



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)
(「聯交所」)

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

9 July 2014

Unless otherwise stated, reference to Rule 13.09 in this news release refers to the rule in force at the material time to 31 December 2012.

The Listing Committee of The Stock Exchange of Hong Kong Limited (“Listing Committee”) criticises:

- (1) Changfeng Axle (China) Company Limited (“Company”) (Stock Code: 1039) for breaching (a) Rules 13.09(1) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Exchange Listing Rules”), which required an issuer to disclose, as soon as reasonably practicable, any information which (i) was necessary to enable shareholders and the public to appraise the position of the group; (ii) was necessary to avoid the establishment of a false market in the issuer’s securities; or (iii) might be reasonably expected materially to affect market activity in and the price of its securities; and (b) Rule 3A.23(1) of the Exchange Listing Rules which requires an issuer to consult and, if necessary, seek advice from, its compliance adviser during the fixed period as defined on a timely basis before publishing any regulatory announcement.

The Listing Committee further criticises the following current executive and non-executive directors of the Company (“EDs” and “NED”):

- (2) Mr Wong Kwai Mo (“Mr Wong”, an ED);
- (3) Mr Lai Feng Cai (“Mr Lai”, an ED);
- (4) Ms Wu Ching (“Ms Wu”, an ED); and
- (5) Ms Dong Ying, Dorothy (“Ms Dong”, an NED)

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 their best endeavours to procure the Company’s Exchange Listing Rule compliance (“Undertaking”).

(The EDs and NED are collectively referred to as the “Relevant Directors”).

On 29 April 2014, the Listing Committee conducted a hearing into the conduct of, amongst others, the Company and the Relevant Directors in relation to their obligations under the Exchange Listing Rules and the Undertakings.

Facts

The Company and its business

The Company was listed on the Exchange on 24 September 2010. From the Company's listing until 27 April 2012, CCBI International Capital Limited ("CCBI") was the Company's compliance adviser.

The Company, together with its subsidiaries ("**Group**"), was at the material time, and is, principally engaged in the manufacture and sale of axle assemblies and axle components in the People's Republic of China to heavy duty trucks and medium duty trucks, and providing after-sales services. It had significant business growth for the 2010 financial year ("**FY2010**") and recorded a net profit of RMB285.7 million. The listing prospectus and the FY2010 annual report showed that the management was optimistic about the Company's future business performance.

Preparation of management accounts and performance forecasts

The Group's consolidated monthly management accounts ("**Monthly Accounts**") were prepared within the first 15 days of each following month. The Head of the Finance Department would circulate them to Mr Wong (the Chairman), Mr Lai (the CEO) and Mr Wilson Chan (Chief Financial Officer and Company Secretary) ("**CFO**") (together, the "**Management**") by hand and to Ms Dong by email. They had ad hoc discussions on the Company's performance usually once a month. Although Ms Wu as an ED did not receive the Monthly Accounts nor join the discussions, she would discuss with her husband (Mr Wong) and Mr Lai about the Company's performance on a regular basis which they claim to have found to be more effective.

The other directors of the Company did not receive any of the Monthly Accounts (this practice changed after 1 April 2012), and were not informed of the monthly financial performance of the Group.

The Company prepared an annual budget forecast at the beginning of each financial year. The original budget for the 2011 financial year ("**FY2011**") was approved at the Board meeting on 18 February 2011.

Profit warning announcement of 21 July 2011 ("**Interim PWA**")

On 21 July 2011 before trading hours began, the Company published the Interim PWA stating that the net profit for the first six months ended 30 June 2011 ("**1H2011**") was expected to decline as compared with the corresponding period in 2010 ("**1H2010**") primarily due to the decrease in sales volume during 1H2011 as a result of the weak market for its products. The share price dropped from \$3.15 and closed at a low of \$2.39 (i.e. 24 per cent drop) on that day. The trading volume increased to 17.4 million shares, being 28.8 times the previous 10-day average.

CCBI's request for Monthly Accounts

On 17 August 2011, the CFO reported to Mr Lai orally after receiving CCBI's email regarding the request for the Monthly Accounts for review on a regular basis. However, Mr Lai was focusing on finalising the 1H2011 Results at that time and did not immediately arrange for the Head of the Finance Department to follow up on the request. According to CCBI, they made that request in view of the publication of the Interim PWA, and they had followed up with the CFO through telephone requesting the same.

