

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

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Exchange's Disciplinary Action against Wuzhou International Holdings Limited (Delisted, Previous Stock Code: 1369) and three Directors at the relevant time

### **SANCTIONS AND DIRECTIONS**

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

#### **CENSURES:**

- (1) **Wuzhou International Holdings Limited** (Delisted, previous stock code: 1369) (**Company**);

**IMPOSES A PREJUDICE TO INVESTORS' INTERESTS STATEMENT** against:

- (2) **Mr Shu Ce Cheng**, former Chairman and executive director (**ED**) of the Company (**Mr Shu CC**);
- (3) **Mr Shu Ce Wan**, former Chairman, Chief Executive Officer and ED of the Company (**Mr Shu CW**);

#### **CRITICISES:**

- (4) **Mr Zhu Yong Qiu**, ED of the Company (**Mr Zhu**).

(The directors identified at (2) to (4) above are collectively referred to as the **Relevant Directors**.)

The statements made in respect of Mr Shu CC and Mr Shu CW above are made in addition to a public censure against them. The Prejudice to Investors' Interests Statement is a statement that, in the Exchange's opinion, had the Company remained listed / Mr Shu CC or Mr Shu CW remained on the board of directors of the Company (**Board**), the retention of office by him would have been prejudicial to the interests of investors.

**AND FURTHER DIRECTS** Mr Zhu to attend 18 hours of training on regulatory and legal topics and Listing Rule compliance.

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## SUMMARY OF FACTS

### Transactions

On 21 January 2017, 無錫洲越商業發展有限公司 (transliterated as Wuxi Zhouyue Commercial Development Company Limited) (**Wuxi Zhouyue**), a non-wholly owned subsidiary of the Company, entered into an agreement to acquire a 100% equity interest in 江蘇五豐置業有限公司 (transliterated as Jiangsu Wufeng Zhiye Company Limited), 昆山普瑞斯特機械製造有限公司 (transliterated as Kunshan Purui Site Mechanics Manufacturing Company Limited) and 昆山五豐廣場商業管理有限公司 (transliterated as Kunshan Wufeng Plaza Business Management Company Limited) (**Acquisition**). After a delay of 15 months, the Company announced the Acquisition on 7 May 2018.

On 29 November 2017, a wholly-owned subsidiary of the Company entered into agreements to dispose of a total 51% equity interest (out of 60%) in Wuxi Zhouyue (**First Disposal**). After a delay of five months, the Company announced the First Disposal on 7 May 2018.

On 25 December 2017, four subsidiaries of the Company (two of which were wholly owned) entered into agreements to dispose of a 100% equity interest in 盱眙五洲國際置業有限公司 (transliterated as Xuyi Wuzhou International Property Co., Ltd.) to 江蘇潤港石化有限公司 (transliterated as Jiangsu Rungang Petrochemical Co., Ltd.) at a consideration of RMB350 million (**Second Disposal**). After a delay of about eight months, the Company announced the Second Disposal on 20 August 2018.

The Second Disposal agreement provided for the registration of the purchaser as the shareholder of the disposal company at the relevant authorities in the PRC (**Shareholder Registration**) to take place (within ten working days from the effective date of the agreement) before the deadline for full payment of the consideration (15 January 2018). The Shareholder Registration was effective on 27 December 2017 but payment of RMB10 million was only received on 1 March 2018. The parties subsequently entered into a voluntary discharge agreement and the Shareholder Registration was reversed in December 2019.

On 17 December 2018, a wholly-owned subsidiary of the Company entered into an agreement to dispose of all its 49.5% equity interest in 撫順中合市場開發有限公司 (transliterated as Fushun Zhonghe Market Development Co., Ltd.) (**Third Disposal**). The Third Disposal was approved by the Board on 14 December 2018, but it was only announced by the Company on 26 February 2019, after a delay of about two months.

The Acquisition, First Disposal, Second Disposal and Third Disposal are collectively referred to as the **Transactions**.

