

# CORPORATE GOVERNANCE REPORT

While TCT is moving into the world market at an unprecedented pace, the Group is also becoming increasingly responsible to shareholders worldwide. The Board is committed to enhancing the Group's corporate governance standards by improving corporate transparency through effective channels of information disclosure. The Board believes that good corporate governance is beneficial for maintaining close and trustful relationships with its employees, business partners, shareholders and investors.

## CODE ON CORPORATE GOVERNANCE PRACTICES AND CORPORATE GOVERNANCE REPORT

In November 2004, the Stock Exchange of Hong Kong Limited (the "Stock Exchange") introduced the "Code on Corporate Governance Practices" (the "Code"), which has become effective for accounting periods commencing on or after 1 January 2005, with one exception on internal controls, which comes into effect for accounting periods commencing on or after 1 July 2005. The Code sets out a series of code provisions ("Code Provisions") with which listed issuers must comply or give considered reasons for any deviations. The rules on the Corporate Governance Report are found in a new Appendix 23 of the Rules Governing the Listing of Securities of the Stock Exchange ("Listing Rules").

In April 2005, the Board adopted the Code Provisions as the guidelines for corporate governance of the Group, and has taken steps to comply with the Code wherever appropriate.

Throughout the year ended 31 December 2005, the Group complied fully with the Code, with one exception. Dr. LIU Fei, who was appointed as an executive director in June 2005, was not subject to election by shareholders at the extraordinary general meeting ("EGM") held on 6 February 2006, i.e. the first general meeting of the Company after his appointment, as required by provision A.4.2 of the Code. Given the Articles of Association of the Company stipulate that such a director shall hold office until the next annual general meeting ("AGM") following his appointment, the Board considers that it is more appropriate to have the election be considered by shareholders in the forthcoming AGM so that re-election of all eligible directors can be considered by shareholders at the same time in the AGM. Therefore, the Board considers that it will be in the shareholders' interest that Dr. Liu's election be postponed to the 2006 AGM, at which time the re-election of directors subject to expiry of a specific term or rotation will be considered together.

Meanwhile, to be consistent with the provisions in the Articles of Association, the Board has, in the Board meeting held on 16 April 2006, amended the corporate governance code of the Company, so that in the future, directors appointed to fill casual vacancies will hold office until the AGM following their appointment, thus avoiding re-occurrence of the abovementioned deviation.

## 1. THE BOARD

### A. The Board

#### Code Principle

The Code requires that an issuer should be headed by an effective Board which should assume responsibility for leadership and control of the issuer and be collectively responsible for promoting the success of the issuer by directing and supervising the issuer's affairs. Directors should take decisions objectively in the interests of the issuer.

The members of the Board, all being industry veterans, are responsible to the shareholders for formulating the overall business development targets and long-term company strategies, assessing results of management policies and monitoring performance of the management.

Code Provisions	Alignment	Remarks
<ul style="list-style-type: none"> <li>■ At least four meetings a year.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>■ The Board met 4 times in person at about quarterly intervals throughout 2005, and it met on 17 other occasions when a Board decision is required on major issues. Attendance of individual directors is stated in the Table A.</li> </ul>

Code Provisions	Alignment	Remarks
<ul style="list-style-type: none"> <li>All directors be given an opportunity to include matters in the agenda for regular board meetings.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>All the directors are supplied with board papers and relevant materials within a period of time acceptable to members of the Board in advance of the intended meeting date of every Board meeting.</li> </ul>
<ul style="list-style-type: none"> <li>Notice of at least 14 days be given of a regular Board meeting.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>The Company generally gives notice and draft agenda of regular Board meetings at least 14 days in advance.</li> </ul>
<ul style="list-style-type: none"> <li>Access to advice and services of the company secretary.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>All directors have access to the company secretary to seek advice and consultancy services.</li> </ul>
<ul style="list-style-type: none"> <li>Minutes of meetings kept by company secretary and open for inspection.</li> <li>Draft and final minutes sent to all directors for comments within a reasonable time</li> </ul>	Yes	<ul style="list-style-type: none"> <li>The company secretary is responsible for taking minutes of Board and Board Committee meetings, which would be sent to directors within a reasonable time after each meeting and generally be made available for inspection by directors/committee members.</li> </ul>
<ul style="list-style-type: none"> <li>Agreed procedure for directors to seek independent professional advice at the company's expense.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>All the directors have access to the management for enquiries and to obtain information when required. They may also take independent professional advice at the expense of the Group, if necessary.</li> </ul>
<ul style="list-style-type: none"> <li>If a substantial shareholder/director has a conflict of interest in a material matter, board meeting should be held. Such director must abstain from voting and not be counted in quorum.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>The Board follows an established procedure for entering into material transactions, which provides that material transactions with connected persons must be discussed in a Board meeting, during which such director must abstain from voting and not be counted in quorum.</li> </ul>

The directors meet regularly to review the Group's financial and operational performance and to discuss and formulate future development plans.

