



THE STOCK EXCHANGE OF HONG KONG LIMITED
(A wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited)
(the “Exchange”)

26 October 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 2.13(2), 13.09(1)(b) and 13.09(1)(c) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Exchange Listing Rules”).

On 6 September 2011, the Listing Committee conducted a hearing into the conduct of, among others, the Company in relation to its obligations under the Exchange Listing Rules.

Facts

On 26 October 2009, Artist Empire Jewellery Mfy. Limited (“**Artist Empire**”), a wholly-owned subsidiary of the Company, entered into a Licence Agreement with The Walt Disney Company (Asia Pacific) Limited (“**Disney**”). Disney agreed to grant Artist Empire a non-exclusive licence and right to use certain material and trademarks of Disney characters owned by Disney Enterprise, Inc. for a term of two years.

In the morning of 4 November 2009, the Shanghai municipal government announced that the project to build a Disneyland in Shanghai (“**Shanghai Disney**”) had received state approval (the “**Shanghai Disney News**”). There was a significant amount of news coverage in the PRC, Hong Kong and overseas about the project on 4 and 5 November 2009.

On 4 November 2009, the Company’s share price closed at \$0.80, an increase of 17.65 per cent from \$0.68 on the previous day, and its trading volume was 47,783,000, being 7.55 times the past 10-day average.

It was widely reported in various press articles in the afternoon of 4 November 2009 and on 5 November 2009 that the Company’s share price increase on 4 November 2009 was attributable to rumours in the market that the Company had obtained an exclusive licence and manufacturing right for accessories for Shanghai Disney (the “**Rumours**”).

Three of these press articles reported that (a) the Company had denied any new cooperation with Disney (“**Relationship Denial**”), (b) it was not aware of any reasons for the significant increase in its share price on 4 November 2009, and (c) it did not have any price sensitive information which required disclosure.

The Company's share price continued to rise on 5 November 2009 and closed at \$0.83, with an increase of 3.75 per cent from the previous day (maximum increase during the day was 13.75 per cent), and trading volume was 60,880,000, being 5.86 times the past 10-day average.

Despite these circumstances, the Company, in response to the Division's Rule 13.10 enquiry on 5 November 2009 (at 2:56 pm), published an announcement (the "**Standard Announcement**") on the same day (at 8:30 pm) stating, among other things, that it was not aware of any reasons for its share price and trading volume increases that day, and it was not aware of any matter discloseable under the general obligation under Rule 13.09, which was or might be of a price sensitive nature (the "**Standard Confirmation**").

The Company's shareholders and investors continued to trade in the Company's shares on a misinformed basis until 10 November 2009. The Company disclosed the Licence Agreement by way of an announcement (the "**Announcement**") at 5:52 pm on that day.

The market reacted positively to the Announcement. On 11 November 2009, the Company's share price closed at \$1.12, with an increase of 30.2 per cent from the previous day of \$0.86. The highest price recorded that day was \$1.26, representing an increase of 46.5 per cent from the previous day's closing price. Its trading volume was 191,444,000, being 11.07 times the past 10-day average.

Findings of breach by the Committee

The Listing Committee has considered the written and oral submissions of, among others, the Division and the Company and concluded as follows:

Breach of Rules 13.09(1)(c) and 13.09(1)(b)

Rule 13.09(1) requires every issuer to disclose, as soon as reasonably practicable, any information relating to the group of which the issuer is a member, 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.

Rule 13.09(1)(c)

The Listing Committee concluded that, as from 4 November 2009, with the substantial change in market sentiment about Disney related matters brought about by the Shanghai Disney News and in light of the Rumours, the Licence Agreement (particularly, the fact that the licence granted by Disney was on a non-exclusive basis) was information which might be reasonably expected materially to affect market activity in and the price of the Company's shares. It therefore fell within the scope of and was discloseable under Rule 13.09(1)(c). The disclosure obligation arose:

- (1) by 10:30 to 11 am on 5 November 2009 when the Company's representatives and an executive director ("**ED 1**") respectively became aware of the press articles on that day which reported that the Company's share price increase on the previous day was attributable to the Rumours (the "**Press Articles**"); or

- (2) in the alternative, by 3 pm on 5 November 2009 when another executive director (“ED 2”) became aware of these Press Articles.

