



## **THE STOCK EXCHANGE OF HONG KONG LIMITED**

(A wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited)  
(the “Exchange”)

9 August 2007

**The Listing Committee of The Stock Exchange of Hong Kong Limited (the “Listing Committee”) censures the following parties for breaching the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Exchange Listing Rules”):**

- 1. Nanjing Panda Electronics Company Limited (the “Company”)(Stock code: 553);**
- 2. Mr Li Anjian, an executive director of the Company (“Mr Li”); and**
- 3. Mr Zhang Zuzhong, a former executive director of the Company resigned effective 30 June 2006 (“Mr Zhang”).**

**Further, the Listing Committee criticises the following parties for breaching the Exchange Listing Rules:**

- 1. Ms Liu Ailian, a non-executive director of the Company (“Ms Liu”);**
- 2. Mr Xu Guofei, a non-executive director of the Company (“Mr Xu”);**
- 3. Mr Zhu Lifeng, a non-executive director of the Company (“Mr Zhu”);**
- 4. Mr Deng Wei Ming, a former non-executive director of the Company resigned effective 12 May 2004 (“Mr Deng”);**
- 5. Mr He Zaiding, a former non-executive director of the Company resigned effective 12 May 2004 (“Mr He”);**
- 6. Mr Tang Hongqing, a former non-executive director of the Company resigned effective 28 April 2005 (“Mr Tang”);**
- 7. Mr Yang Huiqian, a former non-executive director of the Company resigned effective 12 May 2004 (“Mr Yang”); and**
- 8. Mr Zhou Zhenyu, a former non-executive director of the Company resigned effective 28 April 2005 (“Mr Zhou”).**

On 26 June 2007, the Listing Committee conducted a hearing into the conduct of the Company, Mr Li, Mr Zhang, Ms Liu, Mr Xu, Mr Zhu, Mr Deng, Mr He, Mr Tang, Mr Yang and Mr Zhou (collectively, the “Relevant Directors”) in relation to the obligations under the Exchange Listing Rules and the Declaration and Undertaking with regard to Directors given by each of the Relevant Directors to the Exchange in the form set out in Appendix 5H to the Exchange Listing Rules (the “Director’s Undertaking”).

## Facts

By an announcement dated 9 September 2005

(<http://main.ednews.hk/listedco/listconews/sehk/20050912/LTN20050912032.pdf>), the

Company disclosed the following transactions:

- Group I Transaction - financial assistance provided by the Company to Panda Electronics Group Limited, the parent company and controlling shareholder of the Company, by way of unsecured loans in the total amount of RMB295 million from 13 January 2004 to 15 June 2004;
- Group II Transaction - financial assistance provided by the Company to Nanjing Panda Mobile Communication Equipment Co., Limited (“Panda Mobile”), a subsidiary and a connected person of the Company until 10 March 2005, by way of unsecured loans in the total amount of RMB497 million from 2 September 2002 to 27 September 2004;
- Group III Transaction - financial assistance provided by Panda Mobile to Jiangsu Tianchuang Communication Industrial Co., Limited (“Jiangsu Tianchuang”), a connected person at the material time, by way of unsecured loans in the total amount of RMB695 million from 17 January 2004 to 17 June 2004 and corporate guarantees in respect of banking facilities granted to Jiangsu Tianchuang in the total amount of RMB496.8 million from 3 September 2003 to 22 April 2004;
- Group IV Transaction - continuing connected transactions involving the sale of mobile phones by Panda Mobile to Jiangsu Tianchuang for four financial years ended 31 December 2005;
- Group V Transaction - discloseable transactions or major transactions involving sale of mobile phones by Panda Mobile to EMOL (Shanghai) Telecommunication Industry Co., Limited, an independent third party, for three financial years ended 31 December 2004; and
- Group VI Transaction – entering into a loan agreement with Nanjing Wei Te Investment Management Limited (“Wei Te”) on 5 February 2005 for a two-day short term loan in the sum of RMB120 million from Wei Te and a debt repayment agreement with Wei Te on 8 February 2005.

