



Improving Corporate Governance Enhancing Corporate Value Generating Greater Returns For Shareholders

The Company's goal has always been to enhance its corporate value, to ensure its sustainable long-term development and to generate greater returns for its shareholders. We believe that, in order to achieve the above goal, the Company must maintain and implement corporate governance principles and structures that are credible, transparent, open and highly effective. For this reason, beginning in 1998, we have been taking numerous measures in an effort 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 a disclosure committee to help improve and maintain our disclosure controls and procedures and ensure that all material information relating to the Company is made known to our senior management and our board of directors promptly and disclosed in an accurate and timely manner, and further enhanced our internal control over financial reporting in compliance with Section 404 of the U.S. Sarbanes-Oxley Act of 2002 (the "SOX Act") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Moreover, we have established an internal audit department, implemented internal audit mechanisms and procedures, and promulgated a code of ethics governing 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 wide recognition and acclaim, and the Company has received a number of awards from internationally renowned professional organizations and journals.

In addition, 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 and regulations, 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

Throughout the financial year ended 31 December 2006, except for the code provision 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 as set forth in Appendix 14 to the Hong Kong Listing Rules.

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 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 the Board and its independent non-executive directors, checks and balances exist so that the interests of the shareholders are adequately and fairly represented.

CORPORATE TRANSPARENCY, SHAREHOLDERS' RIGHTS AND INVESTOR RELATIONS

The Company's controlling shareholder is China Mobile (Hong Kong) Group Limited, which, as of 31 December 2006, indirectly held approximately 74.57 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 25.43 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 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 on a quarterly basis 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 results.

The Company also has high regard for the annual general meetings of its shareholders, and makes substantial efforts to enhance the communications between the Board and the shareholders. At the annual general meetings of shareholders, the Board always makes efforts to fully address any questions raised by shareholders. The last annual general meeting of shareholders of the Company was held on 18 May 2006 at 2:00 p.m. in the Conference Room, 3rd Floor, JW Marriott Hotel, Pacific Place, 88 Queensway, Hong Kong, during which meeting the major items discussed included, among other things, the audited financial statements for the year ended 31 December 2005, the Report of the Directors, the Report of the Auditors, the final dividend for the year ended 31 December 2005, the re-election of Directors, the re-appointment of the auditors and the approval of the change of name of the Company. At this annual general meeting, the Chairman of the meeting demanded that all the above resolutions be voted by poll, and all resolutions were passed by an overwhelming majority of votes cast in favor of them. 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 Mr. Paul Michael DONOVAN as a non-executive director. Their biographies are presented on pages 7 to 9 of this annual report and also on the Company's website. 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 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. The terms of reference of each of the board committees are available on the Company's website or by written application to the Company Secretary.

Board meetings are held at least once a quarter and as and when necessary. Five board meetings (inclusive of meetings held by way of telephone conference) were held during the financial year ended 31 December 2006. Dr. LO Ka Shui, Mr. Frank WONG Kwong Shing, Mr. Moses CHENG Mo Chi, Mr. WANG Jianzhou, Mr. XUE Taohai, Mr. ZHANG Chenshuang, Mr. LIU Aili (appointed as an executive director of the Company with effect from 16 March 2006), Madam XIN Fanfei (appointed as an executive director of the Company with effect from 3 January 2006), Mr. XU Long and Madam LI Mofang (resigned as an executive director of the Company with effect from 16 March 2006) have recorded full attendance in respect of board meetings while Mr. LI Yue attended four board meetings, Mr. LU Xiangdong attended three board meetings and Mr. SHA Yuejia (appointed as an executive director of the Company with effect from 16 March 2006) attended two board meetings. Each of Mr. Paul Michael DONOVAN (appointed as a non-executive director of the Company with effect from 7 June 2006) and Sir Julian Michael HORN-SMITH (resigned as a non-executive director of the Company with effect from 7 June 2006) attended one board meeting in person and their alternate director, Mr. Gavin DARBY, attended three board meetings.

