

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)

Rule 23.05 of the Rules Governing the Listing of Securities on GEM of the Exchange (the “GLRs”) restricts issuers to grant share options during black-out periods as prescribed under that rule or when the issuers possess inside information. Breaching this rule raises regulatory concerns regarding the fair treatment of the existing shareholders and an orderly market for securities trading.

Issuers should also maintain regular contact with their Compliance Adviser and keep it apprised of developments and proposed corporate actions during the fixed period as defined by GLR 6A.01(4). They should also proactively discuss and seek confirmation from their Compliance Adviser in a timely manner on whether a proposed corporate action is subject to a GLR obligation.

Consultation with their legal or financial advisers does not exonerate an issuer from its obligation to consult its Compliance Adviser on a timely basis in the circumstances specified in GLR 6A.23. If they have any doubt as to the relevant GLR requirements, the issuer and its directors should consult the Exchange.

Failure to timely disclose accurate, complete and not misleading information prejudices the interests of the issuer’s shareholders and public investors, and destroys transparency, trust and confidence in the market, and may warrant public sanctions to be imposed on those responsible for the conduct.

Directors must, in the performance of their duties as directors, act in good faith in the interests of the issuer as a whole, act for proper purpose and apply such degree of skill, care and diligence as may reasonably be expected of persons of their knowledge and experience and holding their office within the issuer. This includes where directors grant share options to participants as incentives or rewards under a share option scheme. Failure to do so would be in breach of their duties to the issuer as required under GLR 5.01. Directors must also take immediate steps to procure that the issuer complies with the GLRs as soon as possible after any non-compliance is discovered.

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

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The GEM Listing Committee of the Exchange (“GEM Listing Committee”)

CENSURES:

L & A International Holdings Limited (“Company”) (Stock Code: 8195) for breaching GLRs 23.05, 23.06A, 17.27A, 17.27B, 17.56(2) and 6A.23(1) for (a) granting share options (“**Options**”) under its share option scheme (“**Scheme**”) during black-out period, (b) failing to timely announce the Options granted, (c) failing to timely disclose the shares issued upon the exercise of the Options by their grantees, (d) failing to ensure the information contained in its announcements and corporate communication was accurate and complete in all material respects and not misleading or deceptive, and (e) failing to timely consult and, if necessary, seek advice from its Compliance Adviser before publishing regulatory announcement;

CENSURES:

- (1) **Mr Ng Ka Ho (“Mr Ng”)**, chairman, executive director (“**ED**”) and Compliance Officer of the Company for (a) failing to use his best endeavours to procure the Company’s GLR compliance (“**Best Endeavours Undertaking**”), breaching his obligation under the Declaration and Undertaking with regard to Directors given to the Exchange in the form set out in Appendix 6A to the GLRs (“**Director’s Undertaking**”), (b) breaching his duties as director and Compliance Officer under GLRs 5.01(1), (2) and (6) and 5.20(1), and (c) failing to comply with the GLRs to his best ability, breaching his obligation under the Director’s Undertaking (“**Best Ability Undertaking**”);

FURTHER CENSURES:

- (2) **Mr Wong Chiu Po (“Mr Wong”)**, former non-executive director (“**NED**”) of the Company;
- (3) **Mr Ma Chi Ming (“Mr Ma”)**, independent non-executive director (“**INED**”) of the Company;
- (4) **Mr Chan Ming Sun Jonathan (“Mr Chan”)**, former INED of the Company; and
- (5) **Mr Kwong Lun Kei (“Mr Kwong”)**, former INED of the Company

for (a) failing to use their best endeavours to procure the Company’s GLR compliance, breaching their obligations under the Directors’ Undertakings, (b) breaching their duties as directors under GLR 5.01(1), (2) and (6), and (c) failing to comply with the GLRs to their best ability, breaching their obligations under the Director’s Undertaking.

(The directors identified at (2) to (5) above are collectively referred to as the “**Relevant Directors**”.)

On 2 October 2018, the GEM Listing Committee conducted a hearing into the conduct of the Company and the Relevant Directors in relation to their obligations under the GLRs and the Directors’ Undertakings.

