

## STATEMENT OF DISCIPLINARY ACTION

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Exchange's Disciplinary Action against China Saite Group Company Limited  
(Delisted, Previous Stock Code: 153) and Ten Directors

### SANCTIONS AND DIRECTIONS

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

#### CENSURES:

- (1) **China Saite Group Company Limited** (delisted, previous stock code: 153) (**Company**, together with its subsidiaries, **Group**);

**IMPOSES A PREJUDICE TO INVESTORS' INTERESTS STATEMENT** against:

- (2) **Mr Jiang Jian Qiang**, former executive director (**ED**) and Chairman of the Company (**Mr Jiang**);
- (3) **Mr Shao Xiao Qiang**, former ED and chief executive officer of the Company (**Mr Shao**);
- (4) **Mr Xu Fang Hua**, ED of the Company (**Mr Xu FH**);
- (5) **Mr Xu Jia Ming**, independent non-executive director (**INED**) of the Company (**Mr Xu JM**);
- (6) **Mr Wu Zhong Xian**, former INED of the Company (**Mr Wu**);

#### CENSURES:

- (7) **Mr Hua Gang**, ED of the Company (**Mr Hua**);
- (8) **Mr Liu Zhi Bo**, ED of the Company (**Mr Liu**);
- (9) **Mr Yan Hua Lin**, INED of the Company (**Mr Yan**);
- (10) **Mr Luk Chi Shing**, former INED of the Company (**Mr Luk**);

#### CRITICISES:

- (11) **Mr Eddie Hurip**, former INED of the Company (**Mr Hurip**);

(Parties (1) to (11) above are collectively referred to as **Parties Concerned**, and the directors identified in (7) to (11) above are collectively referred to as **Relevant Directors**.)

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The statements made in respect of Mr Jiang, Mr Shao, Mr Xu FH, Mr Xu JM and Mr Wu are made in addition to a public censure against them. The Prejudice to Investors' Interests Statement is a statement that, in the Exchange's opinion, (a) had Mr Jiang and Mr Shao remained on the board of directors of the Company, the retention of office by them would have been prejudicial to the interests of investors; and (b) the retention of office by Mr Xu FH, Mr Xu JM and Mr Wu is prejudicial to the interests of investors;

**AND FURTHER DIRECTS:**

each of the Relevant Directors to attend 24 hours of training on regulatory and legal topics and Listing Rule compliance. The training must include at least three hours on each of (a) directors' duties; (b) the Corporate Governance Code; (c) the requirements under Chapter 13 of the Listing Rules; (d) the Listing Rule requirements for notifiable transactions and (e) the Listing Rule requirements for connected transactions.

**HEARINGS**

On 7 March 2023, the Listing Committee conducted a hearing into the conduct of the Parties Concerned in relation to their obligations under the Exchange Listing Rules and the Undertakings.

On 12 July 2023, the Listing Review Committee conducted a hearing of the review application of Mr Luk in respect of the finding of breach and sanctions imposed by the Listing Committee.

**SUMMARY OF FACTS***Loans taken out by the Group for the benefit of Mr Jiang*

Between 2014 and 2016, an indirect wholly-owned subsidiary of the Company (**Subsidiary**) took out loans from external borrowers for the personal investment needs of Mr Jiang, who at the time was also the Chairman of the board of directors of the Subsidiary. The loans taken out by Subsidiary included a loan of RMB24 million taken out in around November 2015 (**Loan A**) and a loan of RMB10 million taken out in around March 2014 (**Loan B**, together with Loan A, **Loans**).

The Loans were discussed and approved in the meetings of the board of directors of the Subsidiary. Both Mr Jiang and Mr Shao (who was also a director of the Subsidiary) attended the meetings. The loans were not reported to the Board, and not recorded in the accounting records of the Group. Civil proceedings were commenced against the Subsidiary by the relevant external borrowers as Mr Jiang failed to repay the Loans. The Loans were discovered by the Company's then auditor (**Auditor**) during March 2020.

The Loans constituted connected transactions of the Company under Chapter 14A of the Listing Rules. The Company failed to comply with the announcement, circular, shareholders' approval and annual reporting requirements.

