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**中國奧園集團股份有限公司**  
**China Aoyuan Group Limited**

*(Incorporated in the Cayman Islands with limited liability)*  
**(Stock Code: 3883)**

**INSIDE INFORMATION**

**KEY FINDINGS OF THE INDEPENDENT INVESTIGATION AND  
INTERNAL CONTROL ASSESSMENT**

This information is made by China Aoyuan Group Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) pursuant to Rule 13.09(2)(a) of the Listing Rules 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 31 March 2022 in relation to, among other things, 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 30 June 2022 in relation to, among other things, the resumption guidance issued by The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”); (c) the inside information announcement of the Company dated 31 August 2022 in relation to, among other things, the delay in the publication of the interim results of the Group and the despatch of the Company’s interim report for the six months ended 30 June 2022; (d) the quarterly update announcements of the Company dated 30 September 2022, 30 December 2022, 31 March 2023 and 30 June 2023 in relation to the Company’s resumption progress as at the respective dates of such update announcements; (e) the inside information announcement of the Company dated 4 October 2022 on the investigation commissioned by Aoyuan Healthy Life Group Company Limited (“**Aoyuan Healthy**”) in response to the letter from Aoyuan Healthy’s former auditor dated 25 March 2022; and (f) the inside information announcement of the Company dated 31 March 2023 in relation to, among other things, 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 2022 (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 AH's Audit Committee received a letter from the AH's Former Auditor (the "**AH's Former Auditor's Letter**") setting out concerns over the Fund Flows Matters and suggesting recommendations and actions to be taken by the AH's Audit Committee. Please refer to the announcements of Aoyuan Healthy dated 3 May 2022 and 1 August 2023 for details of the Fund Flows Matters as set out in the AH's Former Auditor's Letter.

On 31 March 2023, the Independent Investigation Committee, comprising all the independent non-executive directors of the Company, was established in order to undertake an investigation to assess the Fund Flows Matters. The scope of inquiry of the Independent Investigation Committee was as follows:

- (a) uncovering facts and circumstances which gave rise to the Fund Flows Matters;
- (b) identifying persons who were involved in or had knowledge about the Fund Flows Matters;
- (c) identifying if there were any management integrity issues in connection with the Fund Flows Matters;  
and
- (d) identifying and considering the rectification of internal control deficiencies in connection with the Fund Flows Matters.

On 22 May 2023, the Independent Investigation Committee engaged FTI Consulting (Hong Kong) Limited as the Independent Investigator to conduct the Forensic Investigation into the Fund Flows Matters. The Independent Investigator was tasked with establishing the relevant facts and circumstances surrounding the Fund Flows Matters and conducting a targeted internal control assessment to assess potential weaknesses or deficiencies in the Company's internal control systems in connection with the Fund Flows Matters (the "**Internal Control Assessment**").

On 5 September 2023, the Independent Investigator issued the independent investigation report (together with the Supplemental Report (as defined below), the "**Investigation Report**") in relation to the Fund Flows Matters and the initial Internal Control Assessment. On 18 September 2023, the Independent Investigator issued a supplemental Investigation Report (the "**Supplemental Report**") on, among other things, its supplemental findings in relation to the Fund Flows Matters and its findings in relation to the internal control remedial actions taken by the management of the Company.

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

## METHODOLOGY AND LIMITATIONS OF THE FORENSIC INVESTIGATION

In undertaking the Forensic Investigation, the Independent Investigator performed forensic procedures including the following:

- (a) forensic review of the Group's books and records, including but not limited to internal policies, approval records, accounting ledgers and journal vouchers, agreements, management reports and banking documentation;
- (b) tailored forensic technology data collection, review and analysis of electronic data stored in computer devices and corporate email server archive;
- (c) interviews with management personnel and employees of the Group (including the Directors), as well as representatives of third parties involved in the Fund Flows Matters; and
- (d) targeted business intelligence and investigative research on certain third parties involved in the Fund Flows Matters.

A summary of the major limitations of the Forensic Investigation is set out below:

- (a) the Independent Investigator could not obtain some of the contemporaneous records they requested as such documents were either not available or appeared to have been lost or misplaced;
- (b) the Independent Investigator was unable to interview a number of former employees of Aoyuan Healthy and its subsidiaries (collectively, the "**Aoyuan Healthy Group**") and the Group (excluding the Aoyuan Healthy Group) (the "**China Aoyuan Group**") as well as representatives of third parties involved in the Fund Flows Matters as they declined to be interviewed; and
- (c) the Independent Investigator could not perform forensic technology procedures to collect forensic images of certain computer hard-drives and devices belonging to nine former employees and directors of the China Aoyuan Group and the Aoyuan Healthy Group which were beyond the power of the China Aoyuan Group to obtain.

