



THE STOCK EXCHANGE OF HONG KONG LIMITED

(A wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited)
(the “Exchange”)

26 August 2008

The GEM Listing Committee of The Stock Exchange of Hong Kong Limited (the “GEM Listing Committee”) censures the following parties for breaching the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”):

- 1. Argos Enterprise (Holdings) Limited (the “Company”) (Stock code: 8022);**
- 2. Mr Wong Wah Sang, a former executive director of the Company, re-designated as a non-executive director but remained as Chairman of the Company with effect from 14 February 2008 (“Mr WS Wong”);**
- 3. Mr Wong Man Chiu Ronnie, an executive director of the Company (“Mr Ronnie Wong”); and**
- 4. Mr Yeung Wai Hung, a former executive director of the Company resigned with effect from 14 February 2008 (“Mr Yeung”).**

On 24 June 2008, the GEM Listing Committee conducted a hearing into the conduct of the Company and Mr WS Wong, Mr Ronnie Wong and Mr Yeung (collectively, the “Relevant Directors”) in relation to the obligations under the GEM Listing Rules and the Director’s Declaration, Undertaking and Acknowledgement given by each of the Relevant Directors to the Exchange in the form set out in Appendix 6 Form A to the GEM Listing Rules (the “Director’s Undertaking”).

Facts

The disciplinary hearing was in connection with the Company’s failure to meet the notification, reporting, announcement, circular and/or shareholders’ approval requirements under the GEM Listing Rules in respect of several connected transactions that took place in 2003 and 2004 (the “Connected Transactions”); the resulting inaccurate and incomplete disclosure in financial statements of 2004 and 2005; and delay in publication of subsequent financial statements of 2006 and 2007.

Some of the cases identified below pre-dated the major amendments of the GEM Listing Rules which took place on 31 March 2004. The GEM Listing Rules which were in place before the amendments on 31 March 2004 are hereinafter referred to as the “Former Rules”, while the GEM Listing Rules which became effective on or after 31 March 2004 are hereinafter referred to as the “Amended Rules”.

(A) Connected Transactions

At the material times, the Company did not make the relevant disclosure of the Connected Transactions or obtain prior shareholders' approval (where applicable) for the same.

- **Case 1** – Guarantee provided by the Company and its subsidiaries (the “Group”)

On 19 September 2003, Argos Recreation and Sports Development Company Limited (“ARSHK”), a connected person of the Company, entered into an agreement for undertaking of business operation with Nanjing Fitness Centre Company Limited. In the event of default by ARSHK, a breach penalty of RMB5 million would be applied, plus responsibility for any actual loss and related damages. Argos Enterprise Management Consultant (Nanjing) Limited (“Nanjing Management Consultant”), a wholly-owned subsidiary of the Company, acted as guarantor for ARSHK.

The Company confirmed that the Group did not derive any commercial remuneration arising from this connected transaction, which was therefore considered to be not on normal commercial terms.

- **Case 2** – Guarantee and Security provided by the Group

On 16 December 2003, ARSHK and Argos Recreation and Sports (Nanjing) Company Limited (“ARSN”), both being connected persons of the Company, entered into a loan agreement to borrow RMB6 million from an individual lender for a term of three years from 18 December 2003 to 17 December 2005. Nanjing Public Transport Argos Bus Company Limited (“Nanjing Argos”), a non-wholly owned subsidiary of the Company, acted as the guarantee unit and provided security to the lender. Mr Ronnie Wong acted as one of the individual guarantors.

The Company confirmed that the Group did not derive any commercial remuneration arising from this connected transaction, which was therefore considered to be not on normal commercial terms.

- **Case 3** – Loans from Nanjing Argos to ARSN (comprising Loan A1 and Loan A2)

Loan A1

On 29 July 2004, Nanjing Argos obtained a loan of RMB12 million from China Everbright Bank, for a term up to 29 July 2005. Taizhou Argos Public Transport Bus Company Limited, a non-wholly owned subsidiary of the Company, acted as guarantor for the loan and Nanjing Argos provided security for the loan. On 4 August 2004, Nanjing Argos entered into a loan agreement with ARSN giving a loan of RMB12 million to ARSN. According to the Company, the onward lending to ARSN was on substantially the same terms and at the same interest rate as those between Nanjing Argos and China Everbright Bank.

The Company confirmed that the Group did not derive any commercial remuneration arising from this connected transaction, which was therefore considered to be not on normal commercial terms.

Loan A2

On 3 September 2004, Nanjing Argos obtained a loan of RMB5 million from Bank of Communications. On 23 and 27 September 2004, Nanjing Argos granted loans of RMB2 million and RMB3 million respectively to ARSN.

The Company confirmed that there was no interest accrued on this loan given to ARSN and there was no specific repayment term.

- **Case 4** – Loan from Nanjing Management Consultant to ARSN (comprising Loan B1 and Loan B2)

Loan B1

On 28 June 2004, Nanjing Management Consultant advanced a loan of RMB2 million to ARSN.

Loan B2

On 24 September 2004, Nanjing Management Consultant advanced a loan of RMB1 million to ARSN.