KEY FACTS

Share Option Scheme (“Scheme”)

Since 25 September 2014 before listing on GEM, the Company has adopted the Scheme. It had never issued any share options under the Scheme after listing until the incident set out below. Clause 5.2 of the Scheme states that the Directors “shall not” make an offer to any participant after inside information has come to their knowledge until such inside information has been published in accordance with GLRs 16.17 to 16.19, and in particular, no option may be granted during the period commencing one month immediately preceding the earlier of (i) the date of the meeting of Directors for the approval of the Company’s results (annually, half-year, quarterly and other interim period), and (ii) the deadline for the Company to publish an announcement of its results, and ending on the date of the results announcement. This clause mirrors GLR 23.05 except that the rule uses the word “may not” rather than “shall not”.

Granting of share options during BOP and subsequent disclosure

On 12 July 2016, the Company notified the Exchange in writing that, for the purpose of its announcement of the 2016 first quarterly (“1Q2016”) results, the black-out period (“BOP”) started from 13 July 2016 to 12 August 2016. On 15 July 2016, the Company announced a board meeting to be held on 12 August 2016 to consider and approve the 1Q2016 results (the 1Q2016 results were announced on 12 August 2016 eventually).

However, on 22 July 2016 at 8:30am, the Relevant Directors had a board meeting to approve the granting of 2 billion Options to 10 grantees (“Grant”), each entitling 200 million Options. The Company only announced the Grant on 23 August 2016. The key terms of the Grant to each of the grantees are as follows:

Date of Grant:	22 July 2016
Number of shares subscribable by each grantee:	200 million
Consideration for the Grant:	\$1.00
Option period:	Execisable anytime within 10 years
Exercise price:	The higher of \$0.0256 per share (the average closing price of the shares for the five business days immediately preceding 22 July 2016), the closing price of the shares on 22 July 2016 (\$0.024) and the nominal value of the share (\$0.002).
Condition for exercise of the Options:	None

Eight of the grantees are personnel of the sponsors and underwriter involved in the Company’s listing on GEM in 2014. One of the remaining grantees (“Ms Lee”) was a director, shareholder and main designer of the Company’s subsidiary. The other grantee was the legal representative of the Company’s subsidiary in the PRC.

On 5 August 2016, the Company published a Monthly Return of Equity Issuer on Movements in Securities (“**Monthly Return**”) for the month ended 31 July 2016 without disclosing the Grant.

From 20 to 21 August 2016, eight grantees emailed the Company notifying their exercise of the Options granted to them. On 21 August 2016, the Board had a meeting to approve the issue of shares to the grantees subject to the grantees’ due execution and return of the notices of exercise of share options together with the required payment for the shares to be issued. On the same day, the eight grantees sent the notices of exercise to the Company and paid for the shares to be issued.

On 22 August 2016, the Company issued 1.6 billion shares to the eight grantees (“**Shares Issued**”).

On 23 August 2016, the Company announced the Grant (“**Grant Announcement**”) without disclosing 1.6 billion Options had already been exercised and the Shares Issued had already been allotted to eight grantees. Instead, the announcement still referred to the shares under the Options, 1.6 billion of which had already been issued, as “to be issued” upon exercise of the Options.

On 24 August 2016 at 7:57am, the Company issued an inside information announcement (“**II Announcement**”) concerning its disputes on the terms of a voluntary conditional offer with the offeror. The announcement also referred to the Shares Issued as “to be issued” upon exercise of the Options. Only at 8:04am did the Company publish a Next Day Disclosure Return (“**Next Day Return**”) revealing the Shares Issued on 22 August 2016.

According to the Company:

The Grant

At the board meeting on 22 July 2016, the Relevant Directors considered the proposed Grant raised by Mr Ng, and decided to make the Grant to:

- (1) Ms Lee to pacify her as Ms Lee had from time to time brought her dissatisfaction to Mr Wong’s attention, and on 21 July 2016, she informed Mr Ng that she would resign with immediate effect; and
- (2) Relevant personnel of the sponsor and underwriter involved in the Company’s listing not only for rewarding them for their past contribution but also in light of the future contribution that they may bring to the Group with reference to their background.

