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百信集團
PASHUN GROUP

Pa Shun International Holdings Limited

百信國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 574)

INSIDE INFORMATION KEY FINDINGS OF THE INDEPENDENT INVESTIGATIONS

This announcement is made by the Company pursuant to Rule 13.09 of the Listing Rules 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).

Reference is made to the Announcements, including, in particular, the announcement dated 12 August 2022 regarding the Resumption Guidance.

RESUMPTION GUIDANCE

At the request of the Company, trading in the Shares on the Stock Exchange has been suspended with effect from 1:18 p.m. on 12 May 2022.

On 12 August 2022, the Company received the Resumption Guidance, pursuant to which the Stock Exchange requires the Company to, inter alia, (i) conduct an appropriate independent forensic investigation into the Acquisitions (including the two side agreements), the termination thereof and the other related matters raised by the Company's auditors, announce the findings and take appropriate remedial actions and (ii) conduct an independent internal control review and demonstrate that the Company has in place adequate internal controls and procedures to comply with the Listing Rules.

For further details about the Resumption Guidance, please refer to the announcement of the Company dated 17 August 2022.

BACKGROUND

Acquisition (1)

On 8 March 2019 (after trading hours) Ready Gain Limited, a direct wholly-owned subsidiary of the Company, entered into the Sales and Purchase Agreement (1) with the Vendors in relation to the Acquisition (1) at the Consideration of HK\$45,325,000, which shall be satisfied by Ready Gain Limited procuring the allotment and issue of the Consideration Shares (1) by the Company to the Vendors (or their respective nominee(s)). The Target Company (1) is a company held 49% of the legal and beneficial interest in the issued share capital of the Property Company (1), which in turn held the interest in the Properties (1). Completion took place on 19 March 2019 and the aggregate of 82,409,090 Consideration Shares (1) were issued to the Vendors, at the issue price of HK\$0.55 per Consideration Share (1).

For further details about the Acquisition (1), please refer to the announcements of the Company dated 8 March 2019 and 19 March 2019.

Acquisition (2)

On 3 April 2019 (after trading hours), Big Wish Global Limited, a direct wholly-owned subsidiary of the Company, entered into the Sales and Purchase Agreement (2) with the Vendors in relation to the Acquisition (2) at the Consideration of HK\$19,090,400, which shall be satisfied by Big Wish Global Limited procuring the allotment and issue of the Consideration Shares (2) by the Company to the Vendors (or their respective nominee(s)). The Target Company (2) is a company held 49% of the legal and beneficial interest in the issued share capital of the Property Company (2), which in turn held the interest in the Properties (2). Completion took place on 12 April 2019 and the aggregate of 34,709,818 Consideration Shares (2) were issued to the Vendors, at the issue price of HK\$0.55 per Consideration Share (2).

For further details about the Acquisition (2), please refer to the announcements of the Company dated 3 April 2019 and 12 April 2019.

INVESTIGATION

The Company has engaged the Investigation Counsels to carry out the Investigation. In May 2023, the Company received the Investigation Report from the Investigation Counsels.

The Investigation Counsels conducted an investigation into the legalities and related issues of the Acquisitions in accordance with the Resumption Guidance. For the purpose of the Investigation, the Investigation Counsels conducted the following procedures:

- (a) conducted interviews with the Mr. Chen;
- (b) conducted interviews with the Vendors who were the primary movers and shakers selling those incomplete flats to the Company;
- (c) conducted interviews with the professional parties advising the Company at the time including professional valuers, solicitors in both Hong Kong and Malaysia;
- (d) caused additional written enquiries to those parties; and
- (e) examined various documents, including, inter alia, the Board minutes approving the Acquisitions, the Sales and Purchase Agreement (1), the Sales and Purchase Agreement (2), the valuation reports, the letters to the Property Companies, etc.

SUMMARY OF KEY FINDINGS

The Company hereby sets out below the key findings of the Investigation Counsels.

Company to set foot in real estate investment

Mr. Chen and the Vendors were introduced to each other in around 2018. Negotiations/ expression of interest of Mr. Chen in Southeast Asia property market were ensued. They started to travel together on three trips, including twice to Malacca City, Malaysia in January 2019 and once to Phnom Penh, Cambodia in February 2019 with a view of finding prospective investment in those places. It was through those trips that Mr. Chen decided to set foot in real estate investment in Southeast Asia.

Acquisition (1)

In early 2019, the Vendors offered the Company by way of issuing new Shares in exchange for 49% of the interest of the Vendors in the Properties (1) (no cash was involved). The Shares to be passed to them would roughly be about 8% of total issued Shares.