Having considered (a) the additional procedures performed by the Independent Investigator to address the aforesaid limitations; (b) the extensive list of personnel interviewed by the Independent Investigator (which included most of the personnel who were known or reasonably expected to have been involved in or otherwise have knowledge of the Fund Flows Matters and the Directors); (c) the Independent Investigator being able to cross check information obtained from secondary sources against the accounts of other interviewees and/or contemporaneous records of the Group; and (d) the absence of any material inconsistencies or information gaps, the Independent Investigation Committee is of the view that the Independent Investigator has taken all reasonably practicable measures to investigate the Fund Flows Matters and that the Forensic Investigation has adequately investigated the relevant Fund Flows Matters in the given circumstances.

## FINDINGS IN RELATION TO FACTS AND CIRCUMSTANCES WHICH GAVE RISE TO THE FUND FLOWS MATTERS

### Fund Flows Matters 1, 3 and 4

The fund transfers under the Fund Flows Matters 1, 3 and 4 (except for the fund transfers of RMB50 million under Fund Flows Matter 2 which were also included under the Fund Flows Matter 4) were in substance the provision of working capital, specifically as direct or indirect short-term loans advanced by the Aoyuan Healthy Group (which was at the material time a subsidiary of the Company) to the China Aoyuan Group, as part of the centralised liquidity and working capital management function carried out by the Group. The centralised liquidity and working capital management function, which involves cash pooling and allocating cash amongst subsidiaries in order to maximise cash efficiency and reduce the amount of idle cash within the Group, is part of the day-to-day operation of the Group's finance and treasury centre and within the ordinary and usual course of business of the Group.

Pursuant to its working capital arrangement policy, the Group has throughout the material time imposed certain credit control conditions (the “**Credit Control Policy**”) including (a) advances from the Aoyuan Healthy Group are limited to a three to six months' term and must be repaid on time; (b) all advances made during each interim half-year period must be fully settled before the half-year end or year end; and (c) no new funding request will be effected unless all the advances made during the previous interim period have been repaid. All short-term advances made under the Fund Flows Matters 1, 3 and 4 had been repaid in full in accordance with the Credit Control Policy, and there was no leakage of funds outside the Group, nor any misappropriation, fraud or any other dishonest behaviour on the part of personnel involved in the relevant fund flows.

As Aoyuan Healthy was a subsidiary of the Company at the material time, the short-term advances under the Fund Flows Matters 1, 3 and 4 were essentially fund transfers within the Group and accordingly did not constitute notifiable transactions or connected transactions of the Company under Chapter 14 or Chapter 14A of the Listing Rules. As disclosed in the announcement of Aoyuan Healthy dated 3 October 2022, the Fund Flows Matters 1, 3 and 4 constituted notifiable (discloseable and major transactions) and connected transactions of Aoyuan Healthy.

#### ***Fund Flows Matter 4 – Non-trade fund flows between the China Aoyuan Group and the Aoyuan Healthy Group***

During the period from 1 January 2021 to 31 March 2022, the non-trade fund flows between the China Aoyuan Group and the Aoyuan Healthy Group comprised a total of 201 transactions, including the China Aoyuan Group receiving short-term advances in 146 transactions (as the borrower) and repaying such short-term advances in 53 transactions, as well as one payment and one receipt in connection with the earnest money under the Fund Flows Matters 2 (see below for details), involving a total of 24 subsidiaries in the China Aoyuan Group and five subsidiaries in the Aoyuan Healthy Group. The total amount of non-trade cash inflows and outflows (including the receipt and payment transactions under the Fund Flows Matters 1, 2 and 3) recorded between the China Aoyuan Group and the Aoyuan Healthy Group during the period from 1 January 2021 to 31 March 2022 amounted to approximately RMB3,294 million and RMB3,364 million, respectively. There have been no further non-trade fund flows between the China Aoyuan Group and the Aoyuan Healthy Group since 1 April 2022.

