

STATEMENT OF DISCIPLINARY ACTION

Exchange's Disciplinary Action against Four Directors of Arta TechFin Corporation Limited (Stock Code: 279) (Formerly Known as Freeman FinTech Corporation Limited)

SANCTION AND DIRECTIONS

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

IMPOSES A DIRECTOR UNSUITABILITY STATEMENT against:

- (1) **Mr Wang Xiaodong (Mr Wang)**, former executive director (**ED**) of the Company;

CENSURES:

- (2) **Ms Chow Mun Yee (Ms Chow)**, former ED and company secretary of the Company;
- (3) **Mr Yang Haoying (Mr Yang)**, former ED of the Company; and
- (4) **Mr Zhao Tong (Mr Zhao)**, former ED and chief investment officer of the Company;

AND FURTHER DIRECTS:

Each of Ms Chow, Mr Yang and Mr Zhao to attend 15 hours of training on regulatory and legal topics including Listing Rule compliance.

(The directors identified at (1) to (4) above are collectively referred to as the Relevant Directors).

The statement in respect of Mr Wang 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 Wang is unsuitable to occupy a position as director or within senior management of the Company or any of its subsidiaries (**Group**).

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HEARINGS

On 6 December 2022, the Listing Committee conducted a hearing into the conduct of the directors identified at (1) to (4) above in relation to their obligations under the Exchange Listing Rules and the Undertakings.

On 29 March 2023, the Listing Review Committee conducted a hearing of the review application of Ms Chow in respect of the finding of breach and sanctions imposed by the Listing Committee.

SUMMARY OF FACTS

The Company, through its wholly-owned subsidiary Hansom Finance Limited (**Hansom**), significantly expanded its provision of finance business during the 2017-2018 financial year by granting loans in the total amount of \$2.28 billion from July 2017 to April 2018 (**Loans**). The borrowers defaulted on the Loans and significant impairment losses were incurred by the Company.

Several aspects to the Loans called into question why the Loans were advanced and whether they were in the interests of the Company:

- (a) the Loans were made to 18 individual borrowers, all of whom were referred by Mr Wang;
- (b) 15 of the 18 borrowers were located outside of Hong Kong (in the PRC);
- (c) all of the Loans were unsecured, and the assets purportedly owned by the borrowers were mostly located in the PRC;
- (d) most of the borrowers requested their Loans to be paid to third-party nominees, with some borrowers nominating the same nominee; and
- (e) despite the fact that the Loans which matured in January and March 2018 went into default, Hansom continued to advance 5 more Loans until April 2018.

Mr Wang, Mr Yang and Mr Zhao were collectively responsible for managing and supervising Hansom's money lending business. Between them, they were responsible for negotiating the terms of the Loans, and ensuring that appropriate KYC/AML procedures and due diligence on the borrowers and their assets had been conducted. As the authorised signatory of Hansom's bank account, Ms Chow was responsible for signing all of the cheques for the Loans.

The evidence suggested only limited and inadequate due diligence and credit assessments had been conducted on the borrowers, and only limited follow up or monitoring regarding the status of the Loans by the Relevant Directors after the Loans were made. The Company could only provide a number of credit assessment reports listing certain assets purportedly owned by the borrowers, but there was no record of any due diligence conducted on those purported assets, or any explanation of why such assets were not used as security for the Loans.

There was no evidence of AML procedures or any other checks conducted on the third-party nominees, even where the same nominee was designated by different borrowers to receive their loan monies. Ms Chow did not notice that she signed three cheques in the sums of \$200 million, \$200 million, and \$160 million under three separate loan agreements to the same third-party nominee on the same day.

The Division conducted an investigation into whether the directors of the Company had breached their duties in respect of the Loans. According to the evidence, Mr Wang played a crucial role in the granting of the Loans, as referring all the borrowers to Hansom. The Division sent enquiry and reminder letters to Mr Wang, and also tried to contact him by telephone, but no response was received from Mr Wang.

LISTING RULE REQUIREMENTS

Rule 3.08 provides that the Exchange expects the 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. These duties include a duty to be answerable to the issuer for the application or misapplication of its assets (Rule 3.08(c)), and to 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)).

A director is subject to the obligations in the Declaration and Undertaking with regard to Directors given to the Exchange in the form of Appendix 5B to the Listing Rules (**Director's Undertaking**), which provides, *inter alia*, that he/she undertakes to (i) comply with the Listing Rules to the best of his/her ability; (ii) cooperate in any investigation conducted by the Division, (iii) inform the Exchange of any change to his/her contact details; and (iv) provide his/her up-to-date contact details to the Exchange for a period of three years from the date of cessation as the Company's director, failing which any documents/notices sent by the Exchange shall be deemed to have been served.

FINDINGS OF BREACH

The Exchange found as follows:

- (1) The Relevant Directors breached Rule 3.08 and their Undertakings to comply with the Listing rules to the best of their ability:
 - (a) The Relevant Directors failed to discharge their fiduciary duties and apply the levels of skill, care and diligence required in supervising and carrying out the Company's provision of finance business.
 - (b) The Relevant Directors failed to properly discharge their duties for the application of the Company's assets.
 - (c) The Relevant Directors did not conduct adequate due diligence on the borrowers and/or the nominees and their financial position, and/or take sufficient steps to safeguard the Company's interests in respect of the Loans granted to the borrowers.
 - (d) Directors are charged with managerial and supervisory functions over an issuer, and are expected to fulfill their fiduciary duties and apply a reasonable level of skill, care and diligence in respect of the Group's assets. The evidence suggested only limited or minimal level of discussions or considerations amongst the Relevant Directors in respect of the expansion of the provision of finance business by Hansom, due diligence on the borrowers and risk assessments of the Loans, monitoring of the status of the Loans and re-assessment or evaluation of the situation after certain Loans went into default. The fact that one is not a director of Hansom does not absolve him / her from the collective responsibility of the Relevant Directors to safeguard the assets of the Group.
- (2) Mr Wang breached his Undertaking by failing to cooperate in the investigation conducted by the Division.

CONCLUSION

The Exchange 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 any other past or present members of the board of directors of the Company.

Hong Kong, 4 May 2023