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BABYTREE GROUP

寶寶樹集團

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 1761)

KEY FINDINGS AND RESULTS OF INDEPENDENT INVESTIGATION AND INDEPENDENT INTERNAL CONTROL REVIEW

This announcement is made by BabyTree Group (the “**Company**”, and together with its subsidiaries, the “**Group**”) pursuant to Rule 13.09(2) of the Rules (the “**Listing Rules**”) Governing the Listing of Securities Limited on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) and the Inside Information Provisions (as defined under the Listing Rules) 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 (i) 1 May 2023, 18 May 2023 and 30 June 2023 in relation to, among others, the delay in despatch of the 2022 Annual Report and the Postponement of the AGM; (ii) 2 August 2023 in relation to, among others, the preliminary findings in relation to the Allegations and Other Matters; (iii) 23 August 2023, 28 September 2023 and 28 June 2024 in relation to, among others, the Resumption Guidance, the delay in publication of the 2023 Interim Results and despatch of the 2023 Interim Report and postponement of annual general meeting; (iv) 1 November 2023, 1 February 2024 and 2 May 2024 in relation to the quarterly update on the resumption progress; (v) 31 March 2024, in relation to the delay in publication of the 2023 Annual Results and despatch of the 2023 Annual Report; (vi) 15 April 2024, in relation to, update on the independent investigation; and (vii) 17 April 2024, in relation to, update on the IMA (collectively, the “**Announcements**”). Unless the context requires otherwise, capitalized terms used herein shall have the same meanings as those defined in the Announcements.

As disclosed in the Company’s announcements dated 2 August 2023 and 1 November 2023, the Company resolved in May 2023 to establish a special committee (chaired by Mr. CHEN Guanglei, an independent non-executive Director, and comprising Mr. CHEN Bing, a non-executive Director, and Ms. Jin SU, an independent non-executive Director, as members), for the purpose of, among other things, leading the Company’s investigation into the truthfulness of the Allegations. The Board subsequently in September 2023 resolved to establish an independent investigation committee (with the same composition set out above, the “**Committee**”) for the purpose of, among other things, leading the Company to comply with the Resumption Guidance. In October 2023, the Committee appointed FTI Consulting (Hong Kong) Limited as the Independent Investigator to conduct the independent forensic investigation on, among other things, the Allegations and Other Matters (the “**Independent Investigation**”) and produce a report of findings on the Independent Investigation. The Committee also instructed the Independent Investigator to conduct an independent internal control review of the Group (the “**Independent Internal Control Review**”).

The Independent Investigator completed the Independent Investigation and Independent Internal Control Review by the end of May 2024, and continued to work under the Committee's direction to analyze, organize, and consolidate the findings from the Independent Investigation. In July 2024, the Board approved, among others, the final report on the Independent Investigation findings.

MAJOR FINDINGS OF THE INDEPENDENT INVESTIGATION

The Independent Investigation includes document review, interviews with relevant personnel, electronic forensic investigation, and analysis on relevant transactions. The key findings of the Independent Investigation are as follows:

Key findings relating to the Allegations

The Independent Investigation found that, upon successful Listing, the Company entered into the IMA with the Investment Manager (then known as AMTD Global Markets Limited, renamed in February 2023 as orientiert XYZ Securities Limited and subsequently in June 2024 as oOo Securities (HK) Group Limited) and certain fund or entrusted investment agreements with certain unspecified entities referred to as “Zhongke Chuangxi” (the “**Suspected Zhongke Chuangxi Entity(ies)**”) for the purchases of wealth management products. However, there was no evidence from the Independent Investigation to suggest that the IMA or the fund or entrusted investment agreements were pre-conditions to the Investment Manager's or the Suspected Zhongke Chuangxi Entities' subscription, or solicitation of other investors' subscription, for the Company's offer shares in the Listing. On the contrary, the Independent Investigation found evidence showing that the then-executive Directors who signed the IMA agreed to invest in the fund or entrusted investments managed by the Investment Manager and the Suspected Zhongke Chuangxi Entities as short-term investments with the commercial rationale of maximizing capital gains, as the Company held a significant level of idle cash generated from the Listing, which was not earmarked, as disclosed in the Company's listing prospectus dated 15 November 2018, for immediate business uses within the next 12 months.

