

# Corporate Governance Report

## An Overview of Corporate Governance

The Company strives to maintain a high level of corporate governance and inherited an excellent, prudent and efficient corporate governance style and continuously improves its corporate governance methodology, regulates its operations, improves its internal control mechanism, implements sound corporate governance and disclosure measures, and ensures that the Company's operations are in line with the long term interests of the Company and its shareholders as a whole. In 2011, the Shareholders' General Meeting, the Board and the Supervisory Committee maintained efficient operations in accordance with the rules, and the Company continued to optimise the organisational structure and has achieved a breakthrough in its organisation structure, which well supported the Company's strategic transformation to the Three New Roles – “a leader of intelligent pipeline, a provider of integrated platforms, and a participant in content and application development”. The Company further optimised its internal control and integrated comprehensive risk management into its operational practice. The sustained enhancement of the Company's corporate governance ensured alignment with the long-term best interest of shareholders and firmly protected the interests of shareholders.

As a company incorporated in the PRC, the Company adopts the Company Law of the People's Republic of China, the Securities Law of the People's Republic of China and other related laws and regulations as the basic guidelines for the Company's corporate governance. As a company dual-listed 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”) and the regulatory requirements for non-US companies listed in the United States, and these rules serve as guidances for the Company to improve the foundation of its 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 2011, 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 2011. 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 2011, the Company's continuous efforts in corporate governance gained wide recognition from the capital market and was accredited with a number of awards. The Company was being voted the “No. 1 Best Managed Company in Asia” by *Euromoney* for three consecutive years, while at the same time being ranked as the “No. 1 Best Corporate Governance in Asia”, the “No. 1 Most Convincing and Coherent Strategy in Asia” and the “No. 1 Best Shareholder Value in Asia” in the individual categories. The Company was accredited by the investors as the “Overall Best Managed Company in Asia”, the “No. 1 Best Managed Company in China” and the “No. 1 Best Investor Relations in China” in the Asia's Best Companies Poll 2011 organised by *FinanceAsia*. The Company was voted by investors as one of the “Most Honored Companies” in the inaugural All-Asia-Executive-Team ranking organised by *Institutional Investor*. The Company was awarded the “Platinum Award for All-Round Excellence” in 2011 *The Asset* “Corporate Awards”, for three consecutive years. In addition, the Company was awarded the “The Best of Asia” by *Corporate Governance Asia*, and Mr. Wang Xiaochu, Chairman and Chief Executive Officer of the Company, was awarded “Asian Corporate Director Recognition Awards 2011” by *Corporate Governance Asia* for two consecutive years. The Company's website has won the “Gold Award for investor relations website in Asia Pacific” in *IR Global Rankings 2011*.





*The Annual General Meeting held in Hong Kong on 20 May 2011*

## Overall Structure of the 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' General 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 on the Company's operation and to oversee the daily management and operations 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 and the Supervisory Committee is independently accountable to the Shareholders' General Meeting.

### Shareholders' General Meeting

In 2011, the Company convened one shareholders' general meeting, the Annual General Meeting ("AGM") for 2010. The AGM held on 20 May 2011 reviewed and approved numerous resolutions such as the financial statements for the year 2010, Report of the Independent International Auditor, proposal for profit and dividends distribution, authorisation to the Board for the formulation of a budget for 2011, re-appointment and remuneration of auditors, and authorisation to the Board to issue debentures.

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 of each independent item. The circulars to shareholders also provided details about the resolutions. All resolutions tabled at the shareholders' general meetings of the Company were already conducted 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. At the end of 2011, the Board adopted the shareholders communication policy to ensure that the shareholders are provided with comprehensive, equal, understandable and publicised information of the Company on a timely basis and to strengthen the communication between the Company, and the shareholders and investors.

