

Our goal has always been to enhance our corporate value, maintain our sustainable long-term development and generate greater returns for our shareholders. In order to better achieve the above objectives, we have established good corporate governance practices following the principles of integrity, transparency, openness and efficiency, and have implemented sound governance structure and measures. We have established and improved various policies, internal control system and other management mechanisms and procedure for the key participants involved in good corporate governance, including shareholders, board of directors and its committees, management and staff, internal auditors, external auditors and other stakeholders (including our customers, local communities, industry peers, regulatory authorities, etc.).

In addition, as a company listed in both Hong Kong and New York, we also set forth in this report a summary of the significant differences between the corporate governance practices of the Company and the corporate governance practices required to be followed by U.S. companies under the NYSE's listing standards.

## Compliance with the Code Provisions of the Code on Corporate Governance Practices

Throughout the financial year ended 31 December 2012, the Company has complied with all code provisions of the Code on Corporate Governance Practices (the "CP") (before and after its revision) as set forth in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Hong Kong Listing Rules").

## Shareholders

Our controlling shareholder is CMHK (Group), which, as of 31 December 2012, indirectly held approximately 74.08% of our share capital through a wholly-owned subsidiary, CMHK (BVI). The remaining share capital of approximately 25.92% was held by public investors.

The Memorandum and Articles of Association (the "Articles") of the Company is available on our websites and the HKEx website. In 2012, there were no significant revisions to the Articles.

## Shareholder Rights

According to the Articles and Company Ordinance, Chapter 32 of the Laws of Hong Kong ("Company Ordinance"), shareholders holding the requisite voting rights may: (i) requisition to move a resolution at the AGM; (ii) requisition to convene an EGM; and (iii) propose a person other than a retiring director for election as a director at a general meeting. Such details and procedures are available in our website. Shareholders may make inquiries in writing to the Board providing sufficient contact information so that such inquiries can be properly handled. In addition, shareholders may also raise their concerns and suggestions in the Q&A session at our AGMs.

(i) **Requisition to move a resolution at an AGM**

We holds a general meeting as its AGM every year. The AGM is usually held in May. A requisition to move a resolution at the AGM may be submitted by:

- (i) any number of shareholders representing not less than one-fortieth (1/40th) of the total voting rights of all shareholders having the right to vote at the AGM; or
- (ii) not less than 50 shareholders holding shares in the Company on which there has been paid up an average sum, per shareholder, of not less than HK\$2,000.

The requisition must state the resolution, and must be signed by all the requisitionists. The requisition must be deposited at 60/F, The Center, 99 Queen's Road Central, Hong Kong, our registered office (the "Registered Office"), for the attention of the Company Secretary.

(ii) **Requisition to convene an EGM**

Shareholders holding not less than one-twentieth (1/20th) of the paid-up capital of the Company which carries the right of voting at general meetings of the Company can deposit a requisition to convene an EGM pursuant to section 113 of the Companies Ordinance. The requisition must state the objects of the meeting, and must be signed by the requisitionists. The requisition must be deposited at our Registered Office for the attention of the Company Secretary.

(iii) **Proposing a person other than a retiring director for election as a director at a general meeting**

If a shareholder wishes to propose a person other than a retiring director for election as a director at a general meeting, he/she must lodge a written notice to that effect at our Registered Office for the attention of the Company Secretary. The written notice must state the full name and biographical details of the person proposed for election as a director. A written notice signed by the person proposed for election as a director indicating his/her willingness to be elected must also be lodged with the Company.

For including a resolution relating to other matters in a general meeting, shareholders are requested to follow the requirements and procedures as set out in section 115A of the Companies Ordinance. The detailed procedures for proposing a person for election as a director are available on our website.

### Shareholder Communication

The Company uses a number of formal channels to report to shareholders the performance and operations of the Company, particularly through our annual and interim reports. Generally, when announcing interim results, annual results or any major transactions in accordance with the relevant regulatory requirements, the Company arranges investment analyst conferences, press conferences and investor telephone conferences to explain the relevant results or major transactions to the shareholders, investors and the general public, and to address any questions they may have. In addition, the Company adheres to the practice of voluntarily disclosing on a quarterly basis certain key, unaudited operational and financial data, and on a monthly basis the net increase in the number of customers on its website to further increase the Group's transparency and to provide shareholders, investors and the general public with additional timely information so as to facilitate their understanding of the Group's operations. We will continue our efforts to enhance our investor relations work.

