

STATEMENT OF DISCIPLINARY ACTION

Exchange's Disciplinary Action against China Huiyuan Juice Group Limited
(Delisted, Previous Stock Code: 1886) and its Current and Former Directors

SANCTIONS AND DIRECTIONS

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

CENSURES:

- (1) **China Huiyuan Juice Group Limited** (delisted, previous Stock Code: 1886) (**Company**);
- (2) **Mr Zhu Xinli (Mr Zhu)**, former executive director (**ED**) and Chairman of the Company;
- (3) **Ms Zhu Shengqin (Ms Zhu)**, former ED of the Company;
- (4) **Mr Cui Xianguo (Mr Cui)**, former ED and Chief Executive Officer of the Company;
- (5) **Mr Leung Man Kit (Mr Leung)**, former INED of the Company;

AND CRITICISES:

- (6) **Mr Song Quanhou (Mr Song)**, independent non-executive director (**INED**) of the Company at the date of delisting;
- (7) **Mr Wang Wei (Mr Wang)**, former INED of the Company; and
- (8) **Ms Zhao Yali (Ms Zhao)**, former INED of the Company.

(The directors identified at (2) to (8) above are collectively referred to as the **Directors**.)

AND STATES that in the Exchange's opinion, by reason of Mr Zhu's wilful and/or persistent failure to discharge his responsibilities under the Listing Rules, had Mr Zhu remained on the board of directors of the Company (**Board**), his retention of office would have been prejudicial to the interests of investors.

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AND FURTHER DIRECTS:

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 (**CG Code**), (iii) the Listing Rule requirements for notifiable transactions, (iv) the Listing Rule requirements for connected transactions, and (v) the Listing Rule requirements for financial reporting (**Training**) for Mr Leung, within 90 days; and

24 hours of Training for Ms Zhu, Mr Cui, Mr Song, Mr Wang and Ms Zhao, 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*Advances to an entity, major and connected transaction*

Between around 15 August 2017 and 29 March 2018, the Company provided loans in an aggregate amount of approximately RMB4.28 billion (**Loans**) to the borrower (**Borrower**) and its affiliates, being connected persons of Mr Zhu. The Loans constituted advances to an entity, a major transaction and a connected transaction. The Company failed to comply with the reporting, announcement, circular, shareholders' approval and general disclosure requirements under the Listing Rules (**Rules**). The Loans were only announced on 29 March 2018.

Before the advances of the Loans, no Board or shareholder approval was obtained. The Loans, unsecured by any collateral, exposed the Company to significant financial risk. The Loans and interest receivables were not recorded in the accounting books of the Company and its subsidiaries (**Group**) until after the Loans were discovered in December 2017. According to the Directors, they were not aware of the Loans until (for Mr Cui and Mr Zhu) January 2018 and (for the other Directors) March 2018 respectively.

Delays in financial reporting

The Loans triggered certain events of default under the Company's bank facility and issued convertible bonds and led to the Company's delay in publishing its annual results for the year ended 31 December 2017. The Company failed to publish and/or despatch its 2017 annual results and report and 2018 and 2019 interim and annual results and report within the deadlines under the Rules (**Outstanding Results and Reports**).

Deviation from CG Code

The Company's 2016 annual report and 2017 interim report did not disclose the Company's practice to circulate the Group's monthly management accounts to the EDs only and bi-annual management accounts to all members of the Board. The Company did not provide any reasons for its deviation from code provision C.1.2 of the CG Code, Appendix 14 to the Rules.

Internal control deficiencies

Prior to the advances of the Loans, previous internal control reviews in 2015 and 2016 identified a number of internal control issues, including those relating to fund transfers, late account recording and non-approved payments. The Company admitted that it did not take any steps to address these issues apart from organising a general compliance training.

Both Grant Thornton Advisory Services Limited (**Grant Thornton**) and Baker Tilly Hong Kong Risk Assurance Limited (**Baker Tilly**) identified deficiencies in the Company's internal controls during their independent investigation and internal control review respectively after the discovery of the Loans. In 2020, the Board endorsed the findings of Baker Tilly's internal control review and Grant Thornton's investigation, including those relating to the Company's internal controls, and the recommendations for remedial measures.

Further Connected Transactions

During its second follow-up review, Baker Tilly found that the Group had entered into further connected transactions with the Borrower (the same connected person of Mr Zhu) between July 2018 and April 2019 and that despite the previous discovery of the Loans, Mr Zhu approved the transfer of approximately RMB1.7 billion to the Borrower in July 2018 (**Further Connected Transactions**).

LISTING RULE REQUIREMENTS

Rules 13.13 and 13.15 require issuers to announce as soon as reasonably practicable details of its advances to an entity where the aggregate of advances exceeds 8% under the assets ratio.

Rules 13.46(2)(a), 13.48(1), 13.49(1) and 13.49(6) stipulate the respective timing for the publication or despatch of an issuer's preliminary announcement of interim and annual results and its interim and annual reports.

Rule 13.89(3) requires an issuer to give considered reasons for any deviation from the code provisions of the CG Code in its annual and interim reports.

Rules 14.34, 14.38A and 14.40 impose notification, announcement, circular and shareholder approval requirements on, *inter alia*, major transactions.

Rules 14A.34, 14A.35, 14A.36 and 14A.46 require issuers to comply with the written agreement, announcement, circular and/or independent shareholder approval requirements for connected transactions.

