

Corporate Governance Report

We are committed to maintaining sound corporate governance standards and procedures to ensure the completeness, transparency and quality of our information disclosure, and we endeavour to achieve even more regulated procedures of work, effective management, and rational operation, so as to safeguard shareholders' interests to the greatest extent.

CORPORATE GOVERNANCE PRACTICES

As a company which was newly listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 8 December 2006, the Company took the initiative to adopt and comply with the Code Provisions in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). From the date of the Company's listing on 8 December 2006 to 31 December 2006, the Company has complied with the Code Provisions of the Code.

The Directors of the Company confirm that it is their responsibility to prepare the financial statements of the Company and its subsidiaries (the "Group"), and to ensure that the financial statements are prepared in accordance with relevant laws and the accounting standards applicable to the Company. The Directors also ensure that the financial statements of the Company are published promptly.

The responsibility statement of KPMG, our external auditors, regarding its report on the financial statements of the Group is set out on page 61 of this Annual Report.

SECURITIES TRANSACTIONS OF DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules regulate the securities transactions of the Directors. Having made specific enquiries in writing to the Directors, each of the Directors had confirmed that he has complied with the Model Code in connection with the Company's securities in the reporting period.

BOARD OF DIRECTORS

The leadership, control, and supervision of the Company is vested in the Board, which is responsible for overseeing the Group's business and affairs, approving operation plans and investment proposals, reviewing financial policies and performance, and formulating the basic management systems of the Company. The Board has delegated to the senior management, the powers and responsibilities to conduct the day-to-day management and operations of the Group and to organize the implementation of the resolutions of the Board, annual business plans and investment proposals. The senior management must obtain the approval of the Board before entering into any material transaction.

Where necessary, all Directors can have full and timely access to all relevant information and obtain the advice and services of the Company Secretary. The Directors may, where appropriate, seek independent professional advice to ensure compliance with the procedures of the Board and all applicable rules and regulations, at the Company's expense.

The Board consists of nine members, who are Mr. Wang Xiaochu (Chairman and Non-executive Director), Mr. Li Ping (Vice Chairman and Executive Director), Mr. Liu Aili and Mr. Zhang Junan, as Non-executive Directors, and Mr. Wang Jun, Mr. Chan Mo Po, Paul, Mr. Zhao Chunjun, Mr. Wu Shangzhi and Mr. Hao Weimin, as Independent Non-executive Directors. Profiles of the Directors are set out in the section entitled "Profiles of Directors and Senior Management" of this Annual Report.

Corporate Governance Report

The Board comprises five independent non-executive directors, constituting more than half of the members of the Board, and which comprises a higher proportion set out as in the Recommended Best Practices of the Code, thus ensuring its independence. The independent non-executive directors are all seniors in their own industries or professions. Among them, Mr. Chan Mo Po, Paul, a certified public accountant in Hong Kong, former president of the Hong Kong Institute of Certified Public Accountants, and former chairman of the Association of Chartered Certified Accountants, is an internationally renowned finance expert having valuable expertise in the fields of accounting and financial management.

To the best of the Directors' knowledge, the members of the Board, in particular between the Chairman and the Chief Executive Officer, do not have any financial, business, family or other material connection with each other, and all of them are free to make independent judgments.

The Company has received an annual written confirmation of independence made by each of the independent directors pursuant to Rule 3.13 of the Listing Rules, and considers all independent non-executive directors to be independent.

MEETINGS OF THE BOARD

Pursuant to the Company's Articles of Association, the Board shall convene at least two meetings a year, and any ad hoc meeting where necessary. Nevertheless, the Board convenes at least four meetings a year in actual practice. In 2006, the Board convened eight meetings. The Directors review and approve financial and operation performance, and consider and approve the overall strategy and policies of the Company at Board meetings.

The Company Secretary assists the Chairman in preparing the agenda for Board meetings. Unless stipulated otherwise by the Board in advance, the time and place for any Board meeting shall be notified to all the Directors at least 14 days prior to the date of the meeting. The agenda and related documents of the meeting will be delivered to all Directors at least 3 days prior to the date of meeting, so that the Directors are apprised of the latest developments and financial position of the Company to make informed decisions. The Board and each of the Directors may contact the senior management independently if necessary.

All the minutes of the meetings of the Board contain details of the matters considered and the resolutions adopted, and are kept by the meeting secretary and available to the Directors for inspection.