The Purported Offer

The Company was aware of the obligation to announce the Grant and had prepared a draft announcement. However, since receiving a voluntary conditional offer to acquire the entire issued share capital of the Company on 22 July 2016 (“**Purported Offer**” and the “**Offeror**” accordingly), all attention, time and effort had been diverted to deal with it. The Offeror side, complaints and litigations had kept the EDs and senior management busy, exhausted and stressed out, leaving the Company basically with no time to deal with the daily operations and other compliance matters. The Company’s management had therefore “inadvertently overlooked” the disclosure issue concerning the Grant.

Company denied breaching GLR 23.05 and 17.27B, but admitted breaching GLRs 23.06A, 17.27A, 17.56(2) and 6A.23(1)

GLR 23.05 states that an issuer “may not” grant any options during the period specified therein (i.e. the BOP). The Company relied on legal advice to support its assertions that the ordinary meaning of the word “may” is quite clearly and unambiguously permissive and that GLR 23.05 is not expressed in a mandatory term. According to the Company, although the Scheme states that the issuer “shall not” grant option during BOP, as GLR 23.05 was permissive in this regard, there is a contradiction between the GLRs and the Scheme. As a result, the GLRs should prevail.

The Company further submitted that, as it had not yet started preparing the 1Q2016 results when it made the Grant, it did not possess any inside information which would have prevented it from making the Grant under GLR 23.05.

The Company also submitted that the wordings of GLR 17.27B do not require information in a monthly return to be accurate (and/or complete). Insofar as a monthly return in the Exchange’s format is filled in and submitted in good time, GLR 17.27B ceases to be concerned with the quality of the return (which falls within the ambit of GLR 17.56(2)).

The Company, however, admitted breaching GLRs 23.06A, 17.27A, 17.56(2) and 6A.23.

Mr Ng, Mr Wong and Mr Ma not admitted breaching GLR 5.01(1), (2) and (6) and denied breaching Undertakings

Mr Ng, Mr Wong and Mr Ma did not admit breaching GLR 5.01(1), (2) and (6), and denied breaching (a) their Best Ability Undertakings; and (b) their Best Endeavours Undertakings to procure the Company’s GLR compliance.

Mr Chan and Mr Kwong admitted breaching GLR 5.01(1), (2) and (6) and Undertakings

Mr Chan and Mr Kwong admitted breaching GLR 5.01(1), (2) and (6), and admitted breaching (a) their Best Ability Undertakings; and (b) their Best Endeavours Undertakings to procure the Company’s GLR compliance.

Listing Rule Requirements

GLR 23.05, titled “Restriction on the time of grant of options”, provides that the issuer may not grant any options after inside information has come to its knowledge until it has announced the information; and “in particular, it may not grant any option during the period” specified therein (ie Black-out Period or BOP).

GLR 23.06A requires the issuer to announce details of the options as soon as possible upon the granting under its option scheme.

GLRs 17.27A(1) and (2)(b) requires the issuer to publish a Next Day Return no later than 30 minutes before the earlier of the start of the morning trading session or any pre-opening session on the business day next following the relevant events, including, among others, the exercise of an option under a share option scheme other than by a director of the issuer.

GLR 17.27B requires the issuer to publish a Monthly Return within the prescribed time frame, in the prescribed form and containing the prescribed information including, among other things, the number as at the close of such period of equity securities issued and which may be issued pursuant to options, etc.

GLR 17.56(2) stipulates that all announcements and corporation communication required under the GLRs must be accurate and complete in all material respects and not be misleading or deceptive.

GLR 6A.23(1) requires the issuer to, during the fixed period defined under GLR6A.01(4), consult with and, if necessary, seek advice from its Compliance Adviser on a timely basis before the publication of any regulatory announcement, etc.

GEM LISTING COMMITTEE'S FINDINGS OF BREACH

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

Company's breaches

Breach of GLR 23.05

The title of GLR 23.05 clearly states that the provision concerns "restriction on the time of grant of options". The GEM Listing Committee considered that the use of the words "may not" was restrictive in the rule and in its ordinary meaning, and concluded that GLR 23.05 specifically restricted issuers to grant any option during BOP, and such restriction was not subject to any knowledge of inside information.