Under Rules 3.08, 3.16 and 13.04, the board is collectively responsible for the Company's management and operations. In particular, Rule 3.08 provides that the directors must, *inter alia*, avoid potential and actual conflicts of interest and duty (Rule 3.08(d)) and 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(f) highlights the importance of directors taking an active interest in the issuer's affairs and having a general understanding of its business. This includes an obligation that they must follow up anything untoward that comes to their attention.

Pursuant to the Declaration and Undertaking with regard to Directors (**Undertaking**) in the form set out in Appendix 5B to the Rules, an issuer's director is under an obligation to comply to the best of his/her ability with the Rules and use his/her best endeavours to procure the Company's compliance with the Rules.

Under the CG Code, directors are required, among others, to oversee the issuer's risk management and internal control systems on an ongoing basis and ensure that a review of the effectiveness of the issuer's and its subsidiaries' risk management and internal control systems has been conducted at least annually, and when conducting their annual review, the directors should consider the effectiveness of the issuer's processes for financial reporting and Rule compliance (code provisions C.2.1 and C.2.3 of the CG Code).

Code provision C.1.2 of the CG Code requires a listed issuer's management to provide all members of the board with monthly updates in sufficient detail to enable the board as a whole and each director to discharge their duties under Rule 3.08 and Chapter 13 of the Rules.

LISTING COMMITTEE'S FINDINGS OF BREACH

The Listing Committee found as follows:

- (1) The Company breached:
 - (a) Rules 13.13, 13.15, 14.34, 14.38A, 14.40, 14A.34, 14A.35, 14A.36 and 14A.46(1) in respect of the Loans;
 - (b) Rules 13.46(2)(a), 13.48(1), 13.49(1) and 13.49(6) in respect of its delays in publishing and/or despatching the Outstanding Results and Reports; and
 - (c) Rule 13.89(3) in failing to give in its 2016 annual report and 2017 interim report considered reasons for its deviation from code provision C.1.2 of the CG Code that, instead of providing all the Board members with monthly updates as required thereunder, it circulated the Group's monthly management accounts to the EDs only and bi-annual management accounts to all the Board members.
- (2) Mr Zhu and Ms Zhu breached Rules 3.08(d) and (f) and their Undertakings to comply with the Rules to the best of their ability. In particular, Mr Zhu and Ms Zhu failed to discharge their duties under the Rules and the Undertakings in:
 - (a) avoiding potential and/or actual conflicts of interest;
 - (b) ensuring the Company's list of connected persons was updated promptly to include entities connected to them; and
 - (c) ensuring the Company's internal control system would effectively identify transactions connected to them.
- (3) Mr Zhu further breached Rule 3.08 and his Undertaking to comply with the Rules to the best of his ability in relation to the Further Connected Transactions. In particular, Mr Zhu was already aware of the previous Loans at the time of endorsing the transfer of the Further Connected Transactions in July 2018, but he endorsed the transfer without informing the Board, declaring and/or avoiding his conflict of interest, considering and discussing with the Board on the Listing Rule implications of the Further Connected Transactions, and taking steps to procure the Company to comply with the Rules.

- (4) The Directors breached Rule 3.08(f) and their Undertakings to comply with the Rules to the best of their ability and to use their best endeavours to ensure the Company had adequate and effective internal controls to procure the Company's compliance with the Rules and to protect the Company's and its shareholders' interests:
- (a) At the time of the Loans, the Company did not have adequate and effective internal controls to protect its own and its shareholders' interests and to ensure its compliance with the Rules.
 - (b) Although Mr. Zhu and Mr. Cui were aware of the Loans in early January 2018, it took them more than two months to report the matter to the Board. This showed how they could decide, at their own discretion and pace, what matters would require the Board's attention, and reflected the ineffectiveness of the Company's internal controls in relation to promptly alerting the Board of important matters.
 - (c) None of the Directors (in particular, Mr Leung as the chairman of the Audit Committee and the INED from June 2012 to January 2019 and with the relevant experience and expertise in relation to accounting, audit and financial management) demonstrated that they took any active steps in addressing the internal control deficiencies identified in previous internal control reviews in 2015 and 2016 in relation to fund transfers, late account recording and non-approved payments.
 - (d) The Group had previously entered into connected transactions with the Borrower and other companies related to Mr Zhu (including certain continuing connected transactions with the Borrower as reported in the Company's 2015 annual report). Despite such previous dealings with the Borrower and the Group's history of entering into connected transactions with Mr Zhu's associates, the Directors failed to ensure that adequate and effective internal controls were maintained and adequate training and guidance were provided to the Group's staff, so as to ensure the Company's compliance with the Rules.
 - (e) At the time of the Loans, the Company's funding department was authorised to manage the Group's funds and the funding department's supervisor was authorised to approve internal fund transfers from the Group's bank accounts. However, there was no guidance on how to identify whether a fund transfer was an internal or external transfer. According to the Company, it relied on the alertness and judgment of the handling staff in identifying notifiable and connected transactions, identifying and avoiding conflict of interest, and complying with the Rules. There was no evidence of any supervision of the funding department's supervisor and/or regular

reporting to the Board. Delegation did not absolve the Directors from their duty to supervise the discharge of the delegated functions, for which they, collectively and individually, retained ultimate responsibility.

(f) Under Rule 3.08(f), the Directors were required to follow up anything untoward that came to their attention. After the discovery of the Loans, the Directors (in particular, Mr Leung, as the chairman of the Audit Committee and the INED with the relevant experience and expertise) did not take proactive follow-up actions to safeguard the Company's assets.

(5) Mr Zhu's failure to discharge his responsibilities under Rule 3.08 and his Undertaking in this case was wilful and/or persistent.

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 Directors, and not to any other past or present members of the Board.

Hong Kong, 17 November 2021