



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

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

3 December 2008

**The Listing Committee of The Stock Exchange of Hong Kong Limited (the "Committee") censures the Company for breaches of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Exchange Listing Rules") and a number of former and current Directors for breach of the terms of their undertakings to the Exchange in the manner described below.**

- **Northeast Electric Development Co., Ltd. (the "Company") (Stock code: 42)**
- **Former or current Executive Directors of the Company, namely:**
  - (1) **Mr He Wan Jun ("Mr He"), resigned effective 13 August 2004**
  - (2) **Mr Li Hong Liang ("Mr Li"), resigned effective 7 March 2007**
  - (3) **Mr Liu Qing Min ("Mr QM Liu")**
  - (4) **Mr Luo Hong ("Mr Luo"), resigned effective 13 August 2004**
  - (5) **Mr Niu Wen Jun ("Mr Niu"), resigned effective 17 November 2006**
  - (6) **Mr Qu Lin ("Mr Qu"), resigned effective 7 March 2007**
  - (7) **Mr Shi Yan Ping ("Mr Shi"), resigned effective 13 August 2004**
  - (8) **Mr Su Wei Guo ("Mr Su")**
  - (9) **Mr Tang Xiao Jiang ("Mr Tang"), resigned effective 13 August 2004**
  - (10) **Ms Tian Li ("Ms Tian"), resigned effective 7 March 2007**
  - (11) **Mr Wang Shou Guan ("Mr Wang")**
  - (12) **Mr Zhang Bin ("Mr Zhang"), resigned effective 6 July 2008**
- **Former or current Independent Non-Executive Directors of the Company, namely:**
  - (1) **Mr Gao Chuang ("Mr Gao"), resigned effective 7 March 2007**
  - (2) **Mr Kang Jin Jiang ("Mr Kang"), resigned effective 7 March 2007**
  - (3) **Ms Liang Jie ("Ms Liang")**
  - (4) **Mr Lin Wen Bin ("Mr Lin")**
  - (5) **Mr Liu Hong Guang ("Mr Liu")**

The Committee censures the Company for its breach of former Rules 14.26 and 14.29 and current Rules 14.34, 14.40, 14A.47 and 14A.52 of the Exchange Listing Rules.

The Committee censures each of Mr He, Mr Li, Mr QM Liu, Mr Luo, Mr Niu, Mr Qu, Mr Shi, Mr Su, Mr Tang, Ms Tian, Mr Wang, Mr Zhang, Mr Gao, Mr Kang, Ms Liang, Mr Lin and Mr Liu for their respective breach of the Director's Undertaking to use his/her best endeavours to procure that the Company complied with the Exchange Listing Rules (the "Director's Undertaking").

## **Background**

The Company and a number of its former directors (not among the 17 Directors identified in this press release) were publicly censured by the Exchange on 17 June 2002 for breach of the Exchange Listing Rules in failing to obtain prior independent shareholders' approval in respect of connected transactions the Company conducted during the period 1997 and 1999. For further information and details of those transactions and the sanctions imposed please refer to the press release dated 17 June 2002.

Since January 2006, the Listing Division (the "Division") has been conducting a lengthy and detailed investigation into (a) possible breaches of the Exchange Listing Rules in relation to its connected transactions as disclosed in the Company's announcement dated 25 October 2005; and (b) associated corporate governance concerns relating to the Company in light of these regulatory issues.

During the course of the Division's investigation into those matters, further potential breaches of the Exchange Listing Rules by the Company in relation to its subsequent transactions in the period to October 2006 came to the Division's attention. Therefore given the compliance history of the Company and the ongoing regulatory issues surrounding the Company, the Division extended the scope of the investigation. The number of transactions covered by the investigation together with the number of Directors responsible over an extended period of time some of whom have resigned and most of whom reside outside Hong Kong has required a time consuming investigation.

The conclusions of that investigation and the disciplinary and regulatory action resulting from that process are now the subject of this press release.

