

STATEMENT OF DISCIPLINARY ACTION

Exchange's Disciplinary Action against Bonny International Holding Limited
(Stock Code: 1906) and two Directors

SANCTIONS AND DIRECTIONS

The Stock Exchange of Hong Kong Limited

CENSURES:

- (1) **Bonny International Holding Limited** (Stock Code: 1906) (**Company**);
- (2) **Mr Jin Guojun**, executive director and Chairman of the Company (**Mr Jin**); and
- (3) **Mr Zhao Hui**, executive director of the Company (together with Mr Jin, **Relevant Directors**);

AND FURTHER DIRECTS:

Each of the Relevant Directors to attend 21 hours of training on regulatory and legal topics including Listing Rule compliance.

SUMMARY OF FACTS

The Company was listed on 26 April 2019. Prior to listing, the Group entered into a framework purchasing agreement (**Framework Agreement**) with Zhejiang Deshipu New Materials Technology Co Ltd (**Deshipu**), under which the Company would procure polyamide from Deshipu with an annual cap of RMB30 million for each of 2019, 2020 and 2021.

During the year ended 31 December 2019 (**FY2019**) and the four months ended 30 April 2020 (**4M2020**), the Company entered into 51 procurement agreements with Deshipu with an aggregate purchase amount of approximately RMB258.6 million. Under these procurement agreements, the Company made prepayments to Deshipu of approximately RMB250.8 million (**Prepayments**). Out of the 51 procurement agreements, 35 were cancelled shortly after they were entered into and Deshipu refunded approximately RMB220.6 million to the Company. Deshipu is an associate of Mr Jin and is therefore a connected person of the Company.

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The Company had exceeded the annual caps for 2019 and 2020 in breach of Rule 14A.54. In an announcement dated 11 May 2020, the Company admitted the breach which arose from a mistaken belief of the management that only completed purchases (ie excluding cancelled orders) would be counted towards the annual cap.

According to the Company, the Prepayments were considered trade receivables made in the ordinary course of business and commercial decisions made in the financial interests of the Company, and as such were not advances or financial assistance made to Deshipu.

However, under the Rules, the Prepayments constituted advances to an entity and discloseable and connected transactions on the following basis:

- (1) The amount of prepayments made was significant. The Company had made nearly full prepayments for the purchase orders placed with Deshipu but only completed at most 40 per cent of the orders.
- (2) The amounts of purchase orders were significantly larger than the amounts of completed orders based on the historical orders prior to listing:

Orders with Deshipu	Before Listing			Post Listing	
	2016	2017	2018	2019	4M2020
	(RMB '000)				
Purchase orders	34,900	111,320	168,571	177,600	81,000
Completed orders	13,922	16,589	20,932	6,343	17,400
Prepayments	34,900	111,320	168,570	169,873	80,900
Refunds from Deshipu	12,562	95,256	131,584	164,640	56,000

- (3) There were frequent cancellations of orders and most of the orders were cancelled shortly after the agreements were entered into.
- (4) There was a long period for refund of the unused prepayments. The maximum number of days for refunds by Deshipu was approximately 183 days in FY2019, with a weighted average of 74 days, and 110 days for 4M2020, with a weighted average of 53 days.

The Relevant Directors were involved in and had knowledge of the Prepayments. They neither notified the board of the Prepayments nor took steps to procure the Company's compliance with the Rules.

The members of the board other than the Relevant Directors did not know of the Prepayments until the issue was discovered during the audit of the Company's FY2019 annual results.

The Company did not comply with the announcement, circular, independent shareholders' approval and reporting requirements under Chapters 13, 14 and 14A of the Listing Rules. It also failed to consult with its compliance adviser prior to entering into the procurement agreements during the Fixed Period (as defined in Chapter 3A of the Rules).

The Company and the Relevant Directors do not contest their respective breaches and accept the sanctions imposed upon them by the Listing Committee as set out below.

RULE REQUIREMENTS

Under Rules 13.13 and 13.20, where the relevant advance to an entity exceeds 8 per cent, the Company must announce details of the relevant advance as soon as reasonably practicable. Such information should also be included in the Company's interim or annual report where such circumstances continue to exist at the Company's interim period or annual financial year end.

Under Rules 14.34, 14A.35, 14A.36, 14A.46 and 14A.49, where the transactions exceeded the assets ratio of 5 per cent and amounted to financial assistance, the Company is required to comply with the announcement, circular, (independent) shareholders' approval and reporting requirements for a discloseable and/or connected transaction.

Under Rule 3A.23, the Company (as a newly listed issuer) must consult its compliance adviser on a timely basis when contemplating transactions which might be notifiable or connected transactions during the "Fixed Period" defined in Chapter 3A of the Listing Rules.

Rule 3.08 provides that directors, both collectively and individually, are expected to fulfil duties of skill, care and diligence to a standard at least commensurate with the standard established by Hong Kong law. These duties include applying 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 (**Undertaking**), each director is required to (i) comply with the Listing Rules to the best of his ability; and (ii) use his best endeavours to procure the Company's compliance with the Listing Rules.

LISTING COMMITTEE'S FINDINGS OF BREACH

The Listing Committee found as follows:

- (1) The Company breached:
 - (a) Rules 13.13 and 13.20 with respect to the advances made to Deshipu;
 - (b) Rules 14.34, 14A.35, 14A.36, 14A.46 and 14A.49 by failing to comply with the announcement, circular, independent shareholders' approval, reporting and annual cap requirements for the Prepayments; and
 - (c) Rule 3A.23 by failing to consult its compliance advisor prior to entering into the procurement agreements with Deshipu during the "Fixed Period" defined in Chapter 3A of the Listing Rules.

- (2) The Relevant Directors breached Rule 3.08 and their Undertakings to comply with the Listing Rules to the best of their ability and to use their best endeavours to procure the Company's compliance with the Listing Rules in relation to their failure to:
- (a) Adequately safeguard the Company's assets with respect to the Prepayments; and
 - (b) Ensure the Company's Rule compliance.

CONCLUSION

The Listing Committee 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, 16 December 2021