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## **Guoan International Limited**

**國安國際有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

(Stock Code: 143)

### **INSIDE INFORMATION IN RELATION TO THE ACQUISITION AND THE CONVERTIBLE BONDS**

This announcement is made by Guoan International Limited (the “**Company**”) pursuant to Rule 13.09 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Inside Information Provisions under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

Reference is made to the announcements of the Company dated 13 February 2018, 14 June 2018, 28 February 2019, 28 February 2020, 30 November 2020, 2 December 2020, 24 December 2020, 22 January 2021, 28 February 2021, 1 March 2021, 29 March 2021, 12 April 2021, 27 April 2021, 14 May 2021, 26 May 2021, 10 June 2021, 17 June 2021, 18 June 2021, 22 June 2021, 29 June 2021, 2 July 2021, 5 July 2021, 9 July 2021, 13 July 2021, 16 July 2021, 20 August 2021, 3 September 2021, 10 September 2021 and 14 September 2021 respectively (the “**Announcements**”) and the circular of the Company dated 24 May 2018. Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings as those defined in the Announcements.

### **INTERIM REPORT IN RELATION TO AN INDEPENDENT INTERNAL INQUIRY TO REGULATORY AND ENFORCEMENT AUTHORITIES**

As disclosed in the announcement of the Company dated 28 February 2021, the Company has conducted investigations and has discovered certain irregularities in the Acquisition. In this regard, as disclosed in the announcement of the Company dated 14 May 2021, the Company has engaged a law firm in Hong Kong (the “**Law Firm**”) to advise and act for the Company in relation to, among others, conducting an independent internal inquiry (the “**Independent Internal Inquiry**”) in respect of the Acquisition and/or any other matters which the Company considers necessary.

As mentioned in the announcements of the Company dated 2 July 2021 and 3 September 2021, the Company has made reports in connection with the Irregularities disclosed therein to the regulatory and enforcement authorities respectively.

The Company wishes to update the Shareholders and potential investors of the Company that, on 29 September 2021, an interim report in relation to the Independent Internal Inquiry conducted in respect of the Acquisition issued by the Law Firm (the “**Interim Report**”) was submitted to the regulatory and enforcement authorities respectively to supplement the preliminary findings as previously disclosed.

The observations in the Interim Report are based on documents from various parties and interviews conducted with selected individuals (collectively, the “**Information**”) which is currently available to the Law Firm. The process of information-gathering is ongoing and the observations may change, potentially significantly, during the course of this process. There are more documents being gathered, insofar as third parties cooperate, and the interviews are not yet completed.

The key observations from the Independent Internal Inquiry as set out in the Interim Report are as follows:

**A. Background events before the Acquisition during the period from August 2017 to December 2017**

1. Since 2016, the Company intended to venture into new industries and identify new investment opportunities.
2. The Company began to consider a proposed acquisition (the “**Project**”) (which includes, where the context permits, the eventual Acquisition) of the Target Company and Yicko Finance Limited (“**Yicko Finance**”, together with the Target Company, the “**Yicko Group**”) in earnest around August 2017.
3. Feasibility studies were carried out, with some initial “working” financial calculations, primarily around the Yicko Group’s profits, Price/Earnings (“**P/E**”) ratios and nascent valuations. The board of directors of the Company at the material time of the Acquisition (the “**Previous Board**”) agreed to proceed on 30 November 2017.
4. Some of the key observations for the period from August 2017 to December 2017 are as follows:
  - 4.1. The catalyst for the Project was the concern over the Company’s listing status.
  - 4.2. The original “working” valuation for the Yicko Group (consisting of the Target Company and Yicko Finance) was HK\$500 million.

- 4.3. Later, only the Target Company (together with its subsidiary, Yicko Nominees Limited) remained as the target acquisition company and the “working” valuation was reduced to HK\$420 million. This sum became the Consideration for the Acquisition.
- 4.4. This figure of HK\$420 million did not change, from around November 2017 to the signing of the Sale and Purchase Agreement.
- 4.5. An acceptable range for the purchase price for the acquisition of the Target Company was not expressed specifically in the internal papers reviewed.
- 4.6. At the time, the Company only had two executive directors and such two executive directors were the recipients and/or copied in the internal discussions.