#### ***Fund Flows Matter 1 – Fund transfer in the amount of RMB350 million in December 2021 and January 2022***

On 31 December 2021, a subsidiary of the Company (“**Entity A**”) repaid RMB350 million to a subsidiary of Aoyuan Healthy (“**Entity B**”) to settle an outstanding amount in accordance with the Credit Control Policy under which all advances made during each interim half-year period must be fully settled before the relevant half-year end. On 1 January 2022, Entity B advanced the same amount of RMB350 million to Entity A upon the request of the China Aoyuan Group. On 21 March 2022, the China Aoyuan Group repaid the above outstanding amount to the Aoyuan Healthy Group in accordance with the Credit Control Policy.

In the AH’s Former Auditor’s Letter, it was alleged the RMB350 million transfer by Entity B was made pursuant to an undated and unexecuted exclusive sales agency services agreement between the China Aoyuan Group and the Aoyuan Healthy Group. During the course of the Forensic Investigation, it was revealed that an accounting personnel of Aoyuan Healthy erroneously recorded the RMB350 million payment as earnest money for an undated and unexecuted sales agency services agreement without further verification. Although the China Aoyuan Group and the Aoyuan Healthy Group explored expanding their scope of cooperation over sales agency matters in late 2021, they did not proceed with the proposed sales agency services agreement.

### ***Fund Flows Matter 3 – Deposit pledges and tri-partite agreement between the China Aoyuan Group, the Aoyuan Healthy Group and the borrower***

During the period from June to December 2021, a subsidiary of Aoyuan Healthy (“**Entity C**”) made fixed deposits with two banks in the PRC (“**Bank A**” and “**Bank B**”, respectively) which were pledged to secure a total of five three-month credit facilities in favour of two corporate vehicles (“**Entity D**” and “**Entity E**”, respectively) owned by a long-term business partner of the Company (the “**Business Partner**”). Upon receipt of the bank borrowing proceeds, Entity D and Entity E remitted the relevant proceeds to a subsidiary of the Company for deployment to address its capital needs. In substance, the Fund Flows Matter 3 represented indirect short-term advances from the Aoyuan Healthy Group to the China Aoyuan Group under the centralised liquidity and working capital management arrangement. The indirect financing arrangement under the Fund Flows Matter 3 allowed the Group to foster business relationship with Bank A and Bank B whilst Entity C earned higher interest returns as compared to the usual savings account deposit rates. For completeness, to the best of the Company’s knowledge after having made all reasonable enquiry, each of Entity D, Entity E and the Business Partner was not a connected person of the Company at the material time.

Amongst the deposit pledges:

- (a) two deposit pledges in an aggregate amount of approximately RMB500 million were created on 21 June 2021 and 28 June 2021 respectively for securing two credit facilities obtained by Entity D from Bank A. As the relevant facilities were repaid by Entity D on time, the two deposit pledges were subsequently released by Bank A on 14 September 2021 and 22 September 2021 respectively; and
- (b) three deposit pledges in an aggregate amount of RMB650 million were created on 10 August 2021, 14 September 2021 and 24 September 2021 respectively for securing the three facilities obtained by Entity E from Bank B. Amongst these three deposit pledges, the pledge over the deposit in the amount of approximately RMB150 million was released by Bank B on 11 November 2021 upon timely repayment of the relevant facility by Entity E. The other two deposit pledges in the aggregate amount of approximately RMB500 million were enforced by Bank B after the China Aoyuan Group failed to repay Entity E, which in turn failed to repay the relevant facilities on time.

On 30 November 2021, a subsidiary of the Company (“**Entity F**”), Entity C and Entity E entered into a tri-partite agreement (the “**Tri-partite Agreement**”), pursuant to which, among other things, Entity C agreed to settle the amount due to Entity E in the event Entity F failed to repay Entity E on time and thereafter Entity F would repay Entity C upon the latter’s request. The aforementioned enforcement of deposit pledges in the aggregate amount of approximately RMB500 million was regarded as payment by Entity C to Entity E on behalf of Entity F under the Tri-partite Agreement. On 29 December 2021, the China Aoyuan Group repaid approximately RMB500 million to the Aoyuan Healthy Group after the two deposit pledges in the same amount were enforced by Bank B in accordance with the Tri-partite Agreement and the Credit Control Policy.

## **Fund Flows Matter 2**

### ***Fund transfer in the amount of RMB50 million in November 2021***

The Fund Flows Matter 2 was related to the Group's proposed acquisition of a target land located in Pazhou, Haizhu District, Guangzhou (the "**Target Land**"), an artificial intelligence and digital economy pilot zone designated by the Guangzhou Municipal Government.