## Meetings of Shareholders

The Company also has high regard for the annual general meetings of its shareholders, and makes substantial efforts to enhance communications between the Board and the shareholders. At the annual general meetings of shareholders, the Board always makes efforts to fully address the questions raised by shareholders. In 2012, we held our annual general meeting (the “AGM”) on one occasion on 16 May 2012 in the Grand Ballroom, Grand Hyatt Hong Kong, 1 Harbour Road, Wanchai, Hong Kong. The major items discussed and the percentage of votes cast in favor of the resolutions are set out as follows:

- The approval of the audited financial statements and the reports of the directors and auditors for the year ended 31 December 2011 (99.9939%);
- The declaration of a final dividend for the year ended 31 December 2011 (99.9991%);
- The re-election of Mr. XI Guohua, Mr. SHA Yuejia, Mr. LIU Aili, Mr. Frank WONG Kwong Shing and Dr. Moses CHENG Mo Chi as directors (89.9234% to 99.7549%);
- The re-appointment of Messrs. KPMG as auditors and authorizing the Board to fix their remuneration (99.9809%).

All resolutions were duly passed at the 2012 AGM. There were no restrictions on any shareholder casting votes on any of the proposed resolutions at the AGM. Hong Kong Registrars Limited, the share registrar of the Company, acted as scrutineer for vote-taking at the AGM. Poll results were announced at the meeting and on the websites of the Company and the HKEx on the day of the AGM.

## Shareholders' Calendar

The following table sets out the tentative key dates for our shareholders for the financial year ending 31 December 2013. Such dates are subject to change pursuant to actual situation. Shareholders should note our announcements issued from time to time.

## FY 2013 Shareholders' Calendar

14 March	Announcement of final results and final dividend for the financial year ended 31 December 2012, if any
27 March	Upload of 2012 annual report on the websites of the Company and the HKEx
28 March	Despatch of 2012 annual reports to shareholders
30 May	2013 Annual General Meeting
End of June	Payment of final dividend for the financial year ended 31 December 2012, if any
Mid-August	Announcement of interim results and interim dividend for the six months ending 30 June 2013, if any
End of September	Payment of interim dividend for the six months ending 30 June 2013, if any

## The Board of Directors and the Board Committees

### The Board of Directors

The key responsibilities of the Board include, among others, formulating the Group's overall strategies, setting management targets, monitoring internal controls and financial management, supervising the performance of our management, developing and reviewing the policies and practices of corporate governance, while day-to-day operations and management are delegated by the Board to the executives of the Company. The Board operates in accordance with established practices (including those relating to reporting and supervision). Terms of Reference of its corporate governance function are available on the websites of our Company and the HKEx.

The Board currently comprises nine directors, namely Mr. XI Guohua (Chairman), Mr. LI Yue (Chief Executive Officer), Mr. XUE Taohai, Madam HUANG Wenlin, Mr. SHA Yuejia and Mr. LIU Aili as executive directors, Dr. LO Ka Shui, Mr. Frank WONG Kwong Shing and Dr. Moses CHENG Mo Chi as independent non-executive directors (INEDs). List of directors and their role and function are available on the

websites of our Company and HKEx. The biographies of our directors are presented on pages 6 to 9 of this annual report and on our website.

