



THE STOCK EXCHANGE OF HONG KONG LIMITED

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

20 March 2007

The Stock Exchange of Hong Kong Limited (the “Exchange”) criticises 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. Mr Wang Guang Hao (“Mr Wang”), an executive director of Tianjin Development Holdings Limited (the “Company”) (Stock Code: 882); and**
- 2. Mr Chen Zi He, a former executive director of the Company (“Mr Chen”), resigned effective 30 December 2003.**

On 17 May 2005, the Listing Committee of the Exchange conducted a hearing into the conduct of, among others, Mr Wang and Mr Chen in relation to their obligations under 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”).

On 27 June 2006, the Listing Committee conducted a disciplinary (review) hearing (the “Disciplinary (Review) Hearing”) on the application of Mr Wang for a review of the content and timing of the publication of the press release which had been approved by the Listing Committee at first instance.

On 27 February 2007, the Listing Appeals Committee of the Exchange conducted a further disciplinary (review) hearing on the application of Mr Wang for a review of the decision reached at the Disciplinary (Review) Hearing (the “Listing Appeals Committee hearing”).

Pursuant to the then Rules 14.26(6) and 14.29 of the Exchange Listing Rules, the Company was required to obtain prior shareholders’ approval before the funds were advanced to a connected party of the Company and to notify the Exchange as soon as possible after the terms of the transactions had been agreed and to despatch a circular to its shareholders and the Exchange within 21 days of such notification.

In this case, it was alleged that Mr Wang and Mr Chen’s breach of the Director’s Undertaking stemmed from advances made by the Company (which was not made on normal commercial terms or in the usual course of the Company’s business) (collectively, the “Advances”) the purpose and effect of which was to give financial assistance to a connected party in order to facilitate trading by that connected party in the shares of the Company.

Facts:

First Advance

On 23 February 2000, the Company paid the sum of \$2.5 million to Koffman Finance (HK) Limited (“KFHK”). Following that payment, KFHK provided an undertaking dated 23 February 2000 to the Company stating that, in consideration of the Company’s deposit of \$2.5 million for financing of a loan to Tianjin Investment Holdings Limited (“TIH”) (a substantial shareholder of the Company) for a period of six months, KFHK undertook to repay to the Company the amount of \$2.5 million plus interest at the rate of 9.75 per cent (P+1 per cent) per annum on or before the last day of the said six months’ period. Mr Wang represented the Company to accept the lending terms.

On the same day, 23 February 2000, KFHK sent a letter of confirmation to TIH confirming that it was prepared to advance a sum of \$2.5 million to TIH subject to an interest charge of 10 per cent (P+1.25 per cent) per annum and the sum would be repaid on 22 August 2000.

A memorandum under the Money Lenders Ordinance dated 23 February 2000 was signed by KFHK and acknowledged by TIH confirming the terms of the loan of \$2.5 million.

On 23 February 2000, TIH signed a payment instruction instructing KFHK to transfer \$2,499,000 in favour of Koffman Securities Limited (“KSL”) at KSL’s HSBC account (for the cash account of TIH), net of \$1,000 arrangement fee charged by KFHK.

Second Advance

On 1 March 2000, KFHK provided an undertaking to the Company stating that, in consideration of the Company’s deposit of \$7 million for financing of a loan to TIH for a period of six months, KFHK undertook to repay to the Company the amount of \$7 million plus interest at the rate of 9.75 per cent (P+1 per cent) per annum on or before the last day of the said six months’ period. Mr Wang represented the Company to accept the lending terms.

On 1 March 2000, KFHK sent a letter of confirmation to TIH confirming that it was prepared to advance a sum of \$7 million to TIH subject to an interest rate 10 per cent (P+1.25 per cent) per annum and the sum would be repaid on 31 August 2000.

A memorandum under the Money Lenders Ordinance dated 1 March 2000 was signed by KFHK and acknowledged by TIH confirming the terms of the loan of \$7 million.

On 1 March 2000, TIH signed a payment instruction instructing KFHK to transfer \$5 million and \$1,998,000 in favour of KSL at KSL’s HSBC account (for the cash account of TIH), net of \$2,000 arrangement fee charged by KFHK.

Mr Wang, who was the chairman and an executive director of the Company and an executive director of TIH, signed the documentation relevant to the Advances on behalf of the Company and TIH. The purpose and effect of the Advances made by the Company were to provide financial assistance to a connected party, TIH.

Trading in the shares of the Company and Repayment of advances

During the period from 14 to 29 February 2000, TIH engaged in significant trading in the shares of the Company which amounted to between 14.03 per cent to 44.20 per cent of the market turnover in the shares of the Company during this period.

KFHK repaid \$7 million and \$2.5 million to the Company on 22 March 2000 and 12 May 2000 respectively.

The Decision

The Listing Committee at first instance concluded that:

- (i) there were breaches of the then Rule 14.26(6) and 14.29 of the Exchange Listing Rules;
- (ii) Mr Wang had acted in breach of the Director's Undertaking in that he had caused or failed to prevent the breaches of the then Rules 14.26(6) and 14.29 and had failed to establish and or maintain an adequate internal system by which he could procure the Company's compliance with the Exchange Listing Rules; and
- (iii) Mr Chen had acted in breach of the Director's Undertaking in that he had failed to establish and or maintain an adequate internal system by which he could procure the Company's compliance with the Exchange Listing Rules.

The Listing Committee at first instance decided to impose a **public statement which involves criticism** on Mr Wang and Mr Chen for their respective breaches mentioned in (ii) and (iii) above.

At the Disciplinary (Review) Hearing, the Listing Committee decided to endorse the content of and the timing of publication of the press release which had been approved by the Listing Committee at first instance.

At the Listing Appeals Committee hearing, the Listing Appeals Committee decided to modify the content of the press release which had been approved by the Listing Committee, to approve the press release in its current form and directed that the press release be published as soon as possible.

For the avoidance of doubt, the Exchange confirms that this public statement which involves criticism does not apply to the Company or any other past or present members of the Board of Directors of the Company.

Richard Williams, Head of Listing, commented: “The decision in this case demonstrates that the Listing Committee and the Listing Appeals Committee will discipline directors of listed issuers who fail to establish and/or maintain adequate internal system to ensure that minority shareholders are provided with timely disclosure, independent advice and the opportunity to vote on significant connected transactions prior to execution, especially where financial assistance to a connected person is involved. An adequate internal system includes the proper implementation of an internal control framework, as well as the proper utilisation of the resources that are available within such framework, and the proper updating and maintenance of such framework.

Further, the decision illustrates the need for listed issuers and their directors to be mindful of Exchange Listing Rules implications when structuring complicated transactions, and to seek the Exchange's views in advance where necessary, to avoid breaches of their obligations under the Exchange Listing Rules.”