



# Corporate Governance Report

# Corporate Governance Report

## Overview of Corporate Governance

The Company is dedicated to enhance corporate values and ensure long term sustainable development. To achieve this goal, the Company inherited an excellent and prudent management style and insisted on practising highly transparent corporate governance with efficient management and operations. The Company attaches great importance on high quality board management, comprehensive internal control mechanism and sufficient transparency and strives to ensure the operations are in the long term interests of the Company and its shareholders as a whole. In 2009, 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.

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 control requirements.

The Charter of Audit Committee of the Company was amended in March 2009 to reflect certain code provisions under the Code on Corporate Governance Practices in Appendix 14 of the Listing Rules which became effective from 1 January 2009. The roles of Chairman and Chief Executive Officer of the Company were performed by the same individual for the year of 2009. In the Company's opinion, through supervision of the Board and the Independent Non-Executive Directors, and effective control of the Company's internal check and balance 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 execution, and effectively capture business opportunities. Many leading international corporations also have similar arrangements.

Save as stated above, 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 the year 2009.

In 2009, the Company's continuous efforts in corporate governance had gained wide recognition from the capital market and accredited with a number of awards. The Company was honored Number 1 in the "Model State-owned Enterprises in China" for the year 2009 by the government. The Company was also named the "No. 1 Best Managed Company in Asia" and "No. 1 Best Managed Company in China" by *Euromoney*, while at the same time was ranked as having the "Best Corporate Governance in Asia", the "Most Convincing and Coherent Strategy in Asia" and the "Most Accessible Senior Management in Asia" in each individual categories. In addition, the Company was awarded "Best Investor Relations", "Best Managed Company" and "Best Corporate Governance" by *FinanceAsia*, and Mr. Wang Xiaochu, Chairman and Chief Executive Officer of the Company, was awarded "Best CEO" in China, and Madam Wu Andi, Chief Financial Officer of the Company, was awarded "Best CFO" in China. Furthermore, the Company was accredited with "The Most Promising Companies in China" by *The Asset*; the "Asia's Best Companies in Corporate Governance in China" by *Corporate Governance Asia*; ranked as "Top 10 in China" in the "Asia 200" survey by *The Wall Street Journal Asia*; and was awarded "CAPITAL Outstanding China Enterprise Awards — Telecommunications" by *CAPITAL* for four consecutive years. The Company's 2008 Annual Report also won the Gold Award in the overall annual report category at the "2009 International ARC Awards" and won the "Grand Award — Best of Hong Kong" amongst the winning entries in the "Best of Class" competition.



## Corporate Governance Report (continued)

### 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. Audit Committee, Remuneration Committee and Nomination Committee were established under the Board. The Board is authorised by the Articles of Association to make major decisions in regard to the Company's operation and to oversee the daily operation of the senior management. 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.

### Shareholders' Meeting

In 2009, the Company convened three shareholders' general meetings, including the Annual General Meeting ("AGM") for 2008 and two Extraordinary General Meetings ("EGM"). The AGM held on 26 May 2009 reviewed and approved the financial statements for the year of 2008, Report of the Independent International Auditor, proposal for annual profit distribution and final dividends, authorisation to the Board for the formulation of a budget for 2009, appointment and remuneration of auditors, and authorisation to the Board to issue bonds. The first EGM was held on 12 March 2009 to approve the amendments to the Articles of Association to include the CDMA2000 3G mobile business in the scope of business of the Company. The second EGM was held on 29 December 2009 to approve the renewal of connected transactions, appointment of supervisor and amendments to the Articles of Association.



The Annual General Meeting held in Hong Kong on 26 May 2009

## Corporate Governance Report (continued)

Since the Company's listing in 2002, 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 of the places of listing. These circulars to shareholders also provided details about the resolutions. All resolutions tabled at the Company's shareholders general meetings were already conducted via voting by poll and all 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.

### Board of Directors

The Third Session of the 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 provide sufficient review, strive the balance and make independent judgments effectively to protect the interest of shareholders and the Company as a whole.

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 2009, the directors adopted 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 are 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 all procedures, related rules and regulations while all directors can make inquiries to the Corporate Secretary for details to ensure that they have received sufficient information on various matters related to the meeting agendas. In addition, the Company regularly reminds directors of their functions and responsibilities by providing them with information about the latest development of listing rules and



## Corporate Governance Report (continued)

other applicable regulations. To ensure that directors are familiar with the Company's latest operations for decision-making, the Company provides key financial data and operational information to the directors on a monthly basis. Through regular Board meetings and reports from management, the directors are able to clearly understand the operations, business strategy and latest development of the Company and the industry. The Company also provides all newly appointed directors with updated data on industry development by arranging induction activities.

