

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



PanAsialum Holdings Company Limited

榮陽實業集團有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 2078)

KEY FINDINGS OF THE INDEPENDENT INVESTIGATION

Set out herein is the Company's update to Shareholders regarding the fulfilment of the Resumption Conditions. In March 2015, the Company engaged an Independent Professional Adviser to conduct an investigation on the Issues raised by the Auditor as set out in the announcement of the Company dated 19 December 2014.

The key findings from the Reports (as defined below) of the Investigation are summarised below in this announcement.

Trading in the shares of the Company on the Stock Exchange has been suspended from 9:00 a.m. on 17 December 2014. The trading in the shares of the Company will remain suspended until further notice.

Reference is made to PanAsialum Holdings Company Limited's (the "**Company**", together with its subsidiaries, the "**Group**") announcements dated 31 July 2017 and 5 September 2017 in respect of, inter alia, the Investigation and the Company's progress with the resumption in the trading of its shares (the "**Announcements**"). Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings ascribed to them in the Announcements.

In March 2015, the Independent Committee of the Company engaged an independent professional adviser (the "**Independent Professional Adviser**") to investigate certain matters (the "**Matters**") raised by the Auditor and set out in the Company's announcement dated 19 December 2014.

The Independent Professional Adviser has issued investigation reports with respect to the Original Scope and Extended Scope (as defined below) on 15 January 2016 (the “**First Report**”) and 30 August 2017 (the “**Final Report**”) respectively (collectively the “**Reports**”). A summary of the Reports is set out in this announcement.

BACKGROUND AND SCOPE OF THE INVESTIGATION

On 5 December 2014, the Company received a letter from the Auditor (the “**Auditor Letter**”) in relation to the Matters identified by the Auditor in the course of preparing the consolidated financial results of the Group for the year ended 30 September 2014. Trading in the shares of the Company on the Stock Exchange was subsequently suspended on 17 December 2014. In order to, inter alia, fulfil the Resumption Conditions, the Independent Professional Adviser was appointed by the Company to investigate into the Matters raised in the Auditor Letter (the “**Original Scope**”) for the period from 1 October 2013 to 30 September 2014 (the “**Initial Review Period**”). The Original Scope comprises the following:

- (i) the transactions with a contractor for the construction of the Group’s new manufacturing facility in Nanyang, the PRC;
- (ii) the discrepancies found on certain of the Group’s aluminium ingots inventory receipt records in relation to the Group’s raw materials procurement;
- (iii) the relationship between the Group and certain Australian customers; and
- (iv) details and supporting documents on certain expenses.

On 29 March 2016, the Independent Professional Adviser was further engaged to investigate unresolved matters (the “**Extended Scope**”) relating to the period from 1 October 2011 to 30 September 2013 (the “**Extended Review Period**”). The Extended Scope comprises the following:

- (i) the records of aluminium ingots inventory held by the Group; and
- (ii) the relationship with certain Australian customers of the Group.

SUMMARY OF KEY FINDINGS OF THE REPORTS

1. The transactions with a contractor for the construction of the Group's new manufacturing facility in Nanyang, the PRC

Background

As at 30 September 2014, the Group paid approximately RMB 42.6 million to a contractor ("**Nanyang Construction Contractor**") for the construction of a production plant in Nanyang, the PRC (the "**Nanyang Construction**"). The Auditor was unable to substantiate the nature of the payment due to a lack of supporting documents and was also unable to justify the reasonableness of the amount paid. The Auditor was also not able to ascertain whether there was any obligation, commitment or contingent liability that the Group had not yet fulfilled and remained outstanding.

The Auditor was informed that certain personnel of the Group had full access to the Nanyang Construction Contractor's bank account and funds were transferred to companies or individuals which/who might be related to Marcus PAN ("**Mr. Pan**"), the former Chairman and former executive Director of the Company.

Key Findings

1.1 Termination of Construction Agreements

The Independent Professional Adviser was advised that certain documentation in relation to the Nanyang Construction was not available for its review. On 23 December 2014, the Group and the Nanyang Construction Contractor terminated the agreements with a payment of RMB450,000 paid by the Group to the Nanyang Construction Contractor.

