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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)**

## **KEY FINDINGS OF THE INDEPENDENT INTERNAL CONTROL REVIEW AND CONTINUED SUSPENSION OF TRADING**

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 announcement dated 17 August 2022 regarding the Resumption Guidance (the “**Announcement on Resumption Guidance**”) and the announcement dated 26 October 2023 regarding the Key Findings of the Independent Forensic Investigation (the “**Announcements**”). Unless otherwise stated, capitalised terms used in this announcement shall have the same meanings as those defined in the Announcements.

### **RESUMPTION GUIDANCE**

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.

As disclosed in the Announcement on Resumption Guidance, the Company shall, among other things, conduct an independent internal control review and demonstrate that the Company has adequate internal controls and procedures in place to comply with the Listing Rules.

## BACKGROUND

Reference is made to the Announcements. Trading in the shares of the Company has been suspended on 12 May 2022 and an announcement was made on the same day to explain the reasons for the suspension. The Property Companies and the Developers terminated the Property Agreements in relation to the Properties, and the Property Companies ceased to have any interest in respect of the Properties. However, the Group has not received any documents or data in relation to the said termination. Due to the additional time required by the Group and the Group's auditors to collect the relevant data and conduct appropriate due diligence works, there was a delay in the publication of the audited 2021 annual results announcement and the 2021 annual report as scheduled. In turn, the Stock Exchange issued a resumption guidance to the Company on 12 August 2022 (the "**Resumption Guidance**"), whereby requiring, among others, the Company to conduct an independent internal control review (the "**Internal Control Review**") and demonstrate that the Company has put in place adequate internal controls and procedures to fulfil its obligations under the Listing Rules.

To comply with the Resumption Guidance, the Company has appointed SHINEWING Risk Services Limited ("**SHINEWING Risk Services**") on 15 August 2023 to conduct the Internal Control Review, and a report has been prepared on the findings of the Internal Control Review (the "**Internal Control Review Report**"). The Internal Control Review covers the internal control system of the Group for the period from 1 January 2022 to 31 August 2023.

On 1 November 2023, the Board reviewed and approved the Internal Control Review Report. This announcement summarises the key findings of the Internal Control Review with the views of the Board.

## SCOPE OF INTERNAL CONTROL REVIEW

Set out below is the scope of the Internal Control Review conducted by SHINEWING Risk Services:

- (i) review of the Group's internal control systems at the corporate level in accordance with the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "**COSO Framework**"), including environmental control, control activities and supervision and etc.;
- (ii) review of the Group's internal controls systems at the business process level, including financial reporting processes, revenue and account receivables processes, costs, procurement, fees and expenses, inventory management, bank and cash management, fixed asset management, human resources and payroll processes, tax and information systems control management;
- (iii) review of the Company's compliance with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules; and
- (iv) review of the Group's process for its compliance with certain Listing Rules and other regulations.

## KEY FINDINGS OF THE INTERNAL CONTROL REVIEW

SHINEWING Risk Services has identified the following 15 findings of the Internal Control Review.

As at the date of this announcement, the Company has adopted or is in the course of implementing the recommendations given by SHINEWING Risk Services on the findings of the Internal Control Review to rectify the internal control deficiencies. SHINEWING Risk Services has also conducted a follow-up review with the objective of independently following up the rectification of the review findings and making further recommendations to the Group if necessary as to the findings of the Internal Control Review that remain pending rectification. Among the recommendations made based on the 15 findings of the Internal Control Review, 13 have been implemented, and 2 was in the course of implementation and the Company expects the same will be in place in November 2023 (please refer to points 9 and 14 below for details).

Set out below are (i) the internal control deficiencies identified by SHINEWING Risk Services; and (ii) the results of SHINEWING Risk Services's follow-up review.

### CORPORATE LEVEL REVIEW IN ACCORDANCE WITH THE COSO FRAMEWORK

#### 1. *Management of Employee Handbook*

##### *Findings*

The Group failed to (1) regularly review the content of the Employee Handbook which lead to the inconsistent with the current practise, (2) maintain the management's approval records of the Administrative Measures for Preventing Conflict of Interest (防止利益衝突管理辦法), and (3) require its employees to acknowledge the receipt of the Administrative Measures for Preventing Conflict of Interest.

##### *Follow-up review result*

SHINEWING Risk Services has reviewed the Group's updated Employee Handbook, the Administrative Measures for Preventing Conflict of Interest, and has reviewed the consent forms signed by its employees, and considers that its recommendations have been implemented.

#### 2. *Succession Plan for Directors and Senior Management*

##### *Findings*

The Group's current succession plan failed to clarify the successors to each of the senior management and Directors, which may not be able to protect the Group's operations from the resignation or dismissal of senior management and Directors.

