13 July 2016

An issuer must pay attention to the requirements under Chapter 14 of the Listing Rules in conducting transactions involving payment of deposits for acquiring assets subject to refund upon termination of the transactions before completion. Arrangements to the effect of permitting the vendor to defer the refund of the deposits upon termination may amount to granting of credit and, therefore, constitute financial assistance subject to Chapter 14 of the Listing Rules.

A director must exercise such degree of skill, care and diligence as may be reasonably expected under Rule 3.08(f) of the Listing Rules to, among other things, have due regard to the issuer's interest in deposit payments for acquisition of assets and refund before completion. Failure to do so may amount to a breach of Rule 3.08(f).

To discharge their obligations under the Director's Undertaking, directors must, amongst others, take an active interest in the affairs of the company, follow up anything untoward that comes to their attention, address their minds to possible Listing Rule implications arising from the company's transactions, raise such matters for discussion with the board of directors, and consult professional advisers as appropriate.

The Listing Committee of The Stock Exchange of Hong Kong Limited (the "Listing Committee")

CENSURES:

(1) **Rosan Resources Holdings Limited** (the "**Company**") (Stock Code: 578) for breaching Rules 14.34, 14.38A and 14.40 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Exchange Listing Rules**") (reference to the rule provisions hereunder referred to those in effect at the material time) for failing to comply with the announcement, circular and shareholders' approval requirements in respect of certain major transactions;

…/2

FURTHER CENSURES:

(2) **Mr Dong Cun Ling** ("**Mr Dong**"), chairman and executive director ("**ED**") of the Company;

(3) **Mr Yang Hua** ("**Mr Yang**"), **Mr Wu Jia Hong** ("**Mr Wu**"), **Mr Zhou Guang Wen** ("**Mr Zhou**"), EDs of the Company;

(4) **Mr Li Chun On** ("**Mr Li**"), ED of the Company at the material time;

(5) **Mr Li Chun Yan** ("**Mr CY Li**"), a non-executive director ("**NED**") of the Company;

(6) **Mr Ma Yue Yong** ("**Mr Ma**"), an independent non-executive director ("**INED**") and chairman of the audit committee of the Company;

(7) **Dr Chen Ren Bao** ("**Dr Chen**"), an INED and an audit committee member of the Company; and

(8) **Mr Li Dao Min** ("**Mr DM Li**"), an INED and an audit committee member of the Company at the material time

for:

(a) failing to apply such degree of skill, care and diligence required and expected of them with respect to the matters referred to herein, breaching Rule 3.08(f) of the Exchange Listing Rules; and

(b) failing to comply to the best of their ability with the Exchange Listing Rules and use their best endeavours to procure the Company's Exchange Listing Rule compliance, breaching their obligations under the Declarations and Undertakings with regard to Directors given to The Stock Exchange of Hong Kong Limited (the "**Exchange**") in the form set out in Appendix 5B to the Exchange Listing Rules (the "**Directors' Undertakings**").

(The directors identified at (2) to (8) above are collectively referred to as the "**Relevant Directors**"; Mr Dong, Mr Yang and Mr Li are collectively referred to as the "**Core EDs**".)

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

SETTLEMENT

As a consequence of settlement, the Company and the Relevant Directors admit their respective breaches asserted by the Listing Department above and accept the sanctions and directions imposed on them by the Listing Committee as set out below.

FACTS

In 2011, the Group (through its indirect non-wholly owned subsidiary, Henan Jinfeng Coal Industrial Group Co Ltd (河南金豐煤業集團有限公司) which is referred to as "**Subsidiary B**" herein) entered into a series of transactions purportedly for acquiring a target company (the "**Target**") valued at RMB140.5 million as at 10 September 2011 from the vendor (the "**Vendor**"). It paid deposits to the Vendor on two occasions totalling RMB111.5 million under the following transactions (collectively, the "**Framework Agreements**"):

(1) *Framework Agreement* (16 March 2011)

Subsidiary B agreed to acquire the Vendor's shareholding (without specifying the percentage) in the Target, and would pay RMB50 million as deposit to the Vendor. Clause III of the agreement states that, among other cause, if Subsidiary B, upon conducting the due diligence, discovers that the Target's assets, claims and debts were inconsistent with its understanding of them when it entered into the agreement, Subsidiary B is entitled to terminate the agreement unilaterally; and the Vendor shall refund the deposit together with interest (15 per cent per annum) within three days after it received the termination notice. If the refund was overdue, the Vendor would have to pay a further sum of RMB50 million (ie, total RMB100 million) to Subsidiary B.

(2) *Supplemental Agreement* (17 March 2011)

Subsidiary B agreed to pay (and did pay) RMB51.5 million to the Vendor (RMB50 million as deposit already agreed in the Framework Agreement; and RMB1.5 million for the Vendor's working capital). The final total consideration for the acquisition was to be agreed after due diligence had been completed.