With effect from 15 March 2012, Mr. LU Xiangdong resigned from his positions as an Executive Director and a Vice President due to his inability to perform his duties under his personal circumstances. Mr. Wang Jianzhou resigned from his positions as our Executive Director and Chairman by reason of age with effect from 22 March 2012. Meanwhile, as proposed by the Nomination Committee and after review and approval by the Board, Mr. XI Guohua, an Executive Director and the Vice Chairman, has been re-designated as our Executive Director and Chairman with effect from 22

March 2012. Due to change in job, Madam XIN Fanfei resigned from her positions as an Executive Director and a Vice President of the Company with effect from 22 March 2012. And Mr. XU Long resigned from his position as an Executive Director of the Company with effect from 14 December 2012. Mr. Lu, Mr. Wang, Madam Xin and Mr. Xu had confirmed that there is no disagreement with the Board and there is no matter relating to their resignation that needs to be brought to the attention of the shareholders of the Company. Board meetings are held at least once a quarter and as and when necessary. During the financial year ended 31 December 2012, the Board met on six occasions and the directors' attendances at the meetings are as follows:

Directors	Number of meetings attended/Number of meetings held				
	Board of directors	Audit committee	Remuneration committee	Nomination committee	AGM
<i>INEDs</i>					
Dr. LO Ka Shui	6/6	5/5	3/3	2/2	1/1
Mr. Frank WONG Kwong Shing	6/6	5/5	3/3	2/2	1/1
Dr. Moses CHENG Mo Chi	6/6	5/5	3/3	2/2	1/1
<i>Executive directors</i>					
Mr. XI Guohua <sup>1</sup> (Chairman)	5/6	–	–	–	1/1
Mr. LI Yue (Chief Executive Officer)	5/6	–	–	–	1/1
Mr. XUE Taohai	6/6	–	–	–	1/1
Mdm. HUANG Wenlin	6/6	–	–	–	1/1
Mr. SHA Yuejia	6/6	–	–	–	1/1
Mr. LIU Aili	5/6	–	–	–	1/1
Mr. WANG Jianzhou <sup>2</sup>	2/2	–	–	–	1/1
Mdm. XIN Fanfei <sup>3</sup>	2/2	–	–	–	1/1
Mr. XU Long <sup>4</sup>	6/6	–	–	–	1/1

1 re-designated as an executive director and the Chairman of the Company with effect from 22 March 2012.

2 resigned from the positions as an executive director and the Chairman of the Company with effect from 22 March 2012.

3 resigned from the positions as an executive director and the Vice President of the Company with effect from 22 March 2012.

4 resigned from the position as an executive director of the Company with effect from 14 December 2012.

All board meetings and committee meetings were attended by the directors in person. To ensure the timely disclosure of any change of directors' personal information, the Company has set up a specific communication channel with each of our directors. There is no financial, business, family or other material relationships among members of the Board. The Company purchases directors and officers liabilities insurance on behalf of its directors and officers and reviews the terms of such insurance annually.

The Company and its directors (including INEDs) have not entered into any service contract with a specified length of service. All directors are subject to retirement by rotation and re-election at our AGMs every three years.

The Company has received a confirmation of independence from each of our INEDs, namely Dr. LO Ka Shui, Mr. Frank WONG Kwong Shing and Dr. Moses CHENG Mo Chi, and considers them to be independent. The Board is of the view that they not only can completely fulfill their responsibilities as an INED, but also will continue to play a role and contribute to our Board Committees. They being our INEDs will benefit the Company and all shareholders as a whole.

The directors have disclosed to the Company the positions held by them in other listed public companies or organizations or associated companies, and the information regarding their directorships in other listed public companies in the last three years is set out in the biographies of directors and senior management on pages 6 to 9 of this annual report and on the Company's website. The Company has also received acknowledgements from the directors of their responsibility for preparing the financial statements and the representation by the auditors of the Company about their reporting responsibilities.

All our directors confirm they have complied with New CP A.6.5 with respect to directors' training with effect from 1 April 2012. Throughout the financial year ended 31 December 2012, we have provided a training session with respect to insider dealing related disclosure and all of our directors attended the training.

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" set out in Appendix 10 to the Hong Kong Listing Rules (the "Model Code") to regulate the directors' securities transactions. Save and except for the interests disclosed in the report of the directors on pages 57 to 60 of this annual report, none of the directors had any other interest in the shares of the Company as of 31 December 2012. All directors have confirmed, following enquiry by the Company, that they have complied with the Model Code during the period between 1 January 2012 and 31 December 2012.