Immediately before the Group's proposed acquisition, the Target Land was held by a project company, which was a joint venture company that was held as to 61.52% by a corporate vehicle ("**Entity G**") owned by the Business Partner (as nominee of the Company) and as to 38.48% by a PRC company which was principally engaged in technology business. Due to local zoning and government policy considerations, it was understood property developers were not the preferred type of bidder and developer of the Target Land. Accordingly, when the Company decided to acquire the Target Land, the Company directed Aoyuan Healthy to acquire Entity G, which would allow the Company to acquire an indirect interest in the Target Land. For completeness, to the best of the Company's knowledge after having made all reasonable enquiry, each of Entity G and the Business Partner was not a connected person of the Company at the material time.

On 16 November 2021, a subsidiary of China Aoyuan ("**Entity H**") transferred RMB50 million to Entity C in order to finance the earnest money for the proposed acquisition of Entity G. After Entity C paid the amount to Entity G as earnest money for the proposed share transfer, it was brought to the attention of the management that the Company might not be able to procure the release of the pledges over shares in Entity G and the project company. For completeness, the share pledges were created as collateral in respect of a mezzanine financing obtained by the China Aoyuan Group in connection with the initial acquisition of the Target Land through Entity G and the Business Partner, which was repaid in full following Entity G's disposal of its entire stake in the project company in late February 2022.

As a result, the Company decided not to proceed with the proposed share transfer, Entity G refunded the RMB50 million earnest money to Entity C, which in turn transferred the same amount back to Entity H.

As Aoyuan Healthy was a subsidiary of the Company at the material time, the Fund Flows Matter 2 was essentially fund transfers within the Group and accordingly it did not constitute notifiable transactions or connected transactions of the Company under Chapter 14 or Chapter 14A of the Listing Rules.

## PERSONNEL INVOLVED AND MANAGEMENT INTEGRITY

### Mr. Guo Zi Ning

As Mr. Guo Zi Ning (“**Mr. Guo**”) was at the material time responsible for managing and supervising the day-to-day operation of the Group’s finance and treasury centre, he was primarily responsible for monitoring and coordinating the treasury activities and he acted as the ultimate decision maker (he gave instructions on the relevant internal fund transfers, including the timing and amounts of advances) and approver in respect of the fund flows under the Fund Flows Matters 1, 3 and 4. In respect of the Fund Flows Matter 2, Mr. Guo was also the ultimate decision maker and approver of the fund flows and the land acquisition which was the subject matter of the relevant fund flows.

Mr. Guo resigned as an executive Director, vice chairman, chief executive officer and authorised representative of the Company with effect from 27 April 2023 as he had reached his retirement age. As at the date of this announcement, Mr. Guo is not a substantial shareholder of the Company.

### Mr. Chen Zhi Bin

Mr. Chen Zhi Bin (“**Mr. Chen**”) did not initiate nor was he the decision maker in respect of the fund flows under the Fund Flows Matters 1, 3 and 4. Mr. Chen approved the relevant fund transfers in his capacity as the then chief financial officer in accordance with the policies and procedures of the Company and under the instructions of Mr. Guo, and he reminded Mr. Guo, a director of Aoyuan Healthy at the material time, that the internal fund transfers could give rise to potential Listing Rule compliance issues for Aoyuan Healthy. He also took steps to ensure that the Credit Control Policy had been duly complied with, as evidenced by minutes of various internal meetings where Mr. Chen demanded strict compliance with the Credit Control Policy, corroborative statements of other personnel interviewed by the Independent Investigator and accounting records showing full settlement of all outstanding loans by the China Aoyuan Group by the end of June and December (as the case may be) in 2021, all of which were considered during the course of the Forensic Investigation.

In respect of the Fund Flows Matter 2, Mr. Chen also approved the RMB50 million fund transfer as well as the related loan agreements/transfers in his capacity as the then chief financial officer in accordance with the policies and procedures of the Company. Mr. Chen was not otherwise aware of, nor was he involved in, other parts of the proposed acquisition underlying the Fund Flows Matter 2.



