

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, the Company has not only complied with the relevant provisions of 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.

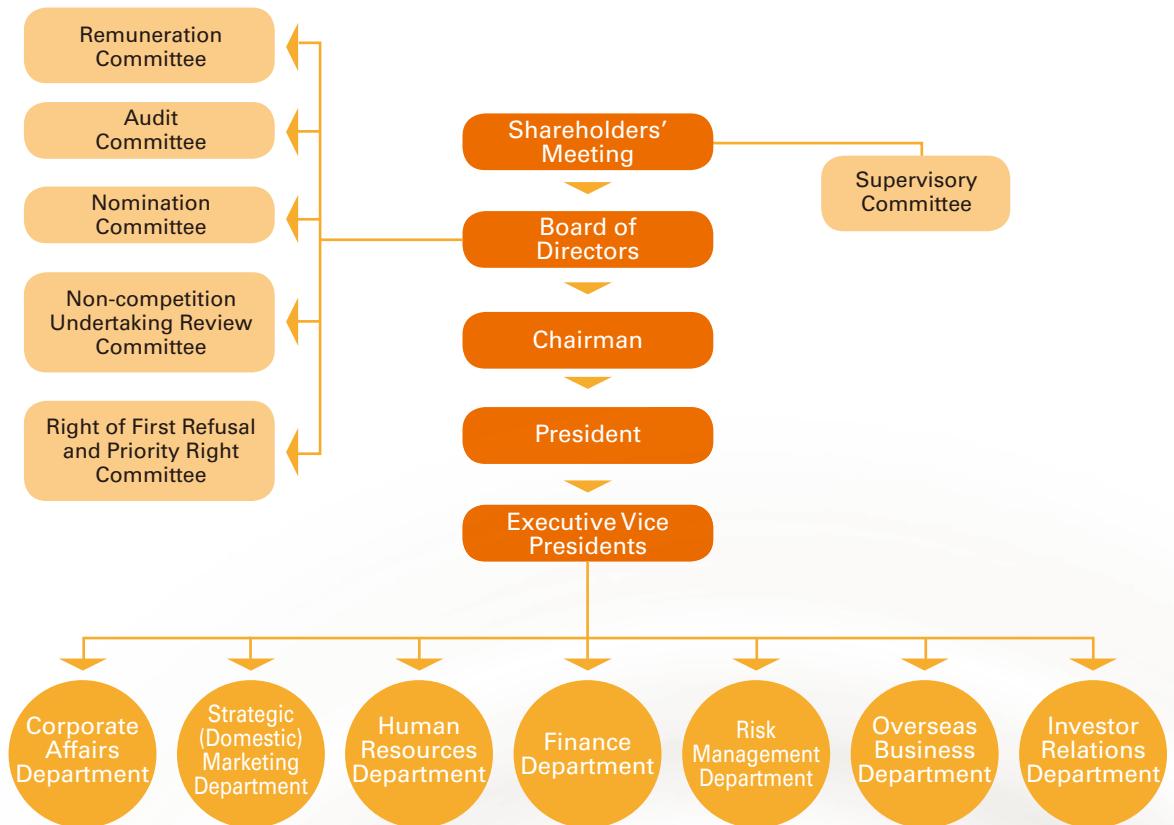
While strictly complying with relevant laws and regulations, the Group is continually striving to further strengthen its internal control and risk management procedures and is in the process of enhancing its IT support system for internal control in order to improve its corporate governance standards and transparency. The Group's persistent efforts in fostering sound corporate governance have been recognized by capital market: the Group was once again awarded a Gold Award in "The Asset Corporate Awards 2011" and recognized as one of "China's Most Promising Companies 2011" in the telecommunications category by *The Asset*, a respected financial magazine in Asia. Moreover, the Group was given one of the "Best Investor Relations by a China Company" awards in the "Asian Excellence Recognition Awards" 2011 by *Corporate Governance Asia*, a respected journal on Corporate Governance in Asia.

For the year ended 31 December 2011, 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 Independent Auditor's Report on the financial statements of the Group is set out on page 97 of this annual report.

CORPORATE 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 2011, apart from the AGM, the Company also convened three EGMs, one H shareholders class meeting and one domestic shareholders class meeting. 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 2011.

At the first EGM of 2011 held on 23 February 2011, the resolution, including appointment of Ms. Hou Rui as executive director of the Company, was considered and approved by shareholders.

At the AGM of 2010 held on 28 June 2011, the resolutions, including the 2010 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 second EGM of 2011 held on 28 June 2011, H shareholders class meeting and domestic shareholders class meeting of 2011 held on 28 June 2011, the resolutions, including proposed rights issue of domestic shares and H shares with revised basis and fund raising size, were considered and approved by shareholders.

At the third EGM of 2011 held on 30 December 2011, the resolutions regarding revision of annual caps for continuing connected transactions between the Company and China Telecom, the Company's controlling shareholder, were considered and approved by independent shareholders. China Telecom and its associates, being connected persons to the Company, abstained from voting for this resolution.

