Executive Statement

22 May 2012

SFC publicly censures Capital VC Limited and Yau Chung Hong in relation to a breach of the mandatory offer obligation in the Takeovers Code in respect of Longlife Group Holdings Limited. The SFC has also imposed a cold shoulder order against Mr Yau for a period of 18 months.

Sanctions

1. The SFC announces today that the following disciplinary action has been taken against Capital VC Limited ("**Capital VC**") and Mr Yau Chung Hong ("**Mr Yau**") in relation to a breach of the mandatory offer obligation requirements in the Code on Takeovers and Mergers ("**Takeovers Code**"):

   (a) The Takeovers Executive has imposed an order denying Mr Yau direct or indirect access to the Hong Kong securities markets (a **"Cold Shoulder Order**") for a period of 18 months commencing on 23 May 2012 to 22 November 2013.

   (b) The Executive also publicly censures Capital VC and Mr Yau in relation to their conduct in this matter.

Background and key facts

2. Capital VC (stock code: 2324) is an investment company under Chapter 21 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("**Listing Rules**"). The principal business of Capital VC is investments in listed and unlisted companies in Hong Kong and the People's Republic of China. At all relevant times Mr Yau was an executive director[1] and a substantial shareholder of Capital VC. Mr Yau was a member of Capital VC's Investment Committee which comprised all the executive directors of Capital VC. The Investment Committee was responsible for considering and approving all investments on behalf of Capital VC including investments in Longlife Group Holdings Ltd ("**Longlife"**), a GEM board listed company. Once the Investment Committee had approved Capital VC's investment in Longlife Mr Yau was responsible for managing the investment on a discretionary basis.

3. In a meeting of the Investment Committee held on 11 December 2009 Mr Yau recommended that Capital VC invest in Longlife and informed the Investment Committee that he also intended to invest on a personal basis in Longlife. Capital VC has explained that Mr Yau had an agreement or mutual understanding with the Investment Committee that he would ensure his holding and/or dealing in the shares of Longlife would not result in Capital VC and him collectively holding more than 30% of the voting rights in Longlife. Mr Yau also agreed to report the shareholding position of Capital VC and Mr Yau's personal holding to the Investment Committee from time to time. On this basis, Mr Yau was authorised by the Investment Committee to execute trades in Longlife shares on behalf of Capital VC on a discretionary basis and for his own account.

[1] Mr Yau resigned as an executive director of Capital VC on 12 March 2012.

4. At all material times Mr Yau managed two investment accounts, one for Capital VC and one for his personal investments. He was the sole decision-maker in executing trades in Longlife shares for Capital VC's and for his own account.

5. On 10 June 2011, Mr Yau and Capital VC increased their collective shareholding in Longlife to 30.19% thereby triggering a mandatory general offer obligation under the Takevovers Code. Upon becoming aware of the fact that Mr Yau and Capital VC collectively held an interest of 30% or more of Longlife the Executive reminded the parties of the mandatory general offer requirement under Rule 26.1 of the Takeovers Code and urged Capital VC and Mr Yau to comply with the Takeovers Code forthwith. In a clarification announcement issued by Capital VC on 17 August 2011, Mr Yau and Capital VC confirmed, among other things, that they would not make a general offer for Longlife.

Relevant provisions of the Takeovers Code and discussion

6. The Takeovers Code defines persons acting in concert as follows:

> *"Persons acting in concert comprise persons who, pursuant to an agreement or understanding (whether formal or informal), actively co-operate to obtain or consolidate "control" … of a company through the acquisition by any of them of voting rights of the company."*

7. The definition of acting in concert also sets out nine classes of person who are presumed to be acting in concert with others in the same class unless the contrary is established. Class 2 of the definition of acting in concert presumes the following persons to be acting in concert unless the contrary is established:

> *"a company with any directors (together with their close relatives, related trusts and companies controlled[#] by any of the directors, their close relatives or related trusts) of it or of its parent;"*
>
> [#] "*Control: The normal test for whether a person controls, is controlled by or is under the same control as another person, is by reference to the definition of control, that is by reference to holding 30% or more of the voting rights of a company. In cases of doubt, the Executive should be consulted."*

8. At all material times Mr Yau was, as a director of Capital VC, presumed to be acting in concert with Capital VC for the purpose of the Takeovers Code. This is important as the Takeovers Code treats persons acting in concert as being the equivalent of a single person and aggregates their shareholdings.

9. Rule 26.1 of the Takeovers Code provides:

> "*Subject to the granting of a waiver by the Executive, when …*
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> *(b) two or more persons are acting in concert, and they collectively hold less than 30% of the voting rights of a company, and any one or more of them acquires voting rights and such acquisition has the effect of increasing their collective holding of voting rights to 30% or more of the voting rights of the company;*
> *…*
>
> *that person shall extend offers, on the basis set out in this Rule 26, to the holders of each class of equity share capital of the company, whether the class*

carries voting rights or not, and also to the holders of any class of voting non-equity share capital in which such person, or persons acting in concert with him, hold shares ..."

10. It follows that a mandatory offer obligation was incurred on 10 June 2011 when Mr Yau and Capital VC's collective shareholding in Longlife increased to 30.19%. No general offer has been made.

Sanctions against Mr Yau and Capital VC

11. In reaching a decision on sanctions, the Executive has taken into account the level and nature of sanctions imposed in previous decisions involving a breach of Rule 26.1 of the Takeovers Code. While such decisions are of persuasive effect they are not binding precedents. Each case has its own distinguishing features and has to be determined on a case by case basis. It follows that the Executive's decision on sanctions is determined by the specific facts and circumstances of each case having had regard to relevant past decisions on sanctions.

