



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

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

18 September 2013

**The Listing Committee of The Stock Exchange of Hong Kong Limited (the “Listing Committee”) censures:**

- (1) Dream International Limited (the “Company”) (Stock Code: 1126) for its breach of the then Rule 13.09(1) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Exchange Listing Rules”), which required an issuer to disclose, as soon as reasonably practicable, any information which (a) was necessary to enable shareholders and the public to appraise the position of the group; (b) was 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.**

**The Listing Committee further censures the following executive directors of the Company (the “EDs”):**

- (2) Mr Kyoo Yoon Choi (“Mr Choi”);**
- (3) Mr Young M Lee (“Mr Lee”);**
- (4) Mr James Chuan Yung Wang (“Mr Wang”); and**
- (5) Mr Hyun Ho Kim (“Mr Kim”),**

**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 Exchange Listing Rules in failing to use best endeavours to procure the Company’s Exchange Listing Rule compliance (the “Undertaking”).**

On 6 August 2013, the Listing Committee conducted a hearing into the conduct of, among others, the Company and the EDs in relation to their obligations under the Exchange Listing Rules and the Undertakings.

### **Facts**

On 16 November 2009, the Company announced the receipt of an order of US\$18 million from a customer in Brazil (“**Customer**”) for the production and supply of plush stuffed toys. The US\$18 million revenue was booked in the Company’s 1H2010 accounts for the six months ended 30 June 2010; and was one of the main reasons for the significant profit increase in 1H2010 and 2010.

On 7 October 2010 after trading hours, the Company announced (a) its receipt of a further order of US\$30.15 million (“**Order**”) for its products from a customer in Brazil (the same Customer), and (b) expected delivery of the Order from January to July 2011. On 8 October 2010, the closing price of the Company’s shares rose 20.16 per cent, from \$1.29 on 7 October to \$1.55, and the trading volume was 10.3 times 10-day average.

In the 7 October 2010 announcement the Company stated “The Company is currently expecting to supply the goods from January to July 2011”.

The Company’s 2010 Results published on 25 March 2011 stated that “*the Group successfully secured another sizeable purchase order from the same customer in the second half year and is expected to ship a further lot of products by 2011*”.

On 28 March 2011, at a meeting with a securities analyst, Mr Lee informed the analyst of the delay or possible delay regarding delivery of the Order.

On 9 August 2011 after trading hours, the Company published a profit warning announcement (“**PWA**”) stating that the Group expected to record a considerably lower profit for 1H2011 compared to 1H2010 mainly due to a decrease in sales. It also disclosed the delay in the shipment of the Order (“**Delay**”) and that no delivery to the Customer had taken place in 1H2011.

On 10 August 2011, the closing price of the Company’s shares dropped 20.59 per cent from \$0.68 on 9 August to \$0.54, and the volume of trading was 6.6 times 10-day average.

On 26 August 2011, the Company published its 1H2011 Results reporting \$25.5 million profit, 67 per cent decline from \$76.1 million profit in 1H2010.

Throughout 1H2011 since January 2011, the Company had been receiving information from the Customer about the Delay. The EDs received weekly sales reports and quarterly consolidated management accounts. These records did not reflect delivery to the Customer or sales resulting from the Order. Despite their knowledge of the Delay and its potential adverse impact on the Company’s 1H2011 Results, the Company did not publish the PWA until 9 August 2011.

## **Exchange Listing Rule requirements**

Unless otherwise stated, reference to Rule 13.09 in this news release refers to the rule in force in 2011.

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

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

## **Listing Committee's findings of breach**

The Listing Committee considered the written and oral submissions of the Listing Division, the Company and the directors and concluded, among other things, as follows:

### Company's breach of Rule 13.09

The Company was required but failed to publish an announcement as soon as reasonably practicable disclosing the adverse impact on the Company's 1H2011 Results (including a 67 per cent drop in profit) as a result of delays in the completion of a substantial order. The Company breached Rule 13.09(1).

The Customer's earlier order for US\$18 million was a significant factor driving the Company's robust 1H2010 and 2010 financial performance. The market was informed of the Company's receipt of the Order for an even more substantial value of US\$30.15 million with expected shipment between January and July 2011. All this was information in the public domain. They fed market expectation that (a) a bulk of the revenue and profit from the Order would be booked into and would boost the Company's 1H2011 Results; and (b) the entire amount would boost the Company's 2011 Results. This was consistent with and reflected in the analyst reports on the Company published in 1H2011, which expected growth in the Company's 1H2011 revenue and profit and not a significant performance decline in 1H2011 as was actually experienced.

The Customer had been informing the Company of the Delay since January 2011. The EDs had knowledge at all material times that no products had been delivered to the Customer in the period. The gap between market expectations and facts known to the Company which adversely affected 1H2011 actual performance was significant.

The Listing Committee therefore concluded that the Delay surrounding the performance of the Order and their adverse impact on the Company's 1H2011 performance (including a 67 per cent drop in profit) was discloseable under Rule 13.09.

### When Rule 13.09(1) obligation arose

The Listing Committee concluded that the Company's disclosure obligation arose during the six month reporting period as the delay continued and at the latest by May 2011.

The FY2010 Results disclosed that the increase in profit in 2010 was partly attributable to the Customer's earlier order of US\$18 million; and continued to refer to the Order subsequently received. In the absence of any disclosure of the facts concerning the performance of the Order, the market was entitled to take it that the Order had been executed (with deliveries commencing in January 2011 and continuing); and that the bulk would be delivered, and revenue generated from those deliveries would be booked in 1H2011 Results.