1H2011 results announcement (“1H2011 Results”)

On 30 August 2011, the Company published its 1H2011 Results. It reported financial deterioration as compared with 1H2010, including a 19.3 per cent drop in revenue, a 17.8 per cent drop in gross profit and a 21.5 per cent increase in selling and distribution costs, resulting in a 21.1 per cent drop in net profit to RMB116.4 million.

It further stated that while gross profit decreased by 17.8 per cent (from RMB224.1 million to RMB184.2 million), gross profit margin remained stable at 32.9 per cent (1H2010: 32.3 per cent) as the increment of cost was successfully transferred to the customers.

In respect of trade receivables, the Company highlighted that the increase in receivables from RMB390.5 million last year to RMB569.1 million was due to the extension of the credit line. The average turnover days also increased from 103 days for the last year to 156 days for 1H2011.

In terms of prospects, however, it only stated very generally that the Group sought to strengthen its leading position in the axle industry in China.

Analyst Report

On 5 September 2011, Daiwa Securities Capital Markets Co. Ltd. published an analyst report concerning the Company's 1H2011 Results (“**Analyst Report**”). It stated that the Group's financial performance in 1H2011 was much worse than expected. Based on the 1H2011 Results, it expected that for FY2011, the revenue and net profit would only be RMB1,013 million and RMB165 million respectively, i.e. 23.2 per cent and 42.2 per cent less than that of FY2010, with gross profit margin maintained at 30.7 per cent.

Revised Budget

In view of the Interim PWA and the 1H2011 Results, the Board requested the Management to revise the original budget in order to assess the business profitability for the 4th quarter of 2011 (“**4Q2011**”).

On 22 September 2011 the Management prepared a revised budget (“**Revised Budget**”). The revision covered July to December (“**2H2011**”) although it was done in September. It was circulated to the Board on that day:

FY2011 Revised Budget (Jul-Dec) (Extracted & Cumulative) (RMB'000)	Jul	Aug	Sep	Oct	Nov	Dec	FY2011 Results	FY2010 Results
Revenue	628,961	702,281	796,734	918,963	1,047,519	1,188,251	920,681	1,318,709
Gross Profit	198,557	207,939	225,715	263,239	302,706	345,911	252,093	439,330
Gross Profit Margin	31.6%	29.6%	28.3%	28.6%	28.9%	29.1%	27.4%	33.3%
Impairment Loss	-	-	-	-	-	-	(48,700)	-
Net Profit	115,588	115,587	122,379	145,654	170,703	194,513	59,646	285,675

2H2011 Monthly Accounts

The table below sets out the key items in the Monthly Accounts (cumulative results from 1 July 2011). The Management and Ms Dong received the Monthly Accounts for October and November 2011 on 11 November and 12 December 2011 respectively.

(RMB'000)	2011								FY2011 Results	Change (%)	FY2010 Results
	1H	Jul	Aug	Sep	Oct	Nov	Dec	Dec Revised			
Revenue	560,225	628,961	695,423	768,095	806,671	852,299	910,824	910,824	920,681	-30.2%	1,318,709
Gross Profit	184,222	198,557	207,938	217,604	223,140	230,017	241,117	241,192	252,093	-42.6%	439,330
Gross Profit Margin	32.9%	31.6%	29.9%	28.3%	27.7%	27%	26.5%	26.5%	27.4%	5.9%	33.3%
Selling & Distribution	(13,125)	(18,482)	(20,353)	(22,525)	(24,187)	(27,452)	(29,979)	(26,108)	(26,044)	16.3%	(22,393)
Administrative	(25,450)	(34,939)	(39,320)	(44,565)	(49,012)	(54,348)	(60,650)	(77,157)	(63,851)	31.6%	(48,510)
Impairment Loss	-	-	-	-	-	-	-	-	(48,700)	N/A	Nil
Finance Costs	(10,415)	(11,554)	(13,928)	(16,172)	(18,701)	(21,518)	(24,572)	(24,851)	(25,900)	14.9%	(22,534)
Net Profit	116,404	121,805	122,599	122,879	121,184	118,951	123,624	106,802	59,646	-79.1%	285,675
Monthly Net Profit	-	5,401	794	280	(1,695)	(2,233)	4,673	(12,149)			

On 13 January 2012, the Management and Ms Dong received the Monthly Accounts for December 2011 and the consolidated management accounts for FY2011 (“**FY2011 Accounts**”).

