





## Flourishing future

Adhere to defined development strategies, enhance resource allocation, speed up overseas market development, improve core capabilities and innovative drivers and deliver

**FIRE**-cracking results

## Corporate Governance Report

The Company is 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 and effective management, so as to safeguard shareholders' interests to the greatest extent possible.

### 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 of Hong Kong Limited (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.

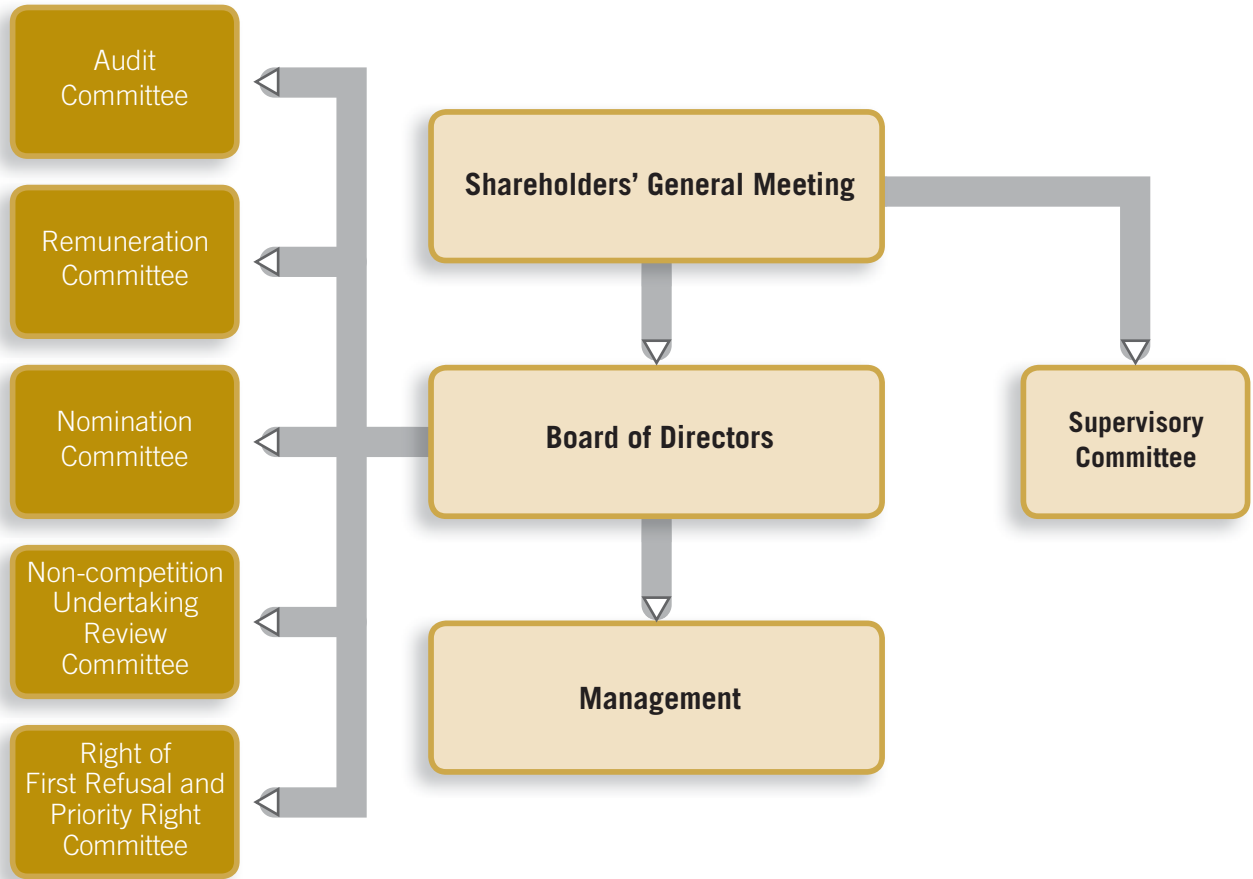
The Company commits itself to maintaining a high standard of business conduct and integrity. The Company's endeavours in corporate governance in the past had received particular recognition in capital markets. In the contest of "2009 Faithful Enterprises in China" by the China Faithful Enterprise Election Committee, the Company was awarded "2009 The Most Faithful Enterprises in China", and we received Titanium Award for "Corporate Governance and Investor Relations" in The Asset Triple A Awards 2009 – Corporate Award.

