

China Telecom Corporation Limited

The Rules of Procedures of Audit Committee

Section 1 General Provisions

Article 1 Objective

Pursuant to the applicable laws, regulations, departmental rules, regulatory documents (collectively, the “Laws and Regulations”) of the places of listing of China Telecom Corporation Limited (the “Company”), relevant requirements of the securities regulatory authorities and stock exchanges where the Company’s shares are listed and the articles of association of China Telecom Corporation Limited (the “Articles of Association”), the board of directors of the Company (the “Board”) sets up an audit committee (the “Committee” unless otherwise indicated) and formulates the rules of procedures of audit committee (the “Rules”) of the Company accordingly.

Article 2 Status and Principle of the Committee

The Committee members are appointed by over 50% affirmative votes of the Board. The Committee shall report to the Board periodically.

The principle of the Committee is to take full responsibility to reasonably safeguard the best interests of the Company and fairly protect the overall interests of shareholders, especially the interests of minority shareholders pursuant to the applicable rules and regulations.

Article 3 Structure and Qualifications of the Committee

The Committee consists of three or more members. The Board may change such number when it deems necessary, provided that the minimum requirement pursuant to the applicable regulatory rules is met. The Committee shall have one chairman who shall be an independent non-executive director and an accounting professional.

All the Committee members shall be independent non-executive directors and:

- (1) shall have no material affiliations with the Company;
- (2) shall be in compliance with the relevant requirement of “independence” of Committee members pursuant to the applicable regulatory rules;
- (3) shall be familiar with the professional expertise in finance, accounting and auditing, or shall acquire such expertise within a reasonable period of time after being appointed as Committee members;
- (4) at least one committee member shall possess the appropriate accounting qualification as required by the securities regulatory authorities and stock exchanges where the Company’s shares are listed, or shall have appropriate skills in accounting or skills related to financial management.

A former partner of the Company's external independent auditors shall be prohibited from acting as a Committee member for a period of two years commencing on the date of the person ceasing:

- (1) to be a partner of the external independent auditors;
- (2) to have any financial interest in the external independent auditors,

whichever is the later.

Article 4 Term of the Committee

The term of the Committee shall be the same as that of the Board. The appointment of Committee members may be renewed upon expiry of the term.

If a Committee member ceases to be an independent non-executive director of the Company or that a Committee member who has had the capacity of an independent non-executive director ceases to have the independence as required by the laws, regulations, regulatory documents, relevant requirements of the securities regulatory authorities and stock exchanges where the Company's shares are listed or the Articles of Association, he/she will automatically lose his/her qualification as a Committee member, and the Board shall fill the vacancy pursuant to the applicable rules.

In the event that any Committee member tenders his/her resignation, or his/her removal has been agreed by more than half of the Board's votes, or he/she ceases to be an independent non-executive director, the Board may decide to terminate his/her term of office before the expiry of the term.

Any change in the members of the Committee with simultaneous change in directors shall follow the procedure to obtain the shareholders' approval in the general meetings pursuant to the relevant procedures of change of directors as stipulated in the Articles of Association and an announcement in accordance with the applicable regulatory rules shall be published accordingly.

Article 5 Resignation of the Committee Members

Should any Committee member resign before the term expires, such member shall submit his/her written resignation to the Board, in which detailed explanations for the resignation shall be stated.

In the event that any resignation leads to a situation where the number of the Committee members does not meet the minimum requirement as stipulated by laws, such resignation of the Committee member shall not take effect until the newly appointed member has taken up the position.

Where the qualification as a Committee member is automatically withdrawn due to the resignation as an independent non-executive director, no separate resignation procedures is required for that Committee member otherwise. His/her qualification as a Committee member will be automatically withdrawn from the effective date of his/her resignation as an independent non-executive director in accordance with the resignation procedures of the independent non-executive director of the Company. In the event that the automatic withdrawal of his/her qualification as a Committee member leads to a situation where the number of the Committee members does not meet the minimum requirement as stipulated by laws, the matters following the effective withdrawal of his/her qualification as a Committee member shall be addressed pursuant to Paragraph 2 under this Article.

