

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 strives to achieve more standardized operational procedures and effective management, so as to safeguard shareholders' interests to the greatest extent.

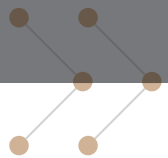
CORPORATE GOVERNANCE PRACTICES

As a company incorporated in the PRC and listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company has not only complied with the relevant provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), but also abided by the *PRC Company Law* and other applicable laws, regulations and regulatory requirements of Hong Kong and the PRC as fundamental guidelines for the Company's corporate governance. While strictly complying with relevant laws and regulations, the Group is continually striving to further strengthen its internal control and risk management procedures in order to improve its corporate governance standards and transparency.

The Board is responsible for performing corporate governance duties, including developing and reviewing the Company's policies and practices on corporate governance; reviewing and monitoring the training and continuous professional development of directors and senior management; reviewing and monitoring the Company's policies and practices in compliance with legal and regulatory requirements; developing, reviewing and monitoring the code of conduct and compliance manual applicable to employees and directors; and reviewing the Company's compliance with the Corporate Governance Code and disclosure in the Corporate Governance Report.

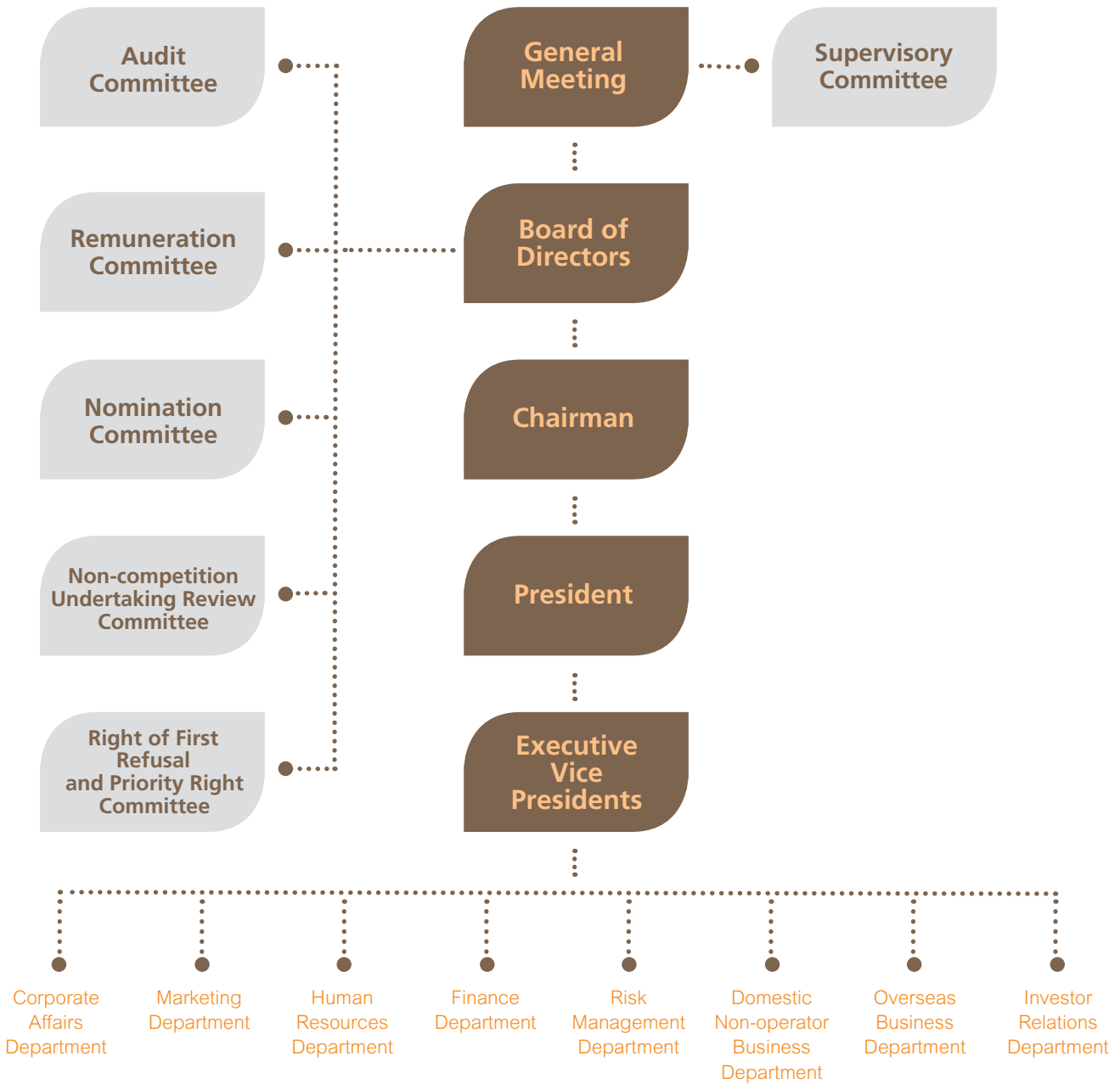
The Company has been recognized by capital market in fostering sound corporate governance over the years. In 2015, the Company was awarded "The Best of Asia — Icon on Corporate Governance" by *Corporate Governance Asia*. Moreover, the Company was awarded again the Gold Award in "Financial Performance, Corporate Governance and Investor Relations" by *The Asset*, and the Company was also honored with "The Best Listed Company Award in Corporate Governance" by *Tai Kung Pao* at the "China Securities Golden Bauhinia Awards".