On 31 January 2012, the revised FY2011 Accounts were available and passed to the Company’s auditors. Next day, the Management met with the auditors. The auditors raised concern on the recoverability of the receivables. They discussed whether a provision for trade receivables was needed. However, the Company needed more time to assess the amount.

Board Meeting on 10 February 2012

On 10 February 2012, the Board first discussed the revised FY2011 Accounts and considered that a profit warning announcement might be required. The Board was also aware that the recovery rate of the trade receivables was “*unexpectedly low*” and that the total outstanding balance up to 31 December 2011 was RMB532 million (out of which RMB240 million were aged over 180 days). Although there was no amount of provision for trade receivables suggested, the Board expected that the overall amount of trade receivables would be less in March 2012. The Company also orally consulted its legal advisers, Sidley Austin, on that day.

Preliminary assessment on provision for trade receivables (“Impairment Loss”)

By 24 February 2012, the CFO had a preliminary assessment of the Impairment Loss at RMB67.24 million (reviewed by Mr Lai) and provided that figure to the auditors.

In late February 2012 the Company orally consulted Sidley Austin again.

On 28 February 2012, CCBI approached the Company regarding the timetable for publishing the FY2011 results announcement (“**FY2011 Results**”). The Company did not take that opportunity to inform CCBI of its intention to publish a profit warning announcement.

As at 29 February 2012, the Company recovered a further RMB6.23 million receivables proposed for impairment under the preliminary assessment. The amount of provision under the preliminary assessment on 24 February 2012 was therefore reduced from RMB67.24 million to RMB61.01 million.

Preparation of profit warning announcement

The Company started preparing a profit warning announcement on 1 March 2012 pending the finalisation of the amount of the Impairment Loss which was finalised on 14 March 2012.

On 15 March 2012 at late evening, the CFO informed CCBI of the Company’s decision to publish a profit warning announcement and explained to them the reasons for doing so. He provided the draft announcement to CCBI for their comment.

Profit warning announcement

On 16 March 2012 at 7.53am, the Company published the profit warning announcement (“**PWA**”) stating that its net profit for FY2011 would record a significant decline as compared to FY2010 due to: (a) the decrease in sales volume of its products as a result of the weak market of medium and heavy duty trucks; (b) the decrease in unit selling price of its products; and (c) the increase in allowance for trade receivables. On that day, the Company’s share price dropped about 24 per cent from \$1.33 to a low at \$1.01 and closed at 22.5 per cent down at \$1.03. The trading volume (61.6 million shares) was 3.29 times the past 10-day average.

FY2011 Results

On 30 March 2012 after trading hours, the Company published its FY2011 Results which showed significant deterioration as compared with FY2010, including: (a) net profit dropped 79.1 per cent from RMB285.7 million to RMB59.6 million; (b) revenue decreased 30.2 per cent from RMB1,318.7 million to RMB920.7 million; (c) gross profit dropped 42.6 per cent from RMB439.3 million to RMB252.1 million, leading to the gross profit margin decreased from 33.3 per cent to 27.4 per cent; (d) selling and distribution expense, administrative expense and finance costs altogether increased 24 per cent from RMB93.4 million to RMB115.8 million; and (e) the Impairment Loss of RMB48.7 million (none in FY2010). On the next trading day (2 April 2012), the share price dropped 1.25 per cent from \$0.8 to \$0.79 at close. The trading volume (3.57 million shares) was about 0.51 time the past 10-day average.

Exchange Listing Rule requirements

Rule 13.09(1)

Rule 13.09(1) 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 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 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 was likely to lead to substantial price movement.

Rule 3A.23(1)

Under Rule 3A.23(1), an issuer must consult and, if necessary, seek advice from its compliance adviser during the fixed period as defined (from the date of its first listing to the issue of its first full year annual results) on a timely basis before publishing any regulatory announcement.

Listing Committee's findings of breach

The Listing Committee considered the written and oral submissions of the Listing Department, the Company and the Relevant Directors and concluded as follows:

Company's breach of Rule 13.09(1)

The Company was required but failed to publish an announcement disclosing the significant deterioration in its financial performance during 2H2011 as soon as reasonably practicable in breach of Rule 13.09(1).

