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# 奧園健康生活集團有限公司

AOYUAN HEALTHY LIFE GROUP COMPANY LIMITED

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

**(Stock Code: 3662)**

## INSIDE INFORMATION

### KEY FINDINGS OF THE INDEPENDENT INVESTIGATIONS AND CONTINUED SUSPENSION OF TRADING

This announcement is made by Aoyuan Healthy Life Group Company Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) pursuant to Rule 13.09(2)(a) of the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) and the Inside Information Provisions under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

References are made to (a) the inside information announcement of the Company dated 30 March 2022 in relation to, among others, the delay in the publication of the annual results of the Group and the despatch of the Company’s annual report for the financial year ended 31 December 2021; (b) the inside information announcement of the Company dated 3 May 2022 in relation to, among others, certain fund flows matters, the formation of the independent investigation committee of the Company and the appointment of independent professional advisors; (c) the inside information announcement of the Company dated 2 June 2022 in relation to, among others, the change of auditor of the Company and certain allegations against the Group; (d) the inside information announcement of the Company dated 30 June 2022 in relation to, among others, the resumption guidance issued by the Stock Exchange; (e) the inside information announcement of the Company dated 31 August 2022 in relation to, among others, the delay in the publication of the preliminary results of the Group and the despatch of the Company’s interim report for the six months ended 30 June 2022; and (f) the quarterly update announcement of the Company dated 30 September 2022 in relation to the Company’s resumption progress (collectively, the “**Announcements**”). Unless otherwise stated, terms used in this announcement shall have the same respective meanings as those defined in the Announcements.

## BACKGROUND

On 25 March 2022, the Audit Committee received the Auditor's Letter from Deloitte, the then auditor of the Company, setting out the Fund Flows Matters.

On 30 March 2022, the Board resolved to establish the Independent Investigation Committee, comprising all three independent non-executive Directors, namely Mr. Hung Ka Hai Clement, Dr. Li Zijun and Mr. Wang Shao, to undertake the investigations to assess the Fund Flows Matters.

On 13 April 2022, the Audit Committee received the Auditor's April Letter from Deloitte, setting out the Allegations made anonymously against the Group. On 27 April 2022, the Independent Investigation Committee has engaged the Investigation Firm to conduct independent investigations into the following issues as recommended by Deloitte, namely, (a) the Fund Flows Matters 1 and 2 (as defined below) and (b) the Allegations.

As disclosed in the Announcements, the Company received the following Resumption Guidance, among others:

- (a) conduct an appropriate independent forensic investigation into the Fund Flows Matters and the Allegations, announce the findings and take appropriate remedial actions;
- (b) conduct an independent internal control review and demonstrate that the Company has in place adequate internal controls and procedures to meet the obligations under the Listing Rules; and
- (c) demonstrate that there is no reasonable regulatory concern about management integrity and/or the integrity of any persons with substantial influence over the Company's management and operations, which may pose a risk to investors and damage market confidence.

On 3 October 2022, the Investigation Firm finalised and issued two investigation reports in relation to (a) the Fund Flows Matters 1 and 2 (as defined below) (the "**Fund Flows Matters' Investigation Report**") and (b) the Allegations (the "**Allegations' Investigation Report**", together with the Fund Flows Matters' Investigation Report, the "**Investigation Reports**") respectively. The Independent Investigation Committee reviewed and submitted the Investigation Reports, together with the opinion of the Independent Investigation Committee to the Board for approval on 3 October 2022.

The purpose of this announcement is to provide the Shareholders and potential investors of the Company with key findings of the Investigation Reports and the views of the Independent Investigation Committee and the Board on the Investigation Reports.

