

香港聯合交易所有限公司

(香港交易及結算所有限公司全資附屬公司)

THE STOCK EXCHANGE OF HONG KONG LIMITED

(A wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited)

## STATEMENT OF DISCIPLINARY ACTION

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Exchange's Disciplinary Action against China Ecotourism Group Limited (formerly known as China LotSynergy Holdings Limited) (Stock Code: 1371) and Seven Directors

### SANCTIONS AND DIRECTIONS

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

#### CRITICISES:

- (1) **China Ecotourism Group Limited** (formerly known as China LotSynergy Holdings Limited) (Stock Code: 1371) (**Company**);

**IMPOSES A PREJUDICE TO INVESTORS' INTERESTS STATEMENT** against:

- (2) **Mr Wu Jing Wei**, Executive Director (**ED**) of the Company (**Mr Wu**);
- (3) **Ms Chan Tan Na Donna**, former ED, Chairman and CEO of the Company (**Ms Chan**);
- (4) **Ms Lau Ting**, former ED of the Company (**Ms Lau**);

#### CENSURES:

- (5) **Mr Li Zi Kui**, former ED of the Company (**Mr Li**);
- (6) **Mr Chan Ming Fai**, Independent Non-executive Director (**INED**) of the Company (**Mr Chan**);
- (7) **Mr Cui Shu Ming**, former INED of the Company (**Mr Cui**); and
- (8) **Mr Huang Sheng Lan**, former INED of the Company (**Mr Huang**).

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

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The statement made in respect of each of Mr Wu, Ms Chan and Ms Lau 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, the retention of office by Ms Chan and Ms Lau would have been, and by Mr Wu is, prejudicial to the interests of investors.

## **AND FURTHER DIRECTS:**

An independent review of the Company's internal controls for procuring compliance with Chapters 14 and 14A of the Listing Rules;

Mr Chan to attend 21 hours of training on regulatory and legal topics including Listing Rule compliance; and

Mr Li and Mr Cui to attend 21 hours of training as a pre-requisite of any future appointment as a director of any company listed or to be listed on the Exchange.

With respect to Mr Huang, the Exchange imposed a Director Unsuitability Statement against him on 9 November 2023 in relation to his conduct as a director of a company delisted from the Exchange in 2021.

## **SUMMARY OF FACTS**

### *Impairment of loan receivables*

Between 2014 and 2018, the Company's group granted thirteen loans in the total principal sum of approximately HK\$363 million and RMB91 million to nine borrowers, purportedly to develop its lottery business in multiple provinces in China and in the Philippines (**Loans**). The Loans were extended to corporate borrowers nominated by their ultimate beneficial owners (**UBOs**) who, according to the Company, were individuals with business connections. The Company did not verify the relationship between the borrowers and the UBOs. All but four of the Loans were unsecured. All borrowers defaulted on the repayments. Between 2017 and 2020, the Company lost contact with eight of the borrowers.

The Company did not carry out proper due diligence prior to granting the Loans. There was no proper analysis or assessment made in respect of any credit risks, the reasonableness of the terms; and/or the likelihood of the intended business projects coming into fruition.

No evidence was provided by the Company to show that the Loan proceeds were used by the UBOs for the purported business development, or that the Company was overseeing the use of the Loan proceeds in any way. In fact, evidence showed that certain proceeds from one of the Loans granted in August 2016 were, shortly after drawdown, passed to persons or entities connected with Ms Chan's husband, Mr Sha Tao. Evidence also showed that proceeds from another two Loans granted in November and December 2016 were passed to an entity jointly held by Ms Lau and her ex-husband, Mr Chan Shing (**Jointly-held Entity**), or to Mr Chan Shing himself.

Separately, around July 2022, the Company found that two Loans, through loan extensions, had become connected transactions of the Company as Mr Sha Tao became the UBO of both of the Loans. The Company admitted its failure to comply with the procedural requirements under Chapters 14 and 14A of the Listing Rules.

Notwithstanding the borrowers' default on the Loan repayments, for each of the financial years between 2014 and 2017, the Board represented to its auditors via management representation letters that the Loan receivables were fully recoverable and no impairment provision was required.

It was not until the financial years ended in 2018 and 2019 that the Company respectively recognised approximately HK\$66.1 million and HK\$407 million impairment loss on the Loan receivables. This represented 40 per cent of the Company's total loss in 2018 and 73 per cent of the Company's total loss in 2019. According to the Company, there was an adverse change in government policy in around 2018, and given the COVID outbreak, the likelihood of the borrowers being able to repay the Loans became very low.

#### *Impaired investment*

On 5 September 2018, Sinmax Limited (**Sinmax**), a wholly-owned subsidiary of the Company, entered into a subscription agreement for 37.5 per cent of the issued share capital in Pan Asia Blockchain Lottery Limited (**PABL**) at a consideration of HK\$35 million. PABL was held by Pan Asia Blockchain Holding Limited (**PABH**), a company owned by a Ms Kang Mei Dan (**Ms Kang**), whom Ms Chan had met at a business conference. The subscription was to facilitate the Company's plan to adopt blockchain technology in its lottery business.

Completion of the subscription agreement took place on 5 September 2018. The subscription money was not paid to PABH, but to a third party at the instruction of Ms Kang.

Pursuant to the subscription agreement, upon payment of 50 per cent of the consideration amount, PABL was required, amongst other things, to issue and allot shares to Sinmax and procure the appointment of Ms Chan as a director of PABL. However, neither the allotment of shares to Sinmax nor the appointment of Ms Chan took place.

