

CORPORATE GOVERNANCE REPORT



- **Improving Corporate Governance**
- **Enhancing Corporate Value**
- **Generating Greater Returns For Shareholders**

The Company's goal has always been to enhance its corporate value, focusing on the stable and positive long-term growth of EBITDA, profit attributable to shareholders and cash flow, to ensure the sustainable long-term development of the Company and to generate greater returns for shareholders. In order to achieve the above goal and implement good corporate governance, starting from the year 1998, we have been taking numerous measures to achieve an effective board of directors, including establishing three principal board committees, namely, the audit committee, the remuneration committee and the nomination committee. We have established an information disclosure committee, maintained and refined our internal controls and procedures on information disclosure, and further enhanced our internal controls and procedures on financial reporting in compliance with Section 404 of the U.S. Sarbanes-Oxley Act of 2002 (the "SOX Act") to ensure that all material information is made known to the board of directors promptly and disclosed fairly, truthfully and in a timely manner. Moreover, we have established an internal audit department, implemented internal audit mechanisms and procedures, and promulgated a code of ethics covering senior management and other designated senior officers of the Group. In order to continuously improve our corporate governance, the Company also conducted training courses on corporate governance on an on-going basis. Our efforts and achievements in corporate governance have won popular recognition and acclaim from various

sectors, and the Company has received a number of awards from internationally renowned professional organizations and journals. We will, on a consistent basis, closely study the development of corporate governance practices among the world's leading corporations, future development of the relevant regulatory environment, and the requirements of the investing community. We will also conduct periodic reviews of, and import refinements to, our corporate governance procedures and practices so as to ensure the long-term sustainable development of the Company.

As a company listed in both Hong Kong and New York, the Company is not only subject to applicable Hong Kong laws and regulations, including the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Hong Kong Listing Rules") and the Hong Kong Companies Ordinance, it is also subject to applicable U.S. Federal securities laws, including the U.S. Securities Exchange Act of 1934, as amended, and the SOX Act. The Company is also subject to the listing standards of The New York Stock Exchange (the "NYSE") to the extent they apply to non-U.S. issuers. For this reason, we also set forth in this report a summary of the significant differences between the corporate governance practices of the Company and the corporate governance practices required to be followed by U.S. companies under the NYSE's listing standards.

COMPLIANCE WITH THE CODE PROVISIONS OF THE CODE ON CORPORATE GOVERNANCE PRACTICES

Following the issue of the Code on Corporate Governance Practices, as set out in Appendix 14 to the Hong Kong Listing Rules, the Company has carefully reviewed and considered its provisions, and carried out a detailed analysis on the corporate governance practices of the Company against the requirements of the Code. Throughout the financial year ended 31 December 2005, except for the requirement that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual, the Company has complied with all code provisions of the Code on Corporate Governance Practices.

Currently, the roles of Chairman and Chief Executive Officer of the Company are performed by Mr. Wang Jianzhou. Mr. Wang joined the board of directors of the Company (the "Board") in November 2004 and since then, has been the Chairman and the Chief Executive Officer of the Company and in charge of the overall management of the Company. The Company considers that the combination of the roles of Chairman and Chief Executive Officer can promote the efficient formulation and implementation of the Company's strategies which will enable the Group to seize business opportunities efficiently and promptly. The Company considers that through the supervision of its Board and its independent non-executive directors, checks and balances exist so that the interests of the shareholders are adequately and fairly represented.

INTERNAL CONTROLS AND INTERNAL AUDIT

To protect its assets and to ensure the accuracy and reliability of the financial information that the Company employs in its business or releases to the public, the Company conducts regular reviews of the effectiveness of the Group's internal controls. The scope of these reviews includes, among others, finance, operations, regulation compliance and risk management.

All disclosure of information relating to the Company is made through the unified leadership and management of the Board, while the management performs its relevant duties. To further ensure all information disclosed is true, accurate, complete and revealed in a timely manner, the Company established an information disclosure committee in 2002, and maintained and

refined its internal controls and procedures on information disclosure in compliance with the requirements of Section 302 of the SOX Act. The Company has performed an annual review of the effectiveness of the Company's internal controls and procedures on information disclosure, and concluded that the Company's internal controls and procedures on information disclosure were effective in ensuring that material information relating to the Company was promptly recorded, processed, summarized and disclosed.

