

## **An Overview of Corporate Governance**

The Company strives to maintain a high level of corporate governance and has 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 2012, 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 2012, save that (i) the roles of Chairman and Chief Executive Officer of the Company were performed by the same individual and (ii) certain Independent Non-executive Directors did not attend the shareholders' general meetings due to other business commitments or being overseas, the Company has been in compliance with all the code provisions under the Code on Corporate Governance Practices (effective until 31 March 2012) and the Corporate Governance Code (effective from 1 April 2012) as set out in Appendix 14 to the Listing Rules. 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 capturing business opportunities. Many leading international corporations also have similar arrangements.

In 2012, 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 "Overall Best Managed Company in Asia" by *Euromoney* for four 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 "No. 1 Best Managed Company in Asia", the "No. 1 Best Managed Company in China" and the "No. 1 Best Investor Relations in China" for two consecutive years in the Asia's Best Companies Poll 2012 organised by *FinanceAsia*. The Company was voted by investors as the "Asia's Most Honored Companies" and "Asia's Best Investor Relations Company in telecommunications sector" for two consecutive years in 2012 All-Asia-Executive-Team ranking organised by *Institutional Investor*. In addition, Mr. Wang Xiaochu, Chairman and CEO was voted as "Asia's Best CEO in telecommunications sector" and Madam Wu Andi, Executive Vice President and CFO was voted as "Asia's Best CFO in telecommunications sector". The Company swept several top awards including the "Grand Prix for Best Overall Investor Relations for Large-cap Companies", "Best Investor Relations by a CEO" for mainland China for Mr. Wang Xiaochu, Chairman and CEO and "Best Investor Relations by a CFO" for mainland China for Madam Wu Andi, Executive Vice President and CFO at the IR Magazine Awards – Greater China 2012. The Company was awarded the "Platinum Award for All-Round Excellence" in 2012 *The Asset* "Corporate Awards", for four consecutive years. In addition, the Company was awarded the "The Best of Asia" by *Corporate Governance Asia* for three consecutive years, and Mr. Wang Xiaochu, Chairman

and Chief Executive Officer of the Company, was awarded "Asian Corporate Director Recognition Awards 2012" by *Corporate Governance Asia* for three consecutive years. The Company's website was awarded the "No. 1 Best Investor Relations Website in Asia & Pacific" in *IR Global Rankings 2012* for two consecutive years.

### 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.



The Annual General Meeting held in Hong Kong on 30 May 2012

### Shareholders' General Meeting

In 2012, the Company convened two shareholders' general meetings, the Annual General Meeting ("AGM") for the year 2011 and one Extraordinary General Meeting ("EGM"). The AGM held on 30 May 2012 reviewed and approved numerous resolutions such as the financial statements for the year 2011, Report of the Independent International Auditor, proposal for profit and dividends distribution, authorisation to the Board for the formulation of a budget for 2012, re-appointment and remuneration of auditors, authorisation to the Board to issue debentures and appointment of directors and supervisors. The EGM held on 16 October 2012 reviewed and approved the acquisition of certain CDMA network assets and associated liabilities, the renewal of certain continuing connected transactions and the annual caps applicable thereto and appointment of directors and supervisors. The amendments to the Articles of Association of the Company were approved at the shareholders' general meetings, which mainly include the change in the business scope of the Company, change in the composition of the Supervisory Committee and change in the name of the domestic shareholder.

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. 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

As at 31 December 2012, the Board comprises 13 Directors with seven Executive Directors, one Non-executive Director and five Independent Non-executive Directors. The Board is composed of experts from diversified 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 interests of shareholders and the Company as a whole.

The Company strictly complies with the Code on Corporate Governance Practices (effective until 31 March 2012) and the Corporate Governance Code (effective from 1 April 2012) 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 2012, 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 also 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 when 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.