Regular Board meetings are attended to by a majority of the directors in person or through other electronic means of communication.

Besides the regular Board meetings, special Board meetings are convened from time to time for the Board to discuss major matters that require the Board's timely attention. Since the special Board meetings are concerned with the day-to-day management of the Company which often requires prompt decisions, usually only the executive directors attend.

Table A

	Attendance*	
	Regular Board Meetings	Special Board Meetings
<b>Executive Directors</b>		
LI Dong Sheng (Chairman)	3/4	6/17
YUAN Xin Cheng	2/4	3/17
WONG Toe Yeung, Chambers	2/4	12/17
LIU Fei <sup>1</sup>	1/2	3/10
WAN Mingjian <sup>2</sup>	–	–
YAN Yong, Vincent	3/4	2/17
DU Xiaopeng, Simon	3/4	7/17
GUO Aiping, George	3/4	10/17
<b>Independent Non-Executive Directors</b>		
SHI Cuiming	3/4	–
WANG Chongju	2/4	–
LAU Siu Ki, Kevin	3/4	1/17

1. Dr. LIU Fei was appointed as a director on 22 June 2005.

2. Dr. WAN Mingjian ceased to be a director from 22 June 2005.

\* This attendance rate counts only the Board meetings held during the period when a director holds such office.

## B. Board Composition

### Code Principle

The Board should have a balance of skills and experience appropriate for the requirements of the business of the issuer. The Board should ensure that changes to its composition can be managed without undue disruption. The Board should include a balanced composition of executive and non-executive directors (including independent non-executive directors) so that there is a strong independent element on the Board, which can effectively exercise independent judgement. Non-executive directors should be of sufficient calibre and number for their views to carry weight.

The Board comprises 10 directors, 7 of whom are executive directors and 3 are independent non-executive directors (“INEDs”). In June 2005, Dr. WAN Mingjian retired as an executive director and Dr. LIU Fei was appointed as an executive director and the CEO of the Group. All the other directors served for the full year of 2005. The biographies of the directors are given on the section under “Directors and Senior Management” of this annual report. There are no relationships (including financial, business, family or other material or relevant relationships) among members of the Board.

Code Provisions	Alignment	Remarks
<ul style="list-style-type: none"> <li>Identify the INEDS in all corporate communications.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>INEDs of the Group were disclosed in all major corporate materials as well as on the corporate website: <a href="http://www.tclcom.com">www.tclcom.com</a></li> </ul>
<i>Recommended Best Practice</i>		
<ul style="list-style-type: none"> <li>Maintain on the website an updated list of its directors identifying their role, function and (where applicable) independence.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>Please refer to the corporate website: <a href="http://www.tclcom.com">www.tclcom.com</a></li> </ul>

The non-executive directors, 100% of whom are independent, also play an important role on the Board. Accounting for 30% of the Board members, they are experienced professionals in their respective fields. They are responsible for ensuring that the Board maintains high standards of financial and other mandatory reporting as well as providing adequate checks and balances for safeguarding the interest of shareholders and the Group as a whole. Pursuant to the Listing Rule 3.13, the Group has received a written confirmation from each INED of his independence to the Group. The Group considers all of the INEDs to be independent in accordance with the Listing Rules.

### C. Management Functions

#### Code Principle

An issuer should have a formal schedule of matters specifically reserved to the Board for its decision. The Board should give clear directions to management as to the matters that must be approved by the Board before decisions are made on behalf of the issuer.

Code Provisions	Alignment	Remarks
<ul style="list-style-type: none"> <li>■ Board must give clear directions as to the powers of management, including circumstances where management should obtain prior approval from the Board.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>■ All senior management appointment and their remunerations should obtain prior approval from the Board.</li> </ul>
<ul style="list-style-type: none"> <li>■ Formalise the functions reserved to the Board and those delegated to management.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>■ The functions reserved to the Board are listed below:</li> </ul>

The types of decisions which are to be taken by the Board include those relating to:

