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PROSPER ONE INTERNATIONAL HOLDINGS COMPANY LIMITED

富一國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1470)

(1) APPOINTMENT OF INTERNAL CONTROL ADVISER; AND (2) KEY FINDINGS OF THE INTERNAL CONTROL REVIEW

Reference is made to the Statement of Disciplinary Action published by The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) dated 18 May 2022 (the “**Statement**”) in relation to, among other things, a disciplinary action against Prosper One International Holdings Company Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) and nine of its former and current directors of the Company (the “**Directors**”) for their breaches of the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”). Capitalised terms used herein shall have the same meanings as those defined in the Statement unless the context requires otherwise.

APPOINTMENT OF INTERNAL CONTROL ADVISER

The Listing Committee of the Stock Exchange (the “**Listing Committee**”) has directed the Company to retain an independent professional adviser to conduct a review of its internal controls for procuring compliance with the Listing Rules, including but not limited to the notifiable and connected transaction requirements thereunder.

Pursuant to the direction of the Listing Committee, the Company has engaged Moore Advisory Services Limited (the “**Internal Control Adviser**”) on 13 July 2022 as its independent professional adviser to conduct a thorough review of, and make recommendations to improve, the Company’s internal controls and to ensure compliance with the Listing Rules, including but not limited to notifiable and connected transaction requirements (the “**Review**”).

KEY FINDINGS OF THE INTERNAL CONTROL REVIEW

The Review conducted by the Internal Control Adviser covered the assessment of the internal control systems and policies of the Company during the period from 20 June 2022 to 8 July 2022 (the “**Review Period**”). The Internal Control Adviser has completed its review of the Company’s internal control in respect of:

- A. Handling and disclosure of notifiable and connected transactions; and
- B. Internal control over the 2013 Internal Control-Integrated Framework (the “**COSO Framework**”) issued by the Committee of Sponsoring Organisations of the Treadway Commission.

The findings of the Internal Control Adviser in the Review and their recommendations for improvement of the Company’s internal controls and ensuring compliance with Chapters 14 and 14A of the Listing Rules are summarised as follows:

A. **Handling and disclosure of notifiable and connected transactions**

1. *Segregation/Disintegration of IC Manual & NTCT Policy (Risk level: Medium)*

Observations and impact

The Company’s internal control manual and policy, namely the “Prosper One IC Manual_20200120” (“**IC Manual**”) and the “Notifiable and Connected Transaction Policy_20200119” (“**NTCT Policy**”) were designed to replace the previous version from November 2014, which was originally designed for the Company’s watch business only.

The former includes certain relevant sections of internal control procedures, mainly operational, in relation to their Board of Directors, Financial Controls, Procurement and Sales, Information System, and Related Party Transactions; whereas the later was dedicated to address Chapters 14 and 14A of the Listing Rules, setting out the key definitions and compliance requirements in relation to notifiable and connected transactions.

However, upon completion of review of both documents, it was noticed that the NTCT Policy content is not incorporated with the IC Manual, especially the areas relating to the “Policy of Notifiable and Connected Transactions” of the IC Manual. In addition, the document “Authority of Limits at Board Level” was provided for reference separately.

Recommendations

The Company is advised to further incorporate the NTCT Policy and “Authority of Limits at Board Level” into the IC Manual in order to ensure more effective circulation and avoid misunderstanding.

Regular intervals should also be prescribed in reviewing and updating the policies and procedures (e.g. at least annually), plus whenever there is a major update in the Listing Rules and/or any deficiency detected.

2. *Lack of Comprehensive Sales & Procurement Procedures (Risk level: Medium)*

Observations and impact

“Annex 1: 背景調查和報價程序” in the NTCT Policy was specifically designed to cover relevant registration, pricing and quotation processes of customers and suppliers in compliance with Chapters 14 and 14A of the Listing Rules. However, it was stated that the document was dedicated to the fertilizer business only but not the other Group businesses. The detailed scope of work of frontline staff involved and systematic workflow of invoicing and financial reporting were appeared to be lacking as well.

On the contrary, “Part 15: Revenue Cycle” and “Part 16: Procurement Cycle” in the IC Manual were merely day-to-day administrative processes and operational procedures of the watch business only without mentioning any regulatory requirement in compliance with Chapters 14 and 14A of the Listing Rules.

Recommendation

The Company is advised to enrich their policies in compliance with Chapters 14 and 14A of the Listing Rules and make tailored procedures and guidance for frontline staff to act upon, based on the nature and practical needs of each business in question.

Clear segregation of policies and procedures should also be commenced (e.g. to have 2 separate sections or even 2 sets of manuals and policies for the watch business and the fertilizer business respectively).

3. *Lack of Comprehensive List of Associates (Risk Level: Medium)*

Observations and impact

It was set out in the IC Manual and NTCT Policy that all potential connected persons must prepare a “List of Associates” quarterly; whereas the company secretary of the Company is responsible for reminding, receiving, and checking signature and completion of the same, as well as keeping the latest list of related parties (including name, relationship with company, transaction currently incurred, and dollar amount of those transactions).

