

STATEMENT OF DISCIPLINARY ACTION

Exchange's Disciplinary Action against Good Resources Holdings Limited (Delisted) (Previous Stock Code: 109) and a Former Director

SANCTIONS AND DIRECTIONS

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

CENSURES:

(1) **Good Resources Holdings Limited** (Delisted) (Previous Stock Code: 109) (**Company**);

IMPOSES A DIRECTOR UNSUITABILITY STATEMENT against:

(2) **Mr Chen Chuanjin**, former Executive Director (**ED**) and Chairman of the Company (**Mr Chen CJ**).

The statement made in respect of Mr Chen CJ above is made in addition to a public censure against him. The Director Unsuitability Statement is a statement that, in the Exchange's opinion, Mr Chen CJ is unsuitable to occupy a position as director or within senior management of the Company or any of its subsidiaries.

SUMMARY OF FACTS

The Pledge Contracts

In May/ September 2019, a subsidiary of the Company (**Subsidiary**)¹ executed four pledge contracts (**Pledge Contracts**) in favour of the Bank of Beijing, to secure the loan obligations of Shanghai Qian Jiang Cultural and Technology (Group) Limited (**Shanghai Qianjiang**) and Shanghai Shihao Commercial Development Company Limited (**Shanghai Shihao**).

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¹ Shanghai Yongsheng Capital Lease Company Limited (上海永盛融資租賃有限公司).

In September/ November 2019, the Bank of Beijing enforced the security provided under the Pledge Contracts and deducted the pledged deposits of RMB981,676,668.06 (**Bank Enforcement**).

The Immediate Remittances

On 30 June 2020, Shanghai Qianjiang remitted RMB378 million to the Subsidiary. On the following day, the Subsidiary remitted the same sum back to Shanghai Qianjiang. These remittances shall be referred to as “**Immediate Remittances**”.

The Loan Agreements

In July/ August 2020, the Subsidiary (as lender) entered into four loan agreements with Shanghai Shihao (as borrower) for a total loan sum of approximately RMB982 million (**Loan Agreements**). Although the Loan Agreements were entered into in the summer of 2020, they were dated September/ November 2019.

Purported Subscription of Wealth Management Products

On 17 July 2020, the Subsidiary provided the Company with its financial statements as at 30 June 2020. Those statements showed that the Subsidiary had subscribed for certain wealth management products with a reported value of RMB602.98 million (**Purported Subscription**).

On 7 September 2020, Mr Chen CJ reported to the Board that the Subsidiary had subscribed for the wealth management products on 30 June 2020 and, after redeeming the same, the Subsidiary lent the same sum to Shanghai Shihao and another company on or around 27 July 2020.

Discovery of the Loan Agreements

On 24 September 2020, the Company announced that:-

- (a) Between September and November 2019, the Subsidiary entered into possible loan agreements with a third party borrower, without the Company’s knowledge/ approval at the relevant time.
- (b) Based on the Board’s preliminary assessment, the applicable percentage ratio for these loan transactions exceeded 25 per cent and therefore, they should have constituted at least major transactions and should be subject to announcement/ circular/ shareholder approval requirements.

The Company later discovered that these transactions were in fact the Loan Agreements described above.

The Forensic Review

The Company commissioned an independent forensic review, which made the following key findings:

- (a) Mr Chen CJ was the Chairman and an Executive Director of the Company, as well as the Chairman and Legal Representative of the Subsidiary. He did not report to the Company the Pledge Contracts/ the Bank Enforcement/ the Loan Agreements when those came to his knowledge. He also did not take necessary measures to preserve/ recover the Company's assets. He failed to fulfill his duties as a director of the Company.
- (b) Although the Subsidiary explained that the Immediate Remittances were an operation error, the forensic reviewer found the explanation unlikely to be true.
- (c) The Purported Subscription did not actually occur. Although the Subsidiary explained that the Purported Subscription was a misunderstanding, the forensic reviewer did not accept the explanation. The forensic reviewer also doubted the authenticity of certain purported subscription records.
- (d) The sum of the Immediate Remittances (RMB378 million) and the Purported Subscription amount (RMB602.98 million) was RMB980.98 million, which was close to the Bank Enforcement sum (around RMB981.68 million). It was suspected that the Immediate Remittances and the Purported Subscription were intended to conceal the Bank Enforcement.
- (e) For the period between 1 July 2018 and 31 August 2021, the Subsidiary granted multiple (authorised) loans that were in default. The defaulted borrowers included Shanghai Shihao, Shanghai Qianjiang and four other Shanghai companies (collectively, **Defaulted Borrowers**).
- (f) Mr Cheng Kin Ming, a controlling shareholder of the Company, was the actual controller and/or connected person of the Defaulted Borrowers. The Pledge Contracts/ the Loan Agreements/ the other loan transactions with the Defaulted Borrowers may also have constituted connected transactions under the Listing Rules.

