

STATEMENT OF DISCIPLINARY ACTION

Exchange's Disciplinary Action against China Fortune Holdings Limited (Stock Code: 110) and Eight Directors

SANCTIONS AND DIRECTIONS

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

CENSURES:

- (1) **China Fortune Holdings Limited** (stock code: 110) (**Company**, together with its subsidiaries, **Group**);

IMPOSES A DIRECTOR UNSUITABILITY STATEMENT against:

- (2) **Mr Gao Fei**, former executive director (**ED**) of the Company (**Mr Gao**);

CENSURES:

- (3) **Mr Lau Siu Ying**, ED, Chairman and CEO of the Company (**Mr Lau**);
- (4) **Mr Wang Yu**, ED of the Company (**Mr Wang**);

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AND CRITICISES:

- (5) **Mr Bao Kang Rong**, former non-executive director of the Company (**Mr Bao**);
- (6) **Dr Law Chun Kwan**, independent non-executive director (**INED**) of the Company (**Dr Law**);
- (7) **Dr Lo Wai Shun**, INED of the Company (**Dr Lo**);
- (8) **Mr Lam Man Kit**, former INED of the Company (**Mr Lam**); and
- (9) **Mr Chang Wing Seng Victor**, former INED of the Company.

(The directors identified in (2) to (9) above are collectively referred to as the **Relevant Directors**.)

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

AND FURTHER DIRECTS:

The appointment of a Compliance Adviser for a period of two years;

A review of the Company's internal controls for procuring compliance with the requirements for notifiable and connected transactions requirements under the Listing Rules;

Mr Lau, Mr Wang, Dr Law and Dr Lo to attend 24 hours of training on regulatory and legal topics and Listing Rule compliance; and

Mr Bao and Mr Lam to attend 24 hours, and Mr Chang to attend 18 hours, of training on regulatory and legal topics and Listing Rule compliance as a pre-requisite of any future appointment as director.

SUMMARY OF FACTS**Capital Subscription**

Shanghai Yuanjia International Trade Co., Ltd. (**Shanghai Yuanjia**) was an indirect wholly-owned subsidiary of the Company. Between 2014 and 2016, Shanghai Yuanjia subscribed for capital in Beijing Feiyong Changyou Technology Co., Ltd. (**Beijing Feiyong**) which resulted in a holding of 20% of its registered capital.

At the time, Mr Gao was not a director of the Company. However, given that he was a substantial shareholder of one of the Company's subsidiaries (thereby a connected person at the subsidiary level) and held 33.5% of the registered capital of Beijing Feiyong, Beijing Feiyong was a connected person of the Company.

In 2018, Shanghai Yuanjia acquired additional capital in Beijing Feiyong via the following transactions (**Acquisitions**):

- (1) On 8 January 2018, Shanghai Yuanjia, proportionate to its shareholding, subscribed for RMB2 million of the registered capital of Beijing Feiyong.
- (2) On 8 June 2018, Shanghai Yuanjia, proportionate to its shareholding, subscribed for another RMB3 million of the registered capital of Beijing Feiyong.
- (3) On 27 September 2018, Shanghai Yuanjia acquired a 13.5% shareholding in Beijing Feiyong from a third party independent of the Company at the time.

Following the above transactions, Shanghai Yuanjia came to hold 33.5% of the registered capital of Beijing Feiyong.

The Acquisitions, on an aggregated basis, constituted a connected transaction and a very substantial acquisition, and the Company was required to comply with announcement, circular and shareholders' approval requirements under the Listing Rules. The Company did not comply with the relevant requirements.

The Acquisitions were announced by the Company on 27 December 2019. In the announcement, the Company admitted breaching the relevant Listing Rule requirements.

Mobile Phone Trading

In 2018, Chongqing Yuanjia Communication Equipment Company Limited (**CYC**), an indirect non-wholly owned subsidiary of the Company, was established to engage in mobile phone trading business. 51% of CYC was owned by the Group, and 49% was owned by a Mr Dai Rong Xin (**Mr Dai**).

On 10 May and 15 June 2018, CYC entered into two agreements for the purchase of mobile phones from connected persons of the Company. The Listing Rules required the Company to announce the transactions in a timely manner, but they were only announced on 20 July 2018. A written warning was issued by the Division to the Company in October the same year for its breach of the Listing Rules.

The Division's investigation later revealed that, between June and August 2018, CYC entered into three agreements for the sale of mobile phones to two companies which were wholly-owned by Mr Dai's mother and brother. These transactions also constituted connected transactions of the Company, but the Company did not comply with the applicable Listing Rule requirements. They were also not reported in the annual report of the Company for 2018.

Advance

Between 2018 and 2019, CYC advanced a total of around RMB5.4 million to a company wholly-owned by Mr Dai, and to Mr Dai's mother:

- (1) In early 2019, CYC paid approximately RMB2.3 million to a company wholly-owned by Mr Dai upon his instructions. The payments were claimed to be deposits made for securing a shipment of mobile phones to be received by the supplier of CYC.
- (2) Between November 2018 and November 2019, Mr Dai instructed the staff of CYC to pay a total of around RMB3.1 million to his mother for her personal business needs. The advance was provided interest-free.

