



Our People – Li Nao



# #1

At the 2006 Interactive Investor Relations Award, the Company's website ([www.chinatelecom-h.com](http://www.chinatelecom-h.com)) was named "Best Conglomerates IR Site" and "Best Information Services IR Site"

*We are dedicated to improving our corporate governance and transparency to enhance our operating efficiency and investor confidence. Our efforts on perfecting our internal controls and systems in accordance with international best practice and US Sarbanes-Oxley Act requirements have not only further strengthened our existing operations but also better prepared us for our full services convergence offering in future. Our dedication to improved transparency has greatly secured our stakeholders' confidence and support for our future development.*

# Corporate Governance Report

The Company has been attaching great importance to corporate governance, inheriting an excellent and conservative management style, and insisting on practicing corporate governance with efficient management and operations of top industry standard. In 2006, we continued to make efforts in establishing and improving the Company's internal control mechanism, strengthening information disclosure and enhancing the Company's transparency, developing corporate governance practices and protecting shareholders' interests to the maximum degree.

Save for the roles of Chairman and Chief Executive Officer of the Company being performed by the same individual, for the year ended 2006, the Company has been in compliance with all the code provisions as set out in Appendix 14 "Code on Corporate Governance Practices" of the Listing Rules.

In the Company's opinion, through supervision of the Board and independent non-executive directors, and with effective control of the Company's internal operations, the same individual performing the roles of Chairman and Chief Executive Officer can achieve the goal of improving the Company's efficiency in decision-making and executions, and effectively capture business opportunities. Many international leading corporations also have a similar arrangement.

## 1. OVERVIEW OF CORPORATE GOVERNANCE

As a company incorporated in China, the Company adopts the 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, the current Articles of Association is in compliance with the Listing Rules and the regulatory requirements for listed companies in Hong Kong and the United States and these rules serve as guidance for the Company to improve its foundation of corporate governance. The Company has regularly published responsibility statements relating to its internal control in accordance with the US Sarbanes-Oxley

Act of 2002 and the regulatory requirements of the U.S. Securities and Exchange Commission and the New York Stock Exchange, to confirm its compliance with related financial reporting, information disclosure and corporate internal controls requirements.

In 2006, the Company's efforts and achievements in corporate governance received recognition from authoritative institutions. The Company was accredited with "CAPITAL Outstanding China Enterprise Awards – Telecommunications" by CAPITAL magazine. At the 2006 Interactive Investor Relations Awards, the Company's website ([www.chinatelecom-h.com](http://www.chinatelecom-h.com)) was named "Best Conglomerates IR Site" and "Best Information Services IR Site". The Company won the silver award in the category of "Interior Design: Telecommunications (Other Countries)" in the "2006 International ARC Awards". China Telecom Corporation Limited was awarded with the "Best Commitment to Strong Dividend Payment 2006 – China" by FinanceAsia for the year 2006.

## 2. OVERALL STRUCTURE OF CORPORATE GOVERNANCE

A double-tier structure has been adopted as our overall structure of corporate governance: the Board and the Supervisory Committee are established under the Shareholders' Meeting while the Audit Committee, Remuneration Committee and Nomination Committee are set up under the Board. The Board is authorised by the Articles of



China Telecom's 2005 Annual Report won silver award in the "International ARC Awards"





China Telecom's website honoured with "Best IR Site" of two industry categories in "Interactive Investor Relations Award"



China Telecom was accredited with "The 1st Capital Outstanding China Enterprise Awards — Telecommunications"

Association to make major decisions with regard to the Company's operations and to oversee the daily operations by the senior management. The Supervisory Committee is mainly responsible for the supervision of the performance of duties by the Board and senior management. Each of the Board of Directors and the Supervisory Committee is independently accountable to the Shareholders' Meeting.

### Shareholders' Meeting

At each of the general meetings, a separate shareholders' resolution is proposed in respect to 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. Voting results are published in newspapers and on the websites of the Company and The Stock Exchange of Hong Kong Limited. The Company attaches great importance to the general meetings and the communication between directors and shareholders. The directors provide detailed and complete answers to questions raised by shareholders in the general meetings.

In 2006, the Company convened two general meetings: the Annual General Meeting ("AGM") for 2005 and an Extraordinary General Meeting ("EGM").