- Corporate and capital structure;
- Corporate strategy;
- Significant policies affecting the Group as a whole;
- Business plan, budgets and public announcements;
- Delegation to the Chairman, and delegation to and by Board Committees;
- Key financial matters;
- Appointment, removal or reappointment of Board members, senior management and auditors;
- Remuneration of directors and senior management; and
- Communication with key stakeholders, including shareholders and regulatory bodies

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The types of decisions that the Board has delegated to management include:

- Approving the extension of the Group's activities not in a material manner into a new geographic location or a new business;
- Approving assessing and monitoring the performance of all business units and ensuring that all necessary corrective actions have been taken;
- Approving expenses up to a certain limit;
- Approving entering into any connected transactions not requiring disclosure under the Listing Rules;
- Approving the nomination and appointment of personnels;
- Approving of press release concerning matters decided by the Board;
- Approving any matters related to the routine matters or day-to-day operation of the Group (including the entering into of any transaction not requiring disclosure under the Listing Rules and the cease of non-material part of the Group's business); and
- Carrying out any other duties as the Board may delegate from time to time.

### D. Financial Reporting

#### Code Principle

The Board should present a balanced, clear and comprehensible assessment of the Company's performance, position and prospects.

Code Provisions	Alignment	Remarks
<ul style="list-style-type: none"> <li>■ Management to provide explanation and information to enable Board to make informed assessment of relevant matters.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>■ Directors are regularly provided with comprehensive reports on the management's strategic plans, updates on lines of business, financial objectives, plans and actions.</li> </ul>
<ul style="list-style-type: none"> <li>■ Acknowledgement of director responsibility for preparing the accounts; a statement by the auditors regarding reporting responsibilities in auditors' report.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>■ A Statement of Director Responsibilities for Financial Statements is set out in the section under "Report of Director" of this Annual Report.</li> <li>■ The Auditors' Report states auditors' reporting responsibilities.</li> </ul>
<ul style="list-style-type: none"> <li>■ Board responsibilities to present a balanced, clear and understandable assessment in annual/interim reports, price-sensitive announcements; other financial disclosures/reports under the Listing Rules and statutory requirements.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>■ The Board aims to present a comprehensive, balanced and understandable assessment of the Group position and prospects in all shareholder communications.</li> </ul>

The Board is responsible for the integrity of financial information. The directors acknowledge their responsibility for the preparation of the accounts for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period.

The directors, having made appropriate enquiries, consider that the Group 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.

## E. Responsibilities of Directors

### Code Principle

Every director is required to keep abreast of his responsibilities as a director of an issuer and of the conduct, business activities and development of that issuer.

Code Provisions	Alignment	Remarks
<ul style="list-style-type: none"> <li>■ Every newly appointed director should receive a comprehensive, formal induction</li> </ul>	Yes	<ul style="list-style-type: none"> <li>■ Upon being appointed to the Board, each new director receives a comprehensive induction programme on the business of the Group, the duties of a director under both general law (common law and legislation) and the Listing Rules, and the terms of reference of the Board Committees.</li> <li>■ The directors receive further briefings when there are new developments to such information.</li> </ul>
<ul style="list-style-type: none"> <li>■ Functions of non-executive directors include:               <ul style="list-style-type: none"> <li>• Bring an independent judgment at the Board meeting;</li> <li>• Take the lead where there is potential conflicts of interests;</li> <li>• Serve on committees if invited;</li> <li>• Scrutinize the issuer's performance</li> </ul> </li> </ul>	Yes	<ul style="list-style-type: none"> <li>■ Strategic planning and monitoring are two major roles for the Company's directors. On an on-going basis, the Board will review with management how the strategic environment is changing, what major risks and opportunities have emerged, how they are being managed and what, if any, adjustments in strategic direction would be required.</li> </ul>
<ul style="list-style-type: none"> <li>■ Directors should ensure that they can give sufficient time and attention to the affairs of the issuer.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>■ To ensure that the directors can give sufficient time and attention to the affairs of the Group, they have disclosed the number and nature of offices they held in public companies or organizations and other significant commitments. For details regarding the offices held by the directors, please refer to sections under "Report of the Director" of this annual report.</li> </ul>

## F. Appointment, Re-election and Removal

## Code Principle

There should be a formal, considered and transparent procedure for the appointment of new directors to the Board. There should be plans in place for orderly succession for appointments to the Board. All directors should be subject to re-election at regular intervals. An issuer must explain the reasons for the resignation or removal of any director.

