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Corporate Governance Report

The Company is dedicated to enhance corporate values and ensure long term sustainable development. Inheriting an excellent and prudent management style, and insisting on practicing corporate governance with efficient management and operations, the Company strongly believes that sound corporate governance can ensure management effectiveness, prosperous corporate culture, successful business development and a sustainable increase in shareholders' value. In 2008, the Company increasingly improved the daily operations of the Board of Directors and its sub-committees, continued to perfect and optimise the Company's organisational structure, and put comprehensive risk management into operational practice, so as to continuously enhance its 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 in the fiscal year ended 31 December 2008, the Company has been in compliance with all of the code provisions as set out in Appendix 14 "Code on Corporate Governance Practices" of the Listing Rules. In the Company's opinion, through effective 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. Many international leading corporations have a similar arrangement.

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 are 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 non-US companies listed 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 as the "Best Managed Company — China 2008" by *FinanceAsia*. In addition, the Company has been awarded the "Asia's Best Managed Fixed Telecom Company" by *Euromoney* for two consecutive years, "The CAPITAL Outstanding China Enterprise Awards — Telecommunications" by *CAPITAL* for three consecutive years. The Company's annual report also won the Gold Award in the category of "Annual Reports: Telecommunications" in the "GALAXY 2008 Awards". The Company's website (www.chinatelecom-h.com) was accredited as the "Best Investor Relations Website in China" by "IR Global Rankings 2008".



China Telecom accredited with "The CAPITAL Outstanding China Enterprise Awards — Telecommunications" by CAPITAL for three consecutive years



China Telecom's annual report awarded Gold Winner in "Galaxy Awards"



China Telecom's corporate website accredited as the "Best Investor Relations Website in China" by IR Global Ranking

Overall Structure of Corporate Governance

A double-tier structure has been adopted as the overall structure for corporate governance: the Board and the Supervisory Committee are established under the Shareholders' Meeting. The Board is authorised by the Articles of Association to make major decisions in regard to the Company's operations and to oversee the daily operations of the senior management. Audit Committee, Remuneration Committee and Nomination Committee were established under the Board. The Supervisory Committee is mainly responsible for the 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 centralised management requirements, the Company was approved, at the shareholder meeting in February 2008, to merge with its twenty wholly-owned subsidiaries ("provincial subsidiaries"), such as Shanghai Telecom Company Limited, by way of absorption and to establish twenty provincial branches to take over the management and operation of the Company's former provincial subsidiaries. In the second half of 2008, the Company merged with Beijing Telecom, which it acquired earlier, by way of absorption. Beijing branch was established to be responsible for the operation of wireline and mobile telecommunication services in Beijing. The Company also established provincial branches in Xizang (Tibet) Autonomous Region and in nine Northern provinces, including Shandong, etc., which are responsible for the operations of mobile telecommunications business in their respective service regions. Since then, the Company had set up provincial branches in all thirty-one provinces, autonomous regions and municipalities in Chinese mainland. After the absorptions and mergers, the resulting organisational structure and management system are more suitable for the needs of the Group's development strategies. They will also enhance the integration and optimal allocation of the Group's internal resources, further reduce the Group's management costs, as well as improve its centralised management standards and overall efficiency.

Shareholders' Meeting

In 2008, the Company convened five shareholders' general meetings, including the Annual General Meeting ("AGM") for 2007 and four Extraordinary General Meetings ("EGM"). The AGM held on 30 May 2008 reviewed and approved the financial statements for the year ended 2007, Report of the Independent International Auditor, proposal for annual profit distribution and final dividends, authorization to the Board for the formulation of a budget for 2008, appointment and remuneration of auditors, and authorisation to the Board to issue bonds.

The first EGM held on 25 February 2008 approved the mergers with the 20 wholly-owned provincial subsidiaries by way of absorption, including its Shanghai Telecom Company Limited. The second EGM held on 30 May 2008 approved the Company's merger with Beijing Telecom, which it acquired earlier, by way of absorption and the revision of the Articles of Association. The third EGM held on 5 September 2008 elected the members of the Board of Directors and Supervisory Committee, and approved the authorisation to the Board to issue bonds. The fourth EGM held on 16 September 2008 approved the CDMA network capacity lease agreement, the renewal of continuing connected transactions and the revision of the Articles of Association.