The Board meets at least four times a year. Additional Board meetings will be held as necessary. In 2012, 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 Independent Board Committee Meeting, and several board and committee written resolutions were passed 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, internal control implementation and assessment report, proposal for annual profit distribution, annual report, interim report and quarterly reports, acquisition of certain CDMA network assets and associated liabilities, renewal of certain continuing connected transactions and the annual caps applicable thereto and appointment and remuneration of auditors.

All directors performed their fiduciary duties and devoted sufficient time and commitments in the affairs of the Company.

The Company determines the Directors' remuneration with reference to factors such as their respective responsibilities and duties in the Company, as well as their experiences and market conditions at the relevant time.

The Board should develop and review the Company's policies and practices on corporate governance; review and monitor the training and continuous professional development of directors and senior management; review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; develop, review and monitor the code of conducts for employees; review the Company's compliance with the Corporate Governance Code and disclosure in the Corporate Governance Report.

### Directors' training and continuous professional development

The Company also arranges induction activities including the duties and continuing obligations of directors, relevant laws and regulations, the operation and business of the Company, so that all newly appointed

Directors are provided with updated data on industry development. 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 since 2009. 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. In addition, the Company reminds the Directors of their functions and responsibilities by continuously providing them with information about the latest development of the Listing Rules and other applicable regulations. 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 Directors actively participate in training and continuous professional development to develop and refresh their knowledge and skills to ensure their contribution to the Company.

In 2012, the Directors have participated in training and continuous professional development activities and the summary is as follows:

Directors	Training categories
<b>Executive Directors</b>	
Wang Xiaochu	A, B, C
Yang Jie	A, B, C
Wu Andi	A, B, C
Zhang Jiping	A, B, C
Zhang Chenshuang (retired on 20 March 2012)	A, B, C
Yang Xiaowei	A, B, C
Sun Kangmin	A, B, C
Ke Ruiwen (Appointed on 30 May 2012)	A, B, C

Directors	Training categories
<b>Non-Executive Directors</b>	
Li Jinming (retired on 22 August 2012)	A, B, C, D
Chen Liangxian (appointed on 16 October 2012)	A, B, C
<b>Independent Non-executive Directors</b>	
Wu Jichuan	A, B, C, D
Qin Xiao	A, B, C, D
Tse Hau Yin, Aloysius	A, C
Cha May Lung, Laura	A, B, C
Xu Erming	A, C, D

A: attending relevant seminars and/or conferences and/or forums

B: delivering speeches at relevant seminars and/or conferences and/or forums

C: reading relevant newspaper, journals and updates relating to general economy, general business, telecommunications, corporate governance or directors' duties

D: writing articles relating to general economy, general business, telecommunications, corporate governance or directors' duties

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to 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 the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to 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, Mr. Tse Hau Yin, Aloysius as the chairman

and Mr. Wu Jichuan, Dr. Qin Xiao and Mr. Xu Erming as the members. 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 systems 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 its work to the Board.

In 2012, 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 2012, the Audit Committee convened four meetings, in which it reviewed important matters related to the Company's annual, interim and quarterly financial statements, assessment of the qualifications, independence and performance of the external auditors and their appointments, effectiveness of internal control, internal audit, acquisition of certain CDMA network assets and associated liabilities 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.

### **Remuneration Committee**

The Remuneration Committee comprises four Independent Non-executive Directors. Mr. Xu Erming as the chairman and Mr. Wu Jichuan, Dr. Qin Xiao and Mr. Tse Hau Yin, Aloysius as the members. 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, giving recommendations to the Board in respect of the overall remuneration policy and structure for the Company's Directors and senior management personnel and the establishment of a formal and transparent procedure for developing remuneration policy, and determining with delegated responsibility by the Board, the remuneration packages of individual Executive Directors and senior management including benefits in kind, pension rights and compensation payments (including

any compensation payable for loss or termination of their office or appointment). Its responsibilities comply with the requirements of the Corporate Governance Code. The Remuneration Committee is responsible to and regularly reports its work to the Board. No meeting was held by the Remuneration Committee in year 2012.