Throughout the year ended 31 December 2015, the Company has complied with the code provisions as set out in the Corporate Governance Code contained in Appendix 14 of the Listing Rules.



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CORPORATE STRUCTURE OF THE COMPANY



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GENERAL MEETING

Pursuant to the Company's Articles of Association, the general meetings are classified as annual general meeting (the "AGM") and extraordinary general meeting (the "EGM"). The AGM is convened once a year and within six months after the end of a financial year. A resolution was 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 general meetings held in 2015. In 2015, apart from the AGM, the Company also convened two EGMs.

For the first EGM of 2015, a physical meeting was held in Beijing on 19 January 2015, at which the resolutions, including appointment of Mr. Sun Kangmin as an executive director of the Company and the amendments to the Articles of Association, were considered and approved by shareholders.

For the 2014 AGM, a physical meeting was held in Beijing on 26 June 2015, at which the resolutions, including the 2014 financial statements, profit distribution proposal and dividend declaration proposal, appointment of auditors, report of the Directors, and report of the Supervisory Committee and the election of the fourth session of the Board were considered and approved by shareholders.

For the second EGM of 2015, a physical meeting was held in Beijing on 11 December 2015, at which the resolutions regarding revision of annual caps, renewal of continuing connected transactions and proposed new annual caps between the Company and the Company's controlling shareholder, China Telecom, and the proposed appointment of the member of Supervisory Committee, were considered and approved by shareholders. China Telecom and its associates, being connected persons to the Company, abstained from voting on resolutions related to the connected transactions.

The above resolutions at the general meetings were approved and passed by shareholders, and the relevant poll results were published on the websites of the Company and the Stock Exchange.

SHAREHOLDERS' RIGHTS

Convening General Meeting and Submitting Proposals at General Meetings by Shareholders

Pursuant to Article 8.24 of the Company's Articles of Association, shareholders who request for convening an EGM or a class meeting shall comply with the following procedures:

- (1) Two (2) or more shareholders holding in aggregate 10% or more of the shares carrying the right to vote at the meeting sought to be held shall sign one (1) or more counterpart requisitions stating the object of the meeting and requiring the Board to convene an extraordinary general meeting or a class meeting thereof. The Board shall as soon as possible proceed to convene an extraordinary general meeting or a class meeting thereof after receipt of such requisition(s). The amount of shareholdings referred to above shall be calculated as at the date of deposit of the requisition(s).
- (2) If the Board fails to issue a notice of such a meeting within thirty (30) days from the date of receipt of the requisition(s), the requisitionists may themselves convene such a meeting (in a manner as similar as possible to the manner in which general meetings are convened by the Board) within four (4) months from the date of receipt of the requisition(s) by the Board.

