



Overview of Corporate Governance

The Company is fully aware of the importance of corporate governance in enhancing corporate value and ensuring long term sustainable development. Therefore, 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 to high quality board management, comprehensive internal control mechanism and sufficient transparency and strives to ensure the operations in line with the long term interests of the Company and its shareholders as a whole. In 2010, the Board of Directors and its sub-committees maintained standard daily operations to secure the best long-term interests of the shareholders, and the Company continued to optimise the organisational structure to effectively support the integrated full-service development, further optimised the internal control and integrated comprehensive risk management into operational practice, continuously improving its corporate governance and firmly protecting 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 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.

For the financial year ended 31 December 2010, save that the roles of Chairman and Chief Executive Officer of the Company were performed by the same individual, 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 2010. 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.

In 2010, the Company's continuous efforts in corporate governance gained wide recognition from the capital market and accredited with a number of awards. The Company was named the "No. 1 Best Managed Company in Asia" and "No. 1 Best Managed Company in China" by *Euromoney* for two consecutive years, while at the same time being ranked as the "Best Corporate Governance in Asia", the "Most Convincing and Coherent Strategy in Asia" and the "Most Accessible Senior Management in Asia" in the individual categories. The Company was accredited by the investors as the "No. 1 Best Managed Company in China", the "No. 1 Best Managed Company in Asian Telecom Sector" and the "No. 1 Best Investor Relations" in the Asia's Best Companies Poll 2010 organised by *FinanceAsia*. The Company was awarded the "Platinum Award for All-Round Excellence" in 2010 *The Asset Corporate Awards*. In addition, the Company was awarded the "Asia's Best Companies in Corporate Governance" by *Corporate Governance Asia*, and Mr. Wang Xiaochu, Chairman and Chief Executive Officer of the Company, was awarded "Asian Corporate Director Recognition Awards 2010". The Company was awarded "CAPITAL Outstanding China Enterprise Awards – Telecommunications" by *CAPITAL*, a reputable Hong Kong magazine, for five consecutive years. The Company's 2009 Annual Report won seven Gold Awards at the "2010 International ARC Awards", receiving the record number of Gold Awards in the history of ARC Awards.

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 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 2010, the Company convened two shareholders' general meetings, including the Annual General Meeting ("AGM") for 2009 and one Extraordinary General Meeting ("EGM"). The AGM held on 25 May 2010 reviewed and approved the financial statements for the year 2009, 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 2010, appointment and remuneration of auditors, and authorisation to the Board to issue bonds. The EGM was held on 25 October 2010 to approve the renewal of CDMA Network Capacity Lease Agreement and its supplemental agreement and annual cap application for the connected transactions under such agreements.

Since the Company's listing in 2002, at each of the shareholders' general meetings, a separate shareholders' resolution was proposed by the Company in respect to each independent item. The 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.



▲ The Annual General Meeting held in Hong Kong on 25 May 2010

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 board is composed of experts from various profession in telecommunications, finance, economics and law, with a more comprehensive and balanced board structure and viewpoints in the decision making process. 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, upon which the fourth session of the board of directors will be elected.

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 the committees to provide sufficient review and check and 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 the procedures of Board meetings be in compliance with related rules 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 2010, 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 and the annual operation plans and investment proposals of the Company, and formulating the proposal of the Company's internal administrative organisations and sub-organisations, and the performing of 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 Company Secretary for details to ensure that they have received sufficient information on various matters related to the meeting agenda. 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 other applicable regulations. To ensure that directors are familiar with the Company's latest operations for decision-making, in addition to providing key financial data and operational information to the directors on a monthly basis, the Company also arranged on-site visit on 3G services operation for independent directors. 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 directors also pay regular visits to our provincial branches for exchanges and study so as to achieve a better understanding of the latest business development and share their valuable experiences. In 2010, the independent directors were invited to visit the Expo 2010 Shanghai China, of which the Company is a global partner responsible for communication facility assurance.