1.2 Control of Nanyang Construction Contractor's bank account

The Independent Professional Adviser was advised that the Group requested control of the online bank account of the Nanyang Construction Contractor to ensure the Group's funds were used for the Nanyang Construction. The available documentation indicated that the Group had online bank account access during most of the period between June 2014 and September 2014.

1.3 Payments made to/from the Nanyang Construction Contractor's bank account

The Independent Professional Adviser observed that the Group's payment for the transfer of funds from the Group to the Nanyang Construction Contractor were approved by Mr. Pan, certain finance department personnel of the Group and a person who reportedly did not have any employment relationship with the Group. One of the finance department personnel represented that she maintained certain text messages regarding instructions from Mr. Pan. Mr. Pan, on the other hand, represented that he never used text messages to provide instructions to make payments or approve payments.

The Independent Professional Adviser also observed that payments totalling RMB42.6 million were transferred from the Group to the Nanyang Construction Contractor during the period from 1 October 2013 to 30 September 2014 and that RMB26.5 million out of the RMB42.6 million from the Group were subsequently transferred from the Nanyang Construction Contractor to certain companies or individuals (including two reportedly sub-contractors). However, according to interviews with the Group personnel and relevant parties, no one could provide further information about the identities of these transferees. The Independent Professional Adviser was unable to contact most of the transferees and was unable to find any specific payment approval documents for the funds paid from the Nanyang Construction Contractor's bank account to the transferees. The Independent Professional Adviser was unable to identify or conclude that there was any apparent connections between any of the legal representatives, shareholders, directors or supervisors of the transferees and the employees of the Group.

1.4 Absence of bidding process and construction permits of Nanyang Construction

The Independent Professional Adviser was advised that there was no formal bidding process for the construction work and both the Construction Project Planning Permit and Construction Project Building Permit were not obtained as of 30 September 2014.

2. The discrepancies found on certain of the Group's aluminium ingots inventory receipt records in relation to the Group's raw materials procurement

Background

The Auditor identified duplicated weight sheets of aluminium ingots with the same serial number containing inconsistent details recording by different departments in respect of those weight sheets.

The Auditor was unable to ascertain the reason for the duplicated weight sheets and for the discrepancies in the aluminium ingots in-transit record maintained by different departments. The Auditor was also unable to obtain audit comfort on the control of procurement cycle, the completeness and accuracy of record of goods received and aluminium ingots in-transit, and the accuracy of the cost of sales. The Auditor was also unable to ascertain the impact on the financial statements of the Group arising from the duplicated weight sheets and the aforementioned discrepancies.

Key Findings

2.1 Adjustment of output rate and increase in aluminium ingots consumed

The Independent Professional Adviser was advised that the output rate (which was derived from the weight of aluminium bars produced divided by the weight of raw materials (including aluminium ingots, aluminium scraps and other materials consumed) was manually adjusted downwards to increase the quantity of aluminium ingots and scraps consumed for the production of aluminium bars under the instruction of Mr. Pan.

The Independent Professional Adviser observed that as a result of the downward adjustment of the output rate of the production during the period from 1 January 2013 to 30 September 2013, the quantity of aluminium ingots consumed for the production during the period recorded by the finance department was 7,288 tons more than the consumption of aluminium ingots recorded by the warehouse and production departments.

In addition, the Independent Professional Adviser was advised that as a result of the downward adjustment of the output rate of the production during the period from 1 October 2013 to 30 September 2014, the quantity of aluminium ingots consumed for the production during the period recorded by the finance department was 1,085 tons more than the consumption of aluminium ingots recorded by the warehouse and production departments.

The Independent Professional Adviser was further advised by one of the finance department personnel that the downward adjustments of the output rate from July 2013 to September 2013 were made partly to absorb the costs of aluminium ingots damaged in an accident involving an explosion on 13 June 2013 (555 tons) or consumed by testing of new products (1,739 tons). As no underlying documents could be provided to support the representation, the Independent Professional Adviser was unable to confirm the existence of the accident or the new products testing.