## **Facts**

Between March 2004 and October 2006, the Company and/or its subsidiaries (together called the "Group") engaged in five connected transactions with or involving the following connected persons:

- Shenyang Chengan Electric Equipment Group Co., Ltd. ("Chengan Company")
- Shenyang High-voltage Switchgears Co, Ltd. ("Shenyang High-voltage")
- China High Voltage Electric Ltd. ("China High Voltage")
- New Northeast Electric (Shenyang) High-voltage Switchgears Co., Ltd. ("NNE (Switchgears)")

### Transaction I\*

On or about 15 March 2004, the Company's board approved the transfer of all of the Company's 48.95 per cent shareholding in Shenyang High-voltage to Chengan Company at a consideration of RMB24 million.

Under former Rule 14.26 in force at the time, Transaction I should have been made conditional on approval by the independent shareholders of the Company. Former Rule 14.29 in force at the material time required the Company to notify the Exchange as soon as possible after the terms of Transaction I had been agreed. The Company did not notify the Exchange of Transaction I as soon as possible after the terms of Transaction I had been agreed and no prior independent shareholder approval was obtained for Transaction I.

#### Transaction II\*

On or about 7 April 2004, the Company's board approved the acquisition from Shenyang High-voltage certain equity interests in a company. The consideration equivalent to RMB129.54 million for the acquisition was satisfied by the Company's transfer of its equity interest in certain companies to Shenyang High-voltage.

#### Transaction III\*

On or about 14 April 2004, the Company's board approved the acquisition from Shenyang High-voltage certain of its equity interests in two companies. The consideration for the acquisition was satisfied by the transfer to Shenyang High-voltage of receivables of RMB76.66 million due from a company to the Company.

Under current Rule 14A.52 in force since 31 March 2004, Transactions II and III were subject to prior independent shareholders' approval.

Transactions II and III were also major transactions attracting the disclosure and prior shareholder approval obligations of Chapter 14 of the Exchange Listing Rules. Whilst the Company purported to comply with the requirements of the rules and sought shareholders' approval at an extraordinary general meeting convened on 12 October 2004, this did not constitute compliance with Rule 14A.52 as the substantial shareholder of the Company was not required to abstain from voting on the resolutions as should have been the case. In consequence the purported shareholder approval was not compliant with current Rule 14A.52.

In an announcement dated 25 October 2005 and in a circular to shareholders dated 24 January 2006, the Company disclosed Transactions I, II and III and admitted that it had breached former Rule 14.26 in relation to Transaction I and current Rule 14A.52 in relation to Transactions II and III as a result of the failure to obtain prior independent shareholders' approval for the transactions.

#### Transaction IV\*\*

On or about 8 July 2006, the Company entered into an agreement with a number of parties including Northeast Electric (Hong Kong) Company Ltd. ("NEHKC") (a subsidiary of the Company) and China High Voltage such that NEHKC and China High Voltage would respectively increase their capital contributions to NNE (Switchgears) by the respective sums of US\$10.42 million and US\$39.6 million. The Group's shareholding in NNE (Switchgears) remained at the same level before and after such capital increase.

Transaction V\*\*

On or about 15 October 2006, the Company entered into an agreement with a number of parties including NEHKC, China High Voltage, Fuxin Enclosed Busbars Ltd. (“Fuxin”) (a subsidiary of the Company) and New Northeast Electric Group Co. Ltd. (“NNE Group”) (a third party) such that Fuxin and NNE Group would respectively increase their capital contributions to NNE (Switchgears) by the respective sums of US\$18.304 million and US\$69.696 million. The Group’s shareholding in NNE (Switchgears) remained at the same level before and after such capital increase.

Each of Transactions IV and V, which involved contributions towards the increased capital of NNE (Switchgears) by a subsidiary of the Company, constituted a connected transaction. Under current Rule 14A.47, the Company was required to notify the Exchange as soon as possible after the terms of Transactions IV and V had been agreed. Under current Rule 14A.52, Transactions IV and V were subject to independent shareholders’ approval.

The Company did not notify the Exchange as soon as possible after the terms of Transactions IV and V had been agreed as required by current Rule 14A.47. The Company did not obtain any prior independent shareholders’ approval for each of Transactions IV and V as required by current Rule 14A.52.

Transactions IV and V, involving a total capital contribution of US\$28.724 million by the Company (through its subsidiaries) to NNE (Switchgears), in aggregate, also constituted a major transaction of the Company under Chapter 14 of the Exchange Listing Rules. Under current Rule 14.34, the Company was required to inform the Exchange as soon as possible after the terms of the transaction had been finalized. Under current Rule 14.40, the major transaction was required to be made conditional on approval by shareholders of the Company.