While the IMA appeared to have been signed by the then-executive Directors, the Independent Investigation found that the execution of the IMA was not supported by formal management approval records, such as board meeting minutes, resolutions and/or investment due diligence documents, or any internal notes or email correspondence records among the then-Board members in relation to the execution of the IMA. There was no evidence from the Independent Investigation that the Board as a whole had any knowledge of the IMA or any subsequent transactions concerning the Investment Manager until the revelation of the Allegations in April 2023. In relation to the fund or entrusted investment agreements with the Suspected Zhongke Chuangxi Entities which were approved by the then-executive Directors, the Independent Investigation did not identify any records of board meeting minutes or resolutions at the time of execution of the relevant fund or entrusted investment agreements, or any internal management reports which disclosed the underlying composition and performance of the relevant wealth management products in any subsequent periods. There was no evidence that the Board as a whole had any knowledge of the relevant fund or entrusted investment agreements with the Suspected Zhongke Chuangxi Entities until the revelation of the Allegations in April 2023.

The Independent Investigation found that the entire amount of investment proceeds in the approximate sums of RMB219,006,000 and US\$20,000,000 as originally provided by the Company and its subsidiaries to the Suspected Zhongke Chuangxi Entities had been fully recovered by the Group in February 2020. The Independent Investigation also noted that the Company subsequently made a payment of US\$480,000 to a Suspected Zhongke Chuangxi Entity in July 2020 purportedly for “early redemption fee” in relation to the wealth management products invested. As to the IMA, as disclosed in the Company's announcements dated 15 April 2024 and 17 April 2024, in November 2023 the Company terminated the IMA and demanded the Investment Manager to return the investment principal

of US\$70,000,000 and relevant returns, following which in April 2024 the Company commenced arbitration proceedings at the Hong Kong International Arbitration Centre against the Investment Manager. The Independent Investigation did not identify any indication that the Investment Manager has disputed the fact that the investment principal of US\$70,000,000 belongs to the Company.

The Independent Investigation did not identify evidence of any direct or indirect communications between the Company's then-Directors (except a former Director) and the representatives of either the Investment Manager or the Suspected Zhongke Chuangxi Entities to support the possibility of any alleged collusion between those parties as contended by the Allegations. Based on the available contemporaneous correspondence records and private chat messages collected and analysed as part of the Independent Investigation, it appeared that the same former Director mentioned above and/or his main subordinates were the primary contact persons with both the Investment Manager and the Suspected Zhongke Chuangxi Entities at the material time.

Based on available information, the Independent Investigation could not substantiate the claim in the Allegations about an alleged loan of approximately RMB130,000,000 from the same former Director mentioned above to the Company. In particular, the Independent Investigation noted that the same former Director mentioned above has provided several inconsistent statements with respect to the origin, amount, and underlying substance of the alleged loan at different points in time since the revelation of the Allegations in April 2023. The Independent Investigation found those statements could not be supported by the contemporaneous documents and information, including the selected private chat messages, corporate email archives and departmental network shared drives collected and analysed as part of the Independent Investigation, reviewed by the Independent Investigator. In addition, based on the review of the available accounting records and annual reports of the Company, the Independent Investigation did not identify any records to reflect any amounts due from the Company and its subsidiaries to the same former Director mentioned above at all material times.

Key findings relating to the Other Matters

The Independent Investigation found that certain current and former employees of the Group had been involved in irregular financial operations, misappropriation of funds and/or possession of funds. The above current and former employees were direct or indirect subordinates of the same former Director mentioned above at the relevant time.