The Board meets at least four times a year. Additional board meetings will be held when necessary. In 2009, the Board of Directors played a significant role in the Company's operation, budgeting, decision-making, supervision, internal control, organisational restructuring and corporate governance. In 2009, the Company convened four board meetings, four audit committee meetings and one independent board meeting. At these meetings, the Board reviewed matters including the Company's annual and interim financial statements, annual operational, financial and investment budgets, the impairment loss of the PHS assets, annual asset appraisals, internal control implementation and assessment report, proposal for annual profit distribution, annual report and interim report, appointment and remuneration of auditors, approval of authorisation granted to the Company for bond issue, amendments to the Articles of Association and continuing connected transactions.

### *Attendance rates of individual directors at Board meetings in 2009 (including attendance with written proxies)*

#### Number of Directors

14

Directors	Number of meeting/attendance	Attendance Rates
<b>Executive Directors</b>		
Wang Xiaochu ( <i>Chairman</i> )	4/4	100%
Shang Bing	4/4	100%
Wu Andi	4/4	100%
Zhang Jiping	4/4	100%
Zhang Chenshuang	4/4	100%
Yang Xiaowei	4/4	100%
Yang Jie	4/4	100%
Sun Kangmin	4/4	100%
<b>Independent Non-executive Directors</b>		
Wu Jichuan	4/4	100%
Qin Xiao	4/4	100%
Tse Hau Yin, Aloysius	4/4	100%
Cha May Lung, Laura	4/4	100%
Xu Erming	4/4	100%
<b>Non-Executive Director</b>		
Li Jinming	4/4	100%

## Corporate Governance Report (*continued*)

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers 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 of 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 ensures that the management has discharged its duty to establish and maintain an effective internal control system including the adequacy of resources, qualifications and experience of staff fulfilling the accounting and financial reporting function of the Company together with the adequacy of the staff's training programmes and the related budget. 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 2009, pursuant to the requirements of the governing laws and regulations of the places of listing and the Charter of the Audit Committee, and under the clear mandate of the Board, the Audit Committee fully assumed its responsibilities. 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 2009, 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, connected transactions and amendments to the Charter of the Audit Committee. 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, followed up with the recommendations proposed by the external auditors, reviewed the U.S. annual report, and communicated independently with the auditors.



## Corporate Governance Report (*continued*)

### *Attendance rates of individual members of the Audit Committee in 2009 (including attendance with written proxies)*

Number of Committee members 4

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

Member of the Committee	Number of meeting/attendance	Attendance Rates
Tse Hau Yin, Aloysius ( <i>Chairman of the Committee</i> )	4/4	100%
Wu Jichuan	4/4	100%
Qin Xiao	4/4	100%
Xu Erming	4/4	100%

### Remuneration Committee

The Remuneration Committee comprises four independent non-executive directors. The Charter of 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 its work to the Board. No meeting was held by the Remuneration Committee in 2009.

### Nomination Committee

The Company's Nomination Committee was formed by four independent non-executive directors. The Charter of 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 regulatory 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 its work. The Nomination Committee has not convened any meeting in 2009 because there were no significant matters such as the addition and replacement of directors.

### Independent Board Committee

Pursuant to the requirements under the Listing Rules, the Company's Independent Board Committee convened one meeting in 2009, with all five independent non-executive directors attended where it reviewed the renewal of connected transactions and gave the relevant confirmation as well as submitted the recommendations on these matters to the independent shareholders.

### 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. Mr. Xiao Jinxue tendered his resignation as a supervisor of the Company in 2009 due to a change in job responsibility. The Company convened an Extraordinary General Meeting on 29 December 2009 to appoint Mr. Miao Jianhua to be the supervisor of the Third Session of the Supervisory Committee. On the same date after the Extraordinary General Meeting, the Supervisory Committee held a meeting to elect Mr. Miao Jianhua as the Chairman of the Supervisory Committee.

## Corporate Governance Report (continued)

The principal duties of the Supervisory Committee include supervising, in accordance with the law, the Company's financials and performance of its 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 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 2009

*The Third Session of the Supervisory Committee*

**Number of Supervisors** **5**

**Number of meetings in 2009** **5**

Supervisors	Number of Meetings/attendance	Attendance Rates
Miao Jianhua ( <i>Chairman of the Committee, appointed as a supervisor of the Company in December 2009</i> )	1/1	100%
Xiao Jinxue ( <i>resigned as the Supervisor in December 2009</i> )	4/4	100%
Zhu Lihao ( <i>Independent Supervisor</i> )	5/5	100%
Ma Yuzhu ( <i>Employee Representative Supervisor</i> )	5/5	100%
Xu Cailliao	5/5	100%
Han Fang	5/5	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.

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 2009 is as follows:

Service item	Fee (RMB in millions)
Audit services	67.50
Non-audit services, mainly includes internal control advisory service	3.02
<b>Total</b>	<b>70.52</b>

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 Group for 2010, and the proposal will be submitted for approval at the 2009 Annual General Meeting.



