



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)

6 January 2016

**THE LISTING COMMITTEE OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “LISTING COMMITTEE”) (A) CENSURES NEW SPORTS GROUP LIMITED (FORMERLY KNOWN AS SINOCOM SOFTWARE GROUP LIMITED) (STOCK CODE 299) (THE “COMPANY”); AND (B) CENSURES OR CRITICIZES (AS THE CASE MAY BE) CURRENT DIRECTOR MR WANG ZHIQIANG AND FIVE FORMER DIRECTORS OF THE COMPANY NAMELY, MR LI JIAN, DR SHI CHONGMING, MR KOTOI HIROFUMI, MR WANG XUBING AND MR SIU KWOK LEUNG (THE “RELEVANT DIRECTORS”) FOR BREACHING THE EXCHANGE LISTING RULES.**

**A series of advances involving substantial amounts were provided at subsidiary level. They had the ostensible aim and ultimate effect of provision of financial assistance to the ultimate controlling shareholder of the Company structured in such a way that the financial assistance was concealed.**

**The Stock Exchange of Hong Kong Limited (the “Exchange”) takes a very serious view of the role of Mr Li Jian (“Mr Li”), a former executive director, who had responsibilities to the subsidiary and the ultimate controlling shareholder in the events. The Exchange considers that the facts as they have been found by the Listing Committee suggest that he may not be considered suitable to be a director of a listed company if he should make such an application in the future. The conduct of two other former directors, Dr Shi Chongming (“Dr Shi”) and Mr Kotoi Hirofumi (“Mr Kotoi”), also fell short of the standards expected of directors of listed companies.**

**It is imperative that robust internal controls are established, maintained and effectively observed and enforced by management without exception. A failure to do so exposes the Company and its shareholders to risks stemming from possible misapplication of corporate assets.**

**On 3 November 2015, the Listing Committee conducted a hearing into the conduct of the Company and the Relevant Directors in relation to their obligations under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Exchange Listing Rules” or “Rules”) and the Declaration and Undertaking with regard to Directors given to the Exchange in the form set out in Appendix 5-B to the Exchange Listing Rules to comply with the Exchange Listing Rules to the best of his ability and to use their best endeavours to procure the Company’s Rule compliance (collectively the “Undertakings”).**

## KEY FACTS

In June 2012, Mr Li and Mr Kotoi were appointed as executive directors (“ED”) of the Company, with Mr Kotoi also appointed as the CFO on 18 July 2012. Both were also directors and shareholders of SJI Inc (“SJI”), the ultimate controlling shareholder of the Company at the relevant time with Mr Li being also the President of SJI, and Mr Kotoi, a Vice President.

Dr Shi, an ED of the Company since 2004, was re-designated as non-executive director in July 2012. He and Mr Li were also directors of SinoCom Japan Corporation (“SinoCom Japan”), a subsidiary in which the Company had 92 per cent interest at the relevant time. The remaining 8 per cent was held by Dr Shi, also the President of SinoCom Japan.

With approval of Mr Li and Dr Shi as directors of SinoCom Japan, SinoCom Japan granted advances to three borrowers, SDI, Inc (“SDI”), Falcon, Inc (“Falcon”) and King Tech Corporation (“King Tech”) (collectively “Advances” or “Advances to Borrowers”). The Advances to Borrowers were made without knowledge or approval of the Board of the Company, without knowledge of all other directors of the Company, and operated similar to revolving credit facilities with drawdowns and repayments made between July 2012 and February 2013 as summarized below.

	Advances to SDI	Advances to Falcon (A) (B)		Advances to King Tech
Date of approval at SinoCom Japan board meeting	9 Jul 2012	1 Aug 2012	5 Oct 2012	1 Aug 2012
Agreement date	9 Jul 2012	15 Aug 2012	9 Oct 2012	15 Aug 2012
Maximum loan facilities approved ( <b>\$403m</b> )	JPY2,300m (\$196m)	JPY1,530m (\$130m)	JPY500m (\$43m)	JPY400m (\$34m)
Aggregate drawdown: ( <b>\$614m</b> )	JPY4,530m (\$386m) From 10.7.2012 to 4.1.2013	JPY1,525m (\$130m) From 16.8 to 14.9.2012	JPY460m (\$39m) 10.10.2012	JPY690m (\$59m) From 17.8 to 5.10.2012
Maximum exposure ( <b>\$385m</b> )	JPY2,180m (\$186m)	JPY1,525m (\$130m)	JPY460m (\$39m)	JPY350m (\$30m)

(Exchange rate adopted: JPY100 to HK\$8.52)

The maturity dates of the Advances (except Advance (A) to Falcon) were all 28 December 2012. On 28 December 2012 with approval of Mr Li and Dr Shi, the maturity dates were extended to 28 February 2013 (the “Extension”).

