independent Forensic Accountant was unable to confirm whether there existed any unrecorded transactions involving any Related Companies, as the Group was not able to supply either the relevant bank statements or the Group's accounting records in respect of the Relevant Accounts in that period of time.
3. For the period from 1 January 2016 to 31 August 2016, the Independent Forensic Accountant was unable to confirm whether there existed any unrecorded transactions involving any Related Companies, as the Group was not able to supply either the relevant bank statements or the Group's accounting records in respect of the Relevant Accounts in that period of time.

## Key findings regarding transactions with related parties

4. Beijing Huiyuan Beverage is a connected person under Chapter 14A of the Listing Rules, as it is an associate of Mr. Zhu Xinli, a substantial shareholder of the Company.
5. Shandong Huiyuan Food and Beverage Co., Ltd (“**Shandong Huiyuan**”) is not a connected person under Chapter 14A of the Listing Rules, but is a related party of the Company under Chapter 24 of the Hong Kong Accounting Standard.
6. According to the information obtained from the Group’s accounting records and the interviews, in the period between 4 July 2018 and 26 April 2019, nine companies within the Group made 55 transfers to Beijing Huiyuan Beverage and Shandong Huiyuan in the total sum of around RMB5,939 million (including a total sum of RMB5,208 million to Beijing Huiyuan Beverage and a total sum of RMB731 million to Shandong Huiyuan), and received a total sum of RMB283 million (including cash of RMB156 million and non-cash of RMB127 million) from the related parties.
7. Based on the information obtained from Independent Forensic Accountant’s review of the documents and Independent Forensic Accountant’s interview with the director of the Fund Management Centre, a total sum of RMB5,666 million (including a total sum of RMB4,936 million to Beijing Huiyuan Beverage and a total sum of RMB730 million to Shandong Huiyuan) was transferred by reasons of certain fixed time-deposit pledge contracts entered into by the Group:
  - a. In the period between 14 June 2017 and 16 July 2018, the Group through four of its subsidiaries (namely Huiyuan Food; Lu Zhong Huiyuan Food and Beverage Co., Ltd (“**Laiwu Factory**”); Beijing Huiyuan Group Kaifeng Co., Ltd (“**Kaifeng Factory**”) and Shandong Yuanda Beverage Co., Ltd (“**Yuanda Factory**”)) entered into fixed time-deposit pledge contracts with various banks. The purpose of the fixed time-deposit pledges was to satisfy the requirements of the banks for loan facilities to Beijing Huiyuan Beverage and Shandong Huiyuan.
  - b. The Independent Forensic Accountant examined the fixed time-deposit pledge contracts provided by the Group. In the period between 14 June 2017 and 16 July 2018, the Group (through three of its subsidiaries) entered into fixed time-deposit pledge contracts with five different banks, and pledged fixed time-deposits under the contracts.
  - c. In the period between January 2018 and July 2018, the Finance Director of Beijing Huiyuan Beverage (Individual B) proposed to the director of the Fund Management Centre at that time (Individual X) that the Group entered into pledge contracts and pledged its fixed time-deposits in order to satisfy the requirements of the banks for loans to Beijing Huiyuan Beverage and Shandong Huiyuan. Individual X agreed to the request of Individual B, as he considered at that time the Group had sufficient cash and that the fixed time-deposits could generate interest, and he believed that Beijing Huiyuan Beverage and Shandong Huiyuan would have the ability to repay the bank loans on time. No written agreement was signed by the Group with Beijing Huiyuan Beverage or Shandong Huiyuan.