*Follow-up review result*

SHINEWING Risk Services has reviewed the Group's updated succession plan for the Directors and senior management, and considers that its recommendations have been implemented.

3. *Operation Manual*

*Findings*

Chengdu Toyot Pa Shun Pharmacy Co., Ltd. ("**Toyot Pa Shun**") and Chengdu Kexun Pharmaceutical Co., Ltd. ("**Chengdu Kexun**") (collectively the "**Subsidiaries**"), the subsidiaries of the Company, failed to properly resolve the handover of work and documents of their certain resigning employees, resulting in the lack of the management's approval records for some operation manual. In addition, some operation manual may not reflect actual operations.

*Follow-up review result*

SHINEWING Risk Services has reviewed the Group's updated operation manual and noted that the operation manual are kept with the management's approval record, and considers that its recommendations have been implemented.

4. *Internal Audit Function*

*Findings*

The management has engaged an external independent internal control consultant to review the Group's risk management and internal control system on a regular basis, but the Group has not established a comprehensive internal audit policy.

*Follow-up review result*

SHINEWING Risk Services has reviewed the Group's established internal audit policy, and considers that its recommendations have been implemented.

## REVIEW OF BUSINESS PROCESSES

### 5. *Management of Monthly Financial Close Processes and Accounting System*

#### *Findings*

Toyot Pa Shun failed to make provisions for costs in the month when they are incurred, while the Subsidiaries failed to maintain approval track records for the Statements of Financial Position and Statement of Profit or Loss, and failed to maintain records of the applications and approvals for changes in chart of accounts, and Chengdu Kexun failed to keep track records of the management's approval for the Accounting Vouchers.

#### *Follow-up review result*

SHINEWING Risk Services has conducted follow-up review and random checks on the samples after rectification of the above internal control deficiencies related to the monthly financial close processes and accounting system management of the Subsidiaries, and considers that its recommendations have been implemented.

### 6. *Management of Procurement Price Comparison and Accounts Payable*

#### *Findings*

The purchasing staff of Toyot Pa Shun failed to (1) retain quotations and (2) keep records of pricing analysis for supplier selection, while Chengdu Kexun failed to prepare the "Aging Analysis Report of Accounts Payable" on a monthly basis, and the Subsidiaries failed to maintain review records of the Aging Analysis Report of Accounts Payable.

#### *Follow-up review result*

SHINEWING Risk Services has conducted follow-up review and random checks on the samples after rectification of the above internal control deficiencies related to procurement price comparison and accounts payable management, and considers that its recommendations have been implemented.

## 7. *Inventory Management*

### *Findings*

Toyot Pa Shun failed to (1) establish annual materials reserve quotas, and (2) submit the “Inventory Aging Analysis” to the management for review, while Chengdu Kexun failed to (1) establish proper function for reviewing “Sales Outbound Delivery Orders”, (2) assign another personnel from the warehouse department of the storage and transportation center to review the “Sales Outbound Delivery Cancellation Request Forms” and record the reasons for adjusting sales delivery records, and (3) keep records of insurance price comparisons together with management’s approval records.

### *Follow-up review result*

SHINEWING Risk Services has conducted follow-up review and random checks on the samples after rectification of the above internal control deficiencies related to inventory management, and considers that its recommendations have been implemented.

## 8. *Fixed Asset Procurement and Management*

### *Findings*

Chengdu Kexun failed to (1) keep records of approval for fixed asset requisition and the record of the comparison of prices from suppliers, and (2) retain delivery notes and quality check result records. Toyot Pa Shun failed to (1) assign independent identification numbers to respective fixed asset in its “Fixed Asset List”, (2) establish processes for recording fixed asset disposal and management approval, and (3) update the status of the assets on the list in a timely manner. The Subsidiaries failed to conduct quarterly fixed asset taking, and maintain annual fixed asset taking records.

### *Follow-up review result*

SHINEWING Risk Services has conducted follow-up review and random checks on the samples after rectification of the above internal control deficiencies related to fixed asset purchase and management, and considers that its recommendations have been implemented.

## 9. *Management of Social Insurance and Housing Provident Fund, Performance Appraisal and Salary Adjustment*

### *Findings*

The Subsidiaries failed to (1) make contributions to social insurance and housing provident fund for their employees based on the actual salary of employees, and (2) keep records of results of performance appraisal of their employees, and Chengdu Kexun failed to issue salary adjustment notices to relevant employees.

### *Follow-up review result*

SHINEWING Risk Services has followed up the samples after rectification of the above internal control deficiencies related to management of social insurance and housing provident fund, performance appraisal and salary adjustment, and considers that its recommendations have been partially implemented. For the payment of social insurance and housing provident fund, the Subsidiaries are expected to commence making full contributions to social insurance and housing provident fund for all employees in accordance with the statutory requirements from November 2023 onwards.