It transpired that between August 2012 and February 2013, SDI, Falcon and King Tech (the “Borrowers”) were also making loans to SJI as procured by Mr Li (the “Loans to SJI”) which also operated similar to revolving credit facilities.

In late 2012 upon auditors' alert, the Board of the Company became aware of the Advances to Borrowers and the Loans to SJI. In response to the Company's enquiries, Mr Li confirmed that the Borrowers were independent third parties, that he was not aware that the Borrowers were borrowing monies from SinoCom Japan when they were also lending to SJI (the "Statement" which Mr Li subsequently acknowledged to be his inadvertent mis-statement); and that he had no reason to believe any connection existed between the two.

Based on the information available at the time including Mr Li's confirmation above, on 30 January 2013, the Company published an announcement disclosing the Advances to SDI and Falcon and the Company's breach of Rule 13.13 and notifiable transaction rules.

Further information has since come to the attention of the Board of the Company including that a board meeting of SJI was held on 27 September 2012 (attended by Mr Li and Mr Kotoi as directors of SJI) which noted SJI's receipt of a loan from Falcon and its proposed use. Based on the information available at the time, by late March 2013, the Board concluded that the Advances to Borrowers and the Loans to SJI were related.

By a further announcement of 23 April 2013, the Company disclosed the Advances to King Tech; that SJI had borrowed various sums of money from the Borrowers; and that based on subsequently acquired information, *"the Board had reasons to believe that (i) Mr Li and Mr Kotoi, being the common directors of the Company and SJI, may have knowledge of the existence of some of the Advances to Borrowers as and when they and the Loans to SJI were created; and (ii) they may also have certain material information about the Loans to SJI. As a result, the Board concluded that the two are related. The Board considered that the Borrowers were deemed as connected persons of the Company and the Advances to Borrowers constituted connected transactions. The Company did not comply with the connected transaction rules."*

According to the Company's 2012 Annual Report, *"The Borrowers are entities that are significantly influenced by Mr Li, a director and key management of the Company. Mr Li has significant influence over the Borrowers evidenced by his involvement in negotiation, decision and arrangement of the Loans and full cooperation such as timing of drawdowns and repayments of the Loans by the Borrowers under Mr Li's directions."*

All sums due to SinoCom Japan under the Advances to Borrowers had been repaid on 28 February 2013.

The sources of funding of SinoCom Japan's Advances to Borrowers included JPY1,818 million cash proceeds received from the assets disposal by another subsidiary of the Company. On 1 August 2012, that subsidiary loaned to SinoCom Japan JPY1,800 million which were applied to fund the Advances of JPY1,260 million to Falcon on 16 August 2012; and the Advances of JPY340 million to King Tech on 17 August 2012.

The Company subsequently instructed a professional firm to investigate the Advances to Borrowers and the Loans to SJI. Key findings of the investigation disclosed by the Company included that: The investigation findings suggested that Mr Li was the “*initiator*” of the scheme of the loans with the Borrowers. No solid evidence had been found to indicate that the Advances to Borrowers had commercial substance. There was evidence that SDI granted several loans to SJI for the purpose of funding SJI’s cash management situation. Mr Li had admitted that the Advances to Falcon were inflated to finance SJI. Mr Li and the President of SDI were co-founders of a Tokyo-based private company. King Tech was a former shareholder of SJI; and it had obtained short-term loans from SJI in 2011. Falcon was a former wholly-owned subsidiary of SJI, while SJI remained one of Falcon’s major clients.

Mr Li acknowledged that:

- (a) When SJI subsequently experienced cashflow difficulties, he considered the possibility of SJI obtaining loans from the Borrowers who had obtained or would obtain funds through the Advances provided by SinoCom Japan.
- (b) Specifically, the Advances of JPY1,260 million provided to Falcon on 16 August 2012 were inflated to finance SJI. (Note: on the same day, Falcon loaned JPY1,160 million to SJI.)