### ***Other personnel of the China Aoyuan Group***

Eight employees of the Group's finance and treasury centre and one employee of the Group's financing department were involved in the Fund Flows Matters 1, 3 and 4. In respect of the Fund Flows Matter 2, four employees of the Group's finance and treasury centre, one employee of the Group's financing department and the chairman of the Group's urban construction group (primarily engaged in industry-driven land acquisition and urban renewal) were involved. Apart from the chairman of the Group's urban construction group who initiated the proposed acquisition of the Target Land (but not the fund flows under the Fund Flows Matter 2), the involvement of the aforesaid personnel identified was mainly execution or administrative in nature in response to instructions from his/her supervisor or otherwise in accordance with the policies and procedures of the Company.

### ***Other directors and senior management of the Company***

Based on the procedures performed by the Independent Investigator, which included fact-finding interviews with the Directors and other relevant personnel of the Group, reviewing contemporaneous records and performing extensive searches on electronic dataset (including emails relating to the Fund Flows Matters) collected from the forensic procedures, apart from the personnel identified above, no other directors (including Mr. Guo Zi Wen and Mr. Ma Jun, executive Directors at the material time who are also current members of the Board) and/or members of the senior management of the Company were involved or otherwise had knowledge of the Fund Flows Matters at the material time.

### ***Management integrity***

Based on the findings of the Investigation Report, the Independent Investigation Committee is of the view there is no concern on the integrity of the current Directors or the senior management of the China Aoyuan Group.

## **VIEWS OF THE INDEPENDENT INVESTIGATION COMMITTEE AND THE BOARD ON THE FORENSIC INVESTIGATION**

Having reviewed the contents of the Investigation Report, the Independent Investigation Committee is of the view that the contents and findings in the Investigation Report are reasonable and the Investigation Report has adequately addressed each of the Fund Flows Matters. Accordingly, the Independent Investigation Committee has recommended the Board to adopt the findings in the Investigation Report.

The Board has reviewed the contents of the Investigation Report and the minutes of the meetings of the Independent Investigation Committee convened to consider the Investigation Report. The Board concurs with the Independent Investigation Committee that the contents and findings in the Investigation Report are reasonable and the Investigation Report has adequately addressed each of the Fund Flows Matters. The Board has adopted the findings of the Forensic Investigation and is of the view that the issues identified in the Investigation Report do not have a material impact on the business operations of the China Aoyuan Group.

## INTERNAL CONTROL ASSESSMENT

In order to identify any material internal control deficiencies in connection with the Fund Flows Matters, the Company has engaged the Independent Investigator to conduct the Internal Control Assessment to assess the internal control systems of the Group. The initial Internal Control Assessment was completed by 5 September 2023, during which the Independent Investigator identified internal control deficiencies at the material time in connection with the Fund Flows Matters, subsequent improvement actions taken by the Group and provided remediation recommendations for the management of the Company to consider and implement. The follow-up Internal Control Assessment was completed by 18 September 2023, during which the Independent Investigator reviewed the remedial actions taken by the management of the Company and confirmed that the Company had adopted its remediation recommendations.

The key findings of the Internal Control Assessment based on the Investigation Report are summarised as follows:

	<b>Summary of key findings</b>	<b>Remedial actions taken by the management</b>
1.	<p>The Company did not have a written policy for managing conflict of interest at the material time. There was no formal, centralised process at the material time to manage and evaluate conflict of interest to ensure consistency in practice across departments and subsidiaries.</p> <p>The Company formally introduced a conflict of interest management policy in April 2023.</p>	<p>The Company adopted the Independent Investigator's recommendations as follows:</p> <ul style="list-style-type: none"><li>(a) updating the conflict of interest management policy to set out additional guidelines in relation to the handling of reported conflict of interest;</li><li>(b) providing training sessions on conflict of interest management; and</li><li>(c) requiring annual, written self-declaration of conflict of interest by all employees, including directors, senior management and operational staff of the Group by December 2023.</li></ul> <p>The company secretary will be responsible for keeping track of any reported conflict of interest and ensuring personnel with conflicts are not allowed to take part in the deliberation or voting on the transactions concerned.</p>