Code Provisions	Alignment	Remarks
<ul style="list-style-type: none"> <li>■ Non-executive directors should be appointed for a specific term, subject to re-election.</li> <li>■ All directors appointed to fill a casual vacancy should be subject to election at the first and subsequent general meeting.</li> <li>■ Every director should be subject to rotation at least once every three years.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>■ In the last AGM held on 22 June 2005, all three non-executive directors were elected to hold office for a specific term of approximately one year until the next AGM, subject to re-election by shareholders. One-third (or such number nearest to and not less than one-third) of the directors are subject to retirement by rotation at the AGM in each year. A retiring director is eligible for re-election.</li> </ul>

## G. Roles of Chairman and CEO

## Code Principle

The Code requires the roles of Chairman and CEO to be separate and should not be performed by the same individual. The division of responsibilities between the Chairman and CEO should be clearly established and set out in writing.

Code Provisions	Alignment	Remarks
<ul style="list-style-type: none"> <li>■ Roles of Chairman and should be separate; clearly established and set out in writing.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>■ The positions of Chairman and CEO are held respectively by Mr. LI Dong Sheng and Dr. LIU Fei. This ensures a clear distinction between the Chairman's duty to manage the Board and the CEO's duty to oversee the overall internal operation of the Group.</li> </ul>
<ul style="list-style-type: none"> <li>■ The Chairman should ensure all directors be briefed on issues arising at the Board meeting.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>■ Please refer to the responsibilities of the Chairman listed below.</li> </ul>
<ul style="list-style-type: none"> <li>■ The Chairman should ensure directors to receive adequate information.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>■ Please refer to the responsibilities of the Chairman listed below.</li> </ul>

The respective responsibilities of the Chairman and the CEO are as follows:

#### **Responsibilities of the Chairman**

- Oversee the development of the long-term strategies, objectives and policies for the Company
- Ensure that appropriate objectives, policies and strategies are adopted for each of the businesses of the Company, that appropriate budgets are set for the businesses, that their performance is effectively monitored, and that guidance or direction is given where appropriate
- Ensure all directors are properly briefed on matters to be discussed at Board meetings
- Ensure all directors receive adequate, complete and reliable information in a timely manner
- Provide leadership for the Board
- Ensure that the Board works effectively and discharges its responsibilities
- Ensure that all key and appropriate issues are discussed by the Board in a timely manner
- Ensure that agenda for Board meetings are drawn up and approve them, taking into account any matters proposed by the other directors for inclusion in the agenda
- Ensure that good corporate practices and procedures are in place
- Encourage all directors to make a full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interests of the Company
- Ensure appropriate steps are taken to provide effective communication with shareholders and that views of shareholders are communicated to the Board as a whole
- Facilitate the effective contribution of non-executive directors in particular and build constructive relations between executive and non-executive directors
- Ensure that queries raised by directors on Board papers and related materials are responded to in a timely manner
- Ensure the Board's responsibility to represent a balanced, clear and understandable assessment extends to annual and interim reports, other price-sensitive announcements and other financial disclosures required under the Listing Rules, and reports to regulators as well as to information required to be disclosed pursuant to statutory requirements
- Attend the AGM and arrange for the Chairman of the Audit and Remuneration Committees or in the absence of the Chairman of such Committees, another member of the Committee or failing this his duly appointed delegate, to be available to answer questions at the AGM



**Responsibilities of the CEO**

- Provide leadership to the management
- Implement the Company's policy and report to the Board
- Oversee the realisation by the Company of the objectives set by the Board
- Provide all such information to the Board as necessary to enable it to monitor the performance of management
- Put in place programmes for management development and succession
- With the chief financial officer, establish and maintain proper internal controls and systems as well as disclosure controls and procedures
- Discharge such duties and authority as may be delegated to him by the Board
- Be responsible to the Board for the development of the Company and its operation, including the profits, cash and costs of all businesses
- Ensure that such action is taken as is necessary to secure the timely and effective implementation of the objectives, policies and strategies set by the Board and other decisions taken by or on behalf of the Board
- Lead the Company's processes for communicating to, and consulting with, employees
- Lead the Company's stakeholder relations, including relations with the Company's shareholders, governments, other public organizations, other companies and the public generally
- Regularly keep the Chairman informed of all matters that may be of importance to the Company, including its current performance and progress

**H. Directors' Securities Transactions**

The Group has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 of the Listing Rules as the code of conduct regarding the directors and relevant employees' transactions in securities of the Group.

All directors have confirmed, following specific enquiry by the Group that throughout year 2005 they complied with the required standard set out in the Model Code for securities transactions.

The directors' interests in shares of the Group as at 31 December 2005 are set out on sections under "Report of the Directors" in this Annual Report.