## FUND FLOWS MATTERS

### Major procedures executed by the Investigation Firm

The major investigation procedures executed by the Investigation Firm in relation to the Fund Flows Matters 1 and 2 (as defined below) include, but not limited to, the following:

- (a) obtaining and analysing the Company's basic information, the approval processes, the financial records, the RMB denominated bank accounts and the relevant information of selected subsidiaries or branch offices of the Company;
- (b) conducting background checks against relevant companies and individuals through public platforms, including media retrieval, judgments, industrial and commercial registration information inquiries, and equity pledges;
- (c) collecting and analysing electronic data of certain employees and officers of the Group and conducting review of responsive hits;
- (d) conducting interviews with selected employees of the Group, including management and other officers; and
- (e) conducting interviews with third parties, including selected banks and other relevant parties identified along the performance of procedures (a) to (d) above.

### Key findings of Fund Flows Matters 1 and 2

Based on the Fund Flows Matters' Investigation Report, the key findings of the Investigation Firm in relation to the Fund Flows Matters 1 and 2 (as defined below) are as follows:

**1. *Fund transfer in an amount of RMB350 million between the Group and the Parent Group in December 2021 (the "Fund Flows Matter 1")***

On 31 December 2021, a wholly-owned subsidiary of the Parent Group (the "**Entity A**") repaid RMB 350 million to a wholly-owned subsidiary of the Company (the "**Entity B**") to settle the outstanding amount. Given the imminent liquidity issue that the Parent Group was facing, Entity B transferred the same amount of RMB350 million to Entity A on 1 January 2022 upon the request of the Parent Group instead of pursuant to an undated and unexecuted exclusive sales agency services agreement between the Group and the Parent Group as stated in the Auditor's Letter because an accounting personnel of the Company has inadvertently noted down the use of funds by mistake as the earnest money for the exclusive sales agency of car parking spaces and shops in the Group's fund transfer application form.

Due to the urgent circumstances, the fund transfer application was made and approved through paper request form, an alternative way to the electronic approval system for fund transfers according to the internal policy, and only signed by certain designated management of the Company.

On 21 March 2022, a wholly owned subsidiary of the Parent Group repaid the above outstanding amount to one of the subsidiaries of the Company.

2. *Fund transfer of RMB50 million in December 2021 (the “Fund Flows Matter 2”)*

The Investigation Firm was advised by the management of the Company that the transfer of RMB50 million was brought about by a potential acquisition of a piece of land (the “**Target Land**”) located in Pazhou, Haizhu District, Guangzhou, Guangdong Province, the People’s Republic of China, which is held indirectly as to approximately 61% by an entity (the “**Entity C**”). Given the land nature, property developers are prohibited to participate in the acquisition of the Target Land, as such, the Parent Group requested the Company to participate in the acquisition of the Target Land as a purchaser through acquiring the entire equity interest in Entity C. On 16 November 2021, a wholly-owned subsidiary of the Parent Group (the “**Entity D**”), transferred an amount of RMB50 million to a wholly-owned subsidiary of the Company (the “**Entity F**”), which transferred the same amount to Entity C as payment of the earnest money to acquire the entire equity interest of Entity C. On the same day, the in-house legal team of the Company found out that the shares of Entity C had been pledged and the Company therefore did not proceed with the potential acquisition. As the potential acquisition did not proceed, Entity C refunded the earnest money of RMB50 million to Entity F, which transferred the same amount back to Entity D on the same day. As the acquisition of the entire equity interest of Entity C was only in a planning stage, the parties did not enter into any written agreement in this regard. The above-mentioned payment of RMB50 million to Entity C and the subsequent receipt of RMB50 million from Entity C on the same day were not recorded in the books and records of the Company.

Due to the urgent circumstances, the fund transfer application was made and approved through paper request form, an alternative way to the electronic approval system for fund transfers according to the internal policy, and only signed by certain designated management of the Company.

The Investigation Firm noted that Entity C, whose legal representative is the minority shareholder of several subsidiaries of the Parent Group and a subsidiary of the Company and which has business relationship with the Parent Group, has pledged its equity interest in an amount of RMB100 million in favour of a financial institution as a collateral for a loan facility in an amount of RMB96.16 million provided by such financial institution to a wholly-owned subsidiary of the Parent Group.

