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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 and 29 June 2021 respectively (the "**Announcements**") and the circular of the Company dated 24 May 2018 (the "**Circular**"). Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings as those defined in the Announcements.

REPORT TO THE STOCK EXCHANGE AND THE SFC

As disclosed in the Announcements, the management of the Company has conducted investigations and has discovered certain irregularities in the Acquisition.

In order to protect the interests of the Company and its Shareholders, the Company has made a report to the Stock Exchange and the SFC respectively in relation to the irregularities in the Acquisition as mentioned below so as to alert the Stock Exchange and the SFC of any possible breach(es) of the Listing Rules and relevant laws during the conduct of the matters in relation to the Acquisition.

The Company wishes to provide information regarding certain preliminary findings as disclosed in the reports as follows:

1. The Guaranteed Profits substantially comprised connected or related party transactions

Pursuant to the Sale and Purchase Agreement, each of the Vendors and the Guarantors jointly and severally guaranteed that the audited consolidated profit after tax of the Target Company for the financial year ended 28 February 2018 shall be not less than HK$23,800,000.

However, it was discovered that the Guaranteed Profits had included, amongst others, the following items:

(a) Underwriting commission from the Company in the amount of HK$9.9 million (the "**Underwriting Commission**").

(b) Placing commission from Road Shine Developments Limited ("**Road Shine**"), an indirect wholly-owned subsidiary of CITIC Guoan Group, a substantial shareholder of the Company, in the amount of approximately HK$1.37 million (the "**Placing Commission**").

The Underwriting Commission and the Placing Commission were paid by the Company and its connected person to the Target Company during its financial year ended 28 February 2018 while at the same time they contributed to the Guaranteed Profits. There is doubt as to the propriety of the treatment of these commissions paid by the Company and its connected person which allowed the Guaranteed Profits to reach HK$23.8 million. Without contribution from these commissions, the P/E ratio for the Acquisition will be higher than the average P/E ratio of the market comparables as set out in the Circular.

(c) An aggregate amount of approximately HK$4.58 million accrued since 2011 as accounts payables by the Target Company to the Vendors and the related parties of the Target Company appears to have inexplicably become sundry income contributing to the profit of the Target Company for the financial year ended 28 February 2018.

It is unclear as to how this change occurred and on what basis or who initiated or approved it.

(d) Sale of certain shares in a listed company by the Target Company to a related party in 2017, with conflicting records of the selling price shown in the financial statements, board minutes and bought and sold notes of the Target Company.

It is noted that the above items have not been fully disclosed in the Circular. The non-disclosure of the above in the Circular and the basis of accounting for some of the items are, amongst others, issues being further investigated.

2. Distribution of dividends in breach of the Sale and Purchase Agreement

The Sale and Purchase Agreement restricts the declaration, payment or making of any dividend or other distribution by the Target Company before Completion without the Company's written consent. The Vendors and the Guarantors warranted under the Sale and Purchase Agreement that the Target Company had not declared, paid or distributed any dividend since 28 February 2017.

However, it was discovered that the Target Company passed a board resolution on 27 February 2019 (i.e. one day before the Completion Date) to distribute an interim dividend amounting to HK$15,500,000 to be paid out of profits for the year ended 28 February 2019, to its then shareholders (i.e. the Bondholders themselves).

Further, the Company notes that the profits after tax of the Target Company up to 28 February 2019 were only approximately HK$14.9 million, which was less than the amount of the interim dividend.

REPORT TO THE ENFORCEMENT AUTHORITIES

Although the Company has used its best endeavours to gather more information and conduct investigations in respect of the Acquisition from the documents and records available, the existing Directors and the current management of the Company have not been able to obtain and access relevant documents and information.

In light of the abovementioned limitations and the nature of the abovementioned irregularities in the Acquisition (in particular the facts and circumstances surrounding items (c) and (d) included in the Guaranteed Profits as mentioned above and the distribution of dividends in breach of the Sale and Purchase Agreement), after consulting with its professional advisers, the Company has also made a report of the certain findings as set out above to the Commercial Crime Bureau of the Hong Kong Police Force.

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 is currently seeking legal advice in respect of the above and reserves all its rights to take further legal actions in relation to the abovementioned irregularities 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.

Shareholders and potential investors should exercise caution when dealing in the Shares.

By Order of the Board
Guoan International Limited
LIU Deng
Chairman

Hong Kong, 2 July 2021

As at the date of this announcement, the Board comprises 5 Directors, of which 1 is an executive Director, namely Mr. LIU Deng, 3 are non-executive Directors, namely Ms. BAI Wei, Mr. WEI Wen Jun and Mr. ZHOU Deng Yue, and 1 is an independent non-executive Director, namely Mr. LEE Kwok Leung.