According to the Vendors, it was their original plan that, after the Company issues the Shares to them, they could sell the properties or the Shares in open market and pay for the remaining balance interest in the Properties (1) plus a margin of profits to be reaped.

On or around 28 February 2019, the Company has engaged professional surveyor, a Hong Kong solicitor firm to advise on the Listing Rules and a Malaysian solicitor firm to advise on the Acquisition (1).

According to the Vendors, the other 51% shareholding interest of the Property Company (1) was owned by Lai Charng Yuan (“**Mr. Lai**”), a local Malaysian man and they made 10% initial payment to Mr. Lai. They agreed for such arrangement due to Malaccan local law would not allow any foreigner, that is, the Vendors, to be the majority shareholder of any Malacca company.

On 8 March 2019, a Board meeting was convened by the Company to approve the Acquisition (1). Completion take place on 19 March 2019 and the Consideration Shares (1) were allotted and issued on the same date accordingly.

Acquisition (2)

On 22 March 2019, the Company was interested in further acquiring the Properties (2). In April 2019, the Board convened another board meeting to discuss the Acquisition (2) and the Acquisition (2) was approved. The Acquisition (2) was completed by 12 April 2019 and the Consideration Shares (2) were allotted and issued on the same date accordingly.

Reasons for the Acquisitions

According to Mr. Chen, although the Company had its main focus on pharmaceutical products, it was timeous to diversify in property development/investment overseas. The Investigation Counsels observed that Mr. Chen seems misconceived about the financial position of the Company. The Company did not have excess cash to invest pursuant to the poor financial results of the Company between 2017 and 2019.

The Company suffered from negative cash flow and a shrinking balance sheet in those relevant years. It was not a cash rich company and it was also supported by the fact that the Company had to pay for the Acquisitions by way of Shares. At the latest in the beginning of 2018, the Company appears in having negative cash flow and did not have a net profit. A petition to wind up the Company was also filed on 16 November 2020, which was not related with the Acquisitions. The petition was dismissed by the court on 17 January 2022.

In between January and March 2021, the Company attempted to seek financial information for the consolidated financial statements of the Property Companies for the year ending 31 December 2020 but such requests were not entertained. Due to the lack of audit evidence to support the soundness of these investments in the Property Companies, qualified opinion was issued by the Company’s auditor concerning the consolidated financial statements of the Group for the year ended 31 December 2020. In May 2021, the Company also requested to appoint directors on the board of the Property Companies. However, such requests were also not addressed.

During February to May 2022, the Company tried to discuss with the Property Companies/ the Developers to “unwind” the Acquisitions. According to Mr. Chen, such discussion was affected by the outbreak of COVID-19. The Investigation Counsels observed that no involvement of Mr. Lai was seen on the documents and his presence seems to be stealthy.

On 6 May 2022, the Company was verbally informed that the acquisitions of the Properties (1) and the Properties (2) were terminated by way of forfeiture of the deposit (i.e. the Termination).

Given the Termination, the auditors considered that there was uncertainty on the legal and financial status of the Properties (1) and the Properties (2) and they would not be able to issue audit report relying on the consolidated financial statement of the Company for the year ended 31 December 2021, unless sufficient financial information would be provided, particularly in relation to the status of the Properties (1) and the Properties (2) as at 31 December 2021.

The Property Companies had no operation or assets at the material time of the Acquisitions, apart from certain contractual rights to purchase the Properties (1) and the Properties (2) from the Developers.

Although the Properties (1) and the Properties (2) were still under construction, the Company had paid the full consideration by way of allotment and issue of new Shares to the Vendors. There had not been any built-in protection in the Sales and Purchase Agreement (1) and the Sales and Purchase Agreement (2) in the event that the Developers or Mr. Lai in default. Full risks were allocated to the Company without recourse. There were no personal guarantees provided by the Vendors.

In gist, the risks associated with this Malaysian venture were undertaken by the Company without any measure of risk aversion.

The Vendors (via the Property Companies) were expected to be responsible to arrange the payment of the remaining balance to the Developers. They only paid 10% of the purchase price and defaulted on the remaining payments. They claimed that this was due to the falling share price of the Company. The falling price argument advanced by the Vendors was factually correct. The share price of the Company had been falling since April/May 2019.

According to the advice of the Malaysian lawyer, the Termination was legal. For those reasons, the Company did not commence any legal action against any of the parties involved.