## **Key findings of Fund Flows Matters 3 and 4**

As the Investigation Firm was engaged to conduct independent investigations into the Fund Flows Matters 1 and 2 according to the Auditor's Letter, the Independent Investigation Committee has looked into the circumstances of these two issues and sought independent legal advice. The key findings of the Fund Flows Matters 3 and 4 (as defined below) are as follows:

### ***1. Tri-partite Agreement entered into between the Group, the Parent Group and a business partner of the Parent Group (the "Fund Flows Matter 3")***

During the period from August to December 2021, given that (i) the Parent Group had certain operational amounts due to one of its business partners (the "**Entity G**") and (ii) the imminent liquidity issue that the Parent Group was facing and upon the request of the Parent Group, Entity F provided certain deposit pledges in an aggregate amount of RMB650 million in favour of Entity G for securing the repayment of the bank borrowings by Entity G from Bank B. On 10 November 2021, Entity G repaid the facility of RMB150 million to Bank B and the amount of the relevant deposit pledge was released by Bank B to the Company. In December 2021, Entity G was unable to repay to Bank B timely, Bank B enforced the remaining deposit pledges in an aggregate amount of approximately RMB496.1 million by way of transferring two separate amounts of approximately RMB347.5 million and approximately RMB148.6 million upon maturity of the bank borrowings on 14 and 24 December 2021 respectively.

In order to reflect the enforced deposit pledges in the total amount of up to RMB500 million provided by Entity F, a wholly-owned subsidiary of China Aoyuan (the "**Entity E**"), Entity F and Entity G entered into a tri-partite agreement, pursuant to which Entity F undertook to pay the operational amounts due to Entity G for and on behalf of Entity E for not exceeding RMB500 million, and that Entity E undertook to repay any amount of up to RMB500 million so paid by Entity F within the time limit as Entity F may demand.

On 29 December 2021, approximately RMB496 million was repaid by the Parent Group to the Group.

For details of the deposit pledges, please refer to the paragraph (d) under the sub-heading headed "Key findings of the Investigation on the Allegations" in this announcement.

### ***2. Non-trade cash inflow(s) and outflow(s) between the Group and the Parent Group during the financial year end of 2021 (the "Fund Flows Matter 4")***

During the financial year of 2021, the Group and the Parent Group mutually agreed to provide funds to the other as general working capital upon request. The Group and the Parent Group did not enter into any agreement in relation to the non-trade fund transfers which were made on an interest-free basis.

Contrary to the figures stated in the Auditor’s Letter, during the financial year of 2021, the aggregate amount of non-trade cash inflows and outflows of the Group against the Parent Group was approximately RMB2.9 billion instead of RMB2.8 billion and approximately RMB2.8 billion instead of RMB2.9 billion respectively. Save as the amount of RMB350 million transferred from the Group to Entity A on 1 January 2022 as mentioned in the Fund Flows Matter 1, the non-trade direct and indirect cash inflow(s) and outflow(s) of approximately RMB2.9 billion and RMB2.8 billion respectively include the fund transfers as set out in the Fund Flows Matters 1, 2 and 3. All the advances provided by the Group to the Parent Group in the financial year of 2021 were fully repaid by the Parent Group on or before 31 December 2021.

## **ALLEGATIONS SET OUT IN THE AUDITOR’S APRIL LETTER**

### **Major procedures executed by the Investigation Firm**

The major investigation procedures executed by the Investigation Firm in relation to the Allegations include, but not limited to, the following:

