STATEMENT OF DISCIPLINARY ACTION

Exchange's Disciplinary Action against Two Former Directors of Pa Shun International Holdings Limited (Stock Code: 574)

SANCTIONS AND DIRECTIONS

The Stock Exchange of Hong Kong Limited (**Exchange**)

CRITICISES:

(1) **Mr Chen Yen Fei**, former executive director (**ED**), chairman and chief executive officer (**Mr Chen**) of Pa Shun International Holdings Limited (**Company**); and
(2) **Mr Shen Shun**, former ED of the Company (**Mr Shen**);

(The directors identified at (1) and (2) above are collectively referred to as the **Relevant Directors**.)

AND FURTHER DIRECTS:

15 hours of training on regulatory and legal topics and Listing Rule compliance (**Training**) for each of the Relevant Directors. The Training must include three hours on each of (a) directors' duties; and (b) the Corporate Governance Code, as a pre-requisite of any future appointment as a director of any company listed or to be listed on the Exchange.

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SUMMARY OF FACTS

The Relevant Directors approved the Company's acquisitions (via two subsidiaries) of two target companies (**Acquisitions**) on 8 March and 3 April 2019 respectively. The key terms and structure of the two Acquisitions were largely identical as follows:

(a) Each target company was wholly owned by two vendors.

(b) Each target company held a 49% equity interest in a property company which had entered into agreements with a developer to purchase certain property units under construction in Malaysia (**Property Agreements**). Construction was originally expected to be completed by the third quarter of 2019.

(c) The remaining 51% equity interest in each of the property companies was held by a Malaysian individual (**Malaysian Investor**).

(d) At the time of the Acquisitions, the property companies had not yet fully paid the developer for the property units, but the Company made full payment upfront for the Acquisitions by issuing new shares in the Company to the vendors with a total value of approximately $64 million.

(e) Under the terms of the Acquisitions, by way of novation, the vendors agreed to assume 49% of the property companies' outstanding payment obligations to the developer. The responsibility to pay the remaining 51% remained with the Malaysian Investor. The vendors undertook to indemnify the Company's subsidiaries against all demands, losses, expenses, costs, etc. suffered or incurred by the Company's subsidiaries arising from the Property Agreements.

(f) The Company was granted the right to appoint directors (including the chairman) to the board of the property companies.

(g) The Company did not obtain any security or guarantee from the vendors and no other controls or restrictions were put in place to ensure that the consideration shares would not be sold without the Company's prior consent or knowledge.

After the Acquisitions, the vendors and the Malaysian Investor failed to pay the balance of the purchase price of the property units to the developer. The construction of the property units was only completed in December 2021. In April 2022, the developer terminated the Property Agreements due to the non-payment, therefore none of the property units were delivered to the property companies. The Company did not know about the default in payments to the developer until around the first half of 2022.

LISTING RULE REQUIREMENTS

Rule 3.08 provides that the Exchange expects directors, both collectively and individually, to fulfil fiduciary duties and duties of skill, care and diligence to a standard at least commensurate with the standard established by Hong Kong law. Under this Rule, a director must apply such degree of skill, care and diligence as may reasonably be expected of a person of his knowledge and experience and holding his office within the issuer.

LISTING COMMITTEE'S FINDINGS OF BREACH

The Listing Committee found that the Relevant Directors breached their directors' duties under Rule 3.08 to exercise reasonable skill, care and diligence to protect the Company's interest in the Acquisitions at both pre- and post- acquisition stages.

According to the Company and the Relevant Directors, the Company conducted the Acquisitions because it was interested in the Malaysian property market and considered that the investment would generate an attractive return. The Company agreed to issue the consideration shares because it had insufficient cashflow and considered that the new issuance would not affect the normal operations of the Company.

The Relevant Directors should have been aware that the Acquisitions involved at least two major risks: (a) the vendors and the Malaysian Investor might not fulfil the outstanding payment obligations to the developer for the property units under construction, and (b) there might be a delay to the property construction.

The Relevant Directors failed in their duty to assess and manage these risks in respect of the Acquisitions. They did not procure the Company to conduct due diligence prior to completing the Acquisitions on whether the vendors were financially capable of meeting their payment obligations owed to the developer, or compensating the Company in the event that the property units were not delivered. The due diligence conducted in respect of the Acquisitions was insufficient, and was largely limited to the property units and the property companies.

The Relevant Directors should have taken steps to properly monitor the projects, including that payments were being made by the vendors as well as the Malaysian Investor and the construction was progressing. They also failed to ensure receipt of timely updates on these matters. Although the Company claimed that it had received periodic updates, there was no evidence that any such updates had been provided.

Mr Chen was responsible for managing and overseeing the Acquisitions, and Mr Shen relied on the Company's management team to follow up on the vendors' payments to the developer. After the cessation of all of Mr Chen's roles and directorship with the Company in June 2020, there was no one in management who was responsible for liaising with the vendors on the progress of the Acquisitions and updates regarding the payments and construction of the property units.

Further, during the directorship of the Relevant Directors, they did not procure the Company to, and the Company failed to: (i) exercise its right to appoint any director to the board of the property companies; and (ii) take any action against the vendors to enforce the vendors' contractual obligations and recover the loss and damage suffered by the Company as a result of non-delivery of the property units.

CONCLUSION

The Listing Committee decided to impose the sanctions and directions set out in this Statement of Disciplinary Action.

For the avoidance of doubt, the Exchange confirms that the above sanctions and directions apply only to the Relevant Directors, and not to the Company or any other past or present directors of the Company.

Hong Kong, 11 February 2025