

# Corporate Governance Report

Maintaining high standards of corporate governance in everything we do



Sound corporate governance practices are crucial to the smooth, effective and transparent operation of a company and its ability to attract investment, protect rights of shareholders and stakeholders, and enhance shareholder value. Tianjin Development Holdings Limited is committed to high standards of corporate governance with a view to being transparent, open and accountable to our shareholders.

On 1st January 2005, the Code of Best Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules") was replaced by the Code on Corporate Governance Practices ("the Code"). The Company adopted all the code provisions in the Code as its own code on corporate governance practices.

The Company has complied with the code provisions as set out in the Code during the year ended 31st December 2005 except that:

1. the non-executive Directors have not been appointed for any specific terms as they are subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Company's Articles of Association.
2. the Directors have not been required by the Company's Articles of Association to retire by rotation at least once every three years. However, in accordance with the Company's Articles of Association, one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest one-third, shall retire from office by rotation at each annual general meeting.

## Corporate Governance Report

### BOARD OF DIRECTORS

#### Composition

The Board of Directors of the Company comprises 15 members. Mr. Wang Guanghao acts as the Chairman of the Board, whereas Dr. Ren Xuefeng and Mr. Yu Rumin act as the Vice Chairmen of the Board. Dr Zhang Hongru is the Managing Director of the Company. Other executive Directors are Mr. Nie Jiansheng, Dr Wang Jiandong, Mr. Bai Zhisheng, Mr. Zhang Wenli, Mr. Sun Zengyin and Dr. Pang Jinhua. The Company has two non-executive Directors, Mr. Ye Disheng and Mr. Cheung Wing Yui, and three independent non-executive Directors, Mr. Kwong Che Keung, Gordon, Mr. Lau Wai Kit and Dr Cheng Hon Kwan, one of whom namely, Mr. Kwong Che Keung, Gordon has appropriate professional accounting experience and expertise.

All directors have distinguished themselves in their field of expertise, and have exhibited high standards of personal and professional ethics and integrity. The biographical details of each director are disclosed in pages 17 to 21 of this Annual Report.

Each independent non-executive director has pursuant to the rule 3.13 of the Listing Rules, confirmed that he is independent of the Company and the Company also considers that they are independent.

There is no relationship (including financial, business, family or other material relationship) among members of the Board.

As mentioned before, the Directors have not been required by the Company's Articles of Association to retire by rotation at least once every three years. However, pursuant to article 101 of the Articles of Association of the Company, at each annual general meeting one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest one-third, shall retire from office. The Directors to retire in every year shall be those who have been longest in office since their last election but as between persons who became Directors on the same day those to retire shall (unless they otherwise agree between themselves) be determined by lot. Accordingly, the Board considers that the principle of Code provision A.4.2 is followed in practice. In due course, the Board will consider amending the Company's Articles of Association to comply with the requirement of the Code.

Code provision A.4.1 provides that non-executive Directors should be appointed for a specific term, subject to re-election. None of the non-executive Directors has entered or proposed to enter into any service contracts with the Company or its subsidiaries. Accordingly, the non-executive Directors have no set term of office but they are subject to retirement by rotation at least once every three years as mentioned above. As such, the Board considers that sufficient measures have been taken to serve the purpose of the Code provision A.4.1.

#### Function

The Board of Directors, headed by the Chairman, is responsible for formulation and approval of the Group's development and business strategies and policies, approval of business plans, recommendation of dividend and supervision of management in accordance with the rules governing the meeting of the Board of Directors, articles of association and rules governing the meeting of shareholders.



The executive directors are responsible for day-to-day management of the Company's operations. These executive directors conduct regular meetings with the senior management of the Company, its subsidiaries and associated companies, at which operational issues and financial performance are evaluated.

The Company views well-developed and timely reporting systems and internal controls are essential, and the Board of Directors plays a key role in the implementation and monitoring of internal financial controls.

The Board of Directors has established procedure to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expenses.

The articles of association of the Company contain description of responsibilities and operation procedures of the Board of Directors. The Board of Directors holds regular meetings to discuss and consider significant matters relating to existing operations and proposals for new operations and projects. Board meetings include regular meetings and irregular meetings. The Board of Directors meets formally at least 4 times a year.

