



“As Mighty As Water”

Accumulating power by gathering tiny water drops, water multiplies its power by merging streams to form a mighty torrent.

“Strategy of Synergic Operation”

Optimizing organization structure and operational process, and building integrated services capabilities and implementing refined management, we aim to avoid systematic risk and increase the value of the Company.



Corporate Governance Report

The Company is committed to maintaining sound corporate governance standards and procedures to ensure the completeness, transparency and quality of its information disclosure, and strive to achieve more standardized operational procedures and effective management, 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 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.

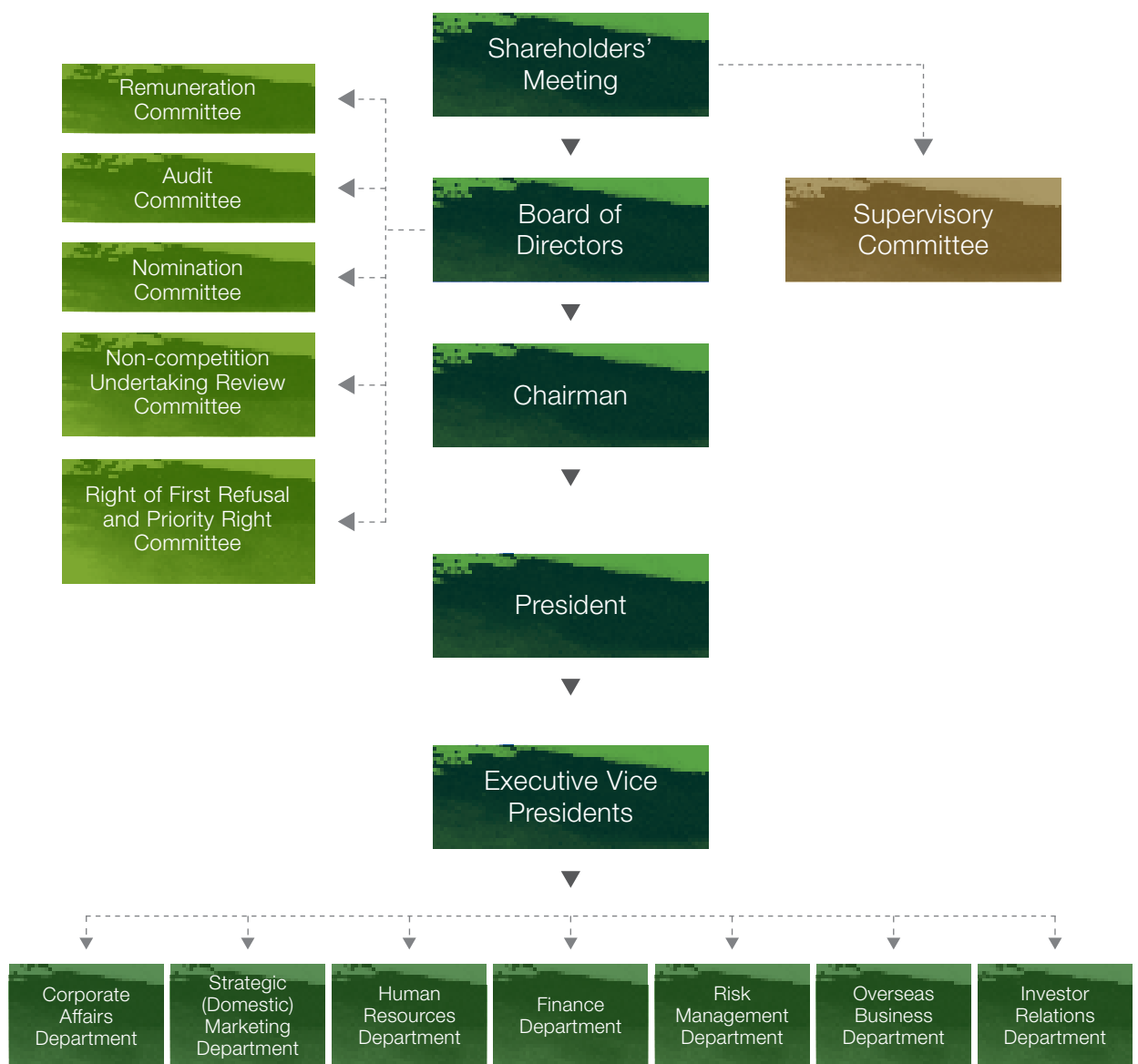
The Company commits itself to maintaining a high standard of business conduct and integrity. The Company's endeavours in corporate governance in the past had received particular recognition in capital markets. The Company received "Gold Award – Investor Relations" in "The Asset Corporate Awards 2010" organized by the authoritative financial magazine, The Asset.

