

# **China Telecom Corporation Limited**

## **The Rules of Procedures of Audit Committee**

### **Section 1 General Provisions**

#### **Article 1** Objective

Pursuant to the applicable laws, regulations, departmental rules, regulatory documents (collectively, the “Laws and Regulations”) of the places of listing of China Telecom Corporation Limited (the “Company”), relevant requirements of the securities regulatory authorities and stock exchanges where the Company’s shares are listed and the articles of association of China Telecom Corporation Limited (the “Articles of Association”), the board of directors of the Company (the “Board”) sets up an audit committee (the “Committee” or “Audit Committee” unless otherwise indicated) and formulates the rules of procedures of audit committee (the “Rules”) of the Company accordingly.

#### **Article 2** Status and Purpose of the Committee

The Committee members are appointed by over 50% affirmative votes of the Board. The Committee shall report to the Board periodically.

The purpose of the Committee is to take full responsibility to reasonably safeguard the best interests of the Company and fairly protect the overall interests of shareholders, especially the interests of minority shareholders pursuant to the applicable rules and regulations.

#### **Article 3** Structure and Qualifications of the Committee

The Committee consists of three or more members. The Board may change such number when it deems necessary, provided that the minimum requirement pursuant to the applicable regulations is met. Committee members shall be directors who are not senior management of the Company. The Committee shall have one chairperson (convener) who shall be an independent non-executive director and an accounting professional.

Unless otherwise provided by laws, regulations and regulatory requirements, all the Committee members shall be non-executive directors, of which more than half of the Committee members shall be independent non-executive directors and satisfy the following conditions:

- (1) shall have no material affiliations with the Company;
- (2) shall be in compliance with the relevant requirement of “independence” of Committee members pursuant to the applicable regulatory rules;
- (3) shall be familiar with the professional expertise in finance, accounting and auditing, or shall acquire such expertise within a reasonable period of time after being appointed as Committee members;

- (4) at least one committee member shall possess the appropriate accounting qualification as required by the securities regulatory authorities and stock exchanges where the Company's shares are listed, or shall have appropriate professional qualifications or accounting or related financial management expertise.

A former partner of the Company's external independent auditors shall be prohibited from acting as a Committee member for a period of two years commencing on the date of the person ceasing:

- (1) to be a partner of the external independent auditors;
- (2) to have any financial interest in the external independent auditors,

whichever is later.

#### **Article 4** Term of the Committee

The term of the Committee shall be the same as that of the Board. The appointment of Committee members may be renewed upon expiry of the term.

If a Committee member ceases to be an independent non-executive director of the Company or that a Committee member who has had the capacity of an independent non-executive director ceases to have the independence as required by the laws, regulations, relevant requirements of the securities regulatory authorities and stock exchanges where the Company's shares are listed or the Articles of Association, he/she will automatically lose his/her qualification as a Committee member, and the Board shall fill the vacancy pursuant to the applicable rules.

In the event that any Committee member tenders his/her resignation, or his/her removal has been agreed by more than half of the Board's votes, or he/she ceases to be an independent non-executive director, the Board may decide to terminate his/her term of office before the expiry of the term.

Any change in the members of the Committee with a simultaneous change in directors shall follow the procedures to obtain the shareholders' approval in the general meetings pursuant to the relevant procedures of change of directors as stipulated in the Articles of Association and an announcement shall be published in accordance with the applicable regulatory requirements accordingly.

#### **Article 5** Resignation of the Committee Members

Should any Committee member resign before the term expires, such member shall submit his/her written resignation to the Board, in which detailed explanations for the resignation shall be stated.

In the event that any resignation leads to a situation where the number of the Committee members, the proportion of independent non-executive directors, etc. does not meet the minimum requirement as stipulated by laws and regulations or the Articles of Association or where there is no accounting professional among independent non-executive directors, such resignation of the Committee member shall not take effect until the newly appointed

member has taken up the position, and the resigning member shall continue to perform his/her duties until the date when a new independent non-executive director is elected. The Company shall complete the election within 60 days from the occurrence of the abovementioned events.

