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Tianyun International Holdings Limited

天韵國際控股有限公司

(Incorporated in the British Virgin Islands with limited liability)

(Stock Code: 6836)

1. KEY FINDINGS OF THE INDEPENDENT FORENSIC INVESTIGATION; AND 2. POTENTIAL DECONSOLIDATION OF SUBSIDIARIES

This announcement is made by Tianyun International Holdings Limited (the “**Company**” and, together with its subsidiaries, the “**Group**”) pursuant to Rules 13.09(2)(a) and 13.51(4) of the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) and the inside information provisions under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong).

References are made to (i) the Company’s announcements dated 31 March 2022 and 8 April 2022 in relation to the delay in publication of the unaudited and audited annual results of the Group for the year ended 31 December 2021 and suspension of trading in the Company’s shares (the “**Shares**”) since 1 April 2022; (ii) the Company’s announcement dated 29 April 2022 in relation to, amongst others, the establishment of an investigation committee (the “**Investigation Committee**”) to investigate into the unauthorized transaction(s); (iii) the Company’s announcement dated 12 May 2022 in relation to the Stock Exchange’s guidance to the Company for the resumption of trading in the Shares (the “**Resumption Guidance**”); (iv) the Company’s announcement dated 16 May 2022 in relation to the change of auditors of the Company; and (v) the Company’s announcement dated 30 June 2022 in relation to quarterly update on the progress of resumption of trading in the Shares (collectively, the “**Previous Announcements**”). Capitalized terms used in this announcement have the same meanings as defined in the Previous Announcements unless defined otherwise herein.

1. KEY FINDINGS OF THE INDEPENDENT FORENSIC INVESTIGATION

BACKGROUND

Trading of the Shares has been suspended since 1 April 2022 pending the release of the Company’s audited annual results for the financial year ended 31 December 2021. The delay was due to:

- (i) the necessity to clarify certain issues in connection with bank confirmations of two subsidiaries of the Group, namely Tiantong Food (Yichang) Limited* (天同食品(宜昌)有限公司) (“**Tiantong Yichang**”) and Tiantong Yichang’s wholly-owned subsidiary, Tiantong Food and Beverages (Yuanan) Limited* (天同食品飲料(遠安)有限公司) (“**Tiantong Yuanan**”) (collectively referred as the “**Subsidiaries**”); and
- (ii) the Directors’ preliminary observation that there may be unauthorized transaction(s)

carried out by Tiantong Yichang.

On 16 May 2022 PricewaterhouseCoopers (“**PwC**”) resigned as auditor of the Company. In its resignation letter dated 16 May 2022 (“**PwC Letter**”), PwC raised concerns to the following audit issues which arose during PwC’s audit of the Group:

- (i) the fact that the bank had no record of handling the bank confirmations;
- (ii) the difference in address of the sender of the bank confirmations and the official address of the bank;
- (iii) the sender of the bank confirmations was not a staff of the bank confirmation processing department;
- (iv) bank seal affixed on the bank confirmations appeared to be different from the seal used by the bank for its bank confirmations;
- (v) the material discrepancy in the bank balance of Tiantong Yichang between the records of the bank and the accounting records of Tiantong Yichang; and
- (vi) the Directors’ preliminary observation that there may be unauthorized transaction(s) carried out by Tiantong Yichang.

The Resumption Guidance requires the Company to conduct an appropriate independent forensic investigation into the unauthorized transaction(s) carried out by subsidiary(ies) of the Group, announce the findings and take appropriate remedial actions. The Investigation Committee had on 18 May 2022 engaged Mazars Certified Public Accountants LLP* (the “**Forensic Accountant**”) as the Company’s forensic accountant to conduct an independent forensic investigation into the unauthorized transaction(s) carried out by the Subsidiaries (the “**Forensic Investigation**”).