Section 2 Operation and Meeting Procedures of the Committee

Article 6 Committee Meetings

The meetings of the Committee comprise of periodical meetings and extraordinary meetings. The Committee shall convene at least four periodical meetings each year. The Committee may convene an extraordinary meeting as needed. An extraordinary meeting may be convened when two or more Committee members propose to convene the meeting or the chairman thinks it necessary.

If the external independent auditors of the Company think necessary, they can also require the Committee to convene an extraordinary meeting.

A Committee meeting may not be held unless two thirds or more of the members attending the meeting. It may also be held via telephone conference or other telecommunications means.

Article 7 Written Proposals of the Committee

The Committee may replace convening physical meeting with written proposals, and to approve resolutions by written resolution in lieu of physical meeting. When the meeting materials are delivered to all members and the members signify their consent by signing the written resolution where a quorum to approve the resolution has been met, the written resolution shall become effective.

Article 8 Calling and Presiding of Meeting

The chairman shall be responsible to convene and preside over the meetings and may otherwise appoint another Committee member being an independent non-executive director to convene and preside over the meetings on behalf of the chairman in the event that the chairman is not able to convene and preside over the meetings in person.

The notice for a Committee meeting should be delivered to each member five days prior to the meeting. The related agenda and meeting materials for the meeting should be delivered to each member at least three days prior to such meeting. The aforementioned timeline may be exempted upon the approval of two thirds or more of the Committee members.

Article 9 Resolutions

Any resolution of a Committee meeting shall require more than half of the affirmative votes, with each member having one vote. In the event that an effective resolution cannot be passed due to the Committee members' abstention, the relevant matters would be considered by the Board directly.

The voting of the Committee meeting may be taken by show of hands or by poll.

Any resolution of a Committee meeting shall be in written form and signed by attending members.

Article 10 Minutes

Minutes for a Committee meeting shall be kept and shall be complete and true.

The Office of the Board shall be in charge of the minutes of the Committee meetings. The draft minutes shall be provided to all members within a reasonable period of time after the meetings so that the members can review the drafts and finalise the minutes. The Committee members and other personnel attending the meeting shall sign on the minutes of the meeting of the Committee. The Secretary of the Board shall keep the original copies of the minutes.

Article 11 Non-voting Attendance

When it deems necessary, the Committee may invite the Company's management and other directors of the Board to attend the meetings where the attendees have no voting rights.

Article 12 Ancillary Organ of the Committee

The Office of the Board shall coordinate and support the routine operation of the Committee.

Section 3 Duties and Obligations of the Committee

Article 13 Primary Duties of the Committee

The Committee's primary duties are to assist the Board in supervising the following matters:

- (1) supervising and evaluating the external auditing work and proposing engagement or replacement of the external auditing institutions;
- (2) supervising and evaluating the internal auditing work and taking charge of coordination of the internal and external audits;
- (3) reviewing the financial information of the Company and its disclosure;
- (4) supervising and evaluating the internal control of the Company;

- (5) drafting the management measures for related-party (connected) transactions of the Company, proposing amendments to the principal management measures on related-party (connected) transactions of the Company and monitoring the implementation thereof; keeping the lists of related-party (connected) persons of the Company, reviewing the related-party (connected) transactions which shall be subject to the approval of the Board or shareholders' general meetings of the Company, finalising and submitting the written advice to the Board for consideration;
- (6) other duties which the Committee shall be responsible for under laws, administrative regulations, departmental rules, relevant regulatory documents, the rules of the stock exchanges where the shares of the Company are listed, the Articles of Association and the authorisation of the Board.

The Committee shall review arrangements which employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action. The Committee shall act as the key representative body for overseeing the Company's relations with the external independent auditors.

The Committee may request the Company's management to provide any documents or materials necessary for the performance of their duties, or explanations on any issues the Committee is concerned about.

