

Corporate Governance Report

The Company recognizes the importance of ongoing enhancement of effective and efficient corporate governance practices. Good governance practices can help ensure the protection of shareholders' rights, enhance the effectiveness of the Board and improve transparency of the Company's business and performance.

Compliance with Code of Governance Practices

The Company confirms that it has complied with all the code provisions of the Code of Corporate Governance Practices set out in Appendix 14 of the Listing Rules throughout the year, save that:

1. The roles of Chairman and the Chief Executive Officer of the Company are both performed by Mr Horst Julius Pudwill. After due consideration, the Company does not currently propose to separate the functions of its Chairman and Chief Executive Officer, as both the Board and senior management of the group has significantly benefited from the leadership, support, and experience of Mr Pudwill.
2. The Board formally adopted written procedures on 11th April, 2006 to govern the delegation of daily management responsibilities to the senior management of the group and the reservation to the Board of specifically identified matters. This supplemented and enhanced the prior practice of the Board of delegating signing authority on a case-by-case basis for each significant agreement entered into by the group. The work of the Audit Committee will include reviewing on an ongoing basis the group's internal controls and the delegation and reporting procedures between the Board and senior management.
3. None of the Directors is appointed for a specific term since they are subject to retirement by rotation and re-election in accordance with the Articles of Association of the Company. Under Article 103 of the Articles of Association of the Company, one third of the Board must retire by rotation at each annual general meeting and, if eligible, offer themselves for re-election.

The Board

Roles and Responsibilities

The Board assumes responsibility for and oversight of the management of the group's affairs, and concentrates on matters affecting the group's overall strategic policies, finances, shareholder interests and corporate governance.

The Board has reserved for its decisions or consideration matters covering major acquisitions and disposals, annual budgets, annual and interim results, appointment of Directors and external auditors and other significant operational and financial matters.

The Company has arranged appropriate liability insurance cover for the Directors. The insurance coverage is reviewed on an annual basis.

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Board Composition

The Board is comprised of five Group Executive Directors, being Mr Horst Julius Pudwill (Chairman and Chief Executive Officer), Dr Roy Chi Ping Chung JP (Vice Chairman), Mr Patrick Kin Wah Chan (Operations Director), Mr Frank Chi Chung Chan (Group Chief Financial Officer) and Mr Stephan Horst Pudwill (Director – Business Development), one Non-executive Director, being Mr Vincent Ting Kau Cheung, and three Independent Non-executive Directors, being Mr Joel Arthur Schleicher, Mr Christopher Patrick Langley OBE and Mr Manfred Kuhlmann, whose biographical details and relevant relationships are set out in the Board of Directors section on pages 38 to 39 of this annual report. No service contract has been entered into between the Company and any of the Directors.

The Board has appointed a Chairman who provides leadership to the Board in terms of establishing policies and business directions. The Chairman ensures that the Board works effectively and discharges its responsibilities, and that all key and appropriate issues are discussed by the Board in a timely manner.

One third of the Board comprises Independent Non-executive Directors who brings judgment, knowledge and experience to the Board's deliberations. The Board also comprises a Non-executive Director who brings legal and regulatory knowledge and experience to the Board. These Non-executive Directors combine to offer diverse industry expertise, serve the important function of advising the management on strategy and providing checks and balances for safeguarding the interests of the shareholders of the Company as a whole.

The Company has received annual written confirmation from all three Independent Non-executive Directors of their independence from the Company and the Board considers each of them to be independent up to the approval date of this annual report in accordance with the Listing Rules.

Board Process

The Board is committed to at least four scheduled meetings in a year and will meet more frequently as and when required. All members of the Board are given complete and reliable information in relation to the affairs of the group, and receive the support from and access to the Company Secretary of the Company in respect of all meetings of the Board. Each Director is afforded access, on his request, to senior management of the group and to independent professional advice in performing their duties at the Company's expense. All Directors receive briefings and professional development training as necessary to ensure a proper understanding of the business of the group and their responsibilities under statute and at common law.

The Board held five meetings during 2006, and the summary at the end of this report sets out the attendance record of each Director. Proposed Board meeting dates for 2007 have been agreed in the last Board meeting held in 2006 to facilitate maximum attendance of Directors. The meeting agenda is set by the Chairman in consultation with members of the Board.

Minutes of the Board/committee meetings with sufficient details of matters and concerns discussed are kept in safe custody by the Company Secretary of the Company, are sent to the Directors for record and are open for inspection by the Directors.