### The Board Committees

The Board currently has three principal board committees, which are the Audit Committee, the Remuneration Committee and the Nomination Committee, and all of which are comprised solely of independent non-executive directors. Each of the board committees operates under its written terms of reference. In 2012, the terms of reference of each of the board committees were revised in accordance with the revision of the CP. They are available on the HKEx's and the Company's websites and can be obtained from the Company Secretary upon written request.

## Audit Committee

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### Membership

The current members of the Company's Audit Committee are Dr. LO Ka Shui (chairman), Mr. Frank WONG Kwong Shing and Dr. Moses CHENG Mo Chi, who are all independent non-executive directors. All members of our Audit Committee have many years of finance and business management experience and expertise and appropriate professional qualifications.

### Responsibilities

The duties of our Audit Committee are to be primarily responsible for, among other things, making recommendations to the Board on the appointment, re-appointment and removal of external auditors, approving the remuneration and terms of engagement of external auditors, dealing with any questions of resignation or dismissal of such auditors; reviewing and monitoring external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards; developing and implementing policies on the engagement of external auditors to provide non-audit services; monitoring the integrity of financial statements of the Company and the annual reports and accounts, interim report and, if prepared for publication, quarterly reports, and reviewing significant financial reporting judgments contained in them; and overseeing the Company's financial reporting system and internal control procedures.

### Work Done in 2012

In 2012, the Audit Committee met on five occasions and the attendance of each member is disclosed on page 42 of this annual report. In addition, the Audit Committee met three times with the external auditors in 2012 and one of such meeting was held without any executive directors being present.

In 2012, the Audit Committee:

- reviewed and approved the financial statements and results announcement, the report of the directors, financial review and final dividend for the financial year ended 31 December 2011;
- reviewed and approved our 2011 Annual Report on Form 20-F, which was filed with the U.S. Securities and Exchange Commission ("US SEC");
- reviewed and approved the interim report, interim results announcement and interim dividend for the six months ended 30 June 2012;
- reviewed and approved the budgets and remuneration of the external auditors;
- reviewed and approved the revised Terms of Reference of the Audit Committee;
- reviewed and approved the assessment report on the disclosure controls and procedures;
- reviewed and approved the 2011 assessment report in relation to effectiveness of compliance with section 404 of the U.S. Sarbanes-Oxley Act of 2002 (the "SOX Act");

- reviewed and approved the 2012 project plan of internal audit department and budget for external engagement;
- reviewed and approved the compliance with relevant laws and regulations in 2011;
- reviewed and approved various internal audit reports.

### Remuneration Committee

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#### Membership

The current members of the Company's Remuneration Committee are Dr. LO Ka Shui (chairman), Mr. Frank WONG Kwong Shing and Dr. Moses CHENG Mo Chi, who are all independent non-executive directors.

#### Responsibilities

The duties of the Remuneration Committee are, among others, to make recommendations to the Board on the remuneration packages of individual executive directors and senior management, including benefits in kind, pension rights and compensation payments including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board on the remuneration of non-executive directors; to review and approve the management's remuneration proposals with reference to corporate goals and objectives resolved by the Board from time to time; to review and approve compensation payable to executive directors and senior management for any loss or termination of office or appointment, and compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that they are consistent with contractual terms; to ensure that no director or any of his associates is involved in deciding his own remuneration; to make recommendations to the Board on the policy and structure for remuneration of all directors, senior management and employees including salaries, incentive schemes and other share option schemes, and on the establishment of formal and transparent procedures for developing remuneration policy; to make recommendations to the Board on disclosure of directors' remuneration in the annual report (if applicable) sent by the Board to the shareholders; to make recommendations to the Board annually on whether the shareholders shall be requested to approve the policies set out in the report on directors' remuneration (if applicable) at the AGM.

#### Work Done in 2012

In 2012, the Remuneration Committee met three times, during which the committee:

- reviewed and approved the 2011 performance-linked annual bonus of the senior management;
- reviewed and approved the revised performance-linked annual bonus appraisal KPI for senior management;
- reviewed and approved the revised Terms of Reference of the Remuneration Committee; and
- reviewed and approved the adjustment of the Board.