At each of the shareholders' general meetings, a separate shareholders' resolution was proposed in respect to each independent item, and details of the voting procedures and the right of voting by poll at the demand of shareholders were recorded in the circulars to shareholders in accordance with the Articles of Association and the governing listing rules. These circulars to shareholders also provided details about the resolutions. Voting results were published on the websites of the Company and The Stock Exchange of Hong Kong Limited. The Company attaches great importance to the shareholders general meetings and the communication between directors and shareholders. The directors provided detailed and complete answers to the questions raised by shareholders at the shareholders' general meetings. Since the Company's listing in 2002, all resolutions tabled at the Company's shareholders general meetings were already conducted via voting by poll, which were much earlier than the newly revised Listing Rules adopted by The Stock Exchange of Hong Kong Limited on 1 January 2009, that make it mandatory for all resolutions in the shareholders general meetings be conducted via voting by poll.



The Annual General Meeting held in Hong Kong on 30 May 2008

Corporate Governance Report

Board of Directors

Following the expiration of the term of office for the Second Session of the Board of Directors on 9 September 2008, Mr. Leng Rongquan, Mr. Li Ping, Mr. Zhang Youcai, Mr. Lo Hong Sui, Vincent and Mr. Shi Wanpeng resigned from their positions as Directors of the Company. The remaining directors of the Second Session of the Board of Directors continued to serve their duties for the Third Session of the Board after election at the EGM held on 5 September 2008. On the same day, Mr. Shang Bing, Mr. Yang Xiaowei, Mr. Wu Jichuan, Mr. Qin Xiao and Madam Cha May Lung, Laura were elected at the EGM as directors of the Third Session of the Board of Directors, effective from 9 September 2008.

The current Board of Directors comprises 14 directors with eight executive directors, one non-executive director, and five independent non-executive directors. The period of office lasts for three years, starting from 9 September 2008 until the day of the Company's Annual General Meeting in 2011.

The number of independent non-executive directors constitute more than one-third of the Board members. Mr. Tse Hau Yin, Aloysius, 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 comprise solely independent non-executive directors, ensuring that the committees are able to make independent judgments effectively.

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 procedures of Board meetings are in compliance in terms of organisation, regulations and personnel. The Board is responsible for the effective supervision of the preparation of financial statements for each financial period, so that such financial statements truly and fairly reflect the financial position, the operating results and cash flows of the Company for each period. In preparing the financial statements for the year ended 31 December 2008, the directors selected appropriate accounting policies and made prudent, fair and reasonable judgments and estimates, and prepared the financial statements 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 management 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 implementation of the resolutions of the Board, developing the annual operation plans and investment proposals of the Company, set-up of the Company's internal administrative organisations and sub-organisations, and performs other duties as authorised by the Articles of Association and the Board. In order to maintain a highly efficient operation, as well as flexibility and swiftness in 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 capabilities of the Board in exercising its powers.

All members of the Board of Directors/Committee will be informed of the meeting schedule for the Board of Directors/Committee for the year at the beginning of each year. In addition, all Directors will receive notification at least 14 days prior to the meeting under normal circumstances. The Company Secretary is responsible for ensuring that the Board meetings comply with the procedures, related rules and regulations while all directors can make inquiries to the Company Secretary for details. In addition, the Company reminds directors of their functions and responsibilities regularly. Through regular Board meetings, all directors are able to understand the operation, business and development of the Company. The Company also provides all newly appointed directors with updated information of industry development through arranging induction activities.