In particular, the Independent Investigation identified 42 suspected unauthorized or improper payments in a considerable sum to certain third parties, which were executed by the same former Director mentioned above and/or his main subordinates in the absence of valid evidence of management approval in accordance with the then-applicable management approval workflows and appropriate evidence of commercial substance and business rationale. The Independent Investigation found that all these suspected unauthorized or improper payments were recorded in the "other receivables" ledger of the Group, of which a partial amount of RMB104,362,000 was subsequently expensed in the profit and loss statement by way of purported consulting expenses, marketing expenses and finance costs. Meanwhile, another sum of RMB55,066,000 was subsequently written-off as bad debts as at 31 December 2022.

It is of note that these 42 transactions at issue included two payments in the sum of US\$31,900,000 made by the Company and one of its subsidiaries in November 2018 to a Suspected Zhongke Chuangxi Entity, which returned US\$31,740,000 to the Company in December 2018. Further, the Independent Investigation identified that at least two of the recipients in these 42 transactions at issue appeared to be connected with the same former Director mentioned above. The Independent Investigation did not find any appropriate evidence of commercial substance or business rationale to support any of the above transactions. Based on these Independent Investigation findings, the Company will request its auditor

to ascertain the value of these 42 transactions at issue from the independent auditor’s perspective.

The Independent Investigation identified 149 suspected unauthorized or improper fund flows between the Group and its affiliates in a considerable sum in connection with potential misappropriation of funds and irregular financial operations. Similarly, these fund flows were executed by the same former Director mentioned above and/or his current and former subordinates in the absence of valid evidence of management approval in accordance with the then-applicable management approval workflows and appropriate evidence of commercial substance and business rationale. The Independent Investigation found that these suspected unauthorized or improper fund flows were recorded in the Group’s general accounting ledgers “other receivables – internal current account”.

It is of note that these 149 fund flows at issue included: (i) a transfer of RMB240,000,000 from an affiliate of the Company to a subsidiary of the Company on 30 June 2022; (ii) a transfer of an equivalent RMB240,000,000 from the same subsidiary of the Company back to the same affiliate of the Company the following day on 1 July 2022; (iii) a transfer of RMB250,000,000 from an affiliate of the Company to a subsidiary of the Company on 31 December 2022; and (iv) a transfer of an equivalent RMB250,000,000 from the same subsidiary of the Company back to the same affiliate of the Company the following day on 1 January 2023. The available evidence from the Independent Investigation indicated that these four fund flows were potentially related to an arrangement carried out by the same former Director mentioned above to inflate the cash position of the Group. The Independent Investigation did not identify any fund flow patterns similar to the aforesaid arrangement in the preceding financial years and/or at the time of the Company’s Listing. The Independent Investigation identified no or limited supporting documentation that could justify the commercial substance and business rationale of each payment or receipt amount. Based on these Independent Investigation findings, the Company will request its auditor to ascertain the value of these 149 fund flows at issue from the independent auditor’s perspective.

The Independent Investigation confirmed that no fund flow transactions were ever executed between the Group and its affiliates after the departure of the same former Director mentioned above.

KEY FINDINGS OF THE INDEPENDENT INTERNAL CONTROL REVIEW

The Independent Internal Control Review includes document review, interviews with selected employees and management personnel, and walk-throughs and sampled substantive testing procedures.

The Independent Internal Control Review identified material internal control weaknesses or deficiencies in multiple internal control areas of the Company, including (i) segregation of duties and management reporting; (ii) conflict of interest policy; (iii) whistle-blowing policy; (iv) director training policy and programme; (v) payment transaction approval workflows; (vi) approval workflows for execution of contracts and use of company seals; (vii) investment due diligence and authorization; (viii) staff exits and document retention; (ix) internal audit function; and (x) management of non-group affiliates.

