



Corporate Governance

Since its establishment, the Company has been dedicated to world-class corporate governance. The Company is convinced that a sophisticated corporate governance structure is the basis of competitiveness, and supports improvement in corporate performance as well as maximizing value to shareholders.

In order to achieve a first-class corporate governance structure, at the early stage of its listing, the Company set up corporate governance “hardware” by having a high proportion of independent directors and separating of the positions of Chairman and Chief Executive Officer. Under the Board of Directors, board committees including a Corporate Governance Committee, Strategic Planning Committee, Audit Committee, Compensation and Nomination Committee were established.

In order to take full advantage of this corporate governance “hardware,” in 2005, the Company engaged a well-known international consulting firm to assist the Company in designing a “software” well functioning platform. At the end of the first phase, the project team finished diagnosis and discussion of problems, and identified the key areas of improvement needed to achieve a world-class corporate governance structure and system. In the second phase and the third phase of this project, we will introduce new corporate governance operational procedures that will help us become a model for the corporate governance of large-scale Chinese companies.

In 2005, the Company has fully complied with the code provisions in the Code set out in Appendix 14 to the Listing Rules.

Board of Directors

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The Board comprises thirteen Directors, including five independent non-executive Directors, three non-executive Directors and five executive Directors. Members of the board of directors are professionals from the telecommunications, finance, property development and consultancy industries and economists. They have extensive professional background and a wealth of experience, and take an active role in overseeing our development and corporate governance. A majority of the Board seats is taken by non-executive Directors, which ensures that decisions are made independently and in the best interests of shareholders.

The responsibility for overall management of the business of the Company is vested in the Board of Directors. The Board is responsible for formulating the Company’s overall strategies, authorizing the annual strategic development plan, budget targets, capital expenditures and investment plans; monitoring the effectiveness of internal controls and regulatory compliance; setting development targets; and supervising and managing management’s performance. The Board has delegated day-to-day management of the Company’s business and administration to the management.



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The Board meets four times each year and on other occasions when a Board decision is required. All members of the Board have full and timely access to relevant information for meetings. Proposed Board meeting dates for the financial year are normally agreed in the preceding year's Board meeting. During this reporting period, the Board held seven meetings. The attendance record of each member of the Board is set out below:

Directors	Attendance of Board meetings in 2005
Executive Directors	
Zhang Chunjiang (<i>Chairman</i>)	7/7
Tian Suning (<i>Vice Chairman and Chief Executive Officer</i>)	7/7
Zhang Xiaotie	4/7
Miao Jianhua	7/7
Jiang Weiping	7/7
Non-executive Directors	
Li Liming	7/7
Keith Rupert Murdoch*	4/6
Yan Yixun	5/7
José María Álvarez-Pallete #	2/2
Independent non-executive Directors	
John Lawson Thornton	3/7**
Victor Cha Mou Zing	4/7
Qian Yingyi	6/7
Hou Ziqiang	6/7
Timpson Chung Shui Ming	6/7

* Resigned with effect from 12 September 2005

Appointed with effect from 12 September 2005

** Mr. John Lawson Thornton excused himself from one board meeting of the Company in 2005 due to the subject matter discussed. He excused himself from two other board meetings because of the illness and death of a family member.

During this reporting period, the Board at all times complied with the requirement of the Listing Rules relating to the appointment of at least three independent non-executive Directors, and complied with the requirement that at least one of the independent non-executive Directors must have appropriate professional qualifications or accounting or related financial management expertise.

Details of the Chairman, Vice Chairman, Executive Directors, Non-executive Directors and Independent Non-executive Directors are set out on pages 15 to 19 of this annual report.

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Chairman and Chief Executive Officer

The positions of Chairman and Chief Executive Officer are held by Mr. Zhang Chunjiang and Dr Tian Suning, respectively. The separation of functions ensures greater independence between the Board and management. The Chairman is responsible for chairing and managing the Board, as well as focusing on major strategic issues and corporate governance. The Chief Executive Officer is responsible to the Board for managing the business of the Company.