In June 2005, the Company, in compliance with the requirements of Section 404 of the SOX Act, commenced the SOX Act Section 404 compliance project. The Company formulated an overall work plan, established a project management committee and systematically evaluated and inspected the internal control systems relating to financial reporting of the Company and all its subsidiaries. The Company remedied its deficiencies, refined its systems, and implemented standardized management of internal controls and procedures. To date, the project has been progressing smoothly and in an orderly manner as planned. The Company will take this opportunity to further improve its internal controls and risk management, which, in turn, will provide a solid foundation for further enhancing overall management of the Company.

The internal audit personnel of the Company carries out regular reviews of the internal controls over various corporate structures and business processes on a continuous basis, taking into account their respective potential risk and urgency, to ensure the effectiveness of the Company's business operations and the realization of its corporate objectives and strategies. The head of internal audit submits working reports and recommendations to the audit committee on a regular basis, which, in turn, reports regularly to the Board.

CORPORATE TRANSPARENCY, SHAREHOLDERS' RIGHTS AND INVESTOR RELATIONS

The Company's controlling shareholder is China Mobile (Hong Kong) Group Limited, which, as of 31 December 2005, indirectly held approximately 75.07 per cent. of the Company's share capital through a wholly-owned subsidiary, China Mobile Hong Kong (BVI) Limited. The remaining share capital of approximately 24.93 per cent. was held by public investors.

The Company engages a number of formal channels to account to shareholders for the performance and operations of the Company, particularly our annual and interim reports. Generally, when regularly announcing its interim results, annual results or any major transactions in accordance with relevant regulatory requirements, the Company arranges investment analyst conferences, press conferences and investor telephone conferences to explain the relevant results or major transactions to shareholders, investors and the general public, and to address any questions they may have. In addition, the Company adheres to the practice of voluntarily and additionally disclosing quarterly certain key, unaudited operational and financial data, to further increase the Group's transparency and to provide shareholders, investors and the general public with additional timely information so as to facilitate their understanding of the Group's operating position.

The Company also has high regard for the annual general meeting of its shareholders, and puts great efforts on communications between the Board and the shareholders. At the annual general meeting of shareholders, the Board always makes efforts to fully address any questions raised by shareholders. The last annual general meeting of the Company was held on 12 May 2005 at 1:30 p.m. at the Conference Room, 3rd Floor, JW Marriott Hotel, Pacific Place, 88 Queensway, Hong Kong, and discussed and approved the financial statements for the year ended 31 December 2004, the Report of the Directors, the declaration of a final dividend for the year ended 31 December 2004 and the election of Directors, and received the Report of the Auditors. At this annual general meeting, the Company demanded that all the above resolutions be voted by poll. Poll results were announced at the meeting, on the websites of the Company and the Hong Kong Stock Exchange as well as in newspapers on the day following the meeting.

THE BOARD OF DIRECTORS

The key responsibilities of the Board include, among other things, formulating the Group's overall strategies, setting management targets, regulating internal controls and financial management, and supervising the management's performance while the day-to-day operations and management are delegated by the Board to the executives of the Company. The

Board operates in accordance with established practices (including those relating to reporting and supervision), and is directly responsible for formulating the Company's corporate governance guidelines.

The Board currently comprises 13 directors, namely, Mr. WANG Jianzhou (Chairman), Mr. LI Yue, Mr. LU Xiangdong, Mr. XUE Taohai, Mr. ZHANG Chenshuang, Mr. Sha Yuejia, Mr. Liu Aili, Madam XIN Fanfei and Mr. XU Long as executive directors, Dr. LO Ka Shui, Mr. Frank WONG Kwong Shing and Mr. Moses CHENG Mo Chi as independent non-executive directors and Sir Julian Michael HORN-SMITH as a non-executive director. Their biographical details are presented on pages 7 to 9 of this annual report. The Company and its directors (including non-executive directors) have not entered into any service contract with a specified length of service. All directors are subject to retirement by rotation and re-election at annual general meetings of the Company every three years. The Company has received a confirmation of independence from each of the independent non-executive directors, namely Dr. LO Ka Shui, Mr. Frank WONG Kwong Shing and Mr. Moses CHENG Mo Chi, and considers them to be independent. The Company has received acknowledgements from the directors of their responsibility for preparing the financial statements and a statement by the auditors of the Company about their reporting responsibilities.