## Additional Disposals

RSM Corporate Advisory (Hong Kong) Limited, the Company's restructuring adviser appointed in August 2018, conducted an independent investigation on the Company's transfer of its equity interests in some of its subsidiaries. It was found that there had been a total of 15 transfers unapproved by the Board in 2018 (**15 Unapproved Transfers**), which included the Second Disposal and the following disposals which constituted discloseable transactions (Additional Disposals A to D) and a very substantial disposal (Additional Disposal E). Additional Disposals A to E are collectively referred to as the **Additional Disposals**.

Additional Disposal	Subsidiary disposed of (and interest in subsidiary)	Transaction date
A	汝州五洲國際工業博覽城有限公司 (90%) (transliterated as Ruzhou Wuzhou International Industrial Exhibition City Co., Limited)	11 May 2018
B	吉林市五洲國際房地產開發有限公司 (98.59%) (transliterated as Jilin Wuzhou International Real Estate Development Co., Limited)	30 May 2018
C	浙江紅貝投資有限公司 (51%) (transliterated as Zhejiang Hongbei Investment Co., Limited)	4 June 2018
D	邢台市月晟房地產開發有限公司 (51%) (transliterated as XingTai City YueSheng Real Estate Development Company Limited)	13 June 2018
E	漳州五洲國際商貿城有限公司 (100%) (transliterated as Zhangzhou Wuzhou International Trade City Co., Limited)	20 September 2018

The Company never announced the Additional Disposals with the details required under Rule 14.58, and only disclosed brief information about them in the 2018 Annual Report published on 24 September 2020.

## Directors' involvement in and/or knowledge of the Transactions and the Additional Disposals

Mr Shu CC or Mr Shu CW were involved in the negotiations of the Transactions and the Additional Disposals and handling of the relevant agreements. They therefore had knowledge of the Transactions and the Additional Disposals at the material time. According to the Company, in general, the affixation of the subsidiaries' company chops required Mr Shu CW's approval. The relevant subsidiaries' company chops were affixed onto the agreements for the Transactions. Neither Mr Shu CC nor Mr Shu CW informed the Board at the material time of the Transactions (except the Third Disposal) and the Additional Disposals when they were entered into.

In respect of the Acquisition, the minutes of the Audit Committee meeting of 31 August 2017 recorded that a then Independent Non-Executive Director of the Company (**INED**) asked if any of the Group's acquisitions as disclosed under Note 23 to the interim financial information set out in the draft 2017 Interim Report (which included the Acquisition) constituted notifiable transactions under the Listing Rules, and that the Company Secretary replied that the Company would check and report to the EDs for taking all necessary actions to ensure Listing Rule compliance. Neither Mr Shu CC nor Mr Shu CW followed up on the matter.

The Second Disposal was mentioned in Note 27 to the Financial Statements in the 2017 Annual Report. There was also an entry "Amount due from disposal company" under Note 25 ("prepayments, deposits and other receivables") which referred to Note 27. The draft 2017 Annual Report was presented to the Board for review and approval at the meeting on 29 March 2018. However, the directors did not raise enquiries about the Second Disposal and related Listing Rule compliance issues – the minutes of the Board meeting did not record anything in this regard.

In respect of the Third Disposal, all the directors who were then in office, except Professor Shu Guo Ying and Dr Song Ming (both INEDs), attended the Board meeting on 14 December 2018 at which the Board approved the transaction. According to the Company, the documents regarding the Third Disposal were circulated to all the directors before the meeting, and a brief note with the results of the meeting was also sent to them after the meeting.

#### **Failure to respond to the Listing Division's investigation**

Mr Shu CC and Mr Shu CW failed to respond to the Listing Division's investigation letters and reminder letters issued to them after they ceased to be directors of the Company.

#### **LISTING RULE REQUIREMENTS**

Rule 14.34 (before 1 March 2019) provides that, as soon as possible after the terms of, among other things, a discloseable transaction or very substantial disposal have been finalised, the listed issuer must in each case inform the Exchange and publish an announcement as soon as possible.