- d. Individual X did not report to, or seek any approval from the management of the Group for the provision of the fixed time-deposit pledges, as he categorized the provision of fixed time-deposit pledges for connected or related parties as the Group's fixed time-deposits, and hence he considered that only approval from the director of the Fund Management Centre was required and that it was not necessary to report this to the management of the Group for approval.
  - e. For the fixed time-deposit pledge contracts entered into in the period between June 2017 and January 2018, the director of the Fund Management Centre at that time (Individual A) confirmed that he discussed them with Individual B (by phone or in person) and he was responsible for approving them.
  - f. Since July 2018, Beijing Huiyuan Beverage and Shandong Huiyuan defaulted in their repayment of loans to the banks. In the period between 4 July 2018 and 26 April 2019, sums were deducted by the banks from the fixed time-deposit of the four subsidiaries of the Group in a total sum of RMB4,936 million for repayment of the loans to Beijing Huiyuan Beverage and in a total sum of RMB730 million for repayment of the loans to Shandong Huiyuan.
8. The remaining RMB273 million (out of RMB5,939 million) were fund transfers by eight subsidiaries of the Group (namely Huiyuan Food; Laiwu Factory; Beijing Huiyuan Group Wanrong Co., Ltd, Taian Huiyuan Food and Beverage Co., Ltd, Hengshui Huiyuan Food and Beverage Co., Ltd, Yuanda Factory; and Beijing Huiyuan Tao Tao Fruit Co., Ltd, and Kaifeng Factory) to Beijing Huiyuan Beverage and Shandong Huiyuan in the period between 1 April 2018 and 31 October 2019. Among these transactions, a total sum of RMB170 million was paid to set off outstanding payables due by Kaifeng Factory to Beijing Huiyuan Beverage. As regards other fund transfers with Beijing Huiyuan Beverage and Shandong Huiyuan, Individual X said that they were repayment for bank's acceptance of bill of exchange and interest payment for financing to related parties. The Group also received fund transfers from related parties in a total sum of RMB132 million in the period between 1 April 2018 and 31 October 2019.

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

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

1. The Group did not formulate the approval procedures for provision of the fixed time-deposit pledges by companies within the Group, and this led to employees categorizing fixed time-deposit pledges as general fixed time-deposits.
2. The funding approval procedures of the Group do not provide sufficient directions, which may cause its employees to wrongly believe that fixed time-deposit pledges only require approval from the director of the Fund Management Centre and that they do not require approval from the management of the Group.
3. Certain individuals of the Group's Finance Department were not familiar with the approval procedures for fund transfers and lacked the relevant trainings (including trainings in relation to the Listing Rules and/or internal control).

## **LIMITATIONS OF THE ADDITIONAL PROCEDURES**

The findings of the Independent Forensic Accountants are subject to certain limitations. The key limitations would include (1) the Independent Forensic Accountant was unable to obtain certain information and supporting documents regarding the unrecorded transactions and transactions with related parties from the Group and the relevant banks; (2) the Independent Forensic Accountant was unable to obtain the originals of certain bank statements and documents; (3) the Independent Forensic Accountant was unable to obtain loan agreements entered into by the related parties with the banks, some of the fixed time-deposit pledge contracts and other relevant documents; (4) the Independent Forensic Accountant was unable to complete certain confirmation procedures (5) the Independent Forensic Accountant was not able to confirm whether there existed other fixed time deposit pledges; (6) the Independent Forensic Accountant was not able to interview the customer managers of certain banks; and (7) the Independent Forensic Accountant was not able to verify the accuracy of all statements made by the interviewees and supporting documents obtained from the Group and/or the relevant banks.

## **CONCLUSIONS AND FURTHER REMEDIAL MEASURES**

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

The IBC has the following observations and recommendations:

1. In the Independent Investigation, the Independent Forensic Accountant previously found that in the period between January 2017 and December 2017, there were substantial payments made by the Group to four Related Companies from the Relevant Accounts and those payments were not recorded on the accounting records of the Group.
2. The IBC noted that no unrecorded transaction involving any Related Companies was identified by the Independent Forensic Accountant in any of the Relevant Accounts in the period from 1 April 2018 to 31 October 2019, but certain transactions with Related Companies in a total sum of RMB106.5 million were not recorded by the Group in a timely manner (with a delay of around two months to six months).
3. The IBC also noted that the Group was unable to supply all necessary information and documentation to the Independent Forensic Accountant, and hence, the Independent Forensic Accountant was unable to confirm whether there existed any unrecorded transactions involving any of the Related Companies in the year of 2016, except that the Independent Forensic Accountant examined the documents and information relating to three of the Relevant Accounts from 1 September 2016 to 31 December 2016 and identified no unrecorded transaction involving any of the Related Companies.
4. While the Independent Forensic Accountant was unable to verify all the Relevant Accounts for the periods requested by the IBC, mindful of the work done by the Independent Forensic Accountant, the present findings of the Independent Forensic Accountant and the auditor's report for the year ended 31 December 2016, the IBC concludes that there is reasonable evidence to show that it is unlikely that there existed any unrecorded transactions involving Related Companies in the period between 1 September 2016 and 31 December 2016 and between 1 April 2018 and 31 October 2019.



