This case demonstrates the importance of conducting proper investigation and due diligence on a target company which is the subject of a proposed acquisition. As the board of directors of a listed company is entrusted with public funds, it is imperative that directors exercise their fiduciary duties, and duties of skill, care and diligence to a sufficiently high standard when making investment decisions on behalf of the company.

Under Rule 3.08, the Exchange expects a director to ensure that proper and adequate due diligence is conducted in respect of any potential investment, particularly where the investment is a new business to the company, or a newly set up target. If professional valuers are instructed, directors are nevertheless required to demonstrate that they have exercised independent judgment, and that they did not simply place unquestioning reliance on valuation reports.

The Listing Committee of The Stock Exchange of Hong Kong Limited ("Listing Committee")

CRITICISES:

(1) **Mr Liu Yan Chee James**, current executive director ("**ED**") of **Asia Resources Holdings Limited** ("**Company**") (Stock Code: 899);

(2) **Mr Huang Yi Lin**, current non-executive director ("**NED**") and former ED of the Company;

(3) **Mr Chan Shi Yin Keith**, former ED of the Company;

(4) **Mr Chan Yuk Sang Peter**, former ED of the Company;

(5) **Mr Zhang Xian Lin**, former independent non-executive director ("**INED**") of the Company;

(6) **Mr Kwok Hong Yee Jesse**, former INED of the Company; and

(7) **Mr Ng Ping Yiu**, former INED of the Company (together with the directors identified above, the "**Relevant Directors**");

for breaching Rule 3.08(f) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**Exchange Listing Rules**").

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For the avoidance of doubt, the Exchange confirms that the sanctions in this news release apply only to the Relevant Directors, and not to any other past or present members of the board of directors (“**Board**”) of the Company.

HEARING

On 12 November 2019, the Listing Committee conducted a hearing into the conduct of the Relevant Directors in relation to their obligations under the Exchange Listing Rules.

FACTS

This case concerns the Company’s acquisition of a spring water mine business (“**Acquisition**”), and whether or not the directors of the Company discharged their fiduciary duties of skill, care and diligence in respect of the Acquisition.

On 23 May 2017, the Company announced that it had entered into an agreement to acquire 67 per cent of a water mine business (“**Target**”) at a cash consideration of $244 million. The Target was engaged in the exploitation, production and sales of spring water in Hunan. The Target had no track record and had not commenced business. Further, the bottled water business was a new business to the Company, and none of the Relevant Directors had experience in this type of business.

Exchange Listing Rule Requirements

Under Rule 3.08, the Board is collectively responsible for the Company’s management and operations.

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/her knowledge and experience and holding his/her office within the issuer (Rule 3.08(f)).

LISTING COMMITTEE’S FINDINGS OF BREACH

The Listing Committee considered the written and oral submissions of the Listing Department and the Relevant Directors and concluded as follows:

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Relevant Directors' breaches

The Listing Committee concluded that the Relevant Directors breached Rule 3.08(f) by failing to exercise sufficient skill, care and diligence in respect of the Acquisition.

The Relevant Directors submitted that they relied on the professional parties instructed by the Company, and on the documents which were provided by the vendor. The Listing Committee was of the view that the Relevant Directors failed to demonstrate that they exercised independent judgment or took steps to verify the accuracy and reasonableness of any of the information which was likely to impact the assessment of the Acquisition, in breach of their duties under Rule 3.08(f):

(a) The Relevant Directors did not take any steps to verify the documents provided by the vendor, even when the circumstances suggested that this was necessary. For example, a feasibility study produced by the vendor recommended a service life of 5 years for the mine, whereas the valuation was based upon a service life of 10 years.

(b) The Relevant Directors placed excessive reliance on a valuation report, when it was unreasonable to do so. The valuation was based upon the quantity of water guaranteed by the vendor ("**Production Guarantee**"), which exceeded the maximum amount allowed to be extracted under the existing mining permit relating to the Acquisition. Further, the valuation report adopted the market approach, in circumstances where the four comparable transactions selected by the valuer were very different from the water mine business without any explanation as to why they were suitable, or why the discount rates applied were appropriate. There was no evidence that the Relevant Directors took steps to assess the reasonableness of the valuation report or of the assumptions adopted by the valuer. There was no record of any discussion on those valuation assumptions at Board meetings when the Board approved the Acquisition. The Relevant Directors simply relied on the Production Guarantee.

(c) The Relevant Directors failed to procure sufficient professional advice in relation to the Acquisition. For example, given that the existing mining permit expires in 2022, the Company did not obtain a PRC legal opinion on when and how it could apply for an expanded permit to continue mining up to a service life of at least 10 years before completion of the Acquisition. The Company submitted that only verbal comfort was obtained from the relevant PRC authorities. Further, given that the business was a new business to the Company, there was no evidence that the Relevant Directors had considered whether it was necessary to retain professional advisers to advise on the merits of the Acquisition and/or any impact the Acquisition may ultimately have on the Company.

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REGULATORY CONCERN

As the board of directors of a listed company is entrusted with public funds, it is imperative that directors exercise their fiduciary duties and duties of skill, care and diligence to a sufficiently high standard when making investment decisions on behalf of the Company.

This case is a reminder that directors must ensure proper and adequate due diligence is conducted in respect of any potential investment, particularly where the investment is a new business to the company, or a newly set up target. If professional valuers are instructed, directors are nevertheless required to demonstrate that they have exercised independent judgment, and not simply to place unquestioning reliance on valuation reports.

SANCTIONS

Having made the findings of breach stated above, the Listing Committee decided to criticise each of the Relevant Directors for their breach of Rule 3.08(f).

Hong Kong, 20 January 2020