(collectively the “Acknowledgment”).

Mr Li intended to retrieve the funds extended to King Tech when SJI subsequently became short of funds. As King Tech had already spent the Advances obtained from SinoCom Japan, it obtained loans from a non-bank institution to grant loans to SJI.

The Company had delayed the publication and despatch of its 2012 Annual Results and Report for the year ended 31 December 2012 (delay of more than nine months); and 2013 Interim Results and Report for the six months ended 30 June 2013 (delay of about five months) (the “Late Accounts”) as follows:

	Rules	Deadline	Date of publication/despatch
2012 Annual Results	13.49(1)	31 March 2013 (3 months from financial period end)	21 January 2014
2012 Annual Report	13.46(2)	30 April 2013 (4 months from financial period end)	19 February 2014
2013 Interim Results	13.49(6)	31 August 2013 (2 months from financial period end)	29 January 2014
2013 Interim Report	13.48(1)	30 September 2013 (3 months from financial period end)	25 February 2014

## **FINDINGS OF BREACH BY THE LISTING COMMITTEE**

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

## ***Company***

### *Breach of Rules 13.13 and 13.14: Disclosure of relevant advance to an entity*

Based on the information provided by the Company, the accumulated balance due from SDI for the Advances to SDI exceeded 8 per cent (the asset ratio) on 6 August 2012. As of 1 October 2012, the outstanding amount rose by more than 3 per cent from that as of 6 August 2012. The Company's disclosure obligation under Rule 13.13 arose on 6 August 2012 and that under Rule 13.14 arose on 1 October 2012.

The accumulated balance due from Falcon for the Advances to Falcon exceeded 8 per cent (the asset ratio) on 16 August 2012. The Company's disclosure obligation under Rule 13.13 arose on 16 August 2012.

The Company only disclosed the Advances to SDI and Falcon on 30 January 2013. The Listing Committee concluded that the Company breached Rules 13.13 and 13.14.

### *Breach of Chapter 14: Notifiable transaction breaches*

By reference to the size test of the maximum amount of the Advances prescribed in the respective agreements:

- (a) The Advances to SDI constituted a major transaction subject to the announcement and shareholder approval requirements under Rules 14.34 and 14.40.
- (b) The Advances to Falcon constituted a discloseable transaction subject to the announcement requirement under Rule 14.34.

The Company was required to announce the Advances to SDI and the Advances to Falcon as soon as possible after the respective agreements were made on 9 July 2012 and 15 August 2012. However, the Company only disclosed them on 30 January 2013 and it did not obtain shareholder approval for the Advances to SDI. The Listing Committee concluded that the Company breached:

- (a) the announcement requirement in relation to the Advances to SDI and Falcon under Rule 14.34; and
- (b) the shareholder approval requirement under Rule 14.40 in relation to the Advances to SDI.

### *Breach of Chapter 14A: Connected transaction breaches*

Under Chapter 14A of the Exchange Listing Rules, connected transactions include transactions by the listed issuer or its subsidiaries with connected persons of the listed issuer.

Under Rule 14A.11, connected persons include a director, chief executive or substantial shareholder and “any of their associates” which term includes “any person or entity with whom the director, chief executive or substantial shareholder has entered, or proposes to enter, into any agreement, arrangement, understanding or undertaking, whether formal or informal and whether express or implied, with respect to the transaction which is such that, in the opinion of the Exchange, that person or entity should be considered a connected person”.

The Listing Committee agreed with the submissions of the Listing Department and concluded that it was appropriate to deem the Borrowers connected persons under Rule 14A.11 and the Advances to the Borrowers were connected transactions subject to Chapter 14A compliance for the following reasons:

