

Corporate Governance

Corporate Transparency

Apart from the reports to shareholders and investors semi-annually and annually in accordance with HK GAAP and/or US GAAP on the Company's business and financial conditions, the Company discloses major un-audited operational statistics and financial data quarterly, and announces operational statistics monthly; in order to further enhance the transparency of the Company and the understanding by investors of the business operation of the Company.

Upon every announcement of interim and annual results or major transactions, the Company holds immediately analyst and press conferences. During such conferences, the management of the Company interacts directly with fund managers, investors and journalists to provide them with relevant information and data and reply enquiries. The management of the Company replies accurately and thoroughly questions raised by analysts and journalists. Real-time web-castings and video-recordings are also arranged for the said conferences in order to have wide dissemination of the information and messages.

Through the holding of road shows in different countries over the world, the management of the Company meets and communicates with key persons from investment funds and institutional investors to let them have accurate ideas of the performance achieved by the Company's efforts in different aspects like business operation and management etc.



By the publication of announcements and press releases, the Company forwards promptly and accurately to the mass media information regarding the Company's major business development and current state of the management. Regarding relevant questions raised by the mass media, they can all be replied promptly and adequately by the management of the Company.

The website of the Company is also updated constantly to provide the investors and the public with all-round information and news relating to the Company in all respects.

Investor Relations

The investor relations department of the Company is responsible for the provision of information and services required by investors, the provision of responses to their inquiries, and the maintenance of timely communications with investors and fund managers.

The Company also arranges from time to time "reversed road shows" for analysts and investors. These activities allow them to have good opportunities to communicate with and understand the management, general staff and subscribers of the Company and its operating subsidiaries, visit different places of business or show rooms of provincial branches, and thus understand timely and thoroughly the status of different aspects of the development of the Company's business.

Corporate Management System Board of Directors

In the best interests of the Company and its shareholders, the Board of Directors reviews and approves major corporate matters as business strategies and budgets, major investments, capital market operation, merger and acquisition etc. The Board also reviews and approves announcement periodically published by the Company regarding its business results and operating activities.

The Board membership maintains sufficient international and wide representation. Members of the Board consist of outstanding persons from different professions in the mainland China, Hong Kong and overseas.

Members of the Board include four independent non-executive directors and one non-executive director. All independent non-executive directors and non-executive director are influential members of the society and possess good knowledge and experience in different aspects. They make active contribution to the development of the Company. They keep close contacts with the management of the Company and always reflect fully different matters and opinions at board meetings, which are of concern to the shareholders and the capital market. These kinds of views and opinions facilitate the Board in their consideration of the shareholders' best interests. All independent non-executive directors, except the shareholdings interests as disclosed in this annual report, do not have any business or financial interests with the Company, its holding company or subsidiaries, and confirmed their independence to the Company.

In the year of 2003, the Board held four full board meetings, for the discussion and approval of those important matters as 2002 annual results, 2003 interim results, the Company's development strategies and budgets, the acquisition of 9 provinces' businesses and assets and the sale of Guoxin paging etc. In addition, several other board meetings were conducted via telephone or video conferencing for the discussion and approval of matters like quarterly results etc.

Committees under the Board of Directors

There are two committees established under the Board of Directors, namely, the Audit Committee and the Remuneration Committee.

Audit Committee

The committee consists of three independent non-executive directors. One of the committee members is an investment banker and he possesses expertise and experience in financial management.

The major responsibilities of the committee include: considering and approving the appointment, resignation and removal of external auditors and their fees; reviewing the quarterly, interim and annual financial statements; discussing with external auditors any problems and comments raised during the statutory audits; reviewing any correspondence from the external auditors to the management and responses of the management; and reviewing the relevant reports concerning the internal control procedures of the Company. The committee meets every three months (not less than four times a year), and assists the Board of Directors in its review of the financial statements in order to ensure effective internal controls and efficient auditing.