Attendance rates of individual directors (including attendance with written proxies) at Board meetings in 2008

Number of Directors

14

Directors	Meetings for The Second Session of the Board (2008)	Attendance Rates
Executive Directors		
Wang Xiaochu (<i>Chairman</i>)	5/5	100%
Leng Rongquan	5/5	100%
Wu Andi	5/5	100%
Zhang Jiping	5/5	100%
Zhang Chenshuang	5/5	100%
Li Ping	5/5	100%
Yang Jie	5/5	100%
Sun Kangmin	5/5	100%
Independent Non-executive Directors		
Zhang Youcai	5/5	100%
Lo Hong Sui, Vincent	5/5	100%
Shi Wanpeng	5/5	100%
Xu Erming	5/5	100%
Tse Hau Yin, Aloysius	5/5	100%
Non-Executive Director		
Li Jinming	5/5	100%

Corporate Governance Report

Directors	Meetings for The Third Session of the Board (2008)	Attendance Rates
Executive Directors		
Wang Xiaochu (<i>Chairman</i>)	1/1	100%
Shang Bing	1/1	100%
Wu Andi	1/1	100%
Zhang Jiping	1/1	100%
Zhang Chenshuang	1/1	100%
Yang Xiaowei	1/1	100%
Yang Jie	1/1	100%
Sun Kangmin	1/1	100%
Independent Non-executive Directors		
Wu Jichuan	1/1	100%
Qin Xiao	1/1	100%
Tse Hau Yin, Aloysius	1/1	100%
Cha May Lung, Laura	1/1	100%
Xu Erming	1/1	100%
Non-Executive Director		
Li Jinming	1/1	100%

In 2008, the Board of Directors played a significant role in the Company's operations, budgeting, decision-making, supervision, internal control, organizational restructuring and corporate governance. In 2008, the Board and the committees under it convened 15 meetings, including two independent board member meetings. At these meetings, the Board reviewed matters including the Company's annual and interim financial statements, acquisition of the CDMA business, approval of the CDMA network capacity leasing agreement, annual operational, financial and investment budgets, acquisition of and merger by ways of absorption with Beijing Telecom, annual asset appraisals, internal control implementation and assessment report, proposal for annual profit distribution, appointment and remuneration of auditors, authorization to the Company for bond issue, revision of the Articles of Association, continuing connected transactions and the optimisation of the Company's organisational structure.

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules to govern securities transactions by the Directors. 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.

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

In 2008, pursuant to the requirements of the governing laws and regulations of the places of listing and the Articles of Association of the Audit Committee, and under the clear mandate of the Board, the Audit Committee fully assumed its responsibilities, improved its capacity in reviewing and processing proposals, and continuously optimised the depth and width of the review of proposals. The Audit Committee also proposed a number of practical and professional improvement recommendations based on the Company's actual circumstances, in order to promote the continuous improvement and perfection of 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 2008, 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 and connected transactions. The Audit Committee received quarterly reports in relation to the internal audit and connected transactions and provided guidance to the internal audit department. Additionally, the Audit Committee reviewed internal control assessment and audit reports, reviewed the U.S. annual report, and communicated exclusively with the auditors.

Attendance rates of individual members of the Audit Committee in 2008 (including attendance with written proxies)

Second Session of the Audit Committee

Number of Committee members **4**

Percentage of Independent Non-executive Directors of the Committee **100%**

Member of the Committee	Number of Meetings (2008)	Attendance Rates
Tse Hau Yin, Aloysius (<i>Chairman of the Committee</i>)	3/3	100%
Zhang Youcai	3/3	100%
Shi Wanpeng	3/3	100%
Xu Erming	3/3	100%

Third Session of the Audit Committee

Number of Committee members **4**

Percentage of Independent Non-executive Directors of the Committee **100%**

Member of the Committee	Number of Meetings (2008)	Attendance Rates
Tse Hau Yin, Aloysius (<i>Chairman of the Committee</i>)	1/1	100%
Wu Jichuan	1/1	100%
Qin Xiao	1/1	100%
Xu Erming	1/1	100%

To ensure continued compliance with the newly revised Code on Corporate Governance Practices, the Charter of the Audit Committee was revised, specifying its monitoring role in association with financial reporting. Its role includes the responsibility to review the Company's financial accounting and reporting capabilities, such as adequacy of human resources, staff qualifications and experience, staff training and the related budget.