In accordance with the recommendations made by the Independent Investigator in relation to the Independent Internal Control Review, as at the date of this announcement, the Company has completed certain rectifications and is still in the process of further enhancing documented policies, manuals, and procedure guidelines to formalize relevant internal control mechanisms, rules, and procedures and to promote transparency and accountability.

RECOMMENDATIONS OF THE INDEPENDENT INVESTIGATION COMMITTEE

The Committee made seven recommendations to the Board in light of the findings from the Independent Investigation and the Independent Internal Control Review. The Board has carefully considered such

recommendations and decided to adopt all the recommendations. These recommendations are summarised as follows:

- 1) The Committee recommends that the Company continue to take all necessary measures to enhance its internal controls based on the findings from the Independent Internal Control Review and promptly report to the Board and/or the audit committee of the Company (the “**Audit Committee**”) the status and progress of these enhancements.
- 2) The Committee recommends that the Company conduct specific compliance training to its Directors, senior management members and key employees in relation to the findings and lessons learnt from the Independent Investigation. The Company should continue to provide regular trainings to these individuals on a regular basis to raise compliance awareness and ensure that the Company conduct business with high ethical standard and integrity.
- 3) The Committee recommends that the Company, through its Audit Committee, work closely with its auditor to evaluate the impact of the Independent Investigation findings on the Company’s financials and whether any adjustment, amendment, restatement or clarification is needed with respect to the Company’s past disclosures pursuant to applicable accounting rules, Listing Rules, laws and regulations.
- 4) The Committee recommends that the Company work closely with its legal advisors in connection with the ongoing arbitration against the Investment Manager to ensure a proper resolution of the dispute between the Company and the Investment Manager regarding the IMA.
- 5) The Committee recommends that the Company seek further legal advice based on the findings relating to the Other Matters to consider taking proper legal actions to protect the Company’s interest.
- 6) The Committee recommends that the Company work closely with its legal advisors to ensure that subsequent developments in relation to the matters disclosed hereunder are promptly reported to the Board for discussion and (where applicable) disclosed in accordance with the applicable Listing Rules, laws and regulations.
- 7) The Committee recommends that the Company continue to work closely with its legal advisors, auditor and other professional parties as necessary to comply with and satisfy the conditions under the Resumption Guidance as practically soon as possible.

LIMITATIONS AND ASSUMPTIONS

There are limitations to the findings of the Independent Investigation, including but not limited to incomplete information and the inability of the Committee and the Independent Investigator to conduct interviews with certain former employees, former Directors and representatives of the Investment Manager and the Suspected Zhongke Chuangxi Entities, as well as the inability to verify certain statements of the interviewees fully and independently. The findings of the Independent Investigation may have to be reassessed if the Committee or the Independent Investigator subsequently obtains any significant information or documents.

Further, the Company acknowledges that the scope of the Independent Investigation was limited to the Allegations and the Other Matters, and the Independent Internal Control Review addressed only those internal control issues identified during the Independent Investigation, which may or may not identify all current or historical issues of the Company, especially any issues that do not relate to the Allegations or the Other Matters. In this regard, the Company will implement the recommendations from the Committee as approved and adopted by the Board to ensure compliance with applicable Listing Rules,

laws and regulations.

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 2 May 2023 and will remain suspended until further notice. Further announcement(s) will be made by the Company in this respect as and when appropriate and in accordance with the requirements of the Listing Rules.

Shareholders and potential investors of the Company should exercise caution when dealing in the shares of the Company.

On behalf of the Board
BabyTree Group
GAO Min
WANG Huainan
Co-Chairmen

Hong Kong, 26 July 2024

As at the date of this announcement, the Board comprises Mr. GAO Min as executive Director; Mr. WANG Huainan, Mr. QIAN Shunjiang, Mr. CHEN Bing, Mr. WU Ying and Mr. HUANG Zhenwu as non-executive Directors; and Mr. CHEN Guanglei, Mr. SHIAH Hung-Yu and Ms. Jin SU as independent non-executive Directors.