- (a) obtaining and analysing the People’s Bank of China’s credit reports of selected subsidiaries and branch offices of the Company, including those of Easy Life Smart Community Services Group Co., Ltd.\* (樂生活智慧社區服務集團股份有限公司) (“**Easy Life**”), an indirect non wholly-owned subsidiary of the Company;
- (b) obtaining and analysing the list of RMB denominated bank accounts of major subsidiaries and branch offices of the Company, including those of Easy Life;
- (c) obtaining from the Group a full list of (i) bank loans of the Group and (ii) guarantees or loans provided by the Group to external parties; and comparing to the information gathered in the procedures (a) and (b) above;
- (d) analysing expense reimbursements of selected senior management members and the payments made to such senior management members; and selecting transaction samples for reviewing against the supporting documents;
- (e) collecting and analysing electronic data of selected custodians in the finance and funds centre of the Group, including designing search terms with a focus on (i) the bank loans of the Group and (ii) the guarantees or loans provided by the Group to external parties and conducting review of responsive hits;
- (f) conducting interviews with selected employees of the Group, including directors, management and other officers; and
- (g) conducting interviews with third parties, including selected banks and other relevant parties identified along the performance of procedures (a) to (f) above.



## **Key findings of the Investigation on the Allegations**

Based on the Allegations' Investigation Report, the key findings of the Investigation Firm in relation to the Allegations are as follows:

- (a) *Allegations in relation to bank loans of the Group, namely, (i) the bank loan contract which showed a bank borrowing of RMB300 million instead of RMB3 billion (ii) understatement of a bank loan balance of RMB300 million instead of RMB3 billion on an audit confirmation for the aforementioned bank loan*

The Investigation Firm compared the books and records of the Group as at 31 December 2021 against the credit reports of selected subsidiaries and branch offices of the Company obtained during the period from 13 May 2022 to 16 July 2022. There was no material discrepancy on the outstanding loan amounts between those recorded in the books and records of the Group and the credit reports of selected subsidiaries and branch offices of the Company.

- (b) *Allegation in relation to undisclosed financial guarantees in an aggregate amount of RMB4 billion provided by the Group in favour of the Parent Group*

The Investigation Firm did not identify any records in connection with the suppliers from the credit reports of selected subsidiaries and branch offices of the Company obtained during the period from 13 May 2022 to 16 July 2022 and the registration records of the Credit Reference Center of the People's Bank of China (中國人民銀行徵信中心動產融資統一登記公示系統) as of 17 May 2022.

Based on (i) the above procedures performed by the Investigation Firm (excluding access to the supplier list of the Parent Group or interviews with or circularization of confirmations to suppliers of the Parent Group) and (ii) the information provided by the Company, the Investigation Firm did not note any guarantee contract between the selected subsidiaries and branch offices of the Company and their suppliers.

- (c) *Allegation in relation to utilisation of the funds of the Group for payment of the personal expenses of a management of the Group*

Based on the review of the books and records and the selected bank accounts of selected subsidiaries and branch offices of the Company, it was noted that during the period from January to September 2021, an aggregate amount of RMB0.12 million was paid by three subsidiaries of the Group to the personal bank account of a secretary of the management. The approval document in relation to the above payment showed that the funds were reimbursed for purchasing wines as part of business hospitality. Other than the aforementioned purchase of wines by the secretary, the Investigation Firm did

not note other reimbursements or payments to the personal account of the management based on the review of the books and records and the selected bank accounts of selected subsidiaries and branch offices of the Company.

**(d) Allegation in relation to unrecorded bank loan of RMB500 million of a branch office of Easy Life with Jiutai Rural Commercial Bank (九台農村商業銀行) (“JRC Bank”)**

The Investigation Firm did not identify the financial institution named JRC Bank in the credit reports of selected subsidiaries and branch offices of the Company.

The Investigation Firm noted that during the period from June to December 2021, Entity F has provided certain deposit pledges in favour of an entity (the “**Entity H**”) and Entity G. including:

- (a) deposit pledges in an aggregate amount of RMB500 million from June to September 2021 involving Entity H as borrower and Bank A as lender. As Entity H repaid the facilities timely, the aggregate amount of the deposit pledges in RMB500 million was released by Bank A to the Company; and
- (b) deposit pledges in an aggregate amount of RMB650 million from August to December 2021 involving Entity G as borrower and Bank B as lender. As Entity G only repaid RMB148 million to Bank B timely, the amount of the relevant deposit pledge was released by Bank B to the Company but the remaining deposit pledges in an aggregate amount of approximately RMB496.1 million were enforced by Bank B.