**B. Major events from November 2017 to 13 February 2018 (ie. the date of signing of the Sale and Purchase Agreement)**

5. Professional advisers were assembled.
6. There was an abrupt change in the financial adviser to the Company, from the first financial adviser (“**Financial Adviser 1**”) to the second financial adviser (“**Financial Adviser 2**”) around 15 days (ie. on or about 24 January 2018) before the board resolution to approve the Sale and Purchase Agreement dated 9 February 2018.
7. A valuer (the “**Valuer**”) had initially been appointed to value the Target Company. After issuing some valuation models based on the basis of the “discounted cash flow”, or DCF, method, no further work was done by them after Financial Adviser 1 expressed reservations on this method. The Valuer did not issue a valuation report.
8. During this time, there were some changes to the Sale and Purchase Agreement, from the initial term sheet provided.
9. The Previous Board approved the Sale and Purchase Agreement on 9 February 2018.
10. Since around 10 November 2017, the Consideration remained HK\$420 million throughout these developments.

11. Some of the key observations for the period from November 2017 to 13 February 2018 (ie. the date of signing of the Sale and Purchase Agreement) are as follows:
  - 11.1. There is no Information that the Previous Board considered other targets, as an alternative to the Target Company.
  - 11.2. The Vendors and the Guarantors did not appear to be legally represented.
  - 11.3. No valuation report was issued by the Valuer before the signing of the Sale and Purchase Agreement.
  - 11.4. Even though some key commercial terms of the Sale and Purchase Agreement changed, there is no Information that shows that the Previous Board considered the impact of such changes on the Consideration.
  - 11.5. There is no Information that shows why the Previous Board considered a valuation methodology of “market comparables” was an appropriate way to assess the fairness and reasonableness of the Consideration.
  - 11.6. There is no Information that shows any provision of written advice by Financial Adviser 2 to the Previous Board of their responsibilities if a valuation report was not obtained.

**C. Major events for the period up to the date of the Circular**

12. The Independent Internal Inquiry into this time period is ongoing.
13. Some of the key observations for the period up to the date of the Circular are as follows:
  - 13.1. The commission income of HK\$9.9 million was not disclosed in the Circular as being from the Company.
  - 13.2. A significant sum of HK\$4.58 million was included in sundry income (the “**Sundry Income**”) for the financial year ended 28 February 2018 of the Target Company. According to the Target Company, these sums were carried forward from previous years. This sum of HK\$4.58 million was a material addition to the consolidated net profit for the financial year ended 28 February 2018 of the Target Company (the “**2018 Profit**”), which consequently materially impacted the Guaranteed Profit. An examination as to whether the inclusion of the Sundry Income in the 2018 Profit was in accordance with accounting principles or relevant professional standards is ongoing. The accounting treatment for the Sundry Income will be examined further.

**D. The role of the executive directors and other officers during the period from August 2017 to May 2018**

14. The officers at the Company involved in the day-to-day aspects of the Project appears to have been a combination of the two executive directors of the Previous Board, the company secretary and the financial controller (who is not a director) of the Company.
15. The rest of the Previous Board consisted of four non-executive directors and three independent non-executive directors. They did not appear to have been active in the day-to-day aspects of the Project. The Information does not show whether they had been informed of the valuation difficulties (the termination of Financial Adviser 1 as financial adviser, Financial Adviser 1's reservations over the Valuer's valuation model and the dropping away of the Valuer).
16. Some of the key observations in the role of the executive directors and other officers during the period from August 2017 to May 2018 are as follows:
  - 16.1. There appears to have been no clear division of responsibilities between the two executive directors of the Previous Board.
  - 16.2. In the Circular, the family connection of one of the executive directors of the Previous Board to the Target Company, was disclosed. However, this was not the true extent of such executive director of the Previous Board's involvement in the Target Company or in the Acquisition: such executive director of the Previous Board was a licensed representative of the Target Company at that time and such executive director of the Previous Board had, in his position as one of only two executive directors of the Previous Board in the Company, received confidential and sensitive information, including internal discussions, about the Acquisition.
  - 16.3. From the Information, one of the executive directors of the Previous Board was visibly present in emails between the professional advisers, the Target Company and the Company. The Information does not show that such executive director of the Previous Board took any pro-active steps to remove himself from the flow of information internally or between the parties. Such executive director of the Previous Board continued to be copied or sent emails and/or attended meetings.
  - 16.4. The Independent Internal Inquiry is beginning to analyse whether the process culminating in the shareholders' approval of the Acquisition, taking into account the Listing Rules, the requirements of the Stock Exchange and the SFC, and corporate governance principles, was significantly or fundamentally flawed as a result.

