

CORPORATE GOVERNANCE REPORT

The Company has been attaching great importance to corporate governance. In 2005, we continued to make efforts in establishing and perfecting the Company's corporate governance guidelines in accordance with the relevant regulatory requirements and international best practice on corporate governance. By so doing, the Company's operation became more systematic, its management became more efficient and its operation became more rational, and the shareholders' interests as a whole were protected to the maximum degree. The Charters for Audit Committee and Remuneration Committee of the Company have been amended in March 2005 to reflect certain code provisions under Appendix 14 Code on Corporate Governance Practices of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the Listing Rules) which became effective from 1 January 2005. The roles of Chairman and Chief Executive Officer of the Company are performed by the same individual. Save as stated above, the Company is in compliance with all the code provisions as set out in Appendix 14 Code on Corporate Governance Practices of the Listing Rules throughout the year ended 31 December 2005.

1. OVERVIEW OF CORPORATE GOVERNANCE

Summary of corporate governance

As a company incorporated in China, the Company adopts the recently amended PRC Company Law and other related laws and regulations as the basic guidelines for the Company's corporate governance. As a company listed both in Hong Kong and the United States, we have always given special attention to the relevant regulatory requirements of where we are listed. The current Articles of Association have fully taken into consideration of the Listing Rules and its alignment and integration with the regulatory requirements for listed companies in the United States, and serve as a guidance for the Company to improve its foundation of corporate governance. The Company has made a further step to regularly release responsibilities statement in respect of internal control in accordance with the Sarbanes-Oxley Act of 2002 of the U.S., the regulatory requirements of the U.S. Securities and Exchange Commission and the New York Stock Exchange to confirm that the Company has complied with requirements of regulations in relation to financial reporting, information disclosure and corporate internal controls.

In 2005, the Company's efforts and achievement in corporate governance received recognition from authoritative institutions. In the list of winners in the selection for "Asia's Best Managed Companies 2005" by Euromoney, a well-known international financial magazine, the Company won the "The Best Managed Telecommunications Company in China" award; and in the list of winners for "2005 Asia Investor Relations Ranking" in Institutional Investors, a renowned international financial magazine, Mr. Wang Xiaochu, our Chairman and Chief Executive Officer, won "The Best CEO in China" award for 2005.



China Telecom awarded "The Best Managed Telecommunications Company in China" for 2005

Chairman Wang Xiaochu awarded "The Best CEO in China" for 2005

Overall structure for corporate governance

A double-tier structure has been adopted as our overall structure of corporate governance: the Board of Directors and the Supervisory Committee under the Shareholders' Meeting, and various committees under the Board of Directors. The Board of Directors is authorised by the Articles of Association to make major decisions for the Company's operations, and it also oversees the routine management by the senior management personnel. The Supervisory Committee is mainly responsible for the supervision of the performance of duties by the Board of Directors and the senior management personnel. Each of the Board of Directors and the Supervisory Committee is independently accountable to the Shareholders' Meeting.

CORPORATE GOVERNANCE REPORT (continued)

2. OPERATION OF THE CORPORATE GOVERNANCE STRUCTURE

Shareholders' Meeting

In 2005, the Company convened three shareholders general meetings, including the Annual General Meeting ("AGM") for 2004 and two Extraordinary General Meetings ("EGMs").

The AGM for 2004 held on 25 May 2005 mainly reviewed and approved the consolidated financial statements, Report of the Directors, Report of the Supervisory Committee, Report of the International Auditors, the annual profit distribution proposal for the year ended 31 December 2004 and the declaration of final dividends. It also approved the renewal of appointment of KPMG and KPMG Huazhen as our international auditors and domestic auditors respectively for the year ended 31 December 2005, and authorised the Board of Directors to determine the remuneration of the auditors. The AGM also approved the Charter for Supervisory Committee of China Telecom Corporation Limited.



Annual General Meeting was held in Hong Kong on 25 May 2005

At the EGM held on 9 September 2005, new sessions of the Board of Directors and Supervisory Committee were elected, and the Articles of Association of the Company were amended accordingly.