The AGM for 2005 held on 23 May 2006 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 and the declaration of final dividends, as well as the appointment of international auditors and domestic auditors, and the issue of short term commercial papers.

At the EGM held on 25 October 2006, a proposal concerning the Company's continuing connected transactions was approved, and the Strategic Agreement signed between the Company and China Communications Services Corporation Limited was also approved.



Annual General Meeting was held in Hong Kong on 23 May 2006

# Corporate Governance Report

## Board of Directors

The second session of the Board re-selected on 9 September 2005 comprised 15 directors with a period of office for three years. In May 2006, Mr. Wei Leping resigned from the position of Executive Director of the China Telecom Corporation Limited due to age. The current Board of Directors comprises 14 directors with eight executive directors, one non-executive director, and five independent non-executive directors. The number of independent non-executive directors constitute more than one-third of the Board members. Mr. Tse Hau Yin, Aloysius, who is the Chairman of the Audit Committee, is an internationally renowned financial expert with expertise in accounting and financial management. The Audit Committee, Remuneration Committee and Nomination Committee under the Board, all consisting of independent non-executive directors, ensure that the Board will be able to make independent judgments effectively.

The Company strictly complies with the Code on Corporate Governance Practices of the Listing Rules and rigorously regulates the operating procedures of the Board and the committees under it, and ensures that the proceedings of Board meetings are standardised in terms of organisation, regulations and personnel. The Board is responsible for effective supervision of the preparation of accounts for each financial period, so that such accounts truly and fairly reflect the financial position, operating results and cash flows of the Company for each period. In preparing the accounts for the year ended 31 December 2006, the directors selected appropriate accounting policies and made prudent, fair and reasonable judgments and estimates and prepared the accounts on an going concern basis.

## Attendance rate of individual directors (including attendance with written proxies) at Board meetings in 2006

### Number of Directors

14

Executive Directors	Meetings for The Second Session of the Board	Attendance Rate
1. Wang Xiaochu ( <i>Chairman</i> )	4/4	100%
2. Leng Rongquan	4/4	100%
3. Wu Andi	4/4	100%
4. Zhang Jiping	4/4	100%
5. Huang Wenlin	4/4	100%
6. Li Ping	4/4	100%
7. Yang Jie	4/4	100%
8. Sun Kangmin	4/4	100%

Independent Non-Executive Directors	Meetings for The Second Session of the Board	Attendance Rate
1. Zhang Youcai	4/4	100%
2. Lo Hong Sui, Vincent	4/4	100%
3. Shi Wanpeng	4/4	100%
4. Xu Erming	4/4	100%
5. Tse Hau Yin, Aloysius	4/4	100%

Non-Executive Directors	Meetings for The Second Session of the Board	Attendance Rate
1. Li Jinming	4/4	100%

The Board plays a significant role in matters such as operations, budgeting, decision-making, supervision, internal controls and the corporate governance of the Company. In 2006, the Board (including the committees under it) convened 10 meetings. At the meetings, the Board reviewed matters including the Company's annual and interim financial statements, proposals for annual profit distribution proposal, annual and interim reports, proposals for the appointment of auditors, proposals for granting stock appreciation rights, the issue of the short-term commercial paper, adjustment to connected transactions, improvement plans for internal controls, annual budget, fees for independent auditors, and the code on board meeting practices.

The Company has always placed emphasis on the continuous training of directors. In December 2006, the Company invited relevant experts to provide training on corporate risk management to all directors.

Based on the written confirmation from the directors, all of the Company's directors have strictly complied with Appendix 10 Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules regarding the standard requirements for directors in conducting securities transactions. The Company has received annual independence confirmations from each of the independent non-executive directors, and considers them to be independent.

### **Audit Committee**

Pursuant to Listing Rule 3.21, which provides that the majority of the audit committee members must be independent non-executive directors of the issuer, the Audit Committee comprises four independent non-executive directors. The Charter for the Audit Committee 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 control 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 independent auditors. The Audit Committee also has the authority to set up a reporting system to receive and handle cases of complaints or complaints made on an anonymous basis regarding the Company's accounting and internal controls. The Audit Committee will regularly report on its work to the Board.

