

## STATEMENT OF DISCIPLINARY ACTION

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Exchange's Disciplinary Action against Coslight Technology International Group Limited (Stock Code: 1043) and 10 directors

### SANCTIONS AND DIRECTIONS

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

#### **CENSURES:**

- (1) **Coslight Technology International Group Limited** (Stock Code: 1043) (**Company**, together with its subsidiaries, **Group**);
- (2) **Mr Song Dian Quan**, executive director (**ED**) and Chairman of the Company (**Mr Song**);
- (3) **Ms Luo Ming Hua**, ED (**Ms Luo**);
- (4) **Mr Li Ke Xue**, ED (**Mr Li KX**);
- (5) **Mr Xing Kai**, ED (**Mr Xing**); and
- (6) **Mr Liu Xing Quan**, ED (**Mr Liu**).

#### **AND CRITICISES:**

- (7) **Mr Zhang Li Ming**, ED (**Mr Zhang**);
- (8) **Dr Gao Yun Zhi**, independent non-executive director (**INED**) (**Dr Gao**);
- (9) **Mr Li Zeng Lin**, INED (**Mr Li ZL**);
- (10) **Ms Zhu Yan Ling**, INED (**Ms Zhu**); and
- (11) **Mr Xiao Jian Min**, former INED (**Mr Xiao**).

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

The Listing Committee further directed:

- (12) Mr Song, Ms Luo, Mr Li KX, Mr Xing, Mr Liu, Mr Zhang, Dr Gao, Mr Li ZL and Ms Zhu to attend, within 90 days, respectively 24 hours (Mr Song) and 21 hours (Ms Luo, Mr Li KX, Mr Xing, Mr Liu, Mr Zhang, Dr Gao, Mr Li ZL and Ms Zhu) of training on regulatory and legal topics including Exchange Listing Rule compliance. The training must include at least three hours on each of (a) directors' duties; (b) the Corporate Governance Code; (c) the Exchange Listing Rule requirements for notifiable transactions; and (d) the Exchange Listing Rule requirements for connected transactions;
- (13) Mr Xiao to attend, as a pre-requisite of any future appointment as a director of any company listed or to be listed on the Exchange, 18 hours of training on regulatory and legal topics including Exchange Listing Rule compliance. The training must include three hours on each of (a) directors' duties; (b) the Corporate Governance Code; and (c) the Exchange Listing Rule requirements for notifiable transactions;
- (14) The Company to retain an independent professional adviser to conduct a review of the Company's internal controls for procuring compliance with the Exchange Listing Rules, including but not limited to the notifiable and connected transaction requirements of the Exchange Listing Rules; and
- (15) The Company to appoint an independent compliance adviser (as defined in Chapter 3A of the Exchange Listing Rules) satisfactory to the Division on an ongoing basis for consultation regarding compliance with the Exchange Listing Rules for the period commencing on the date of its appointment and ending on the date on which the Company complies with Rule 13.46 in respect of its financial results for the second full financial year commencing after the date of such appointment.

## **SUMMARY OF FACTS**

During the period from July 2017 to September 2019, the Group carried out a number of transactions which involved (a) the sale of equity interests in three non-wholly owned subsidiaries of the Company to independent third parties; and (b) the acquisition of an equity interest in a company from a connected person of the Company (**HCG**).

The Company failed to comply with all applicable Exchange Listing Rule requirements.

*Disposal of subsidiaries*

On 4 July 2017, an indirect non-wholly owned subsidiary of the Company (**HCP**) disposed of 58 per cent of its equity interest in a company (**ZCB**) for around RMB726 million (**1st Disposal**). The 1st Disposal constituted a major transaction, and the completion took place on 21 August 2017.

After the said disposal, between 8 December 2017 and 2 May 2018, HCP further disposed of its remaining 42 per cent equity interest in ZCB for around RMB530 million (**2nd Disposal**). The 2nd Disposal constituted a major transaction on its own, and a very substantial disposal when aggregated with the 1st Disposal. The Company announced the 2nd Disposal on 3 September 2018. It admitted that it had failed to comply with the reporting, announcement and shareholders' approval requirements.

On 18 September 2018, the Group sold another indirect non-wholly owned subsidiary of the Company to ZCB for around RMB236 million (**3rd Disposal**). The 3rd Disposal constituted a major transaction on a standalone basis. When aggregated with the 1st and 2nd Disposals, it constituted a very substantial disposal. The 3rd Disposal was announced on 18 September 2018, but the completion took place before complying with the circular and shareholders' approval requirements.

On 30 November 2018, HCP sold its equity interest in another company for RMB1.5 million (**4th Disposal**, together with the 2nd and 3rd Disposals, **Disposals**). The 4th Disposal constituted a discloseable transaction, but it was not announced until 8 March 2019.

