



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

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

23 April 2008

**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”) (Stock code: 01108);**
2. **Mr Liu Baoying, a former executive director of the Company (“Mr Liu”), resigned effective 7 June 2007;**
3. **Mr Zhu Leibo, a former executive director of the Company (“Mr LB Zhu”), resigned effective 14 April 2008;**
4. **Mr Ding Jianluo, a former executive director of the Company (“Mr Ding”), resigned effective 10 September 2007;**
5. **Mr Zhang Shaojie, a former executive director of the Company (“Mr Zhang”), resigned effective 10 September 2007;**
6. **Mr Zhu Liuxin, a former executive director of the Company (“Mr LX Zhu”), resigned effective 14 April 2008;**
7. **Mr Jiang Hong, a former executive director of the Company (“Mr Jiang”), resigned effective 10 September 2007; and**
8. **Mr Wang Jie, a former executive director of the Company (“Mr Wang”), resigned effective 28 March 2006.**

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

1. **Mr Dong Chao, a former independent non-executive director of the Company (“Mr Dong”), resigned effective 10 September 2007;**
2. **Mr Xi Shengyang, an independent non-executive director of the Company (“Mr Xi”);**
3. **Mr Dai Zhiliang, a former independent non-executive director of the Company (“Mr Dai”), resigned effective 10 April 2006; and**
4. **Mr Zhong Pengrong, a former independent non-executive director of the Company (“Mr Zhong”), resigned effective 10 April 2006.**

**The Listing Committee has ordered that trading of the Company’s securities on the Exchange remain suspended until, among other things, Mr Liu and Mr LB Zhu cease to be directors of the Company.**

On 28 November 2006, the Listing Committee conducted a hearing into the conduct of the Company, Mr Liu, Mr LB Zhu, Mr Ding, Mr Zhang, Mr LX Zhu, Mr Jiang, Mr Wang, Mr Dong, Mr Xi, Mr Dai and Mr Zhong (collectively, the “Relevant Directors”) in relation to their respective obligations under Rules 14A.17, 14A.49, 14.38 and 14.40 of the Exchange Listing Rules (the “Relevant Rules”) and 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 12 June 2007, the Listing Committee conducted a disciplinary (review) hearing (the “Disciplinary (Review) Hearing”) on the application by the Company for a review of the sanction imposed by the Listing Committee at first instance that the trading of the Company’s securities to remain suspended until Mr LB Zhu ceases to be a director of the Company. The Disciplinary (Review) Hearing was adjourned and reconvened on 28 September 2007.

### **Facts**

The Company and its parent company, China Luoyang Float Glass (Group) Company Limited (“CLFG”), entered into two agreements both dated 26 May 2005 to form two joint venture companies (the “JV Agreements”). The two projects under the JV Agreements constituted both connected transactions and major transactions under the Exchange Listing Rules. The Company is required to: (i) obtain prior independent shareholders’ approval; and (ii) despatch a circular within 21 days after publication of an announcement under Rules 14A.17 and 14A.49 for a connected transaction and Rules 14.38 and 14.40 for a major transaction. However, prior to the Company despatching a circular and obtaining independent shareholders’ approval for the projects as required by the Relevant Rules, the Company contributed RMB88 million to the two joint venture companies which began the construction of the manufacturing plants. As such, the Listing Division alleged that the Company breached the Relevant Rules.

At the material time: (i) Mr Liu was the Chairman of both the Company and CLFG. He signed the JV Agreements on behalf of both companies; (ii) Mr LB Zhu was the Vice Chairman of the Company and a director of CLFG. He represented CLFG in the negotiation of the joint ventures with the Company; (iii) Mr Ding authorised the payment of RMB88 million; (iv) Mr LX Zhu, Mr Zhang, Mr Jiang and Mr Wang knew of the payment after commencement of the joint venture projects. However, they all agreed to the payment and justified it on the ground of commercial expediency; and (v) Mr Dong, Mr Xi, Mr Dai and Mr Zhong were independent non-executive directors of the Company. They became aware of the payment of RMB88 million in November 2005. However, they only urged the Company to publish the circular and convene an EGM and failed to take any remedial steps.