	<b>Summary of key findings</b>	<b>Remedial actions taken by the management</b>
2.	<p>The Company did not have a written policy for managing notifiable transactions at the material time. The assessment of notifiable transactions undertaken at the time was primarily based on the finance department employees' own experience and understanding of the Listing Rules requirements.</p> <p>The Company formally introduced a notifiable transaction management policy in April 2023.</p>	<p>The Company adopted the Independent Investigator's recommendations as follows:</p> <ul style="list-style-type: none"> <li>(a) updating the notifiable transaction management policy to include additional guidelines for regular cross-checking against records of acquisition and disposal of assets;</li> <li>(b) the company secretary being responsible for updating the size test transaction thresholds regularly;</li> <li>(c) establishing a designated project team for notifiable transaction management (monitoring and reporting to the Board regularly), comprising the company secretary, an executive Director and the chief financial officer;</li> <li>(d) the finance department maintaining a formal, centralised summary for notifiable transactions to ensure up-to-date information is available for regular monitoring and reporting to the Board; and</li> <li>(e) providing training sessions on Listing Rules compliance.</li> </ul> <p>The designated project team will be responsible for cross checking the Company's records of acquisition and disposal, contract register and list of financial guarantees to external parties against the size test transaction thresholds to ensure that notifiable transactions (whether reported or not) are captured.</p>

	<b>Summary of key findings</b>	<b>Remedial actions taken by the management</b>
3.	<p>The Company did not have a written policy for managing connected transactions at the material time. The assessment of connected transactions undertaken at the time was primarily based on the finance department employees' own experience and understanding of the Listing Rules requirements.</p> <p>The Company formally introduced a connected transaction management policy in April 2023.</p>	<p>The Company adopted the Independent Investigator's recommendations as follows:</p> <ul style="list-style-type: none"> <li>(a) updating the connected transaction management policy to set out additional guidelines for regular reporting of the connected transaction progress by the company secretary;</li> <li>(b) the company secretary maintaining a centralised connected person list which is updated on a regular basis;</li> <li>(c) providing training sessions on connected transactions.</li> </ul> <p>The chief financial officer will be responsible for cross checking the Company's records of acquisition and disposal, contract register and list of financial guarantees to external parties against the connected person list, monitoring connected transactions and providing regular updates to the Board. The company secretary will be responsible for reporting the status of the connected transactions to the Board.</p>

	<b>Summary of key findings</b>	<b>Remedial actions taken by the management</b>
4.	<p>There was no formal training provided by the Company to the Directors at the material time, although the Company did circulate by email reminders in relation to major updates to the Listing Rules.</p> <p>The Company engaged third party professionals to provide a training/induction to the Directors/new Director in February and April 2023.</p>	<p>The Company adopted the Independent Investigator's recommendations as follows:</p> <ul style="list-style-type: none"> <li>(a) formalizing a training plan for Directors, senior management and main operational staff, which is to be approved by the Board at the beginning of each financial year;</li> <li>(b) the company secretary providing timely updates on the Listing Rules and enforcement announcements to the Directors; and</li> <li>(c) the company secretary arranging necessary ad-hoc trainings for the Directors.</li> </ul> <p>The company secretary will be responsible for monitoring the implementation of the training plan and attendance of training sessions, as well as updating the Directors on Listing Rules and enforcement matters from time to time.</p>

	<b>Summary of key findings</b>	<b>Remedial actions taken by the management</b>
5.	<p>The working capital arrangement policy at the material time did not clearly set out the relevant procedures, due diligence requirements in relation to the formal review and approval of provision of financial guarantees to third parties.</p> <p>In March 2023, the Company introduced a revised working capital arrangement policy which, inter alia, included guidelines relevant to the provision of financial guarantees.</p>	<p>The Company adopted the Independent Investigator’s recommendations to update the working capital arrangement policy to:</p> <ul style="list-style-type: none"> <li>(a) include a requirement to conduct due diligence on the guaranteed parties and assess the commercial rationale for the provision of financial guarantees;</li> <li>(b) include a requirement for the Board to take immediate remedial actions in the event guaranteed parties face financial difficulties; and</li> <li>(c) require the Company to proactively monitor debt repayment status.</li> </ul> <p>The financing management department will be responsible for monitoring the financial guarantees provided to external parties and escalating the matter to the Board for remedial actions in accordance with the working capital arrangement policy.</p>

