



# 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 strive to achieve more standardized operational procedures, 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 has not only complied with the relevant provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") but also abided by the PRC Company Law and other applicable laws, regulations and regulatory requirements of Hong Kong and the PRC as fundamental guidelines for the Company's corporate governance.

In 2008, the Company formulated and implemented the "Charter for the Supervisory Committee of China Communications Services Corporation Limited", to further standardize the daily operating mechanism for corporate governance and commit itself to maintaining a high standard of business conduct and integrity. The Company's endeavours in corporate governance in the past had received particular recognition in capital market, and we were awarded several honors including the "Best-Managed Companies" and the "Best Corporate Governance" in the election of the Asia's Best Companies (China Group) for the year 2008 by FinanceAsia.

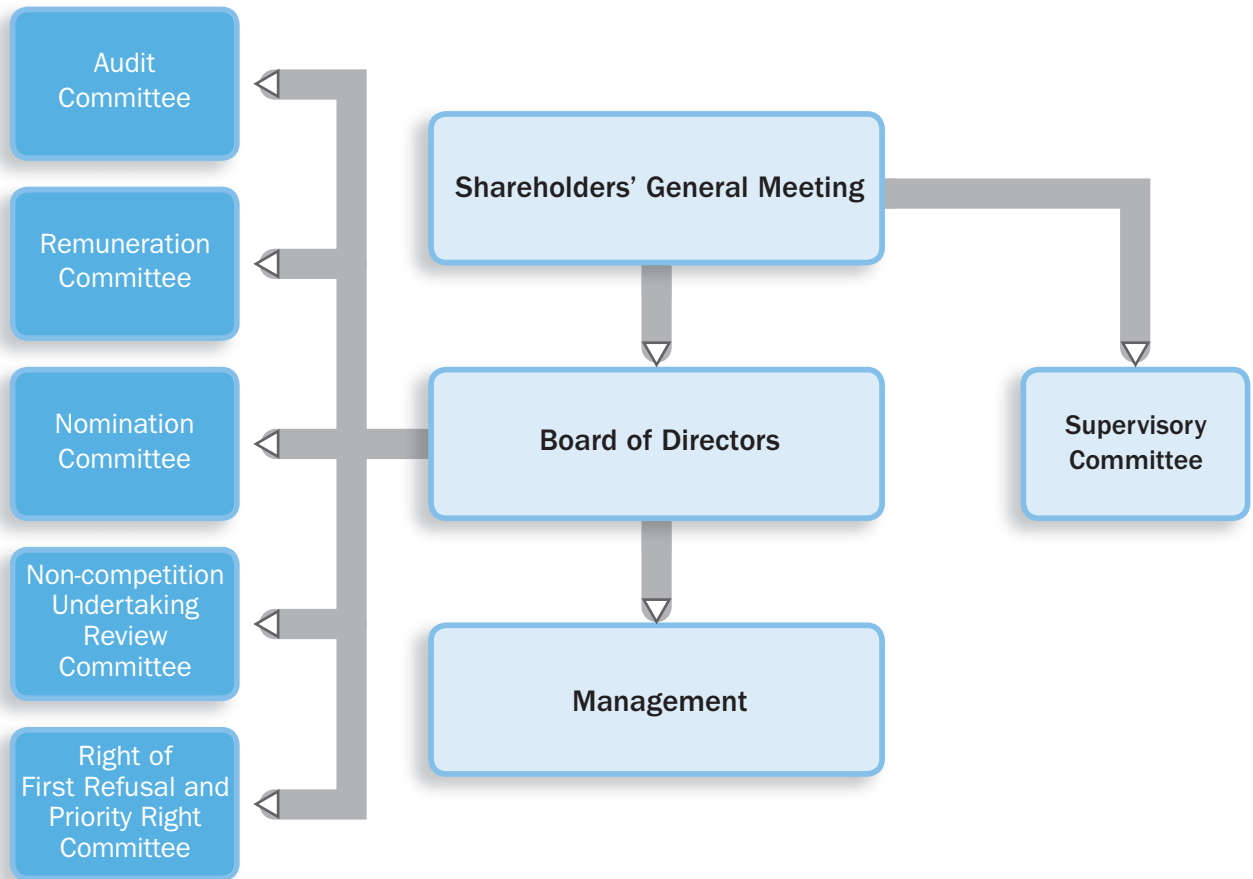
For the year ended 31 December 2008, the Company had complied with the Code Provisions in the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules (the "Code Provisions"). In addition, the Company had also adopted certain applicable Recommended Best Practices (the "Recommended Best Practices") in accordance with our actual situation.

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 page 85 of this Annual Report.



