

# Corporate Governance Report

We are committed to maintaining sound corporate governance standards and procedures to ensure the completeness, transparency and quality of our information disclosure, and we endeavour to achieve even more regulated procedures of work, effective management, and rational operation, so as to safeguard shareholders' interests to the greatest extent.

## Corporate Governance Practices

As a company incorporated in the PRC and listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company not only has complied with the relevant provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") but also has abided by the PRC Company Law and other applicable laws, regulations and regulatory requirements of Hong Kong and the PRC as basic guidelines for the Company's corporate governance. In 2007, the Company has formulated and implemented the "Code of Ethics for Senior Management" and the "Code of Ethics for Employees", to further standardize the regulations of conduct of the management and employees and maintain our high standard of business ethics and integrity.

For the year ended 31 December 2007, the Company has complied with the Code Provisions in the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules (the "Code Provisions"). In addition, the Company has complied with certain applicable Recommended Best Practices in the Code on Corporate Governance Practices (the "Recommended Best Practices").

The directors of the Company confirm that it is their responsibility to prepare the financial statements of the Company and its subsidiaries (the "Group"), and to ensure that the financial statements are prepared in accordance with relevant laws and the accounting standards applicable to the Company. The directors also ensure that the financial statements of the Company are published promptly.

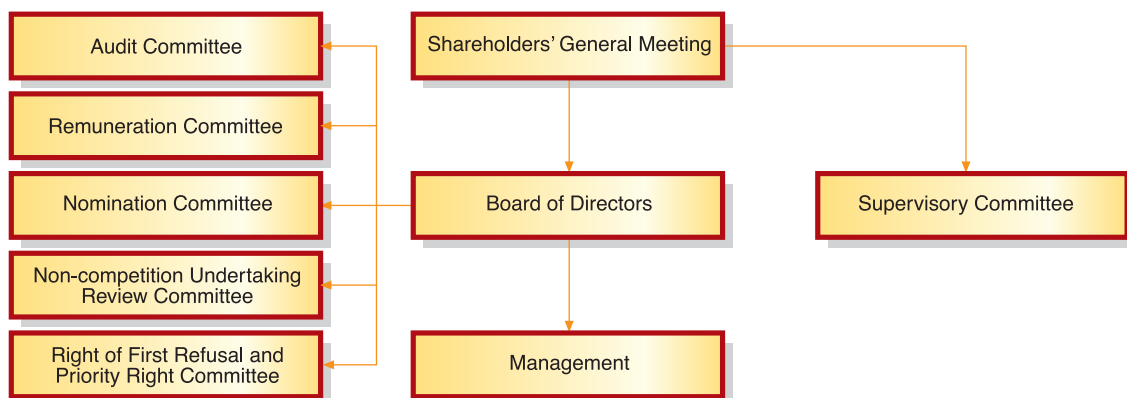
The responsibility statement of KPMG, our external auditors, regarding its report on the financial statements of the Group is set out on pages 89 and 90 of this Annual Report.

## Securities Transactions of Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules to govern securities transactions by directors. Having made specific enquiries in writing to the directors, each of the directors has confirmed that he has complied with the Model Code in connection with transactions in the Company's securities in the reporting period.

# Corporate Governance Report

## Corporate Governance Structure of the Company



## Shareholders' General Meeting

Pursuant to the articles of association of the Company, the shareholders' general meetings are classified as annual general meeting (the "AGM") and extraordinary general meeting (the "EGM"). The AGM will be convened once a year and within six months after the end of the previous financial year. In 2007, apart from the AGM, the Company has also convened two EGMs. The details of the voting procedures and the shareholders' right to require voting on the resolutions by poll were set out in the notices of the general meetings in accordance with the provisions under the Articles of Association and the Listing Rules. All resolutions were voted on by poll in all general meetings held in 2007.

In the AGM for 2006 held on 11 June 2007, the resolutions on the 2006 financial statements, appointment of auditors, the report of the directors and the Share Appreciation Rights Scheme were considered and approved by the shareholders.

