SGX

Regulatory Announcement

12 February 2015

Trading of China Sky shares will resume after company's Board complies with SGX conditions

SGX will permit trading in China Sky Chemical Fibre Co., Ltd (China Sky or the Company) shares to resume once the Company complies with conditions imposed by SGX. The Monetary Authority of Singapore (MAS) and former China Sky CEO, Huang Zhong Xuan (Mr Huang), have reached a civil settlement for Mr Huang's contraventions under the Securities and Futures Act (SFA). As part of a civil settlement, Mr Huang will pay a civil penalty and will make an offer to China Sky to surrender 10% of his shareholding in the Company (Share Surrender). The surrender would increase the net asset value per share for existing China Sky shareholders.

Resumption of trading in China Sky's shares will be conditional upon China Sky satisfying a number of conditions imposed by SGX including:

(a) the passing of a Board of Directors' (Board) resolution to take all necessary actions to accept the Share Surrender by Mr Huang;

(b) an undertaking from the Board to appoint a suitable Chief Financial Officer, acceptable to SGX, within six months of trading resumption and a disclosure via SGXNET of the Board's view of the adequacy of the company's current resource in its finance function;

(c) appointment of a compliance advisor, who will ensure China Sky's compliance with Listing Rules and corporate governance matters;

(d) a confirmation from BDO LLP – Internal Auditors of China Sky - that they are satisfied that China Sky has adequately addressed the internal control weakness raised in the Internal Audit Report and those highlighted in Stone Forest Corporate Advisory Pte Ltd's (Special Auditor) Special Audit Report announced on 20 June 2013;

(e) an undertaking from the Board to commission annual internal controls audits by a suitable and qualified professional accounting firm for at least 3 years from date of trading resumption and until such time the Audit Committee is satisfied that the China Sky Group's internal controls are robust and effective enough to mitigate the group's internal control weaknesses.

Full details of the trading resumption conditions imposed by SGX are found in Annex A.

A chronology of events is found in Annex B.

Singapore Exchange
2 Shenton Way
#02-02 SGX Centre 1
Singapore 068804
main: +65 6236 8888
sgx.com

Fair, orderly and transparent market built on high disclosure standards

High disclosure standards are fundamental to the operation of a fair, orderly and transparent stock market. This is why disclosure and governance requirements are spelt out in several SGX Listing Rules.

For instance, Listing Rule 103 requires issuers to have minimum standards of quality, operations, management experience and expertise as well as to disclose information that investors and their professional advisers would reasonably require to make an informed assessment of the securities. Directors of companies shall also act in the interests of shareholders as a whole.

In addition, Listing Rule 703 requires a listed company to disclose material information known to the company concerning it or any of its subsidiaries or associated companies which is necessary to avoid the establishment of a false market in the company's securities, or would be likely to materially affect the price or value of its securities.

The law also places great weight on disclosure; Section 203 of the SFA imposes statutory obligation on a company and others that intentionally, recklessly or negligently fail to comply with disclosure obligations under the Listing Rules.

Conclusion

Companies' compliance with SGX's Listing Rules is crucial to a well-functioning market which has the confidence of market participants. As such, SGX takes very seriously Listing Rule breaches by listed companies.

We hold all directors, collectively and individually, responsible for ensuring compliance with Listing Rule requirements and regulations.

Consequently, it is essential that all material information which is likely to affect the price and value of its securities or is necessary to avoid the establishment of a false market in a company's securities must be announced promptly. The Board of the company is also jointly and severally responsible for acting in the best interest of the company and its shareholders.

SGX is reviewing the roles of the other directors on China Sky's Board and its key executive officers who were holding company appointments at the time relevant to the breaches of the listing rules noted by the Special Auditor. SGX will take further action that it deems necessary.

We recognise that China Sky has taken steps to comply with SGX's directive to appoint a Special Auditor and has reported their findings to the market and revamped its Board. These directors have in turn confirmed that steps have been taken to address weaknesses in internal controls which were identified. China Sky has also provided its shareholders with updated information on its state of affairs. SGX will therefore allow trading of its shares to resume once China Sky complies with the trading resumption conditions.

Please refer to the media statement issued by MAS today found here on Mr Huang's settlement for his contraventions of the SFA.

