

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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 SUPPLEMENTAL INVESTIGATION

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 the announcements of the Company dated 30 March 2022, 3 May 2022, 2 June 2022, 30 June 2022, 31 August 2022, 30 September 2022, 3 October 2022, 30 December 2022 and 13 January 2023, 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; (d) the key findings of the independent investigations into certain fund flows matters and allegations against the Group; and (e) the key findings of the internal control assessment (collectively, the “**Announcements**”). Unless otherwise stated, terms used in this announcement shall have the same respective meanings as those defined in the Announcements.

BACKGROUND

As disclosed in the announcement of the Company dated 3 October 2022 (the “**October 2022 Announcement**”), the Investigation Firm has completed the independent investigations into the Fund Flows Matters 1 and 2 and the Allegations (the “**First Investigations**”) and issued the Investigation Reports. The Independent Investigation Committee has further engaged the Investigation Firm to conduct an independent supplemental investigation (the “**Supplemental Investigation**”) into the Fund Flows Matter 4, which is mainly about the non-trade fund inflow(s) and outflow(s) between the Group and the Parent Group during the financial year of 2021, in order to address any concerns that the Stock Exchange may have.

On 31 March 2023, the Investigation Firm finalised and issued an investigation report (the “**Supplemental Investigation Report**”) in relation to, among others, the Fund Flows Matter 4. The Independent Investigation Committee reviewed and submitted the Supplemental Investigation Report, together with the opinion of the Independent Investigation Committee to the Board for consideration.

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

FUND FLOWS MATTER 4

As disclosed in the October 2022 Announcement, during the financial year of 2021, the aggregate amount of non-trade fund inflows and outflows between the Group and the Parent Group was approximately RMB2.9 billion and RMB2.8 billion respectively. Further, on 1 January 2022, an amount of RMB350 million was transferred from the Group to a wholly-owned subsidiary of the Parent Group upon the request of the Parent Group which was repaid to the Group on 21 March 2022 (collectively, the “**Original Non-trade Fund Flows**”).

Major procedures executed by the Investigation Firm

The major investigation procedures executed by the Investigation Firm during the Supplemental Investigation include, but not limited, the following:

- (a) obtaining and analysing the bank statements of the bank accounts denominated in RMB and Hong Kong dollars, most of which have been covered under the First Investigations, and comparing the relevant fund flows in such bank statements against the Original Non-trade Fund Flows;

- (b) obtaining and reviewing the supporting documents of selected transactions in connection with the Fund Flows Matter 4, including but not limited to, correspondence, approval records, accounting records and agreements;
- (c) obtaining and analysing the list of contracts entered into between the Group and the Parent Group during the financial year of 2021, setting out, among others, the name of the contracts, parties and major terms;
- (d) obtaining and reviewing three parking space sales agency services agreements (the “**Parking Space Sales Agency Services Agreements**”) entered into between the Group and the Parent Group in late December 2020 and the first half of the year of 2021 and an undated and unexecuted exclusive sales agency agreement (the “**Exclusive Sales Agency Agreement**”) between the Group and the Parent Group; and
- (e) conducting interviews with selected employees of the Group, including former and existing management and other officers.

Key findings of Fund Flows Matter 4

1. Non-trade fund inflows and outflows between the Group and the Parent Group

The Investigation Firm categorised the fund flows between the Group and the Parent Group incurred from the continuing connected transactions contemplated under the master property management agreement, the master commercial operational agreement, the master lease agreement, the master purchase agreement, the master intelligent engineering agreement and the master health and wellness agreement entered into between the Company (for itself and as trustee for the benefit of other members of the Group) and China Aoyuan (for itself and as trustee for the benefit of other members of the Parent Group) (as amended and supplemented by the relevant supplemental agreements) being of trade nature. All other fund flows between the Group and the Parent Group incurred from transactions other than the aforementioned continuing connected transactions being of non-trade nature. The Investigation Firm noted that

the aggregate amount of non-trade fund inflows and outflows between the Group and the Parent Group from 1 January 2021 to 30 April 2022 (the “**Review Period**”) are as follows:

Period	Non-trade fund inflows (approximately) RMB’000	Non-trade fund outflows (approximately) RMB’000
From 1 January 2021 to 31 December 2021	3,006,200	2,937,159
From 1 January 2022 to 30 April 2022	357,471	357,244
Total	3,363,671	3,294,403

By comparing the above figures against the Original Non-trade Fund Flows, the Investigation Firm noted the following discrepancy rate:

Period	Discrepancy rate	
	Non-trade fund inflows	Non-trade fund outflows
From 1 January 2021 to 31 December 2021	1.06%	1.89%
From 1 January 2022 to 30 April 2022	2.13%	2.07%

The Investigation Firm identified the following non-trade fund inflows and outflows in the aggregate amount of approximately RMB39 million and RMB62 million respectively, which were not included in the Original Non-trade Fund Flows:

Period	Non-trade fund inflows from the Parent Group to the Group (approximately) RMB’000	Non-trade fund outflows from the Group to the Parent Group (approximately) RMB’000	Investigation Firm’s observations
June 2021	27,776	27,903	The management of the Company considered that the respective fund inflows and outflows of approximately RMB28 million were transaction amounts generated from the general health and wellness businesses between the Group and the Parent Group and such amounts were therefore trade fund flows between the Group and the Parent Group.