### Board of Directors

The fourth session of the Board currently comprises 12 Directors with six Executive Directors, one Non-executive Director, and five Independent Non-executive Directors. The Board is composed of experts from various different professions such as telecommunications, finance, economics and law, resulting in a more comprehensive and balanced board structure and giving more comprehensive and balanced viewpoints in the decision-making process. The term of office for the fourth session of the Board lasts for three years, starting from May 2011 until the day of the Company's Annual General Meeting in 2014, upon which the fifth session of the Board will be elected.

The number of Independent Non-executive Directors constitutes more than one-third of the members of the Board. Mr. Tse Hau Yin, Aloysius, the 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, which ensures that the committees are able to provide sufficient review and check and balance, and make effective independent judgments 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 to rigorously regulate the operating procedures of the Board and the committees under it, and to ensure that the procedures of Board meetings are in compliance with related rules in terms of organisation, regulations and personnel. The Board responsibly and effectively supervises the preparation of financial statements for each financial period, so that such financial statements truly and fairly reflect the operational position, the operating results and cash flows of the Company for such period. In preparing the financial statements for the year ended 31 December 2011, 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' general meetings, and its duties include the execution of resolutions, formulation of major operational decisions, financial proposals and policies, the Company's basic management system, and the appointment 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 Board resolutions and the annual operation plans and investment proposals of the Company, formulating the proposal of the Company's internal administrative organisations and sub-organisations, and performing other duties as authorised by the Articles of Association and the Board. In order to maintain highly efficient operations, as well as flexibility and swiftness in operational decision-making, the Board may delegate its management and administrative powers to the management when necessary, and shall provide clear guidance regarding such delegation so as to

avoid seriously impeding or undermining the capabilities of the Board of Directors in exercising its powers as a whole.

All members of the Board/Committees are informed of the meeting schedule for the Board/Committees for the year at the beginning of each year. In addition, all Directors will receive a meeting 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 set out in the meeting agenda. In addition, the Company regularly reminds the Directors of their functions and responsibilities by providing them with information about the latest development of the Listing Rules and other applicable regulations. To ensure that the Directors are familiar with the Company's latest operations for decision-making, the Company arranges for key financial data and operational data to be provided 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 arranges induction activities, so that all newly appointed directors are provided with updated data on industry development. The Directors also pay regular visits to our provincial branches to exchange ideas and study so as to achieve a better understanding of the latest business developments and share their valuable experiences.

The Board meets at least four times a year. Additional Board meetings will be held as necessary. In 2011, the Board played a pivotal role in the Company's operation, budgeting, decision-making, supervision, internal control, organisational restructuring and corporate governance. The Company convened four Board meetings, four Audit Committee meetings, one Remuneration Committee meeting and one Nomination Committee meeting in this year.

At the Board meetings, the Board reviewed significant 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 and changes in accounting policies.



Attendance rates of individual directors at Board meetings in 2011 (including attendance by written proxies)

## Number of Directors

14

Directors	The Third Session of the Board of Directors	
	Number of Attendance/ Meeting	Attendance Rate
<b>Executive Directors</b>		
Wang Xiaochu ( <i>Chairman</i> )	2/2	100%
Shang Bing*	2/2	100%
Wu Andi	2/2	100%
Zhang Jiping	2/2	100%
Zhang Chenshuang	2/2	100%
Yang Xiaowei	2/2	100%
Yang Jie	2/2	100%
Sun Kangmin	2/2	100%
<b>Independent Non-executive Directors</b>		
Wu Jichuan	2/2	100%
Qin Xiao	2/2	100%
Tse Hau Yin, Aloysius	2/2	100%
Cha May Lung, Laura	2/2	100%
Xu Erming	2/2	100%
<b>Non-executive Director</b>		
Li Jinming	2/2	100%

\* On 13 July 2011, Mr. Shang Bing resigned as the President, Chief Operating Officer and Executive Director and was appointed as Deputy Minister of Ministry of Industry and Information Technology of the People's Republic of China.

