



THE STOCK EXCHANGE OF HONG KONG LIMITED
(A wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited)

14 June 2006

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. Zhongda International Holdings Limited (the “Company” and, together with its subsidiaries, the “Group”);**
- 2. Mr Xu Lian Guo (“Mr LG Xu”), an executive director of the Company;**
- 3. Mr Xu Lian Kuan (“Mr LK Xu”), an executive director of the Company; and**
- 4. Mr Zhang Yuqing (“Mr Zhang”), an executive director of the Company.**

On 17 January 2006, the Listing Committee conducted a hearing into the conduct of the Company, Mr LG Xu, Mr LK Xu and Mr Zhang in respect of their obligations under the then Rules 14.25(1), 14.26(6) and 14.29 of the Exchange Listing Rules and the Declaration and Undertaking with regard to Directors given by each of them to the Exchange in the form set out in Appendix 5B to the Exchange Listing Rules (the “Director’s Undertaking”) in relation to several connected transactions as outlined below.

Facts:

During the year ended 31 December 2002, the Group entered into several connected transactions as set out below, i.e. Transactions 1 to 7 (the “Connected Transactions”), which were subject to the requirements for disclosure, announcement and/or shareholders’ prior approval under the then Chapter 14 of the Exchange Listing Rules.

The Company did not notify the Exchange of the Connected Transactions at the material time. On 7 April 2003, the Company’s auditors advised the Company to disclose the Connected Transactions. The Company published an announcement on 23 June 2003 (the “Announcement”) setting out details of the Connected Transactions and despatched the relevant circular to its shareholders on 14 July 2003. The Listing Division alleged that the Company breached:

- the then Rules 14.26(6)(b) and 14.29 in relation to Transaction 1;
- the then Rules 14.26(6)(a) and 14.29 in relation to Transaction 2;
- the then Rules 14.26(6)(a) and 14.29 in relation to Transaction 3;
- the then Rule 14.25(1) for Transactions 4 and 5 (in applying the then Rule 14.04(5)); and
- the then Rule 14.25(1) for Transactions 6 and 7 (in applying the then Rule 14.04(5)).

At the material time, the Company was owned as to 58.7 per cent by Mr LG Xu and Mr LK Xu, who were both executive directors and substantial shareholders of the Company.

Transaction 1 – Payment of investment costs by Zhongda Industrial Group Corporation (“ZIG” and together with its subsidiaries, the “ZIG Group”) on behalf of the Group

Pursuant to an agency agreement dated 29 April 2002, Zhongda Automobile Machinery Manufacture Co, Ltd (“Zhongda Machinery”) (a sino-foreign equity joint venture, 86.7 per cent of which was held by the Company with the remaining 13.3 per cent controlled by ZIG) appointed ZIG (a joint stock company established in the PRC, the equity interest of which was owned as to 52.64 per cent by Mr LG Xu and Mr LK Xu) to negotiate on its behalf its investment in the Yancheng Economic Development Zone. On 15 May 2002, ZIG agreed to pay the relevant investment costs on behalf of Zhongda Machinery.

During the period from 20 May 2002 to 7 December 2002, ZIG paid on behalf of Zhongda Machinery a sum of RMB29.90 million for the purpose of acquiring the land use rights and allowing the construction company to assess the land preparation feasibility. The payments, which were unsecured, non-interest bearing and had no fixed term of repayment, represented approximately 21.09 per cent of the Group’s audited consolidated net tangible assets (“NTA”) for the year ended 31 December 2001.

Pursuant to the Exchange Listing Rules in force at the material time, the above transactions constituted connected transactions between ZIG and the Group and financial assistance by ZIG to the Group which was not granted in the Group’s ordinary and usual course of business. The Company was therefore subject to the requirements of the then Rules 14.26(6)(b) and 14.29. However, the Company did not comply with the relevant Rules at the material time.

Transaction 2 – Collection of account receivables by ZIG on behalf of the Group

In 2002, Zhongda Machinery adopted a practice of directing the collection of account receivables to ZIG in respect of common customers. The first collection was made on 2 January 2002. For the year ended 31 December 2002, an aggregate amount of RMB19.3 million of accounts receivables were directed to and collected by ZIG on behalf of Zhongda Machinery, which represented approximately 13.61 per cent of the Group’s audited consolidated NTA for the year ended 31 December 2001.