By an email of 12 May 2011, the Company informed the Customer that if the Customer *"cannot take this order within this year and need to delay to next year ..."*. This showed real concern that the Order would not be performed within the full year 2011, let alone 1H2011.

### Inadequate Internal Controls

The Listing Committee also concluded that the Company's internal controls were inadequate to ensure Rule 13.09 compliance:

- (1) The designation of Mr Lee to deal with compliance issues and the complete reliance on Mr Lee, with the sole assistance of the Company Secretary, to be alerted to and identify Rule implications did not constitute adequate internal controls.
- (2) Whilst weekly sales data could be one useful performance indicator, they captured only topline items (sales/revenue information). This did not equip the EDs to vigilantly monitor the Company's financial and business performance and handle Rule compliance arising from any significant performance changes.
- (3) No consolidated monthly management accounts were prepared and circulated to any director.
- (4) Whilst consolidated quarterly management accounts were prepared, they were circulated to the EDs only. There was no Board meeting convened to discuss 1Q2011 performance as reflected in the 1Q2011 accounts.
- (5) There was no procedure in place to monitor or collate analysts and media reports on the Company's performance and prospects to gauge market expectation of performance.

### EDs' breach of the Undertaking

By reason of the facts and circumstances outlined above, the Listing Committee found that each of the EDs breached his Undertaking to use his best endeavours to procure the Company's compliance with Rule 13.09 in that:

- (1) having knowledge of the Delay and its adverse impact on the Company's 1H2011 Results at the material time referred to above, they failed to procure the publication of the PWA as soon as reasonably practicable; and
- (2) they failed to establish or maintain adequate and effective internal controls by which Rule 13.09 compliance might be achieved.

### Regulatory Concern

The Listing Committee regarded the breaches in this matter as serious:

- (1) The Order was of great significance to the Company, to the extent that the Company announced the receipt of it in October 2010. However, the Company had delayed to update the market on setbacks of the performance of the Order, which would substantially impact upon the 1H2011 Results.
- (2) The 2010 Results, mentioning the Order, continued to fuel expectation of strong future performance rather than modify and manage market expectation with disclosure of the Delay.
- (3) With the disclosure of the Delay to a securities analyst, the Company ought to have ensured simultaneous disclosure to the market. It did not.
- (4) Over a period of several months when it became increasingly clear that the Order was not going to materialise in its anticipated form, there were a number of opportunities for the management of the Company to inform the shareholders. They did not.
- (5) From May 2011 to 9 August 2011 when the PWA was published, the average daily trading volume was about 1.13 million shares. Those shareholders/investors who bought or sold shares during that period were arguably trading on an uninformed basis in that they were unaware of the true financial position of the Company.
- (6) Since January 2011, the EDs were aware of the delays in the Order. In addition as the delays continued through the period the impact of the delays on the profit for the interim period together with the already disclosed concern with regard to the Japanese market following the earthquake should have been very clear. They had a number of opportunities to cause the Company to keep shareholders and investors informed, but chose to wait until 9 August 2011.
- (7) The conduct and lack of action of the EDs in this matter suggested a serious failure on their part, collectively and individually, to understand the Company's obligations and the actions required of them in due performance of their Undertakings as well as the

proper understanding of Rule 13.09 requirements. The EDs clearly breached their Undertakings.

### **Sanctions**

Having made the findings of breach stated above, and having concluded that the breaches are serious, the Listing Committee:

- (1) censures the Company for its breach of Rule 13.09; and
- (2) censures each of the EDs, namely, Mr Choi, Mr Lee, Mr Wang and Mr Kim for their respective breaches of the Undertakings.

Further, the Listing Committee directs as follows:

- (1) that the Company:
  - (a) retain an independent professional adviser satisfactory to the Listing Committee and/or the Listing Division (“**Adviser**”) to conduct a thorough review of and make recommendations to improve the Company’s internal controls to ensure compliance with current Rule 13.09 and inside information disclosure (under the Securities and Futures Ordinance), both effective on 1 January 2013, within two weeks from the date of publication of this News Release; and provide the Listing Division with the written report of the Adviser containing such recommendations within two months from the publication of this News Release. The Company is to submit the proposed scope of retainer to the Listing Division for comment before appointment of the Adviser;
  - (b) furnish the Listing Division with the Adviser’s written report of the Company’s full implementation of the Advisers’ recommendations within a further period of two months; and
  - (c) appoint an independent professional adviser satisfactory to the Listing Division on an ongoing basis for consultation on compliance with the Exchange Listing Rules (“**Compliance Adviser**”) for a period for two years within two weeks from the publication of this News Release. The Company is to submit the proposed scope of retainer to the Listing 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 EDs, who are all current directors of the Company, to attend 24 hours of training on Exchange Listing Rule compliance, director’s duties and corporate governance matters together with 4 hours on (a) current Rule 13.09 compliance and (b) inside information disclosure (under the Securities and Futures Ordinance) both effective on 1 January 2013 provided by the HKICS, HKIoD or other course providers approved by the Listing Division, to be completed within 90 days from the publication of this News Release. The Company to provide the Listing Division with the training provider’s written certification of full compliance with this training requirement by these directors within two weeks after their full compliance with the training requirement.

- (3) The Company is to publish an announcement to confirm that each of the directions in sub-paragraphs (1) to (2) above has been fully complied with within two weeks after the respective fulfillment of each of those directions. The last announcement required to be published under this requirement is to include the confirmation that all directions in sub-paragraphs (1) to (2) above have been complied with.
- (4) The Company is to submit drafts of the announcements referred to in sub-paragraph (3) above for the Listing Division's comment and may only publish the announcements after the Listing Division has confirmed it has no further comment on them.

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