

CORPORATE GOVERNANCE

Corporate Governance Practices

The Company is committed to maintaining high standards of corporate governance. The Board believes that good corporate governance practices are important to maintain and promote investor confidence, protect the interests of shareholders and enhance shareholder value. Corporate governance requirements keep changing, therefore the Board reviews its corporate governance practices to ensure they meet stakeholders' expectations, comply with legal and professional standards and reflect the latest local and international developments. The Board will continue to commit itself to achieving a high quality of corporate governance.

Throughout the year of 2010, the Company has complied with all code provisions in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited ("Stock Exchange"). The Company has also applied all the principles in the aforesaid code and the manner in which they are applied is explained in the following parts of the Corporate Governance Report.

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") contained in Appendix 10 of the Listing Rules. All directors have fully complied with the required standard set out in the Model Code throughout the year of 2010.

Board of Directors

The Board currently comprises three executive and five non-executive directors of whom three are independent as defined under the Listing Rules (the biographies of the directors are set out on pages 46 to 47). Independent non-executive directors are more than one-third and non-executive directors are more than half of the Board.

There is no nomination committee in the Company for the time being. Candidates to be nominated as directors are experienced, high calibre individuals and the appointment of all the new directors will be put to the full Board or the shareholders in general meeting for approval. Under the Company's New Articles of Association, any director appointed by the Board shall hold office only until the next following annual general meeting of the Company and shall then be subject to re-election by the shareholders. Apart from this, every director, including the non-executive directors, is subject to retirement by rotation at least once every three years. One-third of the directors must retire from office at each annual general meeting and their re-election is subject to a vote of shareholders. This means that the specific term of appointment of a director cannot exceed three years.

The Board determines the overall strategies, monitors and controls operating and financial performance and sets appropriate policies to manage risk in pursuit of the strategic objectives of the Company.

Day-to-day management of the Company's businesses is delegated to the executive director or officer in charge of each division. The functions and power that are so delegated are reviewed periodically to ensure that they remain appropriate. Matters reserved for the Board are those affecting the Company's overall strategic policies, finance and shareholders, including financial statements, dividend policy, significant changes in accounting policy, material contracts and major investments. All Board members have separate and independent access to senior management in order to fulfil their duties. They also have full and timely access to relevant information about the Company and are kept abreast of the conduct, business activities and development of the Company. Independent professional advice can be sought at the Company's expense upon their request.

The Board meets regularly to review the financial and operating performance of the Company and other business units and to discuss future strategy. Five Board meetings were held in 2010. Individual attendance of each director at the Board meetings, the Audit Committee meetings and the Remuneration Committee meeting during 2010 is set out below:

Attendance/Number of Meetings in 2010

Director	Board	Audit Committee	Remuneration Committee
Executive Director			
Mr. Xin Yue Jiang	5/5		
Mr. Yuen Kee Tong	5/5		
Dr. David Chan Tin Wai	5/5		
Non-executive Director			
Mr. Liu Jifu (appointed on 18 November 2010)	1/1		1/1
Mr. Kwok Man Leung (resigned on 18 November 2010)	4/4		
Mr. Fei Yiping	4/5		
Independent Non-executive Director			
Mr. Yang Xianzu (Chairman of the Remuneration Committee)	5/5	2/2	1/1
Mr. Liu Li Qing	5/5	2/2	1/1
Mr. Gordon Kwong Che Keung (Chairman of the Audit Committee)	5/5	2/2	1/1

To implement the strategies and plans adopted by the Board effectively, executive directors and senior managers meet on a regular basis to review the performance of the businesses of the Group, co-ordinate overall resources and make financial and operational decisions. In addition, a Risk Management Committee, comprising the executive directors and senior managers, will meet regularly to enhance the risk management and corporate governance of the Group. The Capex Review Board is also set up in which the chief executive officer and the chief financial officer of the Company will review the capital investments initiated by different departments that will materially affect the profitability and cashflow of the Group, to ensure that the proposed investments are in the best interests of the Group, both commercially and strategically.

Chairman and Chief Executive Officer

The Company has appointed a chairman, Mr. Xin Yue Jiang, and a chief executive officer, Mr. Yuen Kee Tong. The roles of the chairman and the chief executive officer are segregated. The primary role of the chairman is to provide leadership for the Board, to ensure that it works effectively in discharging its responsibilities and to report to the Board on the strategy of the Company. The chief executive officer is responsible for the day-to-day management of the Company's business. Their respective roles and responsibilities are set out in writing, which has been approved and adopted by the Board.

