

STATEMENT OF DISCIPLINARY ACTION

Exchange's Disciplinary Action against two Directors of CIL Holdings Limited
(Stock Code: 479)

SANCTIONS AND DIRECTION

The Stock Exchange of Hong Kong Limited

CRITICISES:

- (1) **Mr Ke Jun Xiang (Mr Ke)**, executive director and chairman of CIL Holdings Limited (stock code: 479) (**Company**);
- (2) **Mr Fu Dao Ding (Mr Fu)**, executive director of the Company;

AND DIRECTS:

Each of Mr Ke and Mr Fu to attend 15 hours of training on regulatory and legal topics and Listing Rule compliance, including at least three hours on each of (a) directors' duties, and (b) the Corporate Governance Code, within 90 days.

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SUMMARY OF FACTS

The Company commenced a money lending business in May 2014. Between June 2016 and June 2019, the Company granted certain loans (**Loans**). The repayment dates for these Loans were extended on multiple occasions by entering into new agreements. The Loans remained outstanding as at 30 June 2019, and substantial impairments were recorded. Below is a summary of the Loans:

Loan Type	Grant Date	Original Due Date	Gross amount (HK\$'000)	Impairment loss (HK\$'000)
Loan 1	19/1/2018	18/1/2019	10,668	(981)
Loan 2	11/4/2017	10/10/2017	1,784	(24)
Loan 3	16/6/2016	15/6/2017	3,064	(42)
Loan 4	14/6/2019	31/12/2019	7,000	(215)

In its annual results for the year ended 30 June 2019, the Company determined the allowance for impairment losses in respect of the Loans by exercising management estimation without supporting documentation.

The Company's auditors were unable to obtain sufficient audit evidence from the Company to determine whether the allowance for impairment losses was appropriate, and whether any adjustments should be made, and issued a qualified opinion on the Company's annual results for the year ended 30 June 2019.

Mr Ke and Mr Fu were responsible for the Company's money lending business. They had primary responsibility for implementing internal controls for that business.

During the Company's financial year ended 30 June 2018, an independent consultant was engaged to conduct an internal control review. The internal control review identified the following deficiencies in relation to the money lending business (**Deficiencies**):

- (i) Adequate key financial information for certain borrowers for the purpose of assessing the creditworthiness of each borrower, including income and address proof, individual/corporate tax returns, could not be located;

- (ii) Certain loan agreements required the property of the borrower to be pledged but the relevant mortgage deeds had not been executed;
- (iii) Certain loans which had matured had still not been repaid, and the properties pledged could not be foreclosed because no proper mortgage deed had been executed; and
- (iv) Title deeds of the properties owned by the borrowers had not been obtained by the Company for the mortgage.

Some credit assessments on the borrowers had been conducted, they were not sufficiently comprehensive. There was a credit and internal control policy in respect of the operations of the money lending business, but there were no procedures dealing with loan and interest repayment defaults, and in any event Mr Ke and Mr Fu failed to follow the policy, which contributed to the Deficiencies.

To address the Deficiencies, the Board adopted a modified manual in addition to the credit and internal control policy. Mr Ke and Mr Fu also took steps to recover the Loans, including following up with the borrowers on a weekly basis. Loan 4 was fully repaid on 30 December 2019. With respect to Loan 2 and Loan 3, the Company and the respective borrowers reached a settlement, and the settlement sums were fully paid on 30 June 2021 and 26 November 2021 respectively.

LISTING RULE REQUIREMENTS

Listing Rule 3.08 provides that the Exchange expects directors, both collectively and individually, 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 a duty 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.

Each of Mr Ke and Mr Fu has given the Director's Undertaking, which provides, *inter alia*, that he undertakes to comply with the Listing Rules to the best of his ability, and to use his best endeavours to ensure that the Company has adequate and effective internal controls and to procure its compliance with the Listing Rules.

ACCEPTANCE OF SANCTIONS AND DIRECTION

Mr Ke and Mr Fu have agreed with the Exchange not to contest their respective breaches, and accepted the sanctions and direction imposed on them by the Listing Committee, as set out below.

LISTING COMMITTEE'S FINDINGS OF BREACH

The Listing Committee found that Mr Ke and Mr Fu breached Rule 3.08 and their Directors' Undertakings by failing to (i) take sufficient steps to safeguard the interests of the Company, and (ii) ensure that the Company implemented and maintained adequate and effective internal controls in respect of the money lending business:

- (1) Mr Ke and Mr Fu carried out credit assessments on the borrowers and relied on their own assessment of the borrowers' financial position. They did not follow the relevant policy and the procedures thereunder to obtain relevant documentation such as consumer credit reports from credit reference agencies or other independent asset valuation reports to support their assessments. As a result, the Company could only estimate the allowance for impairment losses by exercising management judgment. This contributed to the qualified opinion on the 2019 annual results.
- (2) Mr Ke and Mr Fu relied only on the restrictions on dealing with the pledged assets set out in the relevant agreements, without executing mortgage deeds over the pledged assets as required by the agreements, and no steps were taken to verify ownership of the assets pledged. This adversely affected the Company's ability to recover the Loans.
- (3) Mr Ke and Mr Fu were responsible for the Company's money lending business. They had primary responsibility for implementing and maintaining adequate and effective internal controls for that business. The internal control review carried out in 2018 identified the Deficiencies, which were caused by (i) the absence of procedures in the credit and internal control policy dealing with loan and interest repayment defaults, and (ii) Mr Ke's and Mr Fu's failure to follow the policy and the procedures thereunder.

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 Mr Ke and Mr Fu, and not to any other past or present members of the board of directors of the Company.

Hong Kong, 17 May 2022