The Company did not inform the Exchange as soon as possible after the terms of Transactions IV and V had been finalized as required by current Rule 14.34. The Company did not obtain prior shareholder approval in relation to these transactions as required by current Rule 14.40.

In an announcement dated 17 November 2006 and in a circular to shareholders dated 2 March 2007, the Company disclosed Transactions IV and V and admitted that it had been “*in breach of Chapters 14 and 14A of the Exchange Listing Rules*” for failing to comply with the reporting, announcement and prior independent shareholders’ approval requirements in relation to Transactions IV and V.

\* For detailed description of Transactions I, II and III, please refer to the Company’s announcement dated 25 October 2005 and circular dated 24 January 2006.

\*\* For detailed description of Transactions IV and V, please refer to the Company’s announcement dated 17 November 2006 and circular dated 2 March 2007.

## The Exchange's Investigation

The Exchange has conducted a detailed investigation into the five transactions against the background outlined above. The investigation has focused on the Company and the conduct of the 17 Directors named in this press release that held or hold office and were or are members of the Company's board. The investigation has been driven by knowledge of the earlier serious breaches of the Exchange Listing Rules described in the press release of 17 June 2002 together with the further serious regulatory concerns arising from an apparent failure to observe in a timely manner disclosure and independent shareholders' approval requirements in relation to the transactions referred to in this press release.

Following investigation into the five transactions identified above, the Exchange has formed the view that:

- the Company has breached:
  1. former Rules 14.26 and 14.29 of the Exchange Listing Rules in relation to Transaction I;
  2. current Rule 14A.52 of the Exchange Listing Rules in relation to Transactions II and III; and
  3. current Rules 14A.47, 14A.52, 14.34 and 14.40 of the Exchange Listing Rules in relation to Transactions IV and V.
- each of the 17 Directors identified in this press release has breached his or her Director's Undertaking in relation to the Company's breaches identified above:
  1. Mr He, Mr Li, Mr Luo, Mr Niu, Mr Qu, Mr Shi, Mr Tang, Ms Tian and Mr Zhang, being former Executive Directors of the Company at the material times, and Mr QM Liu, Mr Su and Mr Wang, being Executive Directors in office at the material times and who remain current Executive Directors, have breached their Directors' Undertakings to use their best endeavours to procure the Company's compliance with the Exchange Listing Rules in that:
    - (a) having knowledge of and in approving one or more of the above transactions, they have failed to procure the Company's compliance with the relevant rules; and
    - (b) they have failed to ensure the Company had adequate and effective internal controls in place to ensure the Company's compliance with the Exchange Listing Rules.
  2. Each of Mr Gao and Mr Kang, being former Independent Non-Executive Directors of the Company at the material times, and Ms Liang, Mr Lin and Mr Liu, being Independent Non-Executive Directors in office at the material times and who remain current Independent Non-Executive Directors, has breached their respective Director's Undertaking to use their best endeavours to procure the Company's compliance with the Exchange Listing Rules in that:

- (a) having knowledge of and in approving one or more of the above transactions, they have failed to procure the Company's compliance with the relevant rules; and
- (b) as members of the Company's board, they too have failed to ensure the Company had adequate and effective internal controls in place to ensure its compliance with the Exchange Listing Rules in particular given when they were all in office when the Company repeatedly breached the Exchange Listing Rules in relation to Transactions I to V in the period from March 2004 to October 2006.

### **The Position of the Company and the Relevant Directors**

The Committee has noted that the Company:

1. has admitted its breach of former Rule 14.26 in relation to Transaction I, breach of current Rule 14A.52 in relation to Transactions II and III and breaches of Chapters 14 and 14A of the Exchange Listing Rules as regards the reporting, announcement and prior independent shareholders' approval requirements in relation to Transactions IV and V; and
2. for the purposes of disposal of this disciplinary action, has agreed not to contest the Division's assertion of a breach of former Rule 14.29 in relation to Transaction I and a breach of current Rules 14A.47, 14A.52, 14.34 and 14.40 of the Exchange Listing Rules in relation to Transactions IV and V.