*Advances granted by the Company to Mr Jiang*

According to the 2017 and 2018 Annual Reports of the Company, the "other receivables" of the Company as at 31 December 2017 and 2018 each included an interest-free sum due from a company of which Mr Jiang was a majority shareholder (**KLG**) (FY2017: RMB14.92 million; FY2018: RMB32.55 million).

In response to the investigation of the Listing Division (**Division**), the Company initially submitted that these sums comprised two separate and distinct loans granted by the Company to Mr Jiang (via KLG) on 1 September 2017 and 1 January 2018 in the respective amount of RMB14.92 million and RMB17.63 million, and interest of 15% per annum was charged for each of them. According to the Company's submission, these loans were discussed and agreed to in two internal meetings attended by Mr Jiang and Mr Shao, and copies of the minutes of the relevant meetings and the loan agreements were provided to the Division in support of the submissions.

Based on the investigation findings of the Division, between 2017 and 2019, Mr Jiang continuously withdrew cash from the Company, and advances by the Company to KLG totaling around RMB113 million was recorded as a result (**Advances**), and they were booked as interest-free. The Division's findings are inconsistent with the Company's submission. The Division's investigation also revealed that the alleged discussions and loan agreements about the Advances relied upon by the Company in its earlier submissions never existed.

As KLG was a connected person of the Company, the Advances constituted connected transactions of the Company. The Advances made during each of 2018 and 2019 was also a discloseable transaction of the Company. The Company did not comply with the announcement, circular and shareholders' approval requirements. The Company also failed to disclose all the information about the Advances in its 2017 and 2018 Annual Reports as required under Chapter 14A of the Listing Rules.

*Subscription*

On 8 April 2019, Mr Jiang on behalf of a wholly-owned subsidiary of the Company entered into a cornerstone investment agreement (**Cornerstone Investment Agreement**) to subscribe for US\$30 million worth of IPO shares in Shenwan Hongyuan Group Co., Ltd. (stock code: 6806) (**Subscription**).

The Subscription constituted a major transaction of the Company, which was required to be announced in a timely manner. However, the Subscription was only announced by the Company on 15 May 2019. On 17 June 2019, the Company announced that the Cornerstone Investment Agreement was terminated.

### *Winding-up petitions*

Between April 2019 and July 2020, the Company failed to announce the below 14 winding-up petitions served on the Group (**Winding-up Petitions**) in a timely manner as required under Listing Rule 13.25.

| Petition    | Date of service                             | Withdrawal date | Announcement date |
|-------------|---|-----------------|-------------------|
| Petition 1  | 12.04.2019                                  | 24.06.2019      | 31.07.2019        |
| Petition 2  | 30.04.2019                                  | 16.05.2019      |                   |
| Petition 3  | 09.07.2019                                  | 21.10.2019      |                   |
| Petition 4  | 30.07.2019                                  | 14.01.2020      | 22.09.2019        |
| Petition 5  | 13.08.2019                                  | 12.09.2019      |                   |
| Petition 6  | 03.10.2019                                  | 11.11.2019      | 08.09.2020        |
| Petition 7  | 02.01.2020<br>24.07.2020 (Amended petition) | 21.09.2020      |                   |
| Petition 8  | 13.01.2020                                  | 11.05.2020      |                   |
| Petition 9  | 18.03.2020                                  | 11.05.2020      |                   |
| Petition 10 | 24.03.2020                                  | 16.06.2020      |                   |
| Petition 11 | 26.05.2020                                  | 07.10.2020      |                   |
| Petition 12 | 15.06.2020                                  | 21.09.2020      |                   |
| Petition 13 | 02.07.2020                                  | 27.01.2021      |                   |
| Petition 14 | 27.07.2020                                  | 20.01.2021      |                   |

### *Delay in financial reporting*

At around the end of March 2020, the Auditor discovered a number of civil proceedings against the Group in respect of certain transactions entered into between 2014 and 2019 (including the Loans A and B) which were not recorded in its accounting records (**Audit Issues**). The Audit Issues were considered to be of significance, and the Auditor took the view that in light of the absence of relevant information about the Audit Issues, it could not agree to the publication of any announcement of the audited annual results for FY2019 (**2019 Audited Results**) and would not be in the position to issue an unqualified audit opinion on the Company's FY2019 financial statements. The matters were communicated to the Board in March and April 2020.