Details of the aforementioned deposit pledges are as follows:

No.	Bank	Amount of deposit pledge	Term of the deposit pledge	Purpose of the deposit pledge
1	Bank A	RMB150 million	From 21 June 2021 to 21 September 2021	As collateral for the facility of RMB148.5 million granted by Bank A to Entity H for a term from 21 June 2021 to 20 September 2021
				As Entity H repaid the above facility on 20 September 2021, the amount of deposit pledge was released by Bank A to the Company accordingly.



<b>No.</b>	<b>Bank</b>	<b>Amount of deposit pledge</b>	<b>Term of the deposit pledge</b>	<b>Purpose of the deposit pledge</b>
2	Bank A	RMB350 million	From 28 June 2021 to 28 September 2021 <sup>Note</sup>	<p>As collateral for the facility of RMB347 million granted by Bank A to Entity H for a term from 28 June 2021 to 27 September 2021</p> <p>As Entity H repaid the above facility on 14 September 2021, the amount of deposit pledge was released by Bank A to the Company accordingly.</p>
3	Bank B	RMB150 million	From 10 August 2021 to 10 November 2021	<p>As collateral for the facility of RMB148 million granted by Bank B to Entity G for a term from 10 August 2021 to 10 November 2021</p> <p>As Entity G repaid the above facility on 10 November 2021, the amount of deposit pledge was released by Bank B to the Company accordingly.</p>
4	Bank B	RMB350 million	From 14 September 2021 to 14 December 2021	As collateral for the facility of RMB346.6 million granted by Bank B to Entity G for a term from 15 September 2021 to 14 December 2021

No.	Bank	Amount of deposit pledge	Term of the deposit pledge	Purpose of the deposit pledge
				As Entity G did not repay the above facility before the expiry date of the loan, the deposit pledge in the amount of approximately RMB347.5 million provided by Entity F was enforced on 14 December 2021.
5	Bank B	RMB150 million	From 24 September 2021 to 24 December 2021	As collateral for the facility of RMB148.5 million granted by Bank B to Entity G for a term from 24 September 2021 to 24 December 2021
				As Entity G did not repay the above facility before the expiry date of the loan, the deposit pledge in the amount of approximately RMB148.6 million provided by Entity F was enforced on 24 December 2021.

*Note: Due to the early withdrawal of the deposit, the actual termination date was 14 September 2021.*

Based on the information obtained from the investigation, upon receipt of bank borrowing proceeds by Entity H and Entity G obtained from the above-mentioned deposit certificate pledges provided by the subsidiary of the Company, the proceeds were then transferred to the Parent Group due to capital needs of the Parent Group. On 29 December 2021, approximately RMB496 million was repaid by the Parent Group to the Group.

(e) *Other findings*

During the course of investigations in connection with the suppliers by the Investigation Firm, the Investigation Firm noted that the Parent Group and certain wire and cable suppliers had entered into the cable purchase agreements (the “**Parent Cable Purchase Agreements**”). However, the contracting party to the Parent Cable Purchase Agreement later changed from the Parent Group to the Group. In the end of 2020, the Group and three wire and cable suppliers, namely, Cable Supplier A, Cable Supplier B and Cable Supplier C (collectively, the “**Cable Suppliers**”) entered into the cable purchase agreement (the “**Cable Purchase Agreements**”), pursuant to which the Group agreed to acquire the wires and cables from the Cable Suppliers. The terms and conditions of the Cable Purchase Agreements were identical to those of the Parent Cable Purchase Agreements. The Group’s two bank accounts of approximately RMB5.38 million were frozen resulting from the legal action taken by one of the Cable Suppliers.