At the EGM held on 18 October 2005, it was approved that one or more tranches of short-term commercial paper can be issued by the Company prior to the AGM for the year ended 31 December 2005, with a maximum outstanding repayment amount of RMB30 billion.

At each of the shareholders general meetings, separate shareholders resolution is proposed in respect of each independent item, and details of the voting procedures and the right of voting by poll at the demand of shareholders are recorded in the circulars to shareholders in accordance with the Articles of Association and listing rules of the places of listing. The circulars to shareholders also provide details of the resolutions. Results of the voting are published in the newspapers and on the website of The Stock Exchange of Hong Kong Limited.

Board of Directors

The Company strictly complies with the Code on Corporate Governance Practices of the Listing Rules of The Stock Exchange of Hong Kong Limited and seriously regulates the operating procedures of the Board of Directors and the committees under it, and ensure that proceeding of the Board meetings are standardised in terms of organisation, regulations and personnel. The Board of Directors is responsible for supervision of the preparation of accounts for each financial period, so that such accounts truly and fairly reflect the financial position, the operating results and cash flows of the Company for each period. In preparing the accounts for the year ended 31 December 2005, the directors selected appropriate accounting policies and made judgments and estimates which were prudent, fair and reasonable, and prepared the accounts on going concern basis. A statement by the international auditors about their reporting responsibilities is included in the Report of the International Auditors on page 73.

Based on confirmation from the directors, all of the Company's directors have strictly complied with Appendix 10 Model Code for Securities Transaction by Directors of Listed Issuers of the Listing Rules regarding the standard requirements for directors in conducting securities transactions.

On 9 September 2005, re-election of the Board of Directors of the Company was conducted and gave birth to the second session of the Board of Directors consisting of 15 directors with 9 executive directors, 1 non-executive director, and 5 independent non-executive directors, each having a period of office of 3 years. Pursuant to the recommended best practices of the Code on Corporate Governance Practices of the Listing Rules, 2 additional independent non-executive directors were elected to the Board of Directors, making the number of independent non-executive directors equal to one third of the directors in the Board of Directors, which further reinforced the independence of the Board of Directors and ensured that the Board of Directors will be able to make independent judgments effectively. The Company has received annual independence confirmation from each of the independent non-executive directors, and considers them to be independent.

Members of the new sessions of the Audit Committee and the Remuneration Committee were also elected, and a Nomination Committee was newly established in order to assist the Board of Directors to work out a formal, prudent and transparent procedure for the appointment of directors, and plans for succession of directors. Mr. Tse Hau Yin, Aloysius, an independent non-executive director who was elected in the additional election as the chairman of the Audit Committee, is an internationally renowned financial expert and is very experienced in accounting and financial management.

In 2005, the Board of Directors was playing a more and more important role in matters such as operations of the Company, budgeting, decision-making, supervision, internal controls and corporate governance. In 2005, the Board of Directors convened ten meetings (including the committees under it). All the directors had an attendance rate of 100%. At the meetings, the Board of Directors reviewed matters such as the final accounts, assets valuation assessment report, issue of short-term commercial paper, proposal of financial budget for 2006, resolutions on extension of ongoing connected transactions, implementation plan for remuneration of directors, progress report on the establishment of the internal control system and evaluation arrangement etc. The Board of Directors also reviewed and approved certain fundamental systems in respect of corporate governance such as the *Code on Conducts and Ethics for Employees of China Telecom Corporation Limited* and the *Provisional Rules on Disclosure of China Telecom Corporation Limited*.