Corporate Governance Report

Remuneration Committee

The Remuneration Committee comprises 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 supervising 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 to 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 2008, the Remuneration Committee convened two meetings, where it reviewed the remuneration of executive directors, the proposal for stock appreciation rights, the Company's performance appraisal and reward, and the proposal for the remuneration of the members of the Third Session of the Board of Directors.

Attendance rates of individual members of the Remuneration Committee in 2008 (including attendance with written proxies)

Second Session of the Remuneration Committee

Number of Committee members 4

Percentage of Independent Non-executive Directors of the Committee 100%

Member of the Committee	Number of Meetings (2008)	Attendance Rates
Lo Hong Sui, Vincent (<i>Chairman of the Committee</i>)	1/1	100%
Shi Wanpeng	1/1	100%
Xu Erming	1/1	100%
Tse Hau Yin, Aloysius	1/1	100%

Third Session of the Remuneration Committee

Number of Committee members 4

Percentage of Independent Non-executive Directors of the Committee 100%

Member of the Committee	Number of Meetings (2008)	Attendance Rates
Xu Erming (<i>Chairman of the Committee</i>)	1/1	100%
Wu Jichuan	1/1	100%
Qin Xiao	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 specifically requires that the Nomination Committee members have no significant connection to the Company, and comply with the requirements related to independence. The Nomination Committee assists the Board to formulate standardised, prudent and 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 2008, the Nomination Committee has convened one meeting, where it advised the Board on candidates for the position of Directors for the Third Session of Board of Directors.

Attendance rates of individual members of the Nomination Committee in 2008 (including attendance with written proxies)

Second Session of the Nomination Committee

Number of Committee members	4
Percentage of Independent Non-executive Directors of the Committee	100%

Member of the Committee	Number of Meetings (2008)	Attendance Rates
Shi Wanpeng (<i>Chairman of the Committee</i>)	1/1	100%
Zhang Youcai	1/1	100%
Xu Erming	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 two meetings, where it reviewed and approved the acquisition of Beijing Telecom, and the CDMA network capacity leasing agreement with the China Telecommunications Corporation, confirming that the connected transactions are in the interests of the Company as a whole and are fair and reasonable to the independent shareholders. The committee also submits recommendations on these matters to the independent shareholders.

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Supervisory Committee

The Company established the Supervisory Committee in accordance with PRC Company Law. At present, the Supervisory Committee comprises five supervisors, of which there is an external independent supervisor and an employee representative supervisor. Following the expiration of the term of office for the Second Session of the Supervisory Committee on 9 September 2008, Madam Wang Haiyun resigned from her position as the supervisor. Three Supervisors of the Second Session of Supervisory Committee, Mr. Xiao Jinxue, Madam Zhu Lihao and Mr. Xu Cailiao, were re-elected as the supervisors of the Third Session of the Supervisory Committee at the Extraordinary General Meeting held on 5 September 2008. On the same day, Madam Han Fang was elected as the supervisor of the Third Session of the Supervisory Committee, effective from 9 September 2008. Mr. Ma Yuzhu was re-elected by the employees of the Company to act as the employee representative supervisor.

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

Attendance rates of individual members of the Supervisory Committee in 2008

The Second Session of Supervisory Committee

Number of supervisors **5**

Number of meetings in 2008 **2**

Supervisors	Number of Meetings	Attendance Rates
Xiao Jinxue (<i>Chairman of the Committee</i>)	2/2	100%
Zhu Lihao (<i>Independent Supervisor</i>)	2/2	100%
Ma Yuzhu (<i>Employee Representative Supervisor</i>)	2/2	100%
Xu Cailiao	2/2	100%
Wang Haiyun	2/2	100%

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.

A 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 2008 is as follows:

Service item	Fee (RMB in millions)
Audit services	80.00
Non-audit services (Due diligence of the CDMA business acquisition, Internal Control Advisory Service, etc)	46.71

The Audit Committee and the Board have agreed to the re-appointment of KPMG and KPMG Huazhen, respectively, as the international and domestic auditors of the Company for the year ending 31 December 2009, and the proposal will be submitted for approval at the 2008 Annual General Meeting.