On 29 April and 15 May 2020, the Company published two announcements about its delay to publish its 2019 Audited Results and despatch its 2019 Annual Report (**Relevant Announcements**). In each of the Relevant Announcements, the Company explained that there had been a delay in completing the audit procedures due to COVID-19 outbreak, and the Auditor had required additional time to carry out further review of the status of certain existing outstanding indebtedness of the Group. The Company did not disclose any information about the underlying cause of the Audit Issues in the Relevant Announcements.

On 14 and 15 May 2020, the Company applied to the Division for a waiver from strict compliance with the deadline for the despatch of its 2019 Annual Report and for convening its annual general meeting (**AGM**) to approve its 2019 Annual Results. The waiver was sought on the ground that the Auditor was unable to carry out the necessary fieldwork and that its audit procedure was delayed by the COVID-19 outbreak. The Company did not disclose any information about the underlying cause of the Audit Issues in its application.

Based on the information provided by the Company to the Division at the time, the Division agreed to extend the deadline for the Company to (a) 30 June 2020 for despatching its 2019 Annual Report and (b) 23 August 2020 for laying its annual financial statements before its members at an annual general meeting (**Waiver**).

The Company first disclosed information about the underlying cause of the Audit Issues on 21 June 2020 when it announced the resignation of the Auditor.

### **LISTING RULE REQUIREMENTS**

Rule 2.12A requires the Company to provide the Exchange as soon as possible, or otherwise in accordance with time limits imposed by the Exchange, any information that the Exchange reasonably considers appropriate to protect investors or ensure the smooth operation of the market and any other information or explanation that the Exchange may reasonably require for the purpose of investigating a suspected breach of or verifying compliance with the Listing Rules.

Rule 2.13(2) requires that information contained in any announcement required under the Listing Rules must be accurate and complete in all material respects and not be misleading or deceptive. In particular, the Company must not omit material facts of an unfavourable nature or fail to accord them with appropriate significance.

Rule 13.25 requires the Company to inform the Exchange and publish an announcement after the presentation of winding-up petitions as soon as it comes to its attention.

Rules 13.46(2)(a) and 13.46(2)(b) require the Company to dispatch its 2019 Annual Report and lay its FY2019 annual financial statements before its shareholders at its annual general meeting by 30 June 2020 and 23 August 2020 respectively (as extended by the Waiver).

Rule 14A.34 requires the Company to enter into a written agreement for a connected transaction.

Rule 14A.35 (Rule 14A.17 in force at the time when Loan B was taken out) requires the Company to publish an announcement as soon as practicable after the terms of a connected transaction have been agreed.

Rule 14A.36 (Rule 14A.19 in force at the time when Loan B was taken out) provides that a connected transaction must be conditional on independent shareholders' approval at a general meeting held by the Company.

Rule 14A.46 (Rule 14A.49 in force at the time when Loan B was taken out) provides, amongst other things, that the Company must send a circular to its shareholders at the same time or before the listed issuer gives notice of the general meeting if the connected transaction is to be approved by shareholders in a general meeting.

Rule 14A.71 (Rule 14A.45 in force at the time when Loan B was taken out) requires specific information about a connected transaction to be disclosed in the annual report of the Company.

Under Rules 3.08, 3.16 and 13.04, the board of directors is collectively responsible for the issuer's management and operations, and the directors are collectively and individually responsible for the listed issuer's compliance with the Listing Rules. Rule 3.08 further 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.

Pursuant to the Declaration and Undertaking with regard to Directors in the form set out in Appendix 5B to the Listing Rules (**Director's Undertaking**), each of the Directors is required to, amongst others,

- (1) comply to the best of his/her ability with the Listing Rules;

- (2) use his/her best endeavours to procure the Company to comply with the Listing Rules; and
- (3) provide to the Exchange, amongst other things, any information or explanation that the Exchange may reasonably require for the purpose of investigating a suspected breach of the Listing Rules.