The Investigation Firm noted from the explanation on the matter by the management of the Company that on 5 November 2020, the Company (for itself and as trustee for the benefit of other members of the Group) and the Parent Group (for itself and as trustee for the benefit of other members of the Parent Group) entered into a master purchase agreement (the “**2021 Master Purchase Agreement**”), pursuant to which the Parent Group will purchase some electrical appliances and equipment from the Group for a term from 1 January 2021 to 31 December 2023. The transactions (including the annual caps) contemplated under the 2021 Master Purchase Agreement have been approved by the independent Shareholders in an extraordinary general meeting of the Company on 29 December 2020. The arrangements of centralised procurement and bulk purchasing contemplated under the 2021 Master Purchase Agreement help enhance purchase and management efficiency, lower purchase costs and increase the Group’s revenue incurred from provision of value-added services. The purchase and sale of electrical appliances and equipment between the Group and the Parent Group did not involve any unreasonable fund transfers between the Group and the Parent Group or undertaking of any payment obligations of the Parent Group or provision of guarantees in favour of the Parent Group and therefore did not constitute any indirect financial assistance to the Parent Group by the Group. Also, the fact that the contracting party to the Parent Cable Purchase Agreements changed from the Parent Group to the Group was a win-win cooperation based on commercial substance as the Group acted as a centralised procurement channel to source the electrical appliances and equipment and sell the electrical appliances and equipment to the Parent Group and the Group was also not placed at a disadvantaged position as a result of the Cable Purchase Agreements.

## **LIMITATIONS OF THE INDEPENDENT INVESTIGATIONS**

A summary of the major limitations encountered by the Investigation Firm in its independent investigations is set out below:

- (a) in addition to the Company's electronic approval system for approving fund transfers, the Company also used paper request forms to manually approve urgent fund transfers. However, the manual approval records of relevant fund transfers have not been re-incorporated into the Company's electronic approval system and were not centrally maintained;
- (b) the Investigation Firm was unable to conduct an interview with one of the Company's accounting personnel who has resigned and whose electronic device was advised by the Company having been re-formatted and re-assigned to a new user;
- (c) the register of the electronic equipment of the Group is manually maintained by the administration department of the Company, which only updates the particulars of the register at the year end. The register obtained by the Investigation Firm therefore only showed the status at the year end and is not able to reflect the status of the computer assigned to the relevant employees during the review period; and
- (d) as advised by the management of the Company, different types of company stamps were preserved by different accounting personnel and no centralized stamp register records were maintained and provided to the Investigation Firm for review.

## **VIEWS OF THE INDEPENDENT INVESTIGATION COMMITTEE**

As at the date of this announcement, the Independent Investigation Committee has reviewed the contents of the Investigation Reports and considered that the Investigation Firm has sufficiently investigated the relevant Fund Flows Matters and the Allegations to address the Auditor's Letter and the Auditor's April Letter respectively, subject to the limitations as set out in the Investigation Reports. The Independent Investigation Committee has also considered the procedures executed by the Investigation Firm and is of the view that the Investigation Firm has exploited all reasonably practicable means to conduct the independent investigations.

Therefore, having reviewed the contents of the Investigation Reports and after due and detailed discussion, the Independent Investigation Committee is of the view that the contents and findings in the Investigation Reports are reasonable and acceptable and the Fund Flows Matters' Investigation Report has adequately addressed each of the Fund Flows Matters 1 and 2 and the Allegations' Investigation Report has adequately addressed each of the Allegations. Accordingly, the Independent Investigation Committee recommended the Board to adopt the findings in the Investigation Reports.

