

STATEMENT OF DISCIPLINARY ACTION

Exchange's Disciplinary Action against Blockchain Group Company Limited
(Delisted, Previous Stock Code: 364) and Ten Directors

SANCTIONS AND DIRECTIONS

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

CENSURES:

(1) **Blockchain Group Company Limited** (delisted, previous Stock Code: 364) (**Company**);

IMPOSES A PREJUDICE TO INVESTORS' INTERESTS STATEMENT against:

- (2) **Mr Cai Zhenrong**, Chairman and executive director (**ED**) of the Company (**Mr ZR Cai**);
- (3) **Mr Cai Yangbo**, Managing Director and ED of the Company (**Mr YB Cai**);
- (4) **Mr Cai Zhenyao**, ED of the Company (**Mr ZYao Cai**);
- (5) **Mr Cai Zhenying**, ED of the Company (**Mr ZY Cai**);
- (6) **Dr Li Mow Ming Sonny**, independent non-executive director (**INED**) of the Company (**Dr Li**);
- (7) **Mr Su Yichao**, former Joint Chairman and ED of the Company (**Mr Su**);
- (8) **Mr Wang Qidong**, former INED of the Company (**Mr Wang**);

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CENSURES:

- (9) **Mr Choi Wing Toon**, former ED of the Company (**Mr Choi**);
- (10) **Mr Chen Wenfang**, former ED of the Company (**Mr Chen**); and
- (11) **Mr Lawrence Gonzaga**, former INED of the Company (**Mr Gonzaga**).

(The directors identified at (2) to (11) above are collectively referred to as the **Relevant Directors**.)

The statement made in respect of Mr ZR Cai, Mr YB Cai, Mr ZYao Cai, Mr ZY Cai, Dr Li, Mr Su and Mr Wang above is made in addition to a public censure against each of them. The Prejudice to Investors' Interests Statement is a statement that, in the Exchange's opinion, had Mr ZR Cai, Mr YB Cai, Mr ZYao Cai, Mr ZY Cai, Dr Li, Mr Su and Mr Wang remained on the board of directors of the Company (**Board**), the retention of office by them would have been prejudicial to the interests of investors.

AND FURTHER DIRECTS:

Each of Mr Choi and Mr Chen to attend 18 hours of training on regulatory and legal topics and Listing Rule compliance (**Training**), and Mr Gonzaga to attend 15 hours of Training.

SUMMARY OF FACTS*Acquisition – A Very Substantial Transaction*

At a meeting in August 2018, the Board approved the acquisition of ginseng plantation land(s) in North East China for a total value of RMB1.5 billion to RMB2 billion, and authorised Mr ZY Cai to be in charge of the deal, including its negotiation, valuation and assessment of the Listing Rule implications. In August 2018, the Company's group (**Group**) entered into memoranda of understanding with prospective sellers. Between 1 and 8 September 2018, the Group entered into numerous sale and purchase agreements to acquire ginseng assets (**Ginseng Assets**) from over 400 sellers for a total consideration of approximately HK\$2.1 billion (**Acquisition**).

The Acquisition was never announced or disclosed to the public. Subsequently, in the course of the Company's resumption application after its trading suspension, the Acquisition was discovered by the Exchange from the Company's resumption proposal, in which the Company included a draft auditor's report with its draft financial statements (**Draft Financial Statements**) for the year ended 31 December 2018 (**FY2018**) which revealed the undisclosed Acquisition, a significant impairment on the Ginseng Assets (in the sum of approximately HK\$1.25 billion) and that the Group's cash position was nearly wholly depleted, during FY2018.

The Acquisition, when aggregated, constituted a very substantial acquisition of the Company. The Company failed to comply with the announcement, circular, independent shareholders' approval requirements for the Acquisition.

A valuation report dated 25 August 2018, procured by Mr ZY Cai in support of the Acquisition, showed that the valuation was prepared using the income approach, without information on the age and harvesting periods of the Ginseng Assets, because the valuer was not provided with such information. Subsequently, for financial reporting and audit purposes, another valuer was engaged to assess the fair value of the Ginseng Assets as of 31 December 2018. The subsequent valuation, on which the impairment in the Draft Financial Statements was based, adopted a different valuation approach with reference to the market-determined prices of ginsengs of similar age, weight and grade. The fair value of the Ginseng Assets as of 31 December 2018 was less than half of the pre-Acquisition assessed value.

Delays in Financial Reporting

The Company failed to publish / despatch its interim and annual results and reports, and its results based on its unaudited management accounts (together, **Results and Reports**) since FY2018. Such Results and Reports remained outstanding as at the date of the Company's delisting.

Non-cooperation

Between August 2020 and April 2021, the Division made numerous enquiries with the Company (together with its then directors), Mr Su and Mr Wang, in relation to the above matters and on the discharge of directors' duties. Mr Su and Mr Wang did not respond to the Division's enquiries.

The Company did not fully address the Division's enquiries in the first three enquiry letters and it did not respond to the Division's fourth enquiry letter. At the material time of the Division's investigation, Mr ZR Cai, Mr YB Cai, Mr ZYao Cai, Mr ZY Cai and Dr Li were EDs / INED of the Company.

LISTING RULE REQUIREMENTS

Rule 2.12A(2) requires a listed issuer to provide to the Exchange as soon as possible, or otherwise in accordance with the time limits imposed by the Exchange, among others, any information or explanation that the Exchange reasonably requires for investigating a suspected breach of or verifying compliance with the Listing Rules.