## Nomination Committee

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### Membership

The current members of the Company's Nomination Committee are Dr. LO Ka Shui (chairman), Mr. Frank WONG Kwong Shing and Dr. Moses CHENG Mo Chi, who are all independent non-executive directors.

### Responsibilities

The duties of the Nomination Committee, among other things, are to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the corporate strategy; to identify individuals suitably qualified to become board members and select or make recommendations to the Board on the selection of, individuals nominated for directorships; to assess the independence of independent non-executive directors; to make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular the Chairman and the Chief Executive Officer.

### Work Done in 2012

In 2012, the Nomination Committee met twice, during which the committee reviewed and approved the revised Terms of Reference of Nomination Committee and the adjustment of the Board.



## Remuneration, Appointment and Rotation of Directors

The Remuneration Committee is responsible for determining the remuneration packages of all executive directors and senior management. At present, the cash portion of our senior management's remuneration consists of a fixed monthly salary and a performance-linked annual bonus. The award of the performance-linked annual bonus is correlated to the attainment of key performance indicators or targets. In 2012, the Remuneration Committee reviewed and approved the revised performance-linked annual bonus appraisal KPI for senior management.

In terms of long-term incentives, the Company has adopted a share option scheme. Depending on their ranking, members of the management are awarded different numbers of share options. The remuneration of non-executive directors is determined in part by reference to the prevailing market conditions and their workload as non-executive directors and members of the board committees of the Company. Please refer to note 9 to the financial statements on page 100 of this annual report for directors' and senior management's remuneration in 2012.

Currently, executive directors are mainly selected internally within the Group from executives who have considerable years of management experience and expertise in the telecommunications industry, whereas for the identification of non-executive directors, importance is attached to the individual's independence as well as his or her experience and expertise in finance and business management. The Nomination Committee, taking into consideration the requirements of the jurisdictions where the Company is listed and the structure and composition of the Board, identifies, reviews and nominates, with diligence and care, individuals suitably qualified as board members of the Company before making recommendations to the Board for their final appointment.

All newly-appointed directors receive a comprehensive induction of directors' duties to make sure that they have a proper understanding of the operations and business of the Company, and that they are fully aware of their

responsibilities as a director, the listing rules of the stock exchanges on which the Company is listed, applicable laws and regulations, and the operation and governance policies of the Company. All newly-appointed directors are subject to re-election by shareholders at the first annual general meeting after their appointment. Every director is subject to retirement by rotation and needs to stand for re-election at least once every three years.

## Management and Employees

The task of the Company's management is to implement the strategy and direction as determined by the Board, and to take care of day-to-day operations and functions of the Company. The division of responsibilities among our chief executive officer and other members of the senior management is set out in the biographies of directors and senior management on pages 6 to 9 of this annual report and on the Company's website.

Our management is required to adhere to certain business principles and ethics while performing management duties. For the purpose of promoting honest and ethical conducts and deterring wrongdoings, the Company, in 2004, adopted a code of ethics, which is applicable to our chief executive officer, chief financial officer, deputy chief financial officer, assistant chief financial officer and other designated senior officers of the Group, in accordance with the requirements of the SOX Act. In the event of a breach of the code of ethics, the Company may take appropriate preventive or disciplinary actions after consultation with the Board. The code of ethics has been filed with the U.S. Securities and Exchange Commission as an exhibit to our annual report on Form 20-F for the financial year ended 31 December 2003, which may also be viewed and downloaded from our website.

Our management provides monthly updates to board members giving the latest development of the Company to enable them to discharge their duties.