For the year ended 31 December 2010, 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 88 of this Annual Report.

CORPORATE STRUCTURE OF THE COMPANY



Corporate Governance Report

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 2010, 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 2010.

At the AGM of 2009 held on 28 June 2010, the resolutions, including the 2009 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 2010 held on 10 August 2010, the resolutions, including the appointment of Mr. Zheng Qibao as executive director of the Company and the amendments to the Articles of Association of the Company, were considered and approved by shareholders.

At the second EGM of 2010 held on 30 December 2010, the resolutions regarding the renewal of continuing connected transactions and proposed new annual caps 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.

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.

Corporate Governance Report

CHANGE OF DIRECTOR

The Company follows a formal, considered and transparent procedure for the appointment of new directors. Appointments are first considered by the Nomination Committee. The recommendations of the Committee are then put to the Board for decision. The candidate of director at the shareholders' general meeting should be recommended by the Board and directors shall be elected at the shareholders' general meeting each for a term of three years, effective from the date of election.

The appointment of Mr. Zheng Qibao as an executive director of the Company was approved at the EGM held on 10 August 2010. The appointment of Ms. Hou Rui as an executive director of the Company was approved at the EGM on 23 February 2011.

Every newly appointed director of the Company should receive a comprehensive, formal and tailored induction on the first occasion of his appointment, and subsequently such briefing and professional development as is necessary, to ensure that he has a proper understanding of the operations and business of the issuer and that he is fully aware of his responsibilities under statute and common law, the Exchange Listing Rules, applicable legal requirements and other regulatory requirements and the business and governance policies of the Company.

Due to other work arrangement, Mr. Zhang Zhiyong resigned as the president and executive director of the Company which was approved by the Board with effect from 21 June 2010. Mr. Zhang Zhiyong has confirmed that he has no disagreement with the Board and did not have any matters, in relation to his resignation that should be brought to the attention of the shareholders of the Company.

COMPOSITION OF THE BOARD

As of 31 December 2010, the Board comprised ten directors, including three executive directors (Mr. Li Ping as Chairman and executive director, Mr. Zheng Qibao 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. After Ms. Hou Rui was appointed as an executive director of the Company on 23 February 2011, the number of the directors of the board increased to 11. 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 2010, 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.

Corporate Governance Report

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 2010, the Board held four meetings and passed three written resolutions. For the resolutions on the connected transactions such as renewal of continuing connected transactions and proposed new annual caps between the Company and China Telecommunications Corporation, directors with conflict of interests abstained from voting.

Director's individual attendance (including attendances by written proxies) at the Board meetings and committee meetings held in 2010 is as follows:

	Attendance in 2010/Meetings convened during period of appointment			
	Board of Directors	Audit Committee	Nomination Committee	Non-competition Undertaking Review Committee
<i>Executive Directors</i>				
Li Ping (Chairman)	4/4			
Zheng Qibao ⁽¹⁾	3/3			
Yuan Jianxing	4/4			
Zhang Zhiyong ⁽²⁾	1/1			
<i>Non-executive Directors</i>				
Liu Aili	4/4			
Zhang Junan	4/4			
<i>Independent Non-executive Directors</i>				
Wang Jun	4/4		2/2	
Chan Mo Po, Paul	4/4	3/3		2/2
Zhao Chunjun	4/4		2/2	2/2
Wu Shangzhi	4/4	3/3		
Hao Weimin	4/4	3/3	2/2	2/2

⁽¹⁾ Mr. Zheng Qibao was appointed as an executive director of the Company on 10 August 2010.