The directors have disclosed to the Company the positions held by them in other listed public companies or organizations or associated companies, and the information regarding their directorships in other listed public companies in the last three years is set out in the biography of directors and senior management on pages 7 to 9 of this annual report and on the Company's website.

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. Save and except the interests as disclosed in the report of the directors on page 43 of this annual report, none of the directors had any interest in the shares of the Company as at 31 December 2006. All directors have confirmed, following enquiry by the Company, that they have complied with the Model Code during the period between 1 January 2006 and 31 December 2006.

AUDIT COMMITTEE

The current members of the Company's audit committee are 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 process 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 2006, the audit committee met on four occasions with all members attending all meetings and, among other things, the audit committee:

- reviewed the Company's financial statements and results announcement for the year 2005, report of the directors for the year 2005 and financial review for the year 2005;
- reviewed the interim report and the interim results announcement of the Company for the six months ended 30 June 2006;
- discussed and approved the audit memorandum prepared by, budgets and remuneration of, and services provided by, the external auditors;
- approved the 2006 overall audit plan as proposed by the external auditors;
- reviewed and approved the interim report on the internal audit of the human resources management process and the report on the revised working plan for 2006 internal audit;
- approved the 2006 assessment report on the disclosure controls and procedures;
- approved the follow-up report on the internal audit of networks administration and control procedures;
- approved the Company's 2005 annual report on Form 20-F;
- reviewed and approved the progress report and phase one testing report on the overall work plan for the SOX Act Section 404 compliance project; and
- reviewed the Company's compliance with relevant laws and regulations.

REMUNERATION COMMITTEE

The current members of the Company's remuneration committee are 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 or her associates is involved in deciding his or her 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 2006, the remuneration committee met once and all members attended the meeting, during which the remuneration committee reviewed and approved the 2005 performance-linked annual bonus for our senior management.

At present, the cash portion of our 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 or 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 in part by reference to the prevailing market conditions and their workload of serving as non-executive directors and members of the board committees of the Company.

NOMINATION COMMITTEE

The current members of the Company's nomination committee are Dr. LO Ka Shui (Chairman), Mr. Frank WONG Kwong Shing and Mr. Moses CHENG Mo Chi. The primary responsibilities of the nomination committee include, among other things, 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 2006, the nomination committee met three times (inclusive of meetings held by way of telephone conference) with all members attending all meetings, and it discussed and approved matters regarding changes in directorships and made recommendations to the Board in relation to the appointments of Madam XIN Fanfei, Mr. SHA Yuejia and Mr. LIU Aili as executive directors and the appointment of Mr. Paul Michael DONOVAN as non-executive director.

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 independence as well as his or her experience and expertise in finance and business management. The nomination committee, taking into consideration the requirements of the jurisdictions where it is listed and the structure and composition of the Board, identifies, reviews and nominates with diligence and care individuals suitably qualified as board members of the Company before making recommendations to the Board for their final appointment. All newly-appointed directors should be subject to election by shareholders at the first general meeting after their appointment. Every director should be subject to retirement by rotation at least once every three years.

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 Board conducts regular reviews of the effectiveness of the Group's internal controls. The scope of these reviews includes, among other things, finance, operations, regulatory compliance and risk management.

The Company, in compliance with the requirements of Section 404 of the SOX Act, established and refined a comprehensive internal control and risk management regime on the basis of the COSO framework. By using the standardized internal control manual and matrix as models, the Company conducted systematic and comprehensive recording of process related to the internal control over financial reporting in 35 business units, including its 31 operating subsidiaries in Mainland China, in 2006. The Company also refined its systems and implemented standardized management of internal controls, including the controls of 11 business processes, such as those in relation to capital expenditure, revenue and billing as well as accounting and financial reporting, the general controls of information technology and the controls at company level. Simultaneously, the Company established a responsibility and accountability mechanism with a well-defined division of responsibilities, and combined the management of internal controls with that of day-to-day business with a view to improving the employees' awareness of risk management and enhancing the monitoring role of internal controls. Based on an evaluation conducted by the Company's management, the Company's management believes that, as of 31 December 2006, the Company's internal control over financial reporting was effective and provided reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for reporting purposes in accordance with generally accepted accounting principles.