Article 14 Supervision of Issues Relating to Financial Statements

The Committee shall review issues relating to the financial statements pursuant to the applicable regulatory requirements, and determine whether to recommend to the Board that the audited annual financial statements be included in the Company's annual report on Form 20-F unless such reporting obligation is terminated or suspended before the due date according to the laws.

The Committee shall monitor integrity of the Company's financial statements and annual reports and accounts, interim reports and quarterly reports (if applicable), review significant financial reporting judgments contained in them. In reviewing these statements and reports before submission to the Board, the Committee should focus particularly on:

- (1) any changes in accounting policies and practices;
- (2) major judgmental areas;
- (3) significant adjustments resulting from audit;
- (4) the going concern assumptions and any qualifications;
- (5) compliance with accounting standards; and
- (6) compliance with the legal requirements in relation to financial reporting.

The Committee should consider any significant or unusual items that are, or may need to be, reflected in the report and accounts, it should give due consideration to any matters that have been raised by the Company's staff being responsible for the accounting and financial reporting function, compliance officer or external independent auditors.

To perform obligations hereunder, the members of the Committee should liaise with the Board and senior management and the Committee must meet, at least twice a year, with the Company's external independent auditors.

The reports of the Committee shall make appropriate disclosure of the performance of above duties in supervision of financial statements as requested by the regulatory authorities.

Article 15 Supervision of External Independent Auditors

The Committee shall supervise the following aspects of external independent auditors as required by regulatory requirements to ensure the objectiveness of the financial statements:

- (1) it shall be directly responsible for making recommendations to the board on the appointment, evaluation and removal of any external independent auditors, and to approve all remuneration, terms of engagement and other engagement provisions, and any questions of their resignation or dismissal; the Committee shall consider the comments from the management and internal audit department as to the evaluation of the external independent auditors;
- (2) it shall review and monitor the external independent auditors' independence, objectivity and professionalism and the effectiveness of the audit process in accordance with applicable standards. The Committee should discuss with the external independent auditor regarding the nature and scope of the audit and reporting obligations before the audit commences;
- (3) it shall supervise the performance of the external independent auditors, listen to and review any written report furnished by the external independent auditors as legally required;
- (4) it shall be responsible to resolve any disagreements between the management and the external independent auditors regarding financial reporting;
- (5) it shall be responsible for pre-approving all audit and non-audit services to be provided by the external independent auditors to the Company. The Committee shall consider as to the impact of such non-audit services on the independence of external independent auditors, and formulate policies governing such non-audit services. When necessary, the Committee may authorise one or two members to pre-approve any aforesaid audit or non-audit services, which, however, is subject to the approval of the next meeting of the Committee;
- (6) it shall be responsible for formulating policies regarding the recruitment of existing or former employees of the external independent auditors into the Company;

- (7) it shall be responsible for other overseeing duties as pursuant to regulatory requirements.

Pursuant to the Articles of Association, any proposal about appointment and removal of the external independent auditors is subject to the approval by way of poll at the general meeting, provided that the Committee shall make recommendations of engagement or replacement of external independent auditors to the Board.

Article 16 Supervision Duties of Risk Management and Internal Control

The Committee shall review the Company's internal control procedures and supervise the implementation thereof, namely:

- (1) review the Company's financial controls, internal control and risk management systems and their implementation;
- (2) discuss the risk management and internal control systems with the management to ensure that the management has performed its duty to have effective internal control systems. This discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;
- (3) consider major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these findings;
- (4) review and evaluate the Company's financial and accounting policies and practices;
- (5) review the external independent auditors' management letter, any material queries raised by the external independent auditors to management about accounting records, financial accounts or systems of control and management's response;
- (6) ensure that the Board will provide a timely response to the issues raised in the external independent auditors' management letter;
- (7) evaluate the results of assessment and auditing of internal controls, and procure the rectification of internal control deficiencies.