	<b>Summary of key findings</b>	<b>Remedial actions taken by the management</b>
6.	<p>Although internal fund transfers were routinely executed as part of a centralised liquidity and working capital management function of the Group’s finance and treasury centre, the related procedures and practices were not formalised as part of the work capital arrangement policy at the material time. There were inconsistencies in terms of the exact approval authority assigned to certain payments under the Fund Flows Matters.</p>	<p>The Company adopted the Independent Investigator’s recommendations as follows:</p> <ul style="list-style-type: none"> <li>(a) updating the working capital arrangement policy to formalise the detailed procedures performed by employees of the Group’s finance and treasury centre to execute internal fund transfers;</li> <li>(b) strictly enforcing the use of the Office Automation System as the only means to approve all internal fund transfers, and use of paper approval form is only permitted when the Office Automation System is not available. After a paper approval form has been used, the applicant needs to upload the paper form as supporting document for the approval application in respect of the relevant fund transfer on the Office Automation System; and</li> <li>(c) streamlining the number of applicable transaction types that are selectable within the Office Automation System to avoid potential inconsistencies due to variation in staff judgment.</li> </ul> <p>The finance and treasury centre will be responsible for monitoring internal fund transfers as well as reconciliation of current account balances between the Company and its subsidiaries.</p>

	<b>Summary of key findings</b>	<b>Remedial actions taken by the management</b>
7.	<p>The Company had an investment management policy at the material time, which was not sufficiently comprehensive. It was also noted that no detailed due diligence was performed on the identity of the technology company partner in connection with the Fund Flows Matter 2.</p>	<p>The Company adopted the Independent Investigator’s recommendations as follows:</p> <ul style="list-style-type: none"> <li>(a) updating the investment management policy to provide more comprehensive guidelines on the recommended standard of due diligence to be performed, the associated documentation requirements and when escalation to the Board for approval is appropriate; and</li> <li>(b) the Board reviewing and approving the appointment of the investment committee.</li> </ul> <p>The investment committee will be responsible for considering and managing prospective investments, as well as escalating investments to the Board for approval in accordance with the investment management policy.</p>
8.	<p>The nominee/intermediary arrangements under the Fund Flows Matters 2 and 3 were not documented in formal legal agreements. There were no formal due diligence processes undertaken at the material time to thoroughly assess the potential risk associated with the use and selection of the nominee/intermediary.</p>	<p>The Company adopted the Independent Investigator’s recommendation and undertook, as a matter of company policy, not to participate in any third-party nominee/intermediary arrangements in investing and financing activities.</p>
9.	<p>The Company had a contract management policy at the material time, which was not sufficiently comprehensive.</p>	<p>The Company adopted the Independent Investigator’s recommendations as follows:</p> <ul style="list-style-type: none"> <li>(a) updating the contract management policy to specify details of a contract (together with a copy of the contract) to be included in the application document for approval and to require employees to obtain approval for both execution of contracts and usage of company seals; and</li> <li>(b) maintaining an up-to-date, centralised contract register at both the Company and subsidiary levels.</li> </ul> <p>The designated approvers will be responsible for ensuring that the procedures and requirements set out in the contract management policy are complied with. The company secretary will be responsible for maintaining the contract register at the Company level.</p>



	<b>Summary of key findings</b>	<b>Remedial actions taken by the management</b>
10.	<p>The Company had a company seal management policy at the material time, which was not sufficiently comprehensive.</p>	<p>The Company adopted the Independent Investigator’s recommendations as follows:</p> <ul style="list-style-type: none"> <li>(a) updating the company seal management policy to provide more comprehensive guidelines in relation to procedural details, specific criteria applicable to the grant of permission for usage of seals by the seal administrators, and to clearly define exceptional circumstances under which the use of physical, paper-format approval form may be acceptable; and</li> <li>(b) strictly maintaining a seal usage register by the seal administrators in accordance with the company seal management policy.</li> </ul> <p>Pursuant to the company seal management policy, company seals, contract seals and legal representative seals are held in custody by separate seal administrators of the human resources and administration department, the finance department and the designated nominees of the legal representatives.</p> <p>The designated approvers will be responsible for ensuring that the approval procedures and requirements set out in the company seal management policy are complied with, including permitting paper-format approval forms on an exceptional basis. The human resources and administration department will be responsible for maintaining the seal usage register and cross checking against the seal usage approval records.</p>

	<b>Summary of key findings</b>	<b>Remedial actions taken by the management</b>
11.	<p>The Company had certain unintentional mistakes and errors in bookkeeping concerning the Fund Flows Matters that were not timely detected and rectified.</p> <p>The accounting vouchers collated and reviewed in connection with the Fund Flows Matters came with no or limited supporting documentation to explain the nature and substance of the transactions.</p>	<p>The Company adopted the Independent Investigator’s recommendations to update the financial reporting policy to require:</p> <ul style="list-style-type: none"> <li>(a) designating employee(s) (currently the senior finance manager) of each main subsidiary of the Company to cross-check and reconcile the general accounting ledgers and bank account statements regularly;</li> <li>(b) designating employee(s) (currently the senior finance manager) of each main subsidiary of the Company to perform spot checks on details of transactions in the general accounting ledgers and to ensure that the journal accounting vouchers are attached with reasonably informative and complete supporting documentation; and</li> <li>(c) the treasury manager to, with the assistance of the company secretary, perform cross-checks against the connected person list regularly to assess whether there may be any unidentified connected transactions.</li> </ul> <p>The finance department will be responsible for implementing the financial reporting policy, subject to regular review by the internal audit department.</p>