Period	Non-trade fund inflows from the Parent Group to the Group (approximately) RMB'000	Non-trade fund outflows from the Group to the Parent Group (approximately) RMB'000	Investigation Firm's observations
<i>(continued)</i>			Upon further analysing the relevant supporting documents and performing relevant procedures, the management of the Company agreed with the Investigation Firm that such amounts were not of trade nature and the fund outflows of approximately RMB28 million were non-trade advances paid by the Group to the Parent Group.
From January 2021 to March 2022	1,007	5,907	Due to the Company's unintentional and inadvertent oversight, the Company did not identify the non-trade fund inflows and outflows of approximately RMB1 million and RMB6 million respectively in the Original Non-trade Fund Flows.
From May 2021 to December 2021	2,709	/	Due to the possible risks of certain bank accounts of the Parent Group being frozen, the Parent Group temporarily transferred approximately RMB2.7 million to the Group.
From January 2021 to February 2021	/	925	The Investigation Firm noted that the Group advanced approximately RMB0.9 million to the Parent Group as progress payment in order not to affect the development progress of a joint project with the Parent Group.
January 2021	1,025	/	The Group prepaid certain daily expenses, such as building management fees, rent and office expenses on behalf of a subsidiary of China Aoyuan in Hong Kong because such subsidiary of China Aoyuan had not opened a bank account in Hong Kong at the relevant time. The advance of approximately RMB1 million was repaid by the Parent Group in January 2021.

Period	Non-trade fund inflows from the Parent Group to the Group <i>(approximately)</i> RMB'000	Non-trade fund outflows from the Group to the Parent Group <i>(approximately)</i> RMB'000	Investigation Firm's observations
<i>(continued)</i>			Due to the Company's unintentional and inadvertent oversight, the Company did not include the non-trade fund inflows of approximately RMB1 million in the Original Non-trade Fund Flows.
From January 2021 to January 2022	6,464	26,984	The Investigation Firm has categorised the amount of approximately RMB6 million and RMB27 million as non-trade fund inflows and outflows respectively in the absence of supporting documents to substantiate the trade nature of such amounts.
Total	<u>38,981</u>	<u>61,719</u>	

In the Original Non-trade Fund Flows, the Investigation Firm noted that certain non-trade fund outflows from the Group to the Parent Group were approved electronically through the Company's approval system, manually by the paper request form or verbally by the former management of the Company. The Investigation Firm was advised by the management of the Company that as at the date of this announcement, all the advances provided by the Group to the Parent Group during the Review Period had been repaid by the Parent Group to the Group in full and a net fund inflow from the Parent Group to the Group was recorded during the Review Period.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, there were no non-trade fund inflows and outflows between the Group and the Parent Group since April 2022.

2. *Agreements entered into between the Group and the Parent Group*

Based on the information provided by the Company, the Investigation Firm identified a total of 572 agreements entered into between the Group and the Parent Group during the financial year of 2021 as follows:

Nature of agreements	Number of agreements (approximately)
Non-trade ^{Note 1}	1
Trade ^{Note 2}	571
	<hr/>
Total	572
	<hr/> <hr/>

Notes:

1. The non-trade agreement refers to the tri-partite agreement entered into between a wholly-owned subsidiary of the Company, a wholly-owned subsidiary of China Aoyuan and a business partner of China Aoyuan. Details of which has been set out in the paragraph headed “Key findings of Fund Flows Matters 3 and 4” in the October 2022 Announcement.
2. The trade agreements include, among others, the master agreements (as amended and supplemented by the relevant supplemental agreements) in relation to the continuing connected transactions entered into between the Company (for itself and as trustee for the benefit of other members of the Group) and China Aoyuan (for itself and as trustee for the benefit of other members of the Parent Group) and the specific agreements contemplated thereunder.

The Investigation Firm noted that the additional non-trade fund inflows and outflows of approximately RMB32.52 million and RMB34.74 million identified during the Supplemental Investigation respectively were not covered by any written agreements.