The Independent Professional Adviser also observed that the monthly discrepancies between weight sheets of aluminium ingots in the finance records (maintained by the finance department) and the weight information contains in the system of the weighbridge room were consistent with the monthly discrepancies between the quantity of aluminium ingots consumed recorded by the finance department and the production department during the Initial Review Period and the last nine months of the Extended Review Period.

2.2 Reproduced weight sheets of aluminium ingots

An increase in consumption of aluminium ingots due to the adjustment of output rate will reduce the aluminium ingots inventory balance. Weight sheets of aluminium ingots kept by finance department were reportedly reproduced to offset the impact of the increase in consumption of aluminium ingots. The Independent Professional Adviser noted that the weight sheets had either been amended with amendments made to the weight information in the existing weight sheets or were created.

The Independent Professional Adviser observed that the differences between the weight sheets kept by the finance department and those from the weighbridge room system were approximately 7,210 tons and 923 tons during the period from 1 January 2013 to 30 September 2013 and from 1 October 2013 to 30 September 2014, respectively.

The Independent Professional Adviser also observed that there was an increase in receipts of 2,516 tons of aluminium ingots due to the revision of weight sheets from 1 October 2011 to 31 December 2012. However, due to limited information available, the Independent Professional Adviser was unable to compare the weight sheets of the finance department and those of the weighbridge room system during this 15 months period.

2.3 Comparison of quantity and value of aluminium ingots received per finance and warehouse records

The Independent Professional Adviser observed that the recorded quantity and value of aluminium ingots purchased in the finance department during the last nine months of the Extended Review Period were 7,269 tons (equivalent to approximately RMB109 million) more than those in the warehouse records for the same period.

The Independent Professional Adviser also observed that the discrepancy of 7,269 tons between the quantities of aluminium ingots received as stated in finance department records and those as stated in warehouse department records mainly related to the purchase of aluminium ingots from three vendors which had connections with one and other.

Up to the date of the Final Report, the aforementioned vendors have not responded to the Independent Professional Adviser or have declined interview requests from the Independent Professional Adviser. Therefore, the Independent Professional Adviser has not been provided with satisfactory explanations in relation to the discrepancies between the quantity of aluminium ingots received as stated in the finance department records and those as stated in the warehouse department records for the period from 1 January 2013 to 30 September 2013.

Due to limited information available, the Independent Professional Adviser was unable to compare the weight sheets per finance and warehouse records during the period from 1 October 2011 to 31 December 2012.

2.4 Impact on the balance of aluminium ingots in-transit

The Independent Professional Adviser observed discrepancies in the recorded amount of aluminium ingots in-transit in the amount of 2,031 tons and 1,183 tons on 1 October 2013 and 30 September 2014 respectively. The Independent Professional Adviser also observed that a substantial part of the discrepancy as of 30 September 2014 related to Shanghai Yuanrun International Trading Company Limited (“**Shanghai Yuanrun**”), one of the largest aluminium ingots vendors of the Group (see also 3.3 below).

2.5 *Suspicious email correspondences*

The Independent Professional Adviser observed three email correspondences sent by the deputy cashier manager of a subsidiary of the Company to Mr. Pan. These emails contained weekly summaries of aluminium ingots ordered and clarified that certain transactions were accounting entries only without actual purchases. Amongst the 50 purchase orders stated in the emails sampled by the Independent Professional Adviser, 4 of them represented that they were accounting entries only and not actual purchases.

However, the Company would like to point out that the Independent Professional Adviser was not able to ascertain if such emails and summaries were received by the recipients nor could it confirm if the intended recipients were aware of the transactions referred to in the emails.

2.6 *Use of personal bank accounts*

The Independent Professional Adviser observed a task handover list prepared by a finance department personnel which contained of 9 corporate and 14 personal bank accounts, and another record which contained daily transaction records of 20 personal bank accounts ("**Personal Bank Account Records**").

From the Personal Bank Account Records, the receipts shown in these bank accounts mainly included receipts from aluminium ingots vendors or other vendors and transfers from other personal bank accounts, whilst the payments mainly comprised cash withdrawals, salary and bonus of employees.

However, the Independent Professional Adviser could not ascertain with the said aluminium ingots vendors or other vendors of the Group that the payments made by them were related to the Company at all. Accordingly, the Independent Professional Adviser was also unable to ascertain whether the payments out of those bank accounts were made by funds related to the Company.