12. The Executive has carefully considered the evidence in this case including the representations of Capital VC and Mr Yau. Both Mr Yau and Capital VC accept that they have breached Rule 26.1 of the Takeovers Code as described and accordingly that shareholders of Longlife have been deprived of the right to receive a general offer for their shares. Both the Investment Committee and Mr Yau were fully aware of the possible general offer implications of purchases of Longlife shares under the Takeovers Code and yet put in place wholly inadequate measures to ensure compliance. The failure to make a general offer constitutes a serious breach of one of the most fundamental provisions of the Takeovers Code which merits strong disciplinary action. Mr Yau and Capital VC have agreed to the disciplinary action taken against them under section 12.3 of the Introduction to the Takeovers Code.

13. In respect of Mr Yau, the Executive pursuant to section 12.2(c) of the Introduction to the Takeovers Code hereby requires that all licensed corporations, licensed representatives, registered institutions, or relevant individuals, shall not, without the prior consent of the Executive in writing, act or continue to act directly or indirectly in their capacity as licensed corporations, licensed representatives and registered institutions or relevant individuals for Mr Yau or any corporation controlled by him for a period of 18 months commencing on 23 May 2012 and ending on 22 November 2013.

14. The Executive also publicly censures Mr Yau pursuant to section 12.2(b) of the Introduction to the Takeovers Code.

15. In reaching its decision to impose sanctions against Mr Yau the Executive has paid particular regard to Mr Yau's overall role in causing the breach of Rule 26.1 of the Takeovers Code and to the standards of behaviour and integrity that might reasonably be expected of a director of an investment company subject to Chapter 21 of the Listing Rules. Mr Yau's actions directly led to the breach of Rule 26.1 of the Takeovers Code.

16. Mr Yau was a director and a member of the Investment Committee who managed Capital VC's investments in Longlife. Accordingly, Mr Yau had a direct and clear responsibility for the proper management of Longlife shares on behalf of Capital VC both in terms of investment decisions and regulatory compliance.

17. Mr Yau accepts that he was aware of the need to keep the collective shareholding of Capital VC and himself below 30% and has suggested that he had acquired shares of Longlife because of wrong calculations on his own part. In this regard the Executive has not been provided with evidence of any safeguards implemented by Mr Yau in order to ensure compliance with the Takeovers Code. In the circumstances the Executive does not consider Mr Yau to have made any serious efforts to put in place compliance procedures which could have helped to avoid such a serious breach of the Takeovers Code.

18. In respect of Capital VC, the Executive publicly censures Capital VC pursuant to section 12.2(b) of the Introduction to the Takeovers Code.

19. In reaching the decision to impose sanctions against Capital VC the Executive notes that Capital VC and its Investment Committee relied solely on Mr Yau to monitor his and Capital VC's relevant holdings in Longlife. No additional safeguards were put in place by the Investment Committee to monitor or ensure compliance with the Takeovers Code. There were no internal control procedures to enable the Investment Committee to exercise adequate supervision over Mr Yau's dealings and to ensure compliance with the 30% restriction imposed by the Investment Committee when the investment in Longlife was approved. Capital VC's internal policies and procedures to ensure compliance with applicable regulatory requirements including the Takeovers Codes were wholly inadequate. Capital VC accepts that this was a serious oversight on its part.

20. The Executive believes that Capital VC must also bear responsibility for Mr Yau's action and the consequent breach of the Takeovers Code.

21. The Executive has also taken into account the following mitigating circumstances of this case:

    (a) Mr Yau and Capital VC subsequently reduced their holding in Longlife to below 30% through a number of disposal transactions. According to the latest disclosure of notice filed by the parties, Mr Yau was interested in 0.34% of Longlife as at 26 August 2011 and Capital VC was interested in 9.26% of Longlife as at 15 September 2011.

    (b) Mr Yau resigned as director of Capital VC on 12 March 2012 and ceased to act as a member of the Investment Committee on the same day.

    (c) Capital VC has undertaken to put in place additional procedures to improve its internal controls and to ensure it complies with all relevant regulatory requirements.

22. Finally the Executive wishes to take this opportunity to remind practitioners and parties who wish to take advantage of the securities markets in Hong Kong that they should conduct themselves in matters relating to takeovers and mergers in accordance with the Takeovers Code. If they do not, they may find by way of sanction, that the facilities of such markets are withheld in order to protect those who participate in Hong Kong's securities markets.

Ends

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SECURITIES AND FUTURES COMMISSION

Order pursuant to section 12 of the Introduction to the Hong Kong Codes on Takeovers and Mergers and Share Repurchases

Mr Yau Chung Hong

The Executive Director of the Corporate Finance Division of the SFC ("Executive Director") hereby REQUIRES that all licensed corporations, licensed representatives and registered institutions within the meaning of the Securities and Futures Ordinance (Cap. 571) and relevant individuals within the meaning of section 20(10) of the Banking Ordinance (Cap. 155) shall not, without the prior consent of the Executive in writing:

- act or continue to act directly or indirectly in their capacity as licensed corporations, licensed representatives and registered institutions or relevant individuals for Mr Yau Chung Hong or any corporation controlled by him (as defined in the Hong Kong Codes on Takeovers and Mergers and Share Repurchases); or

- knowingly assist directly or indirectly in a breach of this Order;

during the period commencing on 23 May 2012 and ending on 22 November 2013.

BY ORDER

Brian Ho

Executive Director

22 May 2012