Independent non-executive Directors

The Independent non-executive Directors actively take part in the Company's business through attendance in Board meetings, Board committee meetings and independent Board committee meetings. They provide constructive comments and suggestions to the Company including corporate governance practices, strategic planning, and internal control system optimization. In 2005, management of the Company proposed the acquisition of the major telecommunications assets and businesses in four provinces and autonomous regions in the northern part of China held by the Company's controlling shareholder. According to the requirements of the Listing Rules, an Independent Board Committee which comprised all the Independent Non-executive Directors was set up to consider and comment on whether the acquisition was fair and reasonable. The Independent Board Committee acted in the interests of minority shareholders, reviewed the qualifications and capabilities of the independent financial adviser, held four special meetings within one month to consider this project, and discussed in detail the fairness and reasonableness of the terms of the acquisition, in order to protect the legitimate rights and interests of the minority shareholders.

The attendance record of each Independent Board Committee member in 2005 is set out below.

Directors

Attendance of Committee meetings in 2005

Timpson Chung Shui Ming	4/4
John Lawson Thornton	4/4
Victor Cha Mou Zing	1/4
Qian Yingyi	1/4
Hou Ziqiang	4/4

To fully demonstrate the function of Independent Non-executive Directors on the Board and protect the interests of minority shareholders, the Board of Directors, in accordance with legal requirements and international best practice, arranges for the Independent non-executive Directors to play a key role in reviewing connected transactions.

The Company has obtained the confirmation of all the Independent Non-executive Directors relating to their independence under the Listing Rules. The Company considers all the Independent Non-executive Directors to be independent. There are no relations among the directors (including the Chairman and the Chief Executive Officer).

Non-executive Directors

All Non-executive Directors are appointed for a term of three years, and are subject to retirement by rotation and re-election by shareholders. Pursuant to the Articles of Association of the Company, one-third of the Directors, including both Executive and Non-executive Directors, are required to retire from office at the annual general meeting each year. A retiring Director is eligible for re-election. Any Director who is appointed by the Directors will hold office until the next following annual general meeting and will be eligible for re-election.



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Board Committees

The Board has established four committees, namely the Audit Committee, the Compensation and Nomination Committee, the Corporate Governance Committee and the Strategic Planning Committee, to oversee particular aspects of the Company's affairs. The Committees are governed by their respective Terms of Reference which are set out in full on the website of the Company and make their recommendations or decisions independently.

Audit Committee

To guarantee the objectiveness, fairness and independence of the Audit Committee, the Audit Committee comprises four Independent Non-executive Directors, chaired by Mr Timpson Chung Shui Ming. The other members of the Committee are Dr Qian Yingyi, Mr Victor Cha Mou Zing and Mr Hou Ziqiang. The primary responsibilities of the Audit Committee include supervising and managing our financial reporting system, reviewing the auditors' appointment, and supervising the work of the internal audit department.

As an experienced member of the HKSA and of the ACCA, Mr Chung has extensive professional experience. His active participation has helped to continuously improve the internal control system and the financial reporting system of the Company. Led by Mr. Chung, the Audit Committee not only has performed its responsibilities for supervising corporate auditing, but also played an important role in optimizing the internal control system. The Audit Committee leads implementation of the Company's internal control project, reviews regular reports submitted by the internal control project team, and supervises implementation of solutions to internal control issues.

In 2005, the Audit Committee held four meetings and discharged its responsibilities in its review of the half-yearly and annual results and the system of internal control, as well as its other duties as set out in the Terms of Reference. The attendance record of each Audit Committee member is set out below.