The Company confirmed that, in both loan agreements, there was no interest accrued on the amount and there was no specific repayment terms for these loans.

- **Case 5** – Loan from Nanjing Argos Tours to ARSN (Loan C)

On 25 August 2004, Nanjing Argos Scenery Travel Service Limited (“Nanjing Argos Tours”), a non-wholly owned subsidiary of the Company, advanced a loan of RMB1.5 million to ARSN.

The Company confirmed that there was no interest accrued on the amount and there was no specific repayment terms for this loan.

- **Case 6** - Loan from Nanjing Argos to ARSHK (Loan D)

On 2 January 2004, Nanjing Argos advanced a loan of RMB1.2 million to ARSHK.

This loan was lent by Nanjing Argos from its internal resources for capital commitment of ARSHK.

(B) Inaccurate disclosure of financial information

- **Case 7** – In an announcement dated 23 March 2007 regarding unusual trading movements in the Company’s shares, the Company disclosed that they had been notified by their then auditors of certain omissions of financial information from the Company’s financial statements for the years ended 31 December 2004 and 2005.

In a further announcement of the Company dated 10 May 2007 regarding its change of auditors, it was disclosed that the Company's former auditors considered that such omissions constituted material misstatements and the auditors' report of the Company for the years ended 31 December 2004 and 2005 had to be withdrawn and should not be relied upon by the members of the Group or the public.

On 6 July 2007, the Company published a clarification announcement. For the first time, the Company disclosed to its shareholders and investors the existence of Loan A1 mentioned above. The relevant transactions regarding Loan A1 were not recorded in the books of Nanjing Argos and as a result, such transactions were not reflected in the audited financial statements of the Group for the years ended 31 December 2004 and 2005. The effect of the omissions was that both the assets and the liabilities of the Group in the financial years ended 31 December 2004 and 2005 were understated by RMB12 million.

In addition to the omission of Loan A1, there were over ten categories of omissions and errors in the 2004 and 2005 accounts that necessitated various prior year adjustments as shown in the annual results of the Company for the year ended 31 December 2006 (the "2006 Annual Results").

(C) Delayed publication of financial information

- **Case 8** – The Company's financial results for the year ended 31 December 2006 were due to be published pursuant to the GEM Listing Rules on or before 31 March 2007. However, the Company's 2006 Annual Results were only published on 14 August 2007, giving rise to a delay of four months and 14 days, while the annual report of the Company for the year ended 31 December 2006 (the "2006 Annual Report") was only published on 28 August 2007, giving rise to a delay of four months 28 days.
- **Case 9** – The first quarterly results and first quarterly report of the Company for the three months ended 31 March 2007 (the "2007 First Quarterly Results" and the "2007 First Quarterly Report") were due to be published pursuant to the GEM Listing Rules on 15 May 2007. However, the Company's 2007 First Quarterly Results were only published on 14 August 2007, giving rise to a delay of three months, while the 2007 First Quarterly Report was only published on 28 August 2007, giving rise to a delay of three months and 13 days.

The Listing Division alleged that the Company failed to comply with the following requirements under the GEM Listing Rules:

1. Cases 1 and 2 – the transaction(s) under each of these cases fell within the ambit of the Former Rule 20.50 for being non-exempt financial assistance to a connected person and was subject to the requirements under the Former Rules 20.34 (reporting), 20.35 (announcement) and 20.36, 20.37 and 20.40 (shareholders' approval);

2. Cases 3 to 5 – the transaction(s) under each of these cases constituted non-exempt financial assistance to a connected person pursuant to the Amended Rule 20.63 and was subject to the requirements under the Amended Rules 20.45 (reporting), 20.47 (announcement), 20.48, 20.49 and 20.52 (independent shareholders' approval);
3. Case 6 – the loan amount exceeded the de minimis threshold as set out in the Former Rule 20.23(2). The transaction was therefore subject to the requirements under the Former Rules 20.34 (reporting) and 20.35 (announcement) pursuant to the Former Rule 20.24;
4. Case 3 (Loan A1) – based on its size tests, Loan A1 was a major transaction which should have been subject to the requirements under the Amended Rules 19.34 (notification and announcement), 19.38 (circular) and 19.40 (shareholders' approval);
5. Case 3 (Loans A1 and A2), Case 4 (Loan B2) and Case 5 – the transactions in each of these cases were loans to ARSN and constituted a “relevant advance to an entity”. The sum due under these transactions exceeded 8 per cent of the relevant percentage ratio which should have been subject to the announcement requirement under the Amended Rule 17.15;
6. Case 7 – there were inaccurate and incomplete disclosure of financial information in the annual results and annual reports of the Company for the years ended 31 December 2004 and 31 December 2005 respectively, amounting to breaches of the Amended Rule 17.56(2);
7. Case 8 – the delay in the publication of the Company's 2006 Annual Results constituted a breach of the Amended Rule 18.49 and the delay of publication of its 2006 Annual Report constituted breaches of the Amended Rules 18.03, 18.48A and 18.50C;
8. Case 9 – the delay in the publication of the Company's 2007 First Quarterly Results constituted a breach of the Amended Rule 18.79 and the delay of the publication of its 2007 First Quarterly Report constituted breaches of the Amended Rules 18.66 and 18.67.