In recently years, there were incidents of violations of laws and discipline by some management personnel of the Company. In 2012, in order to further strengthen our internal system and policies for detecting and preventing similar and other misconduct, we had further reviewed and refined the relevant systems and processes and defined the anti-corruption responsibilities of each level of corporate headquarters, provincial subsidiaries and regional/municipal branches, and of our business sections including marketing, networks, planning and construction, procurement, human resources, finance management. We made a comprehensive rectification work plan covering procurement, value-added business, information security, management personnel, punishment and prevention system to fully implement 21 corrective measures. The centralized procurement scope had been expanded into the non-equipment items such as third party maintenance and advertisement, keeping enhancing our two-tiered procurement centralization. Also, we further optimized the sharing model of our value-added business cooperation with newly admitted third parties to improve the cooperation partners' introduction mechanism. Furthermore, we have strengthened our rotation and open selection policy under which the management personnel will rotate among different units every two terms. We also set up a variety of ways for employees and the public to report any acts of corruption to encourage public supervision.

### Internal Audit

The internal audit department of the Company conducts independent and objective supervision and assessment and provides consulting services in respect of the appropriateness, compliance and effectiveness of the Company's operational activities and internal controls by applying systematic and standardized auditing procedures and methods. The internal audit department also assists the Company in improving the effectiveness of corporate governance, risk management and control process, with an aim to increasing its corporate value, improving its operations, promoting its sustainable and healthy development as well as contributing to the achievement of its strategic objectives.

The Company and its operating subsidiaries have set up internal audit departments, which independently audit the business units of the Company and its operating subsidiaries. The head of the internal audit department of the Company directly reports to the Audit Committee which, in turn, reports to the Board regularly. The internal audit departments have unrestricted access to all areas of the Group's business units, assets, records and personnel in the course of performing their duties.

The internal audit department of the Company establishes an internal audit scope and framework and carries out risk investigations on an annual basis. According to the results of the risk investigations, the internal audit department formulates an internal audit project rolling plan and an annual audit plan and, together with the Audit Committee, reviews and approves the annual audit plan and resources allocation. The annual audit plan of the internal audit department covers various areas, namely financial audit, internal control audit, risk assessment, audit investigation and consultancy services. For financial audit, the internal audit department audits and assesses the truthfulness, accuracy, compliance and efficiency of the Company's financial activities and financial information as well as the management and utilization of the Company's capital and assets. For internal control audit, the internal audit department audits and assesses the effectiveness in the design and implementation of the Company's internal control system. At the same time, the internal audit department evaluates and assesses the risk management and control in the Company's business processes and management mechanisms, and carries on special projects and investigations in response to requests from the Company's management or the Audit Committee or if otherwise required. According to the requirements under section 404 of the SOX Act, the internal audit department of the Company organizes and performs internal audit assessment on the internal control over financial reporting of the Company, providing assurance for the Company's management in its issuance of the internal control assessment report.

The internal audit department makes improvement recommendations in respect of its findings in the course of the audits and requests the management to undertake and to confirm the implementation plan, the methods and the timing. It regularly monitors the status of the implementation of the recommendations to ensure their completion.

In addition, without prejudice to its independence, if requested by the Company's management and as required by business needs, the internal audit department provides management advice or consultancy services by making use of audit resources and audit information to facilitate the Company's decision-making and operational management.

In 2012, leveraging to the internal audit advantages of inter-departmental and whole process, our internal audit department sorted out the defects in our key business processes and management mechanism, providing helpful support for decision-making and management optimization:

- focused on hot issues such as the e-channels operation, sales resource utilization, operations and management of value-added business bases to reasonably ensure the effective implementation of our development strategy.
- strengthened our supervision and inspection on procurement and business cooperation with the third parties with focus on the weakness and defect of our control and oversight, in cooperation with anti-corruption construction.
- promoted the consolidation of our management in areas of customer development, funds management and investment.
- summarized audit experience, refined audit techniques and methods, promoted the best audit practice and the progress of audit informatization to enhance our audit practice and effectiveness.

In 2013, we will serve our major business initiatives based on the establishment of a value-added internal audit and conduct on-going supervision and evaluation on risk areas of our operation and management. We will accurately grasp the hot spots and difficulties in our operation and management, pay more attention to our development quality, strengthen basic management and actively promote to cut cost and increase efficiency.

### External Auditors

The Group engaged KPMG as statutory auditors of the Company. In 2012, the principal services provided by KPMG included:

- review of interim consolidated financial statements of the Group;
- audit of annual consolidated financial statements of the Group and annual financial statements of its subsidiaries; and
- audit of the effectiveness of the Company's internal control over financial reporting.