In the first EGM in 2007 held on 7 August 2007, the independent shareholders considered and approved the resolutions on the connected transactions regarding the acquisition of the specialized telecommunications support businesses (the "Target Business") of 13 provinces from China Telecommunications Corporation, the controlling shareholder of the Company. China Telecommunications Corporation and its associates, being the connected persons, had abstained from voting on the relevant resolutions.

In the second EGM in 2007 held on 12 December 2007, the shareholders considered and approved the resolutions on the appointments of new directors. The nominations of each director were considered and approved by separate resolutions.

## Board of Directors

The leadership and supervision of the Company is vested in the Board of Directors (the “Board”), which is responsible for implementing the resolutions passed by the shareholders in general meeting, overseeing the Group’s business and affairs, approving operation plans and investment proposals, reviewing financial policies and performance, and formulating the basic management systems of the Company. The Board has delegated to the senior management, the powers and responsibilities to conduct the day-to-day management and operations of the Group and to organize the implementation of the resolutions of the Board, annual business plans and investment proposals. The senior management must obtain the approval of the Board before entering into any material transactions.

Where necessary, all directors can have full and timely access to all relevant information and obtain the advice and services of the Company Secretary. The directors may, where appropriate, seek independent professional advice to ensure compliance with the procedures of the Board and all applicable rules and regulations, at the Company’s expense.

In 2007, the Company has provided formal and tailored induction to the newly appointed executive directors, Mr. Zhang Zhiyong and Mr. Yuan Jianxing, to ensure that they have appropriate understanding on their duties under the laws and regulations. The Company has also arranged appropriate insurance cover in respect of legal actions against its directors, supervisors and senior management.

## Composition of the Board

Up to 31 December 2007, the Board consists of eleven members, including Mr. Wang Xiaochu as Chairman and non-executive director, Mr. Li Ping as Vice Chairman and executive director, Mr. Zhang Zhiyong and Mr. Yuan Jianxing as executive director, Mr. Liu Aili and Mr. Zhang Junan, as non-executive Director, and Mr. Wang Jun, Mr. Chan Mo Po, Paul, Mr. Zhao Chunjun, Mr. Wu Shangzhi and Mr. Hao Weimin, as independent non-executive directors. Profiles of the directors are set out in the “Profiles of Directors, Supervisors and Senior Management” of this Annual Report.

The Board comprises five independent non-executive directors, constituting more than one-third of the members of the Board, having complied with the Recommended Best Practices in respect of the number of independent non-executive directors, and thereby ensured the independence of the Board. All independent non-executive directors possess considerable experience in their respective industries and professions.

To the best knowledge of the directors, in 2007, the members of the Board do not have any financial, business, family or other material connection with each other, in particular between the Chairman and the Chief Executive Officer, and all of them are free to make independent judgments.

# Corporate Governance Report

The Company has received the written annual confirmation of independence from each of the independent directors pursuant to Rule 3.13 of the Listing Rules, and considers all independent non-executive directors to be independent.

## Meetings of the Board

Pursuant to the Company's Articles of Association and the Listing Rules, the Board shall convene at least four meetings a year to review and approve financial and operation results, and consider and approve the overall strategy and policies of the Company.

The Company Secretary assists the Chairman in preparing the agenda for Board meetings. Unless stipulated otherwise by the Board in advance, the time and place for any Board meeting shall be notified to all the directors at least 14 days prior to the date of the meeting. The agenda and related documents of the Board meetings will be delivered to all directors at least 3 days prior to the date of meeting, so that the Directors are apprised of the latest developments and financial position of the Company to make informed decisions. The Board and each of the directors may contact the senior management independently if necessary.

All the minutes of the meetings of the Board contain details of the matters considered and the resolutions adopted, and are kept by the meeting secretary and available to the Directors for inspection.

In 2007, the Board held four meetings and passed two written resolutions. For the resolutions on matters like the Share Appreciation Rights Scheme and the connected transactions regarding the acquisition of the Target Business of 13 provinces from the controlling shareholder of the Company, China Telecommunications Corporation, directors with conflict of interests had abstained from voting.

