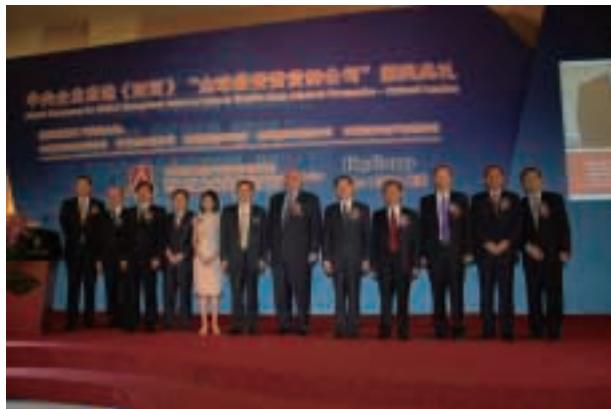


# Corporate Governance Report

The Company has been attaching great importance to corporate governance, inheriting an excellent and conservative management style, and insisting on practicing corporate governance with efficient management and operations of top industry standard. In 2007, the Company increasingly improved the daily operations of the Board of Directors and its professional committees, continued to deepen the internal control mechanism and the assessment system, and put the comprehensive risk management into operational practice, so as to continuously enhance the standard of corporate governance and firmly protect the interests of shareholders.

Save for the roles of Chairman and Chief Executive Officer of the Company being performed by the same individual, for the year ended 2007, the Company has been in compliance with all the code provisions as set out in Appendix 14 "Code on Corporate Governance Practices" of the Listing Rules. In



Chairman Wang Xiaochu (Left 6) participated in the Award Ceremony for Fortune World's Most Admired Companies in China

the Company's opinion, through supervision of the Board and independent non-executive directors, and with the Company's effective internal control mechanism, the same individual performing the roles of Chairman and Chief Executive Officer can achieve the goal of improving the Company's efficiency in decision-making and executions, and effectively capture business opportunities.

## Corporate Governance Report



China Telecom awarded the "Asia's Best Managed Fixed Telecom Company"

Many international leading corporations also have a similar arrangement.

### **1. OVERVIEW OF CORPORATE GOVERNANCE**

As a company incorporated in the PRC, the Company adopts the PRC Company Law and other related laws and regulations as the basic guidelines for the Company's corporate governance. As a company listed both in Hong Kong and the United States, the current Articles of Association is in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the Listing Rules) in Hong Kong and the regulatory requirements for listed companies in the United States, and these rules serve as guidance for the Company to improve its foundation of corporate governance. The Company has regularly published responsibility statements relating to its internal control in accordance with the US Sarbanes-Oxley Act of 2002 and the regulatory requirements of the U.S. Securities and Exchange Commission (SEC) and the New York Stock Exchange, to confirm its compliance with related financial reporting, information disclosure and corporate internal controls requirements.

The Company's continuous efforts in corporate governance have gained wide recognition from the capital market and received a number of awards. The Company was accredited once more in the list of "World's Most Admired Companies" for the year 2007 by *FORTUNE* and awarded "Asia's Best Managed Fixed Telecom Company" for the year 2007 by *Euromoney*. At the same time, the Company respectively received "The Best Corporate Governance", "Most Accessible Senior Management" and "Most Convincing and Coherent Strategy" awards in the ranking of all industries in Asia. In addition, the Company was accredited with "CAPITAL Outstanding China Enterprise Awards – Telecommunications" by *CAPITAL* for two consecutive years, received top ranking in the selection of the best company in Asia (China group) for the year 2007 by *FinanceAsia* and was awarded the "Best Managed Company – China", the "Best Corporate Governance – China" and the "Best Investor Relations – China".

