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# ARTINI

**ARTINI CHINA CO. LTD.**

**雅天妮中國有限公司**

*(Incorporated in Bermuda with limited liability)*

**(Stock code: 789)**

## **ANNOUNCEMENT INTERNAL CONTROL REVIEW**

Reference is made to the Press Release published by the Stock Exchange on 23 August 2011 and the Company's announcement dated 9 September 2011. ZHONGLEI Risk, an independent professional adviser, conducted the Internal Control Review and completed the First Report containing recommendations to improve the Company's internal controls to ensure compliance with Rules 2.13, 13.09(1) and 13.10. The Company provided the Listing Division with the First Report on 7 November 2011.

In summary, the objectives of the Internal Control Review are:

- to review the internal control systems of the Company in relation to the Company's compliance with Rules 13.09(1), 13.10 and 2.13 of the Listing Rules;
- to identify significant deficiencies in the relevant procedures, systems and internal controls in relation to the Company's compliance with Rules 13.09(1), 13.10 and 2.13 of the Listing Rules; and
- to make recommendations to management of the Company for improvements.

Based on the results of the Internal Control Review, ZHONGLEI Risk considers that the Company is required to strengthen and formalize its existing internal control system. The Company agrees that the findings identified by ZHONGLEI Risk are weaknesses in the Company's internal control system and the Company will consider adopting the recommendations made by ZHONGLEI Risk in the First Report pragmatically and in a timely manner. Furthermore, the Company believes that, by adopting the recommendations in the First Report, the Company's internal control system will be improved to ensure the Company's compliance with Rules 13.09(1), 13.10 and 2.13 of the Listing Rules. The Second Report regarding the Company's full implementation of the recommendations will be issued by ZHONGLEI Risk within a further period of two months after the issue of the First Report.

As stated in the press release published by The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 23 August 2011 (the “**Press Release**”), the Listing Committee (the “**Committee**”) of the Stock Exchange, among other things, (i) censured Artini China Co. Ltd. (the “**Company**”) for its breaches of Rules 13.09(1), 13.10 and 2.13(2) of the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”), and (ii) directed that the Company:

- (a) retain an independent professional adviser satisfactory to the Division (the “**Adviser**”) to conduct a thorough review (the “**Internal Control Review**”) of and make recommendations to improve the Company’s internal controls to ensure compliance with Rules 2.13, 13.09(1) and 13.10, and provide the Listing Division (the “**Division**”) with the Adviser’s written report containing the Adviser’s recommendations (the “**First Report**”); and
- (b) furnish the Division with the Adviser’s written report on the Company’s full implementation of the Adviser’s recommendations (the “**Second Report**”) within a further period of two months after submission of the First Report.

As stated in the announcement of the Company dated 9 September 2011, the Company appointed ZHONGLEI Risk Advisory Services Limited (“**ZHONGLEI Risk**”) as the Adviser. Pursuant to the direction of the Committee, the Company was originally required to provide the Division with the First Report by 23 October 2011. As additional time was required to complete the First Report, the Company applied to, and was granted by, the Committee, a time extension of 14 days for the Company to submit the First Report. On 7 November 2011, ZHONGLEI Risk issued to the Company the First Report containing recommendations to improve the Company’s internal controls in relation to the compliance of Rules 13.09(1), 13.10 and 2.13 of the Listing Rules. On the same day, the Company submitted the First Report to the Division.

## **SCOPE OF REVIEW**

ZHONGLEI Risk conducted a thorough review on the internal control and compliance systems of the Company in relation to the compliance of Rules 13.09(1), 13.10 and 2.13 of the Listing Rules.

## **FINDINGS**

Based on the results of the Internal Control Review, ZHONGLEI Risk considers that the Company is required to strengthen and formalise its existing control system in relation to the compliance of Rules 13.09(1), 13.10 and 2.13 of the Listing Rules. ZHONGLEI Risk identified significant weaknesses or deficiencies in the Company’s internal control system in the following areas:

- level of training in relation to compliance with the Listing Rules provided to the Company’s Directors and senior management;
- consistency between the Company’s policies and the actual procedures used by staff, and sufficiency of documentation in relation to the Company’s policies and/or procedures in handling (i) price-sensitive information (including notifiable transaction and profit warning), (ii) unusual movements in the price or trading volume in the Company’s shares, (iii) rumours/press articles and (iv) enquiries made by the media to the Company;
- length of the notice period required for resignation or termination of employment contract by top management staff;

- vacancy in the post of Internal Control Manager and Company Secretary Officer;
- heavy reliance on external professional parties in ensuring the Company's compliance with the Listing Rules.