The BOP in respect of the Company's 1Q2016 results was from 13 July 2016 until 12 August 2016. As the Company granted the Options on 22 July 2016, which was within the BOP, the GEM Listing Committee concluded that the Company breached GLR 23.05.

Breach of GLRs 23.06A, 17.27A, 17.27B, 17.56(2) and 6A.23(1)

The GEM Listing Committee found, and noted that the Company had admitted, that the Company was required, but failed, to comply with the following requirements and therefore breached the corresponding GLRs. The Company admitted these breaches:

- (1) The requirement under GLR 23.06A to announce the Grant made on 22 July 2016 as soon as possible after it was made. The Company only announced the Grant on 23 August 2016, ie over a month after it was made.
- (2) The requirement under GLR 17.27A to publish the Next Day Return on 23 August 2016 revealing the exercise of the Options by, and the allotment of the Shares Issued to, the relevant grantees on 22 August 2016. The Company only published the Next Day Return on 24 August 2016, with a delay of one day.
- (3) The requirement under GLR 17.56(2) that all the Company's announcements and corporate communications had to be accurate and complete in all material respects, and not misleading or deceptive. The Company failed to comply with GLR 17.56(2) in respect of:
 - (i) the Monthly Return published on 5 August 2016; and
 - (ii) the Grant Announcement and the II Announcement published on 23 and 24 August 2016 as the Company failed to disclose that 1.6 billion shares had been issued and allotted on 22 August 2016 under the Options (i.e. the Shares Issued); instead, the announcements described the shares under the Options as "to be issued".
- (4) The requirement under GLR 6A.23(1) to consult and seek advice from TC Capital International Limited (formerly known as TC Capital Asia Limited) ("**TC Capital**"), the Company's then Compliance Adviser on a timely basis in respect of the Grant and the Grant Announcement before the announcement was published. The Company approved the Grant on 22 July 2016 without consulting or seeking advice from TC Capital, and only circulated the draft Grant Announcement to TC Capital for review on 22 August 2016.

The GEM Listing Committee found the Company also breached the requirements under GLR 17.27B to disclose the 1.8 billion Options and the new shares which might be issued under the Options in the Monthly Return published on 5 August 2016. The Company failed to do so.

Breach of Directors' Duties and Undertakings

Under GLRs 5.01 and 5.03, the Board is collectively responsible for the Company's management and operations, and the Directors are collectively and individually responsible for ensuring the Company's full compliance with the GLRs.

Relevant Directors

The GEM Listing Committee noted the Relevant Directors' submissions that they had considered the GLR 23.05 implications at the board meeting on 22 July 2016 before approving the Grant. In particular, Mr Kwong submitted that he enquired with the Company Secretary about the status of the preparation of the 1Q2016 results, and was told that the preparation had yet to commence. They then decided to approve the Grant as (a) it was in the interest of the Company to do so, and (b) as the Company had not yet started preparing the 1Q2016 results at that time, it did not possess any inside information.

According to the Relevant Directors, all their attention, time and effort had been diverted to deal with the Purported Offer after receiving it on the same day the Grant was made. They only became aware on 18 August 2016 that the Company had not announced the Grant when the Board discussed the terms of the Purported Offer announced by the Offeror on that day.

Breach of Undertakings to use best endeavours

The Grant – Breach of GLR 23.05

The GEM Listing Committee noted that, just about a week after the BOP had started on 13 July 2016, the Relevant Directors approved the Grant at the board meeting on 22 July 2016 without consulting the Compliance Adviser or any professional advisers (except with its legal adviser concerning the procedure and the drafting of the relevant documents) in respect of the GLR 23.05 requirements notwithstanding:

- (1) they were aware of that rule;
- (2) the Scheme restricted the granting of options during BOPs; and
- (3) the Company was relatively newly listed at that time and, according to its submissions, the Company had not granted any option under the Scheme to anyone before.

The GEM Listing Committee concluded that the Relevant Directors failed to use their best endeavours to procure the Company to comply with GLR 23.05 and the Scheme, which restricted granting of share options during BOP, by approving the Grant without consulting the Compliance Adviser and professional advisers as to whether the Grant had any GLR implications.