Directors	Attendance of Committee meetings in 2005
Timpson Chung Shui Ming	4/4
Dr Qian Yingyi	4/4
Victor Cha Mou Zing	3/4
Hou Ziqiang	4/4

The work performed by the Audit Committee in 2005 included reviews of:

- the Accounts and report of Directors for the year ended 31 December 2004 and the annual results announcement, with a recommendation to the Board for approval;
- the Interim Accounts for the six months ended 30 June 2005 and the interim results announcement, with a recommendation to the Board for approval;
- the 2005 Interim Review Engagement Letter with External Auditors;
- Engagement Letter with External Auditors in relation to the acquisition of the entire issued share capital of China Netcom Group New Horizon Communications Corporation (BVI) Limited;

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- audit related and permissible non-audit services including tax advisory and filing services and their related fees;
- the Audit Service Agreement for 2005 Annual Report with External Auditors and related costs with a recommendation to the Board for approval;
- the audit work plan for the 2005 Annual Report;
- the internal audit function and the resources of the internal audit team when undertaking its duties and responsibilities, and Summarized Report on the work performed for the year 2005 and a Report on the work plan for the year 2006 of the internal audit team;
- the provisions of the Olympic Sponsorship Agreement between China Netcom Group and the Company;
- the management's preparation for compliance with the internal control requirements under section 404 of the Sarbanes-Oxley Act; and
- Methods for Handling of Complaints and Reports Concerning Accounting Information, Internal Control and Auditing Method of the Audit Committee for China Netcom Group Corporation (Hong Kong) Limited submitted by Audit Committee Office.

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On 9 June 2005, the Audit Committee met with the general manager of the Company's Internal Audit Department, and the Company's External Auditors, in the absence of the Company's management.

The Board of Directors acknowledges the responsibility for preparing the accounts. A statement of the auditors about their reporting responsibilities is set out in the auditors' report on the financial statements on page 81 of the annual report.

During the year ended 31 December 2005, the fees paid/payable to the auditors in respect of audit and non-audit services provided by the auditors to the Company were as follows:

Nature of Services	Amount (RMB)
Audit Services	33,800,000
Audit Related Services	38,000,000
Non-audit services	
(i) Tax services	4,928,812
(ii) Transfer pricing research	637,318
(iii) Other services	206,912

Compensation and Nomination Committee

The Compensation Committee has been renamed as Compensation and Nomination Committee with effect from 12 September 2005. The duties of the Committee include nominating new board members, reviewing the compensation of our Directors and the Company's management and making recommendations to the Board of Directors. The members of the Committee are Mr Zhang Chunjiang (Chairman), Mr John Lawson Thornton, Mr Victor Cha Mou Zing, Mr Hou Ziqiang and Mr Jiang Weiping.



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In 2005, the Compensation and Nomination Committee held two meetings. The Compensation and Nomination Committee in 2005 reviewed the nomination of a new director to fill a casual vacancy, the draft severance agreement with the Chief Financial Officer, the nomination of the Chief Financial Officer and the change in company secretaries, and the amendment to the share option scheme, which were recommended to the Board for approval.

The attendance record of each Compensation and Nomination Committee member in 2005 is set out below.

Directors	Attendance of Committee meetings in 2005
Zhang Chunjiang (Chairman) [^]	1/1
Keith Rupert Murdoch *	0/1
John Lawson Thornton	1/2
Victor Cha Mou Zing	2/2
Hou Ziqiang	2/2
Miao Jianhua **	2/2
Jiang Weiping #	0/0 (Only in attendance)

[^] Appointed as Member with effect from 12 September 2005

* Resigned as Director and a Member with effect from 12 September 2005

** Resigned as Member with effect from 7 December 2005

Appointed as Member with effect from 7 December 2005

The Compensation and Nomination Committee is committed to achieving a sound balance on the Board in terms of experience and expertise. The nomination of Directors is assessed on the basis of the ability of potential candidates to contribute to the Board so that the Board can discharge its responsibilities to the Company as a whole. The Committee reviews the independence of the Independent Non-executive Directors.

At a meeting of the Compensation Committee on 27 December 2004, the members approved the compensation proposal for Executive Directors and reviewed service agreements with the Executive Directors. In March 2006, as authorized by the Board of Directors, the Compensation and Nomination Committee has approved adjustments to the Compensation of certain executive directors and senior management for 2005 and made relevant necessary revisions to their service agreements.

