

STATEMENT OF DISCIPLINARY ACTION

Exchange's Disciplinary Action against Two Former Directors of Silver Base Group Holdings Limited (In Liquidation) (Delisted, Previous Stock Code: 886)

SANCTIONS

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

IMPOSES A DIRECTOR UNSUITABILITY STATEMENT and **CENSURE** against:

- (1) **Mr Liang Guoxing (Chairman Liang)**, former Chairman and executive director (**ED**) of Silver Base Group Holdings Limited (In Liquidation) (**Company**); and
- (2) **Mr Liang Kunwei (ED Liang)**, former ED of the Company.

The Director Unsuitability Statement is a statement that, in the Exchange's opinion, Chairman Liang and ED Liang are unsuitable to occupy a position as director or within senior management of the Company or any of its subsidiaries.

SUMMARY OF FACTS

While the Company and its subsidiaries (**Group**) were facing serious liquidity issues, Chairman Liang and ED Liang allowed and/or caused the Group to dissipate almost all its cash and cash equivalents at the material time by making substantial prepayments to three purchase agents, one of which was owned by relatives of Chairman Liang, for liquor products which were never delivered.

Background

The Group reported a significant decline in revenue and deteriorating liquidity for the financial year ended 31 March 2021. In November 2021, the Company announced that it had defaulted on payments for certain bonds it had issued.

Prepayment Transactions

In October 2021, a wholly-owned subsidiary of the Company (**SBTS**) entered into multiple prepayment agreements (**Prepayment Agreements**) with three purchase agents (**Purchase Agents**). Pursuant to the agreements, SBTS agreed to making prepayments (**Prepayments**) to the Purchase Agents for the purchase and delivery of liquor products by March 2022 (**Prepayment Transactions**).

Chairman Liang and ED Liang are related as uncle and nephew. During the Prepayment Transactions, Chairman Liang was the chairman, and ED Liang served as the chief financial officer of SBTS. Additionally, Chairman Liang's cousin was the chief executive officer of SBTS.

Key features of the Prepayment Transactions are set out below:

- (1) The Purchase Agents had no or limited business dealings with the Group in the two financial years preceding the Prepayment Transactions.
- (2) One of the Purchase Agents (**Connected Agent**) was owned by Chairman Liang's brother and cousin.
- (3) The Prepayment Transactions were entered into without conducting substantive due diligence.

In October 2021, while the Company was facing severe liquidity challenges, SBTS prepaid RMB 534.2 million to the Purchase Agents (**October Prepayments**). In November 2021, SBTS made an additional RMB 26.2 million to the Connected Agent (**November Prepayments**).

In late November 2021, the Company's auditors discovered the October Prepayments and reported them to the Company's audit committee (**Audit Committee**). The Audit Committee promptly convened a meeting (**AC Meeting**) to follow up with Chairman Liang and requested regular updates on the execution status of the Prepayment Agreements to be provided to the Company's board of directors (**Board**) fortnightly. Despite the fact that the November Prepayments had already been made by the time of the AC Meeting, Chairman Liang failed to disclose the November Prepayments during the meeting.

In December 2021, SBTS further prepaid RMB 5.9 million to one of the Purchase Agents (**December Prepayments**). In one internal payment approval form related to the December Prepayments, SBTS' finance department noted in writing that (a) the prepayment was incompatible with SBTS' financial status and could impact SBTS' liquidity; and (b) recommended against proceeding with such prepayment. Nevertheless, the December Prepayments were approved and made.

Chairman Liang and ED Liang allowed and/or caused SBTS to make total Prepayments of RMB 566.3 million to the Purchase Agents over a span of three months, which constituted almost all of the Company's cash and cash equivalents at that time. Of these Prepayments, RMB 190.9 million was associated with payments made to the Connected Agent.

Despite the Audit Committee's request for regular updates, Chairman Liang and ED Liang did not report the November Prepayments and December Prepayments to the Board in a timely manner. In early and late January 2022, the Board (excluding Chairman Liang and ED Liang) became aware of the November Prepayments and December Prepayments through the monthly financial updates provided by the Company.

As of April 2022, the Purchase Agents had neither delivered the liquor products nor refunded the Prepayments to SBTS.

In May and July 2022, the Company was ordered to be wound up by the Grand Court of the Cayman Islands and the High Court of Hong Kong respectively.

RULE REQUIREMENTS

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 be answerable to the issuer for the application or misapplication of its assets, a duty to avoid actual and potential conflicts of interest and duty, and 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)).

Rule 3.08 also highlights the importance of directors taking an active interest in the issuer's affairs. This includes an obligation to follow up on anything untoward that comes to their attention.

Under Rules 3.09B, 3.09C and 3.20, a director has obligations to:

- (a) use his best endeavours to procure the Company's compliance with the Listing Rules;
- (b) cooperate in any investigation conducted by the Division, which includes promptly and openly answering any questions, promptly providing any documents and attending any meeting or hearing requested of him;

- (c) inform the Exchange of any change to his contact details for correspondence from and service of notices and other documents by the Exchange, during the directorship and for a further period of three years from the date on which he ceases to be a director of the issuer; and
- (d) keep the Exchange informed of his up-to-date contact details. If he fails to provide the Exchange with his up-to-date contact details or arrange for notices, documents or correspondence to be forwarded to him, he may not be alerted to any proceedings commenced against him by the Exchange.

LISTING COMMITTEE'S FINDINGS OF BREACH

Chairman Liang and ED Liang breached Rule 3.08 and their obligations to use their best endeavours to procure the Company to comply with the Listing Rules as set out in Rule 3.09B. Details of their breaches are set out below:

- (1) Directors are required to act in the interests of an issuer and to exercise reasonable skill, care and diligence. Chairman Liang and ED Liang failed to fulfill this obligation during the Prepayment Transactions. They did not conduct any substantive due diligence and/or risk assessments concerning the Purchase Agents or the Prepayment Transactions. Additionally, they did not report to the Board before proceeding with the Prepayment Transactions.
- (2) Directors should avoid actual and potential conflict of interests. Chairman Liang and ED Liang were connected to the Connected Agent, which created clear conflicts of interest in the relevant prepayment transactions. However, they did not disclose their relationship with the Connected Agent or report these conflicts of interest to the Board.
- (3) While the other directors of the Company repeatedly expressed concerns and requested regular updates on the Prepayment Transactions, Chairman Liang and ED Liang failed to disclose and/or report the November Prepayments and December Prepayments in a timely manner.
- (4) The prepayment transactions between SBTS and the Connected Agent constituted connected transactions and were subject to the reporting, announcement and shareholder approval requirements under Chapter 14A of the Listing Rules. However, Chairman Liang and ED Liang failed to procure the Company's compliance with the Listing Rules.

ED Liang also breached Rule 3.09C by failing to respond to the Exchange's investigation.

Chairman Liang's and ED Liang's conduct amounted to a serious and/or repeated failure to discharge their responsibilities under 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 apply only to Chairman Liang and ED Liang, and not to the Company and any other past or present directors of the Company.

Hong Kong, 22 April 2025