In 2006, the Audit Committee convened four meetings, where it mainly reviewed important matters relating to the Company's annual and interim financial statements, connected transactions and execution reports, the appointment and fees of independent auditors, the assessment report of the Company's internal control, reports on the internal audit, and the Strategic Alliance Agreement signed with the China Communications Services Corporation Limited. Apart from the above meetings, the Audit Committee also communicated with the independent auditors in the absence of Management.

# Corporate Governance Report

## Attendance rate of individual members of the Audit Committee in 2006 (including attendance with written proxies)

### Second Session of the Audit Committee

Number of Committee members **4**

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

Member of the Committee	Number of Meetings	Attendance Rate
Tse Hau Yin, Aloysius ( <i>Chairperson of the Committee</i> )	4/4	100%
Zhang Youcai	4/4	100%
Shi Wanpeng	4/4	100%
Xu Erming	4/4	100%

### Remuneration Committee

Pursuant to provision B.11 of the Code on Corporate Governance Practices which states that a majority of the members of the Remuneration Committee of listed issuer should be independent non-executive directors, the Remuneration Committee of the Company was formed by four independent non-executive directors. The Charter for the Remuneration Committee clearly defines the status, qualifications, work procedures, duties and responsibilities, funding and remuneration etc. of the Remuneration Committee. The Remuneration Committee assists the Company's Board to formulate overall remuneration policy, structure the Company's directors and senior management personnel, and to establish related remuneration procedures that are standardised and transparent. The Remuneration Committee's principal duties include supervision on the compliance of the Company's remuneration

system with legal requirements, presenting the evaluation report on the Company's remuneration system to the Board, as well as giving recommendations to the Board in respect of the overall remuneration policy and structure for the Company's directors and senior management personnel. Its responsibilities comply with the requirements of the Code on Corporate Governance Practices. The Remuneration Committee regularly reports on its work to the Board.

In 2006, the Second Session of the Remuneration Committee convened one meeting, where it approved the Proposal Relating to Second Phase of Granting the Stock Appreciation Rights, and recommended the Board to approve such a proposal. In considering the proposal, each member declared there was no conflict between the proposal under consideration and his personal interest.

## Attendance rate of individual members of the Remuneration Committee in 2006 (including attendance with written proxies):

### Second Session of the Remuneration Committee

Number of Committee members **4**

Percentage of Independent Non-executive Directors of the Committee **100%**

Member of the Committee	Number of Meetings	Attendance Rate
Lo Hong Sui, Vincent ( <i>Chairperson of the Committee</i> )	1/1	100%
Shi Wanpeng	1/1	100%
Xu Erming	1/1	100%
Tse Hau Yin, Aloysius	1/1	100%

### **Nomination Committee**

Pursuant to the recommended best practices of the Code on Corporate Governance Practices, the Company's Nomination Committee was formed by four independent non-executive directors. The Charter for the Nomination Committee clearly defines the status, qualifications, work procedures, duties and responsibilities, funding and remuneration etc. of the Nomination Committee, and it specially requires that the Nomination Committee members have no significant connection to the Company, and comply with the requirements related to independence. The Nomination Committee assists the Board to formulate standardised, prudent and transparent procedures and succession plans for the appointment of directors, and further improve the composition of the Board. The principal duties of the Nomination Committee include: regularly reviewing the structure, number of members and composition of the Board; identifying candidates and advising the Board with the appropriate qualifications for the position of Directors; evaluating the independence of independent non-executive directors; advising the Board on matters regarding the appointment or re-appointment of directors and succession plans for the directors (in particular the Chairman and Chief Executive Officer). The Nomination Committee is accountable to the Board and regularly reports on its work. The Nomination Committee has not convened in 2006 because there were no significant matters such as the addition and replacement of directors.

### **Independent Director Committee**

Pursuant to the Listing Rules, the Company's Board established an Independent Director Committee on 30 August 2006 which comprised five independent directors reviewing: the Engineering Framework Agreement of China Telecom and the transactions under it, the Interconnection Settlement Agreement and the transactions under it, and the Strategic Alliance Framework Agreement to be signed with China Communications Services Corporation Limited. The committee also submits recommendations on these matters to the independent shareholders.