Pursuant to Article 8.6 of the Company's Articles of Association, when the Company convenes an AGM, shareholder(s) holding 5% or more of the total voting shares of the Company shall have the right to submit new proposals in writing, and the Company shall place such proposals on the agenda for such AGM if they are matters falling within the functions and powers of shareholders in general meetings.

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SHAREHOLDERS' ENQUIRIES

Enquiries or requisitions to convene a general meeting or submit a proposal pursuant to the Articles of Association of the Company that the shareholders of the Company wish to make to the Board may be addressed to the Investor Relations Department of the Company by our shareholders' hotline at 852-3699 0000 or by email at ir@chinaccs.com.hk.

COMMUNICATION WITH SHAREHOLDERS

The Board adopted the shareholders communication policy, which regulates the Company's various regular and irregular daily communication channels with shareholders, including general meeting(s), road shows and daily meetings. The above arrangements enable shareholders and investors keep abreast of the latest operating status and development prospects of the Company, and also enable the Company to get different opinions from the market in an effective and timely way. The details of the communication with the shareholders are set out in the section of "Investor Relations" of this annual report and the website of the Company.

BOARD OF DIRECTORS

The leadership and supervision of the Company are vested in the Board, which is responsible for implementing the resolutions passed 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 Board approval before entering into any material transactions. The Articles of Association of the Company has clearly defined the scope of duties of the Board and the management of the Company.

CHAIRMAN AND PRESIDENT

Mr. Sun Kangmin and Mr. Si Furong take up the position of Chairman and President of the Company, respectively. Our Chairman, Mr. Sun Kangmin is responsible for overseeing the operation of the Board and in charge of the Company's overall management. Our President, Mr. Si Furong is responsible for the Company's daily operation and management.

COMPOSITION OF THE BOARD

As of the date of this report, the Board comprised ten directors, including three executive directors (Mr. Sun Kangmin, Mr. Si Furong and Ms. Hou Rui), two non-executive directors (Mr. Li Zhengmao and Mr. Zhang Junan) and five independent non-executive directors (Mr. Wang Jun, Mr. Zhao Chunjun, Mr. Siu Wai Keung, Francis, Mr. Lv Tingjie and Mr. Wu Taishi). The Company has adopted a board diversity policy, which sets out the approach to achieve diversity on the Board. The Company's board diversity policy gives a number of considerations in aspects including skill, knowledge, experience, gender and age. The board members comprise professionals with diversified backgrounds including telecommunications industry, finance, management and academics. The Board has five independent non-executive directors, of which two independent non-executive directors (Mr. Siu Wai Keung, Francis and Mr. Wu Taishi) possess accounting professional qualification in compliance with Rules 3.10 and 3.10A of Chapter 3 of the Listing Rules. The profiles of the directors are set out in the "Profiles of Directors, Supervisors and Senior Management" section of this annual report and the Company's website.

As of the date of this report, to the best knowledge of the directors, 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.

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All directors devoted sufficient time and efforts to the business of the Company. The Company also requires the directors to disclose the number of positions they hold in public companies or organizations and provide the Company with the time they devoted to the relevant positions.

The Company has also arranged appropriate insurance cover in respect of possible legal actions against its directors, supervisors and senior management.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company adopts 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. Each of the directors of the Company made a written confirmation that he/she had complied with the Model Code at all applicable times in connection with transactions in the Company's securities during the reporting period.

APPOINTMENT OF DIRECTORS

The Company follows a formal, considered and transparent procedure for the appointments of new directors. The Nomination Committee first considers and discusses the nomination and appointment of a new director and then makes recommendations to the Board for decision. The Board shall recommend the candidate(s) at the general meeting and the candidate(s) shall be elected at the general meeting each for a term of three years, effective from the date of election.

