



THE STOCK EXCHANGE OF HONG KONG LIMITED

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

23 August 2011

The Listing Committee of The Stock Exchange of Hong Kong Limited (the “Listing Committee”) censures Artini China Co. Ltd. (the “Company”) (Stock Code: 789) for its breaches of Rules 13.09(1), 13.10 and 2.13(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The Listing Committee further censures:

- (1) Mr Tse Chiu Kwan, an executive director and the Chairman of the Company (“Mr Tse”);**
- (2) Ms Yip Ying Kam, a former executive director of the Company (“Ms Yip”), re-designated as a non-executive director effective 17 July 2009;**
- (3) Ms Ho Pui Yin Jenny, a former executive director of the Company (“Ms Ho”), resigned effective 26 May 2010; and**
- (4) Mr Xie Hai Hui, a former executive director of the Company (“Mr Xie”), resigned effective 28 August 2009,**

for their respective breaches of their obligations under the Declaration and Undertaking with regard to Directors given to the Exchange in the form set out in Appendix 5B to the Listing Rules in failing to use their best endeavours to procure the Company’s Listing Rule compliance (the “Undertaking”).

(Mr Tse, Ms Yip, Ms Ho and Mr Xie together the “Relevant Directors”)

Facts

The Company was listed on the Exchange on 16 May 2008. The Group was profit-making during the Track Record Period (i.e. the three financial years ended 31 March 2007 and the eight months ended 30 November 2007) and FY2007-08 ended 31 March 2008. It recorded a profit of \$110 million for FY2007-08.

11 August 2008

On 11 August 2008 (three weeks after the Company announced its FY2007-08 Annual Results), the executive directors became aware that the Group recorded a loss of \$2.5 million for the 2008 First Quarter ended 30 June 2008. Although it was the first time the Group recorded a loss since the Company's listing on the Exchange, the executive directors did not consider or discuss whether the significant deterioration was discloseable under Rule 13.09(1).

9 and 10 October 2008

On 9 October 2008, the executive directors became aware of the Group's financial performance for the four months ended 31 July 2008 (profit of \$1.1 million) and five months ended 31 August 2008 (profit of \$10.6 million). They considered that there was only a slight drop in profit; it was temporary in nature and was due to exceptional events such as the Sichuan earthquake and Beijing Olympics, and the Company had started different initiatives to help boost its profitability.

On each of 9 and 10 October 2008, there was a substantial drop in the Company's share price and significant increase in trading volume, which coincided with the time when the Group's four-month results ended July 2008 and five-month results ended August 2008 were available.

The unusual trading movements in the Company's shares on 9 and 10 October 2008 led to the enquiries by the Listing Division (the "**Division**") under Rule 13.10 on these dates. In response to the Division's enquiries, the Company replied that there was no notifiable transaction and connected transaction (including negotiation) and price sensitive information; and it was not aware of any reason for the trading movements (the "**Confirmation**").

The Company published a standard announcement at 12:37 pm on 9 October 2008 (the "**Standard Announcement**") stating that it was not aware of any reasons for the decrease in price and increase in trading volume of its shares on that day, and it was not aware of any matter discloseable under Rule 13.09.

3 to 20 November 2008

On 3 November 2008, Mr Tse and Ms Ho were informed of the preliminary financial figures for the 2008 Interim Period ended 30 September 2008, which showed a loss of \$19.4 million. The Company was advised by Cazenove Asia Limited, its compliance adviser at the time, to issue a profit warning announcement as soon as the figures were finalised.

On 6 November 2008, Mr Tse and Ms Ho considered that the Company might have to publish a profit warning announcement.

The Company issued an announcement on 20 November 2008 (at 5:45 pm), stating that it expected to record a loss for the 2008 Interim Period (the "**Profit Warning Announcement**"). On the next trading day, the closing price of the Company's shares dropped approximately 11.48 per cent (from \$0.305 on 20 November 2008 to \$0.27). The trading volume increased to 1,340,950, which was 3.42 times the past 10-day average.

On 27 November 2008, the Company announced that the Group was expected to record a loss of approximately \$18 million to \$20 million for the 2008 Interim Period, and that the Company was in the process of finalising the unaudited 2008 Interim Results.

The Group recorded a loss of \$19.4 million for the 2008 Interim Period as announced in the 2008 Interim Results on 22 December 2008.

Applicable rules and alleged breaches

Breach of Rule 13.09(1)

Rule 13.09(1) requires issuers to disclose, as soon as reasonably practicable, any information relating to the group which (a) is necessary to enable the Exchange, shareholders and the public to appraise the position of the group; (b) is necessary to avoid the establishment of a false market in the issuer's securities; or (c) might be reasonably expected materially to affect market activity in and the price of its securities.

