

STATEMENT OF DISCIPLINARY ACTION

Exchange's Disciplinary Action against Four Directors of China General Education Group Limited (Stock Code: 2175)

SANCTIONS AND DIRECTIONS

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

CENSURES:

- (1) **Mr Niu Sanping**, former executive director (**ED**) and Chairman of China General Education Group Limited (Stock Code: 2175) (**Company**);
- (2) **Mr Niu Jian**, former ED and CEO of the Company;
- (3) **Mr Niu Xiaojun**, ED of the Company; and
- (4) **Ms Zhang Zhonghua**, ED of the Company (**Ms Zhang**).

(The directors identified at (1) to (4) above are collectively referred to as the **Relevant Directors**.)

AND FURTHER DIRECTS:

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, for each of Mr Niu Xiaojun and Ms Zhang.

SUMMARY OF FACTS

This case relates to a number of problematic transactions which were entered into around the time of the Company's listing in July 2021.

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Mr Niu Sanping and Mr Niu Jian, father and son, are the controlling shareholders of the Company. Shortly prior to listing, on behalf of the Company, Mr Niu Sanping signed a pre-IPO investment agreement with Tai He International Group Limited (**Tai He**) in relation to the subscription of the Company's IPO shares by Tai He (**Investment Agreement**), in an effort to shore up demand for the Company's shares at the time of listing.

The Investment Agreement provided, amongst others, that Tai He would subscribe for the Company's shares in the amount of around \$100 million. In return, the Company would (a) provide a loan of \$25 million to Tai He, and (b) subscribe for investment products designated by Tai He in the amount of \$60 million, but the Company would not be entitled to any investment returns.

Three days before the Company's listing, the Investment Agreement was allegedly rescinded upon advice. However, it was subsequently discovered that the Company had entered into two transactions which closely mirrored the abovementioned terms.

\$25 million loan

Prior to listing and upon the signing of the Investment Agreement, the Company provided a loan in the amount of \$25 million to a borrower designated by Tai He (**Loan A**). The Company subsequently explained that Loan A was intended to act as a deposit for the subscription of investment products designated by Tai He pursuant to the terms of the Investment Agreement.

Loan A was procured by Mr Niu Sanping and Mr Niu Jian, and was approved by all Relevant Directors. Mr Niu Sanping approved the transfer of the Loan A proceeds to the borrower.

\$60 million fund subscription

Before the listing, an investment fund was introduced by Tai He to the Company (**Fund**). Although the Investment Agreement had already been rescinded at the time, the Relevant Directors approved the Company's investment in the Fund in the amount of \$60 million.

The Relevant Directors approved the Company's investment in the Fund without conducting proper due diligence on the investment or the investment manager. They did not have certain basic information such as the specific underlying products subscribed to by the Fund or its investment objectives. The Relevant Directors failed to procure the Company to consider any other investments or investment products, and explained that this was because the deposit (ie Loan A) had already been paid.

Losses suffered by the Company

The Company tried to recover Loan A from the borrower, but was only able to recover approximately \$20 million.

As for the Fund, the amount invested was partially repaid after issuing demand letters and initiating court proceedings over a period of two years. The Company did not make any investment returns on the Fund, and the amount repaid was approximately \$54.45 million.

Two loans to Mr Niu Jian's friend

In July 2021 (before the Company's listing) and December 2021, the Company entered into two loan agreements granting loans in the sum of approximately \$40 million to a borrower who was Mr Niu Jian's friend (**Loan B**). Loan B was an interest-free loan, and was approved by both Mr Niu Sanping and Mr Niu Jian.

The Company was unable to provide any commercial rationale for the provision of Loan B. Mr Niu Jian explained that the purpose of Loan B was to assist with the borrower's personal finance. No due diligence or risk assessment was conducted before granting Loan B, as Mr Niu Jian was confident in the borrower's ability to repay.

The borrower of Loan B was one of the placees in the subscription of the Company's IPO, the borrower's subscription amount (\$39.59 million) was similar to the total amount of Loan B, and the timing of the first loan made in July 2021 was close to the Company's listing. However, the Company denied that Loan B was related to the borrower's subscription of the Company's IPO. Loan B was fully repaid by the borrower in July 2021 and January 2022.

Internal controls

The Company conducted an independent internal control review which revealed a number of internal control deficiencies, including a lack of investment risk controls and post-investment management, as well as lack of a loan management mechanism. The Company admitted that it did not have specific internal control policies or procedures in relation to the granting of the loans and third-party payments at the material time. As a result, the other directors of the board were unable to detect the problematic transactions described above.

RULE REQUIREMENTS

Rule 3.08

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 (i) act for proper purpose, (ii) be answerable to the issuer for the application or misapplication of its assets, (iii) avoid actual and potential conflicts of interest and duty, and (iv) 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.

Corporate Governance Code

Under the then-Corporate Governance Code Provisions (C.2.1 and C.2.3), the Board is required to oversee the Company's risk management and internal control systems on an ongoing basis and ensure that an annual review of the effectiveness of these systems is conducted.

SETTLEMENT

The Relevant Directors have admitted their respective breaches and agreed to accept the sanctions and directions as set out in this statement.

Further, Mr Niu Sanping and Mr Niu Jian have provided a number of undertakings, including an undertaking that they will not take up any directorship or senior management positions in any listed issuer in Hong Kong or its subsidiaries in the future. Mr Niu Sanping and Mr Niu Jian have both resigned from the Board with effect from 27 May 2024.

Mr Niu Xiaojun and Ms Zhang agreed to procure the Company's implementation of enhanced internal control measures.

LISTING COMMITTEE'S FINDINGS OF BREACH

The Listing Committee found that the Relevant Directors breached their duties under Rule 3.08:

- (1) Mr Niu Sanping entered into the Investment Agreement on behalf of the Company without informing the rest of the Board or seeking professional advice on the appropriateness of the Investment Agreement. He and Mr Niu Jian procured the Company to grant Loan A. Mr Niu Xiaojun and Ms Zhang approved the grant of Loan A, and did not question Mr Niu Sanping and Mr Niu Jian about the basis for the loan. The Relevant Directors failed to ensure that proper due diligence was conducted on the borrower and the recoverability of Loan A.
- (2) The Fund was introduced by Tai He pursuant to the terms of the Investment Agreement. The Relevant Directors were unable to explain the commercial basis for the Company's subscription to the Fund, given that the Investment Agreement had already been rescinded. The Relevant Directors failed to exercise due skill, care and diligence in approving the Company's investment in the Fund, including a failure to conduct sufficient due diligence on the Fund and the Fund manager, and to consider other investment opportunities.
- (3) Mr Niu Sanping and Mr Niu Jian used the Company's money to grant Loan B to Mr Niu Jian's friend. There was no commercial rationale for the provision of Loan B, as no interest was charged on the same. Mr Niu Sanping and Mr Niu Jian failed to (i) act for proper purpose, (ii) be answerable to the Company for the application of its assets, (iii) avoid actual and potential conflicts of interest and duty, and (iv) exercise sufficient skill, care and diligence in respect of Loan B.

- (4) The Relevant Directors failed to take any or sufficient steps to ensure the Company had in place an adequate and effective internal control system at the material time.

CONCLUSION

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

Hong Kong, 17 October 2024