Apart from providing the above-mentioned audit services to the Group, KPMG was also engaged in providing other non-audit services to the Group which were permitted under section 404 of the SOX Act and pre-approved by the Audit Committee.

The following table sets forth the types of, and fees for, the principal audit services and non-audit services provided by KPMG to the Group (please refer to note 5 to financial statements for details):

	2012 RMB million	2011 RMB million
Audit fees <sup>1</sup>	87	84
Non-audit services fees <sup>2</sup>	14	12

1 Including the fees rendered for the audit of internal control over financial reporting as required by section 404 of the SOX Act.

2 Including the fees for tax services, section 404 of the SOX Act advisory services, risk assessment and other IT related advisory services.

CMCC, our ultimate controlling shareholder, is a state-owned enterprise regulated by the State-owned Assets Supervision and Administration Commission ("SASAC") of the State Council of China. Under the relevant requirements by the Ministry of Finance and SASAC of China, there are certain limits to the number of years for which an auditor may continuously undertake financial auditing work in respect of a state-owned enterprise and its subsidiaries (the "SASAC Auditor Requirements"). In view of the SASAC Auditor Requirements, the Company has reached a mutual understanding with KPMG on the non-renewal of the appointment of KPMG, the transitional arrangements and other related matters, and agreed that after KPMG has completed the audit work in respect of the Company for the financial year ended 31 December 2012, the Company will not re-appoint KPMG as its auditor for the financial year ending 31 December 2013.

As recommended by the Audit Committee of the Company, the Board has resolved to put forward an ordinary resolution at our 2013 annual general meeting to appoint PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian CPAs Limited Company (to be renamed as

PricewaterhouseCoopers Zhong Tian LLP) as the auditors of the Company for the financial year ending 31 December 2013 for Hong Kong financial reporting and U.S. financial reporting purposes, respectively.

The Company has received a written confirmation from KPMG that there are no matters that need to be brought to the attention of the shareholders of the Company in connection with the above change. The Board confirms that there are no other matters that need to be brought to the attention of the shareholders of the Company in connection with the above change.

During the term of the appointment of KPMG as the Company's auditor, there were no disagreements or unresolved matter between the Company and KPMG on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure.

## Other Stakeholders

Good corporate governance practices require due attention to the impact of our business decisions on our shareholders as well as other relevant stakeholders such as customers, local communities, industry peers and regulatory authorities. Our sustainability report for the year of 2012 (the "Sustainability Report"), which is issued together with this annual report, highlights our philosophy of corporate social responsibility and our performance in the areas of social and environmental management in 2012. This annual report and the Sustainability Report illustrate our efforts and development in the areas of industry development, community advancement and environmental protection and also explain how we have fulfilled our obligations to our employees, customers, environment, local communities and other stakeholders.

In 2012, we were recognized on the DJSI for the fifth consecutive year, still the only company from Mainland China listed on the DJSI.

## Internal Controls

The Board conducts regular reviews of the effectiveness of the Group's internal controls to reasonably ensure that the Company is operating legally and that the assets of the Company are safeguarded and to ensure the accuracy and reliability of the financial information that the Company employs in its business or releases to the public.

According to the provisions under section 404 of the SOX Act, our management is responsible for establishing and maintaining internal control over financial reporting. We adopted the control criteria framework set out in the Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in establishing a stringent internal control system over financial reporting, and refined the routine management mechanism of internal controls.

We established a top-down organizational structure from the Board to the specific positions with respective internal control duties, a three-tier internal control system of "top level internal control system, the standardized internal control manual and matrix for the headquarters and the localized internal control manual and matrix for each unit", which brought the control requirements to the whole process of the marketing, production and management. Meanwhile, to enforce internal controls, we assigned specific responsibilities to individuals and input the control requirements in our IT systems. And through multiple internal and external supervision and inspections, including self-examination, management tests, external audit, etc., we effectively improved the execution efficiency and effectiveness of our internal controls.