Grant Announcement – Breach of GLR 23.06A

The GEM Listing Committee noted that from 27 July to 8 August 2016, the Company received the notices of acceptance of the Grant from the grantees, and from 25 July to 1 August 2016, Mr Ng (ED), Mr Wong (NED) and Mr Ma (INED) approved and signed the board minutes of 22 July 2016. Mr Kwong and Mr Chan (both INEDs) did so on 18 August 2016.

The GEM Listing Committee took the view that Mr Ng should have been aware that the Grant had not been announced under GLR 23.06A at least when he approved and signed the minutes of the board meeting of 22 July 2016 on 25 July 2016, received the notices of acceptance of the Grant by the grantees and was verbally informed of the acceptance of the other grantees on 27 and 28 July and 8 August 2016. The GEM Listing Committee concluded that Mr Ng failed to use his best endeavours to procure the Company to comply with GLR 23.06A in respect of the Grant by taking steps to follow up on the progress of the preparation of the Grant Announcement and to arrange for its publication as soon as possible after the Grant was made on 22 July 2016.

The GEM Listing Committee also considered that Mr Wong and Mr Ma should have been aware that the Grant had not been announced under GLR 23.06A when they approved and signed the minutes of the board meeting of 22 July 2016 on 28 July and 1 August 2016 respectively.

The GEM Listing Committee noted that Mr Wong, Mr Chan, Mr Kwong and Mr Ma, who also submitted that the Company was in urgent and desperate need to make the Grant, did not at least proactively check with Mr Ng, the Company Secretary and/or the senior financial manager (“**Manager**”) in charge of GLR compliance about the progress of the Grant shortly after they approved it at the board meeting of 22 July 2016, and failed to ensure that the Company announced the Grant as soon as possible under GLR 23.06A. The GEM Listing Committee therefore concluded that the failure to do so by Mr Wong, Mr Chan, Mr Kwong and Mr Ma demonstrated a lack of proactivity on their part in procuring the Company’s compliance with GLR 23.06A, and was inconsistent with the use of best endeavours required under their Director’s Undertakings.

The GEM Listing Committee further noted that even though Mr Wong and all INEDs claimed that they were only aware of the non-disclosure of the Grant on 18 August 2016, they did not take active steps to ensure that the Company announced it as soon as possible even thereafter. According to Mr Kwong, on that day he had urged the Company Secretary to announce the Grant. Mr Chan submitted that he had reminded the Company Secretary to deal with the disclosure of the Grant. However, despite the fact that there was already a delay of 27 days in announcing the Grant, both of them had not followed up with the Company Secretary or the Manager until 22 August 2016 when they approved the draft Grant Announcement. As a result, the Grant Announcement was only published on 23 August 2016.

The GEM Listing Committee therefore concluded that the Relevant Directors breached their Undertakings to use their best endeavours to procure the Company to comply with GLR 23.06A.

Next Day Return and Monthly Return – Breach of GLRs 17.27A, 17.27B and 17.56(2)

The GEM Listing Committee noted that Mr Ng was the ED who was responsible for, and approved, the Monthly Return and the Next Day Return before they were published on 5 and 24 August 2016 respectively.

In view of Mr Ng’s knowledge and involvement in the Grant and the Shares Issued, and in the light of GLR 5.03 and being the responsible ED, the GEM Listing Committee considered that Mr Ng breached his Undertaking to use his best endeavours to procure the Company to comply with:

- (1) GLRs 17.27B and 17.56(2) in respect of the Monthly Return which did not disclose the Options granted and the required details; and
- (2) GLR 17.27A in respect of the Next Day Return which was only published on 24 August 2016.

The Grant Announcement and the II Announcement on 23 and 24 August 2016 – Breach of GLR 17.56(2)

The GEM Listing Committee noted that the Relevant Directors were aware of eight of the grantees’ intention to exercise the Options from their emails to the Company during 20 to 21 August 2016 notifying their intention to exercise the Options.