The Board meets at least four times a year. Additional board meetings will be held when necessary. In 2010, the Board of Directors played a significant role in the Company's operation, budgeting, decision-making, supervision,



internal control, organisational restructuring and corporate governance. The Company convened four board meetings, five audit committee meetings and one independent board meeting in this year. At these meetings, the Board reviewed matters including the Company's annual, interim and quarterly financial statements, annual operational, financial and investment budgets, annual asset appraisals, internal control implementation and assessment report, proposal for annual profit distribution, annual report, interim report and quarterly reports, appointment and remuneration of auditors, authorisation to the Company for bond issue, renewal of continuing connected transactions and related annual cap application, and incorporation of branches and restructurings.

Attendance rates of individual directors at Board meetings in 2010 (including attendance with written proxies)

Number of Directors

14

Directors	The Third Session of the Board of Directors	
	Number of meeting/ attendance	Attendance Rates
Executive Directors		
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%
Independent Non-executive Directors		
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%
Non-Executive Director		
Li Jinming	4/4	100%

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 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 2010, 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 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 2010, the Audit Committee convened five 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 report and attestation report, followed up with the recommendations proposed by the external auditors, reviewed the U.S. annual report, and communicated independently with the auditors.

Attendance rates of individual members of the Audit Committee in 2010 (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>)	5/5	100%
Wu Jichuan	5/5	100%
Qin Xiao	5/5	100%
Xu Erming	5/5	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 2010.

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 2010 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 2010, with all five independent non-executive directors attended where it reviewed the renewal of CDMA Network Capacity Lease Agreement and related annual caps, 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 third session of the Supervisory Committee comprises five supervisors, of which there is an external independent supervisor and an 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, 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. The period of office of the Supervisory Committee lasts for three years, starting from 9 September 2008 until the day of the Company's Annual General Meeting held in 2011, upon which the fourth session of the Supervisory Committee will be elected.

Attendance rates of individual members of the Supervisory Committee in 2010

The Third Session of the Supervisory Committee

Number of Supervisors **5**

Number of meetings in 2010 **2**

Supervisors	Number of Meetings/ attendance	Attendance Rates
Miao Jianhua (<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%
Han Fang	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.

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 2010 is as follows:

Service item	Fee (RMB in millions)
Audit services	67.00
Non-audit services (mainly include internal control advisory and other advisory services)	6.79
Total	73.79

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 2011, and the proposal will be submitted for approval at the 2010 Annual General Meeting.



Internal Control

Internal control system

The Board attaches great importance to the construction and improvement of the internal control system, and takes effective approaches to supervise the implementation of related control measures, whilst enhancing operation efficiency and effectiveness, and improving corporate governance, risk assessment, risk management and internal control so as to protect shareholders' investment and the safety of the Company's assets. 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. The Company has formulated a code of conduct for the senior management and employees which ensures their ethical value and competency. The Company has formulated its internal declaration system, which encourages anonymous reporting of situations where employees, especially directors and senior management personnel, breach the rules.

Since the year 2003, based on the requirements of the U.S. securities regulatory authorities and the COSO Internal Control Framework and with the assistance of the KPMG Advisory (China) Limited (Beijing Office) and other advisory institutions, the Company has formulated manuals, implementation rules and related rules in relation to internal control, and has developed the Policies on Internal Control Management and Internal Control Accountability Management to ensure the effective implementation of the above systems. Over more than seven years, the Company has continuously revised and improved the manuals and implementation rules in view of the ever changing internal and external operation environment as well as the requirements of business development. In particular, the Company has further strengthened the control over key business processes based on the distinguishing features of mobile services since the commencement of the full services operation. While continuing to improve the internal control related policies, 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.