In the Company's announcement dated 8 March 2019, the Company admitted to breaching the relevant procedural requirements in respect of the 3rd and 4th Disposals.

*The Acquisition*

On 16 September 2019, the Group acquired 20 per cent equity interest in a company from HCG for RMB20 million (**Acquisition**). At the time, the majority of the interest in HCG was owned by the son of Mr Song. Some of the Relevant Directors were also shareholders of HCG. HCG was therefore a connected person of the Company, and the Acquisition constituted a connected transaction which was subject to the reporting and announcement requirements. It was exempted from independent shareholders' approval.

The Acquisition was announced on 17 January 2020. The Company admitted that it had failed to timely comply with the Exchange Listing Rule requirements.

**EXCHANGE LISTING RULE REQUIREMENTS**

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 requirements for the relevant classification of the transaction when aggregated. Rule 14.23 sets out factors which the Exchange may take into consideration when determining whether transactions will be aggregated.

Under Rule 14.34, the Company is required to inform the Division and publish an announcement after the terms of, *inter alia*, a discloseable transaction and a very substantial disposal have been agreed.

Rules 14.48, 14.49 and 14.51 require the Company to seek its shareholders' approval and issue a circular for a very substantial disposal.

Rule 14A.35 requires the Company to publish an announcement as soon as practicable after the terms of a connected transaction have been agreed.

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 a 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)).

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 Exchange Listing Rules; and
- (2) use his/her best endeavours to cause the Company to comply with the Exchange Listing Rules.

**LISTING COMMITTEE'S FINDINGS OF BREACH**

The Listing Committee found as follows:

- (1) The Company breached Rules 14.34, 14.48, 14.49, 14.51 and 14A.35.

- (2) Mr Song breached (a) Rule 3.08(f) and (b) his Director's Undertaking to comply with the Exchange Listing Rules to the best of his ability, and use his best endeavours to procure the Company to comply with the Exchange Listing Rules:
- (i) It was Mr Song's decision to proceed with the completion of the 3rd Disposal without first complying with the Rule requirements. He had put commercial interest before Exchange Listing Rule compliance, and intentionally caused the Company to contravene the applicable Rule requirements.
  - (ii) He did not apply his mind to Rule implications of the Disposals and Acquisition. He and the other Relevant Directors did not bring up Rule compliance issues for discussion in the meetings relating to the Disposals or Acquisition. None of them took any steps to follow up on Rule compliance matters after the 2nd Disposal, 4th Disposal and the Acquisition were carried out.
  - (iii) The Company's internal controls for procuring Exchange Listing Rule compliance were inadequate at the time. It did not have formal written procedures for ensuring compliance with requirements for notifiable and connected transactions, and the key staff involved in the compliance process did not receive any formal training.
  - (iv) The Company committed to implementing a number of remedial measures in its announcements after the breaches were discovered. However, Mr Song failed to ensure any meaningful remedial measures were implemented promptly, if at all.
- (3) Ms Luo, Mr Li KX, Mr Xing and Mr Liu breached their Director's Undertakings to use their best endeavours to procure the Company to comply with the Exchange Listing Rules:
- (i) They were involved in the approval of the Disposals. They were also shareholders of HCG although they did abstain from voting in the relevant board meeting.
  - (ii) They were expected to have considered the Rule implications of the relevant transactions and taken active steps to ensure the Company would duly comply with the relevant Rule requirements. However, none of them enquired about the prolonged absence of steps taken by the Company to comply with the Rules.
  - (iii) They also failed to take adequate steps to ensure the adequacy and effectiveness of the Company's internal controls and prompt implementation of the remedial measures as described above.

- (4) Mr Zhang, Mr Li ZL, Dr Gao, Ms Zhu and Mr Xiao also breached their Director's Undertakings to use their best endeavours to procure the Company to comply with the Exchange Listing Rules:
- (i) Although the available information showed that they were not involved in the discussion or approval in respect of the Disposals (for Mr Xiao, the 2nd Disposal), they were informed of the Disposals before the relevant board meetings were convened.
  - (ii) All the relevant EDs had an interest in HCG and abstained from voting on the Acquisition. Mr Zhang, Mr Li ZL, Dr Gao and Ms Zhu therefore appeared to be mindful that the Acquisition constituted a connected transaction which was subject to Rule requirements. However, none of them took any steps to ensure the Company would comply with the applicable Rules.
  - (iii) They failed to take adequate steps to ensure the adequacy and effectiveness of the Company's internal controls. Insofar as Mr Zhang, Mr Li ZL, Dr Gao and Ms Zhu are concerned, they also failed to ensure prompt implementation of the remedial measures as described above.

## **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, 29 March 2021