## Number of Directors

Directors	The Fourth Session of the Board of Directors	
	Number of Attendance/ Meeting	Attendance Rate
<b>Executive Directors</b>		
Wang Xiaochu ( <i>Chairman</i> )	2/2	100%
Yang Jie*	2/2	100%
Wu Andi	2/2	100%
Zhang Jiping	2/2	100%
Zhang Chenshuang**	2/2	100%
Yang Xiaowei	2/2	100%
Sun Kangmin	2/2	100%
<b>Independent Non-executive Directors</b>		
Wu Jichuan	2/2	100%
Qin Xiao	2/2	100%
Tse Hau Yin, Aloysius	2/2	100%
Cha May Lung, Laura	2/2	100%
Xu Erming	2/2	100%
<b>Non-executive Director</b>		
Li Jinming	2/2	100%

\* On 2 November 2011, Mr. Yang Jie was appointed as the President and Chief Operating Officer of the Company.

\*\* On 20 March 2012, Mr. Zhang Chenshuang retired as Executive Director and Executive Vice President due to his age.

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 of The Stock Exchange of Hong Kong Limited 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 the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 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 supervision 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 is responsible to and regularly reports on its work to the Board.

In 2011, pursuant to the requirements of the governing laws and regulations of the places of listing and the Charter of the Audit Committee, the Audit Committee fully assumed its responsibilities within the scope of the clear mandate from the Board. The Audit Committee proposed a number of practical and professional recommendations for improvement 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 2011, the Audit Committee convened four meetings, in which 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 the internal control assessment report and the attestation report, followed up with the recommendations proposed by the external auditors, reviewed the U.S. annual report, and communicated independently with the auditors twice a year.

Attendance rates of individual members of the Audit Committee in 2011 (including attendance by written proxies)

<b>Number of Committee members</b>	<b>4</b>
<b>Percentage of Independent Non-executive Directors of the Committee</b>	<b>100%</b>

Member of the Committee	The Third Session of the Audit Committee	
	Number of Attendance/ Meeting	Attendance Rate
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%

Member of the Committee	The Fourth Session of the Audit Committee	
	Number of Attendance/ Meeting	Attendance Rate
Tse Hau Yin, Aloysius ( <i>Chairman of the Committee</i> )	3/3	100%
Wu Jichuan	3/3	100%
Qin Xiao	3/3	100%
Xu Erming	3/3	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 of 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. One meeting was held by the Remuneration Committee in year 2011, giving advice to the remuneration policy of Directors for the fourth session of the Board.

The Charter for the Remuneration Committee was amended and approved by the Board on 9 December 2011. The amended Charter implements the recent proposed amendments of the Code on Corporate Governance Practices in the Listing Rules, which will become effective in April 2012. The amended Charter can be browsed on our website at [www.chinatelecom-h.com](http://www.chinatelecom-h.com).

#### Attendance rates of individual members of the Remuneration Committee meeting in 2011 (including attendance by written proxies)

<b>Number of Directors</b>	<b>4</b>
<b>Percentage of Independent Non-executive Directors of the Committee</b>	<b>100%</b>

Directors	The Fourth Session of the Remuneration Committee	
	Number of Attendance/ Meeting	Attendance Rate
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 comprises 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 shall 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 to further optimise 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 and regularly reports its work to the Board.

One meeting was held by the Nomination Committee in year 2011, advising on the change in the session of the Board.

The Charter for the Nomination Committee was amended and approved by the Board on 9 December 2011. The amended Charter implements the recent proposed amendments of the Code on Corporate Governance Practices in the Listing Rules, which will become effective in April 2012. The amended Charter can be browsed on our website at [www.chinatelecom-h.com](http://www.chinatelecom-h.com).