The Board held eight meetings in 2006. Individual attendance of each incumbent Board member at the meetings in 2006 is as follows (including attendances by written proxies):

Directors	Actual attendance in 2006/Meetings convened during period of appointment
Executive Directors	
Li Ping (<i>Vice Chairman</i>) (appointed on 3 August 2006)	8/8
Non-executive Directors	
Wang Xiaochu (<i>Chairman</i>) (appointed on 3 August 2006)	8/8
Liu Aili (appointed on 12 October 2006)	2/3
Zhang Junan (appointed on 12 October 2006)	3/3
Independent Non-executive Directors	
Wang Jun (appointed on 26 September 2006)	2/4
Chan Mo Po, Paul (appointed on 26 September 2006)	2/4
Zhao Chunjun (appointed on 26 September 2006)	3/4
Wu Shangzhi (appointed on 26 September 2006)	3/4
Hao Weimin (appointed on 27 October 2006)	1/1

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of the Chairman and the Chief Executive Officer of the Company are segregated and are held by different persons in order to achieve a balance between powers and duties and avoid any concentration of powers and duties assigned to any individual member of the Board. The functions and duties of the Chairman and the Chief Executive Officer are clearly distinguished. Mr. Wang Xiaochu, Chairman of the Board and concurrently a Non-executive Director, is responsible for overseeing the operations of the Board and formulating the overall strategies and policies of the Company. Mr. Li Ping, the Chief Executive Officer and concurrently the Vice Chairman and Executive Director, is responsible for the day-to-day management and overall operations of the Group.

NON-EXECUTIVE DIRECTORS

The three Non-executive Directors and five Independent Non-executive Directors of the Company are each appointed for a term of three years and may serve consecutive terms if re-elected upon the expiry of the term of their appointment.

BOARD COMMITTEES

As an important part of sound corporate governance practices and for supervision of the overall affairs of the Company in various areas, the Board maintains the following five Board Committees to assist it in discharging its responsibilities, which are the Audit Committee, the Remuneration Committee, the Nomination Committee, the Non-competition Undertaking Review Committee and the Right of First Refusal and Priority Right Committee. All five Board Committees are composed of independent Non-executive Directors, to ensure the full expression of independent and objective views and to fulfill each of its responsibilities of overall safeguard and supervision.

Established in November 2006, the five Board Committees did not hold any meetings in the year as the time period from their establishment to the year end of 2006 was relatively short.

AUDIT COMMITTEE

The Audit Committee consists of three independent non-executive directors: Mr. Chan Mo Po, Paul (chairman), Mr. Wu Shangzhi and Mr. Hao Weimin. The Audit Committee is mainly responsible for examining the appointment of external auditors, considering and supervising the financial reporting procedures and the internal control systems of the Company, reviewing the Company's interim and annual financial statements to ensure a true and fair view of the state of affairs, assessing interim and annual results of the Company after consulting with external auditors, and making recommendations to the Board. The Audit Committee makes an assessment of the effectiveness of the Group's internal control at least once a year to enable the Board to understand the overall financial position and protect the assets of the Group.

REMUNERATION COMMITTEE

The Remuneration Committee consists of three independent non-executive directors: Mr. Wu Shangzhi (chairman), Mr. Chan Mo Po, Paul and Mr. Zhao Chunjun. The Remuneration Committee is mainly responsible for formulating policies on human resources management, reviewing the remuneration policies of the Company, and determining remuneration packages for the Directors based on the overall remuneration policy of the Company and by reference to the level of remuneration packages offered by comparable companies in the market, and the scope and complexity of the Directors' duties.

Corporate Governance Report

NOMINATION COMMITTEE

The Nomination Committee consists of three independent non-executive directors: Mr. Zhao Chunjun (chairman), Mr. Wang Jun and Mr. Hao Weimin. The Nomination Committee is mainly responsible for reviewing the structure, size and composition of the Board and the skills, knowledge and experience of members of the Board, and recommending candidates to the Board in the event of Board vacancies.

Although the Nomination Committee did not hold any meetings in 2006, the Board held three meetings to select and recommend candidates to the Board during the year. The selection criteria include the candidate's integrity, achievements and experience in the telecom industry, and relevant management skills and professional background, and the time he can dedicate to discharging his duties as a director, and to matters of the Company.