The Listing Division alleged that the Company failed to comply with the following requirements under the Exchange Listing Rules:

1. the notification to the Exchange, circular and independent shareholders’ approval requirements in respect of Groups I, II, and III Transactions prior to 31 March 2004;
2. the notification to the Exchange and shareholders’ circular requirements in respect of Group IV Transaction prior to 31 March 2004;
3. the reporting, announcement and independent shareholders’ approval requirements in respect of Groups I, II, III and IV Transactions after 31 March 2004;

4. the disclosure requirements in respect of advances and trade receivables of Groups I, III, IV and V Transactions; and
5. the general disclosure obligation in a timely manner, and make full disclosure in respect of Group VI Transaction on 15 February 2005 and 7 March 2005 when there were unusual volume movements in the trading of the Company's shares.

### **Decision**

The Listing Committee concluded that:

- (i) the Company breached:
  - the then Rules 14.26 and 14.29, Rules 13.13, 14A.45, 14A.47, 14A.49 and 14A.63 in respect of Group I Transaction;
  - the then Rules 14.26 and 14.29, Rules 14A.45, 14A.47, 14A.49 and 14A.63 in respect of Group II Transaction;
  - the then Rules 14.26 and 14.29, paragraph 3.2.1 of the then Practice Note 19, Rules 13.13, 14A.45, 14A.47, 14A.49 and 14A.63 in respect of Group III Transaction;
  - the then Rules 14.25 and 14.29, paragraph 3.2.1 of the then Practice Note 19, Rules 13.13, 14A.35, 14A.45, 14A.47 and 14A.49 in respect of Group IV Transaction;
  - Rule 13.13 in respect of Group V Transaction; and
  - Rules 13.09, 13.10 and 13.19 in respect of Group VI Transaction.
- (ii) each of the Parties Concerned breached the Undertaking to use his or her best endeavours to cause the Company to comply with the Exchange Listing Rules.

The Listing Committee decided to impose the following sanctions on the parties:

- a public censure on the Company, Mr Li and Mr Zhang for their respective breaches mentioned in (i) and (ii) above; and
- a public statement which involves criticism on Ms Liu, Mr Xu, Mr Zhu, Mr Deng, Mr He, Mr Tang, Mr Yang and Mr Zhou for their breaches mentioned in (ii) above.

The Listing Committee further directed that:

1. the Company should complete implementation of the recommended remedial measures proposed by Horwath Risk Advisory Services Limited ("Horwath") as set out in the Internal Control Review Report of June 2006 within two months from 9 August 2007;

2. the Company should furnish the Division with Horwath's written report on the Company's full implementation of Horwath's recommendations and publish an announcement to be cleared by the Division, including: (a) a summary of the audit findings of and recommended remedial measures proposed by Horwath; (b) a detailed account of the Company's implementation of the remedial measures; and (c) confirmation from Horwath that the Company had fully implemented its recommendations within four months from 9 August 2007; and
3. each of Mr Li, Ms Liu, Mr Xu and Mr Zhu should undertake 20 hours of training in compliance and corporate governance matters on courses held by Hong Kong Institute of Directors or another recognized institute acceptable to the Listing Division; such training to be completed within six months from 5 July 2007 and evidence of attendance be furnished to the Division within two weeks after full compliance with the training requirement.

Richard Williams, Head of Listing, said, "Failure to comply with disclosure obligations and connected transaction rules continues to be one of the major regulatory concerns of the Exchange given their potentially serious adverse impact on the market and investor confidence. Measures designed for protection of minority shareholders are undermined and investors are deprived of timely receipt of material information required for their investment decisions.

The case once again, highlights that the tone of a company's compliance culture must be set at the top of the organisation. In particular, executive management must have proper regard to Exchange Listing Rule compliance, they must have proper understanding of the Exchange Listing Rule requirements and they must ensure the listed issuer has adequate and effective internal controls in place for Exchange Listing Rule compliance. The fact that the Company committed the breaches over a wide range of its transactions or arrangements in the two-year period is indicative of the absence of effective internal controls for Exchange Listing Rule compliance and the lack of proper regard to Exchange Listing Rule compliance on the part of the directors.

This decision also continues a theme of recent decisions namely, disciplinary decisions now encompass not only public sanctions for past breaches but also the requirement, in appropriate cases, that those responsible for the breaches take remedial action aimed at improving corporate governance standards and ensuring future compliance. In this case the Committee directed that the Company completes the internal control improvements which it has commenced implementing and that certain directors undergo training on compliance and corporate governance matters within a prescribed time frame. This twin track approach of punishing past misconduct and requiring the taking of remedial action to improve future compliance will no doubt continue to feature in future disciplinary decisions."