During 2005, the Board of Directors held 6 Board meetings. Due notice and Board papers were given to all Directors prior to the regular meetings in accordance with the Company's Articles of Association and the Code. Details of individual attendance of Directors are set out below:-

#### Attendance of individual Directors at Board meetings in 2005

| Number of Meetings                         | 6             |      |
|--|---------------|------|
| <b>Executive Directors</b>                 |               |      |
| Wang Guanghao                              | 6             | 100% |
| Ren Xuefeng                                | 6             | 100% |
| Zhang Hongru                               | 5             | 83%  |
| Nie Jiansheng                              | 6             | 100% |
| Wang Jiandong                              | 6             | 100% |
| <b>Directors</b>                           |               |      |
| Yu Rumin                                   | 5             | 83%  |
| He Xiuheng                                 | 6             | 100% |
| Yang Liheng                                | 6             | 100% |
| Sun Zengyin                                | 3             | 50%  |
| Pang Jinhua                                | 1             | 16%  |
| <b>Non-executive Directors</b>             |               |      |
| Ye Disheng                                 | 1             | 16%  |
| Cheung Wing Yui                            | 6             | 100% |
| <b>Independent Non-executive Directors</b> |               |      |
| Kwong Che Keung, Gordon                    | 6             | 100% |
| Lau Wai Kit                                | 5             | 83%  |
| Cheng Hon Kwan                             | 6             | 100% |
| <b>Average attendance rate</b>             | <b>82.07%</b> |      |

## Corporate Governance Report

### Chairman and Managing Director

The role of the Chairman, Mr. Wang Guanghao, and the Vice Chairmen, Dr. Ren Xuefeng and Mr. Yu Rumin are separate from that of the Managing Director, Dr. Zhang Hongru. Such division of responsibilities allows a balance of power between the Board of Directors and the management of the Group, and ensures their independence and accountability.

The Chairman, assisted by the Vice Chairmen, is the leader of the Board and he oversees the Board so that it acts in the best interests of the Group. The Chairman is responsible for deciding the agenda of each Board meeting, taking into account, where appropriate, matters proposed by other directors for inclusion in the agenda. The Chairman has overall responsibility for providing leadership, vision and direction in the development of the business of the Company.

The Managing Director, assisted by other executive directors, is responsible for the day-to-day management of the business of the Group, attends to formulation and successful implementation of policies, and assumes full accountability to the Board for all operations of the Group. Working with the Vice Chairmen and the executive management team of each core business division, he ensures smooth operations and development of the Group. He maintains continuing dialogue with the Chairman, the Vice Chairmen and all directors to keep them fully informed of all major business developments and issues. He is also responsible for building and maintaining an effective executive team to support him in his role.

### Responsibilities

In the course of discharging their duties, the directors act in good faith, with due diligence and care, and in the best interests of the Company and its shareholders. Their responsibilities include:

- Regular board meetings focusing on business strategy, operational issues and financial performance.
- Active participation on the boards of subsidiaries and associated companies.
- Monitoring the quality, timeliness, relevance and reliability of internal and external reporting.
- Monitoring and managing potential conflicts of interest of management, Board members and shareholders, including misuse of corporate assets and abuse in connected transaction.
- Ensuring processes are in place to maintain the overall integrity of the Company, including financial statements, relationships with suppliers, customers and other stakeholders, and compliance with all laws and ethics.

### Board Committees

A number of Board Committees, including Audit Committee and Remuneration Committee, have been established by the Board of Directors to strengthen its functions and to enhance its expertise. These committees have been formed with specific written terms of reference which deal clearly with the committees' authority and duties.



### Remuneration Committee

In 2005, the Board has established a Remuneration Committee comprising one executive director, Dr. Ren Xuefeng and two independent non-executive Directors, Mr. Kwong Che Keung, Gordon and Dr. Cheng Hon Kwan. It is chaired by Dr. Cheng Hon Kwan. A written terms of reference of the Remuneration Committee was adopted with reference to the Code.

The Remuneration Committee's responsibilities are to review and consider Company's policy for remuneration of directors and senior management, to determine remuneration packages of executive directors and senior management including benefits in kind, pension rights and compensation payments, and to recommend to the Board of Directors remuneration of non-executive directors.

The Remuneration Committee had its first formal meeting on 10th January 2006 at which all committee members, namely, Dr. Ren Xuefeng, Mr. Kwong Che Keung, Gordon and Dr. Cheng Hon Kwan, were present. At the meeting, the Remuneration Committee reviewed and discussed, inter alia, the remuneration policy for 2005 and also the remuneration of the executive Directors, the independent non-executive Directors and senior management for 2005.

### Audit Committee

The Company's Audit Committee is composed of three independent non-executive directors, namely Mr. Kwong Che Keung, Gordon, Mr. Lau Wai Kit and Dr. Cheng Hon Kwan. It is chaired by Mr. Kwong Che Keung, Gordon. It reports directly to the Board of Directors and reviews matters relating to the work of the external auditors, financial statements and internal controls.