On 29 July 2022, the Company received a forensic investigation report (the “**Forensic Investigation Report**”) from the Forensic Accountant’, details of the report are set out as follows:

THE SCOPE OF THE FORENSIC INVESTIGATION

The Forensic Accountant conducted a forensic investigation into the issues raised in the PwC Letter as set out above. For the purpose of the Forensic Investigation, the Forensic Accountant conducted the following procedures:

- (i) obtained the relevant documents, including but not limited to, contracts, financial information, internal approval documents of the Company, bank statements and proof of payments and receipts;
- (ii) conducted background checks to obtain information and data of relevant companies and personnel and conducted interview with relevant personnel; and
- (iii) reviewed, compared and analyzed the information and documents obtained from (i) and (ii) above and conducted follow up interviews.

SUMMARY OF KEY FINDINGS

The Company hereby discloses the key findings of the Forensic Investigation together with the view of the Investigation Committee and the Board.

Background of the Parties

Mr. Li Jinrong* (李金榮) ("**Mr. Li**") was the legal representative, director and general manager of Tiantong Yichang at the material time in or around December 2021. He was approached by Mr. Gu Qinghua* (谷清華) ("**Mr. Gu**") to invest in the Shanghai-Chongqing-Chengdu High-speed Railway Project* (滬渝蓉高鐵項目) (the "**Project**").

Mr. Li was informed that capital verification for the Project would take place soon at the end of December 2021. On considering that the Company takes a prudent approach with investment, Mr. Li decided to invest in the Project for and on behalf of the Company without first seeking the Company's approval.

Through the relation of Mr. Gu's cousin with a construction and design services contractor who had successfully won the tender for the construction of certain sections of the Project (the "**Tender**"), the opportunity was presented. The aggregate investment required under the Tender was approximately RMB73.10 million.

Mr. Gu claimed in his interview with the Forensic Accountant that his cousin was a shareholder and legal representative of the contractor, but information received by the Forensic Accountant revealed that his cousin was not a shareholder or legal representative of the contractor and did not hold position in any other construction company.

The Loan Agreement

Pursuant to a loan agreement entered into on 22 December 2021 between Tiantong Yichang (executed by Mr. Li) and Mr. Gu, Tiantong Yichang agreed to lend and Mr. Gu agreed to borrow approximately RMB34.40 million (the "**Loan**") for the Project and Tiantong Yichang would receive 50% of the profits from the Project in return. In the event that Tiantong Yichang demands repayment of the Loan within 6 months of the loan drawdown date, Tiantong Yichang will not receive any share of profit from the Project.

On 23 December 2021, under Mr. Li's instructions, the cashier of Tiantong Yichang, Ms. Gong Shaoqin* (龔少琴) ("**Ms. Gong**") transferred the Loan proceeds to Mr. Gu. Mr. Gu then transferred the proceeds, together with his own monies, to the contractor in two tranches on 18 January 2022 and 22 February 2022, respectively.

Bank Confirmations

Mr. Li provided PwC with his cousin's address, which is near the official address of the bank, for the bank circulation procedures, and the bank confirmations were sent from such address. The Subsidiaries maintain their bank accounts with the same bank, and as such Mr. Li forged the bank confirmations of the Subsidiaries and the bank seals on the bank confirmations. Mr. Li also forged the bank statement of Tiantong Yichang provided to PwC. The forged bank statement showed that Tiantong Yichang maintained the proceeds of Loan as cash balance in its account.

Repayment of the Loan

Pursuant to a loan repayment plan entered into on 7 April 2022, Mr. Gu agreed to repay the Loan to the Company in three instalments, namely, RMB10 million on 10 July 2022, RMB10 million on 10 August 2022 and approximately RMB14.40 million on 20 September 2022. Subsequently Mr. Gu received a letter from Tiantong Yichang on 11 May 2022 demanding acceleration of the repayment of the Loan to before 30 June 2022. The Company also demanded Mr. Li to repay the Loan before 30 June 2022. As of the date of issuance of the Forensic Investigation Report, neither Mr. Li nor Mr. Gu had repaid any of the Loan.