### **Nomination Committee**

The Company's Nomination Committee comprises four Independent Non-executive Directors, Mr. Wu Jichuan as the chairman and Mr. Tse Hau Yin, Aloysius, Madam Cha May Lung, Laura and Mr. Xu Erming as the members. 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.

The Company will identify suitable candidates through multiple channels such as internal

recruitment and recruiting from the labour market. The criteria of identifying candidates include, but are not limited to, their background, experience, professional skills, personal qualities, capability to commit to the affairs of the Company and, in case of Independent Non-executive Director, the candidates should fulfill the independence requirements set out in the Listing Rules from time to time. Upon the Nomination Committee and the Board reviewed and resolved to appoint the appropriate candidate, the relevant proposal will be put forward to the shareholders' general meeting in writing for approval.

Directors shall be elected at the shareholders' general meeting for a term of three years. At the expiry of a director's term, the director may stand for re-election and re-appointment. According to the Articles of Association, before the convening of the annual general meeting, shareholders holding 5% or more of the total voting shares of the Company shall have the right to propose new motions (such as election of directors) in writing, and the Company shall place such proposed motions on the agenda for such annual general meeting if there are matters falling within the functions and powers of shareholders in general meetings. According to the Articles of Association, shareholders can also request for the convening of extraordinary general meeting provided that the shareholders holding in aggregate 10% or more of the shares carrying the right to vote at the meeting sought to be held and they shall sign one or more written requisitions in the same format and with the same content, requiring the Board to convene an extraordinary general meeting and stating the resolutions of meeting (such as election of directors). The Board shall convene an extraordinary general meeting within two months. The



minimum period during which written notice given to the Company of the intention to propose a person for election as a director, and during which written notice to the Company by such person of his willingness to be elected may be given, will be at least seven days. Such period will commence no earlier than the day after the despatch of the notice of the meeting for the purpose of considering such election and shall end no later than seven days prior to the date of such meeting. The ordinary resolution to approve the appointment of Directors shall be passed by votes representing more than one-half of the voting rights represented by the shareholders (including proxies) present at the meeting.

In 2012, there were two written resolutions passed by the Nomination Committee, which approved the nomination of director candidates.

### Independent Board Committee

Pursuant to the requirements under the Listing Rules, the Company's Independent Board Committee convened one meeting in 2012, with all five Independent Non-executive Directors attended where it reviewed the acquisition of certain CDMA network assets and associated liabilities and the renewal of certain continuing connected transactions and the annual caps applicable thereto and gave the relevant confirmation as well as submitted the recommendations on these matters to the independent shareholders.

### The number of attendance<sup>15</sup>/meetings of the members of the Board and committees in year 2012

	Board	Audit Committee	Independent Board Committee	Shareholders meeting
<b>Executive Directors</b>				
Wang Xiaochu (Chairman)	4/4	N/A	N/A	1/2
Yang Jie	4/4	N/A	N/A	1/2
Wu Andi	4/4	N/A	N/A	1/2
Zhang Chenshuang*	N/A	N/A	N/A	N/A
Zhang Jiping	4/4	N/A	N/A	0/2
Yang Xiaowei	4/4	N/A	N/A	0/2
Sun Kangmin	4/4	N/A	N/A	0/2
Ke Ruiwen**	3/3	N/A	N/A	0/1
<b>Non-Executive Directors</b>				
Chen Liangxian***	2/2	N/A	N/A	N/A
Li Jinming****	1/1	N/A	N/A	1/1
<b>Independent Non-Executive Directors</b>				
Wu Jichuan	4/4	4/4	1/1	1/2
Qin Xiao	4/4	4/4	1/1	1/2
Tse Hau Yin, Aloysius	4/4	4/4	1/1	2/2
Cha May Lung, Laura	4/4	N/A	1/1	0/2
Xu Erming	4/4	4/4	1/1	1/2

Note: Certain Independent Non-executive Directors did not attend the shareholders meeting due to other business commitments or being overseas.