Major Findings

The Investigation Counsels observed that:

- (a) in terms of the gist of the Acquisitions, the buy and sell sides were merely conducting the exchange in kind rather than by cash, namely, exchanging shares of one to another, with the underlying asset of 49% interests of those properties changing hands if the situation did not derail. The Company, by paying such big tranches of shares would have those 49% interests in the Properties, yet, now it has none. There was no lock up period on those newly issued shares which gave the Vendors a free hand to dispose of those shares of the Company;

- (b) on the other hand, the Vendors (through companies controlled by them) had made a 10% deposit payment of about RMB2.3 million to the Developers. But, due to falling share price, their plan of liquidating the Shares in return of cash to meet the remaining payments liabilities failed. They did not intend to pay the remaining sum for the reason of short of cash;
- (c) resolutely, the contracts between the Developers and the Property Companies were forfeited;
- (d) the financial results of the Company in those years were dismal and the Shares were not actively traded. In that situation, it would be reasonable for Mr. Chen to have wanted to acquire those minority interests of Malaysian properties by issuing new Shares to the Vendors;
- (e) it would appear to be a rational decision for the following reasons. First, the Company was not operating in good shape with negative cash flow at the time since 2017. Secondly, it would be difficult for the market to absorb a large chunk of newly issued shares by paying cash to subscribe;
- (f) by issuing new Shares to the Vendors, the balance sheet of the Company would expand and appeared to be stronger. Mr. Chen might also want to move some illiquid assets into more liquid assets, the latter being the property interest in Malaysia. If Mr. Chen's plan were materialized, the Company would have a stronger asset base as well as a more diversified business portfolio, which may enhance the market appetite of the Shares on the stock market;
- (g) in so far the Vendors are concerned, this transaction/structure makes good commercial rationale in the sense that they would be able to fetch profits by selling their newly issued Shares in the open market. This is foreseeable, notably if they can liquidate the shares of the Company at HK\$0.55 per unit, a profit of roughly about HK\$22.4 million could be materialized. That amounts to HK\$64.4 million (being the total disposable value of the shares of the Company at HK\$0.55 each) minus HK\$42 million;
- (h) this operation would be much less tedious and more cost effective than selling those units in the open market individually. The deal also exempted them to pay Malaysian stamp duty on property transferred. Bearing this in mind, they only pay around HK\$4.5 million deposits via their corporate vehicles. It would have been 5 times' return to their deposits paid;
- (i) in those circumstances, all parties involved could have reaped profits if the share price of the Company did not fall.

LIMITATION OF THE INVESTIGATION

The Investigation Counsels stated the following limitation encountered during their Investigation:

- (a) according to the Vendors, the other 51% shareholding interest of the Property Company (1) was owned by Lai Charng Yuan (“**Mr. Lai**”), a local Malaysian man. There is not a single shred of document showing the relationship between Mr. Lai and the Vendors apart from what was known about the 51%/49% shareholding structure. Mr. Lai was not interviewed by the Investigation Counsels due to the fact that his contact was unknown to the Company at the time of the Investigation. In any event, the Investigation Counsels were not able to investigate further Mr. Lai’s role in the Acquisitions. The other puzzle the Investigation Counsels cannot resolve is Mr. Lai’s stance upon the Vendors’ default. Naturally, Mr. Lai would suffer due to his co-shareholder’s default;
- (b) the Vendors have been evasive and did not explain whether Mr. Lai was actually the legal and/or beneficial owner or holding those shares as mere trustee on behalf of the Vendors. The background as to how the aforesaid three parties came into co-shareholders in the Property Companies is also unknown; and
- (c) the other unresolved puzzle is that when the Vendors paid the deposits, whether they had sufficient cash to meet the full payment in the event that they could not find another party to take on the unpaid portions. This was not answered.

RECOMMENDATIONS

Having considered the findings of the Investigation, the Investigation Counsels noted that the Termination was entirely caused by the default in payment instigated/caused by the Vendors through the companies they controlled. The Investigation Counsels recommend a legal action, in reliance of the verbal assurances given during the contractual stage by them, could be commenced against the companies controlled by them (or the Vendors personally on misrepresentation). In this context, this would involve offshore companies, namely the Property Companies on their side, Ready Gain Limited and Big Wish Global Limited on the Company’s side, that are not companies registered in Hong Kong as foreign companies. This will cause additional hurdles in requesting for documents, service of notice/writ and other related matters including forum, choice of laws and jurisdiction.

On the other hand, Mr. Chen had left the Company. He does not reside in Hong Kong nor retains any other directorship in any Hong Kong listed companies, according to Mr. Chen. He appears to be staying in Mainland China permanently. The Investigation Counsels considered that Mr. Chen appears to have been negligent, on the documents before them. It seems he was over-optimistic and lacked experience in dealing with complex properties transactions involving companies in different jurisdictions which are subject to local rules and laws, custom and conventions, and this deal lack commercial sense. On the other hand, the Company's financial position may well entice him to take on additional risks in acquiring new business. The commercial myriad behind it is hard to second guess or emerge completely and retrospectively by any third party.