- (a) A significant part of the Advances to Borrowers were channeled to SJI for SJI’s benefit through the Borrowers’ Loans to SJI.
- (b) The materials available suggested Mr Li was the initiator of the scheme of loans with the Borrowers. The Company’s 2012 Annual Report disclosed that Mr Li had significant influence over the same.
- (c) Mr Li made the Acknowledgement as identified above.
- (d) Essentially, the Company effected indirect financial assistance to SJI through the Advances to Borrowers and the Loans to SJI.
- (e) The submissions received and the materials available supported that:
  - (i) there existed arrangements, implied understanding or agreement between the Borrowers, Mr Li and SinoCom Japan as to Mr Li’s control of and active involvement in deciding on the actual amount and timing of SinoCom Japan’s provision of the Advances to Borrowers and the Borrowers’ repayments; and
  - (ii) there existed arrangements, implied understanding or agreement among Mr Li, the Company, SinoCom Japan, the Borrowers and SJI that (i) a significant part of the Advances to Borrowers was or was to be ultimately channeled to SJI for SJI’s benefit; and/or (ii) the Borrowers were to provide the Loans to SJI on account of or by reference to the fact that the Borrowers had been receiving or were to receive the Advances from SinoCom Japan.
- (f) There was no reason discernable from the evidence available why the Company could not have provided the financial assistance to SJI direct. Instead, the Company (through Mr Li’s instigation and arrangements) effected it indirectly through the Advances to Borrowers and the Loans to SJI. They gave a false or misleading appearance that the two were separate unrelated sets of arrangements/transactions; and no connected transactions were involved. They had the effect of disguising and concealing the Company’s indirect financial assistance to SJI and circumventing Rule compliance required of the Company (for connected transactions). It was noted that Mr Li had submitted that “*the Company considered it not preferable to provide loans to SJI directly as such provision of loans by the Company to SJI would constitute a connected transaction under the Listing Rules.*”

- (g) The Company acknowledged that the Advances to the Borrowers and the Loans to SJI were related; the Borrowers were deemed connected persons of the Company; and the Advances to Borrowers were connected transactions.

As the applicable percentage ratios of each of the Advances to SDI and the Advances to Falcon exceeded 5 per cent, each of them was subject to the announcement and independent shareholder approval requirements under Rules 14A.47 and 14A.52 of the Exchange Listing Rules. As the applicable percentage ratios exceeded 0.1 per cent but were below 5 per cent, the Advances to King Tech were subject to the announcement requirement under Rule 14A.47.

The Company announced the Advances to SDI and Falcon only on 30 January 2013; and the Advances to King Tech, on 23 April 2013. The Company did not obtain independent shareholder approval before the Advances to SDI and Falcon were made. The Listing Committee concluded that the Company breached Rule 14A.47 in relation to the Advances to Borrowers; and Rule 14A.52 regarding the Advances to SDI and Falcon.

*Breach of Rules 13.46(2), 13.48(1), 13.49(1) and 13.49(6)*

By reason of the delay shown above, the Listing Committee concluded that the Company breached Rules 13.46(2), 13.48(1), 13.49(1) and 13.49(6) in relation to the Late Accounts.

### ***Internal Controls***

The Listing Committee noted that the Company's internal controls did not prevent or detect the Company's Rule breaches arising from the Advances to Borrowers. The various internal control reviews revealed deficiencies including (a) inadequate procedures to ensure the Company's Rule compliance for notifiable and connected transactions; (b) the lack of policies and procedures governing the review and approval of related party loan transactions; and (c) the lack of policy on directors' conflict of interest.

The Company acknowledged its internal control deficiencies had led to the grant of the Advances to Borrowers in breach of the Exchange Listing Rules.

The Listing Committee concluded on the evidence presented that the Company did not have adequate and effective internal controls at the relevant time to ensure the Company's compliance with the Exchange Listing Rules.

### ***Mr Li - Breach of Rules 3.08(a), (b), (d), (f) and Undertakings***

Rule 3.08 provides that the Exchange expects the directors, both collectively and individually, 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, a director is required to:

- (a) act honestly and in good faith in the interests of the Company as a whole (Rule 3.08(a));
- (b) act for a proper purpose (Rule 3.08(b));

- (c) avoid actual and potential conflicts of interest and duty (Rule 3.08(d)); and
- (d) 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(f)).

The Listing Committee concluded that Mr Li breached Rules 3.08(a), (b), (d) and (f) for the following reasons:

- (a) Advancing loans to third parties was not in the usual and ordinary course of business of the Company and its subsidiaries. Until July 2012, SinoCom Japan had not provided any advances or loans to third parties.
- (b) Mr Li's Acknowledgement identified above.
- (c) In relation to the Advances to Falcon, Mr Li set out to disguise and conceal the Company's financial assistance to SJI and circumvent compliance with the Exchange Listing Rules by the Company. Mr Li had been dishonest in behaving in this manner.
- (d) Mr Li also procured SDI and King Tech to provide the Loans to SJI whilst they had been receiving or were to receive the Advances from SinoCom Japan. Likewise, this had the effect of concealing the Company's indirect financial assistance to SJI and circumventing compliance with the Exchange Listing Rules.
- (e) Essentially, Mr Li procured that funds of the Company and its subsidiaries (the "Group") were applied in providing loans which was unprecedented (for SinoCom Japan), outside the usual and ordinary course of the business of SinoCom Japan (and the Group); and a significant part of which were for the ultimate benefit of SJI. Mr Li's conduct demonstrated that he was preferring and advancing the interest of SJI (the ultimate controlling shareholder of the Company) at the expense of the Company and its all other shareholders.
- (f) Given Mr Li's position and interest in SJI, the Company and SinoCom Japan, he clearly was in a conflict position in relation to the approval of the Advances to Borrowers which together with the Loans to SJI, effected the Company's indirect financial assistance to the SJI. Nonetheless, Mr Li participated in approving them, did not disclose the purpose or his proposal of effecting indirect financial assistance to SJI; did not declare his interest in them and did not abstain from voting on approving the same.
- (g) Mr Li did not fully inform Dr Shi of all relevant circumstances, the proposed indirect financial assistance to SJI when the Advances to Borrowers were approved at the board meetings of SinoCom Japan.
- (h) Mr Li did not report the proposed Advances to Borrowers and the Extension to the Board of the Company to consider and approve. He did not involve other directors of the Company in the consideration and approval of the same.
- (i) He did not ensure the Company's compliance with the Exchange Listing Rules in relation to the Advances to Borrowers.



- (j) Mr Li approved the Extension in late December 2012 without reporting the same to the Board of the Company to consider and approve notwithstanding his knowledge at the time that the Company had been making enquiries and consulting professional advice on the compliance issues arisen from the Advances to Borrowers.

The Listing Committee also concluded that:

- (a) With his breach of Rules 3.08(a), (b), (d) and (f), Mr Li breached his Undertaking by failing to comply with the Exchange Listing Rules to the best of his ability.
- (b) By reason of his conduct referred to above, Mr Li breached his Undertaking by failing to use his best endeavours to procure the Company's rule compliance in relation to the Advances to Borrowers.
- (c) The Late Accounts resulted primarily from the time taken (i) by the investigation into the Advances to Borrowers (and the Loans to SJI) and (ii) in addressing audit issues arising from those matters in the course of 2012 audit which in turn had led to the change of auditors. The Advances to Borrowers and the Loans to SJI (for which Mr Li was primarily responsible) were the major root problems. Accordingly, Mr Li also breached his Undertaking in relation to the Late Accounts.

The Listing Committee found that Mr Li persistently (a) disregarded the Exchange Listing Rule compliance required of the Company; and (b) breached his own responsibilities as a director of the Company under the Exchange Listing Rules. The Listing Committee also found that Mr Li exhibited a wilful disregard of the Exchange Listing Rule compliance or at least a wilful blindness to the Exchange Listing Rule compliance and his compliance with Rule 3.08.

The Listing Committee further found that Mr Li had been far from being truthful, complete and open in the course of the Company's investigation of the matter as evidenced by his confirmation made to the Company which included the untrue Statement as described above.

In the view of the Listing Committee, Mr Li's conduct gave rise to serious concern as to Mr Li's integrity and character, and his lack of ability and will to perform the duties of a director of a listed issuer required under the Exchange Listing Rules and ensure the Company's Rule compliance. These in turn cast serious concern over Mr Li's suitability to be a director of a listed issuer on the Exchange.

#### ***Dr Shi - Breach of Rule 3.08(f) and Undertakings***

The Listing Committee noted that Dr Shi participated in approving the Advances to Borrowers and was copied in the email correspondence on the Advances to Borrowers. Dr Shi however submitted that he only had limited knowledge of the Advances to Borrowers as he often did not open most of the email correspondence. He also submitted that he approved the Advances to Borrowers as they were proposed by Mr Li, the major shareholder of the Company.