Rule 13.09(1)(b)

The Listing Committee further concluded that, as a result of the inaccurate reporting in the press regarding the Rumours and the Relationship Denial, the Company was obliged under Rule 13.09(1)(b) to clarify its relationship with Disney and the nature of the Licence Agreement, so as to avoid its shareholders and investors trading on a misinformed basis. The disclosure obligation arose:

- (1) at around 10:30 to 11 am on 5 November 2009 when the Company’s representatives and ED 1 respectively became aware of these Press Articles, and the unusual trading movements in the Company’s shares on the previous day; or
- (2) in the alternative, by 3 pm on 5 November 2009 when ED 2 became aware of the same facts as mentioned in sub-paragraph (1) above.

Disclosure not made as soon as reasonably practicable (given the absence of a trading suspension)

It was, however, not until 10 November 2009 (at 5:52 pm) that the Licence Agreement was disclosed, and the Company’s relationship with Disney was clarified by way of Announcement.

The Listing Committee acknowledged that the confidentiality provision in the Licence Agreement prohibited disclosure of the agreement without Disney’s consent. Nonetheless and in fairness to the shareholders and the public, the Company should have requested a trading suspension with effect from 5 November 2009 until Disney’s consent could be obtained and a formal announcement could be made. It did not do so.

There was a delay of four trading days (from 5 to 10 November 2009) before the Company made the relevant disclosure by way of the Announcement. During this period, the Company allowed trading in its shares to continue on a misinformed basis. The Listing Committee concluded that the delay (given the absence of a suspension of trading) in these circumstances was not reasonable, and the Company failed to disclose the Licence Agreement and clarify its relationship with Disney as soon as reasonably practicable, as required by Rule 13.09(1). The Company therefore breached Rules 13.09(1)(c) and 13.09(1)(b).

Breach of Rule 2.13(2)

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

As stated above, the Company should have, in these circumstances, requested a trading suspension with effect from 5 November 2009 pending the disclosure of the information. It did not do so and instead published the Standard Announcement which contained the Standard Confirmation.

The Listing Committee concluded that information regarding the Licence Agreement was material and might have been relevant to the unusual trading movements on 5 November 2009, which led to the Division's Rule 13.10 enquiries on that day. The Company's Standard Confirmation rendered the Standard Announcement not accurate and complete in all material respects, and was misleading. The Company has therefore breached Rule 2.13(2).

Inadequate Internal Controls

The Listing Committee concluded that the Company has failed to maintain adequate and effective internal controls to ensure its compliance with Rule 13.09(1) at the relevant time, in that:

- (1) the structure or arrangement in place (if any) was not adequate enough to allow the directors of the Company to receive relevant reports about the media enquiries, and to assess and consider, in a systematic and timely manner, whether relevant information would be discloseable under Rule 13.09(1), and/or whether it would be appropriate to respond to media enquiries, and if so, what information could be and how it should be disclosed to the media; and
- (2) the system in place (if any) was not effective enough to monitor trading movements in the Company's shares on each trading day.

Sanction

The Listing Committee decides to impose a public censure on the Company for its breaches of Rules 2.13(2), 13.09(1)(b) and 13.09(1)(c).

Further, to remedy the abovementioned breaches and to help bolster the Company's internal controls, the Listing Committee would have directed that 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 Rule 13.09(1) 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 Advisers' recommendations within a further period of two months after submissions 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 Exchange Listing Rule compliance (the "**Compliance Adviser**") for a period for two years within two weeks 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 Compliance Adviser. The Compliance Adviser shall be accountable to the Audit Committee of the Company.

The Listing Committee, however, is given to understand that the Company has already appointed or would soon be appointing both an Adviser and a Compliance Adviser. The Listing Committee reserves the right to make the above directions should those appointments not be made.

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