\* Mr. Zhang Chenshuang retired as the Executive Director and Executive Vice President of the Company on 20 March 2012 due to his age.

\*\* Mr. Ke Ruiwen was appointed as the Executive Director of the Company on 30 May 2012.

\*\*\* Mr. Chen Liangxian was appointed as the Non-Executive Director of the Company on 16 October 2012.

\*\*\*\* Mr. Li Jinming retired as the Non-Executive Director of the Company on 22 August 2012 due to his age.

1. Mr. Wang Xiaochu attended 4 board meetings in person and did not appoint alternates to attend the meeting.
2. Mr. Yang Jie attended 4 board meetings in person and did not appoint alternates to attend the meeting.
3. Madam Wu Andi attended 4 board meetings in person and did not appoint alternates to attend the meeting.
4. Mr. Zhang Jiping attended 2 board meetings in person and appointed alternates to attend the meeting twice.
5. Mr. Yang Xiaowei attended 3 board meetings in person and appointed alternates to attend the meeting once.
6. Mr. Sun Kangmin attended 3 board meetings in person and appointed alternates to attend the meeting once.
7. Mr. Ke Ruiwen attended 3 board meetings in person and did not appoint alternates to attend the meeting.
8. Mr. Chen Liangxian did not attend board meetings in person and appointed alternates to attend the meeting twice.
9. Mr. Li Jinming did not attend the board meeting in person and appointed alternates to attend the meeting.
10. Mr. Wu Jichuan attended 3 board meetings in person and appointed alternates to attend the meeting once. Mr. Wu Jichuan attended 4 audit committee meetings in person and did not appoint alternates to attend the meeting. Mr. Wu Jichuan attended 1 independent board committee meeting in person and did not appoint alternates to attend the meeting.
11. Dr. Qin Xiao attended 3 board meetings in person and appointed alternates to attend the meeting once. Dr. Qin Xiao attended 3 audit committee meetings in person and appointed alternates to attend the meeting once. Dr. Qin Xiao attended 1 independent board committee meeting in person and did not appoint alternates to attend the meeting.
12. Mr. Tse Hau Yin, Aloysius attended 4 board meetings in person and did not appoint alternates to attend the meeting. Mr. Tse Hau Yin, Aloysius attended 4 audit committee meetings in person and did not appoint alternates to attend the meeting. Mr. Tse Hau Yin, Aloysius attended 1 independent board committee meeting in person and did not appoint alternates to attend the meeting.
13. Madam Cha May Lung, Laura attended 4 board meetings in person and did not appoint alternates to attend the meeting. Madam Cha May Lung, Laura attended 1 independent board committee meeting in person and did not appoint alternates to attend the meeting.
14. Mr. Xu Erming attended 4 board meetings in person and did not appoint alternates to attend the meeting. Mr. Xu Erming attended 3 audit committee meetings in person and appointed alternates to attend the meeting once. Mr. Xu Erming attended 1 independent board committee meeting in person and did not appoint alternates to attend the meeting.
15. Include attendance in person, by telephone, by video conference, and by proxy.

## Supervisory Committee

The Company's Supervisory Committee comprises six Supervisors, with one External Independent Supervisor and two Employee Representative Supervisors. On 22 August 2012, Mr. Miao Jianhua, Chairman of the Supervisory Committee, retired from the Supervisory Committee due to his age. On the same date, Mr. Xu Cailiao and Madam Han Fang resigned as the Supervisors of the Company due to change in work arrangement. On 16 October 2012, the appointment of Mr. Shao Chunbao and Mr. Hu Jing as the Supervisors were approved at the EGM. On the same date after the close of the EGM, a written resolution was passed to appoint Mr. Shao Chunbao as the chairman of the Supervisory Committee. Meanwhile,

Mr. Zhang Jianbin has been elected by the employees of the Company democratically as 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 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 2012**