## Attendance rates of individual members of the Nomination Committee in 2011 (including attendance by written proxies)

<b>Number of Directors</b>	<b>4</b>
<b>Percentage of Independent Non-executive Directors of the Committee</b>	<b>100%</b>

Directors	The Fourth Session of the Nomination Committee	
	Number of Attendance/ Meeting	Attendance Rate
Wu Jichuan ( <i>Chairman of the Committee</i> )	1/1	100%
Cha May Lung, Laura	1/1	100%
Tse Hau Yin, Aloysius	1/1	100%
Xu Erming	1/1	100%

**Supervisory Committee**

The Company's Supervisory Committee comprises six Supervisors, of which there is an External Independent Supervisor and an Employee Representative Supervisor. On 20 May 2011, the third session of the Supervisory Committee ended and the Supervisors of the third session of the Supervisory Committee, namely Mr. Miao Jianhua, Madam Zhu Lihao, Mr. Xu Cailiao and Madam Han Fang were re-appointed for the fourth session of the Supervisory Committee of the Company and this has been approved at the Annual General Meeting held on 20 May 2011. On the same day, Mr. Du Zuguo's appointment as the Supervisor of the fourth session of the Supervisory Committee from 20 May 2011 has been approved at the Annual General Meeting. Through the election of the Employees' Representative Congress, Mr. Mao Shejun has been elected as an Employee

Representative Supervisor of the fourth session of the Supervisory Committee and Mr. Ma Yuzhu resigned as Supervisor of the Company. Mr. Miao Jianhua was elected as the chairman of the fourth session of the Supervisory Committee on the first Supervisory Committee meeting held on 18 August 2011.

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 2011

The Third/Fourth Session of the Supervisory Committee

<b>Number of Supervisors (Third/Fourth Session)</b>	<b>5/6</b>
<b>Number of meetings in 2011</b>	<b>2</b>

Supervisors	Number of Attendance/ Meetings	Attendance Rate
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 of the third session of the Supervisory Committee</i> )	1/1	100%
Mao Shejun ( <i>Employee Representative Supervisor of the fourth session of the Supervisory Committee</i> )	1/1	100%
Xu Cailiao	2/2	100%
Han Fang	2/2	100%
Du Zuguo ( <i>Supervisor of the fourth session of the Supervisory Committee</i> )	1/1	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 did not contravene 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 2011 is as follows:

Service item	Fee (RMB in millions)
Audit services	68.00
Non-audit services (mainly include internal control advisory and other advisory services)	3.91
Total	71.91

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 2012, and the proposal will be submitted for approval at the 2011 Annual General Meeting.

### Internal Control

#### Internal Control System

The Board attaches great importance to the construction and perfection of the internal control system, and takes effective approaches to supervise the implementation of related control measures, whilst enhancing operation efficiency and effectiveness, and enhancing corporate governance, risk assessment, risk management and internal control so as to protect shareholders' investment and ensure 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 services 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 reporting 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 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 eight 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 2011, the Company supplemented, updated 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; according to the need of

business development, the Company has added the processes of outsourcing management, operating data and financial data reconciliation and client service management, etc., so as to strengthen risk control on key areas. The applicability of internal control manuals was further improved upon the perfection 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 capital markets of 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 five years, China Telecom has established a comprehensive risk management system and has gradually perfected its comprehensive risk monitoring and prevention mechanism.

In 2011, pursuant to the requirement of provision C2 of the Code on Corporate Governance Practices of The Stock Exchange of Hong Kong Limited, the Company further incorporated comprehensive risk management into its daily operation. The Company continued to strengthen the level-oriented, category-oriented and centralised risk management, with resources concentrated on the prevention of three types of major risk, including the risk exposed in the external environment, operational risk and asset risk, and has achieved satisfactory results. In 2011, 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 2012, such as the external environment risk and operational risk, 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 regulatory requirements of its places of listing, including the United States and Hong Kong, and strengthen its internal control while guarding against operational risk, 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 together with 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, evaluate the nature of internal control deficiencies and reach a conclusion as to the effectiveness of the internal control system. At the same time, the Company rectifies any deficiencies found during 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 2011, the Company's internal audit department initiated and coordinated the assessment of internal control at Company level, and reported the results to the Audit Committee and the Board.