The compensation for the Executive Directors comprises basic salaries, cash bonuses, share options, other allowances and benefits in kind. In addition to basic salaries, Executive Directors are eligible to receive a performance bonus, taking into consideration factors such as corporate and individual performance. The performance of the executive Directors is reviewed annually according to set goals. Salaries are reviewed annually, and increases are made when it is appropriate to reflect performance contributions, increased responsibilities and market conditions. The Compensation and Nomination Committee provides to the Board its recommendations on compensation to the Executive Directors when appropriate. The Compensation and Nomination Committee reviews the terms of service contracts with Executive Directors, and makes recommendations to the Board for approval.

In addition, the Company has adopted a share option scheme to attract and retain senior management personnel and key employees of the Company. Details of the amount of Directors' emoluments during 2005 and details of the share option scheme are set out in notes 15 and 35 respectively to the accounts.



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Corporate Governance Committee

The duties of the Corporate Governance Committee are to supervise implementation of our corporate governance policies, supervise the efficiency and legal compliance of our Board of Directors and make recommendations to the Board of Directors in order to optimize our corporate governance structure. The chairman of the Committee is Mr John Lawson Thornton (Chairman) and its members include Dr Tian Suning, Dr Qian Yingyi, Mr Miao Jianhua and Mr Timpson Chung Shui Ming.

The Corporate Governance Committee has played a very active part in promoting and improving corporate governance. Based on in-depth knowledge and assessment of the current situation of corporate governance, the Committee recommended that the Board engage a professional consulting company to improve the efficiency and effectiveness of corporate governance practices and build the Company into a model for Chinese companies listed overseas. The Board approved the recommendation in 2005. At the end of 2005, the Company launched a corporate governance consulting project under the direct leadership of the Corporate Governance Committee. The Committee reviewed suggestions and proposals submitted by the project team on a regular basis. In 2005, the Corporate Governance Committee held one meeting and Mr John Lawson Thornton (Chairman), Dr Qian Yingyi, Mr Miao Jianhua and Mr Timpson Chung Shui Ming attended the meeting. At the meeting, the Committee members reviewed the proposed corporate governance consulting project, with a recommendation to the Board for approval.

Strategic Planning Committee

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The Strategic Planning Committee is responsible for reviewing our development strategies, supervising their implementation and analyzing major investment projects. The members of the Committee are Mr Zhang Chunjiang (Chairman), Dr Qian Yingyi, Mr José María Álvarez-Pallete, Mr Hou Ziqiang, Mr Zhang Xiaotie, Mr Jiang Weiping and Ms Li Liming.

In 2005, the Strategic Planning Committee held one meeting and the committee members discussed and approved the strategic and business plan for the year 2005. Mr Zhang Chunjiang (Chairman), Dr Qian Yingyi, Mr Hou Ziqiang, Mr Zhang Xiaotie, Mr Jiang Weiping and Ms Li Liming attended the meeting. Mr José María Álvarez-Pallete was appointed as a member after this Committee meeting.

Directors' Securities Transactions

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct regarding directors' dealing in securities of the Company. The Company has received confirmation from all Directors that they have complied with the required standard throughout this reporting period.

Comparison between corporate governance requirements of the New York Stock Exchange and the Hong Kong Listing Rules

According to the Corporate Governance Listing Standards set out in Section 303A of New York Stock Exchange (NYSE) Listing Company Manual, foreign issuers listed in NYSE (including China Netcom Group Corporation (Hong Kong) Limited) are required to disclose major differences in requirements of corporate governance between its place of incorporation and that of NYSE applicable to local US issuer. A summary of such difference is available on the website of the Company at http://www.china-netcom.com/English/inv/Corporate_Governance_Differences.htm



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Internal Controls

The Company attaches great importance to its internal control system. It aims to establish a world-class internal control system compliant with the latest regulatory requirements. In 2005, the Board conducted a review of the effectiveness of the Group's system of internal controls.

At the end of 2004, the Company launched a project to optimize its internal control system. The Company's internal control project team regularly reported to the management and Audit Committee on the progress of the project and issues identified. The Audit Committee, in turn, reported to the Board on major findings of the project team.

