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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)

KEY FINDINGS OF INTERNAL CONTROL ASSESSMENT

References are made to the announcements of Aoyuan Healthy Life Group Company Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) dated 30 March 2022, 3 May 2022, 2 June 2022, 30 June 2022, 31 August 2022, 30 September 2022, 3 October 2022 and 30 December 2022, in relation to, among others, (a) 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) certain fund flows matters and allegations against the Group, (c) 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 (d) the key findings of the independent investigations into certain fund flows matters and allegations against the Group (collectively, the “**Announcements**”).

Unless otherwise stated, terms used in this announcement shall have the same respective meanings as those defined in the Announcements.

KEY FINDINGS OF THE INTERNAL CONTROL ASSESSMENT

As stated in the Announcements, the Company has engaged an internal control consultant (the “**IC Advisor**”) to assess the internal controls of the Group (the “**Internal Control Assessment**”).

The Internal Control Assessment covered selected processes of the Company and selected entities of the Group, and was conducted in two phases. The first phase involves identification of internal control findings and providing recommendations for the management’s consideration and action. The second phase was to report on the status of remedial actions taken by management.

The key findings of Internal Control Assessment and improvement suggestions of the IC Advisor, and the remedial actions taken by the management, are set out below:

	Summary of key findings	Remedial actions taken by the management
1.	<p>Certain requirements (including the circumstances, scope and procedures) in relation to the declaration of conflict of interest by the Directors, senior management and staff of the Company were not documented in the written policies of the Company, and the contents of such declarations were not standardised.</p>	<p>The Company was recommended to establish a comprehensive written policy to regulate the declaration of conflict of interest by the Directors, senior management and staff of the Company, specifying, amongst other things, the circumstances in which a declaration is required, the scope of persons subject to reporting, the content requirements of a declaration and the procedures for declaring a conflict of interest.</p> <p>The recommendation was adopted and the Company has established the relevant policy.</p>
2.	<p>The Company did not establish formal written policies and procedures for risk identification, assessment and management.</p> <p>There was also no risk register to record the financial, operational and compliance risks encountered by the Company. As such, the Company was not able to assess the risks recorded in such register periodically or formulate any action plan in response to the relevant risks or prepare a risk assessment report in writing.</p>	<p>The Company was recommended to improve its mechanism for identifying, assessing, reporting, and responding to, its risks by formulating written policies and procedures, maintaining a register of risks encountered by the Company and periodically assessing the risks identified and reporting the same to the Audit Committee.</p> <p>The recommendation was adopted and the Company has established the relevant policies and register. A report on the risk management of the Company has also been provided to the Audit Committee in December 2022.</p>

	Summary of key findings	Remedial actions taken by the management
3.	<p>The management of the Parent Group had approval authority in respect of certain operations of the Company and its certain subsidiaries.</p>	<p>The Company was recommended to exercise its approval and management functions independently to ensure operational and managerial independence.</p> <p>The recommendation was adopted and the management of the Parent Group has been removed from the relevant approval matrix.</p>
4.	<p>A transaction involving transfer of shares of a subsidiary of the Company was not properly initiated in the Group's internal approval system and the approval procedure adopted was incorrect.</p>	<p>The Company was recommended to establish written approval procedures for transactions involving share transfers in different scenarios and strictly enforce the relevant policy.</p> <p>The recommendation was adopted and the Company has issued a notice internally to specify the approval procedures for transactions involving share transfers in different scenarios.</p>
5.	<p>The Company's written policies for managing notifiable and connected transactions were not sufficiently comprehensive and/or not fully implemented.</p> <p>The Company relied on the judgment of its management to determine whether a transaction constituted a notifiable and/or connected transaction. There were no regular communications or checkings to ensure that all potential notifiable and connected transactions were identified.</p>	<p>The Company was recommended to regularly review and update its relevant internal policies and specify, amongst other things, the allocation of responsibilities when managing notifiable and connected transactions and the procedures for the assessment and internal reporting of notifiable and connected transactions.</p> <p>The Company was also recommended to improve its mechanism for the identification and supervision of notifiable and connected transactions.</p> <p>The recommendation was adopted and the Company has reviewed and updated the relevant policies and procedures. Additional mechanisms have been put in place.</p>

	Summary of key findings	Remedial actions taken by the management
6.	<p>The Company did not maintain a register of connected persons as defined under the Listing Rules.</p> <p>The Company and the relevant subsidiaries did not maintain a full list of its related parties, and there was no comprehensive written policy for managing related party transactions.</p>	<p>The Company was recommended to require the Directors and its senior management to identify their connected persons and update its register of connected persons on a regular basis.</p> <p>The Company was also recommended to establish a related party register and require its Directors and senior management to identify their related parties and inform the Company of any changes.</p> <p>The Company was further recommended to establish a written policy specifying, amongst other things, the approval procedures of related party transactions and the mechanism for disclosing related party transactions.</p> <p>The recommendation was adopted. The Company has maintained a register of connected persons. The Company also updated its relevant policy to include provisions relating to the maintenance of such register.</p> <p>The Company has also established a related party register and the relevant policy in relation to related party transactions.</p>
7.	<p>The Company engaged an external legal advisor to provide compliance training to the senior management in 2019 and the Company Secretary from time to time would circulate Listing Rules related training materials to the Directors.</p> <p>However, during the review period of the Internal Control Assessment, the Company did not organise trainings in relation to compliance with certain Listing Rules, such as those in relation to continuing obligations, notifiable transactions, connected transactions and inside information regularly and no related training materials were circulated to the Directors.</p>	<p>The Company was recommended to establish a regular training mechanism in relation to compliance with certain Listing Rules, such as those in relation to continuing obligations, notifiable transactions, connected transactions and inside information.</p> <p>The recommendation was adopted. The Company has established a regular training mechanism and engaged its legal advisor to provide training in relation to certain Listing Rules, such as those in relation to continuing obligations, notifiable transactions, connected transactions and inside information to the Directors, senior management and relevant staff of the Company.</p>