Pursuant to the Exchange Listing Rules in force at the material time, the above collection of account receivables constituted connected transactions between ZIG and the Group and financial assistance by the Group to ZIG which was not granted in the ordinary and usual course of the Group’s business. The Company was hence subject to the requirements under the then Rules 14.26(6)(a) and 14.29. However, the Company did not comply with the relevant Rules at the material time.

Transaction 3 - Settlement of Advances by the Group on behalf of ZIG

During 2002, the Group adopted a practice of paying expenses of ZIG on its behalf. These expenses included salaries, purchases, interest payments, travelling, entertainment and administrative expenses. The first payment was made on 9 January 2002. For the year ended 31 December 2002, an aggregate amount of RMB16.9 million had been paid by the Group, which represented approximately 11.92 per cent of the Group's audited consolidated NTA for the year ended 31 December 2001.

Pursuant to the Exchange Listing Rules in force at the material time, the above payments constituted connected transactions between ZIG and the Group and financial assistance by the Group to ZIG which was not granted in the ordinary and usual course of the Group's business. As such, the Company was subject to the requirements of the then Rules 14.26(6)(a) and 14.29. However, the Company did not comply with the relevant Rules at the material time.

Transactions 4 & 5 – Sale of lacquer rooms

- (4) On 5 September 2002, Zhongda Machinery entered into an agreement with Beijing Zhongda Yanjing Bus Manufacturing Co, Ltd (“Zhongda Yanjing”) (an 80 per cent subsidiary of ZIG) for the sale of a lacquer room to Zhongda Yanjing at a consideration of approximately RMB5.13 million, which represented approximately 3.62 per cent of the Group's audited consolidated NTA for the year ended 31 December 2001.
- (5) On 28 September 2002, Zhongda Machinery entered into another agreement with Shanghai Guanghui Bus Manufacturing Co, Ltd (“Shanghai Guanghui”) (a 67 per cent subsidiary of ZIG) for the sale of a lacquer room to Shanghai Guanghui at a consideration of approximately RMB3.42 million, which represented approximately 2.41 per cent of the Group's audited consolidated NTA for the year ended 31 December 2001.

The Company had announced in the Announcement that both transactions were conducted on normal commercial terms and in the Group's ordinary course of business.

Pursuant to the Exchange Listing Rules in force at the material time, the agreements for the sale of lacquer rooms to Zhongda Yanjing and Shanghai Guanghui constituted connected transactions and, pursuant to the then Rule 14.04(5), the sale transactions were aggregated and treated as a single transaction. For the year ended 31 December 2002, the aggregate sales amounted to approximately RMB8.55 million representing approximately 6.03 per cent of the Group's audited consolidated NTA for the year ended 31 December 2001. As such, the Company was subject to the requirements of the then Rule 14.25(1). However, the Company did not comply with the relevant Rule at the material time.

Transactions 6 & 7 – Sale of raw materials

- (6) During 2002, the Group sold products and raw materials to Yancheng Celette Body Repairing Equipment Co, Ltd (“Yancheng Celette”) (a sino-foreign equity joint venture, 49 per cent of which was held by ZIG). No sale and purchase agreement had been entered into between the parties. For the year ended 31 December 2002, the goods sold to Yancheng Celette amounted to approximately RMB6.62 million, which represented approximately 4.67 per cent of the Group’s audited consolidated NTA for the year ended 31 December 2001.
- (7) On 8 September 2002, Zhongda Machinery entered into an agreement with Yancheng Zhongwei Bus Manufacturing Co, Ltd (“Zhongwei Bus”) (a 65 per cent subsidiary of ZIG) for the sale of automobile maintenance equipment and raw materials to Zhongwei Bus. For the year ended 31 December 2002, the goods sold to Zhongwei Bus amounted to approximately RMB2.02 million, which represented approximately 1.43 per cent of the Group’s audited consolidated NTA for the year ended 31 December 2001.

The Company had announced in the Announcement that both transactions were conducted on normal commercial terms and in the Group’s ordinary course of business.