### **2. OVERALL STRUCTURE OF CORPORATE GOVERNANCE**

A double-tier structure has been adopted as our overall structure of corporate governance: the Board and the Supervisory Committee are established under the Shareholders' Meeting while Audit Committee, Remuneration Committee and Nomination Committee are set up under the Board. The Board is authorised by the Articles of Association to make major decisions with regard to the Company's operations and oversees the daily operations by the senior management. The Supervisory Committee is mainly responsible for the

## Corporate Governance Report



China Telecom awarded with three prizes in "Asia's Best Companies 2007" by FinanceAsia

supervision of the performance of duties by the Board and the senior management. Each of the Board of Directors and the Supervisory Committee is independently accountable to the Shareholders' Meeting.

Pursuant to the Company's strategic transformation and consolidated management requirements, in early 2008 the Company merged its twenty wholly-owned subsidiaries ("provincial subsidiaries"), such as Shanghai Telecom Company Limited, by way of

absorption and established twenty provincial branches to take over the management and operation of the Company's former provincial subsidiaries. The resulting organisation structure and management system will be more suitable for the requirements of the Group's development strategies. They will also enhance the integration and optimal allocation of the Group's internal resources and further improve the Group's management standard and overall efficiency, which is in the interests of the Company and its shareholders as a whole.

### Shareholders' Meeting

At each of the shareholders' general meetings, a separate shareholders' resolution is proposed in respect of each independent item, and details of the voting procedures and the right of voting by poll at the demand of shareholders are recorded in the circulars to shareholders in accordance with the Articles of Association and listing rules of the places of listing. The circulars to shareholders also provide details of the resolutions. Voting results are published on the websites of the Company and The Stock Exchange of Hong Kong Limited. The Company attaches great



Annual General Meeting was held in Hong Kong on 29 May 2007

## Corporate Governance Report

importance to the shareholders general meetings and the communication between directors and shareholders. The directors provide detailed and complete answers to the questions raised by shareholders in the shareholders general meetings.



China Telecom was accredited with "The CAPITAL Outstanding China Enterprise Awards-Telecommunications" by CAPITAL for two consecutive years

In 2007, the Company convened three shareholders general meetings: the Annual General Meeting ("AGM") for 2006 and two Extraordinary General Meetings ("EGM"). The AGM held on 29 May 2007 mainly reviewed and approved the financial statements for the year ended 2006, Report of the International Auditors, proposal of annual profit distribution and final dividends, authorization to the Board for the formulation of budget for 2007, appointment and remuneration of auditors, appointment and dismissal of supervisors, revision of the Articles of Association, and confirmation and ratification of authorizing the Board to issue bonds.

The first EGM held on 7 August 2007 reviewed and resolved a proposal concerning the approval of the Supplemental Agreement in relation to strategic alliance with China Communications Services Corporation Limited and the transactions under such agreement, as well as a proposal concerning the revision of the Articles of Association. The second EGM held on 31 August 2007 reviewed and resolved a proposal concerning the resignation of Ms. Huang Wenlin and the appointment of Mr. Zhang Chenshuang as executive director of the Company.

### Board of Directors

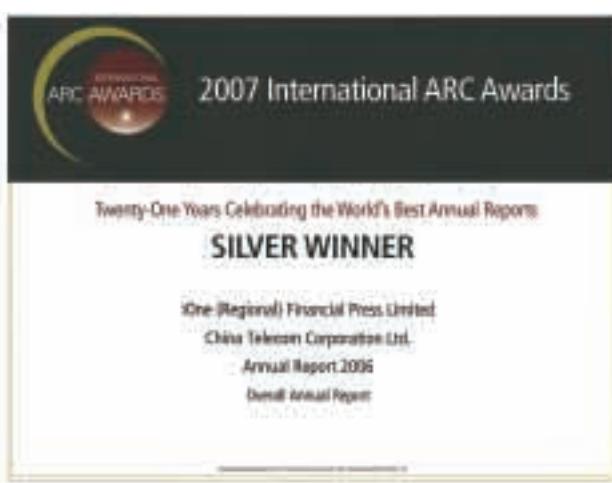
The current Board of Directors comprised of 14 directors with eight executive directors, one non-executive director, and five independent non-executive directors with a period of office ended by 9 September 2008. On 31 August 2007, Ms. Huang Wenlin resigned from the position as executive director because of a change in job responsibility. On the same day, Mr. Zhang Chenshuang, who has had more than 28 years of experience in telecommunications management, assumed the position as executive director.