	Summary of key findings	Remedial actions taken by the management
8.	The Company Secretary would form judgment on whether a connected transaction qualifies for exemptions under the Listing Rules, and the Company had no mechanisms to review and approve such judgment.	<p>The Company was recommended to establish a mechanism to review and approve the judgment of the Company Secretary.</p> <p>The recommendation was adopted. The Company has enhanced its review and approval mechanisms about exemptions of disclosing connected transactions under the Listing Rules, including requiring the Company Secretary to report his/her view to the Board for consideration and approval.</p>
9.	Part of the policies and procedures of the Company in respect of the handling and disclosure of inside information were not fully implemented.	<p>The Company was recommended to fully implement its relevant policies and procedures and/or review and update the same in accordance with the Group's existing operational practices.</p> <p>The recommendation was adopted. The Company has updated its relevant policies and procedures accordingly. Relevant training has also been provided to the Directors, senior management and relevant staff of the Company.</p>
10.	There was insufficient supervision over, and approval record of, fund transfers to the Parent Group processed by the relevant subsidiaries of the Company. There were no sufficient supporting documents for relevant fund transfers.	<p>The Company was recommended to require its finance staff to ensure that all fund transfers are supported by adequate supporting documents and all necessary approvals have been obtained.</p> <p>The Company was also recommended to provide training to the finance staff on a regular basis.</p> <p>The recommendation was adopted. The Company has circulated a written guidance internally, requiring, amongst other things, the Finance Department of the Group to check against the supporting documents before fund transfers.</p>
11.	The Company and the relevant subsidiaries did not establish a comprehensive written policy to regulate the management of financing transactions, loans and guarantees. They also did not maintain a register to completely record all guarantees provided by the Group.	<p>The Company was recommended to establish a comprehensive written policy based on its existing procedures.</p> <p>The recommendation was adopted and the Company has established the relevant written policy.</p>

	Summary of key findings	Remedial actions taken by the management
12.	Certain procedures in relation to the closing of books and the preparation of consolidated financial statements of the Company and the relevant subsidiaries were not documented in the written policy of the Company.	<p>The Company was recommended to update its written policy based on its existing practices and formulate checklists to facilitate the closing of books and the preparation of consolidated financial statements.</p> <p>The recommendation was adopted and the Company has updated the relevant written policy and formulated checklists to facilitate the closing of books and the preparation of consolidated financial statements accordingly.</p>
13.	Paper approval forms were used by certain subsidiaries of the Company for approving fund transfers. The relevant approval forms were not properly filed or recorded in the online approval system of the Company and as a result the Company did not have a complete and centralised approval record of fund transfers.	<p>The Company was recommended to update its written policy to, amongst other things, require the recording of the use of the paper approval forms in the online approval system and specify the circumstances in which the use of paper approval forms are applicable.</p> <p>The recommendation was adopted and the Company has updated the relevant written policy accordingly.</p>
14.	Certain transactions of fund transfers of the relevant subsidiaries of the Company were not recorded in the accounts of the Group.	<p>The Company was recommended to update its written policy to, amongst other things, require additional personnel to participate in the review of the documents and records of the banks and the Group to ensure that all fund flow transactions have been properly and timely recorded.</p> <p>The recommendation was adopted and the Company has updated the relevant written policy accordingly.</p>
15.	The Company's written policy governing the use of equipment was not strictly complied with by certain relevant subsidiaries of the Company, and the record of custody of the relevant equipment was out of date.	<p>The Company was recommended to update its written policy to ensure that the relevant information about the use of the equipment of the Group is accurate and up to date.</p> <p>The recommendation was adopted and the Company has updated its relevant written policy accordingly.</p>

	Summary of key findings	Remedial actions taken by the management
16.	There was no written policy specifically in relation to the use of finance-related stamps at the Group level. The approval matrix and procedures in relation to the use of these stamps were inadequate, and some of the subsidiaries of the Company had not properly recorded the use of the relevant stamps.	<p>The Company was recommended to establish and from time to time update its written policy to, amongst other things, regulate the use of finance-related stamps and fully record the use of all relevant stamps.</p> <p>The recommendation was adopted and the Company has established a new written policy governing the use of the relevant stamps.</p>
17.	The expenses reimbursement approval procedures adopted by certain relevant subsidiaries of the Company allowed the reimbursement of expenses without submitting the relevant invoice. The authenticity of the expenses incurred could not therefore be verified.	<p>The Company was recommended to update its written policy and internal system to include further provisions about the approval procedures for reimbursement and expressly disallow expenses reimbursement applications which are not supported by invoices.</p> <p>The recommendation was adopted and the Company has updated the relevant written policy to govern the reimbursement of expenses.</p>

VIEWS OF THE INDEPENDENT INVESTIGATION COMMITTEE AND THE BOARD

Having considered the results of the Internal Control Assessment, the remedial actions taken by the management and the follow-up report of the IC Advisor on the adoption of its recommendations as set out in the table above, the Independent Investigation Committee and the Board are of the view that the remedial actions taken by the management are adequate and effective to address the key findings of the Internal Control Assessment. As such, the Board is of the view that the Company has in place adequate internal control systems to meet the obligations under the Listing Rules. The Company will continue to enforce its internal control policies and procedures on an ongoing basis and update such policies and procedures as and when appropriate to ensure compliance with the Listing Rules.

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.

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

Hong Kong, 13 January 2023

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.