

STATEMENT OF DISCIPLINARY ACTION

Exchange's Disciplinary Action against Sunshine 100 China Holdings Ltd
(Stock Code: 2608) and Eight Directors

SANCTIONS AND DIRECTION

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

CRITICISES:

(1) **Sunshine 100 China Holdings Ltd (Company);**

CENSURES:

- (2) **Mr Yi Xiaodi**, executive director and chairman;
- (3) **Mr Fan Xiaochong**, executive director and vice chairman;

CRITICISES:

- (4) **Ms Fan Xiaohua**, non-executive director;
 - (5) **Mr Wang Gongquan**, non-executive director;
 - (6) **Mr Gu Yunchang**, independent non-executive director;
 - (7) **Mr Ng Fook Ai, Victor**, independent non-executive director;
 - (8) **Mr Li Chunping**, independent non-executive director; and
 - (9) **Mr Wang Bo**, former independent non-executive director,
- (The directors identified at (2) to (9) above are collectively referred to as **Relevant Directors**.)

AND FURTHER DIRECTS:

The Relevant Directors to attend 24 hours of training on regulatory and legal topics and Listing Rule compliance, including at least three hours on each of (i) directors' duties; (ii) the Corporate Governance Code and (iii) the Listing Rule requirements for Chapters 13, 14 and 14A.

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SUMMARY OF FACTS

Initial Loans

In 2019, a financial institution introduced the Company to an opportunity which involved lending to parties in financial difficulty. Those parties were creditors of debts secured by certain properties and equities of other ultimate borrowers. The accounts receivable arising from those debts would be used as security for the new loans they intended to apply for.

The Company decided to grant three loans (**Initial Loans**) to borrowers (**Borrowers**) between 2020 and 2021. Although the Company was aware of the credit risks associated with the Initial Loans, the Company envisioned that if the Borrowers and the ultimate borrowers defaulted, the Company would have the opportunity to purchase the collateral, which primarily consisted of a property in Beijing, as a distressed asset in judicial auction (**Fire Sale Opportunity**). The Company submitted that it had prior successful experience of transactions of this nature, as the Fire Sale Opportunity could allow assets to be acquired at a substantial discount to their fair value.

The Initial Loans did not have a fixed term. The Borrowers were required to repay within three days upon the Company's issuance of a written demand. At the relevant time, the aggregate loan principal of RMB1.05 billion represented less than 2% of the Company's total assets.

The Relevant Directors knew that there were significant risks arising from the poor financial creditworthiness of the Borrowers and the ultimate borrowers. However, they did not procure sufficient due diligence prior to granting the Initial Loans, and they did not properly devise a strategy for the Company to recover the Initial Loans if the Fire Sale Opportunity failed.

Furthermore, the Company did not: (1) obtain any valuation of the collateral before granting the Initial Loans; (2) obtain professional tax or legal advice; or (3) conduct any real assessment of the likelihood of the intended Fire Sale Opportunity arising and succeeding.

In November 2022, the Company granted a fourth loan to one of the Borrowers. This further loan, when aggregated with the Initial Loans (collectively, **Loans**), constituted a major transaction. The total principal of the Loans was RMB1.11 billion. The Company did not comply with the announcement, circular and shareholders' approval requirements applicable to the Loans.

Mr Yi Xiaodi and Mr Fan Xiaochong were the executive directors responsible for procuring due diligence and implementation of these transactions.

Enforcement of the Loans

The Borrowers failed to repay, causing the Company to make an Expected Credit Loss (**ECL**) provision of RMB154.5 million, RMB190.2 million and RMB275.2 million on the Loans as at 31 December 2021, 2022 and 2023 respectively. The total ECL provisions amounted to RMB619.9 million, representing over 55% of the total principal amount of the Loans.