## *10. Human Resource Management*

### *Findings*

The Subsidiaries failed to (1) prepare the “Employee Formal Employment Approval Form (員工轉正審批表)” after the expiration of the probationary period of the new recruits, (2) issue a notice of formal employment (轉正通知) to the employees, (3) require the employees to submit the written resignation application in advance, and (4) approve the “Leave Application Form (請假單)” in accordance with the requirements of the operation manual.

### *Follow-up review result*

SHINEWING Risk Services has conducted follow-up review and random checks on the samples after rectification of the above internal control deficiencies related to human resources management, and considers that its recommendations have been implemented.

## *11. Tax Filing*

### *Findings*

The Subsidiaries failed to (1) keep the Chief Financial Officer’s approval record of the tax returns and related calculation statements, and (2) report and pay taxes based on actual profits or losses.

### *Follow-up review result*

SHINEWING Risk Services has conducted follow-up review and random checks on the samples after rectification of the above internal control deficiencies related to tax filing, and considers that its recommendations have been implemented.

12. *User Authority Management for the Financial Management System and the Inventory Management System (Collectively the “Abacus Systems (金算盤系統)”)*

*Findings*

Toyot Pa Shun failed to (1) properly categorise the user authorities of its personnel in the Abacus Systems in accordance with their functions, and (2) remove the accounts of resigning employees.

*Follow-up review result*

SHINEWING Risk Services has followed up the updated user authority of Toyot Pa Shun in relation to the Abacus Systems, and considers that its recommendations have been implemented.

13. *Information Systems Management*

*Findings*

The Subsidiaries failed to (1) establish password strategies for their systems, (2) regularly review the user authorities of all systems, (3) maintain results of regular data recovery tests on systems, (4) maintain the management’s approval record of business continuity plans and disaster recovery plans, (5) use software licensed by software developers and restrict software downloads, (6) conduct regular spot checks on employees’ computers, and (7) maintain a list of approved software and ensure proper storage of documents related to information system management.

*Follow-up review result*

SHINEWING Risk Services has conducted follow-up review and random checks on the updated information system management and relevant documents of the Subsidiaries, and considers that its recommendations have been implemented.



## REVIEW OF COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE AS SET OUT IN APPENDIX 14 TO THE LISTING RULES

### *14. Corporate Governance*

#### *Findings*

The Company failed to (1) provide trainings to Directors and maintain the training records of Directors, (2) keep proper records of dividend policy and nomination policy, (3) maintain insurance policies for Directors, (4) regularly report the financial positions of the Group to the Board for review, (5) require the signature of certain Directors for some minutes of Board meetings, and (6) maintain records of the Directors' approval for certain operation manual in respect of corporate governance.

#### *Follow-up review result*

SHINEWING Risk Services has conducted follow-up review on the samples after rectification of the above internal control deficiencies related to the Corporate Governance Code in Appendix 14 of the Listing Rules, and considers that its recommendations have been partially implemented. For the insurance policies for Directors, the Company is in the course of making appropriate insurance arrangements for the legal actions that may be filed against its Directors and expect the same will be in place in November 2023.

## REVIEW OF COMPLIANCE PROCESS FOR COMPLIANCE WITH CERTAIN LISTING RULES AND OTHER REGULATIONS

### *15. Compliance Processes Relating to Certain Listing Rules*

#### *Findings*

The Group failed to maintain the approval evidence of the management over the compliance policy of Chapter 14A of the Listing Rules (Connected Transactions) and Part XIVA of the Securities and Futures Ordinance (Disclosure of Inside Information).

#### *Follow-up review result*

SHINEWING Risk Services has reviewed the compliance policy of the Group in relation to certain Listing Rules and Part XIVA of the Securities and Futures Ordinance (Disclosure of Inside Information), and considers that its recommendations have been implemented.

## **OPINION OF THE BOARD AND THE INDEPENDENT INVESTIGATION COMMITTEE**

Having considered the Internal Control Review Report and the rectification measures taken by the Group, in particular, the follow-up review conducted by SHINEWING Risk Services on the enhanced internal control measures adopted by the Group, the Board and the Independent Investigation Committee are of the view that (i) the major internal control deficiencies as mentioned above have been remedied and the associated risks have been controlled at a reasonable level; and (ii) the rectification actions and improvement measures implemented by the Company are sufficient to address the key findings of the Internal Control Review Report. The Company will continue to implement rectification measures to further enhance its internal control system in order to fulfil its obligations under the Listing Rules.

## **CONTINUED SUSPENSION OF TRADING**

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 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.**

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

Hong Kong, 6 November 2023

*As at the date of this announcement, the executive Directors are Professor Xiao Kai, Mr. Yuan Hongbing and Mr. Feng Junzheng; 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.*