## E. The roles and changes to professional advisers to the Company for the Acquisition

17. The table below shows the various professional advisers:

Professional party	Role	Date of appointment	Date of termination
Financial Adviser 1	Financial adviser	12 December 2017	2 February 2018
Financial Adviser 2	Financial adviser	6 February 2018 (introduced as the financial adviser to other parties on 24 January 2018)	N/A
Candidate for independent financial adviser	Independent financial adviser	Draft engagement letter circulated on 27 September 2017	Engagement was not proceeded with
Independent financial adviser	Independent financial adviser	13 February 2018	N/A
Legal adviser	Legal advisers	Appointment date unclear	N/A
Reporting accountant (also the auditor for the Target Company for several years, including for the financial year 2018)	Financial due diligence (“FDD”) reporting accountant for the Circular	8 December 2017	N/A
Candidate for reporting accountant	FDD	Fee quote provided on 10 October 2017	No Information about any appointment
Candidate for valuer	Valuer	No formal appointment but was apparently providing initial advice from November 2017	The Information does not show any further involvement after the candidate provided a valuation checklist on 23 November 2017
Valuer	Valuer	7 December 2017 (valuation of business of the Target Company)	The Information does not show any further involvement from around 24 January 2018 onwards
		22 February 2018 (valuation of the Convertible Bonds)	Valuation report issued

18. Some of the key observations in the roles and changes to professional advisers of the Acquisition are as follows:
- 18.1. The Valuer used the “discounted cash flow” approach and produced 4 valuations for the Target Company, ranging from HK\$392 million to HK\$447 million. Financial Adviser 1 expressed reservations about this approach and stated they could not sign off.
  - 18.2. Financial Adviser 1’s engagement was terminated very soon afterwards.
  - 18.3. The Valuer also dropped away and they never issued a valuation report for the Target Company.
  - 18.4. Both Financial Adviser 1 and the Valuer were paid only a portion of their fees.
  - 18.5. From the Circular, the Previous Board apparently took it upon themselves to rely on market comparables. The Circular did not point out that no valuation report was obtained.
  - 18.6. There is no Information that shows any provision of written advice by Financial Adviser 2 relating to the market comparables or the P/E and Price/Book ratios used in the Circular.

The above is only an extract of the Interim Report. The process of information gathering under the Independent Internal Inquiry is still ongoing. Further reports may be issued should there be any material subsequent findings. In that case, the Company will make further announcement(s), if and when necessary.

## **CONTINUED SUSPENSION OF TRADING**

At the request of the Company, trading in the Shares on the Stock Exchange was suspended with effect from 9:00 a.m. on 30 March 2021 and will remain suspended until further notice.

The Company reserves all its rights to take further legal actions in relation to the irregularities discovered in the Acquisition. The Company will keep the Shareholders and potential investors informed of any significant development by way of announcement as and when appropriate in accordance with the Listing Rules.

**Transfer of Shares may be restricted as the deposits of Shares into CCASS may be suspended due to the Petition. Shareholders and potential investors of the Company should exercise caution when dealing in the Shares, and if they are in any doubt about their position, they should consult their professional adviser(s).**

By Order of the Board  
**Guoan International Limited**  
**LIU Deng**  
*Chairman*

Hong Kong, 6 October 2021

*As at the date of this announcement, the Board comprises 8 Directors, of which 1 is an executive Director, namely Mr. LIU Deng, 4 are non-executive Directors, namely Ms. BAI Wei, Mr. WEI Wen Jun, Mr. ZHOU Deng Yue and Mr. TSUI Tan Ning, and 3 are independent non-executive Directors, namely Mr. CHEUNG Wai Man Raymond, Mr. NGAN Yu Loong and Mr. TSE Tsun Ling Febus.*