

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

Exchange's Disciplinary Action against Prosper One International Holdings Company Limited (Stock Code: 1470) and Nine Former and Current Directors

SANCTIONS AND DIRECTIONS

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

CENSURES:

- (1) **Prosper One International Holdings Company Limited (Company);**
- (2) **Mr Meng Guang Yin**, Chairman, Chief Executive Officer, executive director (**ED**) and controlling shareholder of the Company (**Mr Meng**);
- (3) **Mr Liu Guo Qing**, ED of the Company (**Mr Liu GQ**);
- (4) **Mr Liu Jia Qiang**, ED of the Company (**Mr Liu JQ**);
- (5) **Mr Liao Pin Tsung Benson**, former ED of the Company (**Mr Liao**);
- (6) **Mr Tian Zhi Yuan**, independent non-executive director (**INED**) of the Company (**Mr Tian**);

CRITICISES:

- (7) **Mr Lee Chun Keung**, INED of the Company (**Mr Lee**);
- (8) **Mr Wang Lu Ping**, INED of the Company (**Mr Wang**);
- (9) **Mr Hu Jin Rui**, former INED of the Company (**Mr Hu**); and
- (10) **Mr Chan Yee Ping Michael**, former INED of the Company (**Mr Chan**).

(The directors identified at (2) to (10) above are collectively referred to as the **Relevant Directors**.)

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AND DIRECTS:

- (1) review of the Company's internal controls for procuring compliance with the requirements governing notifiable and connected transactions under the Listing Rules; and
- (2) each of the Relevant Directors to attend 21 hours of training on regulatory and legal topics and Listing Rule compliance.

SUMMARY OF FACTS

Prior to late 2017, the Company's principal business had been solely the watch retail and wholesale business. Only very few and insubstantial connected transactions were conducted at that time. Shortly after acquiring a controlling interest in the Company in September 2017, Mr Meng took over the control and management of the Company from the original controlling shareholder who was also an ED, the chief executive officer and chairman of the Company (**ex-CEO**). As a result of the change of control, the entire composition of the Company's board of directors (**Board**) was changed.

The Company then introduced a new business segment, namely trading of fertilizer and related products, and started conducting connected transactions in relation to that business segment. The ex-CEO continued to run the watch business segment for the Company at the subsidiary level. However, the Board failed to ensure the Company's compliance with the Listing Rule requirements governing notifiable and connected transactions in conducting those transactions, and failed to monitor effectively the notifiable and connected transactions arising from the watch business, including the granting of a call option to the ex-CEO to buy back a yacht berth originally acquired by the Company's subsidiary from the ex-CEO.

The Company failed to announce, or seek shareholder approval for, notifiable and connected transactions arising from both the fertilizer trading segment (**Fertilizer Transactions**) and the watch segment (collectively, **Transactions**). The Company also failed to disclose certain Transactions in its financial year (**FY**) 2018 report. The Board only first realised the non-compliance in respect of part of the Transactions in question in June 2019 during the FY2019 audit process, and announced such non-compliance on 23 July 2019.

There were further Transactions conducted in FY2020 after the announcement on 23 July 2019. The Company carried on those Transactions because they involved purchases or sales for which prepayments had been made or received by the Company and its subsidiaries before 30 April 2019. According to the Company, the Board decided to proceed with those Transactions in early August 2019. The Company failed to announce those Transactions – the only disclosure about them was in the form of historical information contained in a circular to shareholders dated 11 November 2019 which was for the purposes of seeking approval for certain future connected transactions.

There were material deficiencies in the Company's internal controls for procuring compliance with Chapters 14 and 14A of the Listing Rules. The Company implemented an internal control manual in 2014, but then did not update it until after the discovery in June 2019 of the non-compliance in respect of the Transactions.

LISTING RULE REQUIREMENTS

Listing Rules 14.34 (before 1 March 2019), 14.38A, 14.40, 14A.35, 14A.36, 14A.46 and 14A.49 impose notification, announcement, circular and shareholder approval, and annual reporting requirements on issuers in respect of notifiable and/or connected transactions.

Listing Rules 14A.53, 14A.55 and 14A.56 require issuers to set an annual cap on, provide confirmation in the annual report in respect of the terms of, and engage its auditors to report on, continuing connected transactions.

Listing Rules 14.76(1) and 14A.79(5) state that where on the grant of an option for which the monetary value has not been determined, issuers were required to demonstrate the highest possible monetary value, and use that value for calculating the percentage ratios and classifying the transaction. Failure to do so will result in the transaction being classified as at least a major transaction and the issuers being required to comply with all the connected transaction requirements.