NON-COMPETITION UNDERTAKING REVIEW COMMITTEE

The Non-competition Undertaking Review Committee consists of three independent non-executive directors: Mr. Hao Weimin (chairman), Mr. Chan Mo Po, Paul and Mr. Zhao Chunjun. The Non-competition Undertaking Review Committee is mainly responsible for monitoring the implementation of the non-competition undertakings made by China Telecommunications Corporation.

The Company has received a letter issued to the Company by China Telecommunications Corporation stating that they were not in breach of any non-competition undertakings in 2006. The letter has been considered by the Non-competition Undertaking Review Committee and approved by the Board.

RIGHT OF FIRST REFUSAL AND PRIORITY RIGHT COMMITTEE

The Right of First Refusal and Priority Right Committee consists of three independent non-executive directors: Mr. Wu Shangzhi (chairman), Mr. Zhao Chunjun and Mr. Hao Weimin. The Right of First Refusal and Priority Right Committee is mainly responsible for monitoring the enforcement of the right of first refusal and priority right granted by China Telecommunications Corporation and protecting the interest of independent shareholders when such right of first refusal or the priority right is exercised.

REMUNERATION OF THE AUDITORS

The international and domestic auditors of the Company are KPMG and KPMG Huazhen respectively. A breakdown of the remuneration received by the external auditors for the audit and non-audit services provided to the Company during the year is set out below:

Item	Fees (RMB'000)
Services provided as the reporting accountants for the IPO of the Company	21,098
Audit for the year	10,800
Total	31,898

SUPERVISORY COMMITTEE

The Company has established a supervisory committee pursuant to the Company Law of the PRC. The Supervisory Committee consists of three members, of which Ms. Xia Jianghua is the chairperson, and Mr. Hai Liancheng serves as the external independent supervisor, and Mr. Yan Dong serves as the staff representative supervisor. The supervisors are appointed for a term of three years and may serve consecutive terms if re-elected upon the expiry of the term. The Supervisory Committee is a standing supervisory institution of the Company and is accountable and reports to all the shareholders. The Supervisory Committee normally meets at least twice a year.

The primary duties of the Supervisory Committee are to supervise the financial activities of the Group, review the financial statements and other financial information prepared by the Board for presentation to the shareholders' general meetings, supervise the Directors, Chief Executive Officer and other senior management personnel in their performance of duties and prevent them from any abuse of power, and represent the Company in dealing with the Directors or institute actions against the Directors on behalf of the Company.

During the year, the Supervisory Committee held one meeting, which was attended by all three supervisors. The main business of the meeting was to elect Ms Xia Jianghua as the chairperson of the Supervisory Committee.

INTERNAL CONTROL

The Board of the Company is granted full authority to maintain the soundness and effectiveness of the internal control system and risk management procedures of the Group, including setting a management structure and its terms of reference to ensure efficient and effective use of the Group's resources to assist the Group in achieving its operation objectives, safeguarding the Group's assets against any unauthorized use or disposal, ensuring an appropriate maintenance of accounting records and the availability of reliable financial information for internal use or external release, and ensuring compliance of all operating activities with laws and regulations. The control system is intended to have in place reasonable safeguards against material misrepresentation or loss, and to manage and eliminate as far as possible any defects in the Group's operating system and the risk of failing to achieve its objectives.

The Group is committed to strengthening its internal control and risk management and has a sound foundation for internal control. In the course of reorganization in preparation for listing, the Group paid particular attention to its internal control and strengthened its risk control. The Group proceeded to establish an internal control system, introduced the concept of comprehensive risk management pursuant to the requirements of the Stock Exchange on internal control and risk management, straightened out its internal organization structure and management structure, and established a department specially designated for internal control and risk management. We also practice a system whereby we designate officers-in-charge of risk management to our provincial branches, and our provincial branches also designate officers-in-charge of risk management and of financial affairs to their professional subsidiaries. The Company pays particular attention to any possible risk exposure in conducting its monthly and quarterly operation analysis, and takes corresponding countermeasures and issues pre-warnings against certain material risks.

The Company endeavours to integrate its internal control and risk management with its day-to-day operations, and proactively adopts IT technology to assimilate the internal control and risk management processes into the IT system, achieving reduction of operational risks, and an enhancement of internal control and risk management.

In 2007, the Board intends to further improve and perfect its internal control and risk management with a view to achieving even greater enhancement of the work flow.