## Corporate Governance Structure of the Company





## Shareholders' Meeting

Pursuant to the Company's Article of Association, the shareholders' 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 a financial year. In 2008, apart from the AGM, the Company also convened one EGM. A resolution will be separately put forward in respect of each independent matter. The details of the voting procedures and voting by poll at the request of shareholders 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 the resolutions were voted by poll in all shareholders' meetings held in 2008.

At the AGM of 2007 held on 13 June 2008, the resolutions regarding the 2007 financial statements, profit distribution proposal and dividend declaration proposal, appointment of auditors, report of the directors, report of the Supervisory Committee, Charter for Supervisory Committee and amendments to the Articles of Association, etc were considered and approved by shareholders.

At the EGM of 2008 held on 14 November 2008, the resolutions regarding the renewal and amendment of annual caps of continuing connected transactions between the Company and China Telecommunications Corporation, the Company's controlling shareholder, were considered and approved by independent shareholders. China Telecommunications Corporation and its associates, being connected persons to the Company, abstained from voting for this resolution.

The above resolutions at the AGM and EGM were approved and passed by shareholders, and the relevant voting results were published on the websites of the Company and the Stock Exchange.

With the implementation of the amendments to the Listing Rules with effect from 1 January 2009, all resolutions proposed at shareholders' meeting of the Company will be voted by poll. The voting results will be posted on the websites of the Stock Exchange and the Company.

## Board of Directors

The leadership and supervision of the Company are vested in the Board of Directors (the "Board"), which is responsible for implementing the resolutions passed by the shareholders in general meetings, overseeing the Group's businesses 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. The Articles of Association of the Company has clearly defined the scope of duties on the Board and management of the Company.

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.

The Company has also arranged appropriate insurance cover in respect of legal actions against its directors, supervisors and senior management.



## Composition of the Board

Since Mr. Wang Xiaochu resigned from the positions of non-executive director and Chairman on 8 April 2008, and became an Honorary Chairman, the Board comprises three executive directors (Mr. Li Ping as Chairman and executive director, Mr. Zhang Zhiyong and Mr. Yuan Jianxing as executive directors), two non-executive directors (Mr. Liu Aili and Mr. Zhang Junan) and five independent non-executive directors (Mr. Wang Jun, Mr. Chan Mo Po, Paul, Mr. Zhao Chunjun, Mr. Wu Shangzhi and Mr. Hao Weimin). The Honorary Chairman is not a member of the Board and has no voting right on any matters to be considered by the Board. The profiles of the directors are set out in the “Profiles of Directors, Supervisors and Senior Management” of this Annual Report.

The Board has five independent non-executive directors, constituting half of the members of the Board, and complied with the Recommended Best Practices in respect of the number of independent non-executive directors. This 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 2008, the members of the Board did not have any financial, business, family or other material connection with each other, in particular between the Chairman and the President, and all of them are free to make independent judgments.

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.

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.

## 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 its financial and operational performance, 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 resolutions adopted, and are kept by the secretary of the meeting and available to the Directors for inspection. In 2008, the Board held four meetings and passed one written resolution. For the resolutions in respect of the adjustments to the Board composition and senior management and the renewal and amendment of annual caps of continuing connected transactions between the Company and its controlling shareholder, China Telecommunications Corporation, directors with conflict of interests abstained from voting.



Director's individual attendance at each of the Board meetings and committee meetings held in 2008 is as follows (including attendances by written proxies):

Attendance in 2008/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 <sup>1</sup> ( <i>Chairman</i> )	4/4					
Zhang Zhiyong	4/4					
Yuan Jianxing	4/4					
<b>Non-executive Directors</b>						
Wang Xiaochu <sup>2</sup>	2/2					
Liu Aili	4/4					
Zhang Junan	4/4					
<b>Independent Non-executive Directors</b>						
Wang Jun	4/4			1/1		
Chan Mo Po, Paul	4/4	3/3	1/1		2/2	
Zhao Chunjun	4/4		1/1	1/1	2/2	1/1
Wu Shangzhi	4/4	3/3	1/1			1/1
Hao Wemin	4/4	3/3		1/1	2/2	1/1

<sup>1</sup> The Board has approved the resignation of Mr. Li Ping as Vice Chairman and Chief Executive Officer of the Company and his appointment as the Chairman of the Company on 8 April, 2008.

<sup>2</sup> The Board has approved the resignation of Mr. Wang Xiaochu as non-executive director and Chairman of the Company and his appointment as the Honorary Chairman of the Company on 8 April, 2008. Honorary Chairman is not a member of the Board and does not have any power or right to vote on any matters considered by the Board.