The receipts and payments could be reconciled to a set of incomplete ledger as outlined in 2.7 below.

Out of the 20 personal bank accounts, 19 of them were reportedly connected to Mr. Pan (and his then family members), and a former employee who appearing to have roles or connections with the Group and key customers of Group in Australia concurrently.

However, the Independent Professional Adviser was given to understand during an interview with a finance department personnel that all the personal accounts were established under the instructions of Mr. Pan.

The Independent Professional Adviser reconciled the Personal Bank Account Records to the available bank statements provided.

The total payments received from certain aluminium ingots vendors from January 2012 to November 2013, based on the description in the Personal Bank Account Records, were approximately RMB 44 million.

The total payments received from other vendors unrelated to purchase of aluminium ingots from January 2012 to November 2013, based on the description in the Personal Bank Account Records, were approximately RMB 47 million.

Again, the Company would like to point out that the Independent Professional Adviser could not ascertain with the said aluminium ingots vendors or other vendors of the Group that the payments deposits made by them were related to the Company at all. Neither could the Independent Professional Adviser ascertain the ultimate source of these funds and whether the payments out of those bank accounts were made on behalf of the Company.

2.7 A set of incomplete ledgers

The Independent Professional Adviser observed incomplete ledgers which did not form part of the accounting records of a subsidiary of the Company (the “**Incomplete Ledgers**”). The Independent Professional Adviser observed that the Incomplete Ledgers recorded payments received from vendors (including aluminium ingots vendors and other vendors of a subsidiary of the Company) and certain receipts of payments which could be reconciled with the Personal Bank Account Records stated in 2.6 above. The Independent Professional Adviser also observed that the Incomplete Ledgers could be linked to the accounting records of a subsidiary of the Company. The Independent Professional Adviser was further advised by certain finance department personnel that the complete set of ledgers and supporting documents were reportedly no longer retained.

Ms. Shao represented that upon her knowledge of the Incomplete Ledgers she gave instructions to cease such practice.

3. The relationship between the Group and certain Australian customers

Background

P&O Group Pty Ltd (“**P&O Group**”) was a former subsidiary of the Group which was disposed of in 2009 but continued to be one of the largest customers of the Group between 2011 and 2014. The Auditor understood that Success Aluminium Pty Limited (“**Success**”), a company incorporated in 2014, had, in May 2014, agreed to assume the debt obligations of P&O Group to repay the Group. The account receivable balance outstanding from Success, including the assignment of debt due by P&O Group, was HK\$221 million as at 30 September 2014. There were minimal settlements of the assumed debt since the assignment in May 2014 and the recoverability of the outstanding balance was subjected to further assessment.

PAN Manqing (“**Ms. PAN**”), a sister of Mr. Pan, was a director of Success with 70% equity interest in Success and was also the deputy financial controller of a subsidiary of the Company in late October 2014. The Auditor was advised that Ms. PAN resigned from her role as the deputy financial controller after the Group noticed that she was the director and shareholder of Success. A company search performed by the Auditor dated 2 December 2014 showed that Ms. Pan was holding approximately 16.67% equity interest in Success. However, Ms. Pan disposed of her entire interest in Success in November 2014 and a company search performed after 2 December 2014 indicated that Ms. Pan no longer held any interests in Success.

Due to the limited information available, the Auditor had difficulties in determining whether Ms. PAN’s shareholding in Success would establish any implication of the Group’s control over Success.

Key Findings

3.1 Ms. PAN’s interest in Success

During the interview with Ms. PAN, the Independent Professional Adviser was advised that the shares of Success were transferred to her for no consideration. She further represented that when she was a shareholder of Success, she was not involved in its operations and she became unaware of the assignment of debts between Success and P&O Group. Ms. PAN further advised that she disposed of her interest in Success when she was aware of the relationships between Success and the Group.

3.2 Relationship with LIG Australia Pty Limited (“**LIG**”)

The Independent Professional Adviser was advised that the majority of the sales of the Group with Success were conducted through LIG. However, the Independent Professional Adviser was unable to find any formal contractual agreements between the Group and Success or LIG.