## I. Supply of and Access to Information

### Code Principle

Directors should be provided in a timely manner with appropriate information in such form and of such quality as will enable them to make an informed decision and to discharge their duties and responsibilities as directors of an issuer.

Code Provisions	Alignment	Remarks
<ul style="list-style-type: none"> <li>Board papers should be sent to all directors at least three days before the date of Board/Committee meeting (or such other period as agreed).</li> </ul>	Yes	<ul style="list-style-type: none"> <li>Board papers are dispatched to Board/Committee members within a time agreed by the directors prior to meetings.</li> </ul>
<ul style="list-style-type: none"> <li>Each director should have separate and independent access to senior management.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>All the directors have access to the management for enquiries and to obtain information when required. They may also take independent professional advice at the expense of the Group, if necessary.</li> </ul>
<ul style="list-style-type: none"> <li>Directors are entitled to have access to board papers; steps must be taken to respond properly and fully to director queries.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>Board papers and minutes are made available for inspection by directors and Committee members.</li> </ul>

## 2. BOARD COMMITTEES

### Code Principle

Board Committees should be formed with specific written terms of reference which deal clearly with the Committees' authority and duties.

The Board has set up two Board Committees, namely the Remuneration Committee and the Audit Committee, both with specific terms of reference, to oversee particular aspects of the Group's affairs.

Code Provisions	Alignment	Remarks
<ul style="list-style-type: none"> <li>Clear terms of reference to enable proper discharge of Committee functions.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>Please visit the Company's website <a href="http://www.tclcom.com">www.tclcom.com</a> to download the "Terms of Reference"</li> </ul>
<ul style="list-style-type: none"> <li>The terms of reference should require Committees to report their decisions to the Board.</li> </ul>	Yes	

## A. Remuneration of Directors and Senior Management

### Code Principle

Issuers should establish a Remuneration Committee with specific written terms of reference which deal clearly with its authority and duties. A majority of the members of the Remuneration Committee should be INED.

The Remuneration Committee, set up in 2005 pursuant to the requirements of the Code, makes recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management, and on the establishment of a formal and transparent procedure for developing policy on such remuneration. The Remuneration Committee also reviews and approves the performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time.

The Remuneration Committee is governed by its terms of reference, which are available at the Group's website: [www.tclcom.com](http://www.tclcom.com).

The Remuneration Committee consists of 4 members, 3 of whom are INEDs, namely Mr. SHI Cuiming, who is also the Chairman of the Committee, Mr. LAU Siu Ki, Kevin and Mr WANG Chongju. The other member is executive director Mr. YUAN Xin Cheng.

During 2005, the full Remuneration Committee met once and accomplished the following:

- determining the terms of a special share option scheme to reward the senior management personnel;
- reviewing the emolument policy and the levels of remuneration paid to the directors and senior management of the Group in 2005; and
- reviewing the proposed bonus scheme for senior management personnel for 2006, including the bonus eligibility criteria and the amount.

Details of the members' attendance at the Remuneration Committee meeting in 2005 are as follows:

	Attendance
Mr. YUAN Xin Cheng	1/1
Mr. SHI Cuiming	1/1
Mr. WANG Chongju	1/1
Mr. LAU Siu Ki, Kevin	1/1

### *Emolument Policy and Long-Term Incentive Plan*

The Group provides a competitive remuneration package to its directors to attract and retain talent. A large portion of the package for executive directors is linked to their performance, which in turn is aligned with the interests of the shareholders, so as to provide an incentive for the executive directors to achieve the best performance. Part of the remuneration of executive directors may comprise of long-term incentive schemes and stock option plans. The emoluments payable to the directors are determined with reference to their duties and responsibilities with the Company and the market rate for the positions.

The purpose of the long-term incentive scheme of the Group is to reward outstanding performance that is measured by achieved targets, and is closely linked with the performance of the Group. The award under this scheme is made by installments over a period so as to provide an incentive for the executives to consistently perform at a high standard and bring along long-term benefits to the Group.

The non-executive directors' compensation relates to the time commitment and responsibilities. They receive fees which comprise the following components:

- Directors' fee, which is usually paid annually;
- Additional fee for additional responsibilities such as directorship in Board Committees; and
- Shares of the Group, which is awarded subject to the discretion of the Board.

In view of the increasing demand on the time and effort from the INEDs on the Group's business, in January 2005, the Board resolved to increase the fees for them from HK\$120,000 to HK\$180,000 per annum with effect from 1 January 2005.

The details of the fees and any other reimbursement or emolument payable to the directors are set out in details on sections under "Report of Directors" of this Annual Report.