All disclosure of material information relating to the Company is made through the unified leadership and management of the Board, with the Company's management performing its relevant duties. To help ensure that disclosures by the Company are true, accurate, complete and timely, the Company established a disclosure committee in 2002 to improve and maintain its disclosure controls and procedures in compliance with the requirements of Section 302 of the SOX Act. The Company regularly reviews the effectiveness of its disclosure controls and procedures with a view to ensuring that disclosure of material information relating to the Company is true, accurate and complete and that material information relating to the Company is promptly recorded, processed, summarized and disclosed. The Company has performed an annual review of the effectiveness of the Company's disclosure controls and procedures in 2006, and concluded that the Company's disclosure controls and procedures were effective in ensuring that material information relating to the Company was promptly recorded, processed, summarized and disclosed.

The Company has an internal audit department ("IA Department"), whose principal roles are to ensure the establishment and performance of the Company's internal controls and to improve the Company's corporate governance, risk management and internal controls with a view to safeguarding the Company's funds and assets, enhancing operational efficiency and benefits and achieving the Company's long-term goals. Taking into account the potential risk and urgency in respect of the internal controls that are subsisting in the Company's management structures and business processes, the IA Department routinely carries out audits as well as inspections and evaluations of the Company's accounting information, internal controls and other types of operational and management activities through the application of systematic and standardized audit procedures and methods, in order to assess the Company's internal controls and to monitor their performance.

The IA Department formulates an annual internal audit plan, which is submitted to the audit committee for review, and the IA Department carries out audits on the Company's management structures and business processes on an on-going basis. The head of the IA Department reports to and makes recommendations regarding the improvement of internal controls to the Chief Financial Officer and the audit committee on a regular basis, and the audit committee in turn reports regularly to the Board. The head of the internal audit department is also responsible for the implementation of plans to improve internal controls.

AUDITORS' REMUNERATION

The Company engaged KPMG as statutory auditors of the Company. In 2006, the principal services provided by KPMG included reviewing interim consolidated financial statements of the Group, auditing annual consolidated financial statements of the Group, issuing an audit opinion on the consolidated financial statements of the Group as part of our 2006 annual report on Form 20-F, issuing annual audit reports for our subsidiaries separately, and auditing and issuing an attestation report on the Company's 2006 internal control over financial reporting.

Apart from providing the above-mentioned audit services to the Group, KPMG was also engaged in providing the Group with other non-audit services which are permitted under the SOX Act and 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:

	2006	2005
Audit fees	HK\$80 million ⁽¹⁾	HK\$59 million
Non-audit fees	HK\$35 million ⁽²⁾	HK\$0.6 million ⁽³⁾

(1) including the fees rendered for the audit of internal control over financial reporting as required by Section 404 of the SOX Act.

(2) including the fees for SOX Act advisory services provided to the Company.

(3) 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. The Code has been filed with the U.S. Securities and 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.

CORPORATE GOVERNANCE REPORT (CONT'D)

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.04 of the NYSE Listed Company Manual provides that the nominating/corporate governance committee of a listed company must have a written charter that addresses 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.07 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.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.

Section 303A.12(a) of the NYSE Listed Company Manual provides that each listed company's chief executive officer must certify to the NYSE each year that he or she is not aware of any violation by the company of NYSE corporate governance listing standards. The Company's Chief Executive Officer is not required, under the applicable Hong Kong law, to make similar certifications.

CONTINUOUS EVOLVEMENT OF CORPORATE GOVERNANCE

We will closely study the development of corporate governance practices among the world's leading corporations, future evolution of the relevant regulatory environment, and the requirements of the investing community on an on-going basis. We will also review and enhance our corporate governance procedures and practices from time to time so as to ensure the long-term sustainable development of the Company.