The Audit Committee meets with the Company's external auditors to discuss the audit process and the accounting and internal control issues raised. Written terms of reference, which describes the authority and duties of the Audit Committee, are regularly reviewed and updated by the Board.

Set out below is the summary of work done in 2005:

- review the financial statements for the year ended 31st December 2004 and for the six months ended 30th June 2005;
- review internal control matters with the external auditors;
- review the external auditors' statutory audit plan and letters to the management; and
- consider and approve 2005 audit fees and audit work.

The Audit Committee held 2 meetings on 11th April 2005 and 1st September 2005 respectively. All individual members, namely, Mr. Kwong Che Keung, Gordon, Mr. Lau Wai Kit and Dr. Cheng Hon Kwan attended the aforesaid meetings.

## Corporate Governance Report

### **Nomination of Directors**

The Board of Directors has not established a nomination committee. According to the Articles of Association of the Company, the Board has the power from time to time and at any time to appoint any person as a director either to fill a casual vacancy or as an addition to the Board. In assessing nomination of new directors, the Board has taken into consideration of the nominee's qualification, ability and potential contributions to the Company.

There was no change of directorship during 2005. With effect from 1st January 2006, Mr. He Xiuheng resigned as an executive Director due to his retirement and Mr. Bai Zhisheng was appointed as an executive Director to fill this casual vacancy. The said resignation and appointment, was reviewed and approved by the Board at its meeting on 12th December 2005 at which all the Directors except Mr. Sun Zengyin, Dr. Pang Jinhua and Mr. Ye Disheng, were present.

### **Model Code For Securities Transactions By Directors**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules as the codes of conduct regarding securities transactions by directors. All directors have confirmed, following specific enquiry by the Company, that they fully complied with the Model Code throughout the year 2005.

The Company has also established written guidelines regarding securities transaction on no less exacting terms of the Model Code for senior management and specific individual who may have access to price sensitive information in relation to the securities of the Company.

### **External Auditors**

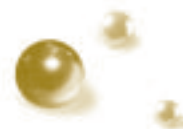
The Audit Committee reviews each year a letter from the external auditors of the Company, PricewaterhouseCoopers, confirming their independence, approves their appointment, discusses the scope of their audit and approves their fees.

PricewaterhouseCoopers provided annual statutory audit services in respect of the Company's financial statements prepared under Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("HKFRSs") and the Hong Kong Companies Ordinance ("HKCO") for the year 2005. PricewaterhouseCoopers also reviewed the 2005 unaudited interim financial report of the Company, prepared under HKFRSs and HKCO.

During the year, the fees paid and payable to PricewaterhouseCoopers in respect of audit services amounted to approximately HK\$2,910,000. In respect of non-audit services, the fees paid and payable to PricewaterhouseCoopers relating to tax services amounted to approximately HK\$24,000.

### **Internal Control**

The Company places great importance on internal control and risk management. The Company is making comprehensive improvements to its internal control system and will implement a stricter and more regulated internal control procedures in the new financial year.



Pursuant to the code provision C.2.1, the Board should at least annually conduct a review of the effectiveness of the system of internal control of the issuer and its subsidiaries and report to shareholders that they have done so in the corporate governance report. Under the transitional arrangement, the said code provision C.2.1 will be implemented for accounting periods commencing on or after 1st July 2005. The Company will conduct a review of its internal control system pursuant to the code provision C.2.1 in year 2006.

### **Going Concern**

The Directors, having made appropriate enquiries, consider that the Company has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the financial statements.

### **Shareholder Communication**

The objective of shareholder communication is to provide our shareholders with detailed information about the Company so that they can exercise their rights as shareholders in an informed manner.

The Company uses a range of communication tools to ensure its shareholders are kept well informed of key business imperatives. These include annual general meeting, annual report, various notices, announcements and circulars. Procedure for demanding voting by poll has been included in all circulars accompanying notice convening general meeting and the detailed procedures for conducting a poll has been read out by the chairman at general meeting.

At the 2005 annual general meeting, a separate resolution was proposed by the Chairman in respect of each separate issue, including re-election of Directors. The Chairmen of the Board of Directors and Audit Committee attended the 2005 Annual General Meeting to answer questions of shareholders.

### **Directors' Responsibility In Preparing The Financial Statements**

The Directors acknowledge that it is their responsibilities in preparing the Financial Statements. The responsibilities of the external auditors with respect to financial reporting are set out in the Auditors' Report on page 40.