Listing Rule 3.08 provides that directors must fulfil both fiduciary duties and duties of skill, care and diligence to a standard at least commensurate with the standard established by Hong Kong law. Listing Rule 3.08 also sets out certain key fundamental general duties of directors (which do not represent an exhaustive codified description of directors' duties), including that directors must 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. They must also take an active interest in the issuer's affairs and must follow up anything untoward that comes to their attention. Delegating their functions is permissible but does not absolve them from their responsibilities or from applying the required levels of skill, care and diligence.

Each of the Relevant Directors is subject to the obligations in the Director's Undertaking to the Exchange in the form of Appendix 5B to the Listing Rules (**Undertaking**), which include, among others, that he will comply with the Listing Rules to the best of his ability and use his best endeavours to procure the Company's compliance with the Listing Rules.

LISTING COMMITTEE'S FINDINGS OF BREACH

The Listing Committee of the Exchange (**Listing Committee**) found as follows:

- (1) The Company, as admitted, breached Listing Rules 14.34, 14.38A, 14.40, 14.41, 14A.35, 14A.36, 14A.49, 14A.53, 14A.55 and 14A.56 in respect of the Transactions.
- (2) Mr Meng, Mr Liu GQ and Mr Liu JQ breached Listing Rule 3.08 and their Undertakings in conducting and managing the Transactions. They were aware of the Fertilizer Transactions. They all have held management roles in the counterparty group to the Transactions. Mr Liu GQ is also the brother-in-law of Mr Meng, whereas Mr Liu JQ has been working under Mr Meng's leadership in the counterparty group since 2003. They should reasonably have been aware that the counterparties to those transactions were connected persons but they failed to ensure that the Company staff correctly understood the Listing Rules Chapters 14 and 14A requirements, and determined the Fertilizer Transactions were subject to the relevant Listing Rules. They did not take steps to procure the Company's Rule compliance in respect of, or keep the Board informed of the Company's entering into of, the Fertilizer Transactions. Nor did they raise for the consideration of the Board of the Rule implications of such transactions. Also, they did not procure the Company to announce the Transactions which took place in FY2020 as soon as possible even after they realized by mid-July 2019 that the Company failed to comply with the announcement and/or shareholder approval requirements in respect of such transactions. They failed to ensure that the Company maintained an adequate and

effective internal control system, and had not procured the Company to review and update the internal control manual in view of the business change.

- (3) Mr Liao breached Listing Rule 3.08 and his Undertaking, in particular by failing 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 as an ED, Vice Chairman and Chief Operating Officer. He failed to take an active interest in the Company's affairs and failed to follow up with Mr Meng, Mr Liu GQ and/or Mr Liu JQ in respect of the fertilizer business which was introduced after Mr Meng took control of the Company and Mr Liao was appointed as one of the EDs. Had he taken an active interest in the Company's affairs, he would have been aware of the relevant Transactions which took place in FY2018 in view of the significant transaction value of \$49 million, the counterparty involved, and its connection with Mr Meng, which would have revealed that those relevant Transactions were subject to the Listing Rule requirements governing connected transactions. He further failed to take steps to make enquiries with the Company's PRC finance manager about whether the Fertilizer Transactions (in particular, those which took place in FY2018) should be presented as connected / related transactions in the Company's financial statements. He failed to take steps to procure the Company's Listing Rule compliance in respect of the relevant Transactions which took place in FY2018 and FY2019 before he left the Company on 18 October 2018, for example, by procuring the Company to seek professional advice on the Listing Rule implications, and did not raise for the consideration of the Board the Listing Rule implications of the Fertilizer Transactions.
- (4) Mr Tian, Mr Hu and Mr Chan breached their Undertakings as they failed to ensure that the Company maintained an adequate and effective internal control system. They also failed to discharge their duties as members of the Company's audit committee (**Audit Committee**). Although they might not have been aware of the Fertilizer Transactions at the material time, they did not procure the Company to review and update the 2014 version of the internal control manual and to implement an effective internal control system after they were appointed to the Board; in particular, in view of the change of control of the Company and the introduction of the fertilizer business. There was no evidence that relevant enquiries in relation to the Company's internal controls had been raised during the Audit Committee meetings. The deficiencies contributed to the Company's Listing Rule breaches.

- (5) Mr Tian, Mr Lee and Mr Wang (the latter two were INEDs who were appointed to the Board in December 2018) breached their Undertakings by failing to procure the Company's compliance with the announcement and shareholder approval requirements under Listing Rules 14A.35 and 14A.36 in respect of the Fertilizer Transactions which took place in FY2020. After they became aware in mid-July 2019 of the relevant Listing Rule implications of the Fertilizer Transactions, they did not take steps to procure the Company to announce the transactions immediately or shortly after the Board's decision to proceed with the transactions in early August 2019.

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, 18 May 2022