### **FINDINGS OF BREACH**

The Exchange found as follows:

- (1) The Company breached Rules 14A.35, 14A.36, 14A.46 and 14A.71 in respect of Loan A, and Rules 14A.17, 14A.19, 14A.45 and 14A.49 in respect of Loan B.
- (2) The Company breached Rules 14.34, 14A.34, 14A.35, 14A.36, 14A.46 and 14A.71 in respect of the Advances.
- (3) The Company's relevant submissions on the Advances and the relevant supporting documents were false, inaccurate and/or misleading, and the Company was in breach of Rule 2.12A.
- (4) The Company breached Rule 14.34 in respect of the Subscription.
- (5) The Company breached Rule 13.25 in respect of each of the Winding-up Petitions.
- (6) The Company breached Rule 2.13(2) in respect of the Relevant Announcements and Rule 2.12A in respect of its application for Waiver:
  - (a) Information about the Audit Issues was significant and directly relevant to the reason for the Company's delay in publishing and despatching its 2019 Audited Results and Annual Report. By failing to include information about the underlying cause of the Audit Issues, the Company omitted material facts of an unfavourable nature and/or fail to accord them with appropriate significance. This rendered the information contained in the Relevant Announcements not complete in all material respects, misleading and/or deceptive.

- (b) The application for Waiver was effectively a request of the Company to the Exchange to assess the Company's position on its compliance with Rules 13.46(2)(a) and 13.46(2)(b), which would in turn impact on the entitlement of the Company's shareholders and the investing public to material information of the Company. The Company was therefore expected to provide all information that might be reasonably required by the Exchange for the purpose of its assessment, and failure to do so impacted on the Division's proper discharge of its regulatory function on this matter.
- (7) The Company breached Rules 13.46(2)(a) and 13.46(2)(b) by failing to despatch its 2019 Annual Report and lay its FY2019 annual financial statements before its members at an AGM by 30 June and 23 August 2020 respectively.
- (8) All relevant Directors breached Rule 3.08 and their Director's Undertaking:
- (a) Both the Loans and the Advances were prohibited by the Articles of Association (**Articles**) of the Company. They were for Mr Jiang's personal benefit and against the Company's commercial interest. By procuring the provision of financial assistance to him, Mr Jiang deliberately placed himself in a position where his personal interest and duty conflicted. Both Mr Jiang and Mr Shao failed to discharge their fiduciary duties owed to the Company. They also knowingly allowed the omission of the Loans from the accounting records of the Subsidiary, to which the Audit Issues were attributable.
- (b) The supporting documents evidencing the Company's relevant submissions on the Advances, which were false, inaccurate and/or misleading, were signed by Mr Jiang and Mr Shao. They have endorsed the Company's attempt to mislead the Division in the investigation.
- (c) There were references to the Advances in the draft annual reports of the Company for FY2017 and FY2018, which were considered and approved by Mr Shao, Mr Jiang, Mr Xu FH, Mr Xu JM, Mr Luk, Mr Hurip (FY2017 only) and Mr Wu (FY2018 only). Although the Advances were not permitted under the Articles, and indicative of internal control deficiencies, none of the Directors took active steps either to make enquiries of the Company's management about the nature of the Advances, or to procure the Company's compliance with the Listing Rules.