The Division alleged that the Relevant Directors breached their Director’s Undertakings.

It should be noted that this is the second time that the Division has taken disciplinary action against the Company and its directors. On 7 June 2005, the Listing Committee conducted a disciplinary hearing into the conduct of, among others, the Company, Mr Liu, Mr LB Zhu, Mr Zhang, Mr LX Zhu, Mr Jiang and Mr Wang in respect of various connected transactions conducted between the Company and CLFG from 1998 to 2001 (the “Previous Disciplinary Hearing”). The Listing Division alleged, among other things, that the Company failed to despatch circulars and obtain independent shareholders’ approval for these connected transactions. The Listing Committee concluded that the Company breached the relevant Exchange Listing Rules and the directors breached the Director’s Undertaking.

**Decision:**

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

1. the Company breached Rules 14A.17, 14A.49, 14.38 and 14.40 of the Exchange Listing Rules;
2. each of the Relevant Directors breached the Director's Undertaking in failing to use his best endeavours to cause the Company's compliance with the Exchange Listing Rules;
3. the breaches of the Director's Undertaking by Mr Ding, Mr Zhang, Mr LX Zhu and Mr Jiang were wilful and/or persistent and the retention of their office is prejudicial to the interests of investors; and
4. the breaches mentioned in 1, 2 and 3 above and the other breaches that were addressed in the Previous Disciplinary Hearing indicated a wilful and persistent failure of the Company, Mr Liu, Mr LB Zhu, Mr Zhang, Mr LX Zhu, Mr Jiang and Mr Wang to discharge their responsibilities under the Exchange Listing Rules.

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

- a **public censure** of the Company for its breaches of Rules 14A.17, 14A.49, 14.38 and 14.40 of the Exchange Listing Rules;
- trading of the Company's securities to remain suspended until the following conditions are complied with:
  - a. Mr Liu and Mr LB Zhu cease to be directors of the Company;
  - b. the Company retain an independent professional adviser satisfactory to the Division (the "Adviser") to conduct a thorough review of and make recommendations to improve the Company's internal controls for: (i) Exchange Listing Rule compliance in relation to connected transactions, in particular transactions with the CLFG group and (ii) addressing and managing directors' possible actual and potential conflicts of interest; and provide the Division with the written report of the Adviser within two months from the date hereof. The Company shall furnish the Division with the Adviser's written report on the Company's full implementation of the Adviser's recommendations within a further period of two months; and
  - c. the Company appoint a Compliance Adviser satisfactory to the Division to provide guidance to the Company on compliance matters under Rule 3A.20 for a period of two years, the appointment to be made within one month from the date hereof.
- a **public censure** of Mr Liu, Mr LB Zhu, Mr Ding, Mr Zhang, Mr LX Zhu, Mr Jiang and Mr Wang for their respective breaches of the Director's Undertaking; and
- a **public statement which involves criticism** of Mr Dong, Mr Xi, Mr Dai and Mr Zhong for their respective breaches of the Director's Undertaking.

The Listing Committee at first instance was also minded to impose a public statement under Rule 2A.09(7) of the Exchange Listing Rules on Mr Ding, Mr Zhang, Mr LX Zhu and Mr Jiang that, in the Exchange's opinion, the retention of their office is prejudicial to the interests of investors by reason of their wilful and/or persistent failure to discharge their responsibilities under the Director's Undertaking. However, at the Disciplinary (Review) Hearing, the Listing Committee is of the view that imposition of such sanction on Mr Ding, Mr Zhang and Mr Jiang is not appropriate in those terms as they ceased to be directors of the Company from 10 September 2007. The Listing Committee noted Mr LX Zhu ceased to be a director of the Company with effect from 14 April 2008 and the imposition of such sanction on Mr LX Zhu is also not appropriate.