Rules 14.38A and 14.48 provide that, in the case of a very substantial disposal, the listed issuer must send a circular to its shareholders. Rule 14.49 further provides that a very substantial disposal must be made conditional on approval by shareholders in a general meeting.

Rule 3.08 provides that directors, both collectively and individually, are expected 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. Specifically, under Rule 3.08(f), directors have duties 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 within the issuer. Rule 3.08 provides that directors must also take an active interest in the issuer's affairs and must follow up anything untoward that comes to their attention.

Each director is subject to the obligations in the Director's Undertaking (**Director's Undertaking**) (Appendix 5B to the Listing Rules) which include, amongst others, that he/she will comply to the best of his/her ability, and to use his/her best endeavours to procure the company's compliance, with the Listing Rules, and cooperate in any investigation conducted by the Exchange.

### **SETTLEMENT WITH OTHER PARTIES**

The Listing Division entered into a settlement with a number of directors of the Company at the relevant time who have also breached their duties under the Listing Rules and/or the Director's Undertakings concerning the Transactions and/or the Additional Disposals. Details of the settlement are set out in a separate statement of disciplinary action published on the date hereof.

The Company and the Relevant Directors did not participate in the settlement.

### **LISTING COMMITTEE'S FINDINGS OF BREACH**

The Listing Committee found as follows:

- (1) The Company breached Rule 14.34 in respect of its delay in announcing each of the Transactions and the Additional Disposals, and Rules 14.38A, 14.48 and 14.49 in respect of its failure to issue a circular and obtain shareholder's approval for the Additional Disposal E. The Company admitted these breaches.
- (2) There were material deficiencies in the Company's internal controls and risk management systems. For example, there was no mechanism and/or written procedures for identification, reporting and execution of notifiable transactions, or for compliance with the requirements under Chapter 14 of the Listing Rules. There was no system or control which required progress of negotiations and/or developments of transactions, or material transactions of the Company, to be reported to the Board in a timely manner. The Company also did not have internal procedures and systems regarding transfer of shares and assets of the Group's subsidiaries. The internal control deficiencies resulted in circumstances where it could be possible for one to two directors to enter into material and/or notifiable transactions and/or disposals of the Company's interests in its subsidiaries without Board awareness or due Listing Rule consideration and compliance. These deficiencies also contributed to the Company's Listing Rule breaches in respect of the Transactions and the Additional Disposals.
- (3) Mr Shu CC and Mr Shu CW breached Rule 3.08 and their Director's Undertakings by (i) failing to take steps to procure the Company's compliance with the Listing Rules in respect of the Transactions and the Additional Disposals; (ii) allowing the Shareholder Registration in respect of the Second Disposal to proceed even before receiving the consideration for the disposal; (iii) failing to report the Transactions (except the Third Disposal) and the Additional Disposals to the Board in a timely manner for its information and/or approval; and (iv) failing to ensure that the Company established and maintained an adequate and effective internal control system and risk management system. They also breached their Director's Undertakings to cooperate in the Exchange's investigation.
- (4) The failure of Mr Shu CC and Mr Shu CW to discharge their responsibilities under the Listing Rules was wilful and/or persistent, warranting a public statement that, had the Company remained listed / Mr Shu CC or Mr Shu CW remained on the Board, the retention of office by him would have been prejudicial to the interests of investors.

- (5) Mr Zhu failed to use his best endeavours to procure the Company's Rule compliance in respect of the Third Disposal, and therefore breached his Director's Undertaking.

**CONCLUSION**

The Listing Committee decided to impose the sanctions and direction set out in this Statement of Disciplinary Action.

For the avoidance of doubt, the Exchange confirms that the above sanctions and direction apply only to the Company and the Relevant Directors, and not to any other past or present directors of the Company.

Hong Kong, 5 May 2022