The GEM Listing Committee further noted that on 21 August 2016, the Board had a meeting to approve the Shares Issued subject to the grantees' due execution and return of the notices of exercise of Options together with the payment of the exercise price. The grantees sent the notices of exercise to the Manager and paid for the exercise price. The Manager did not forward the notices to the Relevant Directors. According to Mr Ng, later that day, he verbally followed up with the Company Secretary and the Manager in respect of the progress of the Shares Issued.

The other Relevant Directors submitted that they had no knowledge as to when the grantees paid for the Shares Issued and when the shares were allotted to the grantees because they did not follow up on the progress with the Company after the 21 August 2016 board meeting as the process was administrative in nature.

The GEM Listing Committee also noted that on 22 August 2016, the Company prepared the draft Grant Announcement and circulated it to its legal advisers (at 11:24am and 1:21pm respectively) and TC Capital (at 3:03pm). At 4:37pm, it was informed by the share registry that 1.6 billion shares had been issued and allotted to the eight grantees. No Relevant Director was involved in the issuing process except that the Manager verbally reported the progress to Mr Ng. At 7:41pm, the Company circulated the latest draft Grant Announcement to all Directors, and at 7:45pm Yu Ming circulated the draft II Announcement to the Company. The draft Grant Announcement was reviewed by the Relevant Directors and approved by Mr Ng before publication on the following day. The II Announcement was reviewed by the Company's legal advisers and considered by TC Capital before it was published on 24 August 2016.

The GEM Listing Committee concluded that Mr Ng was or should have been aware of the Shares Issued made at 4:37pm on 22 August 2016 after verbally following up with the Company Secretary and reported by the Manager in respect of the progress of the Shares Issued. Accordingly, when the draft Grant Announcement and the draft II Announcement were circulated to them for review at 7:41pm and later that evening on 22 August 2016, Mr Ng should have been aware that 1.6 billion of shares had already been allotted, and that the relevant statements in the draft Grant Announcement and the draft II Announcement which described the shares as "to be issued upon exercise of the Options granted" were inaccurate and misleading. In any event, being an ED, the Chairman and Compliance Officer, he should have taken steps to check and verify with those in charge of the preparation and publication of the Grant Announcement and II Announcement as to whether the shares had been issued, to ensure accuracy and completeness of those two announcements before publication.

The GEM Listing Committee therefore concluded that Mr Ng breached his Undertaking to use his best endeavours to procure the Company to comply with GLR 17.56(2) in respect of the Grant Announcement and the II Announcement.

The GEM Listing Committee considered that the grantees' indication in their emails would have alerted the other Relevant Directors that the Shares Issued could have taken place at any time upon the Board's approval of the share allotment on 21 August 2016. In fact, the Shares Issued was made on the following day at 4:37pm.

Accordingly, when the draft Grant Announcement and the II Announcement were circulated to the Relevant Directors for review at 7:41pm and later that evening on 22 August 2016, the Relevant Directors (other than Mr Ng) should have at least asked Mr Ng (the Compliance Officer), the Company Secretary and/or the Manager involved about the progress of the Shares Issued to ensure that the Grant Announcement and the II Announcement are accurate in all material respects and not misleading. The GEM Listing Committee therefore concluded that they breached their Undertakings to use their best endeavours to procure the Company to comply with GLR 17.56(2) in respect of those announcements.

No consultation with Compliance Adviser – Breach of GLR 6A.23(1)

The GEM Listing Committee noted that the Company did not inform or consult TC Capital in respect of (a) the Grant, (b) the Shares Issued, and (c) the Grant Announcement (until 22 August 2016) because it had already engaged Hastings & Co as its legal adviser and Yu Ming Investment Management Limited, its financial adviser concerning the Purported Offer, and inadvertently neglected to inform or consult TC Capital. The GEM Listing Committee emphasised that consultation with other professional advisers did not absolve the Company from its obligation to consult its Compliance Adviser under GLR 6A.23(1).

The GEM Listing Committee noted that the Relevant Directors had not taken any step to procure the Company to consult the Compliance Adviser in respect of the Grant before they approved it. In particular, given the circumstances surrounding the Grant, the GEM Listing Committee concluded that the Relevant Directors breached their Undertakings to use their best endeavours to procure the Company to comply with GLR 6A.23(1).