In arriving at its decision, the Listing Committee at first instance noted that, following the Previous Disciplinary Hearing, (i) the Company was publicly censured because of various connected transactions conducted between the Company and CLFG; (ii) Mr Liu and Mr LB Zhu were publicly censured for breach of the Director's Undertaking and had been the subject of a public statement issued by the Exchange under Rule 2A.09(7) of the Exchange Listing Rules. Nevertheless, both Mr Liu and Mr LB Zhu still remained in office as at the date of the first instance disciplinary hearing; and (iii) Mr Zhang, Mr LX Zhu, Mr Jiang and Mr Wang were publicly criticised for breach of the Director's Undertaking. Further, the breaches of the Relevant Rules by the Company and the Director's Undertaking by the Relevant Directors were perpetrated whilst the Previous Disciplinary Hearing was being conducted.

At the Disciplinary (Review) Hearing, the Listing Committee noted that Mr Liu resigned from the directorship on 7 June 2007 and upheld the sanction imposed by the Listing Committee at first instance that trading of the Company's securities shall remain suspended until, among other things, Mr LB Zhu ceases to be a director of the Company.

Richard Williams, Head of Listing, commented: "The decision of the Review Committee in this case has to be understood in the context of the overall disciplinary record of this Company and, in particular, the disciplinary decision announced on 19 January 2006. By that decision, among other things, the Listing Committee censured and made statements as to their opinion of the conduct of two of the Executive Directors of the Company arising from a series of very substantial connected transactions with the Company's controlling shareholder for which prior approval of the independent shareholders had not been sought.

It is disturbing to note that a matter of days before the first disciplinary hearing took place the Company again engaged in very similar transactions without complying with the Exchange Listing Rules which led to the Listing Division bringing a second disciplinary action. The Review Committee in the present case has taken the view that the conduct demonstrates wilful and persistent breach of the rules by the Company and identified members of the board of directors. The repetition of this conduct is most serious in the case of Mr Zhu Leibo and Mr Liu Baoying who were parties to the earlier disciplinary proceedings.

Mr Liu Baoying resigned on 7 June 2007, which was co-incidentally shortly before the first day of the Review Committee hearing. Mr Zhu Leibo remained in office until very recently.

The Review Committee has, for the first time, exercised the powers available under Rule 2A.09 (8) of the Exchange Listing Rules to direct that trading in the shares of the Company should remain suspended until (among other things) Mr Zhu Leibo resigned as a director of the Company.

I also believe it appropriate to comment briefly on the timing of publication of this decision. It will be noted that the hearing of the Review Committee took place on 12 June and 28 September of last year. The gap between 12 June and 28 September arose because following submissions made orally by the parties during the first day of the hearing concerning the steps the Company had taken and proposed to take to improve its corporate governance structure since the rule breaches covered in the Division's disciplinary report, the Review Committee asked the parties to put in a written submission and gave the Listing Division an opportunity to respond to this new information. This exchange of written submissions took place between June and August 2007. Following the issue of the Review Committee's decision a further review of that decision was sought to the Listing Appeals Committee by the Company. However that review was very recently dropped and Mr Zhu Leibo resigned with effect from 14 April 2008.

Finally, there are I think two major regulatory messages coming out of this decision. First, that the principle of collective responsibility for compliance with the rules underpins the regulatory framework. Directors, whatever their designation be it executive or non-executive, will in appropriate circumstances be held responsible and be subject to sanction for failure to comply with their obligations. Second that the Exchange is quite prepared to exercise all of the powers available to it, including suspension of trading, where the conduct of individual directors is so egregious that the Committee cannot have confidence that they will adhere to the terms of their undertaking to the Exchange to act to the best of their ability and procure the Company's compliance with the Exchange Listing Rules."