

STATEMENT OF DISCIPLINARY ACTION

The Exchange's Disciplinary Action against Great Wall Terroir Holdings Limited (formerly known as Great Wall Belt & Road Holdings Limited) (Stock Code: 524) and 11 directors

SANCTIONS AND DIRECTIONS

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

CENSURES:

- (1) **Great Wall Terroir Holdings Holdings Limited** (Stock Code: 524) (**Company**, together with its subsidiaries, **Group**);
- (2) **Mr Yeung Chun Wai Anthony**, former executive director (**ED**), Chairman and chief executive officer (**CEO**) of the Company;
- (3) **Mr Yeung Chun Sing Standly**, former ED (**Mr S Yeung**);
- (4) **Ms Li Bing**, former ED and CEO (**Ms Li**);
- (5) **Mr Cheung Ka Heng Frankie**, former ED and non-executive director (**NED**) of the Company (**Mr Cheung**);
- (6) **Mr Zhao Rui Yong**, former ED, NED and Chairman (**Mr Zhao RY**);
- (7) **Mr Zhao Guang Ming**, former independent non-executive director (**INED**) of the Company (**Mr Zhao GM**);
- (8) **Mr Fung Wai Shing**, former INED (**Mr Fung**); and
- (9) **Mr Huang Tao**, former INED (**Mr Huang**);

AND CRITICISES:

- (10) **Mr Chan Chi Yuen**, former ED (**Mr Chan**);
- (11) **Mr Wong Xiang Hong**, former ED (**Mr Wong**); and
- (12) **Mr Fung Chan Man Alex**, former INED (**Mr A Fung**).

(The directors identified in (2) to (12) above are collectively referred to as **Relevant Directors**.)

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THE LISTING COMMITTEE FURTHER DIRECTS:

- (13) Mr A Fung and Mr Chan to attend 21 hours of training on regulatory and legal topics and Listing Rule compliance. The training must include at least three hours on each of (i) directors' duties; (ii) the Corporate Governance Code; (iii) Listing Rule requirements for notifiable transactions; and (iv) Listing Rule requirements for connected transactions; and
- (14) as a pre-requisite of any future appointment as a director of any company listed or to be listed on the Exchange, Ms Li, Mr Zhao RY, Mr Cheung, Mr Zhao GM, Mr Huang, Mr Fung (each 24 hours), Mr S Yeung and Mr Wong (21 hours) are to attend training on regulatory and legal topics and Listing Rule Compliance. The training must include three hours on each of (i) directors' duties; (ii) Corporate Governance Code; (iii) Listing Rule requirements in respect of notifiable transactions; and (iv) Listing Rule requirements for connected transactions.

SUMMARY OF FACTS

The Company acquired a PRC company in 2016 (**Subsidiary**). At the time, the directors of the Subsidiary included a Mr Du and a Mr Song (each a **Subsidiary's Director**). After the acquisition, the Company did not appoint any representative from its Hong Kong office to the board of directors of the Subsidiary. The local management of the Subsidiary was entrusted with its day-to-day operation, and the affairs of the Subsidiary were monitored at the Company level by reviewing its quarterly management accounts and having monthly phone calls with the local management.

Between 2016 and 2019, a number of notifiable and connected transactions were carried out by the Subsidiary. These transactions were carried out without the board of directors of the Company being explicitly informed.

Service Agreements

Between 2016 and 2018, the Subsidiary entered into a total of five agreements with three PRC companies (**Companies A, B and C**), under which the Subsidiary provided promotion, marketing and system design services to those companies (**Service Agreements**). The Subsidiary provided services on a recurring basis between 2016 and 2019 under four of the Service Agreements.

Mr Du held around 50% of the equity interest in Companies A and B. Mr Song held 70% equity interest in Company C. Each of Companies A, B and C was an associate of the Subsidiary's Directors, and thus a connected person of the Company. The Service Agreements therefore constituted continuing connected transactions / connected transactions of the Company.

Advances

From July 2016 to December 2018, the Subsidiary provided interest-free advances of (a) over RMB38 million in aggregate to Company A and another PRC company (**Company D**) (**Advances**) and (b) over RMB10 million to Mr Song, which was converted into a one-year term loan in December 2018 (**Loan**).

At the time, Mr Song held 51% of the equity interest in Company D. Company D was therefore also a connected person of the Company.

Full impairment provision was made for the Advances and the Loan during the financial years ended 31 December 2018 and 2019.

The Advances and the Loan constituted continuing connected transactions of the Company. The Advances also constituted a discloseable transaction and an advance to an entity under Rule 13.13.

The Company was required to, but did not, comply with the reporting, announcement, independent shareholders' approval and annual disclosure requirements under the Listing Rules in respect of the Service Agreements, the Advances and the Loan. These transactions were first announced by the Company on 28 April 2019. In this announcement, the Company admitted its failure to comply with the relevant Listing Rule requirements.