Note 11(ii) to Rule 13.09(1) further elaborates that the disclosure obligation must be discharged without delay where to the knowledge of the directors, there is such a change in the issuer's financial condition or in the performance of its business or in the issuer's expectation of its performance that knowledge of the change is likely to lead to substantial movement in the price of its listed securities.

The Division is of the view that the significant deterioration in the Group's financial performance during the 2008 Interim Period fell within the scope of, and required disclosure under, Rule 13.09(1):

- (1) The significant deterioration in the Group's financial performance recorded in the 2008 First Quarter known to the Company and executive directors as of 11 August 2008 (loss of \$2.5 million) was specific relevant information concerning the Company and price sensitive; and it was reasonably practicable to have disclosed such information to the market by way of an announcement published under Rule 13.09(1) on or shortly after 11 August 2008. The Company did not do so and was in breach of Rule 13.09(1).
- (2) Further or in the alternative, the significant deterioration in the Group's financial performance reflected in its four-month results ended July 2008 (profit of \$1.1 million) and the five-month results ended August 2008 known to the Company and executive directors as of 9 October 2008 (profit of \$10.6 million) was specific relevant information concerning the Company and price sensitive. The unusual trading movements in the Company's shares on 9 and 10 October 2008, which led to the Division's enquiries, further gave rise to concerns that this information might have leaked. It was reasonably practicable to have disclosed such information to the market by way of an announcement published under Rule 13.09(1) on or shortly after 9 October 2008 or 10 October 2008. The Company did not do so and was again in breach of Rule 13.09(1) as at either of the two dates.

- (3) In the further alternative, the significant deterioration in the Group's financial performance reflected in the preliminary financial figures for the 2008 Interim Period known to the Company and executive directors as of 3 November 2008 (loss of \$19.4 million) was specific relevant information concerning the Company and price sensitive. If disclosure had not been made by 10 October 2008, it was reasonable and practicable for disclosure of the significant performance deterioration to have been made by 3 November 2008. The Company did not make the disclosure until 20 November 2008 and was again in breach of Rule 13.09(1).

The Division considers that the Company's disclosure of the significant performance deterioration on 20 November 2008, with a delay of up to 3 months and 9 days, was not made "as soon as reasonably practicable" and "without delay", as required by Rule 13.09(1) and Note 11(ii) to the rule.

Breach of Rule 13.10

Rule 13.10 imposes an obligation on an issuer to give such relevant information as is available to the issuer in responding to any enquiries made by the Exchange concerning unusual movements in the price or trading volume of its listed securities or any other matters.

The Division is of the view that the significant deterioration in the Group's financial performance since the 2008 First Quarter was "relevant" information within the meaning of Rule 13.10. The Company provided the Confirmation and failed to disclose the significant deterioration in responding to the Division's enquiries on 9 and 10 October 2008, and in the Standard Announcement. The Company's failure to inform the Division and the market of this relevant information gave rise to a breach of Rule 13.10 on each of 9 and 10 October 2008.

Breach of Rule 2.13(2)

Rule 2.13(2) provides that information contained in any announcement or corporate communication required under the Listing Rules must be accurate and complete in all material respects and not be misleading or deceptive.

The Division is of the view that the significant deterioration in the Group's financial performance since the 2008 First Quarter was material and relevant information for the purpose of Rule 2.13(2). By failing to disclose this information, the Standard Announcement which contained the Confirmation was not accurate and complete in all material respects and was misleading. The Company has therefore breached Rule 2.13(2).

Inadequate Internal Controls

The Division considers that the Company has failed to maintain adequate and effective internal controls at the relevant time to ensure its compliance with Rules 13.09(1), 13.10 and 2.13(2). The Company's breaches of Rules 13.10 and 2.13(2) were partly attributable to the absence of adequate and effective internal controls.