The Committee is entitled to inquire the senior management and Chief Financial Officer of the Company about the following issues:

- (1) whether there is any significant deficiency in the design or operation of internal control procedures which could adversely affect the Company's ability to record, process, summarise and report financial information;
- (2) any weakness in internal control procedures;
- (3) any fraud, whether or not material, that involves the management or employees who have a significant role in the Company's internal controls;

- (4) any significant changes in the Company's internal control procedures;
- (5) other matters required by regulatory policies, laws and regulations.

Article 17 Supervision of Internal Auditing Matters

The Committee guides the Company's internal auditing matters, including:

- (1) review the Company's annual internal auditing plan;
- (2) procure the implementation of the Company's internal auditing plan;
- (3) review the internal auditing report, evaluate the internal auditing results and procure the rectification of material issues;
- (4) guide the effective operation of the internal audit department.

The Committee shall ensure co-ordination between the internal audit department and external independent auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor its performance.

The Committee shall keep timely and effective communication with the senior management and internal audit department with regard to the internal auditing matters.

Article 18 Supervision of Related-Party (Connected) Transactions

The Committee shall examine the annual related-party (connected) transaction report furnished by the management of the Company at least annually, and utter review comments thereon.

Article 19 Preparation of the Committee Report

The Committee shall prepare and submit the Committee report to the Board, and disclose such report in relevant reports (if applicable) pursuant to relevant requirements.

Article 20 Complaints Procedure

The Committee shall establish whistleblowing policy for:

- (1) the receipt and handling of complaints received by the Company regarding accounting, internal accounting controls and auditing matters;
- (2) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.

Article 21 Authority to Engage Advisors

For the purpose of carrying out their duties, the Committee may engage independent legal advisors, certified accountants or other experts with regard to such issues as to recognising potential conflict of interests, evaluation of disclosure level and other regulatory compliance, independent investigation of financial statements and compliance with securities regulations.

Article 22 Duties of the Committee Members

Each of the Committee members shall diligently and effectively perform his or her duties and exercise his or her rights, in accordance with the applicable regulatory provisions and the Rules, including but not limited to:

- (1) be conscientious, reasonably safeguard the best interests of the Company, fairly protect the overall interests of shareholders;
- (2) attend the Committee meeting in person, or delegate other members for attendance thereof by written power of attorney, which shall state the scope and duration of authorisation;
- (3) carefully review relevant documents and topics submitted to the members; and
- (4) keep adequate and effective communication with the senior management, internal audit department and external independent auditors of the Company.

Section 4 Compensation and Budget of the Committee

Article 23 Compensation of the Committee

The compensation of the Committee, in the form of cash, shares or options, shall be determined and approved by the Board. The Committee members shall not directly or indirectly receive from the Company any consulting fees, advising fees or any other compensation, except for:

- (1) compensation received as a director (including any compensation and other benefits paid to all directors) or as an employee who is an employee representative;
- (2) compensation for a position in any committee under the Board;
- (3) pension or other deferred compensation to be payable for the service that a director has provided (provided that such compensation is not contingent upon any service that a director has to provide in the future).

Article 24 Budget of the Committee

The Committee shall have its necessary budget and other resources for the performance of its duties, including:

- (1) the expenses paid by the Company to the external auditors in respect to auditing, review or assurance;
- (2) total expenses relating to the appointment of external advisors by the Committee;
- (3) all necessary and appropriate administrative expenses for the Committee to perform its duties.

Section 5 Miscellaneous

Article 25 Validity

The Rules are considered and approved by the Board of the Company and shall take effect as from the date of the initial public offering and listing of RMB ordinary shares (A shares) by the Company on the Shanghai Stock Exchange. Any issues not covered hereunder shall follow the applicable regulatory provisions and the Articles of Association.

Article 26 Interpretation

The Board of the Company shall be responsible for any interpretation of the Rules.

The Rules are written in Chinese. If there is any discrepancy between the Chinese version and any other translated versions, the Chinese version shall prevail.