CORPORATE GOVERNANCE REPORT (continued)

Attendance rate of individual directors (including attendance with written proxies) at Board meetings in 2005:

Number of Directors: 15

Executive Directors	Meetings for The First Session of the Board	Attendance Rate	Meetings for The Second Session of the Board	Attendance Rate
Wang Xiaochu (Chairman)	3/3	100%	2/2	100%
Leng Rongquan	3/3	100%	2/2	100%
Wu Andi	3/3	100%	2/2	100%
Zhang Jiping	3/3	100%	2/2	100%
Huang Wenlin	3/3	100%	2/2	100%
Li Ping	3/3	100%	2/2	100%
Wei Leping	3/3	100%	2/2	100%
Yang Jie	3/3	100%	2/2	100%
Sun Kangmin	3/3	100%	2/2	100%
Cheng Xiyuan (First Session)	3/3	100%	N/A	N/A
Feng Xiong (First Session)	3/3	100%	N/A	N/A

Independent Non-Executive Directors	Meetings for The First Session of the Board	Attendance Rate	Meetings for The Second Session of the Board	Attendance Rate
Zhang Youcai	3/3	100%	2/2	100%
Lo Hong Sui, Vincent	3/3	100%	2/2	100%
Shi Wanpeng	3/3	100%	2/2	100%
Xu Erming (Second Session)	N/A	N/A	2/2	100%
Tse Hau Yin, Aloysius (Second Session)	N/A	N/A	2/2	100%

Non-Executive Directors	Meetings for The First Session of the Board	Attendance Rate	Meetings for The Second Session of the Board	Attendance Rate
Li Jinming	3/3	100%	2/2	100%

Besides, the Company was also committed to continuously expanding the communication channel for the independent directors. Internal audit department of the Company can report directly to the Audit Committee on matters of importance and be subject to their supervision. At the same time, there was a smooth communication channel between the Audit Committee and the external auditors. These enabled the independent directors to fully utilise their experience and capabilities in the aspects of the Company's operations, financial management and corporate governance etc.

The Company has always placed emphasis on the continuous training of directors and improving their understanding of regulatory rules. In 2005, the Company organised a series of training for directors on securities regulations such as the new PRC Company Law, updates of the Listing Rules and the Sarbanes-Oxley Act of 2002.

Committees under the Board

▲ Audit Committee

The Company set up an Audit Committee in 2002 with one chairman. In 2005, a new session of the Audit Committee was successfully elected. Pursuant to the recommended best practices of the Code on Corporate Governance Practices, the new Audit Committee comprises 4 members which was one more than the previous Audit Committee, and is formed entirely by independent non-executive directors, each having a period of office of 3 years. The Audit Committee will regularly report on its work to the Board of Directors. Usually, at least 3 regular meetings are held each year.

The Board of Directors approved the Charter for the Audit Committee in March 2005, which clearly defines the status, qualifications, work procedures, duties and responsibilities, funding and remuneration, etc. of the Audit Committee.

The Audit Committee's principal duties include the supervision on the truthfulness and completeness of the Company's financial statements, the effectiveness and completeness of the Company's internal controls and risk management system as well as the work of the Company's internal audit department. It is also responsible for the monitoring and review of the qualifications, selection and appointment, independence and services of external independent auditors. The Audit Committee has set up a reporting system to receive and handle cases of complaints or anonymous reports regarding the Company's accounting, internal control on accounting and auditing matters.

In 2005, the Audit Committee convened 3 meetings, where it mainly reviewed the 2004 audited financial statements, the 2005 interim financial statements, the extension of ongoing connected transactions and other related arrangements, and was debriefed about the establishment of the internal control system and assessment arrangements, and reviewed the reports by external auditors in relation to the annual audit plans and arrangements for 2005, reports on the internal audit, assessment of internal controls and the Company's risk management etc., and proposed practical and professional amelioration recommendations according to the actual situation of the Company.

