

STATEMENT OF DISCIPLINARY ACTION

Exchange's Disciplinary Action against New Century Healthcare Holding Co. Limited (Stock Code: 1518) and Six Directors

SANCTIONS AND DIRECTIONS

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

CENSURES:

- (1) **New Century Healthcare Holding Co. Limited (Company)**;
- (2) **Mr Jason Zhou (Mr Zhou)**, executive director (**ED**), chairman and chief executive officer of the Company;
- (3) **Ms Xin Hong (Ms Xin)**, ED of the Company;
- (4) **Mr Xu Han (Mr Xu)**, ED of the Company;

CRITICISES:

- (5) **Mr Jiang Yanfu (Mr Jiang)**, independent non-executive director (**INED**) of the Company;
- (6) **Mr Sun Hongbin (Mr Sun)**, INED of the Company; and
- (7) **Mr Guo Qizhi (Mr Guo)**, former non-executive director (**NED**) of the Company.

(The directors identified at (2) to (7) above are collectively referred to as the **Relevant Directors**.)

AND FURTHER DIRECTS:

- (i) A review of the Company's internal controls for procuring compliance with Chapters 14 and 14A of the Listing Rules;
- (ii) Mr Zhou, Ms Xin and Mr Xu to attend 23 hours of training on regulatory and legal topics and Listing Rule compliance (**Training**), including at least three hours on each of (a) directors' duties; (b) the Corporate Governance Code, and (c) the requirements under Rule 2.13 and Chapters 14 and 14A of the Listing Rules, within 90 days;

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- (iii) Mr Jiang and Mr Sun to attend 15 hours of Training, including at least three hours on each of (a) directors' duties; and (b) the Corporate Governance Code, within 90 days; and
- (iv) Mr Guo to attend 15 hours of Training, including at least three hours on each of (a) directors' duties; and (b) the Corporate Governance Code, as a pre-requisite of any future appointment as a director of any company listed or to be listed on the Exchange.

SUMMARY OF FACTS

In 2016, the Company entered into a framework agreement (**Framework Agreement**) for the provision of hospital consulting services to its connected person (**BJL**, a joint venture owned by, amongst others, Mr Zhou) (Note 1), constituting a continuing connected transaction to the Company. The agreement did not specify the timing for the settlement of service fees.

Between 2016 and 2019, the receivables due from BJL under the Framework Agreement escalated from RMB24 million to RMB138 million. The Company had issued letters demanding BJL for repayment but to no avail. Apart from issuing demand letters, the Company had not established internal control policies on the management of receivables from connected parties at the material time.

Between 2019 and 2021, the Company entered into various repayment plans with BJL, repeatedly revising the repayment schedules to allow BJL to keep delaying the repayment of overdue service fees (together, **Repayment Plans**). BJL settled a small percentage of the receivables (RMB5 million) in each of 2019, 2020 and 2021 under the Repayment Plans.

Despite the prolonged non-payment of service fees, the Company continued to provide services to BJL and agreed to renew the Framework Agreement in 2018, 2019 and 2021. When seeking independent shareholders' approval for renewing the agreement in 2019, the Company's circular (**Circular**) did not disclose all the information necessary for the independent shareholders to make an informed voting decision (Note 2) including (a) the amount and period of overdue receivables owed by BJL to the Company, (b) the entering into of the Repayment Plans, and (c) the lack of settlement terms for service fees in the Framework Agreements.

The audit committee of the Company (**Audit Committee**) was aware of the situation throughout the years. Apart from expressing concerns to the board of directors (**Board**) and asking it to monitor and strengthen the receivables collection process, the Audit Committee did not take further or adequate action to safeguard the Company's interests. Nor did the Audit Committee procure the Company to disclose the situation in the Circular or otherwise to the market in a timely manner.

In 2022, BJL defaulted on the outstanding receivables of RMB140 million. The Company recorded an impairment loss of RMB105 million, representing 36% of its loss for the year ended 31 December 2022 and 12% of its total assets as at 31 December 2022. It was only until April 2023 after the Exchange enquired about the impairment loss that the Company ceased its services to BJL.