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 2011, the Company, on the basis of a comprehensive self-evaluation and by way of encouraging active participation by the operational departments, the supervision and control of the assessment process and the monitoring and audit measures were reinforced, comprehensive



monitoring control self-assessment was launched and self-assessment covered 100% of the Company, which detected and rectified the existing problems in time. At the same time, in respect of significant areas of risk, the Company's internal audit department selected 69 key links covering its main processes and organised independent assessment of the internal controls of the Company's ten provincial branches. It kept track of the rectification of internal control deficiencies to ensure its effectiveness. It organised specialised internal control assessments for operating data and financial data reconciliation to steer the Company towards further strengthening of its standardised management in this regard. The above internal control assessments were effective countermeasures against risks to the Company and contributed to the perfection and healthy development of the Company's internal control system.

As for the independent assessment, the Company has put forth the guiding principle that "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", which has actively assisted all departments and branches in raising the quality and efficiency of the independent assessment since 2009. In 2011, 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 during 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 its 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 2011, 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-established 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



2011 Annual Results Announcement on 20 March 2012



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 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 (including 3G subscribers) and wireline broadband subscribers. The Company attaches great importance to maintain daily communication with shareholders, investors and analysts. In 2011, 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.

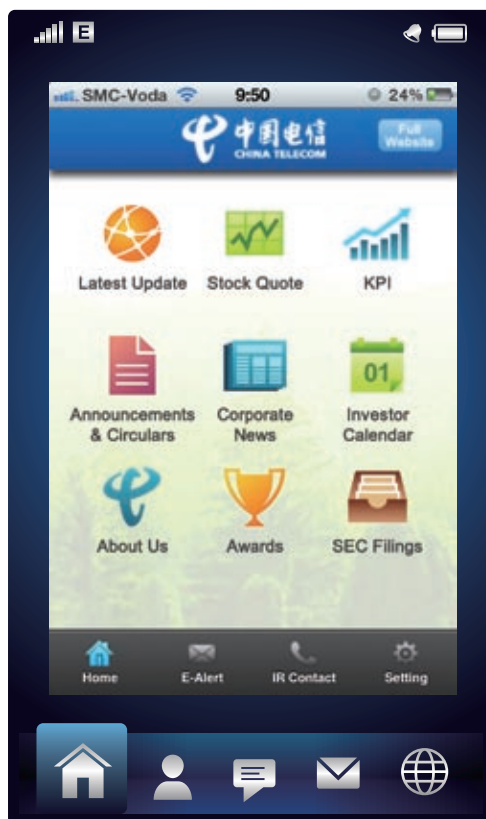
In 2011, the Company attended the following investors conferences held by major international investment banks:

Date	Name of Conference
January 2011	Deutsche Bank Access China Conference 2011
January 2011	UBS Greater China Conference 2011
January 2011	DBS Vickers Pulse of Asia Conference 2011
March 2011	Credit Suisse Asian Investment Conference 2011
April 2011	Samsung Securities – Tablet & Smartphone Revolution Conference 2011
May 2011	Jefferies Technology, Internet, Media & Telecom Conference 2011
May 2011	Bank of New York Mellon/UBS Non-Deal Roadshow (US) 2011
May 2011	Macquarie Great China Conference 2011
May 2011	Morgan Stanley Hong Kong Investor Summit 2011
May 2011	SWS Hong Kong Conference 2011
May 2011	Daiwa Investment Conference 2011
May 2011	DBS Vickers Corporate Access Day 2011
May 2011	Goldman Sachs Telecom & Internet Corporate Day 2011
May 2011	UBS Asian Telecom Conference 2011
May 2011	CLSA China Investment Forum 2011
June 2011	Nomura Asia Equity Forum 2011
June 2011	J.P. Morgan 7th Annual China Conference 2011
June 2011	RBS Non-Deal Roadshow (US) 2011
June 2011	Daiwa Hong Kong China Investment Seminar 2011
June 2011	J.P. Morgan's 15th Annual Asia Pacific Equity Conference 2011
June 2011	Credit Suisse China Investment Conference
July 2011	Nomura Non-Deal Roadshow (Australia) 2011
July 2011	RBS Hong Kong/China Investor Conference 2011