The Independent Professional Adviser observed that the address of the sole shareholder of LIG appeared to be the same as that stated on a copy of the personal ID card of a cousin of Mr. Pan. Other than the above, the Independent Professional Adviser could not identify any apparent connections between the sole shareholder of LIG and the employees of the Group.

3.3 Potential connections between the 4 entities of P&O Group, Oceanic Aluminium Pty Limited (“Oceanic”), a customer of the Group, and Shanghai Yuanrun, one of the largest aluminium ingots vendors of the Group

The Independent Professional Adviser observed possible connections between some of the Group’s customers and Shanghai Yuanrun during the Initial Review Period which included the following: (i) the sole shareholder of certain entities in the P&O Group and Shanghai Yuanrun shared a common residential address; (ii) the sole shareholder of an entity in the P&O Group shared the same name as the current majority shareholder of Shanghai Yuanrun; (iii) the sole shareholder of an entity in the P&O Group shared the same name as the former shareholder of Shanghai Yuanrun; and (iv) the shareholder which owns 70% interest in Oceanic had the same name as the current minority shareholder of Shanghai Yuanrun. Shanghai Yuanrun declined the interview request made by the Independent Professional Adviser.

3.4 Potential connection identified between the Company and certain customers of the Group

The Independent Professional Adviser observed that a former Group personnel appeared to have roles or connections with both the Group and P & O Group/Success/LIG from July 2012 to February 2015. This is the same former employee whose name is among the 19 personal bank accounts referred to in 2.6 above.

3.5 Potential connection identified between the Company and Oceanic

The Independent Professional Adviser observed i) a labour contract template between HAN Yeyang, who was a director of Oceanic from 1 September 2012 to 14 July 2014 and 30% shareholder of Oceanic from 1 September 2012 to 2 June 2015, and an indirect wholly-owned subsidiary of the Company dated 31 August 2013; and ii) an email from the former Company Secretary of the Company to Hong Kong Immigration Department to apply for the employment visa of HAN Yeyang dated 23 October 2013.

Other than the above, the Independent Professional Adviser conducted several interviews in relation to the customers in Australia and was advised that they were unaware that anyone in the Group had control over the P&O Group, Oceanic Success and LIG.

4. Details and supporting documents on certain expenses

Background

During the course of the audit, the Auditor identified that the Group paid Beijing Dong Fang Hai Xing Performing Company Limited (“**Dongfang Haixing**”) RMB1.07 million in May 2014 for the sponsorship of a concert without contract.

The Auditor was unable to ascertain why the Group would sponsor a concert not connected with its ordinary business. The Auditor was also uncertain whether there was any obligation, commitment or contingent liability that the Group had not yet fulfilled and remained outstanding.

Key Findings

4.1 Underlying documents of the payment to Dong Haixing

The Independent Professional Adviser observed that the payment to Dongfang Haixing was made pursuant to an internal payment application form of OPLV Guangzhou Doors and Windows Systems Company Limited (“**OPLV Guangzhou**”) (an indirect wholly-owned subsidiary of the Group) which was prepared by a person not employed by the Group and approved by Mr. Pan.

4.2 Agreements related to the payment

The Independent Professional Adviser also observed that Stars Electronic Technology Company Limited (“**Star Electronic**”) which was then 45% indirectly owned by the Company on 28 August 2014, and considered an associated company of the Group, should pay RMB 2.57 million and RMB 1.41 million to Dongfang Haixing on 5 May 2014 and before the end of May 2014, respectively. A remark was identified in a payment summary of Star Electronic that the payment of RMB 2.57 million was split into two parts, of which RMB 1.07 million was to be paid on 5 May 2014. This payment of RMB1.07 million represented the same amount as the payment from OPLV Guangzhou to Dongfang Haixing as mentioned in the Auditor Letter.

The Independent Professional Adviser further observed an email sent by an employee of the Company to Bonnie NG, former executive Director of the Company dated 26 November 2014 attaching an agreement dated 19 March 2014, three other supplemental agreements between Dongfang Haixing and a company named Shenzhen South-Top Computer Company Limited (“**Shenzhen South-Top**”) regarding a series of concerts to promote a mobile phone business and another undated agreement entered into amongst Dongfang Haixing, Shenzhen South-Top and Stars Electronic.

