

STATEMENT OF DISCIPLINARY ACTION

Exchange's Disciplinary Action against Wuzhou International Holdings Limited (Delisted, Previous Stock Code: 1369) and six Directors at the relevant time

SANCTIONS AND DIRECTIONS

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

CRITICISES:

- (1) **Ms Cai Qiao Ling**, Executive Director (**ED**) of the Company (**Ms Cai**);
- (2) **Mr Shen Xiao Wei**, Chief Executive Officer and ED of the Company (**Mr Shen**);
- (3) **Mr Zhou Chen**, former ED of the Company (**Mr Zhou**);
- (4) **Mr Liu Chao Dong**, former Independent Non-Executive Director (**INED**) of the Company (**Mr Liu**);
- (5) **Professor Shu Guo Ying**, former INED of the Company (**Prof Shu**); and
- (6) **Dr Song Ming**, former INED of the Company (**Dr Song**).

(The directors identified at (1) to (6) above are collectively referred to as the **Relevant Directors**.)

AND FURTHER DIRECTS each of the Relevant Directors to attend 18 hours of training on regulatory and legal topics and Listing Rule compliance.

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SUMMARY OF FACTS**Transactions**

On 21 January 2017, 無錫洲越商業發展有限公司 (transliterated as Wuxi Zhouyue Commercial Development Company Limited) (**Wuxi Zhouyue**), a non-wholly owned subsidiary of the Company, entered into an agreement to acquire 100% equity interest in 江蘇五豐置業有限公司 (transliterated as Jiangsu Wufeng Zhiye Company Limited), 昆山普瑞斯特機械製造有限公司 (transliterated as Kunshan Purui Site Mechanics Manufacturing Company Limited) and 昆山五豐廣場商業管理有限公司 (transliterated as Kunshan Wufeng Plaza Business Management Company Limited) (**Acquisition**). After a delay of 15 months, the Company announced the Acquisition on 7 May 2018.

On 29 November 2017, a wholly-owned subsidiary of the Company entered into agreements to dispose of a total of 51% equity interest (out of 60%) in Wuxi Zhouyue (**First Disposal**). After a delay of five months, the Company announced the First Disposal on 7 May 2018.

On 25 December 2017, four subsidiaries of the Company (two of which were wholly owned) entered into agreements to dispose of 100% equity interest in 盱眙五洲國際置業有限公司 (transliterated as Xuyi Wuzhou International Property Co., Ltd.) to 江蘇潤港石化有限公司 (transliterated as Jiangsu Rungang Petrochemical Co., Ltd.) at a consideration of RMB350 million (**Second Disposal**). After a delay of about eight months, the Company announced the Second Disposal on 20 August 2018.

The Second Disposal agreement provided for the registration of the purchaser as the shareholder of the disposal company at the relevant authorities in the PRC (**Shareholder Registration**) to take place (within ten working days from the effective date of the agreement) before the deadline for full payment of the consideration (15 January 2018). The Shareholder Registration was effective on 27 December 2017 but payment of RMB10 million was only received on 1 March 2018. The parties subsequently entered into a voluntary discharge agreement and the Shareholder Registration was reversed in December 2019.

On 17 December 2018, a wholly-owned subsidiary of the Company entered into an agreement to dispose of all its 49.5% equity interest in 撫順中合市場開發有限公司 (transliterated as Fushun Zhonghe Market Development Co., Ltd.) (**Third Disposal**). The Third Disposal was approved by the board of directors of the Company (**Board**) on 14 December 2018, but it was only announced by the Company on 26 February 2019, after a delay of about two months.

The Acquisition, First Disposal, Second Disposal and Third Disposal are collectively referred as the **Transactions**.

Additional Disposals

RSM Corporate Advisory (Hong Kong) Limited, the Company's restructuring adviser appointed in August 2018, conducted an independent investigation on the Company's transfer of its equity interests in some of its subsidiaries. It was found that there had been a total of 15 transfers unapproved by the Board in 2018 (**15 Unapproved Transfers**), which included the Second Disposal and the following disposals which constituted discloseable transactions (Additional Disposals A to D) and a very substantial disposal (Additional Disposal E). Additional Disposals A to E are collectively referred to as the **Additional Disposals**.

