

## STATEMENT OF DISCIPLINARY ACTION

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Exchange's Disciplinary Action against Daisho Microline Holdings Limited  
(Stock Code: 567) and its Former Executive Director and Chairman

### SANCTIONS AND DIRECTIONS

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

#### CRITICISES:

(1) **Daisho Microline Holdings Limited** (Stock Code: 567) (**Company**);

#### CENSURES:

(2) **Ms Cheung Lai Na**, former executive director and Chairman of the Company (**Ms Cheung** or **Director**);

#### AND DIRECTS:

the Company to retain an adviser to conduct a review of the Company's internal controls for procuring compliance with Rule 2.13 of the Listing Rules (**Rules**) and for management and avoidance of potential and actual conflict of interests; and

Ms Cheung to attend 17 hours of training on regulatory and legal topics and Listing Rule compliance (**Training**). The Training must include at least three hours on each of (a) directors' duties; (b) the Corporate Governance Code; and (c) the Listing Rule requirements for accurate and complete disclosure in corporate communication, to be provided by training providers approved by the Division, as a pre-requisite of any future appointment as a director of any company listed or to be listed on the Exchange.

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**SETTLEMENT**

The Company and the Director agreed to settle this disciplinary action, and accept the sanctions and directions imposed on them by the Listing Committee.

**SUMMARY OF FACTS**

On 29 September 2017, the Company and a vendor (**Vendor**, an associate of Ms Cheung) entered into a sale and purchase agreement (**Agreement**), pursuant to which the Company agreed to acquire four vessels (**Vessels**) from the Vendor (**Acquisition**). Completion of the Acquisition was to take place in three stages upon the satisfaction of the conditions under the Agreement.

At the relevant time, Ms Cheung was primarily responsible for monitoring the progress of the Acquisition. She played a “high-level supervisory role” and delegated the actual execution to staff members. On 28 September 2018, Ms Cheung directed the Company to issue a cheque (**Cheque**) and promissory notes (**Promissory Notes**) to the Vendor in anticipation of the completion of the Acquisition. Prior to authorising the issue of the Cheque and Promissory Notes, the Company only received drafts of the completion deliverables from the Vendor and Ms Cheung was aware that the mortgages for the relevant Vessels had not been discharged.

On 28 November and 12 December 2018 respectively, the Company published its interim results (**2018 Interim Results**) and interim report for the period ended 30 September 2018 (**2018 Interim Report**). It was stated in the 2018 Interim Results and Report that the Acquisition of the Vessels had been duly completed. The 2018 Interim Results were prepared on the basis that the Acquisition was completed.

Subsequently in January 2019, the Company discovered that the mortgages for three of the Vessels were not discharged and the Vendor did not bank in the Cheque. The Company admitted in its announcement of 2 April 2019 (**Clarification Announcement**) that the completion of the Acquisition in respect of three of the Vessels had not taken place as of 30 September 2018. In the Clarification Announcement, the Company adjusted and restated the 2018 Interim Results to reflect the Acquisition was not fully completed as at 30 September 2018, and the Company’s total assets as at 30 September 2018 were adjusted from approximately \$639 million to approximately \$546 million.

Prior to the publication of the 2018 Interim Results and Report, the Company did not perform bank reconciliation and hence it was not aware that the Cheque was not banked in by the Vendor and the Acquisition was not completed by 30 September 2018.

**LISTING RULE REQUIREMENTS**

Rule 2.13(2) requires a listed issuer to ensure that the information contained in any announcement or corporate communication is accurate and complete in all material respects and not misleading or deceptive.

Under Rules 3.08, 3.16 and 13.04, directors of listed issuers are both collectively and individually responsible for the Company's management and operations, and are collectively and individually responsible for the Company's compliance with the Listing Rules. Rule 3.08 provides that the directors must 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 further provides that directors do not satisfy the required levels of skill, care and diligence if they pay attention to the issuer's affairs only at formal meetings. At a minimum, they must take an active interest in the issuer's affairs and obtain a general understanding of its business. They must follow up on anything untoward that comes to their attention.

Pursuant to the Director's Undertakings, directors of listed issuers are under an obligation to comply with the Rules to the best of their ability and to use their best endeavours to procure the Company's Rule compliance.

**LISTING COMMITTEE'S FINDINGS OF BREACH**

The Listing Committee found as follows:

- (1) The Company breached Rule 2.13(2) in relation to the 2018 Interim Results and the 2018 Interim Report:
  - (a) The information in the 2018 Interim Results and Report concerning the completion of the Acquisition and the Company's financial position as to its total assets was not accurate and complete in all material respects.
  - (b) At the relevant time, the Company did not have adequate and effective controls for ensuring its compliance with Rule 2.13.
- (2) Ms Cheung breached Rule 3.08(f) and her Director's Undertaking to comply with the Rules to the best of her ability in relation to the Acquisition and to use her best endeavours in procuring the Company's Rule compliance. She has admitted her breaches:

- (a) Ms Cheung was primarily responsible for monitoring the progress of the Acquisition. Delegation of the actual execution of the Acquisition does not absolve her from her ultimate responsibility in relation to the Acquisition.
- (b) She failed to discharge her duties and Director's Undertaking in monitoring the progress of the Acquisition and in ensuring the completion of the Acquisition was in accordance with the terms of the Agreement. The Agreement provides that the completion was conditional upon, among other things, the full discharge of the mortgages. When authorising the issue of the Cheque and Promissory Notes, Ms Cheung was well aware that the mortgages for the relevant Vessels had not been discharged and the Company had only received draft completion deliverables.
- (c) After authorising the issue of the Cheque and Promissory Notes, Ms Cheung did not take sufficient steps to follow up on the discharge of the mortgages and the completion status, and to ensure the information concerning the Acquisition in the 2018 Interim Results and Report was accurate and complete in all material respects. When completion of the Acquisition did not take place in accordance with the Agreement, she failed to keep the entire board informed and therefore failed to place the other directors in a position to review the information regarding the Acquisition to ensure the accuracy of the 2018 Interim Results and Report.
- (d) No bank reconciliation was performed before the 2018 Interim Results were approved for publication. Ms Cheung failed to ensure the Company's internal control system was adequate to procure the Company's Rule compliance in relation to the 2018 Interim Results and Report.

## **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 Director, and not to any other past or present members of the board of directors of the Company.

Hong Kong, 11 November 2021