The Board convened five meetings during the financial year ended 31 December 2005. Mr. WANG Jianzhou, Mr. LU Xiangdong, Mr. ZHANG Chengshuang, Mr. LI Mofang (resigned as an executive director of the Company with effect from 16 March 2006), Mr. HE Ning (resigned as an executive director of the Company with effect from 3 January 2006), Mr. XU Long, Dr. LO Ka Shui and Mr. Frank WONG Kwong Shing attended all five board meetings while Mr. LI Yue, Mr. XUE Taohai, Mr. LI Gang (resigned as an executive director of the Company with effect from 3 January 2006) and Mr. Moses CHENG Mo Chi attended four board meetings. Sir Julian Michael HORN-SMITH attended two board meetings in person and his alternate director, Mr. Gavin DARBY, attended another two board meetings.

The Board currently has three principal board committees, which are the audit committee, the remuneration committee and the nomination committee, and all of which are comprised solely of independent non-executive directors.

AUDIT COMMITTEE

In 1998, the Company established the audit committee, which is comprised solely of independent non-executive directors, namely Dr. LO Ka Shui (Chairman), Mr. Frank WONG Kwong Shing and Mr. Moses CHENG Mo Chi. All members of our audit committee have many years of finance and business management experience and expertise. The audit committee's primary responsibilities include, among other things, making recommendation to the board of directors on the appointment, reappointment and removal of the external auditors, approving the remuneration and terms of engagement of the external auditors, reviewing and monitoring the external auditors' independence and objectivity and the effectiveness of the audit procedure in accordance with applicable standards, developing and implementing policies on the engagement of external auditors to provide non-audit services, monitoring the integrity of financial statements of the Company and the Company's reports and financial statements and overseeing the Company's financial reporting system and internal control procedures. The terms of reference of our audit committee are available on the Company's website.

In 2005, the audit committee met four times, and mainly reviewed the integrity of the Company's financial statements, annual report and accounts, interim report and quarterly reports, and the significant financial reporting judgments contained in such financial statements and reports, discussed and approved the budgets and remuneration of, and services provided by, the external auditors, reviewed the Company's internal audit procedures and reports, reviewed and approved the overall work plan for the special project on compliance with Section 404 of the SOX Act, and the compliance situation with relevant laws and regulations. All members attended all meetings.

REMUNERATION COMMITTEE

In 2000, the Company established the remuneration committee, which is comprised solely of independent non-executive directors, namely Dr. LO Ka Shui (Chairman), Mr. Frank WONG Kwong Shing and Mr. Moses CHENG Mo Chi. The primary responsibilities of the remuneration committee

include, among other things, determining the remuneration packages of all executive directors and senior management, making recommendations to the Board on the remuneration of non-executive directors, reviewing and approving performance-based remuneration, ensuring that no director or any of his associates is involved in deciding his own remuneration, making recommendations to the board of directors on the Company's policy and structure for remuneration of employees, including salaries, incentive schemes and other stock plans. The terms of reference of our remuneration committee are available on the Company's website. In 2005, the remuneration committee met once, and reviewed and approved the plan for the issuance of employee stock options in the Group. All members attended the meeting.

At present, the cash portion of senior management's remuneration consists of a fixed monthly salary and a performance-linked annual bonus. The award of the performance-linked annual bonus is tied to the attainment of key performance indicators targets. In terms of long term incentives, the Company has adopted a share option scheme. Depending on their ranking, members of the management are awarded different numbers of share options. The remuneration of non-executive directors is determined with reference to the prevailing market conditions and workload of being non-executive directors and members of the board committees of the Company.

NOMINATION COMMITTEE

In 2001, the Company established the nomination committee, which is currently comprised solely of independent non-executive directors, namely Dr. LO Ka Shui (Chairman), Mr. Frank WONG Kwong Shing and Mr. Moses CHENG Mo Chi. The primary responsibilities of the nomination committee include reviewing on a regular basis the structure, size and composition of the Board, identifying individuals suitably qualified to become board members, and assessing the independence of independent non-executive directors. The terms of reference of our nomination committee are available on the Company's website. In 2005, the nomination committee met once and discussed and approved matters regarding a change of director. All members attended the meeting.

Currently, executive directors are mainly selected internally within the Group from executives who have considerable years of management experience and expertise in the telecommunications industry, whereas for the identification of independent non-executive directors, importance is attached to the individual's independency and his experience and expertise in finance and business management. The Company, having considered the requirements of the jurisdictions where it is listed and the structure and composition of the Board, shall nominate in an extensive and cautious manner any individuals suitably qualified as board members of the Company to the nomination committee for examination and approval, after which directors are finally appointed by the Board. Thereafter, all directors are subject to re-election by shareholders at the annual general meeting in their first year of appointment.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" set out in Appendix 10 to the Hong Kong Listing Rules (the "Model Code") to regulate the directors' securities transactions. All directors have confirmed, following enquiry by the Company, that they have complied with the Model Code during the period between 1 January 2005 and 31 December 2005.

