

STATEMENT OF DISCIPLINARY ACTION

Exchange's Disciplinary Action against Hygieia Group Limited (Stock Code: 1650) and Three Directors

SANCTIONS AND DIRECTIONS

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

CENSURES:

(1) **Hygieia Group Limited** (Stock Code: 1650) (**Company**);

CENSURES:

(2) **Mr Hong Rui Sheng**, former executive director and CEO;

CRITICISES:

(3) **Mr Toh Eng Kui**, executive director, Chairman and CEO;

(4) **Mr Peh Poon Chew**, executive director;

(The directors identified at (2) to (4) above are collectively referred to as the **Relevant Directors**.)

AND FURTHER DIRECTS:

Mr Toh and Mr Peh to attend 20 hours of training on regulatory and legal topics and Listing Rule compliance, including at least three hours on each of (a) directors' duties; (b) the Corporate Governance Code; and (c) the Listing Rule requirements for Rule 2.13 and Chapter 14 (**Training**), within 90 days; and

Mr Hong to attend the Training as a pre-requisite of any future appointment as a director of any company listed or to be listed on the Exchange.

.../2

SETTLEMENT

The Company and the Relevant Directors agreed to settle this disciplinary action. They admitted their respective breaches as set out further below, and accepted the sanctions and directions imposed on them by the Listing Committee.

SUMMARY OF FACTS

The Company was listed on 3 July 2020, raising net proceeds of approximately \$69.2 million. Shortly before or after listing, the Company entered into: (a) an investment management agreement, and (b) a number of agreements with various service providers, which involved a significant outflow of the Company's funds. These agreements were not disclosed in the Company's prospectus.

The agreements were discovered by the Company's former auditor during its audit work for the financial year ended 31 December 2020. The publication of the Company's financial information was delayed due to the auditor's enquiries on the agreements. The Company was required to have an independent professional adviser (**Independent Adviser**) conduct an investigation into the matters raised by the auditor.

Investment Management Agreement

The investment management agreement (**IMA**) was entered into with Leo Asset Management Limited (**Leo**) just three days after listing. Under the IMA, the Company invested the sum of \$16.5 million to be managed by Leo for an unspecified term on a discretionary basis. The investment management fee payable to Leo was 2.7 per cent of the assets under management and the fee of \$1,575,000 was prepaid upfront.

The IMA constituted a discloseable transaction under the Listing Rules, which the Company failed to disclose in a timely manner. The Company also failed to consult its compliance adviser on the same.

Leo made the following investments under the IMA:

- (a) \$8,407,800 was used to buy shares in a private company, Luck Rise Dragon Limited (**Luck Rise**), which engages in the trading of antique jewellery; and
- (b) \$6,500,000 was used to acquire a promissory note issued by Luck Rise, with an interest rate of 1.5 per cent per annum.

The Company was not aware of the investments made by Leo at the time, as full discretion had been granted under the IMA, and no enquiries were made by the Company as to the nature or risk of the investments.

The Independent Adviser identified a number of concerns in respect of the IMA, including the inadequate supervision of investments by the Company, a lack of awareness of the substance of the investments, the inadequate due diligence conducted against Leo prior to their engagement, and the limited financial information provided to the Independent Adviser about Luck Rise.

Service Agreements

The Company entered into service agreements with the following four service providers (**Service Providers**) shortly before or after listing (**Service Agreements**):

| Service Providers | | Service fee (\$) | Services to be provided under Service Agreements |
|--------------------------|--------------------------------|-------------------------|---|
| A | AMC Wanhai Securities Limited | 5,675,000 | To provide business advisory services to the Company for 1 year (\$3 million). To provide financial advisory services to the Company for 1 year (\$2.675 million). |
| B | Share News Media Limited | 2,000,000 | To provide pre-IPO public relations services to the Company from 9 or 10 June 2020 to one week after listing. |
| C | Stock Momentum Indexes Limited | 1,200,000 | To sponsor the weekly quarter-page column on the front page of the finance section of Sing Pao Daily News for 3 months. |
| D | Easy Global Profits Limited | 900,000 | To provide investor relations advisory services for 3 months. |
| Total | | 9,775,000 | |

All of the above service fees were paid by the Company upfront or straight after listing.

The Independent Adviser found that the Company had failed to obtain three quotations from different vendors, although this was required by the Company's own internal control procedures. The Independent Adviser also opined that the due diligence conducted against the Service Providers prior to their engagement was inadequate, and it was redundant to engage three firms to provide public relations services.

The Company's auditor requested an additional investigation procedure on the market rates of the Service Providers. This found that the fees paid by the Company to the Service Providers were approximately double the highest quotation obtained during the investigation for similar services.

The decisions to enter into the IMA and to engage the Service Providers were made by Mr Hong. The Independent Adviser found that although Mr Hong might have obtained approval from and/or discussed with Mr Toh or management, the other directors did not have adequate involvement in the selection process, engagement and supervision.

LISTING RULE REQUIREMENTS

Rule 2.13(2) provides that the information contained in any announcement or corporate communication must be accurate and complete in all material respects and not be misleading or deceptive.

Rule 3A.23 provides that a listed issuer must consult with and, if necessary, seek advice from its compliance adviser on a timely basis where, inter alia, (a) a transaction, which might be a notifiable transaction, is contemplated, or (b) the listed issuer proposes to use the proceeds of the initial public offering in a manner different from that detailed in the listing document or where the business activities or developments deviate from any forecast, estimate, or other information in the listing document.

Rule 11.07 provides that the prospectus must contain such particulars and information which is necessary to enable an investor to make an informed assessment of the activities, assets and liabilities, financial position, management and prospects of the issuer.

Rules 13.46(2)(a), 13.48, 13.49(1) and 13.49(6) relate to the timely publication of an issuer's annual and interim results and the timely despatch of an issuer's annual and interim reports.

Rules 14.34 provides that a listed issuer must publish an announcement as soon as possible after the terms of a discloseable transaction have been finalised.

Rule 3.08 provides that the Exchange expects the 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 a duty to 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)).

Each of Mr Hong, Mr Toh and Mr Peh is subject to the obligations in the Director's Undertaking, which provides, *inter alia*, that he undertakes to comply with the Listing Rules to the best of his ability, and to use his best endeavours to procure the Company's Listing Rule compliance.

LISTING COMMITTEE'S FINDINGS OF BREACH

The Listing Committee found as follows:

- (1) The Company breached Rules 13.46(2)(a), 13.48, 13.49(1) and 13.49(6) in respect of its failure to publish its annual and interim results and despatch its annual and interim reports within the prescribed time.
- (2) The Company breached Rules 14.34 and 3A.23 in respect of its failure to publish an announcement and consult its compliance adviser in respect of the IMA.
- (3) The Company breached Rule 2.13(2) and/or 11.07 by failing to mention its intention to enter into the IMA in its prospectus.
- (4) The Relevant Directors breached Rule 3.08 and their Undertakings by failing to exercise due skill, care and diligence in respect of the IMA and the Service Agreements:
 - (a) The Relevant Directors failed to ensure that adequate due diligence had been conducted on, *inter alia*, Leo and the Service Providers.
 - (b) The Relevant Directors had no or insufficient supervision of the investments made by Leo under the IMA and the discretionary power given to Leo under the IMA was unreasonably wide.
 - (c) The Relevant Directors failed to exercise independent judgement in respect of the engagement of the Service Providers and fees paid to the Service Providers.
 - (d) The Relevant Directors failed to procure the Company's Listing Rule compliance.

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, 28 February 2023