The independent non-executive Directors at the material time had not discharged their independent duty thoroughly with rigour. They have to bear certain blame in terms of blame apportionment.

The Investigation Counsels consider that it is a bad and unwitting deal for the Company at maximum, but not to the extent that minority shareholders were misappropriated unfairly.

The Investigation Counsels further recommend the Company to perform the following tasks:

- (1) to have a better internal governance towards its risk management for future acquisitions; and
- (2) to pursue the Vendors in returning those unsold shares of the Company for striking out purpose under section 673 of the Companies Ordinance (Cap. 622, Laws of Hong Kong), if successful, all shareholders would benefit on an equal footing. In fact, the Company has little, if not none, contractual recourse against the Vendors or companies under their control involving in the Acquisitions; and
- (3) if and when the Company has sufficient resources to do so, it should consider the issue whether Mr. Chen had been negligent in causing loss and damage to the Company negligently.

OVERALL RESPONSES OF THE BOARD

The Board has reviewed the Investigation Report and considers that the Investigation Report has adequately addressed the issues regarding the Acquisitions, the Termination and the other matters raised by the auditors. The Board has also reviewed the recommendations made in the Investigation Report and concurs with the view contained therein.

The Board has resolved to adopt forthwith the findings of the Investigation and the other recommendations contained therein and is of the view that the issues identified in the Investigation Report do not affect the business operation of the Group. The Group's business operation continues as usual despite the suspension of trading of Shares since 12 May 2022.

REMEDIAL ACTIONS TAKEN BY THE BOARD

The Company will engage a legal advisor to assess the possibility to proceed legal actions against the Vendors, including but not limited to sue for damages suffered by the Group as a result of the Termination, to pursue the Vendors in returning those unsold shares of the Company and to seek further legal advice on whether any other party will be liable too. In addition, the Company will consider to engage professionals to review and improve internal governance towards its risk management for future acquisitions.

In September 2022, the Company engaged SHINEWING Risk Services Limited (the “**Internal Control Advisors**”) to review the internal control system of the Group, including its investment management processes and compliance procedures of certain listing rules. According to the preliminary report, the Internal Control Advisors consider that:

- (a) The Group does not have an established investment management system. There is no established limit of authority of the directors or the management nor internal procedures in approving investments to be made by the Group. The major investment decisions were made by the executive Directors (i.e. the Chairman of the Board).
- (b) The Group also does not obtain report on the performance of the Property Companies at regular intervals.
- (c) The Group has not established the system on board diversity.
- (d) The Company has not required its subsidiaries to provide its financial statements at regular intervals in order to monitor its operation.

In accordance with the recommendations of the Internal Control Advisors:

- (a) the Company has established a centralized investment management system, with limit of authority of the management in accordance with the investment amount. The system manual has been approved by the Board and distributed to the relevant management;
- (b) the Company has also formulated the requirements to compile internal records on the analysis before and after an investment project, including the background, investment costs, investment risks, performance and returns of the investment projects;
- (c) the Group has reviewed and updated the compliance procedures in connection with Chapter 13 and Chapter 14 of the Listing Rules. The Company has also established board diversity policy; and
- (d) the Company has required its subsidiaries to provide monthly financial statements in order to monitor its operations.

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 1:18 p.m. on 12 May 2022 and will continue to be suspended until publication of the annual results of the Company for the year ended 31 December 2021 and the other results announcement thereafter.

The Company will make further announcement(s) to keep its shareholders and potential investors informed of any progress on the fulfilment of the Resumption Guidance as and when appropriate.

Shareholders and potential investors of the Company are advised to exercise caution when dealing with the securities of the Company.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms shall have the following meanings:

“Acquisition (1)”	the acquisition of the Sale Shares (1) by Ready Gain Limited and the Vendors pursuant to the terms of the Sales and Purchase Agreement (1);
“Acquisition (2)”	the acquisition of the Sale Shares (2) by Big Wish Global Limited and the Vendors pursuant to the terms of the Sales and Purchase Agreement (2);
“Acquisitions”	collectively, the Acquisition (1) and the Acquisition (2);
“Announcements”	collectively, the announcements of the Company dated (i) 28 March 2022, 31 March 2022, 21 April 2022, 12 May 2022, 24 June 2022, 21 July 2022, 27 October 2022, 29 November 2022, 30 January 2023, 14 March 2023 in relation to delay in publication of various financial results of the Company, (ii) 31 May 2022, 8 June 2022, 16 January 2023, 10 August 2022, 28 September 2022, 16 January 2023, 9 March 2023 in relation to winding up petitions and (iii) 17 August 2022, 22 August 2022, 11 November 2022, 13 February 2023 in relation to the Resumption Guidance and its quarterly updates thereof, and (iv) 8 March 2019 and 19 March 2019, 3 April 2019, 4 April 2019 and 12 April 2019 in relation to the Acquisitions;
“Board”	the board of Directors;