The Listing Division further alleged that the Relevant Directors breached the Director's Undertaking in that: (i) they had knowledge or should have knowledge of the Loans A, B, C and D and the guarantees and the related breaches committed by the Company at the time they occurred; and (ii) they had failed to establish and/or maintain an adequate and proper internal control system within the Group by which they could procure the Company's compliance with the respective GEM Listing Rules stated above.

In addition, the Listing Division alleged that Mr Yeung, as Compliance Officer of the Company since September 2004 up to 14 February 2008, failed to properly fulfill his responsibilities as a Compliance Officer as stipulated in the Amended Rule 5.20(1).

Decision

The GEM Listing Committee concluded that:

- (i) The Company breached:
 - Former Rules 20.34, 20.35, 20.36, 20.37, 20.40 and 20.50 of the GEM Listing Rules in respect of Cases 1 and 2;
 - Amended Rules 20.45, 20.47, 20.48, 20.49, 20.52 and 20.63 of the GEM Listing Rules in respect of Cases 3 to 5;
 - Former Rules 20.24, 20.34 and 20.35 of the GEM Listing Rules in respect of Case 6;
 - Amended Rules 19.34, 19.38 and 19.40 of the GEM Listing Rules in respect of Case 3 (Loan A1);
 - Amended Rule 17.15 of the GEM Listing Rules in respect of Case 3 (Loans A1 and A2), Case 4 (Loan B2) and Case 5;
 - Amended Rule 17.56(2) of the GEM Listing Rules in respect of Case 7;
 - Amended Rules 18.03, 18.48A, 18.49 and 18.50C of the GEM Listing Rules in respect of Case 8; and
 - Amended Rules 18.66, 18.67 and 18.79 of the GEM Listing Rules in respect of Case 9.
- (ii) The Relevant Directors each breached the Director's Undertaking for failure to use his best endeavours to procure the Company to comply with the GEM Listing Rules; and
- (iii) Mr Yeung breached the Amended Rule 5.20(1) of the GEM Listing Rules.

The GEM Listing Committee decided to impose a public censure on each of the Company and the Relevant Directors for their respective breaches mentioned in (i) to (iii) above.

Further, the GEM Listing Committee made the following directions:

- (i) Each of Mr WS Wong and Mr Ronnie Wong undertakes training in compliance and corporate governance matters for at least 24 hours on courses held by Hong Kong Institute of Directors or another recognised institute acceptable to the Listing Division, to be completed within six months, and with evidence of attendance to be furnished to the Listing Division within two weeks after full compliance with the training requirement;
- (ii) As a pre-requisite of any future appointment(s) of Mr Yeung as a director of any company listed on the Exchange, he must first obtain training in compliance and corporate governance matters for at least 24 hours on courses held by Hong Kong Institute of Directors or another recognised institute acceptable to the Listing Division, and with evidence of attendance to be furnished to the Listing Division; and
- (iii) The Company appoint an external compliance adviser satisfactory to the Listing Division to provide guidance and advice on GEM Listing Rules compliance issues on an ongoing basis for a duration of two years.

Richard Williams, Head of Listing, said, “The substantive breaches in this case concern repeated provision of financial assistance to connected persons without complying with the announcement and shareholders' approval requirements as required by the GEM Listing Rules.

It is a matter of concern to the Exchange that some of the financial assistance was not recorded in the books and accounts of the Company. This suggests serious deficiencies in the Company's financial reporting, accounting procedures and documentation. This failure had in turn an adverse impact on the timing and quality of the Company's financial disclosure by the omission of material financial information from the Company's 2004 and 2005 annual results, the subsequent withdrawal of the relevant auditors reports, the required restatement of financial information and the consequential delay to the publication of later financial reports which fell due in the course of 2007. The breaches are serious given their number, frequency and impact on the ability of shareholders to understand and make informed investment decisions concerning the Company.

The Company's 2007 annual report dated 31 March 2008 describes various steps taken to address deficiencies identified by external professional advisers in the Company's internal controls. However, the GEM Listing Committee is clearly concerned about the ability of the Company and the Directors to comply with their compliance obligations on an ongoing basis and that further remedial action is necessary. This concern gives rise to the requirement that they appoint an external adviser on compliance issues for a period of two years coupled with a programme of training for the Directors in compliance and corporate governance related matters. The appointment of external professional advisers is to be encouraged where listed issuers and their management are unsure of their responsibilities and obligations to achieve full compliance with the GEM Listing Rules.

It is also appropriate to highlight the fact that the GEM Listing Committee has censured the Executive Director responsible as the appointed Compliance Officer for a failure to discharge his responsibilities. The role should not be undertaken lightly. The rules prescribe specific duties and responsibilities for an individual taking up that office. It is therefore vital that upon accepting such an appointment they put themselves in a position through training and consultation with advisers to ensure that they have the ability to perform that role. A failure by an Executive Director to take appropriate steps may well lead to disciplinary action and sanction by the GEM Listing Committee.”