The number of independent non-executive directors constitute more than one-third of the Board members. Mr. Tse Hau Yin, who is the Chairman of the Audit Committee, is an internationally renowned financial expert with expertise in accounting and financial management. The Audit Committee, Remuneration Committee and Nomination Committee under the Board, all consisting of independent non-executive directors, ensure that the Board will be able to make independent judgments effectively.

## Corporate Governance Report

The Company strictly complies with the Code on Corporate Governance Practices of the Listing Rules and rigorously regulates the operating procedures of the Board and the committees under it, and ensures that the proceedings of Board meetings are standardised in terms of organisation, regulations and personnel. The Board is responsible for effective supervision of the preparation of accounts for each financial period, so that such accounts truly and fairly reflect the financial position, the operating results and cash flows of the Company for each period. In preparing the accounts for the year ended 31 December 2007, the directors selected appropriate accounting policies and made prudent, fair and reasonable judgments and estimates and prepared the accounts on a going concern basis.

The Articles of Association of the Company provide that the Board is accountable to the shareholders meetings, and its duties include the execution of resolutions, formulation of major decisions for operations, financial proposals and policies, the Company's management system, and the appointments of managers and other senior personnel of the Company. The Articles of Association clearly define the respective duties of the Board and the management. The management is responsible for the operation and management of the Company, the organisation and implementation of the resolutions of the Board, the annual operation plans and investment proposals of the Company, determining the establishment of the Company's internal administrative institutions and subinstitutions, and performs such other duties as authorised by the Articles of Association and the Board. In order to maintain the highly efficient operation, flexibility and swiftness of operational decision-making, the Board, when necessary, may delegate its managing and administrative powers to the management, and provide clear guidance regarding such delegation so as to avoid seriously impeding or undermining the overall capacities of the Board in exercising its powers.



China Telecom's annual reports won "International ARC Awards" for two consecutive years

## Corporate Governance Report

**Attendance rate of individual directors (including attendance with written proxies) at Board meetings in 2007**

Number of Directors	14
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Executive Directors	Meetings for The Second Session of the Board (2007)	Attendance Rate
Wang Xiaochu ( <i>Chairman</i> )	4/4	100%
Leng Rongquan	4/4	100%
Wu Andi	4/4	100%
Zhang Jiping	4/4	100%
Huang Wenlin*	2/3	67%
Zhang Chenshuang**	1/1	100%
Li Ping	4/4	100%
Yang Jie	4/4	100%
Sun Kangmin	4/4	100%

\* Ms. Huang Wenlin resigned from the position of executive director on 31 August 2007.

\*\* Mr. Zhang Chenshuang assumed the position of executive director on 31 August 2007.

Independent Non-Executive Directors	Meetings for The Second Session of the Board (2007)	Attendance Rate
Zhang Youcai	4/4	100%
Lo Hong Sui, Vincent	4/4	100%
Shi Wanpeng	4/4	100%
Xu Ermeng	4/4	100%
Tse Hau Yin, Aloysius	4/4	100%

Non-Executive Directors	Meetings for The Second Session of the Board (2007)	Attendance Rate
Li Jinming	4/4	100%

## Corporate Governance Report

In 2007, the Board played a significant role in matters such as operations, budgeting, decision-making, supervision, internal control and the corporate governance of the Company. In 2007, the Board and the committees under it convened 11 meetings. At the meetings, the Board reviewed matters including the Company's annual and interim financial statements, annual operations, financial and investment budgets, annual assets appraisal report, internal control implementation and assessment report, internal control audit report, proposal for annual profit distribution, annual and interim reports, appointment and remuneration of auditors, authorization to the Company for bond issuance, acquisition of China Telecom (Hong Kong) International Limited, China Telecom (Americas) Corporation and China Telecom System Integration Co. Ltd. from the parent company, Supplemental Agreement in relation to the strategic alliance, revision of the Articles of Association, continuing connected transactions, improvement plans for internal control, and optimization of the Company's organisational structure.