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 and to monitor the effective implementation of such system, in order to protect shareholders' investment and the Company's assets, whilst enhancing operation efficiency and effectiveness, and improving corporate governance, risk assessment, risk management and internal control. In this way, the Company can achieve long-term development goals. 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, an effective delegation and accountability system, definite targets, policies and procedures, comprehensive risk assessment and management, a sound financial accounting system, and continuing 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 has 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. Over more than five years, the Company has formulated manuals, implementing rules and supporting regulations in relation to internal control and based on the requirements of the U.S. securities regulatory authorities and the COSO Internal Control Framework. The Company has also been strengthening its IT internal control capabilities, which has improved the efficiency and effectiveness of internal control, enhancing the safety of the Company's information system so that the integrity, timeliness and reliability of data and information are maintained.

Despite the fact that The Stock Exchange of Hong Kong Limited, since 1 January 2009, has removed the mandatory requirements associated with qualified accountants from its Listing Rules, the Company has continued to engage an internationally recognized accountant, who is highly experienced in auditing, company secretarial areas and advanced financial management of listed companies, to act as the Assistant Chief Financial Officer and Company Secretary of the Company, and as a Qualified Accountant, to assist in refining the internal control and financial reporting procedures.

In 2008, in response to industry restructuring, organisational restructuring, new trends in business and management, and the regulatory requirements of the Ministry of Finance, the Company has speeded up the renewal and improvement of its internal control systems. This has ensured effective internal control implementation under full services integrated operations. The Company also accelerated the establishment of a system of internal control support and management to enhance efficiency and quality. The Company has prepared training materials and carried out various trainings for internal control to improve the standard of its daily internal control management. Additionally, the Company has developed a professional internal control team through improvements in appraisal management and streamlining job responsibilities, forming a close-loop management mechanism for internal control and promoting the standardisation of the Company's internal management.

To ensure the truthfulness, accuracy, completeness and timeliness of the Company's information disclosure, the Company has formulated rules for its information disclosure management in order to improve management of the Company's information disclosure. It primarily focuses on: the disclosure of important information such as share price sensitive data and annual and interim reports; standardising the Company's internal collection, processing, summarisation and reporting of its important information; formulating procedures for the regular and irregular external disclosure of documents; and defining the responsibilities and behavior standards of related internal departments, branches, and subsidiaries of the Company in respect to information disclosure.

Comprehensive Risk Management

The Company views comprehensive risk management as an important task within the Company's daily operation. Pursuant to regulatory requirements in the United States and Hong Kong, the Company has formulated a five-step risk management approach based on risk management theory and practice, 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 a standardised risk management procedure so that risk management terminology was unified across all levels of the Company and the effectiveness of risk management was improved.

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Pursuant to the requirement of provision C2 of the Code on Corporate Governance Practices of The Stock Exchange of Hong Kong Limited, in 2008, the Company coordinated different business departments, provincial branches and local branches to incorporate comprehensive risk management into its daily operation. The Company has implemented risk categorisation and centralised risk management, with resources concentrated on the prevention of three major risks, including restructuring risk, wireline business operation risk, and labor employment risk.

In 2008, the Company experienced major risk events including the serious snowstorms, earthquakes, the global financial crisis and industrial restructuring. The Company carried out its risk management actively and effectively. In accordance with its risk management plan, the Company took tailored measures, in particular fully organising and mobilising all efforts and undertaking its emergency response mechanism, thus controlling and reducing loss. As a result, the impact and damage from these risks to the Company were brought under control, ensuring continued progress of the Company's strategic transformation and full services integrated operations, and protecting the overall interests of the Company and its shareholders to the most extent.

Annual Internal Control Evaluation

The Company has been continuously improving its internal control system. In order to meet the governing regulatory requirements of its places of listing, including the United States and Hong Kong, and strengthen its internal control while guarding against operational risks, the Company's internal audit department is responsible for coordinating the supervision and assessment of internal control.

