

Corporate Governance Report

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

The Board adopted the code provisions (the "Code Provisions") of the Code on Corporate Governance Practices (the "CG Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as the guidelines for corporate governance of the Group, and has taken steps to comply with the CG Code wherever appropriate.

Throughout the year ended 31 December 2006, save for the deviation explained below, the Group complied fully with the CG Code.

THE BOARD

(1) The Board of Directors

The Board currently comprises eight directors, 3 of whom are executive directors, 2 are non-executive directors and 3 are independent non-executive directors ("INEDs"). The composition of the Board is set out as follows:

Executive Directors:	LI Dongsheng (<i>Chairman</i>) LIU Fei YAN Yong
Non-Executive Directors:	WANG Kangping ZHAO Zhicheng
Independent Non-Executive Directors:	LAU Siu Ki SHI Cuiming WANG Chongju

The biographies of the directors are set out in the "Directors and Senior Management" on Pages 20 to 24 of this annual report.

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.

The non-executive directors play an important role on the Board. Accounting for more than half 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 written confirmations 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.

There are no relationships (including financial, business, family or other material or relevant relationships) among members of the Board.

Corporate Governance Report

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 issues that require the Board's timely attention and decisions. As the Board highly values the independent opinions and diversified perspectives from the independent non-executive directors, they, in addition to the executive directors, participate in the special Board meetings very often.

During 2006, the Board held 4 regular meetings at about quarterly intervals and 14 additional meetings (9 of which were held regarding special matters which required the Board's decisions whereas the other 5 meetings were held regarding operational matters involving the attendance of executive directors only). Attendance of individual directors at the Board meetings in 2006 is as follows:

	Number of Board meetings attended/eligible to attend*		
	Regular Board Meetings	(special matters requiring the Board's decision)	Special Board Meetings (operational matters)
Executive Directors			
LI Dongsheng (<i>Chairman</i>)	1/4	1/9	0/5
LIU Fei	4/4	9/9	4/5
YAN Yong	2/4	1/9	0/5
DU Xiaopeng (retired on 8 June 2006)	1/2	0/5	0/5
GUO Aiping (retired on 8 June 2006)	2/2	5/5	5/5
WONG Toe Yeung (retired on 8 June 2006)	1/2	1/5	2/5
YUAN Xin Cheng (resigned on 8 June 2006)	0/2	3/5	0/5
Non-Executive Directors			
WANG Kangping (appointed on 8 June 2006)	2/2	3/4	N/A
ZHAO Zhicheng (appointed on 8 June 2006)	1/2	2/4	N/A
Independent Non-Executive Directors			
LAU Siu Ki	3/4	7/9	N/A
SHI Cuiming	4/4	6/9	N/A
WANG Chongju	4/4	4/9	N/A

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

(2) Management Functions

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

Corporate Governance Report

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.

(3) Nomination of Directors

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 next annual general meeting after their appointment.

During 2006, the Board held one meeting to discuss the nomination and appointment of new directors, namely Mr. Wang Kangping and Dr. Zhao Zhicheng. Attendance of each director at this meeting is as follows:

	Number of Board meeting attended/eligible to attend
Executive Directors	
LI Dongsheng (<i>Chairman</i>)	1/1
LIU Fei	1/1
YAN Yong	1/1
DU Xiaopeng (retired on 8 June 2006)	1/1
GUO Aiping (retired on 8 June 2006)	1/1
YUAN Xin Cheng (resigned on 8 June 2006)	0/1
WONG Toe Yeung (retired on 8 June 2006)	1/1
Independent Non-Executive Directors	
LAU Siu Ki	1/1
SHI Cuiming	1/1
WANG Chongju	1/1

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.

Corporate Governance Report

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 applicable to all directors
 - (a) Character and integrity
 - (b) The willingness to assume Broad 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

(4) Appointment, Re-election and Removal

At the last annual general meeting held on 8 June 2006 (the "AGM"), all the non-executive directors were elected to hold office for a specific term of approximately one year until the conclusion of the next annual general meeting, 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 annual general meeting in each year. A retiring director is eligible for re-election.

Dr. Liu Fei, who was appointed as an executive director on 22 June 2005, was not subject to election by shareholders at the extraordinary general meeting held on 6 February 2006, i.e. the first general meeting of the Company after his appointment, and this constitutes a deviation from the Code Provision A.4.2. Given the Articles of Association of the Company stipulate that such a director shall hold office until the next annual general meeting following his appointment, the Board considered that it was more appropriate and in the shareholders' interest to have Dr. Liu's election be considered by shareholders in the AGM so that re-election of all eligible directors subject to expiry of a specific term or rotation would be considered by shareholders at the same time in the AGM. At the AGM of the Company, Dr. Liu was elected as an executive director with no fixed term of director's service with the Company but is subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Articles of Association of the Company.

Corporate Governance Report

(5) Roles of Chairman and Chief Executive Officer

The positions of Chairman and chief executive officer are held respectively by Mr. Li Dongsheng and Dr. Liu Fei. This ensures a clear distinction between the Chairman's duty to manage the Board and the chief executive officer's duty to oversee the overall internal operation of the Group.