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

non-executive directors, and considers them to be independent.



China Telecom's website ([www.chinatelecom-h.com](http://www.chinatelecom-h.com)) was the Silver Winner of iNOVA Award

### Audit Committee

The Audit Committee comprises four independent non-executive directors. The Charter for the Audit Committee clearly defines the status, qualifications, work procedures, duties and responsibilities, funding and remuneration, etc. of the Audit Committee. The Audit Committee's principal duties include the supervision on the truthfulness and completeness of the Company's financial statements, the effectiveness and completeness of the Company's internal control and risk management system, as well as the work of the Company's internal audit department. It is also responsible for the monitoring and review of the qualifications, selection and appointment, independence and services of external independent auditors. The Audit Committee also has the authority to set up a

## Corporate Governance Report

reporting system to receive and handle cases of complaints or complaints made on an anonymous basis regarding the Company's accounting, internal accounting control and audit. The Audit Committee will regularly report on its work to the Board.

In 2007, pursuant to the requirements of the laws and regulations of the places of listing and the Charter for the Audit Committee, and in the clear mandate of the Board, the Audit Committee fully assumed its responsibilities, improved work planning and meeting efficiency was further optimised. It also improved its capacity in reviewing and processing proposals, and progressively integrated the contents of different tasks into a uniform working platform, so that the depth and breadth of the audit of proposals were continuously optimized. The Audit Committee also proposed a number of practical and professional improvement recommendations based on the Company's actual situation, in order to continuously improve the Company's

corporate management. The Audit Committee has provided important support to the Board and played a significant role in protecting the interests of independent shareholders.

In 2007, the Audit Committee convened four meetings, where it reviewed important matters related to the Company's financial statements, assessment of the qualifications, independence and performance of the external auditors and their appointments, effectiveness of internal control, internal audit, comprehensive risk management, and connected transactions. The Audit Committee received quarterly reports in relation to internal audit and connected transactions, provided guidance to the internal audit department and received comprehensive risk management reports. Additionally, the Audit Committee reviewed internal control assessment and audit reports, oversaw the implementation of the management letter issued by external auditors, reviewed the U.S. annual report, and held discussion with the auditors.

### **Attendance rate of individual members of the Audit Committee in 2007 (including attendance with written proxies)**

#### **Second Session of the Audit Committee**

<b>Number of Committee members</b>	<b>4</b>	
<b>Percentage of Independent Non-executive Directors of the Committee</b>	<b>100%</b>	
<b>Member of the Committee</b>	<b>Number of Meetings (2007)</b>	<b>Attendance Rate</b>
Tse Hau Yin, Aloysius (Chairman of the Committee)	4/4	100%
Zhang Youcai	4/4	100%
Shi Wanpeng	4/4	100%
Xu Ermeng	4/4	100%

## Corporate Governance Report

### Remuneration Committee

The Remuneration Committee was formed by four independent non-executive directors. The Charter for the Remuneration Committee clearly defines the status, qualifications, work procedures, duties and responsibilities, funding and remuneration etc. of the Remuneration Committee. The Remuneration Committee assists the Company's Board to formulate overall remuneration policy and structure for the Company's directors and senior management personnel, and to establish related remuneration procedures that are standardised and transparent. The Remuneration Committee's principal duties include the supervision on the compliance of the Company's remuneration system with legal

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

In 2007, the Remuneration Committee convened one meeting, where it reviewed the situations in relation to the remuneration of executive directors, and the Company's performance appraisal and reward.