Additional Disposal	Subsidiary disposed of (and interest in subsidiary)	Transaction date
A	汝州五洲國際工業博覽城有限公司 (90%) (transliterated as Ruzhou Wuzhou International Industrial Exhibition City Co., Limited)	11 May 2018
B	吉林市五洲國際房地產開發有限公司 (98.59%) (transliterated as Jilin Wuzhou International Real Estate Development Co., Limited)	30 May 2018
C	浙江紅貝投資有限公司 (51%) (transliterated as Zhejiang Hongbei Investment Co., Limited)	4 June 2018
D	邢台市月晟房地產開發有限公司 (51%) (transliterated as XingTai City YueSheng Real Estate Development Company Limited)	13 June 2018
E	漳州五洲國際商貿城有限公司 (100%) (transliterated as Zhangzhou Wuzhou International Trade City Co., Limited)	20 September 2018

The Company never announced the Additional Disposals with the details required under Rule 14.58, and only disclosed brief information about them in the 2018 Annual Report published on 24 September 2020.

Directors' involvement in and/or knowledge of the Transactions and Additional Disposals

The Second Disposal was mentioned in Note 27 to the Financial Statements in the 2017 Annual Report. There was also an entry "Amount due from disposal company" under Note 25 ("prepayments, deposits and other receivables") which referred to Note 27. The draft 2017 Annual Report was presented to the Board for review and approval at the meeting on 29 March 2018. However, the directors did not raise enquiries about the Second Disposal and related Listing Rule compliance issues – the minutes of the Board meeting did not record anything in this regard.

In respect of the Third Disposal, all the Directors who were then in office, except Prof Shu and Dr Song, attended the Board meeting on 14 December 2018 at which the Board approved the transaction. According to the Company, the documents regarding the Third Disposal were circulated to all the Directors before the meeting, and a brief note with the results of the meeting was also sent to them after the meeting.

LISTING RULE REQUIREMENTS

Rule 14.34 (before 1 March 2019) provides that, as soon as possible after the terms of, among other things, a discloseable transaction or very substantial disposal have been finalised, the listed issuer must in each case inform the Exchange and publish an announcement as soon as possible.

Rules 14.38A and 14.48 provide that, in the case of a very substantial disposal, the listed issuer must send a circular to its shareholders. Rule 14.49 further provides that a very substantial disposal must be made conditional on approval by shareholders in a general meeting.

Rule 3.08 provides that directors, both collectively and individually, are expected 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. Specifically, under Rule 3.08(f), directors have duties to 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 provides that directors must also take an active interest in the issuer's affairs and must follow up anything untoward that comes to their attention.

Pursuant to the Director's Undertaking to the Exchange (**Director's Undertaking**) (Appendix 5B to the Listing Rules), each director is required to comply to the best of his ability, and to use his best endeavours to procure the Company's compliance, with the Listing Rules, and cooperate in any investigation conducted by the Exchange.

ACCEPTANCE OF SANCTIONS AND DIRECTIONS

Ms Cai, Mr Shen, Mr Zhou, Mr Liu, Prof Shu and Dr Song have agreed with the Exchange to admit their respective breaches, and accepted the sanctions and directions imposed on them by the Listing Committee, as set out below.

LISTING COMMITTEE'S FINDINGS OF BREACH

The Listing Committee found as follows:

- (1) There were material deficiencies in the Company's internal controls and risk management systems. For example, there was no mechanism and/or written procedures for identification, reporting and execution of notifiable transactions, or for compliance with the requirements under Chapter 14 of the Listing Rules. There was no system or control which required progress of negotiations and/or developments of transactions, or material transactions of the Company, to be reported to the Board in a timely manner. The Company also did not have internal procedures and systems regarding transfer of shares and assets of the Group's subsidiaries. The internal control deficiencies resulted in circumstances where it could be possible for one to two directors to enter into material and/or notifiable transactions and/or disposals of the Company's interests in its subsidiaries without Board awareness or due Listing Rule consideration and compliance.
- (2) Mr Zhou, Prof Shu and Dr Song breached Rule 3.08 and their Director's Undertakings by failing to use their best ability and endeavours to procure the Company's Rule compliance in respect of the Second Disposal, and therefore breached their Director's Undertakings.
- (3) Ms Cai, Mr Shen, Mr Zhou, Mr Liu, Prof Shu and Dr Song failed to use their best endeavours to procure the Company's Rule compliance in respect of the Third Disposal, and therefore breached their Director's Undertakings.
- (4) All the Relevant Directors (except Ms Cai, Mr Shen and Mr Liu) breached Rule 3.08 and their Director's Undertakings by failing to ensure that the Company established and maintained an adequate and effective internal control system and risk management system.

- (5) It is however noted that each of Mr Zhou, Mr Liu, Prof Shu and Dr Song took part in a special investigation committee to investigate the Additional Disposals. Mr Zhou also made some suggestions on the Company's corporate governance and/or internal controls, whereas Mr Liu was only involved in the breach in respect of the Third Disposal.

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 Relevant Directors, and not to any other past or present directors of the Company.

Hong Kong, 5 May 2022