“Company”	Pa Shun International Holdings Limited (百信國際控股有限公司), a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on the main board of the Stock Exchange (stock code: 574);
“Consideration (1)”	the total consideration of the Acquisition (1) in the amount of HK\$45,325,000;
“Consideration (2)”	the total consideration of the Acquisition (2) in the amount of HK\$19,090,400;
“Consideration Shares (1)”	the aggregate of 82,409,090 new Shares to be allotted and issued by the Company at HK\$0.55 per share to the Vendors (or their respective nominee(s)) to satisfy the Consideration (1);
“Consideration Shares (2)”	the aggregate of 34,709,818 new Shares to be allotted and issued by the Company at HK\$0.55 per share to the Vendors (or their respective nominee(s)) to satisfy the Consideration (2);
“Developers”	collectively, Apple 99 Development Sdn. Bhd. as the developer and City Mall Sdn. Bhd. as the proprietor for the Properties (1) and the Properties (2);
“Group”	the Company and its subsidiaries;
“Investigation”	the forensic investigation carried out by the Investigation Counsels in accordance with the requirements of the Resumption Guidance;
“Investigation Counsels”	Messrs. David Fenn & Co., Solicitors and Mr. George Chu, a barrister, who were engaged in carry out the Investigation;
“Investigation Report”	the investigation report in respect of the Investigation issued by the Investigation Counsels;
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange;
“Mr. Chen”	Mr. Chen Yen Fei, the ex-chairman, ex-chief executive officer and ex-executive Director of the Company;

“Properties (1)”	A total of 48 units situated in the building called “The Apple” located in Melaka, Malaysia;
“Properties (2)”	A total of 20 units situated in the building called “The Apple” located in Melaka, Malaysia;
“Property Companies”	collectively, the Property Company (1) and the Property Company (2);
“Property Company (1)”	Awesome Applause Sdn Bhd, a private limited company incorporated in Malaysia and the purchaser of the Properties (1);
“Property Company (2)”	Massive Goodwell Sdn Bhd, a private limited company incorporated in Malaysia and the purchaser of the Properties (2);
“Resumption Guidance”	the guidance for the resumption of trading in the Shares as set out in the letter from the Stock Exchange dated 12 August 2022 to the Company;
“Sales and Purchase Agreement (1)”	the sales and purchase agreement dated 8 March 2019 and entered into between Ready Gain Limited as purchaser and the Vendors as vendors in respect of the Acquisition (1);
“Sales and Purchase Agreement (2)”	the sales and purchase agreement dated 3 April 2019 and entered into between Big Wish Global Limited as purchaser and the Vendors as vendors in respect of the Acquisition (2);
“Sale Shares (1)”	an aggregate of 10,000 ordinary shares in the capital of the Target Company (1) representing the entire issued share capital of the Target Company (1);
“Sale Shares (2)”	an aggregate of 10,000 ordinary shares in the capital of the Target Company (2) representing the entire issued share capital of the Target Company (2);
“Shares”	ordinary shares of HK\$0.001 each of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Target Company (1)”	Bisan Parkwell Consultants Limited 百勝百惠顧問有限公司, a company incorporated in Hong Kong with limited liability;

“Target Company (2)” Parkwell Services Consultants Limited 百惠服務顧問有限公司, a company incorporated in the Hong Kong with limited liability;

“Termination” the termination of the Sales and Purchase Agreement (1) and the Sales and Purchase Agreement (2) to acquire the aggregate of the Properties (1) and the Properties (2) by way of forfeiture

On behalf of the Board
Pa Shun International Holdings Limited
Xiao Kai
Chairman and Executive Director

Hong Kong, 12 May 2023

As at the date of this announcement, the executive Directors are Professor Xiao Kai, Mr. Yuan Hongbing, Mr. Feng Junzheng and Mr. Shen Shun; the non-executive Directors are Mr. Zhang Tong and Mr. Chen Yunwei; and the independent non-executive Directors are Mr. Cao Lei, Ms. Li Yan and Mr. Khor Khie Liem Alex.