Codes for Securities Transactions

The Board has adopted the provisions of the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the “Model Code”). The Board confirms that, after specific enquiry with each Director, all Directors have complied with the required standard set out in the Model Code. The Board has also adopted a code of conduct, on terms no less onerous than the Model Code that applies to securities transactions of all relevant employees who may be in possession of unpublished price sensitive information in relation to the Company’s shares, and which has been published on the Company’s website (www.ttigroup.com).

Board Committees

The Board has established the following committees with defined terms of reference to delegate various responsibilities. The majority of the members of each committee are Independent Non-executive Directors. This structure ensures the independence of views and opinions expressed by the Directors at the respective committee meetings. The following committees are required to report back to the Board on their decisions.

Audit Committee: The Audit Committee has been established since 1999. The Audit Committee operates under written terms of reference, which have been adopted since 11th April, 2006, published on the Company’s website (www.ttigroup.com). The role and function of the Audit Committee is to assist the Board to ensure that an effective system of internal control and compliance with the group’s obligations under the Listing Rules and other applicable laws and regulations is in place, and to oversee the integrity of the financial statements of the Company.

The Audit Committee is comprised of all three Independent Non-executive Directors (being Mr Joel Arthur Schleicher, Mr Christopher Patrick Langley OBE and Mr Manfred Kuhlmann) and is chaired by Mr Joel Arthur Schleicher. Each member of the Audit Committee has professional, financial, or accounting qualifications as required under the Listing Rules.

The Audit Committee held four meetings during 2006, with a 100% attendance rate, to review with the Group Chief Financial Officer, the Head of Internal Audit (“IA”), other senior management and the external auditors, the Group’s significant financial matters and internal controls, which covers findings of internal and external auditors. Additional work performed by the Audit Committee in 2006 includes reviewing the Company’s accounting principles and practices, internal controls, risk management and financial reporting matters (including the interim and annual results for the Board’s approval).

The Audit Committee has scheduled five regular meetings for 2007.

The IA function charter is to actively monitor and participate in the improvement of the group risk management and internal control framework. The Head of IA reports directly to the Audit Committee on matters in relation to the scope of the risk-assessment and annual audit plan and to the Chief Executive Officer on administrative matters. The operational procedures of the IA function are approved by the Audit

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Committee and the Chief Executive Officer. The IA function uses a risk-assessment approach to establish its annual audit plan. Any audit entities considered high risk are reviewed annually with lower risk entities covered as part of a 3 year rotational plan. In addition to regularly scheduled audit reviews, IA from time to time may undertake ad hoc reviews at the request of the Audit Committee or management of the Company. The 2007 audit plan was submitted to and approved by the Audit Committee in November 2006.

Nomination Committee: The Nomination Committee was established in April 2006, and the Board adopted written terms of reference for the role and function of the Nomination Committee, which has been published on the Company's website (www.ttigroup.com). The role and function of the Nomination Committee is to ensure a fair and transparent process of board appointments, and in particular to assist the Board to identify suitable candidates and make recommendations for consideration of the Board and shareholders.

The Nomination Committee is comprised of four members, and is chaired by Mr Horst Julius Pudwill (Chairman and Chief Executive Officer), the other members being Mr Vincent Ting Kau Cheung (Non-executive Director), Mr Christopher Patrick Langley OBE and Mr Manfred Kuhlmann (Independent Non-executive Directors). Prior to Mr Horst Julius Pudwill assuming the role as the Chairman of the Nomination Committee on 1st September, 2006, Mr Vincent Ting Kau Cheung was the Chairman of the Nomination Committee.

The Nomination Committee held two meetings during 2006 with a 100% attendance rate. The Nomination Committee reviewed in May 2006 the appointment of Mr Stephan Horst Pudwill as a new board member of the Company as part of succession planning for the Board and such nomination was made to the Board in consideration of Mr Stephan Horst Pudwill's educational background and qualifications, his experience in business development and corporate strategy, and his previous experience and involvement in the Group prior to his appointment. The Nomination Committee has also reviewed the structure, size, and composition of the Board to ensure compliance with the Board composition rules of the Stock Exchange.

The Nomination Committee has scheduled two regular meetings for 2007.

Remuneration Committee: The Remuneration Committee was established during 2005, and on 11th April, 2006, the Board adopted written terms of reference for the role and function of the Remuneration Committee, now published on the Company's website (www.ttigroup.com). The role and function of the Remuneration Committee is to assist the Board in developing and administering a fair and transparent procedure for setting policy on the overall human resources strategy of the group and the remuneration of Directors and senior management of the Group, and for determining their remuneration packages, on the basis of their merit, qualifications, and competence, and having regard to the Company's operating results, individual performance, and comparable market statistics.