(3) *Further Supplemental Agreement* (15 December 2011)

The Vendor confirmed that it would, subject to formal agreement, transfer its entire 60 per cent interest in the Target to Subsidiary B, and would allow the other shareholder to transfer the remaining 40 per cent interest in the Target to Subsidiary B after the formal agreement; whereas Subsidiary B would pay (and did pay) a further RMB60 million as deposit to the Vendor within 10 days after the agreement.

Clause VI of the agreement states that before entering into any formal agreement, the parties are entitled to terminate the Framework Agreement and its supplemental agreement(s), in which case Subsidiary B would be entitled to request the Vendor to refund all deposits in full.

Cancellation Agreement (31 December 2012)

On 31 December 2012, Subsidiary B entered into an agreement (the "**Cancellation Agreement**") with the Vendor to cancel the Framework Agreements and allowed the Vendor to refund the deposits paid (RMB111.5 million in total) (the "**Overpaid Deposit**") without interest or security in two equal tranches (RMB55.75 million each) by 30 June and 31 December 2013.

While the Company had announced the Acquisition Agreement (see below), it failed to announce any of the Framework Agreements or the Cancellation Agreement.

Acquisition Agreement (31 December 2012)

On the same day as the date of the Cancellation Agreement, another subsidiary of the Company, Henan Zhongyuan JiuAn Foundation and Investment Co Ltd (河南中原久安創業投資有限公司), which is referred to herein as "**Subsidiary A**" (indirectly wholly-owned by the Company), entered into an agreement (the "**Acquisition Agreement**") with the Vendor to acquire the latter's 60 per cent equity interest in the Target (the "**60% Acquisition**") for RMB63 million. The Company announced it as a discloseable transaction.

Under the agreement, the RMB63 million consideration comprised two elements: RMB55 million (unconditional) and RMB8 million (conditional upon certain assets injection by the Vendor before the long stop date of 30 June 2013). In respect of the unconditional portion of the consideration (RMB55 million), Subsidiary A would pay RMB33 million within 10 days following the day of the agreement and the balance (RMB22 million) upon completion. The parties agreed to jointly proceed with the shareholding transfer at the relevant trade and industrial bureau within 10 working days thereafter. Timing for refund in case of termination was not specified therein.

However, Subsidiary A had paid RMB25 million on 4 February 2013. It further paid RMB30 million (the balance of the unconditional portion of the consideration) on 21 February 2013 upon the Vendor's directions to an entity unknown to it before completion (which never took place); this sum included the RMB22 million which was only payable upon completion ("**Advance Payment**"). The RMB25 million and RMB30 million paid are collectively referred to as "**Part Payment**".

Memorandum of Understanding (the "**MOU**") (non-binding) (27 August 2013)

Subsidiary A and Subsidiary B agreed with the Vendor and the other shareholder of the Target under the MOU to consider acquiring the entire interest in the Target, and the consideration would be paid out of the debt owed to Subsidiary A and Subsidiary B by the Vendor, with any remaining outstanding debt to be returned to Subsidiary A within three months. The Company's announcement stated that the 60% Acquisition had not yet been completed and the original long stop date had been extended to 31 December 2013.

Termination Agreement (11 November 2013)

Subsidiary A entered into an agreement (the "**Termination Agreement**") with the Vendor to terminate the 60% Acquisition. According to its announcement of the same day, the Company had not yet obtained the PRC local government's approval to proceed with the transaction and the Group considered the timing of obtaining the approval remained uncertain. The announcement further stated that the Group would not proceed with the MOU and the Vendor would refund the Part Payment to Subsidiary A by 31 December 2013.

Refund of Overpaid Deposit and Part Payment

On 14 November 2013, the Company announced that the Part Payment had been fully settled, and approximately RMB103.1 million "had been settled to the Group" as part refund of the Overpaid Deposit. On 26 December 2013, the Company received the outstanding balance (RMB8.4 million) from the Vendor.

Exchange Listing Rule Requirements

Listed issuers had to comply with the requirements in Chapter 14 of the Exchange Listing Rules if the transactions fell within the scope of that chapter. "Transaction" was defined in Rule 14.04(1)(e) as "includ[ing] granting an indemnity or a guarantee or providing financial assistance by a listed issuer, other than by a listed issuer which (i) is a banking company…; (ii) …provides financial assistance to its subsidiaries…".

"Financial assistance" was defined in Rule 14A.10(4) as including "granting credit, lending money, providing security for, or guaranteeing a loan".

Rule 14.34 required a listed issuer to inform the Exchange and announce, amongst other transactions, a major transaction as defined under Chapter 14 in accordance with Rule 2.07C as soon as possible after the terms of the transaction have been finalized.

Rule 14.38A required a listed issuer which has entered into a major transaction to send a circular to its shareholders and the Exchange and publish it in accordance with Chapter 2 of the Exchange Listing Rules.

Rule 14.40 required that a major transaction must be made conditional on approval by shareholders.

In respect of directors, Rule 3.08 requires the board of directors to be collectively responsible for its management and operations, and the directors are expected, 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, meaning that every director must in performance of his duties as a director, among other things, 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 under Rule 3.08(f).