For the year ended 31 December 2009, 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 as set out in Appendix 14 of the Listing Rules (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 2009, apart from the AGM, the Company also convened two EGMs. 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. In accordance with the Listing Rules, all the resolutions were voted by poll in all shareholders' meetings held in 2009.

At the AGM of 2008 held on 9 June 2009, the resolutions, including the 2008 financial statements, profit distribution proposal and dividend declaration proposal, appointment of auditors, report of the directors, report of the Supervisory Committee, were considered and approved by shareholders.

At the first EGM of 2009 held on 31 July 2009, the resolutions, including the re-election of the second session of the members of the Company's board of directors (the "Board"), the re-election of the second session of the members of the Company's Supervisory Committee representing the shareholders and amendments to the Articles of Association, were considered and approved by shareholders.

At the second EGM of 2009 held on 29 December 2009, the resolutions regarding the connected transactions such as the Supplies Procurement Services Framework Agreement between the Company and its controlling shareholder, China Telecommunications Corporation and the renewal of Strategic Cooperation Agreement between the Company and China Telecom Corporation Limited, 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.

## Board of Directors

The leadership and supervision of the Company are vested in 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 of 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

On 2 August 2009, the first session of the Board expired. Upon re-election by the shareholders in general meeting held on 31 July 2009, all members of the first session of the Board continue to hold office in the second session of the Board.

Accordingly, the Board comprises ten directors, including 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). Mr. Wang Xiaochu continues to be the Honorary Chairman of the Company. The Honorary Chairman is not a member of the Board and has no voting rights 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” section 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 2009, 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 during 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 the 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 2009, the Board held four meetings and passed three written resolutions. For the resolutions on the connected transactions such as renewal of the Strategic Cooperation Agreement between the Company and its fellow subsidiary, China Telecom Corporation Limited, directors with conflict of interests abstained from voting.

Director's individual attendance (including attendances by written proxies) at the Board meetings held in 2009 is as follows:

	Attendance in 2009/Meetings convened during period of appointment									
	Executive Directors			Non-executive Directors			Independent Non-executive Directors			
	Li Ping (Chairman)	Zhang Zhiyong	Yuan Jianxing	Liu Aili	Zhang Junan	Wang Jun	Chan Mo Po, Paul	Zhao Chunjun	Wu Shangzhi	Hao Weimin
First session	2/2	2/2	2/2	2/2	2/2	2/2	2/2	2/2	2/2	2/2
Second session	2/2	2/2	2/2	2/2	2/2	2/2	2/2	2/2	2/2	2/2
2009 whole year	4/4	4/4	4/4	4/4	4/4	4/4	4/4	4/4	4/4	4/4

### Executive Directors, Chairman and President

The three executive directors of the Company take up the position of Chairman, President and Chief Financial Officer respectively. Our Chairman, Mr. Li Ping is responsible for overseeing the operation of the Board and in charge of the Company's overall management. Our President, Mr. Zhang Zhiyong is responsible for the Company's daily operation and management.

### 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 addition, the Audit Committee is also responsible for reviewing the adequacy of resources of staff of the Group's accounting and financial reporting function.

In 2009, the Audit Committee held four meetings, mainly reviewing the resolutions of the Company for its audited financial report of 2008, interim report of 2009, report on connected transactions, report on internal control and risk management, appointment of independent auditors, entering into continuing connected transaction agreements, and renewal of Strategic Cooperation Agreement. 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.