The Remuneration Committee is comprised of three members, and is chaired by Mr Vincent Ting Kau Cheung (Non-executive Director), the other members being Mr Christopher Patrick Langley OBE and Mr Manfred Kuhlmann (Independent Non-executive Directors).

The Remuneration Committee held three meetings during 2006, with a 100% attendance rate, to review the compensation of the Directors and senior management of the group for 2006 and discuss the mix of the remuneration packages of the Group Executive Directors. In determining the remuneration guidelines for 2006, the Remuneration Committee referred to remuneration surveys conducted by independent external consultants on companies operating in similar businesses. A Director is not allowed to approve his own remuneration. The principal elements of the Company's executive remuneration package include basic salary, discretionary bonus, and share option while the principal elements of the Company's non-executive remuneration package include basic directors' fee, committee chairmanship or membership fee and Board or committee meeting attendance fee. Reimbursement is allowed for out-of-pocket expenses incurred in connection with the performance of their duties including attendance at Company's meetings. No Directors were granted any share options of the Company during 2006.

The Remuneration Committee has scheduled two regular meetings for 2007.

Accountability and Audit

The Board acknowledges its responsibility for the preparation of the accounts of the Company.

Internal Control

The Board acknowledges its responsibility to ensure that a sound and effective internal control system is maintained. The Board is responsible for approving and reviewing key internal control policies including delegated authorities, policy on market disclosure and investor and media relations, and policy on non-audit services and treasury management policy. The responsibility of day-to-day management of operational risks and implementation of mitigation measures lies with management. An internal control system is designed to provide reasonable, but not absolute assurance that material misstatement or loss can be avoided, and to manage and minimize risks of failure in operational systems. Key control procedures include:

- establishing a structure with defined authority and proper segregation of duties
- monitoring the strategic plan and performance
- designing an effective accounting and information system
- controlling price-sensitive information
- ensuring swift actions and timely communication with our stakeholders
- conducting internal independent review by IA Department

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The Board, through the Audit Committee, conducts continuous review of the effectiveness of the Group's system of internal control. The "Internal Control – Integrated Framework" developed by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") is used as a framework for the continuous review and in 2006 the program of work undertaken by the Audit Committee included review of:-

- the organization structure and delegated authorities
- the strategic plan, annual operational plan and on-going business performance
- the performance and adequacy of accounting and information systems
- the risk management process including formal risk assessment at the enterprise level
- the risk management functions and their performance indicators including discussions with senior management responsible for day-to-day management of significant risks
- the Group's compliance program
- the scope of work and results of the IA function

The Group will continuously update, develop and improve the existing internal control system should any opportunities or areas of concern are identified and shall form part of the Group's continuous review program.

In respect of the year ended 31st December, 2006, the Board has reviewed the internal control systems of the Group.

External Auditors

The external auditors of the Group are Deloitte Touche Tohmatsu, and in 2006, Deloitte Touche Tohmatsu provided the following audit and non-audit services to the Group:

Nature of Services	Amount (HK\$ million)
External Audit Services	18
Taxation Consultancy Services	5
Other Consultancy Services	2

Deloitte Touche Tohmatsu is also the tax advisers of the Hong Kong companies of the Group. The other consultancy services provided by Deloitte Touche Tohmatsu comprised professional services on the report of factual findings on agreed upon procedures.

In order to further enhance independent reporting by external auditors of the Group, the Independent Non-executive Directors and the external auditors of the Group meet without the presence of the management of the Group. In addition, the nature and ratio of annual fees to external auditors for non-audit services and for audit services are subject to scrutiny by the Audit Committee. A policy of non-audit services from external auditors was adopted on 7th November, 2006. Such policy includes prohibition of specified non-audit services. Other non-audit services, that are considered not to affect the independence of our external auditors, require prior approval of Audit Committee.

Investor Relations and Shareholder Communications

The Company understands the importance of maintaining effective communication with our shareholders and the investment community. The Board has adopted a Policy on Market Disclosure, Investor Relations, and Shareholder Communications, which has been published on the Company's website (www.ttigroup.com), to ensure that the Company complies with its disclosure obligations under the Listing Rules and other applicable laws and regulations, and that all shareholders and potential investors have an equal opportunity to receive and obtain externally available information issued by the Company.

The Company continues to promote investor relations and communications by maintaining regular meetings with institutional shareholders and analysts. Webcasts of results presentations at press conferences have also been made available at the Company's website (www.ttigroup.com). All shareholders have 21 days notice of the annual general meeting at which directors and committee Chairmen or members are available to answer questions. The results of the voting by poll are published on the Company's website together with details of the meeting, including the time and venue and major resolutions. As a channel to further promote effective communication, the Company's website is maintained to disseminate Company announcements and presentations and shareholder information and other relevant financial and non-financial information electronically on a timely basis.