LISTING RULE REQUIREMENTS

Rule 13.13 provides if an advance to an entity exceeds 8% under the assets ratio defined under Rule 14.07(1), the issuer must announce details of the advance as soon as reasonably practicable.

Under Rule 14.34, the Company is required to publish an announcement as soon as possible after the terms of, *inter alia*, a discloseable transaction have been finalised and additionally (at the relevant time), the Company must inform the Listing Division of such a transaction.

Rules 14A.34 and 14A.35 provide that a written agreement is required for a connected transaction, and the Company must publish an announcement as soon as practicable after the terms of a connected transaction have been agreed.

Rule 14A.36 provides that a connected transaction must be conditional on independent shareholders' approval at a general meeting held by the Company.

Rule 14A.46 provides, among other things, that the Company must send a circular to its shareholders at the same time or before the listed issuer gives notice of the general meeting if the connected transaction is to be approved by shareholders in a general meeting.

Rule 14A.49 requires the Company to disclose its connected transactions conducted during the financial year in its annual report.

The board of directors is collectively responsible for the Company's management and operations, and the directors are collectively and individually responsible for ensuring the Company's full compliance with the Listing Rules.

Under Rule 3.08, the directors are expected, 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. In the performance of his/her duties as directors, each director must, amongst other things, (i) be answerable to the issuer for the application or misapplication of its assets (Rule 3.08(c)); and (ii) apply such degree of skill, care and diligence as may reasonably be expected of a person of his knowledge and experience and holding his/her office within the issuer (Rule 3.08(f)).

Each of the Relevant Directors has given the Director's Undertaking, which provides, among other things, that he/she undertakes to:

- (1) comply to the best of his/her ability with the Listing Rules; and
- (2) use his/her best endeavours to procure the Company to comply with the Listing Rules.

LISTING COMMITTEE'S FINDINGS OF BREACH

The Listing Committee found as follows:

- (1) The Company breached Rules 13.13, 14.34, 14A.34, 14A.35, 14A.36, 14A.46 and 14A.49.
- (2) All Relevant Directors breached Rule 3.08(c), Rule 3.08(f) and their Director's Undertakings to comply with the Listing Rules to the best of their abilities, and use their best endeavours to procure the Company to comply with the Listing Rules:

- (i) Mr S Yeung was principally involved in overseeing the Subsidiary's affairs. This role was taken up by the Company's investment and corporate finance department, headed by Mr Cheung, after his resignation.
- (ii) In 2017 and 2018, by reason of the Advances, a rapid increase in the "other receivables" of the Subsidiary was recorded in its books. In the same period there was a substantial cash outflow recorded in its management accounts. Neither Mr S Yeung nor Mr Cheung made enquiry or looked into the transactions.
- (iii) In early 2018, the Company's auditors questioned the size of the receivables of the Subsidiary. The Advances were not substantiated by documents and did not appear to be in the interests of the Company, and the explanations put forward by the Subsidiary's management did not appear to be reasonable, but they were accepted by Mr S Yeung without making proper enquiries.
- (iv) After the Subsidiary was acquired, its affairs were monitored at the Company level by reviewing its quarterly management accounts and having monthly phone calls with its local management. Despite the apparent inability to closely monitor and obtain updated information about the affairs of the Subsidiary, the Subsidiary's Directors were given full and unrestricted access to the funds of the Subsidiary without the necessary mechanism for checks and balances to guard against possible abuse of powers. On taking control, the board of directors of the Company failed to take adequate steps to supervise the affairs of the Subsidiary.
- (v) The Subsidiary's Directors were expected to inform the Company of any notifiable and connected transactions carried out by the Subsidiary, but they were never formally trained on what might constitute such transactions. The steps taken by the Relevant Directors to ensure the Subsidiary's management had the requisite Listing Rule knowledge for their responsibilities were inadequate. The Listing Division's investigation also revealed a number of deficiencies in the Company's compliance procedures, such as the absence of a measurable threshold for identifying notifiable transactions and a mechanism for identifying connected persons and transactions systematically.

- (vi) The Advances, the Loan and the Service Agreements were discovered by the Company in early 2019. Despite the presence of red flags which, amongst other things, called into question the suitability of the Subsidiary's Directors, the Relevant Directors failed to take meaningful actions to improve the supervision of the Subsidiary. The checks and balances for the powers of the Subsidiary's Directors continued to be lacking. The Subsidiary's Directors were able to make further undocumented advances in 2019, which were impaired in full during the year and resulted in a loss of around HK\$5 million. This evidenced a serious failure of the Relevant Directors who were in office at the relevant time to discharge their duties.

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 members of the board of directors of the Company.

Hong Kong, 15 Jun 2022