LISTING COMMITTEE'S FINDINGS OF BREACH

On the basis of the facts and circumstances as set out above and with the Company and the Relevant Directors admitting the Listing Department's assertion of breaches, the Listing Committee has the following findings:

Company's breaches

The Listing Committee found that the Cancellation Agreement under which the Vendor was allowed to refund to Subsidiary B the Overpaid Deposit in two equal tranches of RMB55.75 million each by 30 June and 31 December 2013 respectively constituted financial assistance and amounted to a major transaction subject to the announcement, circular and shareholders' approval requirements under Rules 14.34, 14.38A and 14.40 of the Exchange Listing Rules:

Relevant terms of the Framework Agreements and the Cancellation Agreement

Clause III of the Framework Agreement is a termination clause which has not been superseded by any term in the Supplemental Agreement.

Clause VI of the Further Supplemental Agreement entitled the parties to terminate the transaction at any time upon which Subsidiary B would be entitled to the return of all deposits paid to the Vendor. As it did not specify the timing of refund, the Listing Committee took the view that Clause III of the Framework Agreement in respect of the timing of the refund should be used as reference, ie, within 3 days after the Vendor received a termination notice or, alternatively, the Vendor should return the deposits within a reasonable time on termination. However, the Cancellation Agreement allowed the Vendor to return the Overpaid Deposit in two equal tranches of RMB55.75 million each to Subsidiary B within six to 12 months.

The Overpaid Deposit was made for the purported acquisition, and in accordance with the agreed terms under the Framework Agreement (not overridden by its supplemental agreements). Instead of requiring the Vendor to return the Overpaid Deposit within three days after the cancellation, or requiring refund within a reasonable period of time, the Group entered into the Cancellation Agreement which allowed the refund to be postponed without interest or security to the end of June and December 2013, ie, one tranche by six months and the other tranche by almost a year.

The Listing Committee concluded that, under the above circumstances, the Cancellation Agreement in substance constituted a granting of credit (ie, provision of financial assistance as defined under Rule 14A.10(4)) by the Company. The Listing Committee disagreed with the Company, and considered that the Company effectively granted credit to the Vendor by allowing it to return the Overpaid Deposit in two tranches by 30 June and 31 December 2013. Having considered (a) the amount of fund involved, (b) the length of time allowed for the refund without interest or security, (c) its date of transaction, subject matter and effectively, the parties to it being the same as the Acquisition Agreement, and (d) the fact that the Company had been deprived of the right to use such significant amount of fund during that period, we submit that the Cancellation Agreement constituted financial assistance, ie, a “transaction” under Chapter 14 of the Rules. The Group was not qualified to enjoy the exceptions under Rule 14.04(e).

The Listing Committee further concluded that the consideration ratio (as at the date of the Cancellation Agreement) under the size tests prescribed by Chapter 14 of the Rules was 43.86 per cent. Based on the size test results, the financial assistance constituted a major transaction.

Aggregation of transactions

The Company would further pay RMB63m to the Vendor under the Acquisition Agreement for the 60% Acquisition. The consideration ratio in respect of such transaction was 24.78 per cent and was announced as a discloseable transaction. Together with the then outstanding Overpaid Deposits (RMB111.5 million) under the Cancellation Agreement, the Company in total had committed RMB174.5 million (RMB63 million plus RMB111.5 million) to the Vendor at that time.

Having considered the (a) proximity in timing, (b) involvement of the same counterparty and same set of assets, (c) the Company's credit risk exposure at the relevant time, the Listing Committee took the view that these transactions as inter-related and should be aggregated in the above circumstances under Rules 14.22 and 14.23. Therefore, the Listing Committee accepted that the consideration for the aggregated transactions (including the Cancellation Agreement and the Acquisition Agreement) should be RMB174.5 million (RMB111.5 million plus RMB63 million). The consideration ratio would become 68.64 per cent (43.86 per cent plus 24.78 per cent).

Based on the size test results (consideration ratio: 68.64 per cent), the series of transactions as a whole constituted a major transaction subject to the announcement, circular and shareholders' approval requirements under Rules 14.34, 14.38A and 14.40. However, the Company only announced the Acquisition Agreement as a discloseable transaction. The Listing Committee therefore concluded that the Company breached Rules 14.34 (in respect of the Cancellation Agreement), 14.38A and 14.40.

Directors' breaches

Background knowledge of the Relevant Directors

On 27 March and 28 August 2012, all the Relevant Directors had board meetings (except Mr CY Li and Dr Chen who only attended the former one) to consider, inter alia, the draft 2011 annual and 2012 interim results announcements and reports respectively, and the related discussions between the audit committee (the "**AC**") with the Company's external auditors in respect of the respective results and reports. The AC meeting minutes show that the auditors had expressed their concerns in respect of the Overpaid Deposit in those two occasions.

During 2012, the Core EDs held the view that it was more appropriate for Subsidiary A instead of Subsidiary B to invest in the Target. On 16 and 19 November 2012, the Core EDs discussed among themselves about the 60% Acquisition.