Breach of GLR 5.01(1), (2) and (6) by Relevant Directors

In view of the circumstances of the case, and the Relevant Directors' knowledge, experience and position in the Company, the GEM Listing Committee concluded that the Relevant Directors failed to fulfill their duties of skill, care and diligence to a standard at least commensurate with the standard established by Hong Kong law, in particular, the duties to (a) act in good faith in the interests of the Company as a whole, (b) for proper purpose, and (c) apply a reasonable degree of skill, care and diligence in approving the Grant, which led to, or contributed to, the relevant GLR breaches by the Company, breaching GLR 5.01(1), (2) and (6):

- (1) by approving the Grant during BOP without prior consulting the Compliance Adviser or professional adviser, notwithstanding their knowledge of the explicit restriction under GLR 23.05 and the Scheme;
- (2) while claiming that the Company was in urgent and desperate need to retain Ms Lee, and admitting in the Company's submission that the Grant was made in a haste:
 - (a) the explanation given by the Relevant Directors for making the Grant in such a haste not only to Ms Lee but also to the nine other grantees most of whom were personnel of the sponsors and underwriters of the Company's listing was not reasonably justified;

- (b) there was no apparent interest or commercial benefit to the Company in granting the Options to the grantees without any condition on their exercise to ensure that the grantees would continue to contribute to the Company's business for a certain period after they accepted the Options at a fixed price for a nominal value of \$1;
 - (c) the other Relevant Directors failed to check with the Company Secretary and/or the Manager in charge of GLR compliance, or Mr Ng, the Compliance Officer as to the progress of the Grant and procure the Company to announce the Grant required under GLR 23.06A until over a month later;
- (3) the Company was then facing a hostile takeover on the same day as making the Grant, and the non-disclosure of the Grant (by way of announcement or in the Monthly Return) until 23 August 2016 resulted in the initial exclusion of the Option holders from the Purported Offer;
- (4) the Relevant Directors were, or should have been, aware of the approval of the Shares Issued on 21 August 2016 but nevertheless approved the publication of the Grant Announcement and the II Announcement on 22 and 23 August 2016 which contained the inaccurate and misleading description of the relevant shares as "to be issued upon exercise of the Options granted" without checking with Mr Ng (by the other Relevant Directors), the Company Secretary and/or the Manager about the progress of the Shares Issued; and
- (5) the Relevant Directors did not procure the Company to consult the Compliance Adviser in respect of the Grant and the draft Grant Announcement as soon as possible after 22 July 2016 but until 23 August 2016.

The GEM Listing Committee further concluded that Mr Ng who was ultimately responsible for the publication of the Monthly Return and the Next Day Return, failed to discharge his duty to apply a reasonable degree of skill, care and diligence in ensuring the Company's compliance with GLRs 17.27A, 17.27B and 17.56(2), in breach of GLR 5.01(6).

Breach of GLR 5.20(1) by Mr Ng

The GEM Listing Committee concluded that Mr Ng, being the Company's Compliance Officer, failed to take steps to ensure the Company's compliance with the GLRs and failed to discharge the Compliance Officer's duties as he submitted, and therefore breached GLR 5.20(1).

Breach of Undertakings to comply with the GLRs to the best ability

The GEM Listing Committee therefore concluded that, with the breach of GLR 5.01(1), (2) and (6) by all the Relevant Directors, and GLR 5.20(1) by Mr Ng, the Relevant Directors also breached their Undertaking to comply with the GLRs to their best ability.