CORPORATE GOVERNANCE REPORT (continued)

**Attendance rate of individual members of the 2005 Audit Committee
(including attendance with written proxies):**

Number of the Committee members

First Session: 3

Second Session: 4

Percentage of Independent Non-executive directors of the Committee: 100%

Member of the Committee	Meetings for the First Session of the Committee	Attendance Rate	Meetings for the Second Session of the Committee	Attendance Rate
Lo Hong Sui, Vincent (First Session)	2/2	100%	n/a	n/a
Shi Wanpeng	2/2	100%	1/1	100%
Zhang Youcai	2/2	100%	1/1	100%
Tse Hau Yin, Aloysius (Second Session)	n/a	n/a	1/1	100%
Xu Erming (Second Session)	n/a	n/a	1/1	100%

▲ **Remuneration Committee**

The Company established the Remuneration Committee in 2003 which was formed entirely by independent non-executive directors with one chairman. In 2005, the second session of the Remuneration Committee was successfully elected and the newly elected Remuneration Committee comprises 4 members, which was one more than the previous Remuneration Committee. Pursuant to the recommended best practices of the Code on Corporate Governance Practices, the new Remuneration Committee was formed entirely by independent non-executive directors, each having a period of office of 3 years. The Remuneration Committee regularly reports on its work to the Board of Directors and meets when necessary.

The Board of Directors approved the Charter for the Remuneration Committee in March 2005, which clearly defines the status, qualifications, work procedures, duties and responsibilities, funding and remuneration etc. of the Remuneration Committee.

The Remuneration Committee's principal duties include the supervision on the compliance of the Company's remuneration system with the legal requirements. It reports to the Board of Directors and submits to the Board of Directors remuneration evaluation report of the Company. It makes recommendations to the Board of Directors in respect of the overall remuneration policy and structure for the directors and senior management personnel and fully complies with the requirements of the Code on Corporate Governance Practices.

In 2005, the Remuneration Committee convened two meetings, where it mainly approved the Charter for the Remuneration Committee, reviewed and approved the Remuneration Implementation Proposal of the Second Session of the Board of Directors and also recommended the Board of Directors to approve such proposal. In considering the remuneration proposals of the member of the Remuneration Committee, each member declared his personal interest and abstained from his right of voting accordingly.

Attendance rate of individual members of the Remuneration Committee (including with written proxies) in 2005:

Number of the Committee members

First Session: 3

Second Session: 4

Percentage of Independent Non-executive directors of the Committee: 100%

Member of the Committee	Meetings for the First Session of the Committee	Attendance Rate	Meetings for the Second Session of the Committee	Attendance Rate
Lo Hong Sui, Vincent	1/1	100%	1/1	100%
Shi Wanpeng	1/1	100%	1/1	100%
Zhang Youcai (First Session)	1/1	100%	n/a	n/a
Tse Hau Yin, Aloysius (Second Session)	n/a	n/a	1/1	100%
Xu Erming (Second Session)	n/a	n/a	1/1	100%

▲ **Nomination Committee**

Pursuant to the recommended best practices of the Code on Corporate Governance Practices, the Company established a Nomination Committee in September 2005 which comprised 4 members (Mr. Shi Wanpeng (Chairperson), Mr. Zhang Youcai, Mr. Xu Erming and Mr. Tse Hau Yin, Aloysius) in total with one chairman. It was formed entirely by independent non-executive directors, each having a period of office of 3 years. The Nomination Committee is accountable to and regularly reports on its work to the Board of Directors, and meets when necessary. No meeting was held in 2005.

CORPORATE GOVERNANCE REPORT *(continued)*

The Board of Directors approved the Charter for the Nomination Committee in September 2005, which clearly defines the status, qualifications, work procedures, duties and responsibilities, funding and remuneration etc. of the Nomination Committee.

The principal duties of the Nomination Committee include: regularly reviews the structure, number of members and composition of the Board of Directors; identifies candidates for directors with the appropriate qualifications and advises the Board of Directors about this; evaluates the independence of independent non-executive directors; advises the Board of Directors on matters regarding the appointment or re-appointment of directors and the succession plan for directors (in particular the Chairman and Chief Executive Officer).

Supervisory Committee

The Company established its First Session of the Supervisory Committee in 2002 in accordance with the PRC Company Law. In September 2005, the Second Session of the Supervisory Committee was formed through election at the shareholders' general meeting. At present, the Supervisory Committee comprises 5 supervisors, of which there is an external supervisor and an employee representative supervisor. The Supervisory Committee is a standing supervisory organisation of the Company, which is accountable and reports to all shareholders. The Supervisory Committee holds meetings at least twice a year.