Where the qualification as a Committee member is automatically withdrawn due to his/her resignation as an independent non-executive director, no separate resignation procedure is required for that Committee member otherwise. His/her qualification as a Committee member will be automatically withdrawn from the effective date of his/her resignation as an independent non-executive director in accordance with the resignation procedures of the independent non-executive director of the Company. In the event that the automatic withdrawal of his/her qualification as a Committee member leads to a situation where the number of the Committee members, the proportion of independent non-executive directors, etc. does not meet the minimum requirement as stipulated by laws and regulations or the Articles of Association or where there is no accounting professional among independent non-executive directors, the matters following the effective withdrawal of his/her qualification as a Committee member shall be addressed pursuant to Paragraph 2 under this Article.

## **Section 2 Operation and Meeting Procedures of the Committee**

### **Article 6** Committee Meetings

The meetings of the Committee consist of periodical meetings and extraordinary meetings. The Committee shall convene at least one meeting each quarter. The Committee may convene an extraordinary meeting as needed. An extraordinary meeting may be convened when two or more Committee members propose to convene the meeting or the chairperson thinks it necessary.

If the external independent auditors of the Company think necessary, they may also require the Committee to convene an extraordinary meeting.

A Committee meeting may not be held unless there are two thirds or more of the members attending the meeting. A Committee meeting shall be held by way of physical meeting in principle. In circumstances where opinions of directors are sufficiently expressed and conveyed, such meeting may be held via telephone conference or other means of telecommunications according to the procedures if necessary.

### **Article 7** Written Proposals of the Committee

The Committee may replace convening Committee meetings with written proposals, and to approve resolutions by written resolution in lieu of Committee meetings. When the meeting materials are delivered to all members and the members signify their consent by signing the written resolution where a quorum to approve the resolution has been met, the written resolution shall become effective.

### **Article 8** Calling and Presiding of Meeting

The chairperson shall be responsible for convening and presiding over Committee meetings and may, in the event that he/she is not able to convene and preside over such meetings in person, otherwise appoint another Committee member being an independent

non-executive director to convene and preside over such meetings on behalf of himself/herself.

The notice and meeting materials for a Committee meeting should be delivered to each member three days prior to the meeting. The aforementioned timeline may be exempted upon the approval of two thirds or more of the Committee members. In urgent cases where there is a need to convene a meeting as soon as possible, the convening of such meeting is not subject to the aforementioned notice period limit, and meeting notices can be given by telephone or other means of communication.

#### **Article 9**      Resolutions

Any resolution of a Committee meeting shall require simple majority votes to be passed, with each member having one vote. In case of an equality of votes, the chairperson of the Committee shall have a second or casting vote. In the event that a resolution cannot be passed due to Committee members' abstention, the relevant matters shall be considered by the Board directly.

The voting of a Committee meeting may be taken by show of hands or by poll.

Any resolution of a Committee meeting shall be in written form and signed by attending members.

#### **Article 10**     Minutes

Minutes for a Committee meeting shall be kept and shall be complete and true.

The Investor Relations Department shall be in charge of the minutes of the Committee meetings. The draft minutes shall be provided to all members within a reasonable period of time after a meeting so that the members can review the drafts and finalise the minutes. The Committee members attending a Committee meeting and the person who prepares the meeting minutes shall sign on the minutes of the meeting. The department in charge of filing Company documents shall keep the original copies of the minutes. Meeting materials shall be kept for at least ten years.

#### **Article 11**     Non-voting Attendance

When it deems necessary, the Committee may invite the Company's management, other directors of the Board and relevant persons to attend the meetings where such attendees have no voting rights.

#### **Article 12**     Ancillary Organ of the Committee

The Investor Relations Department shall coordinate and support the routine operation of the Committee.