## RECOMMENDATIONS

Set out below is a summary of the key recommendations made by ZHONGLEI Risk:

- if the Company appoints a new Director, Chief Financial Officer (“CFO”) or an officer assisting the Company Secretary (“Company Secretary Officer”), (i) the Company is recommended to arrange appropriate training for them on Listing Rule compliance by a professional organisation, and (ii) a test shall be administered after the relevant training to assess their knowledge;
- the Company is recommended to arrange training on Listing Rules updates for the Directors, CFO, Company Secretary Officer and other members of the senior management on an annual basis;
- the Company is reminded to circulate every draft announcement to the Directors, the CFO, the Company Secretary and the Compliance Adviser for review before publication and to document the review process;
- in relation to the Company's policy for handling “notifiable transactions”, the Company is recommended that the CFO (i) shall be responsible for computation of the “size tests” so as to assist the Directors in classifying “notifiable transactions” under Chapter 14 of the Listing Rules; and (ii) shall also notify all department heads by email of the calculation methods of the “size tests”, so that they could be aware of any potential “notifiable transaction” during their daily operation;
- the Company is recommended to amend its policy and procedure manual in handling “notifiable transaction” to specify when the transaction would fall under the “notifiable transaction” rules. If the proposed transaction is being classified as “notifiable transaction”, the Company Secretary shall be notified to prepare an announcement and to arrange a Board meeting to approve the transaction before signing any agreement with the counter parties;
- in relation to the Company's procedure for handling “profit warning”, the Company is recommended to amend its procedure such that the CFO shall have the responsibility of notifying the Directors of any potential price-sensitive information relating to the Company's unpublished financial information; and the Company shall specify the time intervals that the Company prepares and reviews its (i) investment analysis and (ii) profit forecast; and it is also recommended that the Company submits such information to the Directors and Compliance Adviser for discussion and assessment;
- the Company is recommended to establish guidelines for handling price-sensitive information, which shall provide (i) a definition of “price-sensitive information” with reference to Rule 13.09 of the Listing Rules; (ii) mechanisms for identifying potential price-sensitive information; (iii) procedures for handling price-sensitive information; (iv) persons responsible for detective control, and (v) requirement on documentation. ZHONGLEI Risk also recommends that the Company shall specify in the relevant

guidelines that the CFO shall have the responsibility of notifying the Directors of any price-sensitive information and assisting the Directors to comply with Rule 13.09(1), and that the Company shall request the Compliance Adviser to comment on the guidelines;

- the Company is recommended to amend its procedure for monitoring movements in price and trading volume in the Company's shares to specify the percentage of fluctuation over its price and volume which may be considered as significant price/volume movement, and the Directors, CFO, Compliance Adviser, Company Secretary and department heads of the Company shall be notified immediately by email for assessment. All of them shall advise whether they notice any events leading to such significant price/volume movement in writing to the Company Secretary within the same day;
- the Company is recommended to extend the length of the notice period required for termination or resignation of top management staff to three months to allow a smooth handover or transition;
- the Company is recommended to employ experienced personnel to fill in the vacancies of Internal Control Manager and Company Secretary Officer as soon as practicable;
- the Company is recommended to assign an experienced staff to take up the role of a compliance officer.

The Company agrees with ZHONGLEI Risk that the above findings are significant weaknesses in the internal control system of the Company in relation to the compliance of Rules 13.09(1), 13.10 and 2.13 of the Listing Rules and the Company will consider adopting the recommendations made by ZHONGLEI Risk in the First Report pragmatically and in a timely manner. Furthermore, the Company believes that by adopting the recommendations in the First Report, the internal control system of the Company would be improved to ensure the Company's compliance with Rules 13.09(1), 13.10 and 2.13 of the Listing Rules. As aforementioned, a follow-up review will be conducted by ZHONGLEI Risk and the Second Report will be issued by ZHONGLEI Risk within a further period of two months after the issue of the First Report.

By order of the Board  
**Artini China Co. Ltd.**  
**Tse Chiu Kwan**  
*Chairman*

Hong Kong, 14 November 2011

*As at the date of this announcement, the executive director of the Company is Mr. Tse Chiu Kwan; the non-executive director of the Company is Ms. Yip Ying Kam; and the independent non-executive directors of the Company are Mr. Lau Fai Lawrence, Mr. Fan William Chung Yue and Mr. Lau Yiu Kit.*