Stressing for the integration of internal control management and business operations, we strive to focus on high risk and key management areas from the view of business and by means of risk evaluation to integrate internal control enforcement into our day-to-day business activities. By continuing improving our internal control system, we effectively prevented the risk of misstatement, omission and fraud in our financial reports and enhanced our overall risk management and control capabilities.

Based on the evaluation conducted by the management of the Company, the management believes that, as of 31 December 2012, the Company's internal control over financial reporting was effective and provided reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for reporting purposes in accordance with generally accepted accounting principles.

All disclosure of material information relating to the Company is made through the unified leadership and management of the Board, with the Company's management performing its relevant duties. The Company has performed an annual review of the effectiveness of the Company's disclosure controls and procedures, and concluded that, as of 31 December 2012, the Company's disclosure controls and procedures were effectively executed at a reasonable assurance level.

## Summary of Significant Differences Between the Corporate Governance Practices of the Company and the Corporate Governance Practices Required to be Followed by U.S. Companies under the NYSE's Listing Standards

As a foreign private issuer (as defined in Rule 3b-4 under the U.S. Securities Exchange Act of 1934, as amended), we are permitted to follow home country practices in lieu of some of the corporate governance practices required to be followed by U.S. companies listed on the NYSE. As a result, our corporate governance practices differ in some respects from those required to be followed by U.S. companies listed on the NYSE.

In accordance with the requirements of section 303A.11 of the NYSE Listed Company Manual, the following is a summary of the significant differences between the Company's corporate governance practices and those required to be followed by U.S. companies under the NYSE's listing standards.

Section 303A.01 of the NYSE Listed Company Manual provides that listed companies must have a majority of independent directors. As a listed company in Hong Kong, the Company is subject to the requirement under the Hong Kong Listing Rules that at least one-third of its board be independent non-executive directors as determined under the Hong Kong Listing Rules. The Company has 3 independent non-executive directors out of a total of 9 directors. The Hong Kong Listing Rules set forth standards for establishing independence, which differ from those set forth in the NYSE Listed Company Manual.

Section 303A.03 of the NYSE Listed Company Manual provides that listed companies must schedule regular executive sessions in which non-management directors meet without management participation. As a listed company in Hong Kong, we are subject to the requirement under the Hong Kong Listing Rules that our Chairman should hold meetings at least annually with the non-executive directors (including INEDs) without the presence of executive directors.

Section 303A.04 of the NYSE Listed Company Manual provides that the nominating/corporate governance committee of a listed company must have a written charter that addresses the committee's purpose and responsibilities, which include, among others, the development and recommendation of corporate governance guidelines to the listed company's board of directors. Our Board is responsible for performing the corporate governance duties, including developing and reviewing our policies and practices of corporate governance.

Section 303A.07 of the NYSE Listed Company Manual provides that if an audit committee member simultaneously serves on the audit committee of more than three public companies, and the listed company does not limit the number of audit committees on which its audit committee members serve to three or less, then in each case, the board of directors must determine that such simultaneous service would not impair the ability of such member to effectively serve on the listed company's audit committee and disclose such determination. The Company is not required, under the applicable Hong Kong law, to make such determination.

Section 303A.10 of the NYSE Listed Company Manual provides that listed companies must adopt and disclose a code of business conduct and ethics for directors, officers and employees. While the Company is not required, under the Hong Kong Listing Rules, to adopt such similar code, as required under the SOX Act, the Company has adopted a code of ethics that is applicable to the Company's principal executive officers, principal financial officers, principal accounting officers or persons performing similar functions.

Section 303A.12(a) of the NYSE Listed Company Manual provides that each listed company's chief executive officer must certify to the NYSE each year that he or she is not aware of any violation by the company of NYSE corporate governance listing standards. The Company's chief executive officer is not required, under the applicable Hong Kong law, to make similar certifications.

### Continuous Evolvement of Corporate Governance

We will closely study the development of corporate governance practices among the world's leading corporations, future evolution of the relevant regulatory environment and the requirements of the investors on an ongoing basis. We will also review and enhance our corporate governance procedures and practices from time to time so as to ensure the long-term sustainable development of the Company.