## Chairman and President

The Company has separate positions for Chairman and President; these roles were segregated and held by Mr. Li Ping and Mr. Zhang Zhiyong respectively. Mr. Li Ping is responsible for overseeing the operation of the Board and formulating the overall strategies and policies of the Company. Mr. Zhang Zhiyong is responsible for the day-to-day management and overall operation of the Group.

## Non-Executive Directors

The two 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 practice 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: 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 comprise 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.

## 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 2008, the Audit Committee held three meetings, mainly reviewed the resolutions of the Company for its audited financial report of 2007, interim report of 2008, report on connected transactions, report on internal control and risk management, appointment of independent auditors, and renewal and amendment of annual caps of continuing connected transactions. The Audit Committee also met with the external auditors separately 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 2008, the Remuneration Committee held one meeting, at which the members of the committee mainly reviewed the proposal regarding the granting of the second tranche of share appreciation rights in the first phase of implementation of the Company's share appreciation rights scheme and provided their recommendations to the Board. All members of the Remuneration Committee declared that they had 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. In 2008, the Nomination Committee held one meeting, at which the members of the committee mainly reviewed the proposal regarding the adjustments to the composition of the Board and senior management of the Company, and made their recommendations 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 given by China Telecommunications Corporation to us.

In 2008, the Non-competition Undertaking Review Committee held two meetings, at which the members of the committee mainly reviewed the implementation of the non-competition undertakings by China Telecommunications Corporation and made their recommendations to the Board.

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 2008. The letter has been reviewed by the Non-competition Undertaking Review Committee and 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 upon the listing of the Company in 2006, and protecting the interests of independent shareholders when such right of first refusal or priority right is exercised.

In 2008, the Right of First Refusal and Priority Right Committee held one meeting, at which the members of the committee mainly reviewed the proposed revision of the charter of the Committee and made their recommendations to the Board.

### Independent Board Committee

Pursuant to the requirements under the Listing Rules, the Company held an Independent Board Committee Meeting on 19 September 2008, in which five independent non-executive directors of the Company attended. The Independent Board Committee mainly reviewed the resolution regarding the “renewal and amended annual caps of continuing connected transactions”, and it made their recommendations to Independent Shareholders. The details of this resolution and the Independent Board Committee’s recommendation were contained in circular despatched to shareholders on 26 September 2008.

### 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 their term of service. 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 and other senior management and prevent them from any abuse of power and represent the Company in dealing with the directors or initiate legal actions against the directors on behalf of the Company.

In 2008, 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:

	Fees (RMB'000)
Auditing services for the year ended 31 December 2008	36,000
Non-auditing services (Tax consultancy)	2,015
	38,015

## 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. The purpose is 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, but not absolute guarantee, against material misrepresentation or loss, and to minimize but not eliminate any defects in the Group's operating system and the risk of failing to achieve its objectives.

The Group is committed to strengthening its internal control and risk management and has established a sound internal control foundation. The Group further improved internal control system and implemented comprehensive risk management pursuant to the relevant requirements of the Stock Exchange, promoted the application of risk management process in operating activities and daily management, and developed a Five-Step Working Methods on risk management including risk identification, risk analysis, solution formulation, solution implementation and results evaluation. The Group made in-depth analysis and investigations regarding the important risks faced by the Company. The Company gradually improved the overall level of internal control and risk management through a combination of pilot programs and issue of important precautions in internal control and risk management. Through the formulation and improvement of relevant internal control and risk management procedures, the Group has further unified and standardized its risk management and strengthened the information communication relating to internal control and risk management. Together with the newly acquired subsidiary — China International Telecommunications Construction Corporation, we focused on the training on internal control and risk management for the management personnel of provincial-level companies and specialized companies. The Company also paid particular attention to any possible risk exposure in conducting monthly and quarterly operation analysis, took timely measures, and issued timely pre-warnings against certain material risks in view of the Company's daily operation.



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

The Board considers that the implementation of the above measures was in compliance with the internal control requirements under C.2 of the Code Provisions and that the internal control and risk management system of the Company was effective. The Board intends to further improve and enhance its internal control and risk management In 2009.

### Information Disclosure

The Company considers that integrity, timeliness, fairness and accuracy in information disclosure is key to improving corporate governance. In accordance with the Company's internal policy on information disclosure and the requirements of Listing Rules, the Company further improved external information publishing, especially in respect of important information such as price sensitive information, information related to annual reports and interim reports, so as to ensure true, accurate, complete and timely information disclosure.

The Company's website (<http://www.chinaccs.com.hk>) is not only a channel for information disclosure required by the Listing Rules but also an important platform for investors to acquire information and news about the Company, so as to enhance the capital market's understanding of the Company. At the same time, the Company has set up an investor relations department that is responsible for providing necessary information and services to our shareholders and investors. Details of Investor Relations are contained in the "Investor Relations" section of this Annual Report.