

This case is a reminder of the role that directors must play to ensure a listed issuer's compliance with the Listing Rules.

The Company's admitted breaches of the Listing Rules were caused by a failure to correctly identify certain connected transactions. Although the responsibility for Listing Rule compliance had been delegated to senior management, the Relevant Directors failed to provide adequate supervision of or raise enquiries with senior management, and did not exercise their own independent judgment in respect of those transactions. Ultimately, the responsibility for a listed issuer's Listing Rule compliance lies with the directors.

The Company's breaches of the connected transactions provisions deprived the Company's investors and shareholders of timely receipt of information in relation to the connected transactions, and for the independent shareholders, their right to vote on those transactions. Compliance with the connected transactions requirements under the Listing Rules is an important element of the responsibilities of a listed issuer and its directors.

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

CENSURES:

- (1) **Weiqiao Textile Company Limited ("Company")** (Stock Code: 2698)

for breaching Rules 13.46(2)(a), 13.49(1), 13.49(3)(i)(c), 14.34, 14A.35, 14A.36, 14A.46, 14A.49, 14A.55 and 14A.56 of the *Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited* ("**Exchange Listing Rules**") for failing to comply with the disclosure and shareholders' approval requirements for certain connected transactions and for a delay in financial reporting;

AND FURTHER CENSURES:

- (2) **Ms Zhang Hong Xia** ("Ms Zhang"), current executive director ("**ED**") and Chairman of the Company;

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- (3) **Ms Zhao Su Wen** (“Ms Zhao”), current ED and Chief Financial Officer of the Company; and
- (4) **Mr Zhang Jing Lei** (“Mr Zhang”), current ED and Company Secretary of the Company;

for breaching Rules 3.08(d) (Ms Zhang and Ms Zhao only) and 3.08(f) of the Exchange Listing Rules, and their obligations under the *Declaration and Undertaking with regard to Directors* given to the Exchange in the form set out in Appendix 5H to the Exchange Listing Rules (the “**Undertaking**”) for failing to comply with the Exchange Listing Rules to the best of their ability and failing to use their best endeavours to procure the Company’s compliance with the Exchange Listing Rules (the directors identified at (2) to (4) above are collectively referred to as the “**Relevant Directors**”).

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, and not to any other past or present members of the board of directors of the Company.

SETTLEMENT

As a consequence of settlement:

- (a) the Company admits its breaches of the Listing Rules as described above; and
- (b) the Relevant Directors admit their breaches of the Listing Rules and their Undertakings as described above.

The Company and the Relevant Directors accept the respective sanctions imposed on them by the Listing Committee as set out below.

FACTS

This case concerns the non-disclosure of transactions made between the Company and its parent (“**Parent**”), and the Company’s delay in publishing its annual results and annual report.

In 2016, the Company entered into certain fund transactions with its Parent, which constituted the provision of financial assistance by the Company to the Parent (“**Fund Transactions**”). Based on the relevant percentage ratios, the Fund Transactions were discloseable and continuing connected transactions. The Fund Transactions were subsequently discovered by the Company’s auditor at the time, which resulted in a delay in the publication of the Company’s annual results and annual report.

The Company held an extraordinary general meeting to seek, amongst others, independent shareholders’ approval and ratification of the Fund Transactions, but the independent shareholders voted against such proposed resolution. The Fund Transactions had been repaid and no financial loss was ultimately caused to the Company.

Exchange Listing Rule Requirements

The Fund Transactions and the publication of the Company's annual results and annual report were subject to the following requirements of the Exchange Listing Rules:

- (a) Rule 13.49(1) and 13.46(2)(a) stipulates the timing for the publication of a listed issuer's preliminary announcement of results and annual report.
- (b) Rule 13.49(3)(i)(c) provides that where a listed issuer is unable to announce its preliminary results in accordance with Rules 13.49(1) and (2), it must make an announcement containing its results for the financial year based on unaudited management accounts.
- (c) Rule 14.34 provides that a listed issuer must inform the Exchange and publish an announcement as soon as possible after the terms of, *inter alia*, a discloseable transaction or a major transaction have been finalised.
- (d) Rule 14A.35 provides that a listed issuer must announce a connected transaction as soon as practicable after its terms have been agreed.
- (e) Rules 14A.36 and 14A.46 provide that a connected transaction must be conditional upon shareholders' approval at a general meeting held by the listed issuer, and a circular must be issued to shareholders.
- (f) Rule 14A.49 provides that a listed issuer must disclose its connected transactions conducted during the financial year in its annual report.
- (g) Rules 14A.55 and 14A.56 set out the requirements for annual reviews of continuing connected transactions by the listed issuer's independent non-executive directors and auditors.

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. These duties include a duty to avoid actual and potential conflicts of interest and duty (Rule 3.08(d)) and a duty to apply such degree of skill, care and diligence as may reasonably be expected of a person of his/her knowledge and experience and holding his/her office within the issuer (Rule 3.08(f)).