The Fourth Session of the Supervisory Committee

**Number of Supervisors (Fourth Session) 6**  
**Number of meetings in 2012 3**

Supervisors	Number of Attendance/Meetings
Shao Chunbao (newly appointed Chairman of the fourth session of the Supervisory Committee)	0/0
Miao Jianhua (ex-Chairman of the fourth session of the Supervisory Committee)	3/3
Zhu Lihao (Independent Supervisor)	3/3
Mao Shejun (Employee Representative Supervisor of the fourth session of the Supervisory Committee)	3/3
Zhang Jianbin (newly appointed Employee Representative Supervisor of the fourth session of the Supervisory Committee)	0/0
Xu Cailiao (ex-Supervisor of the fourth session of the Supervisory Committee)	3/3
Han Fang (ex-Supervisor of the fourth session of the Supervisory Committee)	3/3
Hu Jing (newly appointed Supervisor of the fourth session of the Supervisory Committee)	0/0
Du Zuguo (Supervisor of the fourth session of the Supervisory Committee)	3/3

**External Auditors**

The international and domestic auditors of the Company are KPMG and KPMG Huazhen (Special General Partnership), 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 2012 is as follows:

Service item	Fee (RMB millions)
Audit services (inclusive of services provided for mobile network acquisition)	90.0
Non-audit services (mainly include internal control advisory and other advisory services)	6.0
<b>Total</b>	<b>96.0</b>

The Directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

The statements by the external auditors of the Company, KPMG, regarding their reporting responsibilities on the financial statements of the Company is set out in the Report of the Independent International Auditor on page 109.

The service term of KPMG and KPMG Huazhen (Special General Partnership), the international and domestic auditors of the Company for 2012, will expire at the annual general meeting for 2012. The Audit Committee and the Board have resolved to appoint Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants LLP as the international and domestic auditors for the financial year 2013, subject to the approval at the 2012 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 nine 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 2012, the Company further enhanced the construction of internal control system, strengthened the key aspects of risk control, continuously improved the Company's internal control manuals and implementation rules, and focused on solving new problems arising from the innovation in connection with services, operation, collaboration and emerging services based on the adjustment requirements to the service and financial management processes under the promotion of the centralised efficient operation. Pursuant

to the service development and risk analysis, key service processes were developed and certain key services processes management were perfected, such as electronic channel management, Best Pay management, information security of the Internet access and of the users. We strengthened the risk control on certain key aspects such as service cooperation, agency management and supplies procurement. We also enhanced the control requirements in relation to the segregation of "incompatible duties" and defined a list of "incompatible duties" in accordance with the characteristics of different services. We reinforced the internal control management mechanism for the newly established subordinated organisations to prevent internal control risk. The Company implemented the information system for the construction of internal control systems in certain provincial-level branches of the Company to improve the efficiency of the internal control systems construction and to regulate the system construction. In addition, we promoted the standardisation of the key control points within the internal control processes to reduce human intervention, so as to improve the effectiveness of the implementation of the internal control system.

### **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, 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 2012, pursuant to the requirement of provision C2 of the Code on Corporate Governance Practices and the Corporate Governance Code 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 two types of major potential risk, including the external environment risk and operational risk, and has achieved satisfactory results. In 2012, the Company was not confronted with any major risk event.

After rigorous risk identification, assessment and analysis, the Company has conducted a preliminary assessment of potential major risks to the Company in 2013, 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 evaluate the nature of internal control deficiencies and reach a conclusion as to 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. 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 2012, the Company's internal audit department initiated and coordinated the assessment of internal control at the 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 2012, the Company, on the basis of a comprehensive self-evaluation, launched a special self-assessment work organised and led by the operational department and conducted self-assessment based on six selected hotspot issues in relation to operation and risk management. Meanwhile, we further enhanced the function of the internal control seminars, emphasised on solving the difficult issues on the cross-departmental and cross-processing internal control, and improved the level and quality of the self-assessment of internal control. During the period of conducting self-assessment, the Company organised self-assessment patrol inspections to facilitate the improvement of internal control evaluation quality and the implementation of the rectification work. The above measures effectively promoted the participation by various departments and units and ensured the self-assessment work covering 100% of the Company, and timely detected and rectified internal control deficiencies so as to effectively control and eliminate potential risks.