Having considered the legal advice in relation to the Fund Flows Matters obtained from a senior counsel in Hong Kong engaged by the Independent Investigation Committee, the Independent Investigation Committee accepted that the fund transfers or financing under the Fund Flows Matters constituted financial assistance in favour of the Parent Group under the Listing Rules and noted that:

- (a) with regard to the Fund Flows Matter 1, the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the fund transfer of RMB350 million from Entity B to Entity A on 1 January 2022 under the Fund Flows Matter 1 were more than 5% but less than 25% and the assets ratio defined under Rule 14.07(1) of the Listing Rules exceeds 8%, the above fund transfer constituted (i) a discloseable transaction of the Company and was therefore subject to reporting and announcement requirements under Chapter 14 of the Listing Rules and (ii) an advance to an entity and was subject to the general disclosure obligations under Rules 13.13 and 13.15 of the Listing Rules;
- (b) in relation to the Fund Flows Matter 2, the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the fund transfers of RMB50 million on 16 December 2021 under Fund Flows Matter 2 were less than 5%, the above fund transfers did not constitute a notifiable transaction of the Company under Chapter 14 of the Listing Rules;
- (c) in respect of the Fund Flows Matter 3, the applicable percentage ratios under Rule 14.07 of the Listing Rules in respect of the financing of up to RMB500 million in favour of Entity E under the Fund Flows Matter 3 were 25% or more but less than 100% and the assets ratio defined under Rule 14.07(1) of the Listing Rules exceeds 8%, the above financing constituted (i) a major transaction of the Company and was therefore subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules and (ii) an advance to an entity and was subject to the general disclosure obligations under Rules 13.13 and 13.15 of the Listing Rules;
- (d) as to the Fund Flows Matter 4, whether each of the fund outflows under the Fund Flows Matter 4 on a standalone basis amounted to an advance under Chapter 13 of the Listing Rules depends on whether the assets ratio defined under Rule 14.07(1) of the Listing Rules exceeds 8% and whether it amounted to a notifiable transaction under Chapter 14 of the Listing Rules, it depends on whether the relevant percentage ratios exceed 5%. Based on the aggregate amount of fund outflows under the Fund Flows Matter 4 in the financial year of 2021, the fund outflows on an aggregate basis constituted advances under Chapters 13 and 14 of the Listing Rules respectively and were therefore subject to the general disclosure obligations under Rules 13.13 and 13.15 of the Listing Rules. Certain fund outflows on a standalone basis constituted notifiable transactions under Chapter 14 of the Listing Rules and were subject to the reporting, announcement and Shareholders' approval requirements; and
- (e) further, the counterparties to each of the Fund Flows Matters are subsidiaries of China Aoyuan and were connected persons of the Company, each of the Fund Flows Matters constituted a connected transaction of the Company under Chapter 14A of the Listing Rules and was therefore subject to the reporting, announcement, circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

In light of the above, the Independent Investigation Committee is of the view that the Company should have complied with the relevant reporting and announcement requirements, and where applicable, circular and independent Shareholders' approval requirements under Chapters 14 and/or 14A of the Listing Rules as and when such obligations arose. After taking into account that all fund outflows from the Group under the Fund Flows Matters were in cash form and the funds provided by the Group to China Aoyuan under each of the Fund Flows Matters have been repaid by China Aoyuan to the Group in full as at the date of this announcement, the Independent Investigation Committee has made the following recommendations to the Board for actions:

- (i) to implement the rectification recommendations to be provided by the internal control advisor as soon as possible to address all internal control deficiencies identified in the Investigation Reports;
- (ii) to take appropriate actions against those personnel of the Group involved in the Fund Flows Matters which constituted financial assistance in favor of the Parent Group and did not comply with the relevant requirements under the Listing Rules. The Board shall consider their level of participation and roles involved in the Fund Flows Matters and take appropriate actions such as provision of necessary trainings, regular evaluation of employees, issue of warnings and taking of disciplinary actions; and
- (iii) to adopt and circulate a detailed guideline relating to notifiable and connected transactions under the Listing Rules and arrange appropriate trainings in relation to the Listing Rules, in particular, fund transfers and financing activities, to the Directors, senior management and accounting and finance personnel of the Group on a regular basis. This helps to strengthen their understanding to identify the circumstances which are expected to trigger the reporting, announcement and/or Shareholders' approval requirements under the Listing Rules at an early stage to avoid the recurrence of delay in fulfilling such obligations.