On 26 June 2015, the term of office of the third session of the Board and the Supervisory Committee of the Company expired. Except for Mr. Wei Leping who retired as independent non-executive director of the Company, the remaining directors of the third session of the Board were re-elected as directors of the fourth session of the Board at the annual general meeting held on the same day. Mr. Lv Tingjie and Mr. Wu Taishi, were newly appointed as independent non-executive directors of the Company.

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 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. The Board and each of the directors may contact the senior management independently if necessary and obtain additional information from the Company so that the directors can make informed decisions with relevant information.

All minutes of the Board meetings record the details of resolutions considered and decisions made, and were kept by meeting secretary and open for inspection by the directors. A director shall abstain from voting on any board resolution approving any proposal in which he or any of his associates has a material interest, nor shall he be counted in the quorum present at the meeting. In 2015, the Board held four meetings and passed four written resolutions. In addition to general matters such as review of the annual and interim financial statements, dividend distribution, corporate governance and budget, the Board also considered the resolutions regarding to changes of directors, appointment of directors, remuneration package of directors, amendment of the Articles of Association and renewal of continuing connected transactions. For the resolutions on the connected transactions such as revision of annual caps, renewal of continuing connected transactions and proposed new annual caps between the Company and China Telecom, directors with conflict of interests abstained from voting. Meanwhile, in the agenda of approving director remuneration, relevant directors with conflicts of interests on their own remuneration also abstained from voting.

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In 2015, the Chairman of the Company, had a meeting with the non-executive directors (including independent non-executive directors) without the presence of the executive directors.

The attendance record of the Company's directors in Board meetings, board committee meetings and general meeting(s) in 2015 are as follows:

	Attendance in 2015/Meeting convened during period of appointment							
	Board of Directors	Audit Committee	Remuneration Committee	Nomination Committee	Non-competition Undertaking Review Committee	Right of First Refusal & Priority Right Committee	AGM	EGM
Executive Directors								
Sun Kangmin	4/4	—	—	—	—	—	1/1	2/2
Si Furong	4/4	—	—	—	—	—	1/1	2/2
Hou Rui	4/4	—	—	—	—	—	1/1	2/2
Non-executive Directors								
Li Zhengmao	4/4 ⁽¹⁾	—	—	—	—	—	0/1	1/2
Zhang Junan	4/4 ⁽²⁾	—	—	—	—	—	0/1	1/2
Independent Non-executive Directors								
Wang Jun	4/4 ⁽³⁾	—	—	1/1 ⁽⁴⁾	—	—	0/1	0/2
Zhao Chunjun	4/4 ⁽⁵⁾	2/2 ⁽⁶⁾	1/1	1/1	2/2 ⁽⁷⁾	—	0/1	2/2
Siu Wai Keung, Francis	4/4	2/2	1/1	—	1/1	—	1/1	2/2
Lv Tingjie ⁽⁸⁾	2/2	1/1	—	—	1/1	—	—	1/1
Wu Taishi ⁽⁹⁾	2/2	—	—	—	1/1	—	—	1/1
Resigned Director								
Wei Leping ⁽¹⁰⁾	2/2	1/1	1/1	1/1	1/1	—	1/1	1/1

Notes:

- (1) Mr. Li Zhengmao appointed another director to attend one meeting.
- (2) Mr. Zhang Junan appointed other directors to attend three meetings.
- (3) Mr. Wang Jun appointed other directors to attend four meetings.
- (4) Mr. Wang Jun appointed another director to attend one meeting.
- (5) Mr. Zhao Chunjun appointed other directors to attend two meetings.
- (6) Mr. Zhao Chunjun appointed another director to attend one meeting.
- (7) Mr. Zhao Chunjun appointed another director to attend one meeting.
- (8) Mr. Lv Tingjie was appointed as an independent non-executive director of the Company on 26 June 2015.
- (9) Mr. Wu Taishi was appointed as an independent non-executive director of the Company on 26 June 2015.
- (10) Mr. Wei Leping resigned as an independent non-executive director of the Company on 26 June 2015.