## Corporate Governance Report (*continued*)

### 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 safety of 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 six 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.

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 since its IPO in 2002. Over the years, the Company strictly complies with, and from time to time enhances, the formulated rules in order to strengthen the management on the information disclosure of the Company. 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, 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.

In 2009, the Company revised and improved its internal control manuals and limits of authority in response to the internal control requirements of the Ministry of Finance of the People's Republic of China. Such revision and improvement were also made to cope with the changes in corporate structure, organisational structure and full services operation, as well as impact resulting from market expansion, the integration of the mobile services, management innovation and changes in business processes. The revised sections included amendments to the internal control manual on content not applicable to the existing business process; the inclusion of the control procedures related to the mobile services and transformation services; rearrangement of the integrated billing system and the standardisation of the corresponding control points; and further clarification at the company level. Through perfection on the internal control system, the Company has ensured the realisation of effective internal control management under full services offerings. In addition, the Company has further strengthened the supervision and inspection of the implementation of internal controls to promote the effectiveness of implementation on the internal control, as well as to prevent and mitigate the financial risks.

## Corporate Governance Report (continued)

### 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 unique 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, implemented a standardised risk management procedure and established and refined the centralised risk directories and case studies database of the Company, so that risk management terminology is unified across all levels of the Company and the effectiveness of risk management was improved. Following the efforts made in the past three years, China Telecom has established a comprehensive risk management system and has gradually perfected its comprehensive risk monitoring and prevention mechanism.

In 2009, pursuant to the requirement of provision C2 of the Code on Corporate Governance Practices of the Stock Exchange of Hong Kong Limited and based on the works completed in 2008, the Company further incorporated comprehensive risk management into its daily operation. The Company has implemented the level-oriented, category-oriented and centralised risk management, with resources concentrated on the prevention of two types of major risk, including the risk of financial crisis and the risk following the restructuring, and has achieved satisfactory results. In 2009, the Company was not confronted with any major risks.

After strict risk identification, assessment and analysis, the Company has conducted a preliminary assessment of potential major risks to the Company in 2010, such as the risk of financial crisis, risk of industry competition, risk of network convergence, risk of wireline operations, and has put forward detailed responsive measures. Through the use of strict and appropriate risk management procedures, the Company will ensure that the impact from the above risks to the Company are limited to and within an expected range.

### 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 Joint Stock", "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 2009, the Company's internal audit department initiated and coordinated the assessment of internal control at company level, timely reported the outcome to the Audit Committee in the fourth quarter and executed the opinions and recommendations in areas such as continual perfection of the overall internal control system, further reinforcement of the management, control and training, optimisation of the IT system for internal matching purposes and formulation of the relevant standards as set out by the Audit Committee.



## Corporate Governance Report (*continued*)

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 2009, based on its past experiences and by adhering to the principle of optimising assessment procedures and facilitating on-the-spot operation, the Company explored and further improved the ways and measures of self-assessment, such as the guidance and supervision of the internal control for nine provincial branches in northern China and for Beijing branch. The self-assessment worked coherently with the actual operational management, further improving the corresponding measures towards the operational risks and depth of risk management. The drawbacks were rectified on timely basis and achieved a remarkable result on improving the quality of work and efficiency.

In 2009, the Company actively investigated and proposed key issues as major risks for independent assessment that needed to be investigated deeply and thoroughly. 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.

Furthermore, 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 audit covered the Company and all its subsidiaries as well as the key processes and control points in relation to major accounting items. The external auditors regularly communicated the results to the management.

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 branches launched rectification on any deficiencies identified from the assessment (including the assessment by external auditors) in a positive manner.

Through self-assessments and independent assessments conducted by branches at different levels, 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 and successfully passed the year-end audit undertaken by the external auditors.

The Board, through the Audit Committee, reviewed the internal control system of the Company and its subsidiaries for the financial year ended 31 December 2009, which covered its controls on financial reporting, operation and compliance, as well as its risk management functions. The Board is of the view that the Company's internal control system is solid, well-estimated and effective. The annual review also considers the adequacy of resources, qualifications and experience of staff fulfilling the Company's accounting and financial reporting functions, together with the adequacy of the staff's training programmes and the relevant budget.

## Corporate Governance Report (continued)

### Investor Relations and Transparent Information Disclosure Mechanism

The Company establishes an investor relations department which is responsible for providing shareholders and investors with the necessary information, data and services in a timely manner. It also maintains proactive communications with shareholders, investors and other capital market participants and provides them with the necessary information so as to allow them to fully understand the operation and development of the Company. Every year, the Company's senior management presents the annual results and interim results in Hong Kong. Through various activities such as analyst meetings, press conferences, global investor telephone conference and investors road shows, the senior management provides the capital markets and the media with important information related to key issues of which the investors are of prime concerns. This has helped to reinforce the understanding of the Company's business and the overall development of the telecommunications industry in China. Since 2004, the Company has been holding the Annual General Meetings in Hong Kong to provide convenience and encourage its shareholders, especially public shareholders, to actively participate in the Company's Annual General Meetings and to promote the direct communication and exchange of ideas between the Board of Directors and shareholders.