### **Supervisory Committee**

The Company established the Supervisory Committee in accordance with the PRC Company Law. At present, the Supervisory Committee comprises five supervisors, of which there is an external independent supervisor and an employee representative supervisor. In March 2007, Ms. Zhang Xiuqin had submitted her resignation from the position of Supervisor and Chairperson of the Supervisory Committee due to age and Mr. Li Jian had submitted his resignation from the position of Supervisor due to a change of job responsibilities. The Company's Supervisory Committee has proposed to elect Mr. Xiao Jinxue and Ms. Wang Haiyun as the Supervisors of the Company. The abovementioned resignations and appointments will be effective upon the review and approval of the 2006 Annual General Meeting to be held on 29 May 2007.

The principal duties of the Supervisory Committee consist of supervising, in accordance with the law, the Company's financials and performance of the directors, managers and other senior management of the Company so as to prevent them from abusing their powers. The Supervisory Committee is a standing supervisory organisation of the Company, which is accountable and reports to all shareholders. The Supervisory Committee usually holds meetings once or twice a year.



# Corporate Governance Report

## Attendance rate of individual members of the Supervisory Committee in 2006

### *The Second Session of Supervisory Committee*

**Number of supervisors** 5

**Number of meetings in 2006** 2

Supervisors	Number of Meetings	Attendance Rate
Zhang Xiuqin ( <i>Chairperson</i> )	2/2	100%
Ma Yuzhu (Employee Representative)	2/2	100%
Zhu Lihao (Independent Supervisor)	2/2	100%
Li Jian	2/2	100%
Xu Cailiao	2/2	100%

### Independent Auditors

The international and domestic independent auditors of the Company are KPMG and KPMG Huazhen, respectively. In order to maintain their independence, the non-auditing services provided by the auditors have not contravened the requirements of the US Sarbanes-Oxley Act of 2002 and have obtained pre-approval from the Audit Committee.

Breakdown of the remuneration received by the independent auditors for audit services provided to the Company for the year ended 31 December 2006 is as follows:

Subject of the Service	Fee (RMB million)
Audit services	61.00
Non-audit services (Internal Control Advisory Service)	10.85

The Audit Committee approved the re-appointment of KPMG and KPMG Huazhen as the international and domestic independent auditors of the Company for the year ending 31 December

2007. 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 MECHANISM

#### **Clear definition of the respective responsibilities of the Board of Directors and the Management**

The Articles of Association of the Company rule that the Board is accountable to the shareholders meetings, and its duties include the execution of resolutions, formulation of major decisions for operations, financial proposals and policies, the Company's management system, and the appointments of managers and other personnel of the Company. The Articles of Association clearly defines the respective terms of reference of the Board and the Management. The Management is responsible for the operation and management of the Company, the organisation and implementation of the resolutions of the Board, the annual operation plans and investment proposals of the Company, determining the establishment of the Company's internal administrative institutions and sub-institutions, and performs such other duties as authorised by the Articles of Association and the Board. In order to maintain the highly efficient operation, flexibility and swiftness of operational decision-making, the Board, 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 in exercising its powers.

#### **Strengthening of the supervisory function of the Audit Committee**

The Audit Committee pays close attention to the Company's preparation in relation to the internal control stated in the Sarbanes-Oxley Act Section 404 and receives regular reports on the work of the internal audit and the execution of connected transactions. In 2006, the audit department of the Company submitted four reports to the Audit Committee regarding the annual plan for the Company's internal audit, the status of each task in the internal audit in particular the internal control assessment, significant findings from the audit, recommendations for work improvement, and other matters with which the Audit Committee was concerned. Meanwhile, the Audit Committee has discussed with the independent auditors for the

results of audit work and internal control. The above measures ensured the Audit Committee immediately understood the Company's related situations and could better perform its supervisory duties. The reports also made practical and professional recommendations for the improvement of the Company's situation, and promoted the continuous improvement and perfection of the internal audit function.