The principal duties of the Supervisory Committee consist of supervising, in accordance with the law, the Company's financial affairs and performance of directors, managers and other senior officers of the Company and prevent them from abusing their powers.

In order to further standardise the operation of the Supervisory Committee, at the 2004 Annual General Meeting held in May 2005, the Charter of the Supervisory Committee of China Telecom Corporation Limited was approved as a special resolution.

Attendance rate of individual members of the Supervisory Committee in 2005

Number of supervisors: 5

Supervisors	Meetings for the first Session of the Committee	Attendance Rate	Meetings for the second Session of the Committee	Attendance Rate
Zhang Xiuqin (Chairperson)	2/2	100%	1/1	100%
Wang Huanhui (Employee Representative, First Session)	2/2	100%	n/a	n/a
Zhu Lihao (Independent Supervisor)	2/2	100%	1/1	100%
Xie Songguan (First Session)	2/2	100%	n/a	n/a
Li Jing (First Session)	2/2	100%	n/a	n/a
Ma Yuzhu (Employee Representative, Second Session)	n/a	n/a	1/1	100%
Li Jian (Second Session)	n/a	n/a	1/1	100%
Xu Cailiao (Second Session)	n/a	n/a	1/1	100%

External Auditors

The international and domestic auditors of the Company are KPMG and KPMG Huazhen respectively. In order to maintain its independence, the non-audit services provided by the auditors have not been in contravention to the requirements of the Sarbanes-Oxley Act of 2002 and have obtained pre-approval from the Audit Committee.

Breakdown of the remuneration received by the external auditors for audit and non-audit services for the Company during 2005 is as follows:

Subject of the service	Fee for 2005 (RMB millions)
Audit services	45.76
Non-audit services (Internal Control Advisory Service)	3.73

The Audit Committee approved the re-appointment of KPMG and KPMG Huazhen as the international and domestic auditors of the Company for the year ending 31 December 2006, and the resolution has been agreed by the Board of Directors, and will be submitted to the shareholders general meeting for approval.

3. ESTABLISHMENT AND IMPLEMENTATION OF ANCILLARY MECHANISMS

Strengthening of the monitoring function of the Board

The Board of Directors leads and supervises the Company with a strong sense of responsibility. All the Directors are aware of the need to be objective, prudent in decision-making, highly efficient in operation for the overall interests of the Company and shareholders.

In order to strengthen the leadership and monitoring functions of the Board of Directors in respect of corporate governance, the Company adopts a number of measures to strengthen the monitoring function of the Board of Directors, thereby making it more standardised, institutionalised and systematic.

- ▲ *Clearly defining the duties between the Board of Directors and the Management*
The roles of Chairman and Chief Executive Officer of the Company are performed by the same person. The Board of Directors considers that this could enhance the Company's decision-making and operational efficiency, and enable the Company to grasp business opportunities effectively. Further, such arrangement is being adopted by many international leading enterprises. At the same time, the Company increased the number of independent non-executive directors to five, accounting for one-third of the total number of directors during the year. Such arrangement further strengthened the independence and objectivity of the decisions made by the Board of Directors and provide full and impartial supervision over the Company's management, with a view to ensuring shareholders' best interests.

CORPORATE GOVERNANCE REPORT *(continued)*

The Articles of Association clearly define the respective terms of reference of the Board of Directors and the Management. Major decision-making for operation, financial proposals and policies, formulation of the basic management system of the Company and the establishment of the Company's internal administrative institutions and sub-institutions shall be determined by the Board of Directors, whereas the Management is responsible for the operation and management of the Company, and organises and implements resolutions of the Board of Directors and the annual operation plans and investment proposals of the Company, and performs such other duties authorised by the Articles of Association and the Board of Directors.