Information in the public domain

FY2011 was the Company's first full-year financial results since it was listed on 24 September 2010. The FY2010 annual report still painted a rosy picture of its business prospects for FY2011. Neither the Interim PWA nor the 1H2011 Results or the interim report of the Company for 1H2011 stated that the Company had also implemented, or was about to implement, unit selling price reduction which might potentially further impact on its financial performance for 2H2011.

Although the net profit for 1H2011 dropped 21.1 per cent when compared with 1H2010, the Company was still making a profit of RMB116.4 million. The revenue, gross profit and net profit for 1H2011 were all no less than 40 per cent of the respective figures for FY2010. The gross profit margin only dropped less than 1 per cent.

While the investing public might have expected the causes leading to the 1H2011 deterioration to continue into 2H2011, they would not have expected that the 2H2011 results would significantly deviate from those of 1H2011 in the absence of further updates.

Significant deterioration in the Group's financial performance during 2H2011 not within market expectation

The Group's financial performance significantly deteriorated during 2H2011. Not only revenue (RMB360.5 million) was only 27.3 per cent of that of FY2010 (RMB1,318.7 million), gross profit was only 15.4 per cent of that of FY2010, resulting in a drastic drop in gross profit margin to 18.8 per cent. This led to an overall net loss of RMB8.06 million for 2H2011 after deducting various costs and expenses (without taking into account the Impairment Loss which would have aggravated the size of the loss).

The Company recorded a net profit of RMB116.4 million for 1H2011, but incurred a loss of RMB56.8 million (including the Impairment Loss) or of RMB8.06 million (without the Impairment Loss) in 2H2011. The net profit for FY2011 was therefore only RMB59.6 million (taking into account the Impairment Loss) or RMB108.3 million (without the Impairment Loss), which, in both scenarios, were less than that of 1H2011 (i.e. RMB116.4 million). The results underperformed the Analyst Report's estimates by -9.1 per cent in revenue and -63.9 per cent in net profit (including the Impairment Loss) or -34.3 per cent (excluding the Impairment Loss).

The deterioration in the Company's financial performance during 2H2011 was significant and not within market expectation based on information in the public domain at the material time.

Without a timely warning with the necessary material information, the market would reasonably have expected that the Company's financial performance for 2H2011 would not significantly deviate from the 1H2011 Results.

The adverse market reaction as evidenced by the significant trading movements in the Company's shares on 16 March 2012 after the PWA was published supported the Listing Committee's finding that such information (i.e. the fact that there was further significant financial deterioration for 2H2011 due to the reasons set out in the PWA even without knowing the exact figures and notwithstanding the Interim PWA made) was price-sensitive and not within market expectation.

Deterioration discloseable under Rule 13.09(1)

The Listing Committee therefore concluded that the significant further deterioration during 2H2011 was discloseable under Rule 13.09(1).

When Rule 13.09(1) obligation arose

The Listing Committee noted the following and concluded that the Company's disclosure obligation arose on or the latest by 13 January 2012. The Group's financial performance significantly deteriorated during 2H2011 even without taking into account the Impairment Loss. The Company was therefore under an obligation to disclose such significant further deterioration.

1. 11 November 2011: when the Management and Ms Dong received the Monthly Accounts for October 2011:
 - (i) since July to October 2011 the Group was only able to record a cumulative net profit of RMB4.78 million, which was only 4.1 per cent of the 1H2011 net profit (RMB116.4 million) or 24.6 per cent of the Group's average monthly net profit of RMB19.4 million for 1H2011;