### Attendance rate of individual members of the Remuneration Committee in 2007 (including attendance with written proxies)

#### *Second Session of the Remuneration Committee*

Number of Committee members	4	
Member of the Committee	Number of Meetings (2007)	Attendance Rate
Lo Hong Sui, Vincent <i>(Chairman of the Committee)</i>	1/1	100%
Shi Wanpeng	1/1	100%
Xu Ermeng	1/1	100%
Tse Hau Yin, Aloysius	1/1	100%

### Nomination Committee

The Company's Nomination Committee was formed by four independent non-executive directors. The Charter for the Nomination Committee clearly defines the status, qualifications, work procedures, duties and responsibilities, funding and remuneration etc.

of the Nomination Committee, and it specially requires that the Nomination Committee members have no significant connection to the Company, and comply with the regulatory requirements related to independence. The Nomination Committee assists the Board to formulate standardised, prudent and

## Corporate Governance Report

transparent procedures and succession plans for the appointment of directors, and further improve the composition of the Board. The principal duties of the Nomination Committee include: regularly reviewing the structure, number of members and composition of the Board; identifying candidates and advising the Board with the appropriate qualifications for the position of Directors; evaluating the independence of independent non-executive directors; advising the Board on matters

regarding the appointment or re-appointment of directors and succession plans for the directors. The Nomination Committee is accountable to the Board and regularly reports on its work.

In 2007, the Nomination Committee has convened one meeting, where it evaluated the structure and composition of the Board and confirmed the independence of all five independent directors.

### **Attendance rate of individual members of the Nomination Committee in 2007 (including attendance with written proxies)**

#### ***Second Session of the Remuneration Committee***

<b>Number of Committee members</b>	<b>4</b>	
<b>Percentage of Independent Non-executive Directors of the Committee</b>	<b>100%</b>	
<b>Member of the Committee</b>	<b>Number of Meetings (2007)</b>	<b>Attendance Rate</b>
Shi Wanpeng ( <i>Chairman of the Committee</i> )	1/1	100%
Zhang Youcai	1/1	100%
Xu Ermeng	1/1	100%
Tse Hau Yin, Aloysius	1/1	100%

#### **Independent Director Committee**

Pursuant to the Listing Rules, the Company's Independent Director Committee convened a meeting on 15 June 2007 discussing the supplemental agreement in relation to the strategic alliance of the Company with China Communications Services Corporation Limited, reviewing and approving the letters issued by the independent financial advisor to independent shareholders, confirming that the supplemental agreement in relation to the strategic alliance is in the interests of the

Company as a whole and is fair and reasonable to the independent shareholders. The committee also submits recommendations on these matters to the independent shareholders.

#### **Supervisory Committee**

The Company established the Supervisory Committee in accordance with the PRC Company Law. At present, the Supervisory Committee comprises of five supervisors, of which there is an external independent supervisor and an employee representative

## Corporate Governance Report

supervisor. In May 2007, Ms. Zhang Xiuqin resigned from the position of Supervisor and Chairperson of the Supervisory Committee due to age whilst Mr. Li Jian resigned from the position of Supervisor due to a change of job responsibility. Mr. Xiao Jinxue and Ms. Wang Haiyun were elected as the Supervisors of the Company whilst Mr. Xiao Jinxue assumed the position of Chairperson of the Supervisory Committee.

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

### Attendance rate of individual members of the Supervisory Committee in 2007

#### *The Second Session of Supervisory Committee*

Number of supervisors	5	
Number of meetings in 2007	3	
Supervisors	Number of Meetings	Attendance Rate
Xiao Jinxue ( <i>Chairperson</i> )	2/2	100%
Zhang Xiuqin*	1/1	100%
Zhu Lihao ( <i>Independent Supervisor</i> )	3/3	100%
Wang Haiyun	2/2	100%
Li Jian*	1/1	100%
Xu Cailiao	3/3	100%
Ma Yuzhu ( <i>Employee Representative</i> )	3/3	100%

\* Ms. Zhang Xiuqin and Mr. Li Jian resigned from the position of supervisor on 29 May 2007.