- (d) The Subscription was primarily handled by Mr Jiang. He failed to observe the Company's then internal policy which required him to seek the Board's approval before entering into the Cornerstone Investment Agreement. He and Mr Shao, Mr Xu FH, Mr Xu JM and Mr Wu attended a Board meeting held on 24 April 2019 to consider and approve the Subscription. None of the Directors enquired about Mr Jiang's failure to comply with the relevant internal policy. Further, notwithstanding that the Subscription was considered to be a major transaction during this Board meeting and the repeated reminders to comply with the Rules from the Company Secretary to the Board, the Subscription was only announced by the Company on 15 May 2019. Although Mr Luk did not attend the Board meeting, he was provided with a copy of the minutes of the Board meeting. The relevant reminders from the Company Secretary were also circulated to him. The Exchange takes the view that the Directors have all failed to discharge their duties to procure the Company's Rule compliance in respect of the Subscription in a timely manner.
- (e) Mr Jiang, Mr Shao, Mr Xu JM, Mr Luk, Mr Xu FH, Mr Wu, Mr Liu, Mr Hua and Mr Yan were on the Board when the Winding-up Petitions were served on the Company. Mr Jiang had contemporaneous knowledge of the Winding-up Petitions when they were served on the Company, but he did not take any steps to ensure that they were duly announced. The breaches of the Directors (save for Mr Luk who resigned from the Company on 5 July 2019) in this respect are aggravated by the fact that, after the breaches in relation to Winding-up Petition Nos.1 to 3, and then Nos. 4 and 5, took place, none of them looked into the reason for the Company's delay or took any meaningful remedial steps to ensure the Company's compliance with Chapter 13 of the Listing Rules. Petition No.6 was not announced by the Company until nearly a year later, on 8 September 2020, and the relevant Directors' failure in this respect continued for an extended period of time. The failures of Mr Shao, Mr Liu, Mr Xu JM, Mr Wu and Mr Yan, who had specific duties on internal controls and Listing Rule compliance on top of their Directors' duties as Compliance Committee members and/or INEDs, were particularly serious.
- (f) Mr Jiang, without any proper justification, decided not to disclose complete information about Audit Issues to the Division and in the Relevant Announcements. Mr Shao, Mr Xu FH, Mr Liu, Mr Hua, Mr Xu JM, Mr Wu and Mr Yan were all aware of the information about the underlying cause of the Audit Issues. However, it does not appear that any of them objected to or otherwise expressed concerns over the completeness of the information contained in the Relevant Announcements or the waiver application to the Division. They have willingly adopted, and have not questioned, the decision of Mr Jiang to withhold information about the Audit Issues. They, especially Mr Xu JM, Mr

Wu and Mr Yan who were INEDs, have failed to apply their independent judgement to the issue.

- (g) The Company did not have effective internal controls for monitoring compliance with Chapters 14 and 14A of the Listing Rules. The internal controls governing contract approval and payment authorization were not properly implemented. The lack of checks and balances allowed Mr Jiang to enter into material contracts on behalf of the Group and withdraw cash from the Group for an extended period of time effectively without any restrictions and without any reporting to the Board. The relevant Directors, namely Mr Jiang, Mr Shao, Mr Xu FH, Mr Xu JM, Mr Luk, Mr Hurip and Mr Wu failed to take adequate steps to ensure the internal controls reviews carried out between FY2014 and FY2018 were sufficiently comprehensive so that all fundamental aspects of the Company's internal controls were covered.
- (h) The breaches of Mr Jiang and Mr Shao were wilful and persistent. In particular, by allowing the provision of false, inaccurate and/or misleading information and documents by the Company to the Division in response to a regulatory investigation, the conduct of Mr Jiang and Mr Shao was prejudicial to the interest of the Company and the investing public as a whole.
- (i) The breaches of Mr Xu FH, Mr Xu JM and Mr Wu were also wilful and persistent. Mr Xu JM and Mr Xu FH became Directors in 2013 and 2015 respectively, and they failed to take any substantive steps to address the Company's internal control deficiencies for an extended period of time. Mr Wu became an INED since August 2018, but none of him, Mr Xu FH or Mr Xu JM investigated into Mr Jiang's failure to comply with the restrictions in the Articles or the investment policy. Their failure to raise enquiries in respect of the disclosure of receivables due from a director (ie the Loans) in the 2017 and 2018 Annual Reports demonstrated a lack of proactivity on their part. They also ought to have taken all necessary remedial steps after becoming aware of the Company's repeated delay in announcing the Winding-up Petitions. In November 2019 the Company implemented a policy to govern the disclosure of inside information, which specifically covered the presentation of winding-up petitions, but none of Mr Xu FH, Mr Xu JM or Mr Wu took any concrete steps to ensure the procedures therein would be followed. Their failure to procure the Company's disclosure of the Audit Issues was egregious, and when coupled with their other breaches, suggests that there was a serious lack of regard on their part of their obligations as Directors under the Listing Rules.

**CONCLUSION**

The Exchange 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 Directors named in this Statement of Disciplinary Action, and not to any other past or present members of the board of directors of the Company.

Hong Kong, 24 August 2023