AUDITORS' REMUNERATION

The Company engaged KPMG as statutory auditors of the Company. In 2005, the principal services provided by KPMG include reviewing of interim consolidated financial statements of the Group, auditing of annual consolidated financial statements, issuing an audit opinion on the financial statements as exhibits to our annual report on Form 20-F, and issuing annual audit reports for our provincial subsidiaries separately.

Apart from providing the above-mentioned audit services to the Group, KPMG was also engaged in providing the Group with other non-audit services with the prior approval of our audit committee. The following table sets forth the type of, and fees for, the principal audit services and non-audit services provided by KPMG to the Group in 2004 and 2005:

	2005 (HK\$ Million)	2004 (HK\$ Million)
Audit fees	59	129 ⁽¹⁾
Non-audit fees	0.6 ⁽²⁾	6 ⁽²⁾

(1) including audit fees for KPMG, as reporting accountants, conducting an audit on three financial years' financial statements and other relevant information of the ten provincial mobile telecommunications companies we acquired in July 2004.

(2) including project fees for the review of operation processes of our subsidiaries for our internal audit function.

CODE OF ETHICS

For the purpose of promoting honest and ethical conduct and deterring wrongdoing, the Company, in 2004, adopted a code of ethics (the "Code"), which is applicable to our Chief Executive Officer, Chief Financial Officer, Deputy Chief Financial Officer, Assistant Chief Financial Officer and other designated senior officers of the Group, in accordance with the requirements of the SOX Act. Under the Code, in the event of a breach of the Code, the Company may take appropriate preventive or disciplinary actions after consultation with the Board. Such Code has been filed with the U.S. Securities Exchange Commission as an exhibit to our annual report on Form 20-F for the financial year ended 31 December 2003, which may also be viewed and downloaded from the Company's website.

SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN THE CORPORATE GOVERNANCE PRACTICES OF THE COMPANY AND THE CORPORATE GOVERNANCE PRACTICES REQUIRED TO BE FOLLOWED BY U.S. COMPANIES UNDER THE NYSE'S LISTING STANDARDS

In accordance with the requirements of Section 303A.11 of the NYSE Listed Company Manual, the following is a summary of the significant differences between the Company's corporate governance practices and those required to be followed by U.S. companies under the NYSE's listing standards.

Section 303A.01 of the NYSE Listed Company Manual provides that listed companies must have a majority of independent directors. As a listed company in Hong Kong, the Company is subject to the requirement under the Hong Kong Listing Rules that at least three members of its board of directors be independent as determined under the Hong Kong Listing Rules. The Company currently has three independent directors out of a total of thirteen directors. The Hong Kong Listing Rules set forth standards for establishing independence, which differ from those set forth in the NYSE Listed Company Manual.

Section 303A.03 of the NYSE Listed Company Manual provides that listed companies must schedule regular executive sessions in which non-management directors meet without management participation. The Company is not required, under the applicable Hong Kong law, to hold such executive sessions.

Section 303A.03 of the NYSE Listed Company Manual provides that if an audit committee member simultaneously serves on the audit committee of more than three public companies, and the listed company does not limit the number of audit committees on which its audit committee members serve to three or less, then in each case, the board of directors must determine that such simultaneous service would not impair the ability of such member to effectively serve on the listed company's audit committee and disclose such determination. The Company is not required, under the applicable Hong Kong law, to make such determination.

Section 303A.04 of the NYSE Listed Company Manual provides that the nominating/corporate governance committee of a listed company must have a written charter that address the committee's purpose and responsibilities, which include, among others, the development and recommendation of corporate governance guidelines to the listed company's board of directors. The board of directors of the Company is directly in charge of developing the Company's corporate governance guidelines.

Section 303A.10 of the NYSE Listed Company Manual provides that listed companies must adopt and disclose a code of business conduct and ethics for directors, officers and employees. While the Company is not required, under the Hong Kong Listing Rules, to adopt such similar code, as required under the SOX Act, the Company has adopted a code of ethics that is applicable to the Company's principal executive officer, principal financial officer, principal accounting officer or persons performing similar functions.