#### External Auditors

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

Breakdown of the remuneration received by the external auditors for audit and non-audit services provided to the Company for the year ended 31 December 2007 is as follows:

## Corporate Governance Report

Subject of the Service	Fee (RMB million)
Audit services	58.0
Non-audit services (Internal Control Advisory Service)	0.9

The Audit Committee and the Board have agreed the re-appointment of KPMG and KPMG Huazhen, respectively, as the international and domestic auditors of the Company for the year ending 31 December 2008, and the proposal will be submitted to the shareholders general meeting for approval.

### 3. INTERNAL CONTROL

#### Internal Control System

The Board is aware of its responsibility to ensure a solid, complete and effective internal control system of the Company in order to protect shareholders' investment and the Company's assets. The Board also understands its responsibility to review the effectiveness of this system. The Company's management is responsible for the establishment and implementation of the internal control system. The internal control system of the Company is built on clear organisational structure and management duties, effective delegation and accountability system, definite targets, policies and procedures, comprehensive risk assessment and management, a sound financial accounting system, and continued analysis and supervision of operational performance. It covers all businesses and transactions of the Company. To make the internal control system more effective, the Company has formulated a code of conduct for the senior management and employees in order to ensure their ethical value and competency. The Company continued to improve its internal declaration system, which encourages anonymous reporting of situations where employees, especially directors and

senior management personnel, breach the rules.

In August 2003, the Company appointed KPMG Huazhen to provide advisory services in relation to internal control. In more than four years, based on the requirements of the U.S. securities regulatory authorities and the COSO Internal Control Framework, the Company has formulated manuals, implementing rules and supporting regulations in relation to internal control. In 2007, with the authorization of the Audit Committee, the Company continued to appoint KPMG Huazhen to provide the Company with internal control advisory services in order to further improve the internal control mechanism.

Since 2006, the Company continuously strengthened its IT internal control mechanism. Implementation of IT internal control has improved the efficiency and effectiveness of internal control, and enhanced the safety of the information system so that the integrity, timeliness and reliability of data and information are maintained. The Company has built its professional internal control team through improvement of performance appraisal management and responsibility specification,

## Corporate Governance Report

forming a closed-loop management mechanism of internal control and promoting the standardisation and rationalisation of the Company's internal management.

In 2007, through internal control assessment and internal control investigation, the Company detected promptly necessary upgrades in relation to the design of internal control mechanism according to the management implementation requirements. The Company coordinated the completion of internal control mechanism revision, and summarised the important risks, processes and control points of the internal control so that the internal control management was continuously improved and operation efficiency was promoted. To ensure the completeness and effectiveness of the Company's internal control mechanism, the Company also established internal control in the newly acquired companies in a timely manner after the acquisition of China Telecom (Hong Kong) International Limited, China Telecom (Americas) Corporation and China Telecom System Integration Co. Ltd.

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

To ensure the truthfulness, accuracy, completeness and timeliness of the Company's information disclosure, the Company has formulated rules for the information disclosure management in order to improve the management of the Company's information disclosure. It primarily focuses on: the disclosure of important information such as share price sensitive information and annual and interim reports; standardising the Company's internal collection, organisation, summarisation and reporting system regarding the Company's important information; formulating procedures for on-going and other occasional information disclosure documents; and defining the responsibilities and code of conduct of related internal departments, branches, and subsidiaries of the Company in respect of information disclosure.

### Comprehensive Risk Management

The Company views comprehensive risk management as an important task in the Company's daily operation. Pursuant to the requirements of capital markets in the United States and Hong Kong, the Company formulated its five-step risk management approach based on the risk management theory and practices, including risk identification, risk assessment, key risk analysis, risk reaction and risk management assessment. The Company has also designed a risk management template and implemented the standardised risk management process so that the risk management language was unified to all levels of the Company and effectiveness of risk management was improved.