REGULATORY CONCERN

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

- (1) The Company's GLR breaches occurred in a series within a month and stemmed from the approval of the Grant of the Options during the BOP by the Relevant Directors notwithstanding their awareness of the restriction under GLR 23.05 and the Scheme.
- (2) The grantees received the Options during the BOP granted by the Company which should not have been granted under GLR 23.05 and the Scheme. Eight of the grantees exercised the Options and sold all the shares on open market to unknown buyers on 24 and 25 August 2016 and might have had made significant gain based on the closing prices of the shares on those two days.
- (3) The interest of the Company's shareholders and public investors (including the Offeror) had been prejudiced as they had been deprived of accurate and complete information relating to the Grant, timely information relating to the exercise of the Options on 22 August 2016, and the information relating to the Shares Issued in the Grant Announcement and the II Announcement published on 23 and 24 August 2016 respectively.
- (4) Although the Company had a Compliance Adviser at that time as required by the GLRs, it did not consult the Compliance Adviser in respect of GLR implications before the Grant was made, even in the light of the restriction under the Scheme. Consultation with the Compliance Adviser in respect of the Grant Announcement was only made about a month after the Grant was made and shortly before the announcement was issued.
- (5) The Company's interpretation of GLR 23.05 set out in its submissions clearly demonstrates that the Company and the Relevant Directors do not have a proper understanding at least of that particular rule.
- (6) Directors have an obligation to ensure that the company would not issue share options during BOP in breach of the GLRs and the Scheme, and that its announcements and corporation communications are published in a timely manner, and be accurate and complete in all material respects and not be misleading or deceptive. Failure to do so destroys transparency, trust and confidence in the market.
- (7) The Grant involved issue of options to grantees at a nominal consideration, lacked reasonable commercial benefits for the Company, and led to the Shares Issued which have diluted the voting rights of the existing shareholders' investments by 6.25% per cent. The breaches of the Company and the Relevant Directors also raised regulatory concerns regarding the fair treatment of the existing shareholders and an orderly market for securities trading.
- (8) The Exchange received three complaints (including from the Offeror) against the Company in respect of the GLR breaches in this matter. The Offeror stated in its announcement of 2 September 2016 that the Company's failure to disclose the Grant within the time required under GLRs prejudiced its position as it had not taken into account the Options and the Shares Issued when it announced the Purported Offer on 18 August 2016.

SANCTIONS

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

- (1) Censure the Company for its breaches of GLRs 23.05, 23.06A, 17.27A, 17.27B, 17.56(2) and 6A.23(1);
- (2) Censure Mr Ng for breach of GLRs 5.01(1), (2) and (6), 5.20(1) and his Director's Undertaking to use his best endeavours to procure the Company to comply with the GLRs and comply with the GLRs by himself to his best ability; and
- (3) Censure the other Relevant Directors for breach of GLR 5.01(1), (2) and (6) and their Directors' Undertakings to use their best endeavours to procure the Company to comply with the GLRs and comply with the GLRs by themselves to their best ability.

The GEM Listing Committee further directed:

- (1) The Company to appoint an independent Compliance Adviser (as defined in GLR 6A.01 namely, any corporation or authorised financial institution 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 and, as applicable, which is appointed under GLR 6A.19 or GLR 6A.20 to undertake work as a Compliance Adviser) satisfactory to the Department on an ongoing basis for consultation on GLR compliance for two years within four weeks from the publication of this press release. The Company is to submit the proposed scope of retainer to the Department for comment before appointment of the Compliance Adviser. The Compliance Adviser shall be accountable to the audit committee of the Company.
- (2) Mr Ng, Mr Ma and Mr Chan (who is currently a director of other listed companies on the Exchange) to each (a) attend 24 hours of training on Listing Rule compliance and director's duties, including four hours of training on the requirements under the GLRs in respect of directors' duties and corporate governance, 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 Department ("**Training**"). The Training is to be completed within 90 days from the publication of this news release; and (b) provide the 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, Mr Wong and Mr Kwong, who are not currently a director of any other company listed on the Exchange, (a) to attend the Training, to be completed before the effective date of any such appointment; and (b) to provide the Department with the training provider's written certification of full compliance.
- (4) The Company is to publish an announcement to confirm that each of the directions in paragraphs (1) and (2) (in respect of Mr Ng and Mr Ma) above has been fully complied with within two weeks after the fulfillment of that direction.
- (5) The Company to submit draft of the announcements referred to in (4) above for the Department's comment and may only publish the announcements after the Department has confirmed 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 are to be directed to the Department for consideration and approval. The Department should refer any matters of concern to the GEM Listing Committee for determination.

Hong Kong, 11 December 2018