The Committee has also noted that for the purposes of the disposal of this disciplinary action, each of the 17 Directors has agreed not to contest the Exchange's assertion of his/her breach of the Director's Undertaking in that: (a) having knowledge of and in approving the relevant transactions, they have failed to prevent the Company's breach of the relevant rules; and (b) they have failed to ensure the Company had adequate and effective internal controls in place to ensure its compliance with the Exchange Listing Rules.

### **Sanctions**

Accordingly against the facts and circumstances outlined above and the admitted and uncontested assertions of breach, the Exchange:

1. publicly censures the Company for its breach of former Rules 14.26 and 14.29, and current Rules 14.34, 14.40, 14A.47 and 14A.52 of the Exchange Listing Rules;
2. publicly censures each of Mr He, Mr Li, Mr QM Liu, Mr Luo, Mr Niu, Mr Qu, Mr Shi, Mr Su, Mr Tang, Ms Tian, Mr Wang, Mr Zhang, Mr Gao, Mr Kang, Ms Liang, Mr Lin and Mr Liu for his or her breach of the Director's Undertaking to use their best endeavours to procure the Company's compliance with the Exchange Listing Rules in that: (a) having knowledge of and in approving the relevant transactions, they have failed to prevent the Company's breach of the relevant rules; and (b) they have failed to ensure the Company had adequate and effective internal controls in place to ensure its compliance with the Exchange Listing Rules;

3. having regard to the compliance history of the Company and the number and frequency of further breaches with which this press release is concerned directs that the Company appoint a professional adviser satisfactory to the Division to conduct a thorough review of and make recommendations to improve the Company's internal control and compliance systems to ensure the Company's Exchange Listing Rule compliance including in particular the internal controls for compliance with Chapters 14 and 14A of the Exchange Listing Rules as well as the Code of Corporate Governance Practices, Appendix 14 of the Exchange Listing Rules.
  - (a) The professional adviser shall be appointed within 30 days from the date this press release is published.
  - (b) The Company will provide the Division the professional adviser's written report on the findings of the review and the recommendations made within two months from the date the professional adviser was appointed. The Company will further provide the Division with the professional adviser's written report on the Company's full implementation of the recommendations within a further period of two months; and
4. having regard to the compliance history of the Company and the number and frequency of further breaches with which this press release is concerned directs that the Company appoint a Compliance Adviser satisfactory to the Division for consultation on compliance matters including Exchange Listing Rule compliance and corporate governance matters on an ongoing basis for a duration of two years. The appointment shall be made within 30 days from the date this press release is published; and
5. having regard to the compliance history of the Company and the number and frequency of further breaches with which this press release is concerned directs that each of Mr QM Liu, Mr Su, Mr Wang, Ms Liang, Mr Lin and Mr Liu, current directors of the Company, undertake training in compliance and corporate governance matters on courses held by the Hong Kong Institute of Directors, the Hong Kong Institute of Chartered Secretaries or other institutions satisfactory to the Division for at least ten hours a year for at least three consecutive years starting from the date this press release is published. Written evidence by the training provider(s) of completion of training of the directors in question will have to be furnished to the Division within three weeks upon the directors' completion of training of each year.

Richard Williams, Head of Listing, commented: "The number, duration and repeated nature of the serious breaches of the rules impacting on disclosure to shareholders and their ability to vote in a timely manner on connected transactions described in this case are a serious regulatory concern, particularly given the poor compliance history of the Company.

The Committee has sought to address these continuing concerns by the direction of a full programme of remedial actions including the appointment of an external compliance adviser. The Company has to its credit recognized their continued failings in this direction and has agreed to this action as part of the settlement of this case. A positive post-breach response by issuers to compliance problems is a factor which the Division will take into account in deciding its approach to any disciplinary action that may be necessary.

I have repeatedly said in commentaries on earlier disciplinary actions that issuers should be alert to the need to create and maintain adequate internal controls by which their compliance obligations can be managed and regulatory problems avoided. The prompt appointment of external advisers is to be recommended where serious and systemic compliance related problems have been identified.

The public sanctions imposed by the Committee on both the executive and non-executive members of the board make it plain that fundamentally compliance with the Listing Rules is a collective responsibility. It is of vital importance that on taking office, and on an ongoing basis, all members of the board of directors ensure they have the requisite knowledge of the rules such that they are in a position to properly discharge their responsibilities to shareholders and investors as well as the Exchange.”