### **Section 3 Duties and Obligations of the Committee**

#### **Article 13**     Primary Duties of the Committee

The Committee shall be responsible for reviewing the financial information of the Company and the disclosure thereof and supervising and assessing the internal and external auditing work and internal control. The Committee's primary duties include:

- (1) supervising and evaluating the external auditing work and proposing engagement or replacement of the external auditing institutions;
- (2) supervising and evaluating the internal auditing work and taking charge of coordination of the internal and external audits;
- (3) reviewing the financial statements and reports of the Company and opining on them;
- (4) supervising and evaluating the internal control of the Company; issuing annual internal control evaluation reports based on the evaluation report issued by the Internal Audit Department and relevant information;
- (5) drafting the management measures for related-party (connected) transactions of the Company, proposing amendments to the principal management measures on related-party (connected) transactions of the Company and monitoring the implementation thereof; keeping the lists of related-party (connected) persons of the Company, reviewing the related-party (connected) transactions which shall be subject to the approval of the Board or shareholders' general meetings of the Company, finalising and submitting the written advice to the Board for consideration;
- (6) coordinating communication among the management, the Internal Audit Department, other related departments and the external auditors;
- (7) other duties which the Committee shall be responsible for under laws, regulations, the rules of the securities regulatory authorities and the stock exchanges where the shares of the Company are listed, the Articles of Association and the authorisation of the Board.

The Committee shall review arrangements which employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action. The Committee shall act as the key representative body for overseeing the Company's relations with the external independent auditors.

The Committee may request the Company's management to provide any documents or materials necessary for the performance of their duties, or explanations on any issues the Committee is concerned about.

The Committee shall report to the Board and make recommendations on measures it deems necessary or areas for improvement.

**Article 14** The following matters shall be submitted to the Board for consideration with the approval of more than half of the members of the Audit Committee:

- (1) disclosing financial accounting reports, financial information in periodical reports, and internal control evaluation reports;

- (2) appointing or dismissing the accounting firm providing audit services to the Company;
- (3) appointing or dismissing the person in charge of financial affairs of the Company;
- (4) modifying accounting policies or accounting estimates, or correcting material accounting errors due to reasons other than changes in accounting standards;
- (5) other matters as stipulated in laws, regulations, the rules of the securities regulatory authorities and the stock exchanges where the shares of the Company are listed and the Articles of Association.

The Committee proposes consideration opinions to the Board on matters within the scope of its duties. If the Board fails to adopt them, the Company shall disclose such matters and fully explain the reasons.

#### **Article 15** Supervision of Issues Relating to Financial Statements

The Committee shall monitor integrity of the Company's financial statements and annual reports and accounts, interim reports and quarterly reports (if applicable), review significant financial reporting judgments contained in them. In reviewing these statements and reports before submission to the Board, the Committee should focus particularly on:

- (1) any changes in accounting policies and practices;
- (2) major judgmental areas;
- (3) significant adjustments resulting from audit;
- (4) the going concern assumptions and any qualifications;
- (5) compliance with accounting standards;
- (6) compliance with the relevant requirements of the securities regulatory authorities and stock exchanges where the Company's shares are listed and legal requirements in relation to financial reporting.

The Committee should consider any significant or unusual items that are, or may need to be, reflected in the report and accounts, it should give due consideration to any matters that have been raised by the Company's staff being responsible for the accounting and financial reporting function, compliance officer or external independent auditors.

The Committee shall review financial accounting reports of the Company, provide opinions on the truthfulness, accuracy and completeness of the financial accounting reports, focus on material accounting and auditing issues in the financial accounting reports of the Company with particular attention to the possibility of fraud, malpractice and material misstatement related to the financial accounting reports and supervise the rectification of problems in financial accounting reports.

To perform obligations hereunder, the members of the Committee should liaise with the Board and senior management and the Committee must meet, at least twice a year, with the Company's external independent auditors.

The reports of the Committee shall make appropriate disclosure of the performance of above duties in supervision of financial statements as requested by the regulatory authorities.