Pursuant to the Exchange Listing Rules in force at the material time, the sale of raw materials by the Group to Yancheng Celette and Zhongwei Bus constituted connected transactions and, pursuant to the then Rule 14.04(5), the sales transactions were aggregated and treated as a single transaction. For the year ended 31 December 2002, the aggregate sales to Yancheng Celette and Zhongwei Bus amounted to approximately RMB8.64 million representing approximately 6.10 per cent of the Group’s audited consolidated NTA for the year ended 31 December 2001. As such, the Company was subject to the requirements of then Rule 14.25(1). However, the Company did not comply with the relevant Rule at the material time.

The Listing Division commenced investigation into the Company’s breaches in November 2003 by sending an enquiry letter to Mr LG Xu and requesting him to provide information regarding the Connected Transactions and on the internal control system of the Company. During the course of investigation, the Division experienced significant difficulties in obtaining replies and responses from Mr LG Xu.

The Decision

The Listing Committee concluded that:

- (i) the Company breached:
- the then Rules 14.26(6)(b) and 14.29 in relation to Transaction 1;
 - the then Rules 14.26(6)(a) and 14.29 in relation to Transaction 2;
 - the then Rules 14.26(6)(a) and 14.29 in relation to Transaction 3;
 - the then Rule 14.25(1) for Transactions 4 and 5 (in applying the then Rule 14.04(5)); and
 - the then Rule 14.25(1) for Transactions 6 and 7 (in applying the then Rule 14.04(5)).

- (ii) Mr LG Xu breached the Director's Undertaking in failing to use his best endeavours to procure the Company's compliance with the Exchange Listing Rules at the material time of the Connected Transactions; and in failing to co-operate in the investigation conducted by the Listing Division, including answering promptly and openly any questions addressed to him and promptly producing the originals or copies of any relevant documents; and
- (iii) Each of Mr LK Xu and Mr Zhang breached the Director's Undertaking in failing to use his best endeavours to procure the Company's compliance with the Exchange Listing Rules at the material time of the Connected Transactions.

The Listing Committee considered the conduct of Mr LG Xu to be unacceptable given that he was both the Chairman and an executive director of the Company at the material time.

The Listing Committee decided to impose a **public censure** on the Company, Mr LG Xu, Mr LK Xu and Mr Zhang for their respective breaches mentioned in (i) to (iii) above.

Richard Williams, Head of Listing, said: "There are two regulatory messages to be gleaned from this case:

First, is one of the Exchange's perennial messages which is the importance of ensuring that minority shareholders are provided with adequate and timely disclosure, independent advice and the opportunity to vote on the merits of significant connected transactions prior to execution as required by the rules. The Listing Committee has and will no doubt continue to discipline listed issuers that fail to observe such safeguards, especially where financial assistance to a connected person is involved.

Second, the decision of the Listing Committee is also noteworthy in their finding that Mr LG Xu as Chairman and Executive Director of the Company has breached his Director's Undertaking to the Exchange in not only failing to prevent the multiple breaches of connected transactions rules by the Company, but also in failing to co-operate in the investigation by the Listing Division into these serious breaches. As required by the terms of their undertaking to the Exchange, directors of listed companies are expected to co-operate with the Exchange to facilitate the performance of its regulatory function. Failure to do so is unacceptable and will lead in appropriate cases to the imposition of a public sanction or be subject to more serious consequences. This element of the decision in this case reinforces the central message of the decision of the GEM Listing Committee in the G.P Nano case published recently to the effect that failure to comply with this very important obligation on the part of directors will not be tolerated and will be the subject of regulatory action."

Notes:

1. *Pursuant to the then Rule 14.25(1), where the total consideration or value of a connected transaction on normal commercial terms was or represented less than the higher of HK\$10 million or 3 per cent of the book value of the net tangible assets disclosed in the latest published audited or consolidated accounts of a listed issuer ("NTA") but more than the higher of HK\$1 million or 0.03 per cent of the NTA, the issuer was required to disclose the connected transaction by way of a press notice published in the newspapers as soon as possible and include details of the connected transaction in its next published annual report.*

2. *Pursuant to the then Rules 14.26(6) and 14.29, where the listed group entered into a transaction the principal purpose or effect of which was the granting of financial assistance to or by a connected person otherwise than in the normal commercial terms and in the ordinary and usual course of business, the issuer was required to notify the Exchange after the terms of the connected transaction had been agreed, issue a circular within 21 days after its notification to the Exchange and obtain prior independent shareholders' approval for the connected transaction.*