In order to keep the highly efficient operation and the flexibility and swiftness of operational decision-making, the Board of Directors, when necessary, may delegate its managing and administrative powers to the Management, and provide clear guidance regarding such delegation so as to avoid seriously impeding or undermining the overall capacities of the Board of Directors in exercising of its powers.

Establishment of the internal control system

In order to meet the regulatory requirements of the listing places such as the U.S. and Hong Kong and strengthen the internal controls of the Company and guard against operational risks of the Company, the Company launched the establishment of the "Internal Control System over Financial Reporting" in August 2003. Over more than two years, the Company has formulated the *Manual on Internal Control over Financial Reporting and its Implementing Rules* in accordance with the requirements of the U.S. securities regulatory authorities and the COSO internal control framework. They are implemented after a certain period of trial to ensure that the financial statements are true and reliable and will meet the need of internal governance and the requirements of the capital market.

In 2005, the Company, in accordance with authorisation by the Board of Directors, speeded up the establishment of the internal control mechanism and improved a series of internal control measures, including the *Internal Control Manual of China Telecom Corporation Limited (2005)*, the *Limits of Authority Lists*, the *Provisional Administrative Measures of Internal Control of China Telecom Corporation Limited* and the *Provisional Measures for Evaluation of Internal Control over Financial Reporting of China Telecom Corporation Limited*.

In respect of the control environment, in order to strengthen the corporate governance of the Company and standardise the operations of the Board of Directors and to increase the Company's transparency, we have also formulated the *Provisional Rules on Information Disclosure of China Telecom Corporation Limited*, the *Administrative Measures on Contracts of China Telecom Corporation Limited*, the *Code of Ethics for Senior officers of China Telecom Corporation Limited* and the *Code of Conduct and Ethics for Employees of China Telecom Corporation Limited*.

In order to meet the requirements of Public Company Accounting Oversight Board Auditing Standards No. 2 of the U.S. in respect of the requirements for internal control mechanisms of listed companies on the information system relating to financial reporting, the Company fully launched the internal control improvement for its information system in

the end of 2005, and based on the earlier efforts, to standardise its information system according to the internal control requirements to ensure that the internal control system relating to financial reporting can be more complete.

In accordance with requirements of the Listing Rules, in February 2005, the Company engaged Mr. Yung Shun Loy, Jacky, who is a professional highly experienced in auditing of listed companies, company secretary and financial management, and an international qualified accountant to act as the assistant chief financial officer and joint company secretary of the Company. As a qualified accountant of the Company, he also helps improving the financial reporting procedures and its internal control mechanism.

In strict compliance with the *Sarbanes-Oxley Act of 2002* and related regulatory requirements, the Company has established and improved its internal complaining mechanism. The website of the Company publishes the correspondence addresses and telephone numbers for making complaints and encourages anonymous reporting on the contravention by employees of the Company, in particular, its directors and senior management.

In 2005, the internal control system of the Company is further standardised and scientised. The Board of Directors and the Management placed much emphasis on the improvement of internal control system, and results of the improvement of the internal control system were recognised by the Board of Directors, which has laid a sound foundation for the further improvement of the Company's internal control system in 2006.

Summary of the Significant Ways in which the Corporate Governance Practices of the Company differ from those followed by Domestic Companies under NYSE Listing Standards

The Company was established in the PRC and is listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange") and the New York Stock Exchange ("NYSE"). As a foreign private issuer, the Company is not required to comply with all the corporate governance rules of Section 303A of the NYSE Listed Company Manual. However, the Company is required to disclose the significant ways in which the corporate governance practices of the Company differ from those followed by domestic companies under NYSE listing standards.

Under currently applicable PRC and Hong Kong laws and regulations, the Board of Directors of the Company is not required to be formed by independent directors in majority. Since we are listed on the Stock Exchange, the Company will need to comply with the Listing Rules. These rules require that at least 3 independent directors shall be on the board of directors of a listed company. The Board of Directors of the Company comprises 15 directors, of which 5 are independent directors. These independent directors satisfy the requirements on "independence" under both the Listing Rules and Section 303A.02 of the Listed Company Manual of NYSE.