With an aim of strengthening communications with the capital market and enhancing the transparency of information disclosure, the Company has provided the quarterly disclosure of revenue, EBITDA, net profit figures and other key operational data, and the monthly announcements of the number of wireline access lines in service, mobile subscribers and wireline broadband subscribers. The Company attaches great importance to maintain daily communication with shareholders, investors and analysts. In 2009, the Company has participated in a number of investors conferences held by a number of major international investment banks in order to maintain active communication with institutional investors.



2009 Annual Results Announcement on 22 March 2010



## Corporate Governance Report (continued)

In 2009, the Company attended the following investors conferences held by major international investment banks:

Date	Name of Conference
January 2009	UBS Greater China Conference 2009
January 2009	Deutsche Bank Access China Conference 2009
January 2009	DBS Vickers Pulse of Asia 2009
January 2009	Merrill Lynch Hong Kong and China Corporate Day 2009
March 2009	Credit Suisse Asian Investment Conference 2009
April 2009	Hong Kong Stock Exchange/Daiwa Investors Conference 2009
May 2009	CLSA Corporate Access Forum 2009
May 2009	UBS Pan-Asian Telco Conference 2009
May 2009	Citigroup Asian Market Gainers Mini Conference 2009
May 2009	Macquarie China Conference 2009
June 2009	Nomura Shinka Conference 2009
June 2009	RBS China/Hong Kong Conference 2009
June 2009	Goldman Sachs Telecoms & Internet Corporate Day 2009
July 2009	Deutsche Bank Access China Corporate Day 2009
September 2009	CLSA China Investment Forum 2009
September 2009	CLSA Hong Kong Investors' Forum 2009
September 2009	Daiwa Asian Teleco Day 2009
November 2009	Goldman Sachs China Investment Conference 2009
November 2009	Merrill Lynch China Investment Summit 2009
November 2009	Morgan Stanley Asia-Pacific Summit 2009
November 2009	HSBC Asia Investor Forum 2009
November 2009	RBS Asian Conference 2009
November 2009	Daiwa Investment Conference Hong Kong 2009



The overall design and contents of corporate website were revamped in 2009

The Company's investor relations website not only acts as the primary channel for the Company to disseminate press releases and corporate information to investors and the capital market, but also plays a significant role in evaluating the values of the company's appraisals and helps the Company to comply with regulatory requirements for information disclosure. In recent years, the Company has continued to innovate its corporate website ([www.chinatelecom-h.com](http://www.chinatelecom-h.com)) and has further improved its functions, design, interaction with investors and disclosure of information in accordance with the requirements of the capital market and international best practice, which enables the Company to fully enhance the interaction and communication with investors and shareholders. In 2009, in alignment with the commencement of full services offerings, the Company revamped its corporate website to reflect the Company's business transformation and at the same time incorporated a series of new functions to ensure that its website keeps abreast of the latest updates and development. The corporate website was accredited the Gold

Award in the category of "Redesign Website — Telecommunications" in the *iNova Awards 2009*, and was also awarded the "Best Investor Relations Website" in Greater China in *IR Global Rankings 2009*, indicating that the corporate website is highly recognised by the capital market and professionals. The Company also took the initiative to seek recommendations on how to improve the Company's annual report from shareholders through a survey, and, in accordance with its shareholders' recommendations, prepared and distributed the annual report in a more environmental-friendly and cost-saving manner.

## Corporate Governance Report (*continued*)

### 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 (“SEHK”) 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 SEHK, 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 NYSE Listed Company Manual.

Pursuant to the requirements of the NYSE Listed Company Manual, 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 SEHK for the accounting year ended 31 December 2009.

### Continuous Evolution of Corporate Governance

The Company continuously analyses the corporate governance development of international advanced enterprises and the investors’ desires, constantly examines and strengthens the corporate control system and practice, adopts fiduciary, transparent, open and effective corporate governance principles and structure, to ensure the long term sustainable development of the Company and to seek sustainable returns for the shareholders and investors.





Change Has Come 





A clear and convincing strategy with  
a fully dedicated and passionate  
workforce

Euromoney's award:

Asia's No. 1 Best Managed Company

FinanceAsia's award:

China's Best Managed Company,  
Best CEO, Best CFO

Corporate Governance Asia's award:

Best Companies in Corporate  
Governance in China

# Superior Execution