Pursuant to the loan repayment plan, Mr. Li agreed to guarantee Mr. Gu's repayment of the Loan. Further, pursuant to a share pledge agreement entered into in or around May 2022 between Long Advance Investments Limited ("**Long Advance**") and Mr. Li on one hand as chargors and Tianyi Holding Hong Kong Limited ("**Tianyi Holding**") on the other hand as chargee, Long Advance and Mr. Li pledged an aggregate of 6.05 million Shares (the "**Pledged Shares**") to Tianyi Holding as collateral to secure Mr. Gu's repayment of the Loan.

Long Advance is wholly owned by Mr. Li and Tianyi Holding is a direct wholly owned subsidiary of the Company. Based on the price per Share of HK\$1.53 on 31 March 2022, being the last trading day prior to suspension of trading of the Shares, the Pledged Shares have a market value of approximately HK\$9.26 million and is insufficient to guarantee the full amount of the Loan.

Conclusion of the Forensic Investigation

The Forensic Accountant is of the view that Tiantong Yichang has conducted an unauthorized transaction in the amount of approximately RMB34.40 million ("**Unauthorized Transfer**").

Legal Implications of the Unauthorized Transfer

Pursuant to the legal opinion issued by Hunan Sanxiong Law Office* (湖南三雄律師所) ("**PRC Legal Adviser**") dated 7 April 2022, with regards to the Unauthorized Transfer, Mr. Li is not subject to criminal liability of misappropriation of fund under PRC criminal law as the Loan was not provided by Mr. Li personally to Mr. Gu and Mr. Li does not receive any share of the profit from the Project. However, as the legal representative and director of Tiantong Yichang at the material time, he breached PRC Company Law and the articles of association of Tiantong Yichang.

In accordance with the applicable PRC Company Law, Mr. Li, who has breached the applicable laws and regulations in carrying out his duties as director of Tiantong Yichang and has caused damages to Tiantong Yichang, shall be responsible for indemnifying the loss in the amount of the Loan in favour of Tiantong Yichang.

Further, pursuant to the legal opinion issued by the PRC Legal Adviser dated 21 July 2022, the Company had lost control of the Subsidiaries from 23 December 2021 when the Unauthorized Transfer was made and the Company, as the holding company of Tiantong Yichang, may adopt civil proceedings as one of the remedial measures.

The Company's Investment Management Internal Control

The Company's investment management internal control stipulates that for investments over

RMB20 million, approval of the board of directors of the relevant subsidiary, the chief executive officer of the Group and the board of directors of the Company are required. The Loan exceeded RMB20 million and therefore the aforementioned approvals were required.

However, Mr. Li did not report nor obtain such approvals for the Loan, and hence it was a major internal control deficiency of the Group.

The Company's Payment Internal Control

The Company's internal control for payment stipulates that approval of payments exceeding RMB3 million in respect of non-operational payments requires the approval of the board of directors of the relevant subsidiary.

The Loan exceeded RMB3 million and was non-operational payment and should therefore be approved by the board of directors of Tiantong Yichang. However, Mr. Li has failed to report and obtain such approval for the Loan and hence, it was a major internal control deficiency of the Group.

KEY LIMITATIONS OF THE FORENSIC INVESTIGATION

The findings of the Forensic Investigation were subject to certain limitations. The key limitations include but not limited to:

- (i) the Forensic Accountant was unable to obtain copies of the bank confirmations received by PwC;
- (ii) the Forensic Accountant was unable to obtain the CCTV records of Tiantong Yichang during the period from 15 December 2021 to 24 December 2021 and from January to March 2022;
- (iii) the Forensic Accountant was unable to obtain the expense records of the contractor in relation to the Project;
- (iv) the Company was unable to (a) arrange a visit by the Forensic Accountant to the bank at which Tiantong Yichang and Tiantong Yuanan maintained their bank accounts and (b) obtain authorization for printing all statements and transaction slips of the bank accounts since 1 January 2021 (collectively referred as the "**Bank Visit**");
- (v) Mr. Gu refused to provide the location of the construction site of the Project so as to enable the Forensic Accountant to inspect the progress of the Project; and
- (vi) the Forensic Accountant was unable to conduct an interview with Mr. Gu's cousin, the contractor's legal representative and the person-in-charge of the Project in the investment management department of the governmental tenderer.