The internal control system project made a number of major progresses in 2005. Through comprehensive studies, pilot design and other phase work, the Company has conducted in-depth investigation, diagnosis and analysis of management and service procedures. Based on the internationally recognized COSO internal control framework, the Company has designed an internal control system standard template that integrates international advanced management philosophy as well as conforming to the Company's actual needs. The Company has conducted a pilot test of the standard template in the Company's Hebei branch company. Based on the pilot test results, the Company has improved the standard template and started to introduce it across the Company, beginning at the end of last year. It is expected that the introduction of the standard template will be fully completed in the latter half of 2006.

While improving the internal control flow system, the Company developed *Stipulations on Information Quality Guarantee and Accountability Management of China Netcom Group* and *CNC Discipline* and other management rules to ensure the accuracy, completeness and integrity of statistical data. These guidelines clarify requirements for statistical data as well as setting out severe penalties for non-compliance. The Company has also developed *Methods for Handling of Complaints and Reports Concerning Accounting Information, Internal Controls and Auditing Methods of the Audit Committee for China Netcom Group Corporation (Hong Kong) Limited*, which prohibits any intentional reporting of false or erroneous information from all levels of the Company.

Investor Relations

The Company aims to introduce industry best practices, improve the scope and quality of information disclosure and make the Company more transparent so that all investors have access to information of the Company on a timely basis. Besides the regular annual results announcements meeting, interim results announcements meeting and non-deal road show, the Company has kept close contact with investors through one-on-one meetings, telephone conferences, and corporate days. Investors have easy access to financial information, the annual report, presentations and other materials released to the public on the Company's website. Beginning in 2006, the Company will release its key operational information on a quarterly basis and increase the disclosure scope and frequency of information disclosure.

As a company listed on both U.S. and Hong Kong stock markets, the Company follows the strictest requirements and strives to ensure fair disclosure to all investors. The Company requires all major information to be uploaded to its website immediately after its release to the public through notices and press conferences to ensure that all shareholders and investors can have access to relevant information as quickly as possible. There are differences between the rules of the Hong Kong and





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New York Stock Exchanges. Among the risk factors listed in the Company's prospectus is that holders of American Depositary Shares (ADS) may not receive the proxy materials on issues to be discussed at shareholders' meetings in time. Nonetheless, the Company will do its utmost to consider the interests of both Hong Kong shareholders and ADS holders. When arranging the timetable of the annual shareholders' meeting and extraordinary general meeting, the Company will ensure timely delivery of all relevant meeting materials to the shareholders, so that all shareholders can have access to necessary information prior to the meetings, have the chance to participate in the decision-making process, and give their opinions.

General Meetings

The most recent general meeting was an extraordinary general meeting ("EGM") held on 25 October 2005 at Nathan Room, the Conrad Hotel, Hong Kong. The major items discussed at the meeting and the percentage of votes cast in favour of the resolutions relating to those items are set out below:

- Approval of the Conditional Sale and Purchase Agreement dated 12 September 2005 regarding the purchase of the entire issued share capital of China Netcom Group New Horizon Communications Corporation (BVI) Limited (99.99998%);
- Approval of the Continuing Connected Transactions contemplated under the Engineering and Information Technology Services Agreement and the Materials Procurement Agreement both dated 12 September 2005 together with the relevant annual caps (99.99996%); and
- Approval of the Continuing Connected Transactions contemplated under the Domestic Interconnection Settlement Agreement and the International Long Distance Voice Services Settlement Agreement both dated 12 September 2005 and for which transactions no caps have been proposed (100%).

The resolutions put to the shareholders were passed at the EGM. The results of the voting by poll have been published on the Company's website, the website of the Hong Kong Stock Exchange and also by notice in local newspapers.

The next shareholders meeting will be the 2006 annual general meeting of the Company to be held on 16 May 2006.

Information relating to the details of shareholders, their shareholding and the Company's public float status are set out on pages 74 to 75 in the Report of the Directors in the annual report.

There has been no change in the articles of associations of the Company during 2005.