



**THE STOCK EXCHANGE OF HONG KONG LIMITED**

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

19 January 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. **Luoyang Glass Company Limited (the “Company”);**
2. **Mr Liu Baoying, an executive director of the Company (“Mr Liu”);**
3. **Mr Zhu Leibo, an executive director of the Company (“Mr Zhu”);**
4. **Mr Wang Yongxin, a former executive director of the Company (resigned on 22 April 2004);**
5. **Mr Guo Xiaohuan, a former executive director of the Company (resigned on 30 December 2001);**
6. **Mr Sun Jigang, a former executive director of the Company (resigned on 28 March 2000);**
7. **Mr Jin Baishi, a former executive director of the Company (resigned on 28 March 2000); and**
8. **Mr Li Jinren, a former executive director of the Company (resigned on 28 March 2000)**

**The Listing Committee also criticises the following parties for breaching the Exchange Listing Rules:**

1. **Mr Zhang Shaojie, an executive director of the Company;**
2. **Mr Jiang Hong, an executive director of the Company;**
3. **Mr Zhu Liuxin, an executive director of the Company; and**
4. **Mr Wang Jie, an executive director of the Company**

**Further, the Exchange publicly states that, in the Exchange’s opinion, the retention of office by Mr Liu and Mr Zhu is prejudicial to the interests of investors by reason of their wilful and/or persistent failure to discharge their responsibilities under the Declaration and Undertaking with regard to Directors given by a director of an issuer incorporated in the PRC to the Exchange in the form set out in Appendix 5H of the Exchange Listing Rules (the “Director’s Undertaking”).**

On 7 June 2005, the Listing Committee conducted a hearing into the conduct of the Company, Mr Liu, Mr Zhu, Mr Zhang Shaojie, Mr Zhu Liuxin, Mr Jiang Hong, Mr Wang Jie, Mr Guo Xiaohuan, Mr Sun Jigang, Mr Wang Yongxin, Mr Jin Baishi and Mr Li Jinren (collectively, the “Relevant Directors”) in relation to their obligations under the then Rules 14.26 and 14.29 of the Exchange Listing Rules (“Rules 14.26 and 14.29”), the then Practice Note 19 to the Exchange Listing Rules (“PN19”), Paragraph 2 of the then Listing Agreement (“P2”) and the Director’s Undertaking in relation to three sets of transactions as summarised below.

## **Facts**

At all material times (i.e. 1998 to 2001), China Luoyang Float Glass (Group) Company Limited (“CLFG”) owned about 57.14 per cent of the issued share capital of the Company and was the controlling shareholder of the Company. Accordingly, CLFG and its subsidiaries were connected persons of the Company under the Exchange Listing Rules.

### **Case 1**

Between 1998 and 2000, the Company and its subsidiaries provided guarantees to CLFG and its subsidiaries (collectively, the “CLFG group”) and had various other transactions with them resulting in accounts receivables due from the CLFG group, details of which were set out in the Company’s announcement dated 27 December 2000. Apart from the provision of guarantees, most other transactions were continuous transactions and had begun as early as 1994. The aggregate balance due from the CLFG group to the Company as at year end of 1998, 1999 and 30 June 2000 were RMB378,771,000, RMB901,808,000 and RMB851,956,000 respectively representing 26.5 per cent, 60.7 per cent and 56.1 per cent of the Company’s net tangible assets.

The Division alleged that these transactions were subject to:

- Rules 14.26 and 14.29 requiring issuance of circulars and prior independent shareholders’ approval and the Company did not comply with these requirements in relation to all these transactions; and
- PN19 and P2 as the aggregate balance due from the CLFG group as at 31 December 1998, equivalent to 26.5 per cent of the Company’s net assets, had exceeded the 25 per cent threshold. However, the Company failed to make disclosure under paragraph 3.2.1 of PN19 by a press announcement as soon as practicable after 31 December 1998. The aggregate balance due from the CLFG group as at 31 December 1999 had increased by more than 10 per cent since 31 December 1998. However, the Company failed to make disclosure under paragraph 3.2.2 of PN19 by a press announcement as soon as practicable after 31 December 1999. The Company had also failed to make the requisite disclosure under paragraph 3.8 of PN19 in its annual and interim reports of 1998 and 1999. By failing to make the disclosure under PN19, the Company had breached P2.

By an announcement dated 9 October 2001, the Company disclosed further connected transactions with CLFG as follows:

### **Case 2**

On 23 September 2000, the Company entered into an agreement with CLFG and other parties to form a company called Yangshao which would be engaged in the production and sale of float glass, process glass and related raw materials. The Company and CLFG held 54 per cent and 10 per cent interest respectively in Yangshao. The capital contribution from the Company amounted to RMB40 million which exceeded 3 per cent of the Company's relevant audited net tangible assets. The Division alleged that the acquisition of 54 per cent of Yangshao was subject to Rules 14.26 and 14.29. However, the Company failed to despatch a circular and obtain prior independent shareholders' approval for the transaction.