Committee member's individual attendance (including attendances by written proxies) at the Committee meetings held in 2009 is as follows:

	Attendance in 2009/Meetings convened during period of appointment		
	First Session	Second Session	2009 whole year
Chan Mo Po, Paul (Chairman)	2/2	2/2	4/4
Wu Shangzhi	2/2	2/2	4/4
Hao Weimin	2/2	2/2	4/4

### 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. According to the charter of the remuneration committee, meeting will be convened when needed. 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. The Remuneration Committee has not convened a meeting in 2009.

### 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 2009, the Nomination Committee held one meeting, at which the members of the committee mainly reviewed the composition of the second session of the Board.

Committee member's individual attendance (including attendances by written proxies) at the Committee meetings held in 2009 is as follows:

	Attendance in 2009/Meetings convened during period of appointment
	2009 whole year (First Session)
Zhao Chunjun (Chairman)	1/1
Wang Jun	1/1
Hao Weimin	1/1



### 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 2009, 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.

Committee member's individual attendance (including attendances by written proxies) at the Committee meetings held in 2009 is as follows:

	Attendance in 2009/Meetings convened during period of appointment		
	First Session	Second Session	2009 whole year
Hao Weimin (Chairman)	1/1	1/1	2/2
Chan Mo Po, Paul	1/1	1/1	2/2
Zhao Chunjun	1/1	1/1	2/2

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 2009. 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. According to the Charter of the Right of First Refusal and Priority Right Committee, meeting will be convened when needed. 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, and protecting the interests of independent shareholders when such right of first refusal or priority right is exercised. The Right of First Refusal and Priority Right Committee has not convened a meeting in 2009.

### Independent Board Committee

Pursuant to the requirements under the Listing Rules, the Company held an Independent Board Committee Meeting on 5 November 2009, at which five independent non-executive directors of the Company attended. The Independent Board Committee mainly reviewed the resolution regarding the connected transactions such as the Supplies Procurement Services Framework Agreement between the Company and China Telecommunications Corporation and the renewal of Strategic Cooperation Agreement between the Company and China Telecom Corporation Limited, and it made its recommendations to the independent shareholders. The details of this resolution and the Independent Board Committee's recommendation were contained in the circular despatched to shareholders on 12 November 2009.

## Supervisory Committee

The Company has established a Supervisory Committee pursuant to the Company Law of the PRC. The Supervisory Committee consists of three members, including one chairperson, one external independent supervisor and one employee representative supervisor. On 2 August 2009, the first session of the Supervisory Committee expired. Upon the re-election at the extraordinary general meeting on 31 July 2009, the chairperson and the external independent supervisor of the first session of the Supervisory Committee, Ms. Xia Jianghua and Mr. Hai Liancheng, continue to hold their offices in the second session of the Supervisory Committee. In addition, Mr. Yan Dong was elected by the employees as the employee representative supervisor. The terms of the supervisors are three years and the supervisors 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 2009, the Supervisory Committee held four 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 2009	38,000
Non-auditing services	–
	38,000

## 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 an 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 gradually improved the overall level of the internal control and risk management. The Group put great emphasis on the formulation and improvement of the relevant internal control and risk management system. We formulated the “Internal Control Guidance of China Communications Services Corporation Limited” and our subsidiaries of various levels also established their implementation rules on internal control. The Group also organized subsidiaries of various levels to evaluate the effectiveness on the design and implementation of internal control, and instructing them to establish risk management committees to safeguard an effective organizational structure on risk management. The Group focused on the training on internal control and risk management for the management personnel of provincial-level companies and specialized companies, and organized training for staff involved in risk management by the National Accounting Institute, and we also organized risk management trainings by auditors and lawyers for various provincial subsidiaries. When reviewing the Group’s internal control, we will also consider the adequacy of resources, qualifications and experience of staff of the Group’s accounting and financial reporting function, and their training programmes and budget. The findings of the review were reported to the Audit Committee and the Board.

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 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 continue to further improve and enhance its internal control and risk management in 2010.

## Information Disclosure

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

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.