Suspension of Trading and Cancellation of Listing

Given the issues leading to the forensic review, the Company delayed publication of its annual results for the year ended 30 June 2020 (**2020 Annual Results**). This led to a suspension in trading of the Company's shares on 23 September 2020.

On 4 May 2022, the listing of the Company's shares was cancelled. Amongst other things, at the time of cancellation, the Company had failed to fulfill all of the resumption guidance imposed by the Exchange, including but not limited to the Company's failure to complete the investigations regarding the Pledge Contracts, the Loan Agreements, the Purported Subscription and other material unauthorised financial assistance.

Knowledge/ Involvement of Mr Chen CJ

During the Forensic Review, Mr Chen CJ admitted that he did not report the Pledge Contracts/ the Bank Enforcement/ the Loan Agreements to the Company, despite being informed of the same later on.

Mr Chen CJ alleged that his failure to report the aforesaid matters to the Company was due to a personal matter in 2019. He admitted that he had not directly participated in the Company's management at the material time, which he admitted had caused risks to the Company's loan business.

LISTING RULE REQUIREMENTS

Rule 14.34 provides that a listed issuer must publish an announcement as soon as possible after the terms of, *inter alia*, a notifiable transaction, have been finalised.

Rule 14.38A provides that a listed issuer must send a circular to its shareholders and the Exchange and arrange for its publication, for any major transaction.

Rule 14.40 provides that a major transaction must be made conditional on approval by shareholders.

Rule 3.08 provides that directors, both collectively and individually, are expected 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. Amongst other things, directors must act honestly and in good faith in the interests of the company as a whole (Rule 3.08(a)), act for proper purpose (Rule 3.08(b)), be answerable to the issuer for the application or misapplication of its assets (Rule 3.08(c)), and 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 (Rule 3.08(f)). Rule 3.08 provides that directors must also take an active interest in the issuer's affairs and must follow up anything untoward that comes to their attention.

Pursuant to the Director's Undertaking to the Exchange (**Director's Undertaking**) (Appendix 5B to the Listing Rules), each director is required to comply to the best of his ability, and to use his best endeavours to procure the Company's compliance, with the Listing Rules, and cooperate in any investigation conducted by the Exchange.

ACCEPTANCE OF SANCTIONS AND DIRECTIONS

In settlement with the Exchange, the Company and Mr Chen CJ have admitted their respective breaches and accepted the sanctions and directions imposed on them by the Listing Committee, as set out below.

LISTING COMMITTEE'S FINDINGS OF BREACH

The Listing Committee found as follows:

- (1) The Company breached Rules 14.34, 14.38A and 14.40 in respect of the Loan Agreements.
- (2) Mr Chen CJ breached his director's duties under Rule 3.08 and also his Director's Undertaking:
 - (i) Despite having knowledge of at least the Pledge Contracts/ the Loan Agreements, he failed to report them to the Company and take steps to procure the Company's Rule compliance at the time. His explanation, that he did not report those matters to the Company due to a personal matter in 2019, was not a valid reason to excuse himself from his director's duty. The fact that he occupied key positions in the Company (Chairman and Executive Director) and the Subsidiary (Chairman and Legal Representative) aggravates his breaches in this regard. His abject failures caused the Company's belated discovery of the Loan Agreements in September 2020 and of the Pledge Contracts/ Immediate Remittances/ Purported Subscription later on, which in

turn caused the delay in publication of the 2020 Annual Results, the suspension of trading of the Company's shares and ultimately the cancellation of the Company's listing.

- (ii) He also failed to protect the Company's assets, especially the deposits which were pledged as security under the Pledge Contracts.
 - (iii) He further failed to cooperate with the Exchange's investigation. Although he initially responded to the Exchange's investigation, he stopped doing so later on.
 - (iv) His failure to discharge his Rule responsibilities was serious and/or repeated.
- (3) In particular, the Immediate Remittances and the Purported Subscription would appear to be a calculated scheme to conceal the Bank Enforcement, given that (i) the Immediate Remittances straddled precisely across the end date of the reporting period for the relevant financial year (i.e. 30 June 2020), and given (ii) the forensic review investigation findings that the Purported Subscription did not actually exist, on top of the doubted authenticity of the purported subscription records. Any scheme that intends to circumvent the purpose/ requirements of financial reporting demands a strong and robust regulatory response from the Exchange. Hence, listed issuers and their directors should carefully scrutinise its financial records for any payments that are similar to the Immediate Remittances in this case (e.g. reverse payments that straddle across the end of a financial reporting period).

CONCLUSION

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

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

Hong Kong, 5 October 2022