### **Case 3**

China Luoyang Float Glass Group Financial Company ("CLFC") was principally engaged in the provision of financial or treasury services to companies within the CLFG group including deposit taking and other financial services. The Company, CLFG and a third party held 40 per cent, 50 per cent and 10 per cent interest in CLFC respectively. In order to meet the increased minimum registered capital requirement to comply with the relevant PRC laws, CLFC's board resolved to increase its capital from RMB100 million to RMB300 million on 24 March 2001.

The Company paid RMB71 million to CLFC in May 2001 as its share of contribution towards the increased capital. The sum of RMB71 million exceeded 3 per cent of the Company's relevant audited net tangible assets. The Division alleged that the transaction was subject to Rules 14.26 and 14.29. However, the Company failed to despatch a circular and obtain prior independent shareholders' approval for the transaction.

The Company admitted the breaches of the Exchange Listing Rules in both announcements dated 27 December 2000 and 9 October 2001.

The Division also alleged that the Relevant Directors have breached their Director's Undertakings for failing to use their best endeavours to cause the Company to comply with the Exchange Listing Rules.

### **The Decision:**

At the disciplinary hearing, the Listing Committee concluded as follows:

1. in respect of Case 1, the Company breached Rules 14.26 and 14.29, PN19 and P2;
2. in respect of Case 2 and Case 3, the Company breached Rules 14.26 and 14.29;
3. each of Mr Liu, Mr Sun Jigang, Mr Jin Baishi and Mr Li Jinreng breached the Director's Undertaking in respect of Case 1;
4. each of Mr Zhang Shaojie, Mr Zhu Liuxin, Mr Jiang Hong and Mr Wang Jie breached the Director's Undertaking in respect of Case 2 and Case 3;

5. each of Mr Zhu, Mr Wang Yongxin and Mr Guo Xiaohuan breached the Director's Undertaking in respect of Case 1, Case 2 and Case 3;
6. the breaches of the Director's Undertaking by Mr Liu and Mr Zhu were wilful and/or persistent and the retention of office by Mr Liu and Mr Zhu is prejudicial to the interests of the investors.

The Listing Committee decided to impose the following sanctions on the Company and the Relevant Directors:

- a **public censure** on the Company for its breaches mentioned in (1) to (2) above;
- a **public censure** on Mr Liu, Mr Zhu, Mr Wang Yongxin, Mr Guo Xiaohuan, Mr Sun Jigang, Mr Jin Baishi and Mr Li Jinren for their respective breaches mentioned in (3) and (5) above;
- a **public statement which involves criticism** on Mr Zhang Shaojie, Mr Zhu Liuxin, Mr Jiang Hong and Mr Wang Jie for their respective breaches mentioned in (4) above;
- a **public statement under Rule 2A.09(7)** that, in the Exchange's opinion, the retention of office by Mr Liu and Mr Zhu is prejudicial to the interests of investors.

Richard Williams, Head of Listing, commented, "The decision in this case again reflects the serious regulatory concerns of the Exchange where listed issuers engage in transactions with connected parties. The Exchange has taken disciplinary action to enforce the rules designed to protect the interests of minority shareholders on a significant number of occasions in the past and the results of those actions have been reported in the financial media.

The regulatory implications of a transaction where the parties are connected have particular resonance where the counterparty is the controlling shareholder of the listed company, and are rendered more acute as in this case where the directors of the listed issuer and the controlling shareholder are the same.

In this case, the conduct of Mr Liu and Mr Zhu, the current Chairman and Vice Chairman of the Company was of particular concern to the Committee for that reason. The actual or at least potential for conflict in the performance of their duties towards each entity and its shareholders should be a matter of concern to directors and which should be the subject of careful management and disclosure. The Committee has expressed the view that their conduct merited an additional statement to the effect that their continued presence within the management of the Company was prejudicial to the interests of shareholders.

The Exchange does not have the power to require the removal or resignation of directors and the Exchange will now write to CLFG, the controlling shareholder and invite them to consider the views of the Exchange."

*Notes:*

1. *Pursuant to Rules 14.26 and 14.29, a listed issuer was required to issue a circular and obtain prior independent shareholders' approval for the proposed connected transactions where the total consideration or value of the connected transaction was more than the higher of HK\$10 million or 3 per cent of its net tangible assets.*
2. *Under PN19, a listed issuer was required to: (i) disclose any relevant advance to an entity which exceeded 25 per cent of its net assets (paragraph 3.2.1); (ii) make continual disclosure when the relevant advance increased by 10 per cent since the last disclosure (paragraph 3.2.2); and disclose the relevant advance in its half-year or annual report where it continued to exist at its half yearly or annual financial year end (paragraph 3.8).*

*Pursuant to P2, a listed issuer was required to keep the Exchange, members of the issuers and other holders of its listed securities informed as soon as reasonably practicable of any information relating to the group which: (i) was necessary to enable them and the public to appraise the position of the group; (ii) to avoid the establishment of a false market in its securities; and (iii) might be reasonably expected materially to affect market activity in and the price of its securities.*