Notwithstanding the limitations above, the Forensic Accountant has conducted a comprehensive review and analysis and exercised its independent judgment in arriving at its conclusion based on all the available evidence that could be obtained.

VIEWS OF THE INVESTIGATION COMMITTEE

Having considered the Forensic Investigation Report, the Investigation Committee noted that

the Unauthorized Transfer was conducted by Mr. Li and was primarily caused by:

- (i) Mr. Li entering into the loan agreement with Mr. Gu without authorization and approval from the Board; and
- (ii) Mr. Li having overridden the Company's investment management and payment internal control procedures and instructed the financial staff of Tiantong Yichang to transfer the Loan to Mr. Gu without proper authorization.

In view of the above, the Investigation Committee is of view that Mr. Li has failed to discharge his fiduciary duties as a director of the Tiantong Yichang, in particular, he failed to act honestly and in good faith in the overall interests of the Company and to exercise reasonable care, skill, and diligence. Accordingly, the Investigation Committee is of the view that Mr. Li should be responsible for the consequential losses suffered by the Group.

The Investigation Committee has reviewed the Forensic Investigation Report (including the limitations of the Forensic Investigation). After due and detailed discussion, the Investigation Committee is of the view that the content and findings in the Forensic Investigation Report are reasonable and acceptable. Accordingly, the Investigation Committee has recommended that the Board adopts the findings of the Forensic Investigation.

Further, the Investigation Committee also recommends the Company to seek further legal advice from PRC Legal Adviser on whether those staff of Tiantong Yichang who assisted Mr. Li in making the Unauthorized Transfer will be jointly liable to any losses suffered by the Group as a result of the Unauthorized Transfer.

OVERALL RESPONSES OF THE BOARD

The Board has reviewed the Forensic Investigation Report and considers that the Forensic Investigation Report has adequately addressed the issues raised by PwC in the PwC Letter. The Board has also reviewed the recommendations made by the Investigation Committee and concurs with the view of the Investigation Committee that Mr. Li shall be held responsible for any loss suffered by the Group arising from his failure to discharge his fiduciary duties. The Board also concurs with the Investigation Committee's observations that the Group's internal control was not properly implemented.

The Board has resolved to adopt forthwith the findings of the Forensic Investigation and the other recommendations of the Investigation Committee mentioned above and is of the view that the issues identified in the Forensic Investigation Report do not affect the business operation of the Group. The Group's business operation continues as usual despite the suspension of trading of Shares since 1 April 2022.

REMEDIAL ACTIONS TAKEN BY THE BOARD

Immediately after learning the audit issues raised by PwC in relation to the bank confirmations and the unauthorized transaction(s), the Company had relieved Mr. Li's from management duties of the Subsidiaries. The Company had on 7 April 2022 appointed Mr. Jiang Yubao* (蔣余寶) ("**Mr. Jiang**") and Mr. Yu Haoran* (于昊冉) ("**Mr. Yu**") to replace Mr. Li as the legal representative, director and general manager of Tiantong Yichang and Tiantong Yuanan, respectively.

The Company will instruct PRC Legal Adviser to commence legal proceedings in the PRC against Mr. Li to sue for damages suffered by the Group as a result of the Unauthorized Transfer and to seek further legal advice on whether staff of Tiantong Yichang who assisted Mr. Li in the Unauthorized Transfer will be liable too.

In May 2022, the Company engaged Elite Partners Risk Advisory Services Limited to review the internal control system of the Group (excluding the Subsidiaries due to loss of control, details of which are set out below), including risk management, corporate governance, financial recording and reporting procedures, investment procedures, treasury function, sales and receipts, purchase and payment and human resources management. The Company will make further announcement to update investors and shareholders once the internal control review results are available.