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 Audit Standard No. 5 that were issued by PCAOB as its directives, the Company's internal control assessment is composed of the self-assessment conducted by the persons responsible for internal control and of the independent assessment conducted by the internal audit department. In order to judge the nature of deficiencies in internal control and analyse the effectiveness of the internal control system, the Company adopts the following four major steps of assessment: (1) analyse and identify areas which require assessment, (2) assess the effectiveness of the design of internal control, (3) assess the effectiveness of the execution of internal control, (4) analyse the impact of deficiencies in internal control. The Company then rectifies any deficiencies found after the assessment. By formulating "Interim Measures for the Internal Control Assessment of Listed Companies", "Manual for the Self-Assessment of Internal Control", "Manual for the Independent Assessment of Internal Control" and other documents, the Company has ensured the assessment procedures are in compliance.

In 2008, the Company's internal audit department initiated and coordinated the assessment of internal control in all areas of the Company, reported the outcome to the Audit Committee in a timely manner and executed the opinions and recommendations set out by the Audit Committee. The internal audit department focused on risk control and worked together with the external auditors to formulate and execute different assessment plans with respect to different control areas.

The internal assessment of internal control of the Company is divided into two parts, (1) self-assessment, which is conducted by the persons responsible for internal control, (2) independent assessment, which is conducted by internal audit departments to evaluate the internal control system. Self-assessment of internal control adopts a top-down approach which reinforces assessment in respect of control points at the corporate level and control points corresponding to major accounting items. The Company insisted on risk-oriented principles and, on the basis of comprehensive assessment, identified key control areas and control points for major assessment through risk analysis. In 2008, based on its past experiences and adhering to the principle of optimising assessment procedures and facilitating operations, the Company explored and further improved the ways and measures of self-assessment. In order to achieve this, the Company (1) optimised the organisation of self-assessment, based on the assessment undertaken in the fiscal year 2008, by increasing self-assessment work on specific areas and managing specified risks in a timely manner, (2) carried out annual self-assessment in a flexible and efficient manner, (3) carried out self-assessment by combining operation and management. As a result, the Company succeeded in further improving the risk responses and depth of risk management whilst identifying and solving problems in a timely manner, improving both quality and efficiency.

In 2008, the Company actively investigated and proposed key issues as major risks for independent assessment that needed to be investigated deeply and thoroughly, so as to clearly identify and solve problems. The Company combined effectively its internal control manuals with regulations. Instead of merely examining each procedure separately by referring mechanically to the internal control manuals, the Company referred to the relevant managing procedures and standard from the regulations. To ensure that the nature of risks and problems were identified and captured, the Company's assessment had to be based on a complete internal control system. In addition, the Company proposed to integrate independent assessment and daily audit projects effectively, aiming to improve the guidance of effectiveness of the overall audits. In this way, all units of the Company could enhance the quality and efficiency of their independent assessment. In accordance with the ideology and arrangement of assessment for the Company, all provincial branches launched a proactive independent assessment within each province. When problems of internal control were identified after the assessment, the provincial branches proposed recommendations and oversaw the process to rectify the problems. As a result, the independent assessment effectiveness of each provincial branch was improved. The Company guided all provincial branches to launch these independent assessments, whilst launching independent assessments of some provincial branches by incorporating a number of factors into consideration, such as extraordinary risks of internal control, proportion of assets and revenue, and the frequency of assessment made by external auditors. Through independent assessment, the Company not only grasped the overall situation of internal control, but also developed key tests for its high-risk processes. In addition, the Company inspected the related units in respect of their rectification of internal control deficiencies and focused on the key issues in order to ensure the depth and quality of assessment.

All levels of the Company have been attaching great importance to rectifying internal control deficiencies. The Company pushes all units to carry out rectification in relation to deficiencies identified through self-assessment, independent assessment and the internal control audit made by the external auditors. The Company also highlighted the participation of professional departments whilst exploring the establishment of an internal control mechanism with long-term efficiency. To ensure effective rectification, the Company also strengthened the verification and supervision of the rectification of internal control deficiencies. Pursuant to requests from the Company, all provincial companies launched rectification on any deficiencies identified from the assessment (including the assessment by external auditors) in a positive manner.