The above resolutions at the AGM, EGMs and shareholders class meetings 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.

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 Nomination 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 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 Company and that he is fully aware of his responsibilities under the applicable laws and regulations, the Listing Rules and other regulatory requirements and the business and governance policies of the Company.

Composition of the Board

As of 31 December 2011, the Board comprised eleven directors, including four executive directors (Mr. Li Ping as Chairman and executive director, Mr. Zheng Qibao, Mr. Yuan Jianxing and Ms. Hou Rui 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 is 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 over 1/3 of the members of the Board, and complied with the Listing Rules 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 2011 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 non-executive 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 2011, the Board held four meetings and passed six written resolutions. For the resolutions on the connected transactions such as revision of annual caps for continuing connected transactions between the Company and China Telecom, 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 2011 is as follows:

	Attendance in 2011/ Meetings convened during period of appointment				Non-competition Undertaking Review Committee
	Board of Directors	Audit Committee	Remuneration Committee		
<i>Executive Directors</i>					
Li Ping (Chairman)	4/4				
Zheng Qibao	4/4				
Yuan Jianxing	4/4				
Hou Rui	4/4				
<i>Non-executive Directors</i>					
Liu Aili	4/4				
Zhang Junan	4/4				
<i>Independent Non-executive Directors</i>					
Wang Jun	4/4				
Chan Mo Po, Paul	4/4	3/3	1/1		2/2
Zhao Chunjun	4/4		1/1		2/2
Wu Shangzhi	4/4	3/3	1/1		
Hao Weimin	4/4	3/3			2/2

Chairman and President

Mr. Li Ping and Mr. Zheng Qibao take up the position of Chairman and President of the Company, 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 2011, the Audit Committee held three meetings, mainly reviewing the resolutions of the Company for its audited financial report of 2010, interim report of 2011, report on connected transactions, report on internal control and risk management, appointment of independent auditors and implementation of amendments to IFRS 1. 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. In 2011, the Remuneration Committee held one meeting, mainly reviewing the resolution of adjusting the exercise price of share appreciation rights schemes of the Company.

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. The Nomination Committee did not convene any meetings in 2011.

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 Telecom to us.

In 2011, 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 Telecom and made their recommendations to the Board.

The Company has received a letter issued to the Company by China Telecom stating that they were not in breach of any non-competition undertakings in 2011. 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 Telecom 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 2011.

Independent Board Committee

Pursuant to the requirements under the Listing Rules, the Company held an Independent Board Committee meeting on 14 November 2011, at which five independent non-executive directors of the Company attended. The Independent Board Committee mainly reviewed the resolution regarding the revision of annual caps for continuing connected transactions between the Company and China Telecom, and it made its recommendations to the independent shareholders. Details of this resolution and the Independent Board Committee's recommendation were contained in the circular despatched to shareholders on 15 November 2011.

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 2011, 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 2011	39,500
Non-auditing services	2,650
	42,150

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 focused on formulating and improving relevant systems in relation to internal control and risk management, which formulated and published the "Implementation Measures for the Three Major One Significant Decision Making System of China Communications Services Corporation Limited". It was provided in the Measures the objectives of and the fundamental principles for the decision making by the "Three Major One Significant Decision Making System". The primary scope of the "Three Major One Significant Decision Making System", which refers to major decision making, major appointment and removal of personnel, major project arrangement and significant funding operation, specifies the decision making limits of those four matters, designates the decision making procedures of those four matters, clarifies the process of "decision making based on evidence discussion" with reference to those four matters, and designates the legal representatives and general managers at all level to be held responsible for the execution of these Measures. Upon the introduction of these Measures, the organization structure and operation mechanisms of the Group's internal control and risk management was further improved. In order to strengthen the leadership of risk control work, the Group reorganized the composition of the risk management committee and its office at the headquarter level in 2011, taking into account the redeployment of staff at the headquarter. Such actions secured the effective organization of the Group's internal control and risk management work.

The Group also formulated and issued the "Working Plan for the Risk Management of China Communications Services Corporation Limited in 2012-2015" during 2011, so as to lay a foundation for guiding the better implementation of internal control works at different levels in the coming years. It was provided in the plan the missions about the guidance thoughts, operation principles and objectives of our internal control works, and determined the key missions for the internal control and risk management work. The working plan further defined the direction for the work of the internal control and risk management departments at all levels in the next few years. The Group continued to facilitate the construction of informatization for internal control purposes. An informatized platform is now applied and the website regarding risk management information was online. Such website is set up under the OA system of the headquarter, which allowed the internal control department to conduct information exchange online. The Group 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 internal control and risk management, reducing operation risks and enhancing the level of the Group's internal control and risk management.

The Board considers that by implementing the above measures, the Company 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 2012.

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 to Shareholders
6. Interim and annual financial reports as well as press conferences in relation to results announcement, webcast presentation
7. Continuous communication 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.



Innovation of External Growth

**Introduce
cooperation
partners
and acquire
suitable assets**

to rapidly enhance its
core competence
and brand.

