



Corporate Governance

With the aim of becoming a world-class telecommunications operator, the Company has continued to improve its corporate governance system and strengthen its management during 2002. The Company has further enhanced its various internal controls and has put in place relevant procedures and standards.

Corporate Governance

Board of directors

The Board of Directors administers the affairs of the Company according to the principles of accountability and serving the best interests of the Company. The responsibilities of the Board of Directors include: to review and approve announcements issued by the Company periodically regarding its business results and operating conditions, to review and approve the business strategies, budgets, international cooperation strategies, and other major investment, capital structure and merger & acquisition activities of the Company, etc. The Board of Directors, through two specially-designated committees, is also responsible for the supervision of the management and the implementation of internal control procedures.

More than one third of the existing members of the Board of Directors are non-executive directors, including three independent non-executive directors and one non-executive director. These independent non-executive directors and non-executive directors are all influential members of society who are experienced with the telecommunications industry, the businesses, finance and legal affairs of the Company, and the economic environment within and outside the PRC, and contribute greatly to the successful development of the Company. They frequently raise matters and voice opinions that are of concern to the shareholders and investors at the meetings of the Board of Directors, which have assisted the Board of directors in considering the best interests of the shareholders. During 2002, the Company arranged a trip for the non-executive and independent non-executive directors to visit its branches in China and meet with local sales offices to understand the actual operation status and customer service conditions of the Company. The Company seriously considered comments and recommendations from the non-executive and independent non-executive directors, and has adopted appropriate measures to address such comments and recommendations.

In 2002, the Company held four full board meetings, where the annual results of 2001, the interim results of 2002, the international development strategies and the acquisition of cellular businesses in nine provinces were discussed. Apart from the four full board meetings referred to above, several other board meetings were conducted by way of video conferencing and/or telephone conferencing.

The Board of Directors has always placed emphasis on its relations with the Company's shareholders and investors. A majority of our directors have been able to attend the Company's general meetings. The Company also holds meetings with analysts to discuss its publicly announced business results. A majority of the directors were able to attend these meetings during the year and listen to inquiries and comments raised by investors, fund managers and analysts.

Pursuant to the Company's Articles of Association, apart from the Chief Executive Officer of the Company, who is not required to retire from his post and be re-elected annually, not less than one third of the directors must retire; however, they are eligible for re-election as board directors. Shareholders vote on the re-election of board directors at each annual general meeting.

The Secretary to the Board of Directors is responsible to the Board of Directors. His duties are to ensure that, at each meeting of the Board of Directors, the procedures for such meetings are followed, and the applicable laws and regulations are complied with (in particular, the disclosure of a director's shareholdings in the Company, the disclosure of transactions that may conflict with the interests of the Group, restrictions on the purchase and sale of the Company's securities and the treatment of price-sensitive information.)

Committees under the board of directors

There are two committees established under the Board of Directors, namely, the Audit Committee and the Remuneration Committee. Each of these committees is currently comprised of two independent non-executive directors and a non-executive director. The chairman of each committee is an independent non-executive director.

Audit committee

The Audit Committee was established in August 2000. The responsibilities of the committee mainly include the following: to consider and approve the appointment, resignation and removal of external auditors and their fees; to review the interim and annual financial statements; to discuss with the external auditors any problems and comments raised during the audit; to review any correspondence from the external auditors to the management and the responses of the management; and to review the relevant reports concerning the internal control procedures of the Company. The committee meets once every six months (no less than twice each year), and assists the Board of Directors in the review of the financial statements in order to ensure effective internal controls and efficient auditing.

The Board of Directors recently approved certain amendments to the responsibilities of the Audit Committee proposed by the Audit Committee, including the strengthening of responsibilities in the following areas: to supervise the external auditors, who will directly report to the committee; to pre-approve the audit and non-audit services to be provided by the outside auditors, and to determine whether any non-audit services would affect the independence of the auditors; to discuss with the management the timing and procedures for the rotation of the partner of the auditing firm responsible for the audit of the Company and the partner responsible for the review of audit-related documents. These amendments were aimed at ensuring that the Audit Committee can carry out its duties more effectively, the Board of Directors can better monitor the financial condition of the Company in order to protect the assets of the Company, prevent significant errors in the financial statements or other losses to the Company, and the relevant requirements of the U.S. securities laws with respect to the Audit Committee are complied with. In accordance with the revised responsibilities of the Audit Committee, the number of meetings to be held by the committee will increase from not less than twice a year to not less than four times each year.

The Board of Directors has already recommended to the annual general meeting of shareholders that an additional independent non-executive director be appointed, details of whom were set out in the Report of the Board of Directors. Such additional independent director will join the Audit Committee, thus reinforcing its capabilities.

Remuneration committee

The Remuneration Committee was established in August 2000. The functions of the committee include the following: to consider and approve the remuneration plans proposed by the management, to revise the remuneration scheme of the executive directors and the share option scheme of the Company, and to propose detailed plans for the grant of share options. The committee meets at least once every year.

The Remuneration Committee conducts performance appraisals for the Chief Executive Officer and determines the Chief Executive Officer's year-end bonus pursuant to the performance target contract entered into between the Board of Directors and the Chief Executive Officer. The Chief Executive Officer is responsible for the performance appraisal and determination of performance-based year-end bonuses for the other members of the Company's management, the results of which are subject to the review of the Remuneration Committee.

Annual general meeting of the shareholders

The annual general meeting of the shareholders transacts the businesses to be decided by the shareholders, and provides an opportunity for the directors and shareholders to communicate with each other. The Company places a great deal of emphasis on the annual general meeting of the shareholders. The directors and senior management of the Company all use their best efforts to attend the meeting.