In 2010, the Company supplemented and improved its internal control manuals on the basis of summing up the full services operation practices, responding to the management system renewal and organisational structure adjustment, materialising the support to the front-end operation by finance departments, and resolving problems detected in recent years. The revised sections mainly included the amendments to the internal control manual on content which are not applicable to the existing business process; the inclusion of control procedures on product development and business outsourcing; the integration of content on the support to the front-end operation by finance departments into relevant business processes and addition of the pre-and-post-evaluation to such processes, etc. The applicability of internal control manuals was further improved upon the improvement of internal control procedures. In addition, the Company has further strengthened the supervision and inspection of the implementation of internal controls to promote the effectiveness of implementation of internal control, as well as to prevent and mitigate the financial risks.



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 four years, China Telecom has established a comprehensive risk management system and has gradually perfected its comprehensive risk monitoring and prevention mechanism.

In 2010, 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 work completed in 2009, 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 three types of major risk, including the asset risk, operational risk and personnel turnover risk, and has achieved satisfactory results. In 2010, the Company was not confronted with any major risks.

After rigorous risk identification, assessment and analysis, the Company has conducted a preliminary assessment of potential major risks to the Company in 2011, such as the asset risk, industry competition risk, risk of three network convergence, and has put forward detailed responding measures. Through the strict and appropriate risk management procedures, the Company will ensure 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", "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 with related rules and regulations.

In 2010, the Company's internal audit department initiated and coordinated the assessment of internal control at company level, timely reported the results to the Audit Committee in the fourth quarter and executed the opinions and recommendations, as suggested by the Audit Committee, in areas such as further enhancement of the supporting capacities of the IT system for the purpose of meeting the demands of full services operation development.

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 2010, the Company actively pushed forward the optimisation and improvement of the self-assessment manner and method of all departments and branches, effectively improving the efficiency and outcome of self-assessment. Through the self-assessment, the Company detected and rectified the existing problems in time. As a result, the internal control system of the Company was further improved.



As for the independent assessment, the Company has put forth the guiding principle that the independent assessment shall focus on the major risks in relation to enterprise operation and management and be based on complete internal control system, so as to ensure that the nature of risks and problems will be identified and captured, and to improve the overall efficiency of auditing, and has actively assisted all departments and branches in raising the quality and efficiency of the independent assessment since 2009. In 2010, in accordance with the principle 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 independent assessments and to incorporate 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 the internal control assessment team and other relevant departments to closely coordinate with the external auditors' internal control audit related to financial statements. The internal control 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 with the management in respect of the audit results.

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 internal control audit) 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 attestation 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 2010, 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.

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. The Company's senior management presents the annual results and interim results in Hong Kong every year. Through various activities such as analyst meetings, press conferences, global investor telephone conferences 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, operating expenses, EBITDA, net profit figures and other key operational data, and the monthly announcements of the number of 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 2010, 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.



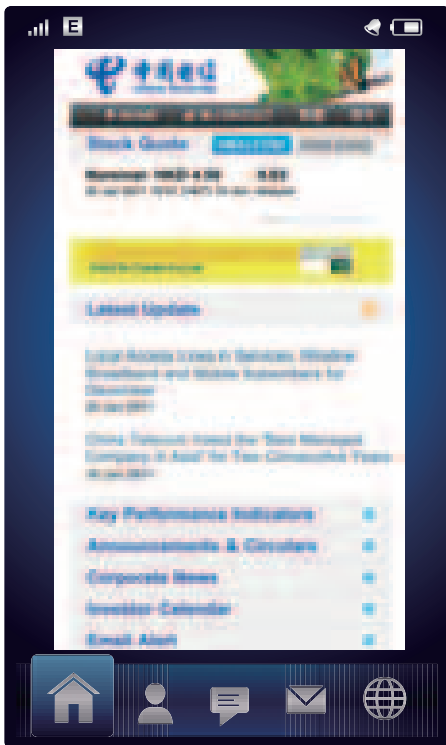
▲ 2010 Annual Results Announcement on 22 March 2011



In 2010, the Company attended the following investors conferences held by major international investment banks:

Date	Name of Conference
January 2010	Deutsche Bank Access China Conference 2010
January 2010	UBS Greater China Conference 2010
January 2010	DBS Vickers Pulse of Asia Conference 2010
January 2010	CLSA Hong Kong/China Access Day 2010
March 2010	Credit Suisse Asian Investment Conference 2010
April 2010	Macquarie China/Hong Kong Conference 2010
May 2010	BOCI Investment Conference 2010
May 2010	Merrill Lynch Asian Stars Conference 2010
May 2010	UBS Pan-Asian Telco Conference 2010
May 2010	Morgan Stanley Hong Kong Investor Summit 2010
May 2010	CLSA China Investment Forum 2010
June 2010	J.P. Morgan China Conference 2010
June 2010	Nomura Asia Equity Forum 2010
June 2010	Goldman Sachs Telecom Corporate Day 2010
June 2010	RBS China Conference 2010
June 2010	Hong Kong Stock Exchange/Daiwa Investor Seminar 2010
September 2010	Kingsway Hong Kong Conference 2010
September 2010	CLSA Hong Kong Investors' Forum 2010
September 2010	Kim Eng/Mitsubishi UFJ Non-Deal Roadshow (Japan) 2010
October 2010	BNP Paribas Annual China Conference 2010
October 2010	Piper Jaffray TMT Corporate Day 2010
October 2010	Citigroup Greater China Investor Conference 2010
November 2010	Goldman Sachs China Investment Frontier 2010
November 2010	Merrill Lynch China Investment Summit 2010
November 2010	HSBC Asia Investor Forum 2010 & Non-Deal Roadshow
November 2010	Daiwa Investment Conference (Hong Kong) 2010
November 2010	Yuanta Securities Non-Deal Roadshow (Hong Kong) 2010
December 2010	Yuanta Securities Straits Link Forum 2010
December 2010	RBS "China Access – 12th Five-Year Plan"
December 2010	HSBC Greater China Corporate Day 2010

The Company's investor relations website (www.chinatelecom-h.com) not only acts as an important channel for the Company to disseminate press releases and corporate information to investors and the capital market, but also plays a significant role in the Company's valuation and our compliance with regulatory requirements for information disclosure. In 2010, a number of new features were added to the corporate website, in order to further enhance the information disclosure of the Company's website and the interactive communication with the investors and shareholders, including interactive stock quote chart, RSS, investor briefcase and information sharing in social network. Meanwhile, the Company's website also provides a refreshing 3D visual experience by using "augmented reality", a new technology, to present the key information in the annual reports. In addition, the Company's website also launched a mobile version, which allows the investors and shareholders to easily browse the important information on the Company's website through mobile devices at any time and any places. The Company's website was accredited the Gold Award in the category of Corporate Communication in the "2010 International W3 Awards", indicating that the Company's website is highly recognised by the professionals. The Company also took the initiative to seek recommendations on how to improve the Company's annual report from shareholders through survey, and, in accordance with its shareholders' recommendations, prepared and distributed the annual report in a more environmentally-friendly and cost saving manner. The shareholders can ascertain their choice of receiving the annual reports and communications by electronic means, or receiving English version only, Chinese version only or both English and Chinese versions.



▲ The mobile version of corporate website (m.chinatelecom-h.com) was launched in 2010

The Company has always maintained a good information disclosure mechanism. While keeping highly transparent communications with media, analysts and investors, we attach great importance to the handling of price sensitive information. In general, the authorised speaker only makes clarification and explanation on the data available on the market, to avoid providing or divulging any unpublished price sensitive information either by an individual or by a team. Before conducting any external interview, if the authorised speaker has any doubt about the data to be disclosed, he/she would seek verification from the relevant person or the person-in-charge of the relevant department, so as to determine if such data are accurate. In addition, discussions on the Company's principal financial data or other financial indicators are avoided during the lock-up period.



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 2010.

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, improves the current practices at appropriate time, 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.