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Remuneration of Directors

The Remuneration Committee, established in March 2007, has clear terms of reference and is accountable to the Board. The terms of reference can be found in the Company's website (www.citictel.com). The principle role of the committee is to exercise the powers of the Board to determine and review the remuneration packages of individual executive directors and senior management, including salaries, bonuses, benefits in kind and the terms under which they participate in any share option and other plans. The committee considers factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors and senior management, employment conditions elsewhere in the Group and desirability of performance-based remuneration so as to align management incentives with shareholders' interests.

During 2010, the Remuneration Committee reviewed the remuneration policies and approved the salaries and bonuses of the executive directors and senior management. No executive director took part in any discussion about his own remuneration. Its members comprise:

Mr. Yang Xianzu – *Chairman*
Mr. Liu Li Qing
Mr. Gordon Kwong Che Keung
Mr. Liu Jifu

A meeting was held in 2010. A majority of the committee members including the chairman are independent non-executive directors.

In 2010, the fee for each director sitting on the Board is HK\$120,000 per annum and the additional fees for the directors serving in the Audit Committee and the Remuneration Committee are HK\$80,000 per annum and HK\$40,000 per annum respectively. An ordinary resolution will be put forth to the shareholders in the annual general meeting to be held on 21 April 2011, proposing that with effect from the financial year ending 31 December 2011:

- a. the director's fee for all directors of the Company (other than the executive directors and directors with employment with CITIC Pacific Limited) be fixed at HK\$150,000 per annum;
- b. additional remuneration payable to each of the directors (other than the executive directors and directors with employment with CITIC Pacific Limited) who serves on the Audit Committee and the Remuneration Committee shall remain unchanged; and
- c. the executive directors and directors who are employed by CITIC Pacific Limited will not receive any directors' fee for serving on the Board and the Board Committees of the Company.

Details of the Company's remuneration policies are set out in the Human Resources section on pages 34 to 35. Directors' emoluments and retirement benefits are disclosed on pages 88 to 89 and page 121. Details of the Company's share option plan and the granting of options are disclosed on pages 54 to 57 and pages 118 to 120.

Auditor's Remuneration

KPMG has been appointed by the shareholders annually as the Company's external auditor since 2005. During the year, the fees charged by KPMG for the audit of the Company and its subsidiaries amounted to approximately HK\$2.6 million. In addition, approximately HK\$2.1 million was charged for non-audit services. The non-audit services mainly consist of completion audit for acquisition, taxation services, interim review, agreed upon procedures and other services in relation to the notifiable transactions.

Audit Committee

The Board established an Audit Committee in 2007. The Audit Committee has clear terms of reference and is accountable to the Board. The terms of reference can be found in the Company's website (www.citictel.com). It assists the Board in meeting its responsibilities for ensuring an adequate system of internal control and compliance, and in meeting its external financial reporting obligations. All committee members including the chairman are independent non-executive directors. Its members comprise:

Mr. Gordon Kwong Che Keung – *Chairman*
 Mr. Yang Xianzu
 Mr. Liu Li Qing

The chairman has appropriate professional qualifications and experience in accounting matters, and the other committee members possess experience in telecommunications industry. The committee meets two times each year, together with senior management and auditors, both internal and external.

During 2010, the Audit Committee considered the external auditor's projected audit fees; discussed with the external auditor their independence and the nature and scope of the audit; reviewed the interim and annual financial statements, particularly judgmental areas, before submission to the Board; reviewed the internal control system and the internal audit plan, findings and management's response; reviewed the Group's adherence to the code provisions in the Code on Corporate Governance Practices. The Audit Committee recommended the Board to adopt the interim and annual reports for 2010.

Internal Audit

The Group has continued to engage the Group Internal Audit Department ("Internal Audit Department") of CITIC Pacific Limited ("CITIC Pacific", the listed parent company of the Company) to perform internal audits for the Group. The Internal Audit Department performs independent internal audit reviews for all business units and functions in the Group on a systematic and ongoing basis. The frequency of review of individual business unit or function is determined after an assessment of the risks involved. The Audit Committee endorses the internal audit plan annually. The Internal Audit Department has unrestricted access to all parts of the business, and direct access to any level of management including the chairman of the Company and the chairman of the Audit Committee as it considers necessary. It submits regular reports for the Audit Committee's review in accordance with the approved internal audit plan. Concerns which have been reported by the Internal Audit Department are monitored by management by taking appropriate remedial actions.

Internal Controls

The Board is responsible for maintaining an adequate system of internal control and reviewing its effectiveness.

The internal control system is designed to facilitate the effectiveness and efficiency of operations, safeguard assets against unauthorised use and disposition, ensure the maintenance of proper accounting records and the truth and fairness of the financial statements, and ensure compliance with relevant legislation and regulations. It provides reasonable, but not absolute, assurance against material misstatement or loss, and management rather than elimination of risks associated with its business activities.