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DIRECTOR'S TRAINING

Each newly appointed director will be offered training by the Company upon the appointment, so as to ensure that they have adequate understanding of the Company's business and they are fully aware of their duties as director under the laws and regulations. The Company during the reporting period of this report engaged external lawyers to provide the new directors with training on issues including directors' duties and the Listing Rules.

The Company distributed board memorandum to directors each month, setting out updates on major business and financial position of the Company to facilitate the directors to discharge their duties. In addition, the Company also issued latest information regarding corporate governance and directors' responsibilities under the Listing Rules and other applicable laws and regulations to the directors, ensuring their awareness of their responsibilities under the laws and regulations. All the directors were also encouraged to participate in continuous professional development to develop and refresh their knowledge and skills to ensure that their contributions to the Board remain informed and relevant.

In 2015, the training records of the directors of the Company were as follows:

	Attend training and/or seminar relevant to the Company's industry and business, director's duties and/or corporate governance	Give a speech at the meeting relevant to the Company's industry and business, director's duties and/or corporate governance	Read information relevant to the Company's industry and business, director's duties and/or corporate governance; and/or read regular updates issued by the Company
Executive Directors			
Sun Kangmin	✓	✓	✓
Si Furong	✓	✓	✓
Hou Rui	✓	✓	✓
Non-executive Directors			
Li Zhengmao	—	✓	✓
Zhang Junan	—	✓	✓
Independent Non-executive Directors			
Wang Jun	—	—	✓
Zhao Chunjun	✓	✓	✓
Siu Wai Keung, Francis	✓	✓	✓
Lu Tingjie	✓	✓	✓
Wu Taishi	✓	✓	✓

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BOARD COMMITTEES

As an important part of a sound corporate governance practice, the Board has set up five board committees: 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, and all of which were responsible for the supervision of the overall affairs of the Company in various areas and assistance of discharging its responsibilities. All the five board committees comprise of independent non-executive directors to ensure full expression of independent and objective views and to fulfill each of its responsibilities of the overall safeguard and supervision. The list of members of these committees was published on the websites of the Company and the Stock Exchange.

Audit Committee

The Audit Committee consists of three independent non-executive directors: Mr. Siu Wai Keung, Francis (Chairman), who has accounting or related financial management expertise, Mr. Zhao Chunjun and Mr. Lv Tingjie. The Audit Committee is mainly responsible for 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. In addition, the Audit Committee is also responsible for examining the appointment of external auditors, considering and supervising the financial reporting procedures and the risk management and internal control systems of the Company, and overseeing the execution of the connected transactions. The Audit Committee makes an assessment of the effectiveness of the Group's risk management and internal control at least once a year. In addition, the Audit Committee is also responsible for reviewing the adequacy of resources of the Group's accounting and financial reporting function.

In 2015, the Audit Committee held two meetings, mainly reviewing the resolutions of the Company for its audited financial report of 2014, interim report of 2015, report on connected transactions, report on internal control and risk management and appointment of independent auditors. 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. Siu Wai Keung, Francis (Chairman), Mr. Lv Tingjie and Mr. Wu Taishi. The Remuneration Committee is mainly responsible for making recommendations to the Board on the Company's policy and structure for remunerations of all directors, on the establishment of a formal and transparent procedure for developing remuneration policy and the remuneration packages of directors.

In 2015, the Remuneration Committee held one meeting and passed one written resolution, mainly reviewing the resolutions of adjusting the exercise price of share appreciation rights scheme of the Company and the remuneration packages of the fourth session of the Board.

Nomination Committee

The Nomination Committee consists of three independent non-executive directors: Mr. Zhao Chunjun (Chairman), Mr. Lv Tingjie and Mr. Wu Taishi. The Nomination Committee is mainly responsible for making recommendations to the Board on the appointment or reappointment of directors and reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board annually.

