



香港交易所

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## **THE STOCK EXCHANGE OF HONG KONG LIMITED**

(A wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited)

### **CRITICISM**

**of**

### **Prosperity International Holdings (H.K.) Limited (the Company, together with its subsidiaries, the Group)**

The Stock Exchange hereby publicly criticises the Company :

1. for breaches of Rules 18.03 and 18.49 of the GEM Listing Rules (Note 1) in failing to despatch and publish on time its accounts for the year ended 31 March 2003; and
2. for a breach of Rule 20.26 of the GEM Listing Rules (Note 2) in failing to issue an announcement and publish a circular on time and failed to obtain prior independent shareholders' approval for Transactions conducted during the period from 12 September 2002 to 26 November 2002.

#### ***Late despatch and publication of annual accounts for the financial year ended 31 March 2003***

The Company was required to despatch and publish its annual accounts for the financial year ended 31 March 2003 within three months of the end of its financial year, i.e. on or before 30 June 2003 (see Note 1).

By an announcement dated 17 June 2003, the Company announced that it would require additional time to complete the audited accounts for the Group. The Company's annual results and annual report (including audited accounts) for the financial year ended 31 March 2003 were subsequently published and sent to shareholders on 28 July 2003 and 31 July 2003 respectively, being 28 days and 1 month after the prescribed deadlines.

As a consequence of a settlement, the Company agreed not to contest the Exchange's allegation that the Company has breached Rules 18.03 and 18.49 of the GEM Listing Rules (Note 1).

***Failure to comply with the reporting, announcement and shareholders' approval requirements in relation to Transactions conducted during the period from 12 September 2002 to 26 November 2002***

Shanghai CH (上海昌興國際貿易公司) is a private limited liability company incorporated in the PRC. It is principally engaged in trading and consulting services of building materials. On 12 September 2002, Mr Hong Cheng Chang, a 60 per cent owner and director of Shanghai CH (Mr Hong), was appointed to the Board of Directors of the Company (the Board). Mr Hong subsequently resigned from the Board on 16 February 2004.

Pursuant to the GEM Listing Rules, by virtue of Mr Hong's appointment as a Director of the Company, Shanghai CH was a connected party of the Company during the period from 12 September 2002 to 16 February 2004. As such, transactions conducted between the Company and Shanghai CH during that period constituted connected transactions.

During the period from 12 September 2002 to 26 November 2002, the Group supplied decorative sheets to Shanghai CH (the Transactions) without entering into any formal sales and purchase agreement. The Transactions involved over 100 individual purchases by Shanghai CH from the Company. The aggregate consideration for the Transactions amounted to approximately \$1.12 million. The amount represented approximately 1.84 per cent of the Group's net tangible assets with respect to its audited accounts for the year ended 31 March 2002.

The Company was required to:-

- (a) sign agreements with Shanghai CH for the Transactions,
  - (b) set an annual cap (acceptable to the Exchange) for the Transactions;
  - (c) to disclose details of the Transactions by way of an announcement and a circular; and
  - (d) to obtain approval by independent shareholders of the Company,
- before entering into the Transactions (see Note 2).

The Company disclosed the Transactions in its annual report for the financial year ended 31 March 2003. The Company announced the Transactions on 14 October 2003 (the Announcement), a period of more than 10 months after the aggregate consideration reached \$1.12 million. The circular was subsequently despatched on 31 October 2003 (the Circular). The Company had not obtained independent shareholders' approval prior to entering into the Transactions. However, the controlling shareholder of the Company had confirmed in the Announcement and the Circular that, had a shareholder's vote been requested from it at the time when the aggregate consideration of the Transactions exceeded the de minimus threshold, it would have voted in favour of the Transaction.

As a consequence of a settlement, the Company agreed not to contest the Exchange's allegation that the Company has breached Rule 20.26 of the GEM Listing Rules (Note 2).

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Accordingly, the Exchange hereby publicly criticises the Company for breaching Rules 18.03, 18.49 and 20.26 of the GEM Listing Rules in force at the material time.

Head of Listing, Richard Williams said, “This case highlights the need for listed issuers and their directors to regularly monitor the adequacy of the issuers’ Listing Rules compliance controls and information systems. In particular, issuers should promptly and thoroughly assess the implications of proposed appointments of directors or changes in substantial or controlling shareholders for connected party relationships and adapt the compliance controls accordingly”.

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Note 1:

Rules 18.03 and 18.49 of the GEM Listing Rules in force at the material time.

Note 2:

Rule 20.26 of the GEM Listing Rules in force at the material time.