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The 2006 annual general meeting of the Company was held on 22nd May, 2006 at Harbour Room, 3rd Floor, The Ritz-Carlton, Hong Kong, 3 Connaught Road Central, Hong Kong. The following resolutions were passed at the meeting:

- (a) To adopt the audited financial statements and the reports of the directors and the auditor for the year ended 31st December, 2005;
- (b) To declare a final dividend of HK12.60 cents per share for the year ended 31st December, 2005;
- (c) To re-elect Mr Patrick Kin Wah Chan as Group Executive Director, Mr Frank Chi Chung Chan as Group Executive Director and Mr Joel Arthur Schleicher as Independent Non-executive Director and authorize the Directors to fix the directors' remuneration for the year ending 31st December, 2006;
- (d) To re-appoint Deloitte Touche Tohmatsu as auditors of the Company and to authorize the Directors to fix their remuneration;
- (e)
 - (i) To grant a general mandate to the Directors to allot, issue and deal with additional shares not exceeding (1) in the case of an allotment and issue of shares for cash, 10% of the aggregate nominal amount of the share capital of the Company in issue at the date of the resolution and (2) in the case of an allotment and issue of shares for a consideration other than cash, 20% of the aggregate nominal amount of the share capital of the Company in issue at the date of the resolution (less any shares allotted and issued pursuant to (i) above);
 - (ii) To grant a general mandate to the Directors to repurchase shares not exceeding 10% of the aggregate nominal amount of the share capital of the Company in issue at the date of the resolution;
 - (iii) To authorize the Directors to allot and issue additional shares equal to the number of shares repurchased by the Company pursuant to (e) (ii) above; and
- (f) To approve the amendments to the Articles of Association of the Company.

Shareholders' Rights

The general meeting provides a forum for the Board to communicate with the shareholders of the Company. Under Article 66 of the Company's Articles of Association, the Board may, whenever it thinks fit, convene an extraordinary general meeting, and extraordinary general meetings shall also be convened on requisition, as provided by the Companies Ordinance, or in default, may be convened by the requisitionists.

To further enhance minority shareholders' rights, the Company has adopted the practice of voting by poll for all resolutions put forward at its annual general meetings and special general meetings.

The Company follows the requirements under the Listing Rules by disclosing in its circulars convening a general meeting the procedures for and the rights of shareholders to demand a poll in compliance with Rule 13.39(4) of the Listing Rules.

Pursuant to Article 74 of the Company's Articles of Association, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded:

- (i) by the chairman of the meeting; or
- (ii) by at least three members present in person or by proxy for the time being entitled to vote at the meeting; or
- (iii) by any member or members present in person or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting;
- (iv) by a member or members present in person or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right; or
- (v) by the chairman of the Meeting of any director in circumstances where voting by poll is required by the rules promulgated from time to time by the designated stock exchange on which the Company is listed or as the laws of such jurisdiction applicable to the Company may require.

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A summary of attendance of Board and committee meetings in 2006 are detailed in the following table:

	Meetings attended/held in 2006			
	Board	Audit Committee	Nomination Committee	Remuneration Committee
Number of meetings held during the year	5	4	2	3
Group Executive Directors				
Mr Horst Julius Pudwill ¹	5/5		1/1	
Dr Roy Chi Ping Chung JP	5/5			
Mr Patrick Kin Wah Chan	5/5			
Mr Frank Chi Chung Chan	5/5			
Mr Stephan Horst Pudwill ²	3/3			
Non-executive Director				
Mr Vincent Kau Ting Cheung ³	4/5		2/2	3/3
Independent Non-executive Directors				
Mr Joel Arthur Schleicher ⁴	4/5	4/4		
Mr Christopher Patrick Langley OBE	5/5	4/4	2/2	3/3
Mr Manfred Kuhlmann	5/5	4/4	2/2	3/3
Dates of meetings	11.4.2006 22.5.2006 22.8.2006 7.11.2006 6.12.2006	11.4.2006 22.5.2006 21.8.2006 6.11.2006	22.5.2006 7.11.2006	22.5.2006 18.8.2006 6.11.2006

Notes:

1. Appointed as Chairman of the Nomination Committee with effect from 1st September, 2006
2. Appointed as Group Executive Director with effect from 22nd May, 2006
3. Chairman of Remuneration Committee and resigned as Chairman, but remains as a member, of the Nomination Committee with effect from 1st September, 2006
4. Chairman of the Audit Committee