In 2003, the committee has strengthened its works in the following areas: supervising the external auditors, who will report directly to the committee; pre-approving the audit and non-audit services to be provided by the independent auditors, and determining the possible effect of non-audit services on auditors' independence; discussing with the management the timing and procedures for the rotation of audit partners from external audit firm. The committee can carry out its duties more effectively, and thus enable the Board of Directors to better monitor the financial condition of the Company, prevent significant errors in the financial statements. At the same time, the relevant requirements of the U.S. securities laws with respect to the audit committee are complied with.

Remuneration Committee

The committee consists of two independent non-executive directors and one non-executive director. The Chairman of the committee is an independent non-executive director.

The major functions of the committee include: considering and approving the remuneration plans proposed by the management, remuneration scheme of executive directors and the Company's share option scheme. The committee meets at least once a year.

The Remuneration Committee conducts performance appraisals for the Chief Executive Officer and determines his 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 are subject to the review of the committee.

Internal Control Systems

Internal Audit

An internal audit unit has been established by the Company. Internal audit focuses on efficiency, accountability and internal controls. It contributes significantly to the strengthening of operation and management of the Company, improvement in internal control system, avoidance of operational risks and increases in economic efficiency. Since 2002, the Company has centralized the management of the audit work at the Company headquarters, rather than at the level of the various provincial branch companies. The internal audit also enhances the supervision of the operation and management of the Company, in order that the internal audit system can further accommodate the requirements of internal controls.

Information Disclosure Controls and Procedural Standards

In order to further enhance the Company's system of information disclosure, and to ensure the truth, accuracy, completeness and timeliness of our public disclosures, the Company has adopted and implemented Information Disclosure Controls and Procedural Standards, pursuant to which: an Information Disclosure Review Committee, led by the management, 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 the contents and requirements of 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 operation units of the Company; the fundamental principles of information disclosure were provided; the internal audit department must conduct adequate audits on areas subject to internal controls; and the Company's tariff system is also subject to monitoring and control of the transactions concerned. A Code of Ethics for the senior management was prepared. It imposes relevant penalties upon officers who breach such procedures. The management will also regularly evaluate the implementation of these standards.

Code of Ethics of Directors and Staff

The Company has 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. The Company has also prepared the Procedures of 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").

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.

Shareholders' Interests

The Company has great concern on shareholders' interests and places significant emphasis on the holdings of annual general meetings of shareholders. Executive directors and senior management attend the meetings and treasure the opportunities provided by the meetings to communicate with the shareholders.

The Company held also an extraordinary general meeting in December 2003, which approved matters relating to the acquisition by the Company of 9 provinces' businesses and assets as well as the sale of Guoxin Paging. During the meeting, in order to protect the

interest of shareholders, all resolutions were resolved by polls. The management of the Company announced immediately the verified results of the polls during the meeting and disclosed the same to the public in a Chinese and an English newspapers in the following day.

According to the Company's articles of association, apart from the Chief Executive Officer of the Company, all directors newly appointed during the year concerned and not less than one third of the existing directors are required to retire by rotation. The retired directors will then be eligible for re-election to directors by votes of the shareholders.

The Company will submit to the forthcoming annual general meeting resolutions for the shareholders to approve several amendments to the Company's articles of association, in order that these amendments could comply fully with, inter alia, the requirements imposed on the Company's articles of association by new provisions in the Listing Rules which will come into effect on 31 March 2004.

Evaluation and Recognition by the Society

The Company scored outstanding results in the 2003 Corporate Governance Poll organized by the international magazine, Euromoney. In Hong Kong and China region, the Company is ranked No. 4 out of the 20 organizations ranked and No. 1 among the telecommunication companies in the same region.

In addition, the 2002 Annual Report of the Company was awarded Honors in 2003 International ARC Awards Competition in the U.S.A. The Competition was participated by nearly 1,700 entries from 21 countries. The same annual report was also awarded an Honorable Mention in the 2003 HKMA Best Annual Reports Awards organized by The Hong Kong Management Association. The Award was made among 147 entries of annual reports from organization including Hang Seng Index constituent companies.