

## CORPORATE GOVERNANCE REPORT

Throughout the year ended 31 December 2005, the Company has complied with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") of the Stock Exchange of Hong Kong Limited. In addition, the Group is committed to maintain a high standard of corporate governance in order to provide transparency and protection of shareholders' interest.

With reference to the code provision set out in the Code of Corporate Governance Practices ("Corporate Governance Code") contained in Appendix 14 of the Listing Rules, with due consideration of the interest of shareholders and the economic benefit of the Company has adopted relevant Corporate Governance Code as follows:

### BOARD OF DIRECTORS

The Board of Directors (the "Board") comprises of five executive directors and three independent non-executive directors and the Board is accountable to shareholders. The management and control of the business of the Company is vested in its Board. It is the duty of the Board to create value to the shareholders of the Company.

The Board is bound to manage the Company in a responsible and effective manner, and therefore every Director ensures that he carries out his duty in good faith and in compliance with the standards of applicable laws and regulations, and acts in the best interests of the Company and its shareholders at all times.

The Board has delegated a schedule of responsibilities to each of the executive directors. The five executive directors including Mr. Wang Ya Nan, the Chairman and CEO of the Board, who requires to establish the Company's strategic direction, set the Company's objectives and plan in accordance therewith, and provide leadership and ensure availability of resources in the attainment of such objectives. He is also required to control, supervision and monitoring of capital, technical and human resources for the Group. Mr. Wang Ya Hua, the Vice Chairman of the Board who implements the decisions of the Board and manages strategies and plans approved by the Board; and preparation and monitoring of annual production plans and operating budget. He is also required to give direction of the day-to-day operation in one of the main operation unit of the Group in Xiamen. Mr. Wong Ah Yu oversees the operation unit in Shishi and requires to give direction of the day-to-day operation. Mr. Wong Ah Yeung oversees the operation unit in Shenzhen and requires to give direction of the day-to-day operation. Mr. Choi Wai Sang takes the responsibility of marketing function for the overseas market.

The roles of Chairman and Chief Executive Officer should be separated and should not be performed by the same individual. The Company does not have a separate Chairman and Chief Executive Officer and Mr. Wang Ya Nan currently holds both positions. The Board believes that vesting the roles of both Chairman and Chief Executive Officer in the same person provides the Group with strong and consistent leadership and allows for more effective planning and execution of long term business strategies. The present structure is considered to be appropriate under the circumstances.

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Three independent non-executive directors are responsible for ensuring a high standard of financial and other mandatory reporting the Board as well as to provide a balance in the Board in order to protect shareholders' interest and overall interest of the Group. There is no fixed term of office for each independent non-executive director but each of them is retired in accordance with the Bye-law of the Company.

The Group believes that such a structure of the Board is the most suitable for the Group's existing operation and is the most beneficial to shareholders' interest. However, a review of the structure will be done regularly to see if any change needed.

The Board held 7 meetings during the year with attendance record as follows:-

Attendance at Board Meeting	Number of Meetings Attended (7 Meetings in total)
<b>Executive Directors:</b>	
Wang Ya Nan	7
Wang Ya Hua	5
Wong Ah Yu	5
Wong Ah Yeung	5
Choi Wai Sang	7
<b>Independent Non-Executive Directors:</b>	
Ting Leung Huel Stephen	5
Wong Kong Hon	5
Cheung Wah Fung Christopher	4

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The Board held seven meetings during the year under review. The Chief Financial Officer and Company Secretary attended all the scheduled Board Meetings to report matters arising from corporate governance, risk management, statutory compliance, accounting and finance.

In compliance with the code provisions of the Corporate Governance Code, the Company has set up an Audit Committee and a Remuneration Committee under the Board. The Board considers the determination of the appointment and removal of Directors to be the Board's collective decision and thus does not intend to adopt the recommended best practice of the Corporate Governance Code to set up a Nomination Committee.

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### ACCOUNTABILITY AND INTERNAL CONTROL

The Directors acknowledge their responsibilities for the preparation of the financial statements of the Group. The Directors consider that the financial statements have been prepared in conformity with the generally accepted accounting standards in Hong Kong, and reflect amounts that are based on the best estimates and reasonable, informed and prudent judgment of the Board and Management with an appropriate consideration to materiality.

The accounting systems and internal control of the Group are designed to prevent any misappropriation of the Group's assets, any unauthorized transactions as well as to ensure the accuracy of the accounting records and the true and fairness of the financial statements.

The Board is responsible for the effectiveness of the Group's internal control system. The internal control system are designated to meet the Group's needs. Relevant procedures have been designed for safeguarding assets against unauthorised use or disposal; for controlling excessive capital expenditure; for maintaining proper accounting records; and for the reliability of financial information used in the operations or for publication. Qualified management personnel of the company will maintain and monitor the internal control system on a going-concern basis. The Management and the Chief Financial Officer of the Company will report the internal control situation to the Audit Committee and the Board periodically for evaluation.

### THE BOARD COMMITTEES

As part of the efforts to enhance corporate governance of the Company, a Remuneration Committee was set up on 8 March 2005 in addition to the existing Audit Committee ("AC"). Each committee has its defined responsibilities and authorities to discharge its duty.

The Audit Committee comprises of three independent non-executive directors and is chaired by Mr. Ting Leung Huel Stephen. The term of reference of the AC are aligned with the recommendations as set out in "A Guide for Effective Audit Committee" issued by the Hong Kong Insitute of Certified Public Accountants and the code provisions as set out in the Corporate Governance Code. The AC provides accounting and financial advice and recommendations to the Board as well as monitoring and safeguarding the independence of external auditors and relevant auditing matters.

The Remuneration Committee ("RC") comprises of the Chairman and CEO of the Company, Mr. Wang Ya Nan and three independent non-executive directors Mr. Ting Leung Huel Stephen ("Mr Ting"), Mr. Wong Kong Hon and Mr. Cheung Wah Fung Christopher. Mr. Ting takes the chair of the RC. The main responsibility of the RC is to review and determine the remuneration of each director.

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### EXTERNAL AUDITORS

Ernst and Young has been appointed as the External Auditors of the Company for the year under review by the shareholders of the Company at the Annual General Meeting 2004. The Audit Committee has given their opinion on the fee charged to the Company. The responsibilities of the external auditors with respect to financial reporting are set out in the section of "Report of the Auditors" on page 24.

### COMMUNICATION WITH SHAREHOLDERS

The Company attaches great priority to establishing effective communication with its shareholders and investors. In an effort to enhance such communications, the Company provides information relating to the Company and its business in its annual report and also disseminates such information electronically through its web site at [www.tongda.com](http://www.tongda.com).

The Company regards the Annual General Meeting as an important event as it provides an opportunity for direct communication between the Board and its shareholders. All Directors, Senior Management and external auditors make an effort to attend the Annual General Meeting of the Company to address shareholders' queries. All the shareholders of the Company are given a minimum of 21 days' notice of the date and venue of the Annual General Meeting of the Company. The Company supports the Code's principle to encourage shareholders' participation.

### DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies contained in Appendix 10 of the Listing Rules as the code of conduct regarding director' securities transactions

The Board will review regularly the Group's operation and corporate governance of the Company in order to ensure the compliance of relevant laws and regulations and protect the interest of shareholders.