During the year, the Board has reviewed the effectiveness of the Group's internal control system covering all material controls and risk management functions, including the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting functions and their training programme and budget. The review is conducted annually in accordance with the requirement of the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules. The management assessed the risks and the internal controls with reference to the five components of the COSO (The Committee of Sponsoring Organisation of the Treadway Commission) internal control framework. The result of the review has been summarised and reported to the Audit Committee and the Board.

In addition, the Internal Audit Department conducts regular and independent reviews of the effectiveness of the Group's internal control system. The Audit Committee reviews the findings and opinion of the Internal Audit Department on the effectiveness of the Group's internal control system and reports to the Board on such reviews.

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Codes

To ensure the highest standard of integrity in our businesses, the Group adopted a Code of Conduct defining the ethical standards expected of all employees as well as non-discriminatory employment practices. Briefings on the Code of Conduct are held regularly for our new employees during orientation session. A set of Code of Conduct would be distributed to our employees and can be accessed through the Company intranet.

Throughout the year of 2010, the Company has complied with the code provisions in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules.

Notifiable Transactions, Connected and Continuing Connected Transactions, Annual Reports and Interim Reports

During 2010, the Company issued press announcements in respect of a few notifiable, connected and continuing connected transactions, which can be viewed on the Company's website (www.citictel.com).

The annual and interim reports of the Company can also be viewed on the Company's website.

Non-competition Undertaking

CITIC Pacific has executed a deed of non-competition dated 21 March 2007 ("Non-competition Undertaking") in favour of the Company, details of which are set out in the prospectus of the Company, mainly to the effect that at any time during which the shares of the Company are listed on the Stock Exchange and CITIC Pacific and/or its associates are regarded as a controlling shareholder of the Company under the Listing Rules, (i) CITIC Pacific will not engage and will procure its subsidiaries (excluding the Group) not to engage in the provisions of telecommunications hub-based service ("Restricted Activity") globally or in any other business that may compete with the Restricted Activity, and (ii) in the event that any opportunity is made available to CITIC Pacific to invest in any independent third party's business engaging in the Restricted Activity, CITIC Pacific will use its best efforts to procure that such investment opportunity is offered to the Group and the Group shall have a first right of refusal.

CITIC Pacific has reviewed its business and businesses of its subsidiaries (excluding the Group) and advised that their businesses do not compete with the Restricted Activity and that during the year, there was no opportunity made available to CITIC Pacific to invest in any independent third party which was engaged in the Restricted Activity. CITIC Pacific has given a written confirmation to the Company that it had fully complied with the terms of the Non-competition Undertaking. The independent non-executive directors of the Company have reviewed the confirmation and concluded that CITIC Pacific has made the compliance.

Communication with Shareholders

The Company's annual general meeting is one of the principal channels of communication with its shareholders. It provides an opportunity for shareholders to ask questions about the Group's performance. Separate resolutions will be proposed for each substantially separate issue at the annual general meeting.

In accordance with the Listing Rules, voting by poll is mandatory at all general meetings and the poll results will be posted on the websites of the Stock Exchange and the Company respectively on the same day of the shareholders' meeting.

Fair Disclosure and Investor Relations

The Company uses its best endeavours to distribute material information about the Group to all interested parties as widely as possible. When announcements are made through the Stock Exchange, the information will also be sent to the press and investment analysts where an e-mail address or fax number is known and will be made available to shareholders in the Company's website.

The Company recognises its responsibility to explain its activities to those with a legitimate interest and to respond to their questions. Investors are regularly received and visited to explain the Group's businesses. In addition, questions received from the general public and individual shareholders are answered promptly. In all cases great care is taken to ensure that no price sensitive information was disclosed selectively.

The Company is committed to maintain a high degree of corporate transparency as well as good communication with banks, research analysts and investors. The Company has used various channels including regular meetings, investor conferences, result briefings and the website (www.citictel.com) to disseminate information on the Group's latest developments to various investors, fund managers and analysts.

Information about the Company can be found in the Company's website including descriptions of the business and the annual and interim reports.

Financial Reporting

The directors of the Company acknowledge their responsibility for preparing the Group's financial statements which give a true and fair view and are in accordance with the Hong Kong Financial Reporting Standards published by the Hong Kong Institute of Certified Public Accountants. The directors of the Company endeavour to ensure a balanced, clear and understandable assessment of the Group's performance, position and prospects in financial reporting. Accordingly, appropriate accounting policies are selected and applied consistently; judgments and estimates made are prudent and reasonable. The adoption of new or amended accounting standards that became effective during the year has not resulted in substantial changes to the Group's accounting policies and has no significant impact on the results reported for the year ended 31 December 2010, the details of which are disclosed on pages 81 to 82.

The responsibilities of the external auditor with respect to financial reporting are set out in the Independent Auditor's Report on page 61.