On 14 December 2012, the Board (attended by the Core EDs, Mr Ma and Dr Chen) resolved to authorise the Core EDs to handle the 60% Acquisition. On 28 December 2012, the draft Acquisition Agreement and the relevant announcement were circulated to the Relevant Directors by email. The Board only consulted and sought advice from Veda Capital Limited on Rule compliance in respect of the 60% Acquisition and the Acquisition Agreement but not in respect of the Framework Agreements or the Cancellation Agreement.

On 22 March 2013, the Board had a meeting (all Relevant Directors attended except Mr Wu, Mr Zhou (both EDs) and Mr DM Li (INED)) to consider, among other matters, the AC's discussion with the auditors about the draft 2012 annual results announcement and annual report. The AC meeting minutes recorded that the auditors were aware of the Cancellation Agreement and its terms, and expressed their concerns about the associated credit risks and impact on the Group's financial position and suggested that the Group takes a more proactive approach to recover the deposit. On 24 March 2013, the 2012 annual results announcement was published.

On 30 June 2013, the Group did not receive the first repayment of RMB55.75 million due under the Cancellation Agreement on that day. The Core EDs were aware of the non-repayment but they did not procure the Group to request the Vendor to repay immediately.

Core EDs (including Mr Dong, Mr Li and Mr Yang)

Mr Dong has been the Company's chairman since March 2012 with extensive experience in coal mines management. He holds a professional diploma in Chinese Language from Henan University.

Mr Yang has been the Company's deputy chairman and chief executive officer since April 2012. He graduated with a Master Degree from the Business School of National University of Singapore and was a qualified trader in Mainland China for international commodities futures contracts and derivative products.

Mr Li was an associate member of the Hong Kong Institute of Certified Public Accountants and fellow member of the Association of Chartered Certified Accountants and had over 15 years of experience in accounting and financial management before he resigned from the Company.

Breach of Director's Undertaking relating to the Company's breaches

The Listing Committee concluded that the Core EDs breached their Directors' Undertakings for failing to use their best endeavours to procure the Company's Rule compliance as they knew, or should have known:

(1) the terms of the Framework Agreements essentially required the Vendor to return the deposits paid in full upon termination;

(2) that the Vendor had been keeping the Overpaid Deposit of RMB111.5 million since 21 December 2011, the associated recovery risks, and its significance on the Group's financial position;

(3) shortly after 19 November 2012 that the Group let Subsidiary A instead of Subsidiary B to proceed with the 60% Acquisition;

(4) on or shortly after 31 December 2012 the fact that Subsidiary B had executed the Cancellation Agreement, and Subsidiary A had executed the Acquisition Agreement, and the terms of those agreements;

(5) allowing the Vendor to refund in the manner set out under the Cancellation Agreement would cause an unreasonable delay to Subsidiary B's full receipt of the Overpaid Deposit, and might amount to granting of credit, the size of which might amount to a major transaction; and

(6) the Cancellation Agreement and the Acquisition Agreement were inter-related such that the aggregation principles under Rules 14.22 and 14.23 might be triggered.

The Listing Committee took the view that "best endeavours" should have required the Core EDs to:

(1) report the terms of the Cancellation Agreement to the attention of the entire Board for information, consideration and discussion on Rule implications and compliance as soon as the terms of the agreement have been finalised;

(2) consider the Rule implications as soon as possible before the Cancellation Agreement and the Acquisition Agreement were executed on 31 December 2012;

(3) procure the Company to consult professional advisers or the Exchange as soon as possible after the terms of the Cancellation Agreement and the Acquisition Agreement have been finalized on (a) the Company's Rule obligations arising from the transactions and (b) whether the Framework Agreements, the Cancellation Agreement and the Acquisition Agreement would be regarded as inter-related and trigger the aggregation principles under Rules 14.22 and 14.23;

(4) take steps to ensure that the Cancellation Agreement and the Acquisition Agreement were made conditional upon shareholders' approval; and

(5) take steps to procure the Company's compliance with Rules 14.34, 14.38A and 14.40 in respect of (a) the refund terms of the Overpaid Deposit under the Cancellation Agreement which amount to financial assistance and a major transaction; and (b) the Acquisition Agreement in the light of the aggregation principles under Rules 14.22 and 14.23.

Breach of Rule 3.08(f) and Director's Undertaking

The Listing Committee further concluded that each of the Core EDs has failed to 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 Company, breaching Rule 3.08(f) and their Undertaking to comply with that Rule to the best of their ability by:

(1) allowing the Vendor to retain the Overpaid Deposit for six to 12 months under the Cancellation Agreement, the value of which exceeded that of the Vendor's 60% shareholding in the Target, without interest;

(2) allowing the making of the Part Payment, and to a non-contracting entity unknown to the Group, while the Overpaid Deposit had not yet been refunded to the Group;

(3) allowing the making of the Advance Payment without completion, not in accordance with the Acquisition Agreement;

(4) failing to take immediate action to procure the Group to recover the first tranche refund of the Overpaid Deposit after it was due on 30 June 2013; and

(5) failing to take the steps that use of "best endeavours" would have required them to do as set out in the preceding paragraph, including reporting the transaction terms to the full Board, considering the Rule implications, ensuring the transactions were made conditional upon shareholders' approval, procuring the Company to consult professional advisers and/or the Exchange and comply with the Exchange Listing Rules 14.43, 14.38A and 14.40.