## Corporate Governance Report

Pursuant to the requirement of provision C2 of the Code on Corporate Governance Practices of The Stock Exchange of Hong Kong Limited, in 2007, the Company coordinated different professional departments, provincial companies and local branch companies to incorporate comprehensive risk management into its daily operation. The Company implemented level-oriented, category-oriented and centralized risk management, with resources concentrated on the prevention of four major risks, which are environmental risk, market risk, financial risk and legal risk respectively. As a result, risk incidents were effectively dealt with, and the impacts of the key risks to the Company were mitigated to the degree that is foreseeable and controllable. This has ensured the progress of the Company's strategic transformation and sustainable development, and protected the interests of the Company and its shareholders as a whole to the most extent.

### Annual Evaluation

The Company has been continuously improving its internal control system. In order to meet requirements where it is listed, including the United States and Hong Kong, and strengthen

its internal controls while guarding against operational risks, the Company's internal audit department is responsible for coordinating and supervising the assessment of internal control. In 2007, the Company's internal audit department initiated and coordinated the company-wide assessment of internal control, reported the related situations to the Audit Committee in a timely manner and executed the opinions and recommendations of the Audit Committee. The internal audit department placed much emphasis on risk control and worked together with the external auditors to formulate and execute different audit plans in respect of different control areas.

The Company has adopted the COSO Internal Control Framework as the standard for the internal control assessment. With the management's internal control testing guidelines and the Auditing Standard No. 5 issued by PCAOB as the directives, the Company's internal control assessment was composed of the self-assessment made by the persons responsible for internal control and the independent assessment made by the internal audit department.

## Corporate Governance Report

Self-assessment of internal control adopted a top-down approach which reinforced assessment in respect of control points at the corporate level and control points corresponding to major items in the financial statements. The Company insists on risk guidance principles, and on the basis of comprehensive assessment, it identified key control areas and points for major assessment through risk analysis. The Company continued to improve its organisation and management, procedures and approaches of assessment, and reinforced the control assessment at the corporate level so the assessment mechanism would be well-established and adaptable. With the development and implementation of an internal control assessment supporting system, assessment tool became more advanced and effective. The Company highlighted the key control points whilst emphasizing the coverage. The Company strengthened the inspection of the key control and major areas, and promptly rectified discovered issues.

Under the guidance of the Company, internal audit departments of all provincial companies have developed independent assessment of their key internal control areas. Instead of being a mere formality, with the emphasis on risks, the independent assessment was closely tied with other audit tasks in terms of time, content, personnel and coordination. The assessment focused not only on control procedures, control policy, but also on data in the financial statements, data sources and data processing so as to ensure an effective independent assessment and improve corporate management. Meanwhile, the Company also organised independent

assessment in respect of the internal control of major provincial companies. Through independent assessment, the Company not only retained the overall situation of internal control, but also developed key tests on the high-risk processes. In addition, the Company inspected the related units in respect of their rectification of internal control deficiency and focused on the key issues to ensure the depth and quality of assessment.

The Company organised the audit work of internal control over financial reporting in which the Company's internal control assessment team and the relevant departments worked closely to support the work of the external auditors. Covering all twenty provincial companies, the external auditors performed audit on the processes and control points in relation to the significant accounting items. The Company maintained regular communication with the external auditors, rectified the deficiencies in a timely manner and successfully passed the year-end audit.

Through all-dimensional and frequent internal control assessment, the Company detected the internal control issues and have them rectified in a timely manner so as to ensure the effectiveness of the Company's internal control and effectively prevented the internal control risks. In March 2008, the Board, through the Audit Committee, reviewed the internal control

## Corporate Governance Report

system of the Company and its subsidiaries for the financial year ended 31 December 2007, which covered the controls on financial reporting, operations and compliance, as well as the risk management functions. The Board is of the view that the Company's internal control system is solid, complete and effective.