4.3 Star Electronic and mobile phone business

The Independent Professional Adviser was advised by a former employee in an interview that Mr. Pan was reportedly the controlling person of Stars Electronic from its establishment and before the Group’s acquisition of 45% equity interest in Stars Electronic on 28 August 2014.

Ms. Shao recalls that Mr. Pan requested that no information regarding the mobile phone business should be provided to her.

LIMITATIONS OF THE INVESTIGATION AND UNRESOLVED MATTERS

The Independent Professional Adviser encountered a number of limitations and challenges which may have limited both the nature and extent of the procedures. The main limitations include certain electronic data preservation limitations due to certain hard drives not being available, reformatting of certain imaged hard drives and massive deletion noted in certain hard drives, documents in relation to Matters not being retained or otherwise available for the Independent Professional Adviser's review. Requests for interviews or confirmations from third parties have also been declined which have limited the information available for analysis of the transaction chronology and fund flows.

The Independent Professional Adviser identified the following unresolved matters:

- (i) lack of purchase and inventory of aluminium ingots documentation during the first 15 months of the Extended Review Period from 1 October 2011 to 31 December 2012;
- (ii) no satisfactory explanations in relation to discrepancies between the quantities of aluminium ingots received based on the finance department's record and the records maintained by the warehouse department of 7,288 tons for the last 9 months of the Extended Review Period from 1 January 2013 to 30 September 2013 and of 1,085 tons for the Initial Review Period from 1 October 2013 to 30 September 2014; and
- (iii) personal bank accounts used for, inter alia, receipts of payments from vendors of aluminium ingots and other vendors of the Group and payments. These receipts and payments were recorded in the Personal Bank Account Records and the Incomplete Ledgers. The complete set of the Personal Bank Account Records and the Incomplete Ledgers together with the supporting documents were reportedly no longer retained. As such there might be transactions that should be captured in the accounting records and reflected in the financial statements of the Group.

RECOMMENDATIONS OF THE INDEPENDENT COMMITTEE

Having reviewed and considered the Reports, the Independent Committee has recommended that the Board to take the following action:

- A. The payments authorities of the current Directors should be strengthened and improved in accordance with the recommendations given by the internal control consultant engaged by the Company.
- B. The Board should review the structure, size and composition of the Board and the senior management team (including the executive Directors) regularly in order to ensure they possess the necessary experience and skills to exercise their duties in managing the business operations of the Group properly and effectively.

- C. The Board should separate the role of the chairperson and the chief executive officer pursuant to the Code provision A.2.1 of the Corporate Governance Code of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong.
- D. The Company should engage an internal control consultant to conduct a review on the Group's internal control system and should implement the recommendations proposed by the internal control consultant in order to ensure the Company has an adequate and effective internal control system to meet its obligations under the Listing Rules.
- E. The Board should arrange regular training sessions to all members of the Board, senior management team and other officers of the Group in order to ensure that all of them are able to implement necessary financial and inventory control measures to maintain financial health and the true and accurate record of the Group's operations.
- F. The Board should take all appropriate actions against the relevant wrongdoers in respect of any loss suffered by the Group by reference to the economic benefits that may be available to the Group from any such action.

SUSPENSION OF TRADING

Trading in the shares of the Company on the Stock Exchange has been suspended from 9:00 a.m. on 17 December 2014. The trading in the shares of the Company will remain suspended until further notice.

By order of the Board
PanAsialum Holdings Company Limited
Shao Liyu
Chairlady and Chief Executive Officer

Hong Kong, 6 October 2017

As at the date of this announcement, the executive directors of the Company are Ms. Shao Liyu, Mr. Zhu Hongtao and Mr. Chan Kai Lun Allan; the non-executive directors of the Company are Mr. Cosimo Borrelli and Ms. Chi Lai Man Jocelyn; and the independent non-executive directors of the Company are Mr. Mar Selwyn, Mr. Chan Kai Nang and Mr. Leung Ka Tin.