With regard to the Cable Purchase Agreements, the Independent Investigation Committee noted from the management of the Company that the Cable Purchase Agreements are individual specific contracts as part of the Group's performance of obligations under the 2021 Master Purchase Agreements and are relevant to the transactions contemplated under the 2021 Master Purchase Agreement, which has been approved by the independent Shareholders in accordance with the Listing Rules. Meanwhile, the Independent Investigation Committee is of the view that the Group should also collect the outstanding amount due from the Parent Group incurred from the sale of electrical appliances from the Group to the Parent Group in a proactive manner.



Most importantly, the Independent Investigation Committee considered that the Group's internal control was not properly implemented during the material times of the matters concerning the Fund Flows Matters and the management of the Group should ensure that the Group will comply with the applicable Listing Rules when it provides further funds to the Parent Group (if any) or conducts any other transactions with the Parent Group in the future.

## **VIEW OF THE BOARD**

The Board considered the procedures executed by the Investigation Firm and the limitations encountered by the Investigation Firm in its investigations and reviewed the contents of the Investigation Reports and concurred with the Independent Investigation Committee that the contents and findings in the Investigation Reports are reasonable and acceptable and the Fund Flows Matters' Investigation Report has adequately addressed each of the Fund Flows Matters 1 and 2 and the Allegations' Investigation Report has adequately addressed each of the Allegations.

The Board has resolved to adopt the findings of the independent investigations and is of the view that the issues identified in the Investigation Reports do not affect the business operations of the Group. The Group's business operations continue as usual in all material respects despite the suspension of trading of shares of the Company since 1 April 2022.

Further, the Board noted that the Company had omitted to comply with the relevant disclosure and approval requirements under the Listing Rules in relation to the Fund Flows Matters at the relevant times due to its unintentional and inadvertent oversight. The Company emphasises that the funds provided by the Group to China Aoyuan under each of the Fund Flows Matters have been repaid by China Aoyuan to the Group in full as at the date of this announcement, and the potential financial impact of the Fund Flows Matters raised under the Auditor's Letter is minimal.

## **INTERNAL CONTROL REVIEW AND REMEDIAL MEASURES**

The Company takes the incidents of non-compliance of the Listing Rules seriously. The Board concurred with the Independent Investigation Committee's views and agreed with the recommendations of the Independent Investigation Committee and has resolved that the recommendations of the Independent Investigation Committee should be implemented accordingly.

Further, in response to certain deficiencies in the Group's corporate governance and internal control system identified during the independent investigations and in order to prevent the recurrence of similar incidents in the future, the Group has engaged an internal control advisor to review the internal control of the Group, provide suggestions on remedial measures together with a work plan, and summarise the status of implementation of the remedial measures. As at the date of this announcement, the internal control review is still in progress.

## **CONTINUED SUSPENSION OF TRADING**

At the request of the Company, trading in the shares of the Company on the Stock Exchange has been suspended with effect from 9:00 a.m. on Friday, 1 April 2022 and will continue to be suspended until further notice.

The Company will publish further announcement(s) in due course to inform the Shareholders and potential investors of the Company of any update on (i) the date of the meeting of the Board to approve the 2021 Annual Results and the 2022 Interim Results, (ii) the audit process of the 2021 Annual Results and the 2022 Interim Results, (iii) the date of despatch of the 2021 Annual Report and the 2022 Interim Report, (iv) trading in the shares of the Company and (v) the results of the internal control review and the measures proposed by the internal control advisor in accordance with the Listing Rules and applicable laws as and when appropriate.

By order of the Board  
**Aoyuan Healthy Life Group Company Limited**  
**Cheng Siu Fai**  
*Executive Director*

Hong Kong, 3 October 2022

*As at the date of this announcement, the executive Director is Mr. Cheng Siu Fai; the non-executive Directors are Mr. Guo Zining and Mr. Ruan Yongxi; and the independent non-executive Directors are Mr. Hung Ka Hai Clement, Dr. Li Zijun and Mr. Wang Shao.*