(6) Directors' Securities Transactions

The Board has adopted a code of conduct regarding directors' securities transaction on terms no less exacting than the required standard as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiry have been made with all directors who have confirmed that throughout year 2006, they complied with the required standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions.

The directors' interests in shares of the Group as at 31 December 2006 are set out on pages 37 to 43 of this annual report.

BOARD COMMITTEES

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

(1) Remuneration Committee

The Remuneration Committee currently comprises 3 members, all of whom are INEDs, namely Mr. Shi Cuiming, who is also the Chairman of the Remuneration Committee, Mr. Lau Siu Ki and Mr. Wang Chongju.

The Remuneration Committee is governed by its terms of reference, which are available at the Group's website at www.tclcom.com.

A. Remuneration of Directors and Senior Management

The Remuneration Committee 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.

During 2006, the full Remuneration Committee met once and accomplished the following:

- reviewing the Group's expenses and changes on staff remuneration in 2006;
- making recommendation on the remuneration package for senior management of the Group; and
- devising a bonus plan for the Group for 2007 which ties in with the amount of profits of the Group.

Corporate Governance Report

Attendance of each member at the Remuneration Committee meeting in 2006 is as follows:

	Number of committee meeting attended/eligible to attend*
SHI Cuiming (<i>Chairman</i>)	1/1
LAU Siu Ki	1/1
WANG Chongju	1/1

Emolument Policy and Long-Term Incentive Plans:

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 or share options of the Group, which is awarded subject to the discretion of the Board.

The details of the fees and any other reimbursement or emolument payable to the directors are set out in details on note 11 to the financial statements.

B. Remuneration of Auditors

During 2006, the fees in respect of audit services and non-audit services (mainly tax service) payable by the Company to the auditors, Messrs Ernst & Young, amounted to HK\$2,020,000 and HK\$123,100 respectively.

(2) Audit Committee

The Audit Committee currently comprises three members, namely Mr. Lau Siu Ki, Mr. Shi Cuiming and Mr. Wang Chongju, all of whom are INEDs. Mr. Lau Siu Ki, the Chairman of the Audit Committee, is a professional accountant with profound financial and accounting expertise.

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 Audit Committee also oversees the scope of work of external auditors.

Corporate Governance Report

The Audit Committee's work in 2006 includes consideration of the following matters:

- the completeness and accuracy of the 2005 annual and 2006 quarterly and interim financial statements;
- the Group's compliance with statutory and regulatory requirements;
- developments in accounting standards and the effect on the Group;
- the audit report submitted by the external auditors summarizing matters arising from their audit of the Group for year 2005;
- review the effectiveness of the system of internal control of the Group;
- the decision to set up an internal audit department;
- the audit fees payable to external auditors for year 2006;
- recommendations to the Board, for the approval by shareholders, for the reappointment of Messrs. Ernst & Young as the external auditors, which the Board agreed and accepted; and
- the scope and focus of the audit in 2007.

During 2006, the Audit Committee met 4 times and the attendance of each member at the Audit Committee meetings in 2006 is as follows:

	Number of committee meetings attended/eligible to attend
LAU Siu Ki (<i>Chairman</i>)	4/4
SHI Cuiming	3/4
WANG Chongju	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.

(3) Executive Committee

The Executive Committee was set up in March 2007 and currently comprises twelve members, all of whom are senior executives from various units of the Company, and one secretary. The composition of the Executive Committee is set out as follows:

Members:

GUO Aiping
 HUANG Wanquan
 Alain LEJEUNE
 LIU Fei
 LIU Yuk Tung
 Yves MOREL
 Eric VALLET
 WONG Kwok Chung
 XIANG Zheng
 YU Enjun
 YUAN Yi
 Nicholas ZIBELL

Secretary:

Niu Haizhen

Corporate Governance Report

The Executive Committee is responsible for implementing the objectives and strategic plans as approved by the Board and overseeing the day-to-day operations of the Group. Normally, the Executive Committee meets once a month, and may convene additional meetings when necessary to handle urgent matters.

ACCOUNTABILITY AND AUDIT

(1) Financial Reporting

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.

(2) Internal Controls

Each year, the Audit Committee of the Company reviews the findings made by the external auditors in respect of issues encountered by them in preparation of the audit report, which often cover issues relating to internal control. The Audit Committee also reviews the internal control report submitted by the Company's internal audit department. The Audit Committee will then review the actions performed or the plans to be carried out by the management in addressing the issues. The issues identified and the corresponding remedial plans and recommendations are then submitted to the Board for consideration. For the year of 2006, no critical internal control issues have been identified and efforts are being made in implementing changes to resolve the identified issues.

INVESTOR RELATIONS

All published information, including all the statutory announcements, press releases and event calendars, is promptly posted on the Company's website at www.tclcom.com. Viewers can also send enquiries to the Board or senior management by email at ir@tclcom.com or directly by raising questions at the general meetings of the Company.