#### **Article 16**      Supervision of External Independent Auditors

The Committee shall supervise the following aspects of external independent auditors as required by regulatory requirements to ensure the objectiveness of the financial statements:

- (1) it shall be directly responsible for making recommendations to the board on the appointment, evaluation and removal of any external independent auditors, and to approve all remuneration, terms of engagement and other engagement provisions, and shall handle any matters related to their resignation or dismissal; with respect to the evaluation of the external independent auditors, the Committee shall consider the comments from the management and Internal Audit Department without undue influence of the substantial shareholders, de facto controllers, directors, supervisors or senior management of the Company;
- (2) it shall review and monitor the external independent auditors' independence, objectivity and professionalism and the effectiveness of the audit process in accordance with applicable standards. The Committee should discuss with the external independent auditor regarding the nature and scope of the audit and reporting obligations before the audit commences;
- (3) it shall supervise the performance of the external independent auditors, listen to and review any written report furnished by the external independent auditors as required by laws and regulations; supervise independent auditors to be honest, trustworthy and diligent, strictly comply with business rules and industry self-discipline standards, strictly implement internal control systems, verify the financial accounting reports of the Company, perform special attention obligations, and prudently express professional opinions;
- (4) it shall be responsible for resolving any disagreements between the management and the external independent auditors regarding financial reporting;
- (5) it shall be responsible for pre-approving all audit and non-audit services to be provided by the external independent auditors to the Company. The Committee shall consider the impact of such non-audit services on the independence of external independent auditors, and formulate policies governing such non-audit services. When necessary, the Committee may at its discretion authorise one or two members to pre-approve any aforesaid audit or non-audit services. Nonetheless, such authorisation is subject to the approval of the Committee in the next Committee meeting;

- (6) it shall be responsible for formulating policies regarding the recruitment of existing or former employees of the external independent auditors into the Company;
- (7) it shall be responsible for overseeing any other matters as required by relevant regulations.

Pursuant to the Articles of Association, any proposal about the appointment and removal of the external independent auditors is subject to the approval by way of poll at the general meeting, provided that the Committee shall make recommendations of engagement or replacement of external independent auditors to the Board.

#### **Article 17**    Supervision Duties of Risk Management and Internal Control

The Committee shall review the Company's internal control procedures and supervise the implementation thereof, namely:

- (1) review the Company's financial controls, internal control and risk management systems and their implementation;
- (2) discuss the risk management and internal control systems with the management to ensure that the management has performed its duty to have effective internal control systems. Such discussion shall include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;
- (3) consider major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these findings;
- (4) review and evaluate the Company's financial and accounting policies and practices;
- (5) review the external independent auditors' management letter, any material queries raised by the external independent auditors to management about accounting records, financial accounts or systems of control and management's response;
- (6) ensure that the Board will provide a timely response to the issues raised in the external independent auditors' management letter;
- (7) evaluate the results of assessment and auditing of internal controls, and procure the rectification of internal control deficiencies.

The Committee is entitled to inquire the senior management and Chief Financial Officer of the Company about the following issues:



- (1) whether there is any significant deficiency in the design or operation of internal control procedures which could adversely affect the Company's ability to record, process, summarise and report financial information;
- (2) any weakness in internal control procedures;
- (3) any fraud, whether or not material, that involves the management or employees who have a significant role in the Company's internal controls;
- (4) any significant changes in the Company's internal control procedures;
- (5) other matters required by regulatory policies, laws and regulations.

**Article 18** Supervision of Internal Auditing Matters

The Committee guides the Company's internal auditing work, including:

- (1) reviewing the Company's annual internal auditing plan;
- (2) procuring the implementation of the Company's internal auditing plan;
- (3) reviewing the internal auditing report, evaluate the internal auditing results and procure the rectification of material issues;
- (4) guiding the effective operation of the Internal Audit Department;
- (5) reporting to the Board on the progress and quality of internal auditing work and major issues discovered, etc;
- (6) coordinating the relationship between the Internal Audit Department and external audit units such as accounting firms and national audit authorities;
- (7) guiding and supervising the establishment and implementation of the internal audit system.

