

STATEMENT OF DISCIPLINARY ACTION

Exchange's Disciplinary Action against Ping An Securities Group (Holdings) Limited (In Liquidation) (Stock Code: 231) and Two Directors

SANCTIONS AND DIRECTIONS

The Listing Committee of the Exchange (**Listing Committee**)

CENSURES:

- (1) **Ping An Securities Group (Holdings) Limited** (In Liquidation) (Stock Code: 231) (**Company**);

AND IMPOSES A PREJUDICE TO INVESTORS' INTERESTS STATEMENT against:

- (2) **Mr Gong Qing Li**, former ED of the Company (**Mr Gong**);
- (3) **Mr Lin Hong Qiao**, former ED of the Company (**Mr Lin**).

(The directors identified at (2) and (3) above are collectively referred to as the **Relevant Directors**.)

The statements made in respect of Mr Lin and Mr Gong above are made in addition to a public censure against them. The Prejudice to Investors' Interests Statement is a statement that, in the Exchange's opinion, had Mr Lin or Mr Gong remained on the board of directors of the Company (**Board**), the retention of office by him would have been prejudicial to the interests of investors.

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SUMMARY OF FACTS*Loans*

From July to September 2018, a subsidiary of the Company, Super Harvest Finance Limited (**SH Finance**) holding a money lenders license in Hong Kong granted loans to three independent borrowers totaling approximately HK\$273.6 million (**Loans**). Each of the Loans constituted a major transaction of the Company subject to announcement, circular and shareholders' approval requirements under the Listing Rules.

The Loans were executed by Mr Gong and Mr Lin as members of the Executive Committee (**EC**). Under the Terms of Reference (**TOR**), whilst the EC had the power to, among others, approve transactions on behalf of the Company, it did not have the power to approve any transactions that were subject to reporting, announcement and/or shareholders' approval requirements under the Rules. Further, upon transaction of business, the EC was to report its decisions to the Board. The other members of the EC and the remainder of the Board were not aware of, and did not authorize, the Loans.

The Loans were not announced until 11 and 31 October 2019, after a delay of over one year. No shareholders' approval were sought. The Loans were never repaid and the Company suffered losses which accounted for around 30 per cent of the total losses recorded in 2019.

Disposals

On 15 July 2019, the Board approved the disposal of its 60 per cent equity interest in Lianrun Shanghai Information Technology Co., Ltd. (**Lianrun**) at a consideration of RMB4 million. It transpired that in August 2019 Mr Lin had effected an alleged trust arrangement whereby the purchaser would hold Lianrun on trust for the Company, without paying any consideration. The Company lost control of Lianrun shortly after.

On 25 September 2019, Mr Gong and Mr Lin disposed of the Company's interest in another subsidiary, Super Harvest Asset Management Limited (**SHAM**), at a consideration of US\$1.00. As part of the terms of the disposal, Mr Gong and Mr Lin changed their directorships in SHAM and SHAM's subsidiary, Super Harvest Global Fund SPC (**SHF**). The disposal was cancelled two days later but the changes in directorships were not reinstated.

On 6 November 2019, SHAM transferred the sole management share in SHF to a third party at a consideration of US\$1.00 by way of another alleged trust arrangement. No consideration was received by the Company and the Company lost control of SHF thereafter.

Each disposal constituted a discloseable transaction of the Company. Save for the initial approval for the disposal of Lianrun, the subsequent trust arrangement and disposals of SHAM and SHF were not known to, or approved by, the Board. The disposals were not announced by the Company until March and June 2020.

Investigation by the Company

Upon enquiry by the Company, Mr Lin was not able to provide justification for the trust arrangement in connection with the disposal of Lianrun. He later refused to respond to the Company. Mr Gong did not respond to the Company at all.

The Special Investigation Committee (**SIC**) established by the Company commissioned an investigation to be carried out in relation to the disposal of SHAM and the management share of SHF. The Company announced the key findings of the investigation report on 17 July 2020 which concluded, among other things, that Mr Gong was apparently the mastermind who executed the disposals with assistance from Mr Lin and two others. However, the nature, substance and commercial rationale behind the disposals were difficult to explain due to insufficient and unclear information.

Mr Gong and Mr Lin also failed to cooperate with the investigation of the Listing Division (**Division**).

RULE REQUIREMENTS

Under Rules 14.34, 14.38A, 14.40, and 14.41, an issuer is required to comply with the announcement and reporting requirements and/or circular and independent shareholders' approval requirements for a discloseable or a major transaction as soon as possible after such terms have been finalised or agreed.

Rule 3.08 provides that directors, both collectively and individually, are required 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, among others, to act honestly and in good faith in the interests of the company as a whole; be answerable to the issuer for the application and misapplication of its assets; and to apply such degree of skill, care and diligence as may reasonably be expected of a person of his/her knowledge, experience and office within the issuer.

Pursuant to the Declaration and Undertaking with regard to Directors in the form set out in Appendix 5B to the Listing Rules (**Undertaking**), each director is required to (i) comply with the Listing Rules to the best of his/her ability; (ii) use his/her best endeavours to procure the Company's compliance with the Listing Rules; and (iii) cooperate in any investigation conducted by the Division.

LISTING COMMITTEE'S FINDINGS OF BREACH

The Listing Committee found as follows:

- (1) the Company breached Rules 14.34, 14.38A, 14.40, and 14.41 in respect of each of the Loans, and Rule 14.34 in respect of each of the disposals. The Loans and the disposals were transactions made on behalf of the Company; the Company delayed in making the announcements and the Loans were not approved by the independent shareholders.
- (2) Mr Gong and Mr Lin breached their director's duties under Rule 3.08 and their Undertakings to comply with the Rules to the best of their ability and to use their best endeavours to procure the Company's Rule compliance in respect of the Loans and the disposals:
 - (a) Notwithstanding the express limitations set out in the TOR, Mr Gong and Mr Lin executed the Loans in excess of their powers and did not report them to the Board.
 - (b) Mr Lin could not provide any discernible commercial justification for the trust arrangements and unauthorised disposals or how they were in the interest of the Company. From his own admission during the investigation commissioned by the SIC, he simply followed Mr Gong's instructions without questions or understanding of their purposes.
 - (c) From the available information, Mr Gong was clearly aware of the enquiries by the Company after discovery of the unauthorized transactions. However, he seemingly tried to evade responsibility by failing to respond to the Company's enquiries and/or the SIC's investigation or at all.
 - (d) Mr Gong and Mr Lin also failed to follow the Company's internal procedures regarding transaction approvals and notifiable transactions under the Rules. As a result of their failures, the Board was not informed of the various transactions and as such was deprived of the opportunity to ensure the interests of the Company were protected and any regulatory requirements were complied with.

- (e) In addition, Mr Gong and Mr Lin failed to comply with their Undertakings to cooperate with the Division's investigation.

CONCLUSION

The Listing Committee decided to impose the sanctions set out in this Statement of Disciplinary Action.

For the avoidance of doubt, the Exchange confirms that the above sanctions apply only to the Company and the Relevant Directors, and not to any other past or present directors of the Company.

Hong Kong, 10 August 2022