The Company, in respect of the independent assessment, 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. In 2012, in accordance with the principle and arrangement of assessment for the Company, all units launched a proactive independent assessment, timely identified potential risk and oversaw the process to rectify the problems. This achieved positive results. The Company guided all units to launch independent assessments and also launched independent assessment focusing on key aspects of main service processes and risk control. The Company organised independent assessment for six provincial branches, assessed the effectiveness of the internal control and its implementation, and analysed and rectified the identified internal control deficiencies. 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. 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 2012,

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 manner. It also maintains proactive communications with shareholders, investors and other capital market participants 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



2012 Interim Results and CDMA Network Acquisition Announcement on 22 August 2012





2012 Annual Results Announcement on 20 March 2013

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 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. During the year, the Company proposed to acquire certain CDMA network assets and associated liabilities ("the Transaction") and the Company's senior management proactively communicated with investors and the media through analyst meetings, press conference, global investor telephone conferences and investors road shows (in Hong Kong,

Singapore, Europe and the United States), providing them with detailed information in relation to and the long-term benefits of the Transaction. The Transaction was duly passed by majority of the independent 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 maintaining daily communication with shareholders, investors and analysts. In 2012, 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 2012, the Company attended the following investors conferences held by major international investment banks:

Date	Name of Conference
January 2012	Deutsche Bank Access China Conference 2012
January 2012	UBS Greater China Conference 2012
January 2012	Standard Chartered Bank Non-Deal Roadshow 2012
March 2012	Credit Suisse Asian Investment Conference 2012
April 2012	ICBC Non-Deal Roadshow 2012
May 2012	Macquarie Greater China Conference 2012
May 2012	Morgan Stanley Hong Kong Investor Summit 2012
May 2012	UBS Asian Telecom Conference 2012
May 2012	BNP Paribas Asia Pacific TMT Conference 2012
May 2012	Mitsubishi UFJ Securities Non-Deal Roadshow 2012
May 2012	BOC International 10th Investors Conference 2012
May 2012	CLSA China Investment Forum 2012
May 2012	Deutsche Bank 3rd Annual Asia Conference
June 2012	Goldman Sachs Telecom & Internet Corporate Day 2012
June 2012	Nomura Asia Equity Forum 2012
June 2012	Piper Jaffray 9th Annual China Conference 2012
June 2012	UBS Non-Deal Roadshow 2012
June 2012	DBS Vickers Non-Deal Roadshow 2012
June 2012	Credit Suisse China Investment Conference 2012
July 2012	Daiwa Hong Kong China Investment Seminar 2012
September 2012	CLSA Hong Kong Investors' Forum 2012
September 2012	J.P. Morgan Asia Pacific Equity Conference 2012
October 2012	Goldman Sachs Greater China Summit 2012
November 2012	BNP Paribas 19th Annual China Conference 2012
November 2012	Citi Greater China Investor Conference 2012
November 2012	J.P. Morgan Asia Pacific TMT Conference 2012
November 2012	Daiwa Investment Conference Hong Kong 2012
November 2012	Morgan Stanley Asia Pacific Investor Conference 2012
November 2012	CIMB 8th Hong Kong/China Conference 2012
November 2012	Bank of America Merrill Lynch China Conference 2012
December 2012	Societe-Generale/Ji Asia Pan Asian Conference 2012

The Company's investor relations website (www.chinatelecom-h.com) not only serves 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 2012, a number of new functions and contents were added, including debt information and debt maturity schedule of the Company, to the corporate website to further enhance the functions and the level of transparency of the Company's information disclosure on its website, so as to meet the international best practices. In addition, a mobile version of the Company's website was also offered, 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 was awarded, for the second consecutive year, the "No. 1 Best Investor Relations Website in Asia & Pacific" in *IR Global Rankings*, indicating that the Company's website is highly recognised by professionals.

