

The Company has always attached great importance to corporate governance so as to ensure its sustainable development. Since its initial public offering, in accordance with the requirements of regulatory authorities on corporate governance and international best practice, the Company has always been dedicated to establishing a multi-tier internal control mechanism and strengthening its corporate governance system in order to bring it in line with the international practice of a modern company, improving its corporate governance and increasing transparency of the Company. By doing so, the Company is able to expand its operations, enhance its efficiency and effectiveness, and maximise its shareholders' interests as a whole.

#### Board of Directors

As a company listed in Hong Kong and US, we place special emphasis on compliance with all the regulatory requirements in places where it is listed. The current Articles of Association of the Company, which take into full consideration the laws and regulations of mainland China and the *Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited* (the *Listing Rules*) as well as regulatory requirements for US listed companies, provide guidance to the Company on the improvement of its corporate governance.

The Board of Directors is responsible for the implementation of corporate governance within the Company in accordance with the Articles of Association. Its principal responsibilities include: implementing resolutions of the shareholders' general meetings; making decisions on important matters and administrative affairs of the

Company within its authority, which include formulation of development plans and operational strategies; and supervision and assessment of the Company's management. The Board of Directors usually meets at least twice each year.

The existing Board of Directors of the Company consists of 15 members, comprising 11 executive directors, one non-executive director and three independent non-executive directors. All the executive directors of the Company are experienced in the operation and management of telecommunications institutions. The independent non-executive directors are independent of the shareholders of the Company and do not assume any management position in the Company. All of them satisfy the regulatory requirements for independence and are well-known specialists in economic, trading and financial fields, and are experts with extensive experience in corporate management. We believe that our Board, with its diverse composition, can fully, reasonably, and impartially represent and safeguard the interests of all shareholders, particularly the minority shareholders. At present, an audit committee (the *Audit Committee*) and a remuneration committee (the *Remuneration Committee*) have been set up under the Board of Directors.

#### Audit Committee

The Audit Committee was set up in 2002, and consists of three members. At present all the members are independent non-executive directors. The Audit Committee is accountable to the Board of Directors and reports to it periodically. Usually, the Committee meets at least twice each year.

The Articles of Association of the Audit Committee were approved by the Board of Directors of the Company in March 2005, according to which, the principal responsibilities of the Audit Committee include supervision of the Company to ensure authenticity and completeness of its financial statements, effectiveness and integration of the internal control system. It also supervises our internal audit department, and is responsible for the review and consideration of the qualification and appointment of independent auditors. The Audit Committee has the power to establish a mechanism for receiving and handling complaints or anonymous reports in respect of accounting, internal financial control and audit matters of the Company.

#### *Remuneration Committee*

The Remuneration Committee was set up in 2003. It consists of three members, all of whom are independent non-executive directors. The Remuneration Committee is accountable to the Board of Directors and reports to it on its work periodically. Usually, the Remuneration Committee meets at least twice each year. The Articles of Association of the Remuneration Committee were approved by the Board of Directors of the Company in March 2005, according to which, its principal responsibilities include ensuring that the Company's remuneration system complies with the relevant regulatory requirements, submitting assessment reports on the Company's remuneration system to the Board of Directors, and presenting recommendations to the Board of Directors on the overall remuneration policy and structure relating to directors and senior management of the Company.

#### *Supervisory Committee*

The Company has set up a supervisory committee (the *Supervisory Committee*) in accordance with the requirement under PRC law. The Supervisory Committee consists of five supervisors, including one external supervisor. The Supervisory Committee, as a stand-alone supervisory organisation, is accountable and reports to all shareholders. Generally, the Supervisory Committee meets at least once or twice each year. Its principal responsibilities include supervision of the Company's financial matters in accordance with the law and supervising the performance of duties by directors, managers and other senior management personnel and ensuring they do not abuse their authorities. In order to regulate further the operation of the Supervisory Committee, the Supervisory Committee has considered and adopted the *Charter for Supervisory Committee of China Telecom Corporation Limited*, which are proposed to be submitted to the 2005 annual shareholders' general meeting for consideration and approval.

#### *Internal Control*

The Company reviews the results of the implementation of its internal control mechanism on a regular basis in order to ensure that its internal monitoring and control mechanism operates soundly, stably and effectively, so that the investment of shareholders and assets of the Company can be safeguarded.

In accordance with the requirement of the Sarbanes-Oxley Act of 2002 of the US, the Company has established an internal control

mechanism in respect of financial reporting within the COSO framework. In 2004, the Board of Directors of the Company adopted the *Manual of China Telecom Corporation Limited on Internal Control in Respect of Financial Reporting*, and has started formulating detailed rules for its implementation.

In order to further strengthen the management of connected transactions, so as to protect the interests of the Company and shareholders, particularly minority shareholders, the Board of Directors of the Company adopted the *Measures of China Telecom Corporation Limited on the Management of Connected Transactions* in 2004.

In February 2005, a professional who is experienced in the auditing of financial statements, company secretarial matters and financial management of listed companies was appointed by the Company as a senior financial officer and the qualified accountant of the Company, in accordance with the requirement of the Listing Rules, to assist the Company in its improvement of financial reporting procedures and internal control systems as the qualified accountant of the Company.

#### Code of Ethics

In accordance with the requirement of the Sarbanes-Oxley Act of the US, the Board of Directors of the Company adopted the *Code of Occupational Ethics for Senior Management of China Telecom Corporation Limited*, at the same time, the Board of

Directors of the Company adopted the *Code of Occupational Ethics for Employees of China Telecom Corporation Limited* by reference to the provisions of the Corporate Governance Code issued by the New York Securities Exchange, for the purpose of regulating and guiding the senior management personnel and other employees of the Company, so as to ensure that they perform their duties legally and in good faith.

#### Corporate Transparency and Investors Communications

The Company stresses the importance of transparency, and has established a general office and an investor relations department to assist investors and facilitate information disclosure, so as to maintain a daily communication channel with shareholders, investors and media. In addition, the Company provides investors and media with important information and responds to investors' latest key questions through meetings with investment analysts, reverse road shows, press conferences, telephone conferences with investors and other means, to promote their understanding of the development of the Company's business and the overall telecommunications industry in China.

In March 2005, the Board of Directors of the Company adopted the *Rules of China Telecom Corporation Limited on the Management of Information Disclosure (for Trial Implementation)*, with a view to strengthening the management of the Company's information disclosure.