Mr Wu and Mr Zhou (both EDs)

Mr Wu became an ED of the Company on 24 October 2006. He was described as the Company's managing director in the 2010 annual report. He ceased to be Managing Director on 2 April 2012 but remained as an ED. He is responsible for the management and financial operation of the Group. He holds a Master of Business Administration degree from Georgetown University in the US. He had over 15 years of experience in corporate finance and strategic management.

Mr Zhou was appointed as the Company's director on 8 February 2012. He graduated with a Doctor of Philosophy from Peking University. He is currently the president of an asset management and investment banking company.

Breach of Directors' Undertakings relating to the Company's breaches

The Listing Committee concluded that Mr Wu and Mr Zhou breached their Directors' Undertakings for failing to use their best endeavours to procure the Company's Rule compliance as they knew or should have known:

(1) the payment of the Overpaid Deposit and its significance which was reported to the Board by the AC at the Board meetings of 27 March and 28 August 2012, and shown in the 2011 annual results announcement and the 2012 interim results announcement on 28 March and 28 August 2012;

(2) the payment terms of the Acquisition Agreement the draft of which were circulated to the Board on 28 December 2012 and subsequently announced on 31 December 2012; and

(3) the terms of the Cancellation Agreement shortly after the Board meeting of 22 March 2013 or since the 2012 annual results announcement and annual report were published on 24 March and 22 April 2013; alternatively, Mr Wu and Mr Zhou should have followed up on and raised questions with the other Relevant Directors based on the AC meeting minutes of 22 March 2013 concerning the Overpaid Deposit and its repayment arrangements.

The Listing Committee concluded that Mr Wu and Mr Zhou were, or should have been, therefore aware of the Group's provision of the financial assistance to the Vendor by the latest on 24 March 2013.

The Listing Committee further concluded that "best endeavours" should have required them to:

(1) ask the Board how the Overpaid Deposit would be dealt with at least when or shortly after they received the draft Acquisition Agreement on 28 December 2012 as Subsidiary A rather than Subsidiary B was to proceed with the 60% Acquisition. Had they done so, they should then have become aware of the Cancellation Agreement and its terms (including the repayment terms of the Overpaid Deposit which gave rise to the financial assistance);

(2) raise with the Board about the implication of the terms of the Cancellation Agreement, its relationship with the Acquisition Agreement, and the reason for making the Advance Payment;

(3) consider and assess the Company's Chapter 14 compliance obligations;

(4) escalate the issues to the Board for consideration; and

(5) procure the Company to consult external professional advisers and/or the Exchange in a timely manner to ensure that the Company complied with Rules 14.34, 14.38A and 14.40.

In failing to do so, the Listing Committee concluded that they have breached their Undertakings to use their best endeavours to procure the Company's Rules 14.34, 14.38A and 14.40 compliance.

Breach of Rule 3.08(f) and Directors' Undertakings

The Listing Committee further concluded that each of Mr Wu and Mr Zhou has failed to 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 Company, breaching Rule 3.08(f) and their Undertaking to comply with that Rule to the best of their ability by:

(1) failing to raise with the Board shortly after they received the draft Acquisition Agreement on 28 December 2012 as to the decision to let Subsidiary A make the Part Payment thereunder while the Overpaid Deposit had not yet been refunded to Subsidiary B;

(2) failing to raise the issue of refund of the Overpaid Deposit with the Board since the announcement of the Acquisition Agreement of 31 December 2012;

(3) failing to raise with the Board shortly after 22 March 2013 as to the reasons for the Group to (i) enter into the Cancellation Agreement, (ii) allow the Vendor to retain the Overpaid Deposit and further made the Part Payment (including the Advance Payment);

(4) failing to take immediate action to procure the Company to recover the first tranche refund of the Overpaid Deposit after 30 June 2013; and

(5) failing to take the steps that use of "best endeavours" would have required them to do as set out under the preceding paragraph, including raising with the Board on how the Overpaid Deposit would be dealt with after they received the draft Acquisition Agreement and the Rule implications, and procuring the Company to consult professional advisers and/or the Exchange and comply with the Exchange Listing Rules 14.34, 14.38A and 14.40.

Mr CY Li (NED)

Breach of Undertaking – concerning Rules 14.34, 14.38A and 14.40

Mr CY Li became an NED on 2 December 2011. He is a PRC lawyer, accountant, valuer and tax agent. He is a legal adviser to the Henan Provincial People's Hospital and a television station in Mainland China, and has been an independent non-executive director of another Hong Kong listed company since October 2010. He had been an independent non-executive director of three companies listed in Mainland China during 2002 to 2008 and a company listed on the Shanghai Stock Exchange before his resignation in 2014.