⁽²⁾ Mr. Zhang Zhiyong resigned as the president and executive director of the Company on 21 June 2010.

Corporate Governance Report

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. Zheng Qibao 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 the 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 2010, the Audit Committee held three meetings, mainly reviewing the resolutions of the Company for its audited financial report of 2009, interim report of 2010, report on connected transactions, report on internal control and risk management, appointment of independent auditors, renewal of continuing connected transactions and proposed new annual caps. 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. 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 did not convene any meetings in 2010.

Corporate Governance Report

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 2010, the Nomination Committee held two meetings, at which the members of the committee mainly reviewed resolutions regarding the proposed appointment of executive directors 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 2010, 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 2010. 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 did not convene any meetings in 2010.

INDEPENDENT BOARD COMMITTEE

Pursuant to the requirements under the Listing Rules, the Company held an Independent Board Committee Meeting on 9 November 2010, at which five independent non-executive directors of the Company attended. The Independent Board Committee mainly reviewed the resolution regarding the renewal of continuing connected transactions and proposed new annual caps between the Company and China Telecommunications Corporation, 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 2010.

Corporate Governance Report

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. Ms. Xia Jianghua is the chairperson, Mr. Hai Liancheng serves as the external independent supervisor and Mr. Yan Dong serves 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 terms 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 2010, 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 2010	38,000
Non-auditing services	1,600
	39,600

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.

Corporate Governance Report

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 focused on formulating and improving relevant systems in relation to internal control and risk management. It has formulated and issued documents including “Guidelines on Strengthening China Comservice’s Risk Management” and “Terms of Reference for Risk Management Office” which specifies the goals and duties of risk management for companies at various levels and optimized the organizational structure and operational mechanism of risk management. It also supplemented and perfected the “Internal Control Guidance of China Communications Services Corporation Limited” in which 5 internal control procedures were added and 26 internal control procedures were amended and improved. Based on the above documents, companies at various levels also worked out their own implementation rules on internal control while the Group organized companies at various levels to conduct assessment on the design and operational efficiency of their respective internal control system. The Group has also made efforts in promoting the establishment of risk management committee in companies at various levels which would provide organizational support for risk management. The Group organized auditors and lawyers to conduct training courses on internal control and risk management in provincial-level companies and specialized companies to raise the awareness of internal control and risk management for companies at various levels. It also continued to send its risk management personnel to participate in the trainings conducted by National Accounting Institute on internal control, auditing and risk management, aiming to improve their competence of risk management.

The Group has persistently promoted the construction of its information system and vigorously built an IT-based control and management platform. The Group realized the unification of the financial system on EMOSS (Enterprise Management Operation Support System), the online operation of the one-account system and contract management system, and the integration of the above systems with portal site and OA system. The Company strived to integrate its internal control and risk management with the information system to realize an effective solidification of the process of internal control and risk management and a better integration of the Company’s risk management and operation management, thus strengthening the Company’s internal control and risk management, reducing operation risks and improving the standard of the Company’s 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 2011.

INFORMATION DISCLOSURE AND COMMUNICATIONS

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. In addition, to maintain good relations with our shareholders, the Company has set up the comprehensive investor relations program and important issues including performance, fundamental business strategy, and governance are made through the following channels:

1. HKEx website
2. The Company's website
3. The Company's hotline
4. The Company's press releases
5. Circulars and letters to Shareholders
6. Interim and annual financial reports as well as press conferences in relation to result announcement, webcast presentation
7. Continuous communicate with investors, media and financial analysts by means of road shows, conference calls, one-to-one meetings and industry conferences

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. The website of the Company has published the latest version of the articles of association for reference. 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.