Individual attendance of each Board meetings and committee meetings in 2007 is as follows (including attendances by written proxies):

Attendance in 2007/ Meetings convened during period of appointment						
	Board of Directors	Audit Committee	Remuneration Committee	Nomination Committee	Non-competition Undertaking Review Committee	Right of First Refusal and Priority Right Committee
<b>Executive Directors</b>						
Li Ping (Vice Chairman)	4/4					
Zhang Zhiyong (appointed on 12 December 2007)	1/1					
Yuan Jianxing (appointed on 12 December 2007)	1/1					
<b>Non-executive Directors</b>						
Wang Xiaochu (Chairman)	4/4					
Liu Aili	4/4					
Zhang Junan	3/4					
<b>Independent Non-executive Directors</b>						
Wang Jun	4/4			1/1		
Chan Mo Po, Paul	4/4	4/4	1/1		3/3	
Zhao Chunjun	4/4		1/1	1/1	3/3	2/2
Wu Shangzhi	4/4	4/4	1/1			2/2
Hao Weimin	4/4	4/4		1/1	3/3	2/2

# Corporate Governance Report

## Chairman and Chief Executive Officer

In 2007, the roles of the Chairman and the Chief Executive Officer of the Company were segregated and held by Mr. Wang Xiaochu and Mr. Li Ping, respectively. Mr. Wang Xiaochu is responsible for overseeing the operations of the Board and formulating the overall strategies and policies of the Company. Mr. Li Ping, is responsible for the day-to-day management and overall operations of the Group.

## Non-executive Directors

The three non-executive directors and five independent non-executive directors of the Company are each appointed for a term of three years and may serve consecutive terms if re-elected upon the expiry of the term of their appointment.

## Board Committees

As an important part of sound corporate governance practices and for supervision of the overall affairs of the Company in various areas, the Board has set up the following five Board Committees to assist it in discharging its responsibilities, which are the Audit Committee, the Remuneration Committee, the Nomination Committee, the Non-competition Undertaking Review Committee and the Right of First Refusal and Priority Right Committee. All five Board Committees are composed of independent non-executive directors, to ensure the full expression of independent and objective views and to fulfill each of its responsibilities of overall safeguard and supervision.

In 2007, the Board approved the respective articles of association for the five Board Committees, and specified their written terms of reference and charters.

## Audit Committee

The Audit Committee consists of three independent non-executive directors: Mr. Chan Mo Po, Paul (chairman), Mr. Wu Shangzhi and Mr. Hao Weimin. The Audit Committee is mainly responsible for examining the appointment of external auditors, considering and supervising the financial reporting procedures and the internal control systems of the Company, overseeing the execution of the connected transactions, reviewing the interim and annual financial statements of the Company to ensure a true and fair view of the state of affairs, reviewing interim and annual results of the Company after consulting with external auditors, and making recommendations to the Board. The Audit Committee makes an assessment of the effectiveness of the Group's internal control at least once a year to enable the Board to understand the overall financial position and protect the assets of the Group.

In 2007, the Audit Committee mainly approved resolutions on important matters such as the 2006 annual report and 2007 interim report, the report on internal control and risk management, the external audit work plan, the appointment of the independent auditors, connected transactions and the acquisition of the Target Business from the controlling shareholder of the Company, China Telecommunications Corporation. The Audit Committee also met with the external auditors independently to discuss the matters found during the audit and other issues that might be raised by the auditors.

## **Remuneration Committee**

The Remuneration Committee consists of three independent non-executive directors: Mr. Wu Shangzhi (chairman), Mr. Chan Mo Po, Paul and Mr. Zhao Chunjun. The Remuneration Committee is mainly responsible for giving recommendation on the overall remuneration policies and structure of the directors and senior management to the Board.

In 2007, the Remuneration Committee mainly approved the “Share Appreciation Rights Scheme” and has given recommendations to the Board. All members of the Remuneration Committee had declared that they have no conflict of interests with the resolutions during their review.