## B. Nomination of Directors

### Code Principle

There should be a formal, considered and transparent procedure for the appointment of new directors to the Board. There should be plans in place for orderly succession for appointments to the Board. All directors should be subject to re-election at regular intervals. An issuer must explain the reasons for the resignation or removal of any director.

The Board has not established a Nomination Committee, and the Board itself is responsible for the selection and approval of new directors. When there is a nomination to directorship, the Board will assess the suitability of the nominee and decide whether to accept the nomination. A director appointed by the Board is subject to election by shareholders at the first general meeting after the appointment.

In 2005, the Board held one meeting during which the nomination and appointment of directors were discussed. The directors' attendance at this meeting is as follows:

	Attendance
<b>Executive Directors</b>	
LI Dong Sheng (Chairman)	1/1
YUAN Xincheng	-
WONG Toe Yeung, Chambers	1/1
LIU Fei	1/1
WAN Mingjian	-
YAN Yong, Vincent	1/1
DU Xiaopeng, Simon	1/1
GUO Aiping, George	1/1
<b>Independent Non-Executive Directors</b>	
SHI Cuiming	1/1
WANG Chongju	1/1
LAU Siu Ki, Kevin	1/1

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In October 2005, the Board adopted a procedure and criteria for nomination of directors, the details of which are set out below:

### Procedures for Nomination of Directors

1. When there is a vacancy in the Board, the Board evaluates the balance of skills, knowledge and experience of the Board, and identifies any special requirements for the vacancy (e.g. independence status in the case of an INED).
2. Prepare a description of the role and capabilities required for the particular vacancy.
3. Identify a list of candidates through personal contacts / recommendations by Board members, senior management, business partners or investors.
4. Arrange interview(s) with each candidate for the Board to evaluate whether he/she meets the established written criteria for nomination of directors. One or more members of the Board will attend the interview.
5. Conduct verification on information provided by the candidate.
6. Convene a Board meeting to discuss and vote on which candidate to nominate or appoint to the Board.

### Criteria for Nomination of Directors

1. Common criteria for all directors
  - (a) Character and integrity
  - (b) The willingness to assume Board fiduciary responsibility
  - (c) Present needs of the Board for particular experience or expertise and whether the candidate would satisfy those needs
  - (d) Relevant experience, including experience at the strategy/policy setting level, high level managerial experience in a complex organization, industry experience and familiarity with the products and processes used by the Company
  - (e) Significant business or public experience relevant and beneficial to the Board and the Company
  - (f) Breadth of knowledge about issues affecting the Company
  - (g) Ability to objectively analyse complex business problems and exercise sound business judgment
  - (h) Ability and willingness to contribute special competencies to Board activities
  - (i) Fit with the Company's culture
2. Criteria applicable to non-executive directors/INEDs
  - (a) Willingness and ability to make a sufficient time commitment to the affairs of the Company in order to effectively perform the duties of a director, including attendance at and active participation in Board and Committee meetings
  - (b) Accomplishments of the candidate in his or her field
  - (c) Outstanding professional and personal reputation
  - (d) The candidate's ability to meet the independence criteria for directors established in the Listing Rules

### C. Auditors' Remuneration

In 2005, the fees in respect of audit and non-audit services payable by the Company to the auditors, Messrs Ernst & Young, amounted to HK\$2,597,000 and HK\$180,000 respectively.

### D. Audit Committee

#### Code Principle

The Board should establish formal and transparent arrangements for considering how it will apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the Company's auditors. The Audit Committee established by an issuer pursuant to the Exchange Listing Rules should have clear terms of reference.

The Audit Committee usually meets 4 times a year to review the truthfulness, completeness, and accuracy of the Group's financial statements. It is accountable to the Board and assists the Board in meeting its responsibilities in ensuring an effective and adequate system of internal controls and for meeting its external financial reporting obligations and compliance with other legal and regulatory requirements. The Committee also oversees the scope of work of external auditors.