### 4. INTERNAL CONTROL

#### **Establishment and implementation of the internal control system**

The Board is aware of its responsibility to ensure a solid, complete and effective internal control system of the Company in order to protect shareholder investment and the Company's assets. The Board also understands its responsibility to review the effectiveness of this system. The Company's Management is responsible for the establishment and implementation of the internal control system. The internal control system is built on a clear organisational structure, management duties, delegation and accountability, definite targets and strategies, policies and procedures, overall risk assessment and management, a sound management accounting system, and continued analysis and supervision of operational performance. It covers all businesses and transactions of the Company. To make the internal control system more effective, the Company has formulated a "Code of Conduct for the Senior Management of China Telecom Corporation Limited" and a "Code of Conduct for the Employees of China Telecom Corporation Limited". Meanwhile, the Company has established and improved its internal declaration system, which encourages anonymous reporting of situations where employees, especially directors and senior management personnel, breach the rules.

Annually, the departmental managers and other responsible personnel of each subsidiary assist the Management in formulating and submitting to the Board for approval the annual operation plan and budget. At the same time, in accordance with the Company's targets and strategies, they also continue

# Corporate Governance Report

to supervise and assess the risks of business procedures at both a management level and an operational level; and also formulate, in a timely manner, the corresponding measures for any significant changes. Each unit and department of the Company has the responsibility to organise the design of its operational process, the formulation and implementation of its internal controls and to provide guidance to subordinate units in respect of the implementation of internal control and self assessment in its professional areas.

The internal audit department is responsible for organising the assessment of internal control. In 2006, the Company's internal audit department initiated and organised the evaluation of internal control in all areas of the Company. It reports the related situation, on a regular and on an ad-hoc basis, to the Audit Committee in a timely manner, and executed the opinions and recommendations provided by the Audit Committee. The internal audit department places much emphasis on risk control and coordinates with the independent auditors to formulate and execute various audit plans in respect of different control areas.

The Company has been continuously improving its internal control system. In order to meet the regulatory requirements of its places of listing (the U.S. and Hong Kong), and strengthen its internal controls while guarding against operational risks, the Company initiated an improvement project on "Internal Control System over Financial Reporting" in August 2003. Over more than three years, the Company has formulated the *Internal Control Manual and its Limits of Authority Lists*, the *Provisional Administrative Measures of Internal Control* and the *Provisional Measures for the Evaluation of Internal Control of China Telecom Corporation Limited*, in accordance with the requirements of the U.S. securities regulatory authorities and the COSO Internal Control Framework to ensure that its financial statements are true and reliable and will meet the needs of internal governance as well as the requirements of regulatory bodies of the capital market. The provincial companies formulated the *Implementing Rules* in order to meet the same requirements.

In accordance with requirements of the Listing Rules, in February 2005, the Company engaged an internationally recognised accountant who is a highly experienced professional in the auditing and financial control of listed companies to act as the Assistant Chief Financial Officer and Company Secretary of the Company. As a qualified accountant of the Company, he also helped improve financial reporting procedures and internal control mechanisms.

To ensure the truthfulness, accuracy, completeness and timeliness of the Company's information disclosure, the Company has formulated "Rules for the Information Disclosure Management of China Telecom Corporation Limited (Trial)" in order to improve the management of the Company's information disclosure. It primarily focuses on: the disclosure of important information such as share price sensitive information and annual and interim reports; standardising the Company's internal collection, organisation, summarisation and reporting system regarding the Company's important information; formulating procedures for regular and irregular external disclosure of documents; and defining the responsibilities and behavior standards of related internal departments, branches, and subsidiaries of the Company in respect of information disclosure.

In 2006, the Company, with the authorisation by the Board, and through integrating the development of business and management, formulated the *Provisional Administrative Measures of the Responsibility for Internal Control*. Through strengthening management and clarifying work duties, the Company was able to effectively implement internal control responsibilities and promote the formation of close loop management. Internal management of the Company was made more standardised and scientific, and more complete and effective internal control systems were established. Employees' understanding of internal control and responsibilities were reinforced. This allowed the Company to gradually build a team of internal control professionals in China Telecom, and thus establish a corporate image for credible operation.

In 2006, the Company further strengthened its IT internal control mechanism. As a result, efficiency and effectiveness of internal control were enhanced through the support of IT infrastructure. Additionally, risk management was also strengthened and corporate informationisation was promoted through the improvement of IT internal control mechanisms. Implementation of IT internal control further improved and enhanced the security of the Company's information system to ensure that the integrity, timeliness, reliability and confidentiality of data and information was maintained.