	<b>Summary of key findings</b>	<b>Remedial actions taken by the management</b>
12.	<p>The Company had an internal audit policy at the material time, which was not sufficiently comprehensive. The internal audit department did not fully perform its work in accordance with the internal audit policy.</p>	<p>The Company adopted the Independent Investigator’s recommendations as follows:</p> <ul style="list-style-type: none"> <li>(a) updating the internal audit policy to define more clearly the basis of preparation of risk-based audit plans, scope of employee/management resignation audits, upward reporting line of the internal audit department, as well as the formalisation of a more comprehensive risk assessment framework;</li> <li>(b) the Board revisiting the adequacy of resources allocation of the internal audit department and adopt, where practicable, appropriate remedial measures; and</li> <li>(c) the internal audit department properly retaining the relevant internal audit plans, work papers and other relevant records within a reasonable timeframe after the conclusion of relevant internal audit procedures.</li> </ul> <p>The audit committee will be responsible for monitoring the implementation of the internal audit plans.</p>
13.	<p>The Company had supervision guidelines (including whistleblowing mechanism) at the material time, which was not sufficiently comprehensive.</p>	<p>The Company adopted the Independent Investigator’s recommendations as follows:</p> <ul style="list-style-type: none"> <li>(a) updating the supervision guidelines to include, among other things, (i) a requirement for an investigation into a complaint to be conducted by independent and designated personnel of the monitoring centre; (ii) the recommended investigation approach and methodology; (iii) a reporting mechanism of investigation progress and main findings to the audit committee; and (iv) protection of confidentiality of the identity of the informants; and</li> <li>(b) publishing the latest version of the supervision guidelines on the Company’s official website for access by internal and external stakeholders.</li> </ul> <p>The audit committee will be responsible for supervising and reviewing the implementation of the whistleblowing mechanism.</p>

	<b>Summary of key findings</b>	<b>Remedial actions taken by the management</b>
14.	The Company did not have a centralised document retention policy at the material time.	<p>The Company adopted the Independent Investigator's recommendations to adopt a document retention policy to specify:</p> <p>(a) the types, required timeframe and formats of document retention, which is to be administered by a designated archivist at the Company and subsidiary levels; and</p> <p>(b) the requirements for handover of all business records by departing employees and the creation of backup archives of electronic data on computer hard disks used by selected employees and senior management personnel.</p> <p>The human resources and administrative department will be responsible for monitoring the work of the archivists, performing inspection on a regular basis, as well as overseeing the handover of business records and data backup in respect of departing personnel.</p>

## **VIEWS OF THE INDEPENDENT INVESTIGATION COMMITTEE AND THE BOARD ON THE INTERNAL CONTROL ASSESSMENT**

Having considered the findings of the Internal Control Assessment and the remedial actions taken by the management, the Independent Investigation Committee and the Board are of the view that the remedial actions taken by the management are adequate and sufficient to address the key findings of the Internal Control Assessment. As such, the Board (including the independent non-executive Directors) is of the view that the Company has in place adequate internal control systems over the type of fund flow transactions which constituted the Fund Flows Matters. 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.

## **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. As disclosed in the announcement of the Company dated 22 September 2023 in relation to, among other things, fulfilment of resumption guidance, the Company has made an application to the Stock Exchange for the resumption of trading in the shares of the Company with effect from 9:00 a.m. on 25 September 2023.

By Order of the Board  
**China Aoyuan Group Limited**  
**Guo Zi Wen**  
*Chairman*

Hong Kong, 22 September 2023

*As at the date of this announcement, the executive directors of the Company are Mr. Guo Zi Wen, Mr. Ma Jun, Mr. Chen Zhi Bin and Mr. Tan Yi; and the independent non-executive directors of the Company are Mr. Cheung Kwok Keung, Mr. Lee Thomas Kang Bor and Mr. Wong Wai Keung Frederick.*