The Listing Committee noted and concluded that Mr CY Li had, or should have had, the same knowledge about the Overpaid Deposit, the Cancellation Agreement and the Acquisition Agreement as Mr Wu and Mr Zhou in a material way as:

(1) he was one of the directors of Subsidiary B (and of the Company since 2 December 2011), who, together with Mr Dong, authorised the then chairman of Subsidiary B to handle the Target acquisition on 15 March 2011;

(2) he was aware of the Further Supplemental Agreement including the term about payment of RMB60m which formed part of the Overpaid Deposit on 19 December 2011;

(3) he attended the board meeting on 27 March 2012 and was therefore aware of the payment of the Overpaid Deposit and the associated recovery risks expressed by the auditors. He should have also noted from the 2012 interim results announcement and report published on 28 August and 26 September 2012 about the Overpaid Deposit and the auditors' concern again which was raised at the 28 August 2012 Board meeting;

(4) he knew Subsidiary A instead of Subsidiary B would become the party to the 60% Acquisition and the payment terms of the Part Payment under the Acquisition Agreement; and

(5) it should have been clear to him at least by the board meeting of 22 March 2013 that (i) the Vendor had not returned the Overpaid Deposit to Subsidiary B upon termination of the Framework Agreements and that it was allowed to return the Overpaid Deposit in two tranches the last of which by 31 December 2013; (ii) Subsidiary A had entered into the Acquisition Agreement with the Vendor, and the payment terms of the consideration; and (iii) the Group had made the Part Payment under the Acquisition Agreement.

In the light of his knowledge about the Framework Agreements, the Overpaid Deposit, the Cancellation Agreement, the Acquisition Agreement and the Part Payment, the Listing Committee took the view that "best endeavours" should have required him, given his dual directorships in the Company and Subsidiary B, to:

(1) raise with the Board (after he became aware of the auditors' concerns at the board meeting of 27 March 2012) the credit risk issues associated with the Overpaid Deposit;

(2) take the same steps as the best endeavours would have required Mr Wu and Mr Zhou to take under points (1) to (5) in respect of their breach of the Directors' Undertaking to procure the Company to comply with the relevant Rules above (including, among other action, asking the Board how the Overpaid Deposit would be dealt with on or shortly after 28 December 2012); and

(3) closely follow up with Subsidiary B since 28 December 2012 in respect of the issue of refund of the Overpaid Deposit and, after becoming aware of Subsidiary B's execution of the Cancellation Agreement on or shortly after 31 December 2012, raise with the Board about the potential Rule implication of the repayment terms of the Overpaid Deposit, the relationship between the Cancellation Agreement and the Acquisition Agreement, and procure the Company to obtain professional advice when in doubt.

Breach of Rule 3.08(f) and Director's Undertaking

As Mr CY Li was one of the directors of Subsidiary B authorising the then chairman of Subsidiary B to handle the intended acquisition and later on approved it, the Listing Committee concluded that he should have taken the steps set out in points (1) to (3) above. Delegating his functions does not absolve him from his responsibilities or from applying the required degree of skill, care and diligence.

The Listing Committee further concluded that Mr CY Li has failed to 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 Company, breaching Rule 3.08(f) and his Undertaking to comply with that Rule to the best of his ability by failing to:

(1) raise with the Board (after he became aware of the auditors' concerns at the board meeting of 27 March 2012) the credit risk issues associated with the Overpaid Deposit as expressed by the auditors;

(2) ask the Board how the Overpaid Deposit would be dealt with in the light of entering into the Acquisition Agreement on or shortly after the draft agreement was circulated on 28 December 2012, and closely follow up with Subsidiary B in respect of the issue of refund thereafter;

(3) raise with the Board the relationship between the Cancellation Agreement and the Acquisition Agreement; and

(4) take the same steps as Mr Wu and Mr Zhou for breach of Rule 3.08(f) as set out thereunder (except (5) there).

Mr Ma, Dr Chen and Mr DM Li (All INEDs)

Mr Ma has been an INED of the Company since December 2011. He has been a certified public accountant in Mainland China since April 2011. He holds a Bachelor Degree in Accounting from Zhongnan University of Economics and Law and achieved postgraduate qualification in Accounting from Shanghai University of Finance and Economics. He was appointed as executive director and independent non-executive director in a number of PRC listed companies previously.

Dr Chen has been an INED of the Company since December 2011. He received his bachelor and master degrees in Mainland China in 1985 and 1989, and doctorate degrees in insurance and demography at the University of Pennsylvania in the US in 1993. He acted as a director of a US capital management company and a consultant for a fund. He was an independent non-executive director of a PRC listed company. He currently acts as a consultant in a number of PRC and overseas companies to provide financial and risk management consultation and training.

Mr DM Li was appointed as an INED of the Company in February 2012. He was an independent non-executive director of China Harmony Auto Holdings Limited on the Main Board during 2013 and 2014. He holds a Bachelor Degree in Law from Zhongnan University of Economics and Law. Among other positions, he had been a secretary, deputy dean and dean in certain courts in Henan Province during 1984 to 2008.