Remuneration of directors and senior officers

The Company provides remuneration to the non-executive officers for their services, and regularly reviews the standards for the determination of such remuneration. In addition, the Company grants share options to directors and senior officers in accordance with the share option scheme of the Company. These incentives align the long-term interests of the directors and the senior officers with those of the shareholders.

Code for securities transactions and code of best practice

The Company has prepared the Procedures for Dealing of Securities by Directors in accordance with Model Code for Securities Transactions by Directors of Listed Companies, as set out in Appendix 10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The directors of the Company execute letters of confirmation in favour of the Company declaring their compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules once every six months.

Internal audit

The Company has established an internal audit body. Internal audit focuses on efficiency, accountability and internal controls, performing a significant role in strengthening the operation and management of the Company, improving the internal controls system, guarding against operational risks and increasing economic efficiency. During 2002, the Company strengthened its control over the audit process, by centralising the management of the audit work at the Company headquarters, rather than at the level of the various provincial subsidiaries. The Company also further improved the internal audit system and standards, by enhancing the supervision of the operation and management of the Company, so that the internal audit system can further accommodate the requirements of the internal controls.

Information disclosure controls and procedures standards

In order to further enhance our system of information disclosure, and to ensure the truth, accuracy, completeness and timeliness of our public disclosures, the Company has adopted and implemented the Standards for Information Disclosure Controls and Procedures, pursuant to which: an Information Disclosure Review Committee, led by management at the chief executive officer's level, was established; procedures were established to compile and report the Company's financial and operational statistics and other information, and to draft and supervise the periodic reports; detailed implementation rules were established as to the verifications on financial data, in particular that personal certifications were required in the top-up manner from the officers in charge at the various levels of the subsidiaries, branches and major operating units of the Company; the fundamental principles of information disclosure were provided; the internal audit body must conduct audits that cover not less than 30% of the areas subject to internal controls; and the Company's tariff system is also subject to monitoring and control, where the annual review must cover not less than 30% of the transactions. A Code of Ethics for the senior management was prepared, which requires senior officers to strictly comply with the information disclosure controls and procedures of the Company and imposes relevant penalties upon officers who breach such procedures. The management will regularly evaluate the implementation of these standards.

Transparency and investor relations

The Company must report the financial conditions of the Company to its shareholders and investors on a semi-annual and annual basis. In order to improve transparency and provide additional information to shareholders, investors and the public at appropriate times, so as to facilitate their understanding of the operational condition of the Company on a timely basis, the Company has adopted and implemented a quarterly reporting system, under which certain key unaudited operating and financial statistics are disclosed. At the same time, key operating statistics are disclosed on a monthly basis. The Company also discloses at appropriate times any new development that may have a significant effect on the business of the Company through press releases, announcements, various media and the Company's website. The investor relation department of the Company is responsible for the provision of information and services required by investors, the provision of responses to their inquiries, and maintenance of timely communications with investors and fund managers.

The management of the Company regularly meets with analysts and investors. During 2002, the Company promptly and accurately disclosed certain significant events, including the listing of A Shares on the Shanghai Stock Exchange by China United Telecommunications Corporation Limited, the holding company of China Unicom (BVI) Limited, the controlling shareholder of the Company and the acquisition of cellular businesses and assets in nine provinces by the Company. The Company also arranged periodic site visits and meetings with the management of the Company and our operating subsidiaries, as requested by analysts and investors, which allowed the analysts and investors to learn about the development of the Company's various businesses. The Company has also engaged an investor relations consultancy firm to conduct surveys on the composition of our public shareholding structure. The survey gave the Company better information regarding its investors to enable the Company to effectively target communications with investors.

Staff training and development and code of ethics

The Company has set up different staff training programs for different categories of staff in accordance with the development strategies and business objectives of the Company. The Company provides various opportunities for senior officers to participate in executive MBA programs, as well as regular training programs. In 2002, 140 senior officers, comprised of deputy general managers or above from the provincial subsidiaries and branches, received training in Hong Kong, 240 middle to senior marketing executives received training at telecommunications operators in the United States, and other staff also received necessary technical training. Through these training opportunities and programs, the Company continued to improve the managerial skills of its senior officers and the technical skills of other employees. At the beginning of each year, the Company conducts comprehensive performance appraisals of officers at all levels and other employees for the prior year. The results of these appraisals are directly linked to bonuses. An appraisal includes a review of the results of an employee's work and the employee's implementation of his/her duties during the year, and the result of the appraisal is directly linked to the employee's bonus. To date, the Company has already set out relatively comprehensive standards governing the acts of officers and general staff, including the code of ethics for the management and senior staff and an employee handbook.

Awards

The Company ranked second among the Best Companies in the PRC and fourth among the Best Cellular Telecommunications Companies in Asia in the seventh annual poll of Asia's Best Companies by *Euromoney*, an international financial magazine. The rankings were determined on the bases of surveys conducted with analysts at major banks and research companies in the region by *Euromoney*, with particular focus on market share, profitability, growth potential, level of management and earnings.

Mr. Yang Xian Zu, the Chairman of the Company, was voted one of the "Top Ten Most Influential People in the PRC in 2002" by China Central Television. The award focuses on the innovative initiatives, the complexity of challenges faced and the influence exerted on society by the individual contenders. Winners all played an active role in the economic life of China in 2002 and were recognised for their unique contribution to the economic and societal development of China.