

# REPORT OF THE SUPERVISORY COMMITTEE

To Shareholders:

During 2002, all members of the Supervisory Committee carried out the duties of Supervisory Committee with diligence in accordance with the relevant provisions of the Company Law of the PRC (the "Company Law"), the Listing Rules, the Articles and the relevant laws and regulations with the principle of being accountable to the Company and its shareholders. The Supervisory Committee studied the relevant policy papers and the relevant business knowledge, participated in supervision training initiated by China PUTIAN in order to enhance the theoretical aspect and business standard of the supervisors.

To better exercise the supervisory function of the Supervisory Committee, members of the Supervisory Committee attended the Company's board meetings, general manager's meetings and decision-making meetings of the Company so as to exercise effective surveillance over the work of the Board of Directors and operational decisions of the management, provided opinions and recommendations in respect of resolutions considered at those meetings, listened carefully to and analysed on the reporting by the financial manager regarding the financial position and operating results of the Company. The Committee would like to render its independent opinion as follows:

## 1. Lawful Operation of the Company

The Supervisory Committee is of the opinion that in 2002, the Company's operations had strictly complied with the Company Law, the Listing Rules, the Articles and other laws and regulations and strictly implemented all the resolutions passed at the general meetings.

## 2. Discharge of Duties by Directors, Managers and Other Senior Management of the Company

The Supervisory Committee considers that the Directors, managers and other senior management have performed their duties diligently, pragmatically and faithfully. No abuse of rights, violation of laws or regulations or the Articles nor acts detrimental to the interests of shareholders, the Company and the Company's staff members was found.

## 3. Report of the Directors

The Supervisory Committee had a detailed review of the report of the Directors to be submitted for consideration at the AGM for the Year by the Board of Directors and considered that the report had objectively and thoroughly reflected the various work conducted by the Company in 2002.

## 4. Financial Report of the Company

After a detailed examination of the information including the financial report and profit distribution plan to be submitted for consideration at the AGM for the Year by the Board of Directors, the Supervisory Committee considers that the relevant financial data objectively, truly and comprehensively reflected the financial position, assets position and operating results of the Company. No violation of discipline or the Company's financial systems has been found. The Supervisory Committee has noted the significant decline in the operating results of the Company and expressed its concern. The Supervisory Committee suggests that the Board of Directors and the management of the Company should adopt positive and effective measures such as conducting marketing research appropriately and report the progress of the relevant matters promptly to the Supervisory Committee.

The financial report of the Company was audited. The Supervisory Committee considers that the financial report, which had been audited by the joint international auditors, has reflected the true financial position of the Company.

## 5. Connected Transactions

The Supervisory Committee considers the connected transactions of the Company to be ordinary and general and are fair and reasonable so far as the shareholders are concerned, and are not detrimental to the interests of the Company and the minority shareholders.

## 6. Litigation

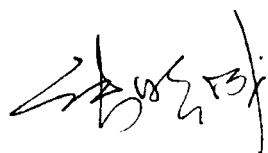
There was no material litigation of the Company during the Year.

The Supervisory Committee considers that the operating results of the major associates of the Company experienced fluctuations under the downturn of the global telecommunication industry in 2002, and investment gain therefrom slipped significantly. As a result, the Company recorded a loss in operating results. It is hoped that the Board of Directors and the management personnel will properly exercise supervision and management over the associates so as to adjust and implement their development strategies in response to market changes in an active and steady manner.

## REPORT OF THE SUPERVISORY COMMITTEE (CONTINUED)

It is hoped that in 2003, the Company will refine the governance structure, reinforce the implementation of regulations and system thus the Company can be managed in a systematic way and enhance internal surveillance and management, strengthen the financial management to improve cash flow and the recovery rate of trade debts, reduce accounts receivable and prevent operating risks in accordance with the provisions of the Standards for Governance of Listed Companies. It is hoped that the Company can sustain its development prospects by strengthening market development, recovery of account receivable thereby minimising bad debts, exploration of new products and capital operation and the development of new businesses.

The Supervisory Committee will further enhance the standard of the members of the Supervisory Committee and adjust its structure. A specific monitoring measure will be devised to fully discharge its supervisory function in respect of decision-making, financial matters and of the Directors and senior management of the Company, regulate the work of the Supervisory Committee, ensure discharge of its duties diligently and strive to make possible the realignment of the Company's development and improvement in the Company's operating efficiency.



**Zhang Xiaocheng**  
*Chairman of the Supervisory Committee*  
17 April 2003