Breach of Undertaking – concerning Rules 14.34, 14.38A and 14.40

The Listing Committee concluded that the INEDs breached their Directors' Undertakings for failing to use their best endeavours to procure the Company's Rule compliance as:

(1) all of them were aware of the Framework Agreements, the Overpaid Deposit and the associated credit risks raised by the auditors since 27 March 2012 when they approved the 2011 annual results announcement at the AC meeting;

(2) at least Mr Ma and Dr Chen were clearly aware that the Core EDs were authorised to handle the 60% Acquisition at the Board meeting on 14 December 2012. Although Mr DM Li did not attend that Board meeting, he should have been aware of the same from his fellow Directors after the meeting or after the meeting minutes were prepared. They should have followed up and raised questions with the Core EDs about the transactions and the progress;

(3) when the draft Acquisition Agreement was circulated to the Relevant Directors on 28 December 2012, all of them were, or should have been, aware of the fact that:

    (a) The party to acquire the Target had changed from Subsidiary B to Subsidiary A; and

    (b) The Group would have to make the Part Payment to the Vendor in addition to the Overpaid Deposit already paid, the total amount of which exceeded the property value of the Target and, therefore, the credit risks as highlighted by the auditors had become more imminent;

(4) by 22 March 2013 it should have become clear to Mr Ma and Dr Chen that the Group had agreed with the Vendor on the refund terms in respect of the Overpaid Deposit under the Cancellation Agreement. It should have also become clear to them that the Group had made the Advance Payment not in accordance with the terms of the Acquisition Agreement. Although Mr DM Li did not attend the AC and the Board meetings on 22 March 2013, he should have learnt about the refund terms under the Cancellation Agreement and the Advance Payment made from his fellow AC members and/or Relevant Directors after the meeting or after the meeting minutes were prepared; and

(5) in any event, on 22 March 2013 or shortly after the 2012 annual results announcement and annual report were published on 24 March and 22 April 2013 respectively, they were, or should have become, aware from those documents that the Overpaid Deposit had not yet been returned to Subsidiary B, resulting in the reallocation of the Overpaid Deposit as "other receivables" in the Company's accounts, and the making of the Part Payment.

The Listing Committee took the view that:

(1) after the Board authorised the Core EDs to follow up the 60% Acquisition on 14 December 2012, or once the draft Acquisition Agreement was circulated on 28 December 2012, all the INEDs should have followed up with the Board (in particular, with the Core EDs) the issue of refund of the Overpaid Deposit;

(2) in reviewing and approving the 2012 annual results announcement on 22 March 2013 (and, for Mr DM Li, shortly after the announcement was published), the INEDs should have raised with the Company Board about the basis and reasons for, and details of:

   (a) making the Overpaid Deposit and the Part Payment (including the Advance Payment);

   (b) allowing the Vendor to return the Overpaid Deposit in the manner set out in the Cancellation Agreement, and

   (c) the potential Rule implication of the series of transactions; and

(3) as independent non-executive directors of the Company, the INEDs were expected under Code Provision A.6.7 of the Corporate Governance Code (Appendix 14 to the Exchange Listing Rules) to exercise their independent judgement and to give the Board the benefit of their skills, expertise and varied backgrounds and qualifications through active participation. Use of best endeavours would have required them to at least take the above steps, and procure the Company to seek professional advice if appropriate.

The Listing Committee concluded that the INEDs' failure to take the steps above-mentioned demonstrated a lack of proactivity on their part in procuring the Company's compliance with Rules 14.34, 14.38A and 14.40 in respect of the Cancellation Agreement and the Acquisition Agreement, and is inconsistent with the use of best endeavours required under their Directors' Undertakings.

Breach of Rule 3.08(f) and Directors' Undertakings

The current Terms of Reference of the AC which were adopted by the Board on 27 March 2012 set out the AC's responsibility, including:

(1) monitoring integrity of the Company's financial statements and annual report and accounts, half-year report, etc and reviewing significant financial reporting judgements contained in them. It further states that in reviewing those reports before submission to the board, the AC should focus particularly on, among other areas, compliance with the Exchange Listing Rules and other legal requirements in relation to financial reporting;

(2) in considering any significant or unusual items that are, or may need to be, reflected in the reports and accounts, it should give due consideration to any matters that have been raised by the external auditors; and

(3) reviewing the external auditors' management letter, any material queries raised by the external auditors to management about the accounting records, financial accounts or systems of control and management's response, and reporting to the board.

The Listing Committee concluded that they failed to discharge the AC's duties to ensure that the Company's Rule obligations in respect thereof were fully complied with:

(1) All the INEDs were aware of the auditors' concerns and the risks associated with the Overpaid Deposit.

(2) In the light of the Terms of Reference of the AC, they should have given due consideration to the auditors' concerns, discussed those concerns and risks at board meetings, and proactively monitored the progress of the return of the Overpaid Deposit, the making of the Part Payment (including the Advance Payment), and ensured that the Company's Rule obligations in respect thereof were fully complied with.