The Relevant Directors were under an obligation, pursuant to their respective Undertakings, to comply to the best of their ability with the Exchange Listing Rules and to use their best endeavours to procure the Company's compliance with the Exchange Listing Rules.

LISTING COMMITTEE'S FINDINGS OF BREACH

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

Company's breaches

The Listing Committee noted that the Company admitted that it had breached Rules 13.46(2)(a), 13.49(1), 13.49(3)(i)(c), 14.34, 14A.35, 14A.36, 14A.46, 14A.49, 14A.55 and 14A.56 and found that the Company did breach these Rules by failing to comply with the disclosure and shareholders' approval requirements for the Fund Transactions and for a delay in financial reporting.

Relevant Directors' breaches

The Listing Committee concluded that (i) Ms Zhang and Ms Zhao breached Rule 3.08(d), (ii) the Relevant Directors breached Rule 3.08(f), and (iii) the Relevant Directors breached their respective Undertakings for failing to comply with the Exchange Listing Rules to the best of their ability and to use their best endeavours to procure the Company's compliance with the Exchange Listing Rules:

- (a) Ms Zhang and Ms Zhao both held an interest in the Parent. They approved of the Fund Transactions without ensuring that the other directors had considered and approved the same, and without declaring their interests in the Fund Transactions.
- (b) The Relevant Directors approved the Fund Transactions, and being aware or ought to have been aware that the Parent is a connected party, did not take any steps to ensure that the Company complied with the Exchange Listing Rules at the time of the transactions.
- (c) Even though the Relevant Directors had delegated the responsibility for Listing Rule compliance in respect of the Fund Transactions to senior management, this delegation does not absolve the Relevant Directors from their own responsibility to ensure the Company's compliance with the Exchange Listing Rules. There must be adequate supervision of senior management, and the Relevant Directors must also exercise their own independent judgment.
- (d) By reason of the conduct of the Relevant Directors, the Company breached the relevant provisions of the Exchange Listing Rules in relation to the Fund Transactions, which also resulted in the delay in the Company's publication of its annual results and annual report.

REGULATORY CONCERN

This case is a reminder of the role that directors must play to ensure a listed issuer's compliance with the Exchange Listing Rules:

- (1) Whilst a specific function, such as compliance with the Listing Rules, may be delegated to appropriately qualified staff, the ultimate responsibility for the performance of that function may not be delegated. The Relevant Directors were thus obliged to consider the Exchange Listing Rule implications of the Fund Transactions themselves, adequately supervise senior management in the performance of their delegated function, and apply their own minds to Exchange Listing Rule compliance.

- (2) The Company's breaches of the connected transactions provisions, particularly the independent shareholders' approval requirement, deprived the Company's investors and shareholders of timely receipt of information in relation to the Fund Transactions, and for the independent shareholders, their right to vote on those transactions, as they are entitled to do so under the Exchange Listing Rules. Given the Company's failure to comply with the relevant connected transactions provisions, and given that the Company took on substantial credit risk in relation to the Fund Transactions, the independent shareholders' rights and interests were prejudiced.
- (3) This is a serious case as the transactions involved significant sums of money and took place repeatedly during the course of 2016. It should also be noted that the independent shareholders of the Company subsequently refused to approve or ratify the Fund Transactions.

SANCTIONS

Having made the findings of breach stated above, the Listing Committee decides to:

- (1) censure the Company for its breach of Rules 13.46(2)(a), 13.49(1), 13.49(3)(i)(c), 14.34, 14A.35, 14A.36, 14A.46, 14A.49, 14A.55 and 14A.56; and
- (2) censure the Relevant Directors for their breaches of Rule 3.08(d) (in the case of Ms Zhang and Ms Zhao), Rule 3.08(f), and their breach of Undertakings.

The Listing Committee further directs:

- (3) the Company to appoint, within two months from the publication of this news release, an independent compliance adviser (as defined in Chapter 3A of the Exchange Listing Rules) satisfactory to the Listing Department on an ongoing basis for consultation regarding compliance with the Exchange Listing Rules for two years;
- (4) the Relevant Directors to (a) attend 24 hours of training (the "**Training**") on Exchange Listing Rule compliance, director's duties, including 4 hours of training on notifiable and connected transactions, 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, such 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 full compliance within two weeks after Training completion;
- (5) the Company is to publish an announcement to confirm that the directions in paragraphs (3) to (4) above have been fully complied with within two weeks after the respective fulfilment of each of those directions;

- (6) the Company is to submit a draft announcement referred to above for the Listing Department's comment and may only publish the announcement after the Listing Department has confirmed it has no further comment on it; and
- (7) following the publication of this news 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 (3) to (5) above 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.

Hong Kong, 17 May 2019