Template of “List of Associates Form” was attached in Appendix 2 of the NTCT Policy. A connected person list “CCT Full list final” from June 2022 and the declarations of connected persons of 7 individual directors were also provided for reference.

Although the relevant declarations of connected persons of individual directors were kept in a proper manner, in lieu of the more detailed template, the actual declaration form in practice was fairly simple including only the name of connected person, relationship with the director in question, and company held by the connected person.

Other details as in the template were not included, such as business license number, year of establishment, place of incorporation, and business relation with the Company. Besides, the template did not mention the company name “Prosper One Investment Holdings Company Limited”.

In light of the simplicity of the current list of associates, the insufficiency of information might hinder the frontline staff from performing Know Your Client (“**KYC**”) duties to the fullest extent.

Recommendation

The Company is advised to revise and adopt the template “List of Associates Form” in NTCT Policy and the information should then be made available for frontline staff for KYC checking.

B. Internal control over COSO Framework

4. Lack of Comprehensive Training Criteria (Risk Level: Low)

Observations and impact

With reference to the IC Manual and NTCT Policy, the Directors and senior management (“**DSM**”) are to receive sufficient trainings so as to continuously develop their knowledge and skills, and ensure their contribution remains informed and relevant in helping the Company to comply with the relevant provisions of Corporate Governance Code set out in Appendix 14 to the Listing Rules.

Notably, the NTCT Policy specified that in situation where significant notifiable transaction, connected transaction, continuous connected transactions arise or expected to arise in any financial year, the Board shall establish, approve and regularly review the training budget and to ensure sufficient training are arranged for the Directors, DSM and relevant staff.

However, although the sufficiency and adequacy of training had been stressed constitutionally, relevant criteria of such training were not specified in the supplied documents.

Recommendations

The Company is advised to supplement their policies under the below aspects:

- The frequency of training — e.g. the training should be conducted regularly (e.g. at least semi-annually) and/or whenever significant transaction is to be made;

- The bodies conducting the training — e.g. the training should be conducted by experienced professionals or recognized organizations, for example, Hong Kong Securities Institutions and Hong Kong Institution of Chartered Securities;
- The objectives of training — e.g. the DSM is expected to have gained relevant knowledge, including but not limited to Corporate Governance Code, the Companies Ordinance, the Securities and Futures Commission Regulations and the Competition Ordinance;
- The targets of training — e.g. at least new directors or directors with no prior experience should be trained, bearing in the mind the best practice being that all directors should be trained; and
- The outcomes of training — e.g. all directors are required to fill in a questionnaire assessing their knowledge of the relevant training materials and revision of those materials would be provided. It is also advised that the Company should actively collect feedback from the directors to understand whether the training has been carried out efficiently and effectively.

Once the program has been devised, the Company should undertake the effort to update the details periodically (e.g. at least semi-annually) and improve any deficiency detected in the training process.

5. *Lack of Contingency Training Plan (Risk Level: Low)*

Observations and impact

Due to the outbreak of Covid-19 pandemic, it was noted that the DSM did not take part in any training in the first half of 2022.

Anyhow, according to the engagement letters and training schedule, it was advised that all directors will undertake 21 hours of training seminars in between July and August 2022 conducted by Michael Li & Co., including topics such as Director's Duties, Code of Corporate Governance, Chapters 14 and 14A of the Listing Rules, and Securities and Futures Ordinance.

Recommendations

The Company is advised to set out in their policy that in case of any unprecedented circumstances in the future prohibiting training to be carried out in its ordinary course and format, alternatives (e.g. video training accompanied with test followed afterwards) should be considered as a transitional measure instead, in order to ensure the DSM continuously maintain a sufficient level of knowledge for decision making in navigating the Company through difficult times.

6. Document Discrepancies in IC Manual (Risk Level: Low)

Observation and impact

In the “Annual Declaration of Interest Form” in Appendix 2 of the IC Manual, it was noticed that the company name of the document is “Tic Tac Investment Holdings Company Limited”, which is no longer a listed company and now placed as “富一國際控股有限公司 Prosper One International Holdings Company Limited”. The Table of Content and heading of Part 12 of the IC Manual appeared to be requiring corrections as well.

Recommendations

The Company is advised to update the aforementioned documents to the latest version in coherence with the Company’s current status.

RESPONSE OF THE BOARD

After considering the findings and recommendations to be taken by the Company in the report of the Internal Control Adviser, the Board agrees with all the recommendations and the Company will implement the same accordingly to improve the Company’s internal controls and to ensure compliance with Chapters 14 and 14A of the Listing Rules.

The Company will furnish the Listing Division with the Internal Control Adviser’s written report on the Company’s full implementation of the recommendations within a period of two months.

By Order of the Board

Prosper One International Holdings Company Limited
Meng Guangyin

Chairman, Chief Executive Officer and Executive Director

Hong Kong, 2 August 2022

As at the date of this announcement, the Board comprises Mr. Meng Guangyin (Chairman and Chief Executive Officer), Mr. Liu Guoqing (Chief Financial Officer), Mr. Liu Jiaqiang and Mr. Li Dongpo as the executive Directors; and Mr. Tian Zhiyuan, Mr. Lee Chun Keung and Mr. Wang Luping as the independent non-executive Directors.