## **Nomination Committee**

The Nomination Committee consists of three independent non-executive directors: Mr. Zhao Chunjun (chairman), Mr. Wang Jun and Mr. Hao Weimin. The Nomination Committee is mainly responsible for reviewing the structure, size and composition of the Board and the skills, knowledge and experience of members of the Board, and recommending candidates to the Board in the event of Board vacancies and addition of board member. The selection criteria include the candidate’s integrity, achievements and experience in the telecom industry, and relevant management skills and professional background, and the time he can dedicate to discharging his duties as a director, and to matters of the Company.

In 2007, the Nomination Committee mainly approved the resolutions on appointing Mr. Zhang Zhiyong and Mr. Yuan Jianxing as our new executive directors, and recommended their appointments to the Board.

## **Non-competition Undertaking Review Committee**

The Non-competition Undertaking Review Committee consists of three independent non-executive directors: Mr. Hao Weimin (chairman), Mr. Chan Mo Po, Paul and Mr. Zhao Chunjun. The Non-competition Undertaking Review Committee is mainly responsible for monitoring the implementation of the non-competition undertakings by China Telecommunications Corporation.

# Corporate Governance Report

In 2007, the Non-competition Undertaking Review Committee mainly reviewed the execution of non-competition undertaking by China Telecommunications Corporation and the supplementary agreement entered into after the acquisition of the Target Business from China Telecommunications Corporation.

The Company has received a letter issued to the Company by China Telecommunications Corporation stating that they were not in breach of any non-competition undertakings in 2007. The letter has been considered by the Non-competition Undertaking Review Committee and approved by the Board.

## Right of First Refusal and Priority Right Committee

The Right of First Refusal and Priority Right Committee consists of three independent non-executive directors: Mr. Wu Shangzhi (chairman), Mr. Zhao Chunjun and Mr. Hao Weimin. The Right of First Refusal and Priority Right Committee is mainly responsible for monitoring the enforcement of the right of first refusal and priority right granted by China Telecommunications Corporation and protecting the interest of independent shareholders when such right of first refusal or the priority right is exercised.

In 2007, the Right of First Refusal and Priority Right Committee mainly reviewed and approved the exercise of rights concerning the acquisition of businesses of 13 provinces from China Telecommunications Corporation and has made recommendation to the Board.

## Independent Board Committee

Pursuant to the requirements under the Listing Rules, the Board of the Company formed an Independent Board Committee on 22 May 2007, with members including all five independent non-executive directors of the Company. It was formed to provide its view and make a recommendation to the Independent Shareholders on the acquisition of the Target Business of 13 provinces from China Telecommunications Corporation and the related connected transactions.

## Supervisory Committee

The Company has established a Supervisory Committee pursuant to the Company Law of the PRC. The Supervisory Committee consists of three members, of which Ms. Xia Jianghua is the chairperson, Mr. Hai Liancheng serves as the external independent supervisor, and Mr. Yan Dong serves as the staff representative supervisor. The supervisors are appointed for a term of three years and may serve consecutive terms if re-elected upon the expiry of the term. The Supervisory Committee is a standing supervisory institution of the Company and is accountable and reports to all the shareholders. The Supervisory Committee normally meets at least twice a year.



The primary duties of the Supervisory Committee are to supervise the financial activities of the Group, review the financial statements and other financial information prepared and presented by the Board to the shareholders in general meetings, supervise the performance of duties of the directors, Chief Executive Officer and other senior management and prevent them from any abuse of power, and represent the Company in dealing with the directors or institute actions against the directors on behalf of the Company.

In 2007, the Supervisory Committee held two meetings, details of which are set out in the “Report of the Supervisory Committee” of this Annual Report.