Date	Name of Conference
September 2011	Mirae Asset Mobile Internet Access Day
September 2011	Citigroup Greater China Mini Conference 2011
September 2011	Daiwa Asian and Latin American ADR Conference 2011
September 2011	CLSA Hong Kong Investors' Forum 2011
October 2011	BNP Paribas 18th Annual China Conference 2011
October 2011	Citigroup Greater China Investor Conference 2011
October 2011	Goldman Sachs-China Investment Frontier 2011
November 2011	HSBC 3rd Annual Asia Investor Forum 2011
November 2011	Barclays Capital Asia Investment Symposium 2011
November 2011	Morgan Stanley Asia Pacific Investor Conference 2011
November 2011	J.P. Morgan Asia Pacific TMT Conference 2011
November 2011	Merrill Lynch China Investment Summit 2011
December 2011	RBS 2nd Annual HK/China Access



To access our mobile website, please simply scan this QR code with your smartphone right away.



Mobile version of the Company's website (m.chinatelecom-h.com)

The Company's investor relations website ([www.chinatelecom-h.com](http://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 2011, a number of new functions and contents were added to the corporate website to further enhance the information disclosure of the Company's website to meet the international best practices, including monthly net add of 3G subscribers and quarterly key operational and financial interactive charts. In addition, a mobile version of the Company's website was also launched, which allows the investors, shareholders, media and the general public to easily browse the updated information on the Company's website through mobile devices at any time and any place. The Company's website not only won the Gold Award for investor relations website in China, but also the Gold Award in Asia Pacific in *IR Global Rankings 2011*, indicating that the Company's website is highly recognised by professionals. The Company also took the initiative to actively 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 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 black-out 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 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 12 Directors, of which 5 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 requirements of 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 Stock Exchange of Hong Kong Limited for the accounting year ended 31 December 2011.

### **Mechanism innovation of the Company**

The Company has a long-term commitment towards solving its mechanism impediments and defects in order to stimulate business development through structure optimisation. In 2011, in order to make greater efforts to promote the rapid development of its emerging services such as the mobile Internet, the Company set up a Business Innovation Department to take primary responsibility for coordinating and managing the development of all the Group's new services. Centred on Internet application platforms, the new services perform intensified operations mainly through the expansion of electronic channels with the focus on mobile Internet value-added services. By actively developing new service areas, new business models, new channels and new mechanisms, the Company's new services achieved rapid growth, thus effectively pushing up the Company's overall revenue growth and promoting its transformation.

In 2011, the Company further steered its emerging service companies, including Besttone E-commerce Co., Ltd., E-Surfing Pay Co., Ltd., and E-Surfing Media Co., Ltd., to establish corporatised and specialised modes of operation and systems of management. In 2011, E-Surfing Pay Co., Ltd. was granted third-party payment licences by the People's Bank of China for mobile phone payments, payments for access lines in services and bank card receipts.

In 2011, the Company has regulated and optimised the organisational structure and operational mechanisms of all county-level branches, clarified the position of county-level branches' sales services, publicised the production functions and the capable managers, enriched the ranks of front-line sales and marketing teams, which all further stimulated the vitality of the county-level branches, and resolved the prominent problems encountered during market development, such as shortage of front-line employees, and the lack of relevant ability and drive of these employees.

### **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, and improves the current practices at the appropriate time; we strongly believe that by adhering to good corporate governance principles, and improving the transparency, independence and the establishment of the effective accountability system, we can ensure the long-term stable development of the Company and to seek sustainable returns for the shareholders and investors.





**CHA 728**

**First Class for ALL**

**Delighting  
Customers Every Day,  
Every Moment**





**LEADING SERVICES AND INNOVATIVE  
PRODUCTS BY OUR DEDICATED AND  
JOYFUL STAFF**