

STATEMENT OF DISCIPLINARY ACTION

Exchange's Disciplinary Action against S&S Intervalue China Limited (Delisted, Previous Stock Code: 8506) and Five Directors

SANCTIONS AND DIRECTIONS

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

CENSURES

- (1) **S&S Intervalue China Limited**, formerly known as China Futex Holdings Limited (Delisted, Previous Stock Code: 8506) (**Company**);

IMPOSES A DIRECTOR UNSUITABILITY STATEMENT against:

- (2) **Mr CHEN Yi Hui**, former Executive Director (**ED**) of the Company (**Mr Chen**);
- (3) **Ms YUAN Yuan**, former ED, Chairlady, CEO and compliance officer of the Company (**Ms Yuan**);
- (4) **Dr HU Xu Dong**, former Independent Non-Executive Director (**INED**) of the Company (**Dr Hu**);

CENSURES

- (5) **Mr SHUM Shing Kei**, INED of the Company (as at the date of delisting) (**Mr Shum**);
- (6) **Dr MU Zhi Rong**, former INED of the Company (**Dr Mu**);

(The directors identified at (2) to (6) above are collectively referred to as the **Relevant Directors**.)

The Director Unsuitability Statement made in respect of Mr Chen, Ms Yuan and Dr Hu above is made in addition to a public censure against each of them. The Director Unsuitability Statement is a statement that, in the Exchange's opinion, Mr Chen, Ms Yuan and Dr Hu are unsuitable to occupy a position as director or within senior management of the Company or any of its subsidiaries.

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AND FURTHER DIRECTS:

18 hours of training on regulatory and legal topics and Listing Rule compliance for Mr Shum and Dr Mu.

SUMMARY OF FACTS*Unauthorised Transactions*

During the course of 2018 to 2020, the Company's subsidiary (**Subsidiary**) entered into a series of unauthorised transactions (**Unauthorised Transactions**) under which the Subsidiary provided a loan (**Loan**) and multiple bank guarantees for the due performance of certain liabilities owed by a subsidiary of China Greenfresh Group Co Ltd (delisted, previous stock code: 6183) (**China Greenfresh**) and other entities linked to China Greenfresh.

The Unauthorised Transactions constituted discloseable and major transactions. The Company admitted breaches of the announcement, circular and shareholders' approval requirements under Chapter 19 of the GEM Listing Rules (**GLRs**) in connection with the Unauthorised Transactions.

The Relevant Directors were all members of the board of directors of the Company (**Board**) at the relevant time when the Unauthorised Transactions were entered into.

The Company claimed that the Unauthorised Transactions were not reported to nor authorised by the Board, and were arranged, inappropriately, by Mr Chen and/or Ms Yuan without the Board's knowledge. On that basis, the Company attributed the occurrence of the Unauthorised Transactions to Mr Chen and Ms Yuan's misconduct.

However, there were deficiencies in the Company's internal controls which contributed to (a) the opportunity for Mr Chen and Ms Yuan to arrange the Unauthorised Transactions without knowledge of the Board, and (b) the Company and the Board's inability to prevent and/or timely identify the Unauthorised Transactions. During a review of the Company's internal controls (**2021 IC Review**), conducted by an independent professional firm in 2021 after the Company's discovery of the Unauthorised Transactions, the following material deficiencies were identified:

- (1) The Subsidiary adopted a sole-directorship system and Mr Chen was the sole director of the Subsidiary at the relevant time. This led to a concentration of power in the sole director, which led to a deterioration in corporate governance and internal control at the subsidiary level.

- (2) The Company did not have any proper system in respect of management appointments or to define the limits of management power.
- (3) The Company lacked adequate internal control systems. The disclosure system was ineffective due to inadequacies in reporting lines, compliance culture, and director/staff training. The governance policies which the Company had in place were incomplete and out-of-date, and had neither been circulated nor followed.
- (4) The Company's financial reporting function was ineffective. Its financing activities were also unmonitored.
- (5) The Company had no policy or practice to prepare and circulate monthly updates to the Board.

Subsequently, another internal control consultant was engaged to review the changes made to the Company's internal controls in the course of 2021. It discovered, among others, that certain deficiencies identified in the 2021 IC Review remained unaddressed.

As a result of the Unauthorised Transactions, the Company was estimated to suffer significant potential loss of approximately RMB 193 million and was eventually delisted.

Non-cooperation

The Division sent investigation and reminder letters to each of Mr Chen, Ms Yuan and Dr Hu at their respective last known addresses between October 2021 and May 2022. However, none of them responded to the Division's letters.

GLR REQUIREMENTS

GLR 19.34, 19.38, and 19.40 required the Company to comply with the circular, announcement and shareholders' approval requirements for discloseable transactions and major transactions.

Under GLR 5.01, 5.03 and 17.03, the Relevant Directors were collectively and individually responsible for the Company's management and operations, and were collectively and individually responsible for the Company's compliance with the GLR. These duties included a duty 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 Company.

Pursuant to GLR 5.20, the responsibilities of the compliance officer of the Company (being Ms Yuan at the relevant time) must include, at a minimum, advising on and assisting the Board in implementing procedures to ensure that the Company complied with the GLR.