- (ii) October 2011 recorded a monthly net loss of RMB1.7 million;
 - (iii) the gross profit margin continued to drop for four months from 32.9 per cent for 1H2011 to 27.7 per cent for October 2011; and
 - (iv) the Group's year-to-date net profit up to October 2011 (RMB121.2 million) still considerably lagged behind the Revised Budget (RMB145.7 million) and was only about 42.4 per cent of the Group's net profit for the previous year (RMB285.7 million). The Group would therefore be unlikely to make up the difference within the following two months.
2. 12 December 2011: when the Monthly Accounts for November 2011 were circulated to the Management and Ms Dong. It recorded a net loss of RMB2.23 million for that month which was the second consecutive month in which it incurred a monthly net loss. The Group's cumulative net profit from July to November 2011 was RMB2.55 million which was only 2.2 per cent of the 1H2011 net profit. The year-to-date net profit up to November 2011 (RMB119 million) was only about 41.7 per cent of the Group's net profit for FY2010. The differences between the year-to-date actual business performance and the Revised Budget were also widened. The trade receivables collected during September and October 2011 were RMB73.7 million and RMB45.4 million respectively and were significantly below its own target (October: RMB156 million; November: RMB147.5 million (revised to RMB100 million on 1 October 2011)).
 3. 13 January 2012: when the FY2011 Accounts were circulated to the Management and Ms Dong which showed that the net profit was RMB123.6 million (in the absence of a tentative figure on the Impairment Loss).
 4. 10 February 2012: when the Board first discussed the revised FY2011 Accounts and considered that a profit warning announcement might be required. The revised FY2011 Accounts showed, among other things, that a revenue drop of 30.9 per cent; gross profit drop of 45.1 per cent; and net profit drop of 62.6 per cent (to RMB106.8 million) before the Impairment Loss figure was available. The Board was also aware that the recovery rate of the trade receivables was "*unexpectedly low*".
 5. 24 February 2012: when there was a preliminary assessment of the Impairment Loss amount (RMB67.24 million). If that preliminary figure was to be taken into account based on the revised FY2011 Accounts, the Company would have recorded a net profit of about RMB39.6 million which was only about 13.8 per cent of the FY2010 figure.
 6. Late February 2012: when the Company consulted Sidley Austin again. Even without taking into account the Impairment Loss, the Group would have only RMB106.8 million net profit for FY2011, which was 62.6 per cent less than that of FY2010, and that the Impairment Loss would only aggravate the profit decline.

7. 1 March 2012: when the Company started preparing the draft PWA. The Board was aware of (a) the results of the preliminary assessment of the Impairment Loss (RMB67.24 million) which could only aggravate the Group's profit decline; (b) the progress and difficulty in collecting the trade receivables between September 2011 to February 2012; (c) the legal advice of Sidley Austin on 10 February and in late February 2012; and (d) the PWA which would not specify a figure for the Impairment Loss but merely state that the FY2011 Results were expected to decline significantly as compared with FY2010.

Although the Company consulted Sidley Austin on 10 February and in late February 2012 again and was advised accordingly, the Company did not provide any financial information such as the Monthly Accounts or the FY2011 Accounts (or its revised version) to Sidley Austin for the purpose of taking advice.

Company's breach of Rule 3A.23(1)

As the PWA was issued within the fixed period, the Company was required but failed to consult its compliance adviser, CCBI, in a timely manner before publishing the PWA in breach of Rule 3A.23(1).

The Board first considered that a profit warning announcement might be required on 10 February 2012. The Company then consulted Sidley Austin on that day and again in late February 2012 concerning the issuance of such an announcement. On 28 February 2012, CCBI approached the Company regarding the timetable for publishing the FY2011 Results. The Company did not take those opportunities to consult or take advice from CCBI.

Although the Company started preparing the PWA on 1 March 2012, it did not consult CCBI until in the late evening of 15 March 2012, when the PWA was to be published the following morning. The action taken by the Company on 15 March 2012 could in no way be considered "*on a timely basis*", especially when CCBI were not involved in preparing the PWA or regularly kept informed of the Company's financial performance before.

Although the Company had already consulted Sidley Austin on two occasions since 10 February 2012, consultation with its legal advisers did not absolve the Company from its obligation to consult CCBI under Rule 3A.23(1).

Relevant Directors' breach of the Undertakings – concerning Rule 13.09(1)

The Listing Committee found that the Relevant Directors breached their Undertakings.

At the material time, the EDs were responsible for daily management and operation of the Company. While the NED was not responsible for the day-to-day business operation, she had been involved in monitoring the monthly business performance. The Relevant Directors were aware of the Company's financial deterioration in 2H2011 (which was reflected in the Monthly Accounts). They had clear responsibility to (a) closely and carefully monitor the Company's business and financial performance; (b) consider and assess the Company's Rule 13.09(1) obligations; (c) escalate the issues to the Board for consideration; and (d) if necessary, cause the Company to consult external professional advisers (including CCBI) and/or the Exchange in a timely manner to ensure that the Company complied with Rule 13.09(1).