The Relevant Directors submitted that the Company has been actively working with the Borrowers to pursue legal proceedings with a view to obtaining the Beijing property. Between September 2023 and April 2024, two Borrowers had successfully obtained judgments in PRC courts on the accounts receivables arising from the debts of the ultimate borrowers. However, the Relevant Directors had been unable to devise a strategy under which the Company would be able to recover the amounts outstanding under the Loans or to acquire the Beijing property.

Notifiable transactions

Apart from the major transaction identified above, the Exchange also discovered that the Company provided financial assistance on two occasions in 2022 (together, **Undisclosed Transactions**). One was a disclosable transaction. The other was a major and connected transaction. The Company failed to comply with the announcement, circular and/or shareholders' approval requirements under Chapters 14 and/or 14A applicable to the Undisclosed Transactions.

The Company in its three announcements of 20 September 2023: (1) informed the market of the Loans and the Undisclosed Transactions; and (2) admitted its non-compliance with the requirements under Chapters 14 and 14A of the Listing Rules applicable to the Loans and/or the Undisclosed Transactions.

The Company acknowledged that there were deficiencies in the Company's internal controls for notifiable transactions and connected transactions. The Company disclosed in the announcements that it has taken various remedial measures to prevent similar non-compliance in the future.

Delay in publication and despatch of Annual/Interim Results and Report

The Company also failed to publish the following interim and annual results and reports due to the Company's failure to maintain proper books and records in relation to the Loans.

Outstanding Results/Report	Original Deadline	Publication Date	Delay
FY2021 annual results	31/03/2022	20/09/2023	538 days
FY2021 annual report	30/04/2022	23/11/2023	572 days
FY2022 interim results	31/08/2022	20/09/2023	385 days
FY2022 interim report	30/09/2022	23/11/2023	419 days
FY2022 annual results	31/03/2023	20/09/2023	173 days
FY2022 annual report	30/04/2023	23/11/2023	207 days
FY2023 interim results	31/08/2023	20/09/2023	20 days
FY2023 interim report	30/09/2023	23/11/2023	54 days

Overall, the Company's internal control deficiencies contributed to the Company's breaches of Chapters 13, 14 and 14A as described above. The Relevant Directors failed to ensure that the Company had in place adequate and effective internal controls and to procure the Company's compliance with the Listing Rules.

LISTING RULE REQUIREMENTS

Rules 13.46(2)(a), 13.48, 13.49(1) and 13.49(6) require the timely publication of an issuer's annual and interim results and the timely despatch of an issuer's annual and interim reports.

Rules 14.34, 14.38A and 14.40 require the issuer to announce as soon as possible after the terms of a major transaction have been finalised. The listed issuer is required also to publish a circular and seek shareholders' approval for a major transaction.

Rule 14A.35 requires the Company to publish an announcement as soon as practicable after the terms of a connected transaction have been agreed.

Rule 3.08 provides that the Exchange expects the 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 (Rule 3.08(f)).

Under Rule 3.09B(2), a director has an obligation under the Listing Rules to use his best endeavours to procure the Company's compliance with the Listing Rules.

SETTLEMENT

The Company and the Relevant Directors did not contest their respective breaches and agreed to the sanctions and directions imposed on them, as set out in this statement.

LISTING COMMITTEE'S FINDINGS OF BREACH

The Company breached (1) Rules 13.46(2)(a), 13.48, 13.49(1) and 13.49(6) in respect of its failure to publish its annual and interim results and despatch its annual and interim reports within the prescribed time; and (2) Rules 14.34, 14.38A, 14.40 and 14A.35 in respect of its failure to comply with the announcement, circular and/or shareholders' approval requirements applicable to the Loans and/or the Undisclosed Transactions.

The Relevant Directors did not exercise due skill, care and diligence in relation to either (1) the granting and enforcement of the Loans; or (2) the Company's internal control deficiencies. They have breached Rule 3.08 and their obligations now set out in Rule 3.09B(2) by failing to use their best endeavours to procure the Company's compliance with the Listing Rules.

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

Hong Kong, 26 November 2024