### 4. INVESTOR RELATIONSHIP AND TRANSPARENT INFORMATION DISCLOSURE MECHANISM

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

In 2006, the Company started making quarterly disclosures of EBITDA and net profit data, and monthly announcements on the number of local telephone services subscribers. Since 2007, the Company has started making



China Telecom participated in the Money Show in the US

monthly disclosures of the number of broadband services subscribers, which further improved its communication with capital markets and enhanced its transparency of information disclosure. The Company attaches great importance to maintaining daily communication with shareholders, investors and analysts. In 2007, the Company has participated in many investment conferences



2007 Interim Results Announcement



## Corporate Governance Report

hosted by a number of major international investment banks in order to maintain active communication with institutional investors. Additionally, the Company regularly participates in "Money Show" in the United States in order to improve its proactive communication with retail investors in the United States.

**In 2007, the Company attended the following investment conferences hosted by major international investment banks**

Date	Name of Conference
January 2007	Deutsche Bank Access China Conference 2007
January 2007	UBS Greater China Conference 2007
March 2007	Credit Suisse Asian Investment Conference 2007
April 2007	JP Morgan China Conference 2007
May 2007	Citigroup Hong Kong/China Mini Conference 2007
May 2007	DBS Vickers Asian Corporate Conference 2007
May 2007	UBS Pan-Asian Telco Conference 2007
May 2007	CLSA China Forum 2007
July 2007	HKSE/Daiwa Investors Conference 2007
September 2007	Citigroup Telecom Day 2007
September 2007	CLSA Investor's Forum 2007
November 2007	Lehman Brothers Asia Telecom Investor Tour 2007
November 2007	Daiwa Hong Kong Investment Conference 2007
November 2007	Goldman Sachs China Investment Frontier Conference 2007

In recent years, the Company's website has been continuously under reform and innovation. In accordance with the requirements of capital market and international best practices, the Company has further improved the functions, design, interactivity with investors and related information disclosure of the website. As a result, the investor relations website not only functions as the primary channel to distribute news and company information to investors and capital market, but also plays an important role in the valuation of the listed company and the compliance with rules on information disclosure, achieving excellent interactive communication with investors and shareholders. The Company has also taken initiative to issue questionnaires to shareholders seeking their suggestions for the improvement of the annual report. In addition, based on the suggestions received, the Company has already allowed shareholders to choose means of receipt and language of annual reports to enhance environmental protection and cost savings.

## Corporate Governance Report

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

The Company was established in the PRC and is currently listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange") and the New York Stock Exchange ("NYSE"). As a foreign private issuer, the Company is not required to comply with all the corporate governance rules of Section 303A of the NYSE Listed Company Manual. However, the Company is required to disclose the significant differences between the corporate governance practices followed by itself and the listing standards followed by NYSE-listed U.S. companies.

Pursuant to the requirements of the NYSE Listed Company Manual, the Board of Directors of all NYSE-listed U.S. companies must be made up by a majority of independent directors. Under currently applicable PRC and Hong Kong laws and regulations, the Board of the Company is not required to be formed with a majority of independent directors. As a listed company on the Stock Exchange, the Company needs to comply with the Listing

Rules. These rules require that at least one third of the Board of Directors of a listed company be independent directors. The Board of the Company comprises of 14 directors, of which five are independent directors, making the number of independent directors exceed one third of the total number of directors on the Board, in compliance with the number set out as a recommended best practice in the Code on Corporate Governance Practice of the Listing Rules. These independent directors also satisfy the requirements on "independence" under the Listing Rules; however, the related standard is different from the requirements in Section 303A.02 of the Listed Company Manual of NYSE.

Pursuant to the requirements of the Listed Company Manual of NYSE, companies shall formulate separate corporate governance rules. Under the currently applicable PRC and Hong Kong laws and regulations, the Company is not required to formulate any rules for corporate governance; therefore, the Company has not formulated any separate corporate governance rules. However, the Company has implemented the Code on Corporate Governance Practices of the Stock Exchange for the accounting year ended 31 December 2007.