Since 11 November 2011 after receipt of the Monthly Accounts for October 2011, “*best endeavours*” should have required the EDs and NED to:

1. Report the poor collection progress in respect of trade receivables to the Board before the Board meeting on 10 February 2012;
2. Bring the significant further financial deterioration for 2H2011 and the FY2011 Accounts (which were first available to them on 13 January 2012) to the attention of the full Board for information, consideration and discussion on Rule implications and compliance on 13 January 2012 or shortly afterwards;
3. Procure the Company to consult external professional advisers (including CCBI) or the Exchange before 10 February 2012 as to the Company’s Rule 13.09 obligations arising from the financial deterioration; and
4. Take steps to procure disclosure under Rule 13.09(1) earlier than they did with publication of the PWA.

As for Mr Lai, the CEO, with no justification, he failed to follow up on, or accede to, CCBI’s request on 17 August 2011 to provide them with its Monthly Accounts for monitoring the Group’s financial position for 2H2011.

Relevant Directors’ breach of the Undertakings – concerning Rule 3A.23(1)

Notwithstanding ample opportunities, the Relevant Directors did not procure the Company to consult or seek advice from CCBI in respect of the issue of the PWA under Rule 3A.23(1) until the late evening on 15 March 2012 when it had already been decided that the PWA would be issued before trading hours on 16 March 2012.

The Listing Committee concluded that the Relevant Directors also failed to use their best endeavours to procure the Company to comply with Rule 3A.23(1).

Regulatory Concern

The Hong Kong securities market is disclosure-based. Investors and shareholders rely on information in the public domain to make their investment decisions. Timely disclosure by listed issuers of relevant information of their financial performance is thus crucial to enable shareholders and investors to make informed investment decisions.

The Listing Committee regarded the breaches in this matter serious:

1. The following signals indicating significant further deterioration were obvious and significant and discoverable during 2H2011 or shortly after the year-end based on the Monthly Accounts and FY2011 Accounts (and the revised version) but the PWA was only made on 16 March 2012:

- (a) The decreasing trend in revenue (-35.7 per cent) and gross profit (-63.2 per cent) during 2H2011 as compared with 1H2011, resulting in a net loss of RMB8.06 million for 2H2011 as compared to a net profit of RMB116.4 million for 1H2011;
 - (b) The year-to-date net profit up to October, November and December 2011 was persistently way behind the Revised Budget, the Analyst Report estimates and the actual FY2010 figures;
 - (c) The trade receivables collection progress (RMB532 million to be collected as at 31 December 2011, out of which RMB240 million were aged over 180 days) (while the average credit period in 2010 was only 103 days); and
 - (d) The financial deterioration during 2H2011 suggested that the Group's core business significantly deteriorated even before taking into account the Impairment Loss.
2. The Company was at that time a newly listed company within the prescribed fixed period for which CCBI had been retained as its compliance adviser required by the Exchange Listing Rules.
 3. CCBI took the initiative to request the Company to provide the Monthly Accounts for 2H2011 for its review but the Company did not provide them.
 4. The delay in disclosing the further significant deterioration for 2H2011 was at least 2 months and 3 days.
 5. During the period of delay, there were a number of occasions on which the Relevant Directors could have taken steps to inform the shareholders and investors or CCBI. They did not do so.
 6. Between the dates when the disclosure obligation first arose (on or the latest by 13 January 2012) and when the PWA was published (on 16 March 2012), there was trading in the Company's shares. The shareholders/investors who bought or sold shares during that period did not trade on an informed basis in that they were unaware of the true financial position of the Company.
 7. The conduct and lack of action shown by the Relevant Directors 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 personally in due performance of their Undertakings to the Exchange. The Relevant Directors breached their Undertakings in the view of the Listing Committee.

Sanctions and Directions

The Listing Committee referred to the "*Statement on principles and factors in determining sanctions and directions imposed by the Disciplinary Committee and the Review Committee*" attached to the new disciplinary procedures adopted with effect from 13 September 2013. In considering the appropriate sanctions, it had particularly taken into account the following factors in making its decision:

1. the nature and the seriousness of the breaches;
2. the circumstances and manner in which the conduct giving rise to the breaches were committed;
3. the conduct of the Relevant Directors;
4. the market impact to investors as a result of the breaches;
5. the internal controls maintained;
6. the previous clean compliance record of the Company and the Relevant Directors; and
7. the length of the delay in making disclosure.