3. *Parking Space Sales Agency Services Agreements and Exclusive Sales Agency Agreement*

As set out in the announcement of the Company dated 3 May 2022, in the Auditor’s Letter, the then auditor of the Company noted the Parking Space Sales Agency Services Agreements and the Exclusive Sales Agency Agreement. The Investigation Firm was advised by the management of the Company that the relevant parties had enforced the Parking Space Sales Agency Services Agreements and the transaction amounts did not exceed the annual caps contemplated under the relevant master property management agreement (as amended and supplemented by the relevant supplemental agreement). The Investigation Firm was advised by the management of the Company that the Exclusive Sales Agency Agreement had been stamped with the company seals of the relevant parties in January 2022, but it was never executed by the authorised signatories or enforced by the parties. The Investigation Firm noted that from January to April 2022, there was no fund flow between the parties to the Exclusive Sales Agency Agreement

pursuant to the bank statements and no revenue generated from providing exclusive sales agency services was recorded by the relevant subsidiary of the Company pursuant to the Group's financial records.

LIMITATION OF THE SUPPLEMENTAL INVESTIGATION

The major limitation encountered by the Investigation Firm during the Supplemental Investigation is that the Investigation Firm was unable to conduct an interview with one of the Company's accounting personnel who has resigned in December 2022. Nevertheless, the Investigation Firm has conducted an interview with the successor accounting personnel.

VIEW OF THE INDEPENDENT INVESTIGATION COMMITTEE

As at the date of this announcement, the Independent Investigation Committee has reviewed the contents of the Supplemental Investigation Report and considered that the Investigation Firm has sufficiently investigated into the Fund Flows Matter 4 to address the Auditor's Letter, subject to the limitation as set out in the Supplemental Investigation Report. 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 Supplemental Investigation.

Therefore, having reviewed the contents of the Supplemental Investigation Report and after due and detailed discussion, the Independent Investigation Committee is of the view that the contents and findings in the Supplemental Investigation Report are reasonable and acceptable and the Supplemental Investigation Report has adequately addressed each point under the Fund Flows Matter 4. Accordingly, the Independent Investigation Committee recommended the Board to adopt the findings in the Supplemental Investigation Report.

Notwithstanding that certain views of the Independent Investigation Committee have been set out in the October 2022 Announcement, the Independent Investigation Committee noted that the transactions under the Fund Flows Matter 4 were subject to the disclosure obligations and where applicable, the independent Shareholders' approval requirements under Chapters 13, 14 and 14A of the Listing Rules and reiterated that the Company should have complied with the relevant requirements under the Listing Rules as and when such obligations arose and the internal control of the Group should be strengthened to avoid recurrence of similar situations of delay in fulfilling the required obligations.

VIEW OF THE BOARD

The Board considered the procedures executed by the Investigation Firm and the limitation encountered by the Investigation Firm in the Supplemental Investigation and reviewed the contents of the Supplemental Investigation Report and concurred with the Independent Investigation Committee that the contents and findings in the Supplemental Investigation Report are reasonable and acceptable and the Supplemental Investigation Report has adequately addressed each point under the Fund Flows Matter 4.

The Board has resolved to adopt the findings of the Supplemental Investigation and is of the view that the observations identified in the Supplemental Investigation Report 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 non-trade fund inflows and outflows as identified during the Supplemental Investigation were not included in the October 2022 Announcement. The Company emphasises that (a) the Company has no intention to mislead the Shareholders or the investors of the Company in relation to the Fund Flows Matter 4 or any matters stated in the Auditor's Letter and the Auditor's April Letter; (b) all the advances provided by the Group to the Parent Group during the Review Period had been repaid by the Parent Group to the Group in full and a net fund inflow from the Parent Group to the Group was recorded during the Review Period; and (c) to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, there were no non-trade fund inflows and outflows between the Group and the Parent Group since April 2022. Also, as set out in the announcement of the Company dated 13 January 2023, the Company has updated and circulated internal written guidance or policy to ensure that the supporting documents will be checked against before fund transfers and all fund flow transactions have been properly and timely recorded.

INTERNAL CONTROL ASSESSMENT AND REMEDIAL MEASURES

As set out in the announcement of the Company dated 13 January 2023, the Board is of the view that the remedial actions taken by the management of the Company are adequate and effective to address the key findings of the Internal Control Assessment. Further to the Internal Control Assessment, the Company will engage the IC Advisor to conduct a follow-up sample checking and assessment of the latest implementation status of remedial measures in relation to the internal control findings as identified in the Internal Control Assessment. The Company will announce as and when appropriate if there are any material findings from the follow-up internal control assessment.

Given the non-trade fund outflows under the Fund Flows Matter 4 having included those of the Fund Flows Matters 1 to 3 and the similar nature of the relevant internal control deficiencies, based on the information currently available to the Company, the Board considered that (a) the IC Advisor's internal control recommendations adopted by the Company and (b) the appropriate remedial measures taken by the management of the Company have addressed those internal control deficiencies identified during the Supplemental Investigation, in particular, the Company has adopted the internal control recommendations to ensure that all fund transfers to the Parent Group are supported with adequate supporting documents and all necessary approvals. Also, in order to strengthen the internal controls of the Group and for consultation of compliance with the Listing Rules, the Company is actively considering to appoint a compliance advisor in the future.

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, 31 March 2023

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