Code Provisions	Alignment	Remarks
<ul style="list-style-type: none"> <li>Minutes be kept by a duly appointed secretary; and should be sent to all Committee members within a reasonable time.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>Minutes are kept by the company secretary and are sent to all members within a reasonable time after each meeting.</li> </ul>
<ul style="list-style-type: none"> <li>A former partner of the existing auditors should not sit on the Audit Committee.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>The Audit Committee does not have any members who used to work for the firm of external auditors of the Company.</li> </ul>
<ul style="list-style-type: none"> <li>The terms of reference of Audit Committee (containing the minimum prescribed duties) be made available on request and on the website.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>Please visit <a href="http://www.tclcom.com">www.tclcom.com</a> to download/view the information</li> </ul>
<ul style="list-style-type: none"> <li>Disclosure – statement from the Audit Committee explaining its recommendation on the appointment, resignation or dismissal of external auditors; express disclosure where the Board disagree with the Committee's view.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>The Audit Committee has recommended to re-appoint Messrs. Ernst &amp; Young to be the Company's auditors, and the Board agrees to this recommendation.</li> </ul>
<ul style="list-style-type: none"> <li>The Audit Committee should be provided with sufficient resources to discharge its duties.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>There is an agreed procedure for Audit Committee members to take independent professional advice at Company's expense.</li> </ul>

The Audit Committee comprises 3 members, namely Mr. LAU Siu Ki, Kevin, Mr. SHI Cuiming and Mr. WANG Chongju, all of whom are INEDs. Mr. LAU Siu Ki, Kevin the Chairman of the Audit Committee, is a professional accountant with profound financial and accounting expertise.

## CORPORATE GOVERNANCE REPORT

During 2005, the Audit Committee met 4 times, and the details of the members' attendance in such meetings are as follows:

	Attendance
Mr. SHI Cuiming	4/4
Mr. WANG Chongju	4/4
Mr. LAU Siu Ki, Kevin	4/4

Other attendees at the Audit Committee meetings include the Group's chief financial officer and the external auditors for discussion of the audit of the interim and annual results only.

The Audit Committee's work in 2005 includes consideration of the following matters:

- The completeness and accuracy of the 2004 annual and 2005 quarterly and interim financial statements;
- The Group's compliance with statutory and regulatory requirements;
- Developments in accounting standards and the financial implication on the Group;
- The audit report submitted by the external auditors summarizing matters arising from their audit of the Group for year 2004;
- Detailed analysis of the business of T&A, the Group's former joint venture with the French company Alcatel, including its system of financial management, the impact of its upcoming reorganization, costs management, and its quarterly performance;
- The reason for the large amount of accounts receivable of the Group and the risk involved;
- Analysis of the areas of improvement within the Group's business, including the system of financial management, inventory management and control on subsidiaries
- The decision to set up an internal audit department; and
- The consideration for making provisions for the Group's inventory;
- The audit fees payable to external auditors for year 2005; and
- Recommendations to the Board, for the approval by shareholders, for the reappointment of Ernst & Young as the external auditors, which the Board agreed and accepted;

### 3. INTERNAL CONTROLS

#### Code Principle

The Board should ensure that the issuer maintains sound and effective internal controls to safeguard the shareholders' interest and the issuer's assets.

The Audit Committee has scheduled to devise a plan to review the systems of internal control of the Group in early 2006, and will carry out the plan accordingly within 2006.

## 4. SHAREHOLDERS

### A. Effective Communication

#### Code Principle

The Board should endeavour to maintain an on-going dialogue with shareholders and in particular, use AGM or other general meetings to communicate with shareholders and encourage their participation.

The Company follows a policy of disclosing relevant information to shareholders in a timely manner. The Company's AGM and EGM allow the directors to meet and communicate with shareholders. The Chairman is actively involved in organizing the AGM and personally chairs it, to ensure that shareholders' views are communicated to the Board.

AGM proceedings are reviewed periodically to ensure that the Company follows best corporate governance practices. An AGM circular is distributed to all shareholders at least 21 days prior to the AGM, setting out details of each proposed resolution, voting procedures and other relevant information.

Shareholders can convene an EGM by following the procedure set out below:

- Any one or more shareholders holding not less than one-tenth of the paid up capital of the Group, can deposit a written request to convene an EGM addressed to the Board or the secretary at Room 1502, Tower 6, China Hong Kong City, 33 Canton Road, Tsimshatsui, Kowloon, Hong Kong, the principal office of the Group in Hong Kong.
- The written request must specify the business to be covered in the meeting.
- Upon verification by the Group's share registrars, the company secretary will ask the Board of directors to convene an EGM by serving sufficient notice in accordance with the statutory requirements to all the registered shareholders. Such an EGM should be held within 2 months after the deposit of the request.

The most recent shareholders' meeting was the EGM held on 13 April 2006 at the JW Marriott Hotel in Hong Kong. The item discussed and the percentage of vote cast in favour of the resolution regarding this item is set out below:

- Approve the deposit services under the financial services framework agreement and the proposed annual cap: 100%;



## B. Voting by Poll

## Code Principle

The issuer should regularly inform shareholders of the procedure for voting by poll and ensure compliance with the requirements about voting by poll in the Listing Rules and the constitutional documents of the issuer.