The assets ratio of the Advance exceeded 8% and constituted an advance to an entity under Rule 13.13. The Advance also constituted a discloseable and connected transaction of the Company. However, the Company did not comply with announcement, reporting, circular and independent shareholders' approval requirements under the Listing Rules. The Advance was not announced by the Company until 11 December 2020.

LISTING RULE REQUIREMENTS

Under Rule 13.13, if an advance to an entity exceeds 8% under the assets ratio, the Company must announce details of the advance as soon as reasonably practicable.

Under Rule 14.34, the Company is required to publish an announcement as soon as possible after the terms of a notifiable transaction have been agreed. A very substantial acquisition is further subject to circular and independent shareholders' approval requirements under Rules 14.38A, 14.48 and 14.49.

A connected transaction is subject to announcement, independent shareholders' approval and circular requirements under Rule 14A.35, 14A.36 and 14A.46.

Under Rule 14A.49, the Company is also required to disclose specific information about its connected transactions conducted during the year in its annual report.

Under Rules 3.08, 3.16 and 13.04, the board of directors is collectively responsible for the issuer's management and operations, and the directors are collectively and individually responsible for the listed issuer's compliance with the Listing Rules.

Rule 3.08 provides that the Exchange expects 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. Amongst other things, directors are required to act honestly and in good faith in the interests of the company as a whole, avoid conflicts of interest and duty, and to apply such degree of skill, care and diligence as may reasonably be expected of a person of his/her knowledge and experience and holding his/her office within the issuer.

Pursuant to the Declaration and Undertaking with regard to directors in the form set out in Appendix 5B to the Listing Rules (**Director's Undertaking**), each director is required to, amongst others,

- (1) comply to the best of his/her ability with the Listing Rules;
- (2) use his/her best endeavours to procure the company to comply with the Listing Rules; and
- (3) cooperate in any investigation conducted by the Division.

SETTLEMENT

The Company and the Relevant Directors agreed to settle this disciplinary action. They admitted their respective breaches as set out further below, and accepted the sanctions and directions imposed on them by the Listing Committee.

LISTING COMMITTEE'S FINDINGS OF BREACH

The Listing Committee found as follows:

(1) The Company breached:

- (a) Rules 14.34, 14.38A, 14.48, 14.49 and 14A.35 in respect of the Acquisitions;
- (b) Rules 14A.35, 14A.36, 14A.46 and 14A.49 in respect of the three agreements for the sale of mobile phones by CYC to connected persons; and
- (c) Rules 13.13, 14.34, 14A.35, 14A.36 and 14A.46 in respect of the Advance.

(2) The Relevant Directors breached Rule 3.08 and their Director's Undertaking:

- (a) Mr Lau became a director of Beijing Feiyong on the same date of the Group's acquisition of a 13.5% shareholding in Beijing Feiyong. He knew about the transaction, but he did not procure the Company to take steps to comply with the Listing Rule requirements.
- (b) The Company's position is that none of the Board members were involved in the day-to-day operation of Shanghai Yuanjia and CYC and the Directors at the material time relied on information provided to the Board to exercise supervision. However, the directors did not take any meaningful steps to ensure there were procedures or mechanism for the reporting of material information about Shanghai Yuanjia and/or CYC to the Board. They failed to ensure there was an appropriate system for checks and balances for the exercise of powers by the management of Shanghai Yuanjia and/or CYC. The internal controls regarding the usage of funds by CYC were also inadequate.

- (c) The Company's procedures for procuring Listing Rule compliance in respect of notifiable and connected transactions were manifestly inadequate. A part of the purported internal control documents of the Company was very outdated, and there were no procedures contained in those documents.
- (d) The written warning issued by the Division to the Company in October 2018 should have prompted a reasonable director to identify the inadequacies in the Company's relevant internal controls and take active remedial actions. However, Mr Lau, Mr Wang, Mr Bao, Dr Law, Dr Lo and Mr Lam, being the directors at the time, failed to do so. The evidence shows that only some actions were taken to improve the Company's internal controls, but they were very limited and ineffective. It was only in July 2020 that the Company commissioned a review of the relevant internal controls, and its relevant internal procedures were not updated until April 2021.
- (e) The Committee notes that Mr Wang and Dr Law, who have been directors respectively since 2009 and 2012, only attended one Listing Rule training session prior to 2020. Mr Lau, one of the Company's founding directors, had never attended any relevant training sessions. The INEDs were required to review and monitor the training and continuous professional development of directors and senior management of the Company. The circumstances of this case shows that Mr Chang, Dr Law, Dr Lo and Mr Lam failed to discharge their duties.
- (f) Mr Gao breached his Director's Undertaking to cooperate in the Exchange's investigation. He had acknowledged receipt of the Division's investigation letters. His breach was serious and persistent, and warrants a Director Unsuitability Statement.

CONCLUSION

The Listing Committee 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 Company and the directors named in this Statement of Disciplinary Action, and not to any other past or present members of the board of directors of the Company.

Hong Kong, 31 October 2023