5. As regards the findings that certain fixed time deposit pledges were entered into by the Group, and that sums were deducted by the banks from the fixed time-deposits of the four subsidiaries of the Group in a total sum of RMB4,936 million for repayment of the loans of Beijing Huiyuan Beverage and in a total sum of RMB730 million for repayment of the loans of Shandong Huiyuan, the IBC considers that the director of the Fund Management Centre failed to appreciate that those transactions were not fixed time-deposit transactions but were provision of financial assistance to Beijing Huiyuan Beverage and Shandong Huiyuan. The IBC considers that the director of the Fund Management Centre should have reported to, and sought approval from, the management of the Group for such transactions, and that the Company should have complied with the relevant disclosure and approval requirements under the Listing Rules. The mistakes were unacceptable. Both Individual A and Individual X have ceased to be the director of the Fund Management Centre, and but for this, the IBC would have recommended that they be removed from their role.
6. As regards the remaining transactions between the Group and Beijing Huiyuan Beverage and Shandong Huiyuan in the period between 1 April 2018 and 31 October 2019 (i.e. other than transactions relating to the fixed time-deposit pledges), the IBC noted that the transactions with Beijing Huiyuan Beverage were connected transactions under the Listing Rules. The IBC considers that the director of the Fund Management Centre should have reported to, and sought approval from, the management of the Group for such transactions, and that the Company should have complied with the relevant disclosure and approval requirements under the Listing Rules.

The IBC noted that in the second follow-up review of the Independent Internal Control Review with respect to “overall corporate governance environment” regarding financial assistance to connected companies outside the Group, the Independent Internal Control Review Consultant recommended that the following remedial actions be undertaken by the Group:

1. formulate written guidelines to assist the relevant staff in identifying and reporting possible connected transactions;
2. formulate different approval procedures for connected transactions in accordance with the nature of transaction, namely capital and non-capital;
3. require the internal audit and finance department to perform monthly internal control testings;
4. require directors and the senior executives of the Company to declare their interest to the Company on a regular basis;
5. 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
6. ensure the proper execution of the relevant loan documentation before conducting any loan transactions with connected parties.

The IBC also noted that in the second follow-up review of the Independent Internal Control Review with respect to “cycle for connected transactions and connected persons account management”, the Independent Internal Control Consultant recommended that the following remedial actions be undertaken by the Group:

1. assign a designated person to update the list of connected parties on a monthly basis to ensure that all connected parties are included in the list of connected parties accurately and timely; and
2. circulate the updated list of connected parties 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 IBC considers that the internal control weaknesses identified by the Independent Forensic Accountant in the Additional Procedures would be addressed by implementing the remedial measures recommended by the Independent Internal Control Consultant in the second follow-up review of the Independent Internal Control Review with respect to the “overall corporate government environment” regarding financial assistance to connected companies outside the Group, and with respect to “cycle for connected transactions and connected persons account management” as described above.

As the Board has previously endorsed the findings of the Independent Internal Control Review and the recommendations of the Independent Internal Control Consultant and the management has agreed to implement the remedial measures recommended by the Independent Internal Control Consultant (including those outlined above), apart from recommending the Company to continue to implement the recommendations of the Independent Internal Control Consultant, the IBC has no further remedial measures to recommend to the Board regarding the findings of the Additional Procedures.

The IBC also reminds the Board and the senior management of the Company of the importance of due compliance of the Listing Rules, and should seek advice from professional advisors as appropriate.

The IBC has recommended the Board to endorse the findings of the Additional Procedures and the remedial measures recommended by the IBC.

The Board has considered the findings of the Additional Procedures. The Board endorses the findings of the Additional Procedures and has also agreed with the recommendations of the IBC.

## **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, 14 April 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*