Singapore Exchange
2 Shenton Way
#02-02 SGX Centre 1
Singapore 068804
main: +65 6236 8888
sgx.com

Media Contacts

Carolyn Lim
Marketing & Communications
+65 6236 8139
Carolyn.lim@sgx.com

Ying Wang
Marketing & Communications
+6713 7253
Ying.wang@sgx.com

Annex A

Based on the trading resumption proposal submitted, the Exchange has no objection to China Sky's trading resumption proposal subject to:-

(a) A resolution passed by the Board to take all necessary actions to accept Mr Huang's and/or Rock Mart Equities Ltd's surrender of the Company's shares pursuant to the Settlement Agreement between Mr Huang and MAS in relation to the Company;

(b) An undertaking from the Board to appoint a suitable Chief Financial Officer, acceptable to the Exchange, within six months of trading resumption and a disclosure via SGXNET of the Board's view of the adequacy of the Company's current resource in its finance function;

(c) A confirmation from the Board of the appointment of a compliance advisor, who will ensure the Company's compliance with Listing Rules and corporate governance matters, for a period of not less than 3 years from date of trading resumption and until such time the Audit Committee is satisfied that the Company and its subsidiaries' (Group) procedures to comply with its continuous listing obligations are robust and effective. Prior to the decommissioning of the compliance advisor, the Audit Committee is required to confirm their satisfaction of this matter to the Exchange and the basis for their views;

(d) A confirmation from BDO LLP that they are satisfied that the Company has adequately addressed the internal control weakness raised in the Internal Audit Report and those highlighted in Stone Forest Corporate Advisory Pte Ltd's Special Audit Report announced on 20 June 2013;

(e) An undertaking from the Board to commission annual internal controls audits by a suitable and qualified professional accounting firm for at least 3 years from date of trading resumption and until such time the Audit Committee is satisfied that the Group's internal controls are robust and effective enough to mitigate the Group's internal control weaknesses. Prior to the decommissioning of this annual audit, the Board is required to report to the Exchange on how the key internal control weaknesses have been rectified, and the basis for the decision to decommission the annual internal controls audit;

(f) A written undertaking from each of the Company's directors and an undertaking from the Company to procure the same written undertaking from any new director appointed to the Company's board to, inter alia, comply with listing rule requirements;

(g) Announcement via SGXNET of the following:-

(i) The trading resumption proposal and the detailed steps taken by the Company to address the findings arising from the Special Audit Report;

(ii) the Board's opinion and bases that the Company and the Group will be able to operate as a going concern and has sufficient working capital adequacy for the next 12 months from the date of lifting of the trading suspension;

(iii) The opinion of the Board, with the concurrence of the Audit Committee, on the adequacy of the internal controls including the basis of the opinion, including a confirmation from the Board that they are satisfied that the Company has adequately and satisfactorily addressed all the points raised in BDO LLP's internal audit report and the internal control weakness highlighted in Stone Forest Corporate Advisory Pte Ltd's Special Audit Report.

Annex B

Chronology of events at China Sky

On 16 November 2011, pursuant to Listing Rule 704(14), SGX had directed China Sky to appoint a Special Auditor to investigate the Company's affairs. The Special Audit Report announced on 20 June 2013 noted disclosure breaches and highlighted internal control weaknesses.

As stated above, disclosure breaches under SGX's Listing Rules may constitute contraventions under the SFA. Consequently, SGX referred the matter to MAS and Mr Huang was investigated by the Commercial Affairs Department (CAD) for his contraventions of the SFA provisions. SGX worked closely with both authorities on their investigations.

Since then, Mr Huang has admitted to making misleading statements in contravention of Section 199(c) of the SFA in relation to China Sky's purchase and subsequent aborted acquisition of a piece of land in Fujian, China. These include making misleading disclosures relating to the use of the Fujian land, incorrectly depicting the counterparty to the transaction as an independent third party when it was in fact a related company, and providing a false reason for the delay in the transfer of the land use rights to China Sky's subsidiary.

Mr Huang has also admitted to contravening Section 203 (read with Section 331) of the SFA in respect of China Sky's failure to make prompt and proper disclosure to the market in relation to the Fujian land acquisition.

MAS has entered into a settlement with Mr Huang, requiring him to pay a civil penalty of $2.5 million for contraventions of S199(c) and S203 of the SFA. Mr Huang has also undertaken to make an offer to China Sky to surrender 10% of his shareholding in the company, equivalent to 15,416,121 China Sky shares and not hold a director or management position in a SGX-listed entity for a period of 3 years.