Evidence showed that part of the subscription money was transferred to Mr Sha Tao's personal account in October 2018. Ms Kang became uncontactable in September 2019.

In the Company's financial statements for 2019, the Company made a full impairment provision in respect of its investment in PABL. The Company did not announce details about its investment in PABL until 31 August 2020.

#### *Internal controls*

The Company did not have adequate and/or effective internal controls for ensuring Rule compliance in respect of notifiable and connected transactions, and for the protection of its assets.

The Company did not have any written policy for procuring compliance with Listing Rule requirements for notifiable and connected transactions. The practice was to orally consult the company secretary before entering into a transaction. However, there were no documents available to evidence such practice.

There was also in place an investment policy effective as of January 2009 that applied to investments in potential business opportunities, individuals and/or entities in the form of capital investment and loans. Pursuant to the policy, the project manager was to “*investigate into the target or entity and make a full assessment*” before making any investment. However, there were no provisions or guidelines specifically on what should be investigated or assessed, and how such investigation or assessment should be carried out and recorded. Again, the Company did not provide evidence of any such investigation or assessment being made.

## **RULE REQUIREMENTS**

Rule 14.34 provides that a listed issuer must publish an announcement as soon as possible after the terms of a notifiable transaction have been agreed.

Rules 14A.35, 14A.36 and 14A.46 provide that a connected transaction is subject to announcement, independent shareholders’ approval and circular requirements. Rule 14A.49 further requires that a listed issuer must disclose specific information about its connected transactions conducted during the year in its annual report.

Under Rules 3.08, 3.16 and 13.04, the board of directors of an issuer 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.

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 include, among others, duties to act honestly and in good faith in the interests of the company as a whole, to be answerable to the issuer for the application or misapplication of its assets, to avoid actual and potential conflicts of interest and duty, and 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.

Each director is subject to the obligations in the Director’s Undertaking, which include, among others, that he/she will comply with the Listing Rules to the best of his/her ability; and to use his/her best endeavours to procure the listed issuer’s compliance with the Listing Rules.

## **LISTING COMMITTEE'S FINDINGS OF BREACH**

The Company breached the procedural requirements under Rules 14.34, 14A.35, 14A.36, 14A.46 and 14A.49 in respect of the Loans connected to Mr Sha Tao, which constituted notifiable and connected transactions.

The Relevant Directors breached their directors' duties under Rule 3.08 and their Directors' Undertakings by failing to comply to the best of their ability with the Listing Rules and/or use their best endeavours to procure the Company to comply with the Listing Rules:

- (1) Ms Lau, Mr Wu and/or Ms Chan were involved in the approval of all the Loans. Ms Chan negotiated and handled the investment in PABL. The Loans were granted, and the investment was entered into, without sufficient due diligence, risk analysis or credit assessment. These transactions were prejudicial to the Company's interest and they put the Company's assets into jeopardy. Ms Lau, Mr Wu and Ms Chan failed to take adequate steps to monitor the repayment of the Loans and Ms Chan failed to protect the Company's interest in the investment in PABL. Mr Wu and Ms Chan also failed to ensure the Company complied with the procedural requirements under the Listing Rules for notifiable and connected transactions upon Mr Sha Tao becoming the UBO of two of the Loans. The breach of the Directors' Undertakings by Ms Lau, Mr Wu and Ms Chan was serious. Their conduct demonstrated a willful or persistent failure to discharge their responsibilities under the Listing Rules and was prejudicial to the interests of investors.
- (2) In addition, despite their knowledge of the outstanding loan repayments and the loss of contact with certain borrowers, Ms Lau, Mr Wu and Ms Chan proceeded to represent to the Company's auditors in management representation letters that the relevant Loan receivables were fully recoverable and no provision for impairment was required.
- (3) The fund flows from the proceeds of some of the Loans raised concerns as to whether there were some other arrangements involving Ms Lau, Ms Chan, Mr Chan Shing, Mr Sha Tao, the relevant borrowers and/or their respective UBOs. These fund flows also raised serious concerns as to the discharge of fiduciary duties by Ms Lau and Ms Chan as directors of the Company. In particular, the Jointly-held Entity, in which Ms Lau held an interest, appeared to have received certain Loan proceeds, and she was duty bound to actively manage conflicts but she failed to do so.
- (4) Mr Li was involved in approving three of the Loans as a co-signatory with Ms Lau, Mr Wu and Ms Chan. Mr Li attended the board meeting in which the Company's financial statements for the year ended 2017 were approved. He should have ensured the representations to the Company's auditors were reasonable and appropriate at the time, but he failed to do so.

- (5) Mr Huang, Mr Chan and Mr Cui were members of the audit committee of the Company. They were under a duty to monitor the integrity of the Company's financial statements and to review significant financial reporting judgements contained in them. Mr Huang, Mr Chan and Mr Cui failed to question the board's representation in the management representation letters despite the length of time the relevant Loans had remained outstanding. They should not have simply relied on the representations of the board and in the exercise of due skill, care and diligence, they should have made enquiries about the nature of the transactions which resulted in the receivables and the basis of the Company's view that no impairment provision was necessary. These factors were relevant to ensuring the integrity of the Company's financial statements.
- (6) All Relevant Directors were aware of the Company's practice to make loans to procure business opportunities. They were individually and collectively responsible to ensure that the Company established and maintained an adequate and effective internal controls and risk management system. They failed to discharge their duties in this regard.

### **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 Relevant Directors, and not to any other past or present directors of the Company.

Hong Kong, 25 April 2024