Code Provisions	Alignment	Remarks
<ul style="list-style-type: none"> <li>■ Disclosure in general meeting circulars of procedures and rights of shareholders to demand a poll.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>■ Procedures for demanding a poll were set out in the circular accompanying the notices of general meetings. The procedures were also explained during the general meeting proceedings.</li> </ul>
<ul style="list-style-type: none"> <li>■ Ensure that votes cast are properly counted and recorded.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>■ The Company's Hong Kong branch share registrar was appointed as scrutineer for the vote-taking.</li> </ul>
<ul style="list-style-type: none"> <li>■ Chairman of meeting should adequately explain the poll procedures at commencement of meeting.</li> </ul>	Yes	<ul style="list-style-type: none"> <li>■ Poll results were published in major Hong Kong newspapers on the business day following the meeting and posted on the websites of the Stock Exchange and the Company.</li> </ul>

### C. Investor Relations

To ensure the Company's key groups like shareholders<sup>1</sup>, investors, analysts and bankers understand the corporate strategies and business operations is one of the missions for the Company's investor relations team.

Headed by an executive director, the investor relations department receives great emphasis from the Company and maintains frequent dialogues with its key groups to make sure that important information is disclosed on a timely basis through multiple channels, such as meetings and teleconferencings with investors, annual and interim reports and press releases.

For the year ended 31 December 2005, the Company's dedicated investor relations department held various activities to promote interaction with investment community and keep them up to date on the Company's latest developments. The Company took part in several investor conferences which organized by investment banks during the year, and holds regular meetings with investors in Hong Kong and overseas. In addition, the Company also holds press conferences, analyst briefings and investor calls right after results are announced, with directors and senior management present to answer questions.

#### Key Investor Events in 2005

Event	Date
2004 Annual Results Announcement – Press Conference – Analyst Briefing	18 Apr 2005
2005 1st Quarter Results Announcement – Investor Call	29 Apr 2005
2005 Annual General Meeting	22 Jun 2005
EGM – Framework Agreement and Issuance of Convertible Notes	22 Jun 2005
2005 Interim Results Announcement – Press Conference – Analyst Briefing	30 Aug 2005
2005 3rd Quarter Results Announcement – Investor Call	28 Oct 2005

Continuous efforts were made to enhance the quality of communication. In order to ensure easy access of the Company's updated information, all published information, including all the statutory announcements, press release and event calendars, is promptly posted on the Company's web site [www.tclcom.com](http://www.tclcom.com). Public can also put enquiries to the Board or senior management by contacting the investor relations department at (+852) 2437 7481 or email at [ir@tclcom.com](mailto:ir@tclcom.com) or directly by questions at an AGM or EGM.

<sup>1</sup> the Company has a diversified shareholding structure with public float of 34%, for detailed structure please refer to "Corporate Structure" section of this Annual Report

**Key Investor Events in 2006**

Event	Date
EGM – Open Offer and Increase Authorized Share Capital	6 Feb 2006
EGM – Financial Service Framework Agreement	13 Apr 2006
2005 Annual Results and 2006 1st Quarter Results Announcement – Press Conference – Analyst Briefing	27 Apr 2006
2006 Annual General Meeting	Mid-Jun 2006
2006 Interim Results Announcement – Press Conference – Analyst Briefing	End-Aug 2006
2006 3rd Quarter Results Announcement – Investor Call	End-Oct 2006

**5. BEYOND THE CODE**

As part of our commitment towards good corporate governance, we do not limit ourselves to the requirements under the Code and we extend them in the following aspects:

- The Audit Committee comprises only INEDs.
- Appropriate insurance cover has been arranged in respect of legal action against the directors and senior officers. Such insurance cover is reviewed by the Board from time to time to ensure that it remains relevant and sufficient.
- All Board Committees adopt the same principles applicable to Board meetings to govern the procedures for their meetings, including but not limited to the length of notice given to members in advance of meetings, and the mechanism for members to inspect the meeting minutes.
- A significant proportion of the executive directors' remuneration is structured so as to link rewards to corporate and individual performance.
- Since listing, the Group has adopted the practice to announce its quarterly financial results to enable shareholders to better assess our performance, financial position and prospects. Such quarterly financial reports are prepared using the same accounting policies applied to the interim and annual accounts.
- The Group has taken the initiative to disclose its monthly sales figures to provide investors and the public with additional information for evaluating the Group's performance in a timely manner. Such figures are available at the Company's website: [www.tclcom.com](http://www.tclcom.com).