The Company organised internal control assessment during which the internal control assessment team and other relevant departments closely coordinated with the external auditors. The external auditors performed audits on the key processes and control points in relation to major accounting items. The Company maintained regular communication with the external auditors and rectified deficiencies in a timely manner and successfully passed the year-end audit undertaken by the external auditors.

Through unified self-assessment, independent assessment as well as supplementary assessment and the independent assessment of all provincial branches, the Company carried out multi-layered and full-dimensional reviews of its internal control system, and put its utmost efforts into rectifying the problems which were identified. Through this method, the Company was able to ensure the effectiveness of internal control. The Board, through the Audit Committee, reviewed the internal control system of the Company and its subsidiaries for the financial year ended 31 December 2008, which covered its controls on financial reporting, operations and compliance, as well as its risk management functions. The Board is of the view that the Company's internal control system is solid, complete and effective.

Corporate Governance Report

Investor Relations and Transparent Information Disclosure Mechanism

The Company establishes departments for investor relations management that are responsible for maintaining proactive communications with shareholders, investors and other capital market participants and providing them, in a timely manner, with the necessary information, data and services so as to allow them to fully understand the operations and development of the Company.

With an aim of strengthening communications with the capital market, and enhancing the transparency of information disclosure, the Company made quarterly disclosures of revenues, EBITDA, net profit and some major operating indicators, and monthly announcements on the number of local wireline access lines in service and broadband service subscribers. Since the Company began its mobile business operations in October 2008, the Company also made monthly disclosures of the number of mobile services subscribers. The Company attaches great importance to maintaining daily communication with shareholders, investors and analysts. In 2008, the Company has participated in many investment conferences hosted by a number of major international investment banks in order to maintain active communication with institutional investors.

In 2008, the Company attended the following investment conferences hosted by major international investment banks:

Date	Name of Conference
January 2008	Deutsche Bank Access China Conference 2008
January 2008	UBS Greater China Conference 2008
March 2008	Credit Suisse Asian Investment Conference 2008
March 2008	Merrill Lynch Asia Telecom Tour 2008
April 2008	JP Morgan China Conference 2008
May 2008	CLSA China Forum 2008
June 2008	CICC Investment Conference
June 2008	Nomura Asian Telecom Days
July 2008	Nomura Asia Equity Forum 2008
September 2008	Citigroup Telecom Day 2008
September 2008	Lehman Brothers Telecom Tour 2008
October 2008	Citigroup Greater China Investor Conference 2008
October 2008	CLSA China/Hong Kong Corporate Access Day 2008
October 2008	Merrill Lynch China Investment Summit 2008
November 2008	HKEx/Daiwa Investors Conference 2008
November 2008	Daiwa Investment Conference (Hong Kong) 2008
November 2008	Goldman Sachs China Investment Frontier Conference 2008
November 2008	Morgan Stanley Asia-Pacific Summit 2008



Announcement of the CDMA business acquisition on 2 June 2008





2008 Interim Results Announcement on 28 August 2008

In recent years, the Company's website has been continuously reformed and innovated. 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 in order to ensure its investor relations website not only function as the primary channel to distribute news and company information to investors and the capital market, but also play an important role in the valuation of the listed company and the compliance with rules on information disclosure, thus achieving excellent interactive communication with investors and shareholders. The Company has also taken the initiative in issuing surveys to shareholders in order to seek their suggestions in relation to the improvement of the annual report. Based on the suggestions received, the Company has improved its methods of preparing and distributing the annual reports to better achieve environment protection and cost saving.

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 and the New York Stock Exchange ("NYSE"). As a foreign private issuer in respect of its listing on the NYSE, 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 the Company 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 of Hong Kong Limited, 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 in Hong Kong 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 Practices 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 of Hong Kong Limited for the accounting year ended 31 December 2008.