Rules 13.46(2)(a), 13.48(1), 13.49(1), 13.49(3)(i) and 13.49(6) stipulate the timing for the publication or despatch of a listed issuer's interim and annual results and reports, its preliminary announcement of interim and annual results and its results based on unaudited management accounts.

Rule 14.22 provides that the Exchange may require listed issuers to aggregate a series of transactions and treat them as if they were one transaction if they are all completed within a 12 month period or are otherwise related. In such cases, the listed issuer must comply with the relevant disclosure and approval requirements for the relevant transaction when aggregated.

Rule 14.34 requires a listed issuer to publish an announcement as soon as possible after the terms of, *inter alia*, a very substantial acquisition have been finalised.

Rules 14.38A, 14.48, 14.49 and 14.51 provide that, in relation to a very substantial acquisition, the listed issuer must send a circular to its shareholders and the Exchange, and the very substantial acquisition must be conditional upon shareholders' approval in general meeting.

Under Rules 3.08, 3.16 and 13.04 of the Listing Rules, directors of listed issuers are both collectively and individually responsible for the Company's management and operations, and are collectively and individually responsible for the Company's compliance with the Listing Rules.

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 the 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 (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 anything untoward that comes to their attention.

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 under an obligation to, among other things, (i) comply with the Listing Rules to the best of his/her ability, (ii) use his/her best endeavours to procure the Company's Listing Rule compliance, (iii) cooperate in any investigation conducted by the Division, including promptly and openly answering any questions addressed to him/her and promptly providing any relevant documents, and (iv) keep the Exchange informed of his/her up-to-date contact details and inform the Exchange of any change to his/her contact details for a further period of three years from the date on which he/she ceases to be a director.

LISTING COMMITTEE'S FINDINGS OF BREACH

The Listing Committee found as follows:

- (1) the Company breached:
 - (a) Rules 14.34, 14.38A, 14.49 and 14.51 in respect of the Acquisition;
 - (b) Rules 13.46(2)(a), 13.48(1), 13.49(1), 13.49(3)(i) and 13.49(6) in respect of the Results and Reports; and
 - (c) Rule 2.12A(2) for failing to timely respond to the Division's enquiries and to provide information required in the Division's investigation.

- (2) Mr ZY Cai breached Rule 3.08 and his Undertaking in relation to the Acquisition, its valuation and the Company's Listing Rule compliance in respect of the Acquisition:
 - (a) Mr ZY Cai, being the director responsible for the Acquisition, failed to exercise sufficient skill, care and diligence in ensuring sufficient due diligence and valuation were conducted and in ensuring the Acquisition was in the interests of the Company and its shareholders. He was also authorised to assess the Listing Rule implications of the Acquisition and to convene another Board meeting if the Acquisition was subject to disclosure requirements. Despite the substantial size of the Acquisition, Mr ZY Cai took no steps to seek any legal advice on the Listing Rule implications, and hence failed to procure the Company's Listing Rule compliance, in relation to the Acquisition.

- (b) He also failed to exercise sufficient skill, care and diligence in ensuring material information was obtained and/or made available to the valuer for the valuation for the Acquisition, to apply independent judgment in considering the valuation for the Acquisition and to take follow up actions on the lack of material information for the valuation.
- (3) Mr ZR Cai, Mr YB Cai, Mr ZYao Cai, Dr Li, Mr Su, Mr Wang, Mr Choi, Mr Chen and Mr Gonzaga each breached Rule 3.08 and their Undertakings in relation to the Acquisition and the Company's Listing Rule compliance in respect of the Acquisition:
- (a) The Relevant Directors were in office at the relevant time of the Acquisition. The evidence showed that Mr ZR Cai, Mr YB Cai, Mr ZYao Cai, Mr ZY Cai, Mr Su, Mr Chen, Mr Gonzaga and Mr Wang approved the Acquisition at the Board meeting in August 2018, and that Mr Choi and Dr Li were aware of the meeting and the approval of the Acquisition. Given the substantial size of the Acquisition, a reasonable director exercising due skill, care and diligence ought to have been aware that the Acquisition would constitute a notifiable transaction. However, no steps were taken to ensure the Company's Listing Rule compliance or to follow up on ensuring that legal advice was obtained and properly considered in relation to the Listing Rule implications, or on any further Board meeting(s) in relation to the Acquisition.
- (b) They failed to exercise sufficient skill, care and diligence in ensuring the Acquisition was in the interests of the Company and its shareholders and to use their best endeavours to procure the Company's Listing Rule compliance in respect of the Acquisition.
- (4) Mr ZR Cai, Mr YB Cai, Mr ZYao Cai, Mr ZY Cai and Dr Li, as the directors in office at the time of the Division's investigation, each breached their obligations under their Undertakings to use their best endeavours to procure the Company's compliance with Rule 2.12A(2) and to cooperate in the Division's investigation.
- (5) Mr Su and Mr Wang also breached their Undertakings by failing to cooperate in the Division's investigation. Their obligation to provide information reasonably required by the Exchange did not lapse after they ceased to be a director of the Company.
- (6) The failure of Mr ZR Cai, Mr YB Cai, Mr ZYao Cai, Mr ZY Cai, Dr Li, Mr Su and Mr Wang to discharge their responsibilities under the Listing Rules and/or the Undertakings was wilful and/or persistent.

CONCLUSION

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

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

Hong Kong, 28 March 2023