(3) Despite the above alerts suggesting the possibility of credit risks arising from the Overpaid Deposit and Part Payment, or giving rise to such concern, there has been no evidence suggesting that the INEDs had followed up with the EDs as to the recovery of the Overpaid Deposit and Part Payment or taken steps to ensure that the Company's Rule obligations in respect thereof were fully complied with.

(4) At the AC meeting of 22 March 2013, although the INEDs were aware of the repayment terms of the Overpaid Deposit and the making of the Part Payment (and the Advance Payment), they did not consider, or raise any potential Rule implication arising therefrom at the following board meeting that day.

As the INEDs failed to discharge their above duties, the Listing Committee concluded that they have also breached Rule 3.08(f) and their Directors' Undertakings to comply with it to the best of their ability. Rule 3.08 states that "…directors do not satisfy these required levels if they pay attention to the listed issuers' affairs only at formal meetings…At a minimum, they must take an active interest in the issuer's affairs and…follow up anything untoward that comes to their attention". They should have taken, but failed to take, the steps that use of "best endeavours" would have required them to do as set out in the first paragraph under the heading of "Breach of Undertaking – Concerning Rules 14.34, 14.38A and 14.40" above, and the same steps (except (5) thereunder) as Mr Wu and Mr Zhou in respect of their breach of Rule 3.08(f).

REGULATORY CONCERN

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

(1) The financial assistance occurred over a period of over 11 months (from 1 January 2013 to 26 December 2013) and the amount involved was significant. As a matter of fact, Subsidiary B provided the Overpaid Deposit to the Vendor as early as on 16 March (RMB51.5 million) and 21 December 2011 (RMB60 million);

(2) Neither the Cancellation Agreement nor the relevant refund terms of the Overpaid Deposit were disclosed in the announcements concerning the Acquisition Agreement, the MOU or the Termination Agreement. The Rule breaches in question were uncovered as a result of the disclosure of certain "over-paid deposits of approximately $141.1 million" (eventually turned out to be the Overpaid Deposit) in the 2013 interim results announcement, leading to the Listing Department's initial enquiry on 4 September 2013. The Company's reply at that time did not mention about the existence of any of the Framework Agreements or the Cancellation Agreement. They were only uncovered in the second round of enquiry of the Listing Department's investigation;

(3) The interest of the Company's shareholders had been prejudiced in terms of their right to timely receipt of information concerning the financial assistance, and vote on the transactions constituting the financial assistance and the Acquisition Agreement. There was trading in the Company's shares from 1 January 2013 to 26 December 2013;

(4) The Company took on substantial credit risk. If there were defaults on repayment of the Overpaid Deposit and/or the Part Payment, it would not have any recourse to security. The Company's interest had also been prejudiced by having been deprived of the use of the relevant funds; and

(5) Directors have an obligation to ensure that the company notifies the shareholders (and obtain their approval if required) and the market of transactions falling within the scope of Chapter 14 as soon as possible after the terms of the transaction have been finalised. Failure to do so destroys transparency, trust and confidence in the market.

SANCTIONS

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

(1) Censure the Company for its breach of Rules 14.34, 14.38A and 14.40; and

(2) Censure the Relevant Directors for breach of Rule 3.08(f) and the Directors' Undertakings.

The Listing Committee further directs:

(1) The Company to appoint an independent compliance adviser (as defined in Chapter 3A of the Listing Rules) satisfactory to the Listing Department on an ongoing basis for consultation with the Listing Rules for two years within two months from the publication of this news release. The compliance adviser shall be accountable to the audit committee of the Company.

(2) Mr Dong, Mr Yang, Mr Wu, Mr Zhou, Mr CY Li, Mr Ma and Dr Chen to each (a) attend 24 hours of training (the "**Training**") on Listing Rule compliance, director's duties, including four hours of training on notifiable and connected transactions, to be provided by institutions such as the Hong Kong Institute of Chartered Secretaries, the Hong Kong Institute of Directors or other course providers approved by the Listing Department. The Training is 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 full compliance within two weeks after training completion.

(3) As a pre-requisite of any future appointment as a director of any company listed on the Exchange, each of the former directors, Mr Li and Mr DM Li, who are not currently directors of any other company listed on the Exchange, (a) to attend the Training as a pre-requisite of any future appointment as a director of any company listed on the Exchange, to be completed before the effective date of any such appointment; and (b) to provide the Listing Department with the training provider's written certification of full compliance.

(4) The Company to publish an announcement to confirm that each of the directions in paragraphs (1) and (2) above has been fully complied with within two weeks after the respective fulfilment of each of those directions. The last announcement required to be published under this requirement is to include the confirmation that all directions in paragraphs (1) and (2) have been complied with.

(5) The Company to submit drafts of the announcements referred to in sub-paragraph (4) above 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.

(6) Following the publication of this press release, any changes necessary and any administrative matters which may emerge in the management and operation of any of the directions set out in paragraphs (1) to (5) above 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.

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