Under the Corporate Governance Code (**CG Code**) (Appendix 15 to the GLR), the Relevant Directors were required, among others, to ensure (a) that the Company established and maintained appropriate and effective risk management and internal control systems on an ongoing basis, and (b) a review of the risk management and internal control systems to be conducted at least annually.

All members of the Board should also be provided with monthly updates giving a balanced and understandable assessment of the Company's performance, position and prospects in sufficient detail to enable the Board as a whole and each director to discharge their duties.

In addition, under the CG Code, the audit committee of the Company (**Audit Committee**) (comprising Mr Shum, Dr Hu and Dr Mu at the relevant time) was required, among others, to (a) review the Company's financial controls and risk management and internal control systems (including in respect of financial and accounting), (b) ensure that the management performed its duty to put in place effective systems, and (c) establish a whistleblowing policy and system about possible improprieties in any matter related to the Company.

The Relevant Directors were also subject to the obligations under the Declaration and Undertaking with regard to Directors (**Undertaking**) in the form set out in Appendix 6A to the GLR, which provided, among other things, that they shall: (a) cooperate in any investigation conducted by the Listing Division (**Division**) and/or the Listing Committee; (b) promptly and openly answer any questions addressed to them; and (c) provide their up-to-date contact details to the Exchange for a period of three years from the date on which they cease to be a director of the Company, failing which any documents/notices sent by the Exchange shall be deemed to have been served on them.

LISTING COMMITTEE'S FINDINGS OF BREACH

The Listing Committee found as follows:

- (1) The Company, as admitted, breached GLR 19.34, 19.38 and 19.40 in relation to the Unauthorised Transactions.

- (2) There were material deficiencies in the Company's internal controls, which contributed to the Company's failure to comply with the GLR requirements applicable to the Unauthorised Transactions.
- (3) Mr Chen and Ms Yuan breached GLR 5.01 in relation to the Unauthorised Transactions:
 - (a) They procured, or must have had knowledge about, the change to a sole-directorship system in the Subsidiary, but they did not obtain prior approval of the Board.
 - (b) Mr Chen and/or Ms Yuan caused the Subsidiary to enter into the Unauthorised Transactions, which lacked any or justifiable commercial reasons. They also failed to conduct any due diligence before entering into the Unauthorised Transactions.
 - (c) They did not report the Unauthorised Transactions to the Board for discussion and approval prior to their execution, nor procure the Company's compliance with the applicable GLR requirements.
- (4) Ms Yuan, as compliance officer of the Company, breached GLR 5.20 by failing to advise the Company in respect of the GLR requirements applicable to, at least, the Loan approved by her.
- (5) All Relevant Directors breached GLR 5.01 and their Undertakings to (i) comply with the GLR to the best of their ability and (ii) use their best endeavours to ensure that the Company had adequate and effective internal controls, including those relevant for the Company's compliance with the GLR:
 - (a) Amongst the Relevant Directors, Mr Shum, Dr Mu and Dr Hu had been INEDs and members of the Audit Committee since the Company became listed on GEM and during the time when the Unauthorised Transactions took place. They failed to discharge their directors' duties to oversee and ensure that the Company had adequate and effective internal controls as set out above.
 - (b) While the Committee noted Dr Mu and Mr Shum had provided responses to the Division to assist in its investigation, they failed to demonstrate that they had discharged their duties in relation to the Company's internal controls:

- (i) Both Dr Mu and Mr Shum submitted that they were not aware of any of the Unauthorised Transactions when they occurred. They also denied any breach of the GLR in respect of the Company's poor internal controls, but no persuasive evidence was provided to show that they had properly discharged their duties in relation to the Company's internal controls. In particular, Dr Mu and Mr Shum failed to show how they were able to discharge their duties of monitoring and supervision when the Company did not have a system of providing monthly updates to the Board.
 - (ii) In the case of Mr Shum, he has an abundance of experience acting as an INED and in other senior management roles of companies listed on the Exchange. He also held a master degree in financial management and is a fellow member of the Hong Kong Institute of Certified Public Accountants.
 - (iii) Nonetheless, Mr Shum failed to demonstrate the standard of skill, care and diligence expected of him in ensuring that the Company has adequate and effective internal controls. His unduly heavy reliance on the documents and information made available or accessible to him by the EDs demonstrated that he failed to discharge his duties as an INED, who should have carried out his own independent assessment as to whether the documents and information provided by the EDs were sufficient. For example, he and Dr Mu should have demanded for the provision of monthly updates so as to enable each director to discharge his duties. This is particularly important as INEDs do not usually participate in the day-to-day management of the listed issuer.
 - (iv) In support of his position, Mr Shum also tried to rely on a report prepared by another independent professional firm on the design of the Company's internal controls before the listing of the Company. However, the internal control deficiencies described above, such as the fact that the internal policies were out-of-date and not circulated nor followed, showed that Mr Shum (and other Relevant Directors) did not take any or adequate steps to implement or maintain the Company's internal controls. Further, Mr. Shum did not undertake sufficient steps to address the internal control deficiencies identified in the 2021 IC Review.
- (6) Mr Chen, Ms Yuan and Dr Hu also breached their Undertakings to cooperate in the Division's investigation as a result of their failure to respond to the Division's investigation and reminder letters, which also constituted a breach of the GLR. Their failure to discharge the responsibilities under the Undertakings and the GLR was serious.

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, 25 April 2023