SETTLEMENT

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

LISTING COMMITTEE'S FINDINGS OF BREACH

The Listing Committee found as follows:

(1) Company

The Company breached Rules 2.13(2), 14.34, 14.38A, 14.40, 14.41, 14A.35, 14A.36, 14A.46 and 14A.69(3) (Notes 3 to 5). In particular,

- By agreeing the Repayment Plans to allow BJL to keep delaying the repayment of the overdue receivables, the Company provided financial assistance to a connected person, which in turn also constituted discloseable and major transactions. Yet, the Company failed to comply with the announcement, circular and/or shareholders' approval requirements.
- The Company also failed to disclose in its Circular all the information necessary for independent shareholders to appraise its position and make an informed assessment.

(2) Relevant Directors

Mr Zhou, Ms Xin, Mr Xu, Mr Jiang, Mr Sun and Mr Guo breached Rules 3.08 and 3.09B(2) (Notes 6 to 8). In particular,

- Mr Zhou, Ms Xin and Mr Xu, as executive directors of the Company at the material time, were responsible for the daily operations and management of the Company, including overseeing the Company's dealings with BJL. They were aware of BJL's deteriorating financial condition and business performance but failed to disclose the same to the Board. In addition, they failed to (a) take appropriate actions to recover the outstanding receivables, (b) address the repeated concerns raised by the Audit Committee, (c) report the Repayment Plans to the Board for discussion and approval, and (d) properly consider the Rule implications of the Repayment Plans, and procure the Company's Rule compliance in respect of the Repayment Plans. Instead, they procured the Company to continue to provide services to BJL. Given Mr Zhou's positions in the Company and BJL, Mr Zhou also failed to manage his conflict of interest to ensure that the Company's interest prevailed where it conflicted with his own interest.
- Mr Jiang, Mr Sun and Mr Guo, as the Audit Committee members at the material time, participated in the Board's and Audit Committee's discussion and decisions on matters relating to the Framework Agreement and the receivables due from BJL. Although they were aware of the prolonged outstanding receivables due from BJL and subsequently the existence of the Repayment Plans, they failed to (a) question or seek more information on the financial condition of BJL, (b) raise further enquiries or follow up on the progress of the Repayment Plans, and (c) procure the Board to take adequate steps to collect the receivables and safeguard the Company's interests.
- All these directors failed to procure the Company to disclose information necessary to appraise the Company's business and affairs in a timely manner.
- Given the lack of established procedures and policies to manage receivables from connected parties and procure compliance with the corresponding Listing Rule requirements, all the Relevant Directors were also in breach of their duties and obligations to ensure that the Company had adequate and effective internal controls and that the same were properly implemented.

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 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, 11 June 2025

Notes:

1. Beijing Jiahua Likang Medical Investment and Management Co., Ltd. BJL is a joint venture owned by, amongst others, Mr Zhou and Ms Liang Yanqing, a substantial shareholder and former NED of the Company.
2. The renewals in 2018 and 2021 were exempt from the applicable Listing Rule requirements. For the renewal in 2019, the Company published a circular to seek independent shareholders' approval.
3. Under Rule 2.13(2), the information contained in any announcement or corporate communication of a listed issuer must be accurate and complete in all material respects and not be misleading or deceptive.
4. Rules 14.34, 14.38A, 14.40, 14.41 require a listed issuer to announce as soon as possible after the terms of a discloseable and major transaction have been finalised. The listed issuer is also required to publish a circular and seek shareholders' approval for a major transaction.
5. Rule 14A.35, 14A.36, 14A.46, 14A.69(3) require the issuer to publish an announcement as soon as practicable after the terms of a connected transaction have been agreed. The listed issuer is also required to seek shareholders' approval, and publish a circular containing all information necessary to allow its shareholders to make a properly informed decision.
6. 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/her knowledge and experience and holding his/her office within the issuer.

7. Under Rules 3.08, 3.16 and 13.04, the board is collectively responsible for the listed issuer's management and operations, and the directors are collectively and individually responsible for the listed issuer's compliance with the Listing Rules.
8. Under Rule 3.09B(2), a director has obligation to use his/her best endeavours to procure the issuer's compliance with the Listing Rules.