

CORPORATE GOVERNANCE

1. DESCRIPTION OF CORPORATE GOVERNANCE

Shareholders and shareholders' general meetings: The Company has established a corporate governance structure to ensure that all shareholders can fully exercise their rights and enjoy equal status, in particular, for minority shareholders. General meetings, which are to be convened and held legally and validly, should provide sufficient time for the discussion of each proposal and provide a good opportunity for communications between the Board and the shareholders. In addition, shareholders can contact the Company through its shareholder hotline during normal working hours or through its designated e-mail address for any enquiries.

Controlling shareholder and the listed company: the Company's controlling shareholder is Zhongxingxin. The controlling shareholder exercises its rights as an investor in strict compliance with the law without jeopardizing the lawful rights and interests of the Company and other shareholders. Candidates for election as Directors and Supervisors are nominated in strict compliance with rules and regulations and the terms and procedures as set out in the Articles of Association of the Company. The staffing, assets, financial affairs, organisation and business of the controlling shareholder is independent to those of the listed company, with each of the controlling

shareholder and listed company carrying out independent auditing and assuming its own responsibilities and risks. The controlling shareholder has not directly or indirectly interfered with the decision-making and business activities of the Company beyond the shareholders' general meeting.

Directors and Board of Directors: the Company appoints directors in strict compliance with the procedures set out in its Articles of Association, ensuring that the directors are appointed in an open, fair, just and independent way. To reflect the opinions of minority shareholders effectively, a cumulative voting scheme was adopted for the appointment of directors. The Board of Directors has a professional structure, acting in the best interests of the Company and in good faith. The Company has formulated a set of rules of procedures for Board of Directors' meetings, and board meetings are convened and held in strict compliance with the Articles of Association and Rules of Procedure of the Board of Directors' meetings. To optimize the corporate governance structure, three specialist committees – the nomination committee, audit committee and remuneration and evaluation committee – have been established by the Board of Directors in accordance with the Governance Standards for Listed Companies. The majority of members in each of these committees are independent directors and independent directors act as conveners,

providing scientific and professional opinions and reference for the decision-making by the Board.

Supervisors and Supervisory Committee: the Supervisors possess professional knowledge and work experience in legal, accounting and other areas, who monitor the finance and supervise the lawful and regulatory performance of duties by the Company's Directors, the President and other senior management personnel, and safeguard the legal rights and interests of the Company and shareholders. A set of rules of procedure for the Supervisory Committee meetings has been formulated. Meetings of the Supervisory Committee are convened and held in strict compliance with the Articles of Association and the Rules of Procedure for Supervisory Committee Meetings.

Results appraisal and incentive binding mechanism: during the reporting period, the remuneration and evaluation committee of the Board has linked the salaries of senior management personnel with the results of the Company and personal performance of the individual, in accordance with the Proposal on the Management of Remuneration and Performance of Senior Management Personnel. Senior management personnel are recruited and appointed in strict compliance with relevant rules, regulations and the Articles of Association.

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Stakeholders: the Company respects the legal rights and interests of banks and other stakeholders such as creditors, employees, consumers, suppliers, and the community and work together with these stakeholders actively to promote the sustainable and healthy development of the Company.

Information disclosure and transparency: the secretary to the Board and relevant officers in the Security and Finance Department are responsible for the Company's information disclosure obligations and reception of visits by shareholders and handling of shareholder enquiries. The Company discloses relevant information in strict compliance with rules and regulations and the Articles of Association in a true, accurate, complete and timely manner, and ensures that all shareholders have an equal

opportunity to obtain access to information.

2. PERFORMANCE OF DUTIES BY INDEPENDENT NON-EXECUTIVE DIRECTORS

In June 2004, Li Jin was appointed as an additional independent non-executive Director of the third session of the Board of Directors. The number of independent non-executive Directors has been increased to six. The independent non-executive Directors have substantial experience in the telecommunications, financial, legal and banking areas, and assist in ensuring that the interests of shareholders as a whole are safeguarded by the Board. During the reporting period, the independent non-executive Directors' function in perfecting the corporate governance structure of the

Company and protecting the interests of minority shareholders was particularly evident. During the reporting period, independent non-executive Directors of the Company raised no objections on the resolutions passed by the Board meetings and other matters of the Company. In relation to important matters for which they were required to give independent opinions (including connected transactions, allowances for directors, remuneration for senior management personnel and performance management), the independent non-executive Directors have seriously considered the matters and have issued written independent opinions. The independent non-executive Directors provided valuable and professional recommendations on major decisions by the Company, raising the science and objectiveness of Company decisions.

Attendance of independent Directors at Board meetings are as follows:

Name of independent Director	No. of Board Meetings requiring attendance	Attendance in person	Attendance by proxy	Absent
Zhu Wuxiang	11	11	0	0
Chen Shaohua	11	11	0	0
Giao Wenjun	11	9	2	0
Tan Zhenhui	11	10	1	0
Mi Zhengkun	11	9	1	1
Li Jin	5	5	0	0

Note: In June 2004, the Company appointed Li Jin as an additional independent non-executive Director in the third session of the Board of Directors. Mr. Li Jin was required to attend five Board meetings, that is, from the seventh meeting to eleventh meeting of the third session of the Board of Directors.

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3. "FIVE SEPARATIONS"

The Company is independent of the staff, assets, finance, organisation and business of its controlling shareholder Zhongxingxin. Each of the Company and Zhongxingxin is audited independently and assumes its own responsibilities and risks.

With respect to staffing, the Company is completely independent in the management of labour, human resources, salaries, among others. The senior management personnel receive their remuneration from the Company and do not receive any remuneration from the controlling shareholder nor take up other major positions other than as directors.

With respect to assets, the Company's assets are completely independent and the Company has clear ownership of its assets. The Company has an independent production system, a supplementary production system and associated facilities. Intangible assets such as industrial property rights, trademarks, and other non-patentable technologies are owned by the Company. The Company's procurement and sales system is independently owned by the Company.

With respect to finance, the Company has an independent financial and accounting department. It has established an independent accounting and auditing system and financial management system, and maintains an independent bank account.

With respect to business, the Company's business is completely independent from the controlling shareholder. Neither the controlling shareholder or its subsidiaries are engaged in any business identical or similar to that of the Company.

With respect to organisation, the Board of Directors, the Supervisory Committee and other internal organisations of the Company operate in complete independence from the controlling shareholder. There are no subordinate relationships between the controlling shareholder and its functional departments and the Company and its functional departments.

4. ESTABLISHMENT AND IMPLEMENTATION OF THE APPRAISAL AND INCENTIVE MECHANISM FOR SENIOR MANAGEMENT PERSONNEL

The Company has established a performance appraisal system

for senior management personnel and an incentive mechanism linking salaries with the Company's results and the individual staff member's performance. The remuneration and evaluation committee is mainly responsible for formulating and examining proposals for the management of the remuneration and performance of Directors and the President, and providing overall control and subsequent supervision of the management of the remuneration and performance of senior management personnel other than the President. The Company's President is specifically responsible for formulating and examining proposals for the management of the remuneration and performance of other senior management personnel. The Company has established an appraisal and reward office, to appraise and reward the performance of senior management personnel other than the President and work units to which they are responsible for, using a set of management and economic indicators, and with reference of the Company's annual business plans and targets.