## Remuneration of the Auditors

The international and domestic auditors of the Company are KPMG and KPMG Huazhen respectively. A breakdown of the remuneration received by the external auditors for the audit and non-audit services provided to the Company during the year is set out below:

Project	Fees (RMB'000)
Auditing services for the year ended 31 December 2007	30,000
Audit for acquisition of the Target Business of 13 provinces	16,800
Special dividend and profit distribution audit for 6 and 13 provincial subsidiaries	6,000
	52,800

## Internal Control

The Board of the Company is granted full authority to maintain the soundness and effectiveness of the internal control system and risk management procedures of the Group, including setting a management structure and its terms of reference to ensure efficient and effective use of the Group's resources to assist the Group in achieving its operation objectives, safeguarding the Group's assets against any unauthorized use or disposal, ensuring an appropriate maintenance of accounting records and the availability of reliable financial information for internal use or external release, and ensuring compliance of all operating activities with the relevant laws and regulations. Such control system is intended to have in place reasonable safeguards against material misrepresentation or loss, and to manage and eliminate as far as possible any defects in the Group's operating system and the risk of failing to achieve its objectives.

# Corporate Governance Report

The Group is committed to strengthen its internal control and risk management and has a sound internal control foundation. The Group proceeded to establish an internal control system, introduced the concept of comprehensive risk management pursuant to the requirements of the Stock Exchange on internal control and risk management, rationalized its internal organization structure and management structure. We also deployed officers-in-charge of risk management to our 19 provincial subsidiaries, and our provincial subsidiaries also designated officers-in-charge of risk management to their key professional subsidiaries. The Company paid particular attention to any possible risk exposure in conducting its monthly and quarterly operation analysis, and took corresponding measures and issued timely pre-warnings against certain material risks.

The Company endeavours to integrate its internal control and risk management with its information system, and proactively adopts IT technology to assimilate the internal control and risk management processes into the IT system, thereby having achieved comprehensive integration of company risk management and operational management, reduction of operational risks, and an enhancement of internal control and risk management of the Company.

The Board considers that the implementation of the above measures is in compliance with the internal control requirements under C.2 of the Code Provisions and the internal control and risk management system was effective. In 2008, the Board intends to further improve and perfect its internal control and risk management with a view to achieve even greater enhancement of the work flow.

## Information Disclosure and Investor Relations

The Company considers that timely, fair and accurate information disclosure is the basis for establishing sound investor relations. As such, the Company formulated and implemented the Information Disclosure Management Regulation (Provisional) to further improve the external information dissemination, especially in respect of important information such as price sensitive information and those related to annual reports and interim reports so as to ensure true, accurate, complete and timely information disclosure.

The Company has also established its website, <http://www.chinaccs.com.hk>, not only as a channel for information disclosure required by the Listing Rules but also as an important platform for investors to acquire information and news of the Company, so as to enhance the capital market's understanding of the Company.

The Company emphasizes establishing a close relationship with the capital market. In 2007, the Company communicated with investors and analysts in various ways. Among which, the Company has held two press conferences on results announcements and one press conference on the acquisition. The Company invited the media, investors and analysts to attend the conferences and answered their enquiries during the conferences. The Company has also arranged webcasting of these press conferences on its website to facilitate the dissemination of the relevant information. The Company has also organized three road shows in total in Hong Kong and Singapore, and participated in the investor conferences organized by major investment banks held in Beijing and Macau. Through two-way interactions such as the above activities and the daily meetings with investors and analysts, the Company is able to update and provide official information to the capital market, which can have a more accurate and comprehensive understanding on the industry environment, development strategies, business, financial and management aspects of the Company. Such interaction also helps the management of the Company to understand the public's views on its business development and strategies so as to improve its operations.



2006 Annual Result Announcement



Analyst Meeting relating to the acquisition of Target Business in 13 Provinces

In 2007, the Company joined the Hang Seng China Enterprises Index and MSCI China Index. In addition, our first annual report, 2006 annual report, also won the Bronze Award in the category of “Annual Report – Overall Presentation: Telecommunications” at the 21st Annual International Mercury 07/08 Awards, an internationally renowned competition. The award was an important recognition of our outstanding performance in corporate communications and our efforts in promoting proactive interactions with the capital market.