The Committee shall ensure co-ordination between the Internal Audit Department and external independent auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor its performance.

The Committee shall keep timely and effective communication with the senior management and Internal Audit Department with regard to the internal auditing matters.

## **Article 19**      Supervision of Material Events

The Committee shall supervise the Internal Audit Department to perform inspections at least bi-annually, pursuant to laws, regulations, the rules of the securities regulatory authorities and the stock exchanges where the shares of the Company are listed, on the implementation of use of proceeds, the provision of guarantees and other material events and the transfer of significant amounts of funds and to report the inspection results to the Committee.

If the Committee believes that there are violations or major risks in the material events mentioned in the preceding paragraph or the Internal Audit Department fails to submit inspection results as specified in the preceding paragraph, it shall report to the Board in a timely manner. The Board shall promptly report to the Shanghai Stock Exchange and make an announcement after receiving the report.

## **Article 20**      Preparation of the Committee Report

The Committee shall prepare and submit the Committee report to the Board, and disclose such report in relevant reports (if applicable) pursuant to relevant requirements.

## **Article 21**      Complaints Procedure

The Committee shall establish whistleblowing policy for:

- (1) the receipt and handling of complaints received by the Company regarding accounting, internal accounting controls and auditing matters;
- (2) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.

## **Article 22**      Authority to Engage Advisors

For the purpose of carrying out their duties, the Committee may engage independent legal advisors, certified accountants or other experts with regard to such issues as to recognising potential conflict of interests, evaluation of disclosure level and other regulatory compliance, independent investigation of financial statements and compliance with securities regulations.

## **Article 23**      Duties of the Committee Members

Each of the Committee members shall diligently and effectively perform his or her duties and exercise his or her rights, in accordance with the applicable regulatory provisions and the Rules, including but not limited to:

- (1) being conscientious, reasonably safeguard the best interests of the Company, fairly protect the overall interests of shareholders;
- (2) attending Committee meetings in person, or in case he/she is unable to attend any meeting, review the meeting materials in advance, form clear opinions and appoint in writing other members to attend such meetings on his/her behalf, with the written appointment stating the scope and duration of the appointment;
- (3) carefully reviewing relevant documents and topics submitted to the members;
- (4) maintaining adequate and effective communications with the senior management, Internal Audit Department and external independent auditors of the Company.

#### **Section 4 Compensation and Budget of the Committee**

##### **Article 24** Compensation of the Committee

The compensation of the Committee, in the form of cash, shares or options, shall be determined and approved by the Board. The Committee members shall not directly or indirectly receive from the Company any consulting fees, advisory fees or any other compensation, except for:

- (1) compensation received as a director (including any compensation and other benefits paid to all directors) or as an employee who is an employee representative;
- (2) compensation for a position in any committee under the Board;
- (3) pension or other deferred compensation to be payable for the service that a director has provided (provided that such compensation is not contingent upon any other service that a director may provide in the future).

##### **Article 25** Budget of the Committee

The Committee shall have its necessary budget and other resources for the performance of its duties, including:

- (1) the expenses paid by the Company to the external auditors in respect to auditing, review or assurance;
- (2) total expenses relating to the appointment of external advisors by the Committee;
- (3) all necessary and appropriate administrative expenses for the Committee to perform its duties.

## **Section 5 Miscellaneous**

### **Article 26**    Validity

The Rules and any amendments thereto shall take effect and be implemented on the date of consideration and approval by the Board. The relevant laws, regulations, rules and regulatory requirements from any securities regulatory authorities or stock exchanges of the listing venue of the shares of the Company or the relevant requirements under the Articles of Association shall prevail where there are matters not covered by the Rules or in the event of any inconsistency with the Rules.

### **Article 27**    Interpretation

The Board of the Company shall be responsible for any interpretation of the Rules.

The Rules are written in Chinese. If there is any discrepancy between the Chinese version and any other translated versions, the Chinese version shall prevail.