

STATEMENT OF DISCIPLINARY ACTION

Exchange's Disciplinary Action against Hong Kong Resources Holdings Company Limited (Stock Code: 2882) and Eight Directors

SANCTIONS AND DIRECTIONS

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

CENSURES:

(1) **Hong Kong Resources Holdings Company Limited** (Stock Code: 2882) (**Company**);

IMPOSES A PREJUDICE TO INVESTORS' INTERESTS STATEMENT against:

(2) **Mr Xu Zhigang**, former executive director (**ED**) of the Company (**Mr Xu ZG**);

(3) **Mr Zhao Jianguo**, former ED of the Company (**Mr Zhao**);

CENSURES:

(4) **Mr Fan Ren Da Anthony**, independent non-executive director (**INED**) of the Company (**Mr Fan**);

(5) **Dr Loke Yu**, INED of the Company (**Dr Loke**);

(6) **Ms Dai Wei**, former ED of the Company (**Ms Dai**);

(7) **Mr Lam Kwok Hing Wilfred**, former ED of the Company (**Mr Lam**);

(8) **Mr Wu Xiaolin**, former ED of the Company (**Mr Wu**); and

(9) **Mr Xu Xiaoping**, former INED of the Company (**Mr Xu XP**).

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

The statement made in respect of each of Mr Xu ZG and Mr Zhao above is made in addition to a public censure against them. The Prejudice to Investors' Interests Statement is a statement that, in the Exchange's opinion, had Mr Xu ZG and Mr Zhao remained on the board of directors of the Company (**Board**), the retention of office by them would have been prejudicial to the interests of investors.

AND FURTHER DIRECTS:

20 hours of training on regulatory and legal topics including Listing Rule compliance (**Training**) for Ms Dai, Mr Fan, Dr Loke and Mr Xu XP and 17 hours of Training for Mr Lam and Mr Wu.

HEARINGS

On 20 December 2022, the Listing Committee conducted a hearing into the conduct of the Company and the Relevant Directors in relation to their obligations under the Exchange Listing Rules and the Undertakings.

On 6 June 2023, the Listing Review Committee conducted a hearing of the review application of Ms Dai, Mr Fan and Dr Loke in respect of the findings of breaches and sanctions imposed by the Listing Committee.

SUMMARY OF FACTS

From June 2018 to March 2019, a subsidiary of the Company (**Subsidiary**), holding a money lender's license in Hong Kong, granted 12 loans to nine borrowers (**Borrowers**) totalling approximately \$74.4 million (**Loans**).

In January 2019, in the process of reviewing the Company's interim results announcement for the six months ended 31 December 2018 (**FY18/19 Interim Results**), the Company's auditors (**Auditors**) raised concerns regarding the Company's expected credit loss (**ECL**) assessment in relation to the Loans in light of the amount of the Loans granted and delayed interest repayments. The Auditors further observed and noted in their review report (**Auditors' Report**) that, amongst other things, there were inadequate internal controls in respect of the approval and granting of

loans for the Company's money lending business and insufficient due diligence assessment on the repayment ability of the Borrowers (**Issues**). The Auditors' Report was circulated to the Board in February 2019.

Despite the Issues, the Board considered no allowance for ECL on the principal and interest of the Loans was necessary. Accordingly, the FY18/19 Interim Results and the interim report for the six months ended 31 December 2018 (**FY18/19 Interim Report**) were published in February and March 2019 respectively. The FY18/19 Interim Report contained a disclosure regarding why no ECL provision was considered necessary by the Company, but it did not mention any of the Issues and gave the impression that there were no issues with the Loan repayments and that they would be paid on time.

During the audit process for the financial year ended 30 June 2019 (**FY2019**), the Auditors and an external investigation reviewer commissioned by the Company questioned the commercial rationale of the Loans given (i) the insufficient due diligence before they were granted; (ii) the lack of concrete follow-up actions when sums became overdue; and (iii) the questionable relationship between the Company and the Borrowers.

All the Borrowers defaulted on the Loans, which led to the Company recording a 100 per cent impairment loss of around \$86 million in its financial statements for FY2019 for all the Loans and interest. The impairment loss accounted for around 40 per cent of the loss incurred by the Company for the year.

Subsequently, there was a delay in publishing the Company's annual report and results for FY2019 and interim results and reports for the six months 31 December 2019 (collectively, **FY2019 Annual Results and Report and FY19/20 Interim Results and Report**).

LISTING RULE REQUIREMENTS

Rule 2.13(2) provides that the information contained in any announcement or corporate communication must be accurate and complete in all material respects and not be misleading or deceptive.