Directors' breach of Undertakings

The Division is of the view that Mr Tse, Ms Yip, Ms Ho and Mr Xie, being executive directors at the time, have breached their Undertakings by failing to use their best endeavours to procure the Company's Listing Rule compliance, in that:

- (1) despite having knowledge of the substantial deterioration in the Company's financial performance since the 2008 First Quarter, they did not take steps to make the required disclosure under Rule 13.09(1) as of 11 August 2008 and 9 October 2008;
- (2) although they were informed and consulted about the Division's Rule 13.10 enquiries regarding the unusual trading movements in the Company's shares in the morning of 9 October 2008, they failed to ensure that information about the Group's significant deterioration in financial performance since the 2008 First Quarter was disclosed to the Division and the investing public, resulting in the publication of the Standard Announcement which was not accurate and complete in all material respects and was misleading;
- (3) on 10 October 2008, they were again informed of, and consulted about, the Division's Rule 13.10 enquiries regarding the unusual trading movements in the Company's shares that day. Despite having knowledge of the Company's latest management accounts for the five months ended August 2008 (which continued to show significant deterioration in the Group's financial performance and recorded a profit of \$10.6 million only), they failed to ensure that this relevant and material information was disclosed to the Division and the investing public;
- (4) on 3 November 2008, Mr Tse and Ms Ho became aware of the preliminary figures for the 2008 Interim Period (showing a loss of \$19.4 million), and Mr Tse was advised by Cazenove Asia Limited to publish a profit warning announcement as soon as the figures were finalised. However, it was not until 20 November 2008 that the Profit Warning Announcement was published; and
- (5) they have failed to establish and maintain an adequate and effective internal control system to procure the Company's compliance with the Listing Rule requirements. These internal control deficiencies partly led to the Company's breaches of Rules 13.10 and 2.13(2).

Settlement

As a consequence of a settlement, the Company does not contest the breaches of Rules 13.09(1), 13.10 and 2.13(2), and the Relevant Directors do not contest the breaches of their Undertakings. They accept the sanctions and directions imposed on them by the Listing Committee.

Committee's findings of breach

Having considered the facts and the Division's views set out above, and noting that the Company and the Relevant Directors do not contest the breaches asserted by the Division, the Committee finds the Company in breach of Rules 13.09(1), 13.10 and 2.13(2) and the Relevant Directors in breach of their Undertakings.

Sanctions

The Listing Committee:

- (1) censures the Company for its breaches of Rules 13.09(1), 13.10 and 2.13(2); and
- (2) censures Mr Tse, Ms Yip, Ms Ho and Mr Xie for their respective breaches of Undertakings.

Further, the Listing Committee directs as follows:

- (1) the Company:
 - (a) retain an independent professional adviser satisfactory to the Division (the “**Adviser**”) to conduct a thorough review of and make recommendations to improve the Company’s internal controls to ensure compliance with Rules 2.13, 13.09(1) and 13.10 within two weeks from the date of publication of this Press Release; and provide the Division with the Adviser’s written report containing such recommendations within two months from the date of publication of this Press Release. The Company is to submit the proposed scope of retainer to the Division for comment before appointment of the Adviser;
 - (b) furnish the Division with the Adviser’s written report on the Company’s full implementation of the Adviser’s recommendations within a further period of two months after submission of the first report referred to in (a) above; and
 - (c) appoint an independent professional adviser satisfactory to the Division on an ongoing basis for consultation on Listing Rule compliance (the “**Compliance Adviser**”) for a period for two years within two weeks from the publication of this Press Release. The Company is to submit the proposed scope of retainer to the Division for comment before appointment of the Compliance Adviser. The Compliance Adviser shall be accountable to the Audit Committee of the Company;
- (2) each of the Relevant Directors who are currently still on the Board, namely Mr Tse and Ms Yip, undergo 24 hours of training on Listing Rule compliance, director’s duties and corporate governance matters to be given by the Hong Kong Institute of Chartered Secretaries, Hong Kong Institute of Directors or other course providers approved by the Division (the “**Training**”). Such training has to be completed within 90 days from the publication of this Press Release. The Company has to provide the Division with the training provider’s written certification of full compliance with this training requirement by these Directors within two weeks after full compliance;
- (3) as a pre-requisite of any future appointment as a director of any company listed on the Exchange, Ms Ho and Mr Xie, who are currently not on the Board and are not directors of other companies listed on the Exchange, attend the Training, to be completed before the effective date of any such appointment. Each of Ms Ho and Mr Xie should provide the Division with the training provider’s written certification of full compliance with the Training requirement; and

- (4) the Company publish an announcement to confirm that each of the directions in sub-paragraphs (1) and (2) above has been fully complied with within one week after the respective fulfillment of each of the directions. The Company is to submit drafts of the announcements for the Division's comment and may only publish the announcements after the Division has confirmed it has no further comment on them. The last announcement required to be published under this requirement is to include the confirmation that all directions in sub-paragraphs (1) and (2) above have been complied with.

For the avoidance of doubt, the Exchange confirms that this public censure applies only to the Company and the Relevant Directors identified above and not to any other past or present members of the Board of Directors.