The Company also actively seeks 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 inside information. In general, the authorised speaker only makes clarification and explanation on the data available on the market, and avoid providing or divulging any unpublished inside 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 is accurate. In addition, discussions on the Company's key financial data or other financial indicators are avoided during the black-out period.

### Shareholder Rights

According to the Articles of Association, shareholders who request for the convening of an extraordinary general meeting or a class meeting shall comply with the following procedures:

Two or more shareholders holding in aggregate 10% or more of the shares carrying the right to vote at the meeting sought to be held shall sign one or more written requisitions in the same format and with the same content, stating the proposed matters to be discussed at the meeting, and requiring the Board to convene a shareholders' extraordinary general meeting or a class meeting thereof.

If the board of directors fails to issue a notice of such a meeting within 30 days from the date of receipt of the requisitions, the shareholders who make the requisitions may themselves convene such a meeting (in a manner as similar as possible to the manner in which shareholders' meetings are convened by the board of directors) within four months from the date of receipt of the requisitions by the board of directors.

When the Company convenes an annual general meeting, shareholders holding 5% or more of the total voting shares of the Company shall have the right to propose new motions in writing, and the Company shall place such proposed motions on the agenda for such annual general meeting if they are matters falling within the functions and powers of shareholders in general meetings.

Process of forwarding shareholders' enquiries to the Board:

Shareholders may at any time send their enquiries and concerns to the Board in writing through the Company Secretary and the Investor Relations Department. The contact details of the Company Secretary are as follows:

The Company Secretary  
China Telecom Corporation Limited  
38th Floor, Dah Sing Financial Center  
108 Gloucester Road, Wanchai  
Hong Kong  
Email: [ir@chinatelecom-h.com](mailto:ir@chinatelecom-h.com)  
Tel No.: (852) 2877 9777  
Fax No.: (852) 2877 0988

A dedicated "Investor" section is available on the Company's website ([www.chinatelecom-h.com](http://www.chinatelecom-h.com)). There is a FAQ function in the "Investor" section designated to enable the Company, shareholders and investors to have timely, effective and interactive communication. Company Secretary and the Investor Relations Department of the Company handle both telephone and written enquiries from shareholders of the Company from time to time. Shareholders' enquiries and concerns will be forwarded to the Board and/or the relevant Board Committees of the Company, where appropriate, to answer the shareholders' questions. Information on the Company's website is updated on a timely basis.

### **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 currently 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 Corporate Governance Code 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 been in compliance with all the code provisions under the Code on Corporate Governance Practices (effective until 31 March 2012) and the Corporate Governance Code (effective from 1 April 2012) as set out in Appendix 14 of the Listing Rules throughout the year 2012.

### **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 2012, the Company established China Telecom Global Limited, by integrating the Overseas Expansion Division and three overseas companies, which will form a set of system and mechanism suitable for overseas business development, realise centralised efficient operation and coordinated management of overseas operation, build an overseas talents base, and expand the scale of overseas operation. In 2012, the Company established “Cloud” company to perform centralised efficient operation and management of the IDC and the “Cloud” services. In 2012, the

Company separated the management and operation and optimised the structure of departments in the headquarters, including the government and enterprise customer department, network operation department, IT department and merchandising department, which further enhanced the centralised efficient management capability of the headquarters.

### 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.



The homepage of corporate website ([www.chinatelecom-h.com](http://www.chinatelecom-h.com)).



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



**Euromoney**

**Overall Best Managed Company in Asia**

**FinanceAsia**

**No. 1 Best Managed Company in Asia**

**Corporate Governance Asia**

**Asia's Best Companies in Corporate Governance**

Yes We Can  
**ACHIEVE**  
the Great Excellence

**Dedication by Our Joyful Talents**