Pursuant to the currently applicable PRC and Hong Kong laws and regulations, the Company is not required to formulate any rules for corporate governance; therefore the Company has not formulated any separate corporate governance rules. However, the Company complies with the Code on Corporate Governance Practices of the Stock Exchange.

CORPORATE GOVERNANCE REPORT (continued)

Risk management mechanism

In order to further improve our internal control and reduce corporate risks, the Company has recently commenced a comprehensive research on risk management in accordance with the COSO framework and the requirements on risk management and corporate internal control set out by the Stock Exchange, and has introduced the idea of comprehensive risk management, so as to improve the risk management system step by step.

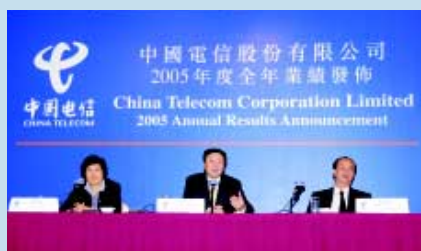
Pursuant to the framework of *Guidance for Comprehensive Risk Management of Corporations under Central Government*, regulations of the places of listing and requirements for corporate internal controls, the Company will, based on the actual situation, further strengthen, standardise and improve the corporate risk management mechanism.

The Company has had good foundation of internal control. However, the Company will continue to improve and upgrade its risk management system, and gradually apply such to the ordinary and daily course of business and view the upgrading of risk management as a continuous work.

Information disclosure mechanism

The Board of Directors approved the *Provisional Rules on Information Disclosure of China Telecom Corporation Limited* and the *Internal Responsibility Statement System (Provisional) of China Telecom Corporation Limited* and other related mechanisms to form our information disclosure management system.

The Company attaches great importance to high transparency for information, and the Board of Directors insists on the active communication with its investors, and in particular communicates with shareholders at the AGM and other shareholders general meetings and encourages their participation. To encourage and facilitate shareholders, in particular



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public shareholders to actively attend shareholders general meeting and meanwhile improve the direct exchange and communication between the Board of Directors and shareholders, since the AGM in 2004, the AGM began to be held in Hong Kong, which changed the tradition of holding AGM in Beijing. In 2005, we began to disclose our key operating data and certain financial data on a quarterly basis and in 2006, we began to disclose the number of subscribers on monthly basis. The Company also establishes and maintains a smooth channel for exchange of information by way of our annual reports, interim reports and other information disclosure methods. It also endeavours to continue to improve the channel and methods of communication with shareholders and increase the transparency for corporate information. In addition, the Company creates many channels such as meeting with investment analysts, feedback road shows, news release and telephone conference with investors to provide them with important information and to respond to significant issues which are the concerns of investors recently. These moves help them to better understand the operations of the Company and the overall development of the telecommunication industry. The Company has established an investor service centre both in Beijing and in Hong Kong serving investors specially in the aspects of reception and information disclosure, so as to maintain its normal communication with shareholders, investors and the media.

The overall remuneration package and long-term incentive mechanism

By making references to the remuneration level in the market, the Company's remuneration system gradually converges with the market. The Company strengthens the performance management and reasonably determines the remuneration level, and further reinforces its incentives and constraint mechanism.

Remuneration of the executive directors balances both short-term and long-term incentives. It takes into account effects such as the scale of the corporation, the remuneration standard at large and also fully demonstrates the principle that remuneration should be linked to performance and the system of awards and penalty. It also strengthens the executive directors' sense for long-term development to avoid activities for short-term behavior.

Remuneration of independent directors makes reference to the standards of independent directors' remuneration in both the domestic and international companies, and be adjusted according to changes in remuneration of the market.

In order to better encourage our staff to create more value for the Company, the shareholders meeting held in September 2002 approved the stock appreciation scheme for the senior management that links the remuneration of the senior management with the Company's future results and the performance of the H shares.