2. POTENTIAL DECONSOLIDATION OF SUBSIDIARIES DUE TO LOSS OF CONTROL

After relieving Mr. Li of his duties as management of the Subsidiaries, the current legal representative, director and general manager of Tiantong Yichang, Mr. Jiang attempted to arrange the Bank Visit with the staff of Tiantong Yichang. However, Mr. Jiang did not receive any response from the relevant staff of Tiantong Yichang and Mr. Li. The Forensic Accountant attempted to make contact but did not receive any response from Mr. Li, Mr. Gu and the relevant staff of Tiantong Yichang.

On 7 July 2022, Mr. Yu visited Tiantong Yichang's plant and was initially denied access by security staff of Tiantong Yichang at the entrance of Tiantong Yichang's plant. Upon entry, Mr. Yu questioned Tiantong Yichang's management personnel as to why they did not reply to Mr. Jiang's request for information and telephone enquiries and their failure to cooperate with the Forensic Accountant in the Forensic Investigation. Mr. Yu did not receive any positive response from the management personnel on the questioning. The Company demanded that the management staff of Tiantong Yichang to return Tiantong Yichang's company and finance chops, but the request was refused. Mr. Yu viewed that Tiantong Yichang is beyond the Company's control.

The Group has been seeking legal advice from the PRC Legal Adviser to address the issue and to regain control of Tiantong Yichang. On 20 July 2022, a lawyer of the Company's PRC Legal Adviser (the "**Visiting Lawyer**") visited Tiantong Yichang's plant on 20 July 2022 to investigate and verify the uncooperative situation. However, despite clear explanation from the Visiting Lawyer of his capacity as the legal representative of the Company, he was denied access by the security guard at the entrance of Tiantong Yichang's plant. The Visiting Lawyer reported the situation to Mr. Jiang, who then spoke to the security guard over the phone. However, the security refused to obey Mr. Jiang's instructions. The Visiting Lawyer eventually failed to gain access to Tiantong Yichang's plant.

Following the visit by the Visiting Lawyer, the PRC Legal Adviser has opined that the Company had lost control of the Subsidiaries from 23 December 2021 when Mr. Li and the finance staff of the Subsidiaries blatantly ignored the Group's internal control procedures and made the Unauthorized Transfer.

Further, the Group had requested the Subsidiaries to provide necessary assistance in relation to the audit of the consolidated financial statements of the Group for the year ended 31 December 2021 ("**2021 Audit**") and the preparation of the Subsidiaries' management accounts for the six months ended 30 June 2022. Despite repeated demands and requests from the Company, the

Subsidiaries did not respond to the Company's requests and have failed to provide all necessary books and records to the Company. As such, the Company is having difficulty in completing the 2021 Audit and is unable to prepare the consolidated financial statements of the Group involving the financial information of the Subsidiaries for the six months ended 30 June 2022 and announce the same within the prescribed deadline in compliance with the requirements of the Listing Rules.

In view of the foregoing, the Board is considering deconsolidating the financial results of the Subsidiaries from the Group's financial statements with effect from 31 December 2021 ("**Potential Deconsolidation**").

Whether or not the Company proceeds with the Potential Deconsolidation, the Company will make further disclosures as and when appropriate.

CONTINUED TRADING SUSPENSION OF THE SHARES OF THE COMPANY

Trading in the Shares on the Stock Exchange has been suspended with effect from 9:00 am on 1 April 2022 as required under Rule 13.50 of the Listing Rules and will remain suspended until further notice.

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 in the securities of the Company.

By Order of the Board
Tianyun International Holdings Limited
Yang Ziyuan
Chairman and Executive Director

Hong Kong, 29 July 2022

As at the date of this announcement, the Board comprises (i) Mr. Yang Ziyuan, Mr. Sun Xingyu and Mr. Yeung Wan Yiu as the executive Directors; (ii) Ms. Chu Yinghong and Mr. Wong Yim Pan as the non-executive Directors; and (iii) Mr. Liang Zhongkang, Mr. Shiu Shu Ming and Prof. Ye Xingqian as the independent non-executive Directors.

** For identification purposes only*