Having made the findings of breaches stated above and concluded that the breaches were serious, and having considered the above factors, the Listing Committee decided to:

- (1) criticise the Company for breaching Rules 13.09(1) and 3A.23(1); and
- (2) criticise each of the EDs and the NED, namely Mr Wong, Mr Lai, Ms Wu and Ms Dong for their respective breaches of their Undertakings.

Further, the Listing Committee directs as follows:

- (3) The Company is to appoint an independent Compliance Adviser (“**Compliance Adviser**”) (as defined in Chapter 3A of the Exchange Listing Rules namely, an entity licensed or registered under the Securities and Futures Ordinance (“**SFO**”) for Type 6 regulated activity and permitted under its licence or certificate of registration to undertake work as a sponsor) satisfactory to the Listing Department on an ongoing basis for consultation on compliance with the Exchange Listing Rules for two years within one month from the publication of this news release. It is to submit the proposed scope of retainer to the Listing Department for comment before such appointment. The Compliance Adviser shall be accountable to the Company’s Audit Committee. Following appointment of the Compliance Adviser, any changes necessary and any administrative matters which may emerge in the management and operation of the direction of appointment of Compliance Adviser during the period of appointment are to be directed to the Listing Department for consideration and approval. The Listing Department should refer any matters of concern to the Listing Committee for determination.
- (4) The scope of retainer of the Compliance Adviser is to include, but is not limited to, the requirements that during the two-year retainer period, the Compliance Adviser is to, as part of its responsibilities and obligations, be notified of and attend every Board meeting to be held by the Company, and actively advise the Company and its directors on Rule compliance.

- (5) During the two-year period when the Compliance Adviser is retained by the Company, the Company is to:
- (a) Provide the Compliance Adviser with all notices of Board meetings and all documents to be tabled and/or considered at Board meetings; and
 - (b) Provide half-yearly written reports to the Listing Department, endorsed by all directors, confirming that (i) the Company has provided the Compliance Adviser with notices of all Board meetings and all documents to be tabled or considered at such Board meetings; (ii) the Compliance Adviser has attended all Board meetings held by the Company during the period; and (iii) the Company has kept a written record of the Compliance Adviser's advice to the Company and action taken by the Company following receipt of such advice to ensure Rule compliance. Such reports are to be delivered within two weeks of the end of every six-month interval from the commencement date of engagement of the Compliance Adviser. The Compliance Adviser is to give signed written endorsement of the Company's half-yearly reports regarding (ii) above.
- (6) Within the two-year period of the Compliance Adviser's appointment, the Compliance Adviser is to:
- (a) Actively participate in the consultation as mentioned in (3) above, and provide evidence in support to the Listing Department at the same time as the Company's provision of evidence of consulting the Compliance Adviser; and
 - (b) Provide half-yearly written reports to the Listing Department, endorsed by all directors of the Company, providing details and evidence of his discharge of duty under Rule 3A.24 to ensure that the Company complies with the Exchange Listing Rules. Such reports are to be delivered within two weeks of the end of every six-month interval from the commencement date of engagement of the Compliance Adviser.
- (7) Each of the EDs is to (a) attend 24 hours of training on Exchange Listing Rule compliance, director's duties and corporate governance matters including 4 hours on (i) current Rule 13.09 compliance and (ii) inside information disclosure under the SFO both effective on 1 January 2013 provided by the Hong Kong Institute of Chartered Secretaries, Hong Kong Institute of Directors or other course providers approved by the Listing Department, to be completed within 150 days from the publication of this news release; and (b) provide the Listing Department with the course provider's written certification of compliance within two weeks after training completion.
- (8) The Company is to publish an announcement to confirm full compliance with each of the directions set out in (3), (5) and (7) above 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 (3), (5) and (7) above have been complied with. The Company is to submit drafts of the announcements for the Listing Department's comment and may only publish the announcements after the Listing Department has confirmed it has no further comment on them.

The Listing Committee is satisfied that Ms Dong is familiar with the Exchange Listing Rules and therefore decides not to impose the training direction on Ms Dong.

For the avoidance of doubt, the Exchange confirms that the above sanctions apply only to the Company and the Relevant Directors identified above and not to any other past or present members of the Company's Board of Directors.