### Annual Evaluation

The Company has adopted the COSO Internal Control Framework as the standard for its internal control and self-evaluation. The Company insists on risk guidance principles, and on the basis of overall evaluation, it identified key control areas and points for major evaluation through risk assessment. Internal control and self-evaluation adopts a top-down approach which reinforces evaluation in respect of control points at the corporate level and control points corresponding to major accounting items. In 2006, the Company improved the organisation and management of its evaluation, evaluation procedures and documentation, and reinforced control evaluation at the corporate level, and made the evaluation mechanism more mature and adaptable. It organised full-coverage internal control evaluation, focusing on inspection of the key controls and major areas, to prevent occurrence of significant internal control deficiency, whilst promoting the improvement of internal control.

The Board, through the Audit Committee, reviewed the internal control system of the Company and its subsidiaries for the financial year ended 31 December 2006, which covered controls over financial reporting, operations and compliance, as well as risk management functions. The Board is of the view that the Company's internal control system is effective.

## 5. INVESTOR RELATIONSHIP AND TRANSPARENT INFORMATION DISCLOSURE MECHANISM

The Company's Investor Relations Department is responsible for maintaining proactive communications with investors and other capital market participants and providing them, in a timely manner, with the necessary information and services so as to allow them to fully understand the operations and development of the Company.

In 2006, the Company started making quarterly disclosures of EBITDA and net profit data, and monthly announcements on the number of local telephone services subscribers. The Company has further improved its communication with capital markets and enhanced its transparency with respect to information disclosure.



2006 Interim Results Announcement



# Corporate Governance Report



China Telecom organized the 2006 Reverse Roadshow for analysts in Shanghai



China Telecom participated the Money Show in the US

The Company's investor relations website not only functions as the primary channel to distribute news and company information to investors and capital markets, but is also critical to the valuation of the listed company and its compliance with rules on information disclosure. Recently, the Company's website has been under continuous reform and innovation. In accordance with the requirements of capital markets and international best practices, the Company has further improved the functions, design, investor interactivity and disclosure of information on its website in order to facilitate interactive communication with its investors and shareholders.

In 2006, the Company organised reverse roadshows and introduced to major analysts the business performances and execution at strategic transformation of several provincial subsidiaries located in the eastern, central and western provinces in China, strengthening investors' awareness and confidence in the Company's transformation strategy.

The Company maintains close contact with investors and analysts daily. In 2006, the Company participated in many investors conferences hosted by major international investment banks in order to maintain active communication with institutional investors. The Company also participated in the "Money Show" in the U.S. in order to improve its proactive communication with U.S. retail investors. These interactions further enhanced the image and transparency of the Company within the capital market.



## 6. SIGNIFICANT DIFFERENCES BETWEEN THE CORPORATE GOVERNANCE PRACTICES FOLLOWED BY THE COMPANY AND THOSE FOLLOWED BY NYSE-LISTED U.S. COMPANIES

The Company was established in the PRC and is currently 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 differences between the corporate governance practices followed by the Company and the listing standards followed by NYSE-listed U.S. companies.

Pursuant to the requirements of the NYSE Listed Company Manual, the Board of Directors of all NYSE-listed U.S. companies must be made up by a majority of independent directors. Under currently applicable PRC and Hong Kong laws and regulations, the Board of the Company is not required to be formed with a majority of independent directors. As a listed company on the Stock Exchange, the Company needs to comply with the Listing Rules. These rules require that at least one third of the Board of Directors of a listed company be independent directors. The Board of the Company comprises 14 directors, of which five are independent directors, making the number of independent directors exceed one third of the total number of directors on the Board, in compliance with the number set out as a recommended best practice in the Code on Corporate Governance Practice of the Listing Rules. These independent directors also satisfy the requirements on "independence" under the Listing Rules, however, the related standard is different from the requirements in Section 303A.02 of the Listed Company Manual of NYSE.



Chairman Wang Xiaochu was invited to host the opening bell of New York Stock Exchange

Pursuant to the requirements of the Listed Company Manual of NYSE, companies shall formulate separate corporate governance rules. Under 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 has implemented the Code on Corporate Governance Practices of the Stock Exchange for the year ended 31 December 2006.