Rules 13.46(2), 13.48(1), 13.49(1) and 13.49(6) stipulates the respective timing for the publication or dispatch of an issuer's preliminary announcement of annual and interim results and reports.

Rule 3.08 provides that directors, both collectively and individually, are required 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, among others, to act in the best interests of the issuer and proper purpose; be answerable to the issuer for the application and misapplication of its assets; and to apply such degree of skill, care and diligence as may reasonably be expected of a person of his/her knowledge, experience and office within the issuer.

In addition, under Rules 3.08, 3.16 and 13.04, the board is collectively responsible for the Company's management and operations, and the directors are collectively and individually responsible for the Company's compliance with the Listing Rules.

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 (i) comply with the Listing Rules to the best of his/her ability; (ii) use his/her best endeavours to procure the Company's compliance with the Listing Rules; and (iii) cooperate in any investigation conducted by the Division.

EXCHANGE'S FINDINGS OF BREACH

The Exchange found as follows:

- (1) The Company breached:
 - (a) Rule 2.13 by failing to disclose accurate and complete information in the FY18/19 Interim Report. The Company should have given due consideration to the Issues raised by the Auditors. By omitting material facts of an unfavourable nature, the Company misled its investors.
 - (b) Rules 13.46(2), 13.48(1), 13.49(1) and 13.49(6) in respect of its delays in publishing and dispatching the FY2019 Annual Results and Report and FY19/20 Interim Results and Report.
- (2) The Relevant Directors breached their director's duties under Rule 3.08 and their Director's Undertakings to comply with the Listing Rules to the best of their ability and to use their best endeavours to procure the Company's Listing Rule compliance in respect of the money lending business:

- (a) The Relevant Directors (except Mr Wu, who resigned in August 2018) failed to procure the Company to disclose accurate and complete information in the FY18/19 Interim Report. Mr Xu ZG was the director responsible for liaising with the Auditors regarding the Issues and took the view that no ECL allowance for the Loan receivables was required, even though the Auditors disagreed. Although Mr Fan and Dr Loke, both members of the Company's audit committee (**Audit Committee**), had enquired about the details of the Loans with Mr Xu ZG, they took the view, without conducting meaningful further enquiry, that the failure of the Borrowers to make interest payments on time was immaterial. Further, there was no evidence of any critical assessment of, or discussions on, the FY18/19 Interim Report or the Auditors' Report by the Audit Committee. The Exchange observed that the Audit Committee was notably ineffective and failed to discharge its duties to monitor the integrity of the Company's financial statements and reports as required under its terms of reference. Ms Dai simply relied on Mr Xu ZG and the Audit Committee's recommendation. There was no evidence of any exercise of independent judgement or of how they had satisfied themselves that Mr Xu ZG's recommendation should be adopted. All the Relevant Directors (except Mr Wu) approved the publication of the FY18/19 Interim Report according to the minutes of the relevant Board meeting. The Board should have critically considered the Issues when making the ECL assessment and ensured any disclosures in connection with it were accurate.
- (b) All Relevant Directors failed to procure the Company to have in place an adequate and effective internal control system in the money lending business. They should have ensured a mechanism was in place to allow checks and balances and restrict the powers of individual directors in relation to the granting of the Loans. Sufficient due diligence and credit risk assessment should have been conducted over the Borrower's ability to repay, supported by evidence of such assessment. Mr Xu ZG and Mr Wu had extensive experience as directors of listed issuers and an apparent experience in operating a money lending business – they should have ensured that sufficient due diligence was carried out, proper credit checks and assessments were conducted, and that the Company had set up procedures and guidance for, and prior to, the approval of the Loans. However, there were no payment approval policies or limits on the amount of the loans that could be granted, or any guidance or transactions in relation to connected persons. Mr Wu submitted that he had relied on the Group's finance department and the Company's chief financial officer to conduct

risk assessments of the Loans. His purported delegation of this function did not absolve him from his responsibility to exercise independent judgement before approving the Loans. Mr Lam, Ms Dai, Mr Fan, Dr Loke and Mr Xu XP relied on the then money lending policy and Mr Xu ZG. The then money lending policy was wholly inadequate, illustrating their lack of understanding of a proper internal control system.

- (3) Mr Xu ZG and Mr Zhao did not respond to the Division's enquiries and accordingly failed to cooperate with the Division's investigation. The Exchange expects all respondents and related entities/individuals to cooperate by providing timely responses during an investigation by the Division. A failure to cooperate is considered a serious breach.

CONCLUSION

The Exchange decided to impose the sanctions and direction set out in this Statement of Disciplinary Action.

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

Hong Kong, 4 December 2023