The Listing Committee concluded that Dr Shi breached Rule 3.08(f) for the following reasons:

- (a) In ignoring the copied correspondence/emails received, Dr Shi failed to give proper and timely attention to (i) the affairs of or matters concerning SinoCom Japan, and (ii) the Company's obligations to comply with the Exchange Listing Rules arising from activities and arrangements at the subsidiary level.
- (b) Dr Shi's "*rubberstamping*" proposals put forward by Mr Li for approval clearly fell far below the degree of care, skill and diligence reasonably required of him as a director of the Company (and SinoCom Japan). He did not appear to have conducted a thorough consideration and exercised independent judgment before he approved the Advances to Borrowers.
- (c) Dr Shi did not report the Advances to Borrowers to the Board of the Company to consider and approve. He did not ensure that their Rule implications were duly considered and the applicable Rules were complied with.
- (d) Dr Shi participated in approving the Extension. He did not escalate it to the Board of the Company for approval notwithstanding the fact that at the time the relevant compliance issues arising from the Advances to Borrowers had been uncovered by the Company.

The Listing Committee further concluded that Dr Shi breached his Undertakings as in the case of Mr Li as set out above.

Further, as a long-serving director of the Company appointed in 2004, Dr Shi had not demonstrated that he had taken steps consistent with his performance of his Undertaking to ensure the Company had adequate internal controls in place to ensure the Company's Rule compliance. The Listing Committee therefore also concluded that Dr Shi breached his Undertaking in relation to the internal control deficiencies.

#### ***Mr Kotoi – Breach of Rule 3.08(f) and Undertakings***

The Listing Committee noted Mr Kotoi's submission that at the relevant time, he was the CFO of the Company in name only. He also submitted that he had no knowledge of the Advances to Borrowers and the Loans to SJI at the relevant time. The Listing Committee concluded that Mr Kotoi also breached Rule 3.08(f):

- (a) As an ED also entrusted with the responsibilities for financial matters carried by the position of CFO, it was reasonably required of Mr Kotoi to effect close, regular and effective monitoring of the financial position of the Company and its subsidiaries.
- (b) As the then CFO, Mr Kotoi had access to the monthly financial information supplied by subsidiaries to the Company including monthly management accounts and bank balances information supplied by SinoCom Japan. He was reasonably required to review or at least ask that regular reporting be made to him by his staff members in the finance/accounting function regarding the monthly financial information from SinoCom Japan to ensure that he was kept informed and was aware of the financial and trading position of the subsidiaries of the Company.

- (c) In particular, a subsidiary had received JPY1,818 million cash from its assets disposal and loaned JPY1,800 million to SinoCom Japan. Mr Kotoi was required to pay attention to and track the application of the funds to ensure that assets/funds of the Group were properly safeguarded; and their application was duly authorized and was appropriate.
- (d) Had Mr Kotoi taken the action referred to above, he would have become aware of the existence of the Advances to Borrowers and equipped with such knowledge, considered and addressed the compliance issues arising from the same or at least should have detected the Advances to Borrowers and the related Rule breaches earlier. However, Mr Kotoi failed to take any of the actions.

The Listing Committee further concluded that Mr Kotoi breached his Undertakings as in the case of Mr Li set out above.

***Mr Siu Kwok Leung (“Mr Siu”), Mr Wang Zhiqiang (“Mr Z Wang”) and Mr Wang Xubing (“Mr X Wang”) – Breach of Undertakings***

The Listing Committee noted that based on the evidence presented to it, the three directors had no knowledge of or involvement in the Advances to Borrowers at the relevant time.

However they were long-serving directors appointed to office in 2004. They had been in office for periods of time sufficient to create adequate reporting and monitoring internal controls in relation to approval and authorization of advancement of loans to third parties at subsidiary level; and ensure the Company’s Rule compliance arising from (i) activities and transactions conducted at the subsidiary level; (ii) notifiable transactions; and (iii) connected transactions. However the internal controls of the Company were inadequate. The Listing Committee therefore concluded that Mr Siu, Mr Z Wang and Mr X Wang breached their Undertakings regarding the internal control deficiencies as in the case of Dr Shi.

**Regulatory concern**

The Listing Committee regarded the breaches in this matter serious.

- (a) The scheme of the Advances to Borrowers and the Loans to SJI disguised and concealed the Company’s indirect financial assistance to SJI and circumvented Rule compliance required of the Company.
- (b) Significant amounts were involved.
- (c) In the view of the Listing Committee, Mr Li’s conduct was egregious and unacceptable.
- (d) Mr Kotoi and Dr Shi were in a position to but did not prevent the Company’s breach of the Exchange Listing Rules.
- (e) This case revealed significant internal control deficiencies to ensure compliance with the Exchange Listing Rules.

- (f) The time taken up to investigate the Advances to Borrowers, the Loans to SJI and related Rule breaches as well as the internal control review contributed towards the Late Accounts and the prolonged trading suspension.

## **Remedial Actions**

The following remedial actions had been taken by the Company:

### *Remedial actions taken regarding the internal control deficiencies*

The Company engaged RSM Consulting to conduct internal control review over the Group under the “Internal Control – Integrated Framework” by COSO. Before the resumption of the trading of the Company on 31 July 2014, RSM Consulting confirmed that there were adequate and effective internal control system in place to (1) protect the Group from major business and operational risks; and (2) ensure the Group’s compliance with the Exchange Listing Rules and all relevant laws and regulations to which the Group is subject.

### *Actions taken on the then directors and senior management*

Further training on directors’ duties under the Exchange Listing Rules were given to the then directors and senior management of the Company in respect of the Corporate Governance Code, the legal obligations to disclose the inside information, their obligations in respect of notifiable transactions and connected transactions, etc.

### *Corporate position changes*

Persons experienced in the management of listed companies in Hong Kong have been appointed as senior management of the Company to strengthen its internal control and to ensure its compliance with the relevant legal and regulatory requirements.

## **Sanctions**

Having made the findings of breach stated above and taking into account the principles and factors in determining sanctions and directions to be imposed as published by the Exchange on 13 September 2013, the Listing Committee decided to:

- (1) censure the Company for its breach of:
  - (a) Rules 13.13, 13.14, 14.34, 14.40, 14A.47 and 14A.52 in relation to the Advances to Borrowers;
  - (b) Rules 13.46(2), 13.48(1), 13.49(1), 13.49(6) in respect of the Late Accounts.
- (2) censure Mr Li for his breach of Rules 3.08(a), (b), (d), (f) and his Undertakings;
- (3) censure Dr Shi for his breach of Rule 3.08(f) and his Undertakings;
- (4) censure Mr Kotoi for his breach of Rule 3.08(f) and his Undertakings; and

- (5) criticize Mr Siu, Mr Z Wang and Mr X Wang for their respective breaches of their Undertakings in relation to internal control deficiencies.

Mr Li is no longer a director of the Company. The Listing Committee also expressed its view that had Mr Li remained in office, the Listing Committee would have been minded to state that in the Exchange's opinion, the retention of office by Mr Li would have been prejudicial to the interests of investors. The Listing Committee further stated that in the event that Mr Li should wish to become a director of any issuer listed on the Exchange in the future, his conduct in this matter will be taken into account in assessing his suitability under Rule 3.09 of the Exchange Listing Rules.

The Listing Committee further directed as follows:

- (1) The Company is to appoint an independent professional adviser (as defined in Chapter 3A of the Exchange Listing Rules namely, an entity licensed or registered under the Securities and Futures Ordinance 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 (the "Compliance Adviser") on an ongoing basis for consultation on compliance with the Exchange Listing Rules for a period of 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 Department for comment before appointment of the Compliance Adviser. The Compliance Adviser shall be accountable to the Audit Committee of the Company.
- (2) 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.
- (3) Mr Z Wang (current director of the Company) is to (a) attend 24 hours of training on Exchange Listing Rule compliance, particularly in relation to notifiable and connected transactions, to be provided by The Hong Kong Institute of Directors, The Hong Kong Institute of Chartered Secretaries or other course providers approved by the Listing Department (the "Training"), to be completed within 90 days from the publication of this news release; and (b) provide the Listing Department with the training provider's written certification of his full compliance with this training requirement within two weeks after his full compliance with the training requirement.
- (4) Each of Mr Li, Dr Shi, Mr Kotoi, Mr Siu and Mr X Wang is required to, as a pre-requisite of future appointment as a director of a company listed on the Exchange, (a) undergo the Training to be completed before the effective date of such appointment; and (b) provide the Listing Department with the training provider's written certification of full compliance with this training requirement upon the request of the Listing Department.
- (5) The Company is to publish an announcement to confirm that each of the directions in sub-paragraphs (1) and (3) above has been fully complied with within two weeks after the respective fulfillment of the direction. The last announcement required to be published under this requirement is to include the confirmation that all directions in sub-paragraphs (1) and (3) above have been complied with.

- (6) The Company is to submit drafts of the announcements referred to in sub-paragraph (5) above for the Listing Department's comment and may only publish the announcements after the Listing Department has confirmed it has no further comments on them.

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