In 2015, the Nomination Committee held one meeting and passed one written resolution, mainly reviewing the resolutions of change of the term of office of the fourth session of the Board, including the review of the Board structure and composition, as well as recommending Mr. Lv Tingjie and Mr. Wu Taishi as the independent non-executive directors of the Company and making their recommendations to the Board.

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Non-Competition Undertaking Review Committee

The Non-competition Undertaking Review Committee consists of three independent non-executive directors: Mr. Lv Tingjie (Chairman), Mr. Zhao Chunjun and Mr. Wu Taishi. 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 2015, the Non-competition Undertaking Review Committee held two meetings, mainly reviewing the implementation of the non-competition undertakings by China Telecom, and making 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 2015. 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. Zhao Chunjun (Chairman), Mr. Wang Jun and Mr. Siu Wai Keung, Francis. 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 since the Company was listed and protecting the interests of independent shareholders when such right of first refusal or priority right is exercised. Meeting(s) are held when necessary according to the Right of First Refusal and Priority Right Committee Charter. In 2015, Right of First Refusal and Priority Right Committee did not hold any meeting.

Independent Board Committee

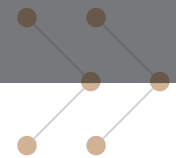
Pursuant to the relevant requirements under the Listing Rules, a listed company shall establish an Independent Board Committee (which shall consist only of independent non-executive directors) to advise shareholders in relation to transactions that are subject to independent shareholder's approval (such as connected transactions) as to whether the terms of the relevant transaction or arrangement are fair and reasonable and whether such a transaction or arrangement is in the interests of the Company and its shareholders as a whole.

The Company held an Independent Board Committee meeting on 29 September 2015, 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, renewal of continuing connected transactions and proposed new annual caps between the Company and China Telecom, and made its recommendations to the independent shareholders. Details of this resolution and the Independent Board Committee's recommendation were contained in the circular dispatched to shareholders on 22 October 2015.

Supervisory Committee

The Company established a Supervisory Committee pursuant to the *PRC Company Law*. The Supervisory Committee consists of three members: Ms. Han Fang (the chairperson), Mr. Hai Liancheng (the external independent supervisor) and Mr. Si Jianfei (the employee representative supervisor). Except for Ms. Han Fang, the term of service 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 term of service of Ms. Han Fang commenced from 11 December 2015 (the date of the election) to the 2017 AGM to be held in 2018. 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, to review the financial statements and other financial information prepared and presented by the Board at the general meeting(s); to supervise the performance of duties of the directors and other senior management; to prevent them from abusing power; and to deal with the directors or to initiate legal actions against the directors on behalf of the Company. In 2015, the Supervisory Committee held three meetings, details of which are set out in the "Report of the Supervisory Committee" of this annual report.



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AMENDMENTS TO THE ARTICLES OF ASSOCIATION

During the 2015 first EGM, the shareholders of the Company approved the amendments to the Articles of Association, including the amendments of the Company's scope of business and composition of the Board of the Company. The amended Articles of Association is published on the websites of the Company and the Stock Exchange.

COMPANY SECRETARY

The Company Secretary, Mr. Chung Wai Cheung, Terence, is an employee of the Company and has appropriate understanding of the Company's business. The Company Secretary is responsible for supporting the daily operation of the Board and ensuring the compliance with the policies and procedures of the Board. All of the directors can access to opinions of the Company Secretary to ensure that the procedures of the Board conform to the applicable laws and regulations. The profile of the Company Secretary is set out in the section of "Profiles of Directors, Supervisors and Senior Management" in this annual report. The Company Secretary met the requirement on professional training under the Rule 3.29 of the Listing Rules in 2015.

REMUNERATION OF THE AUDITORS

The international and domestic auditors of the Company are Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants LLP, respectively. The external auditors have provided audit services to the Company for three consecutive years since they were initially appointed at the 2012 annual general meeting on 27 June 2013. The remuneration received by the external auditors for the audit services provided to the Company during the year amounted to RMB34,395 thousand. No non-audit services were provided to the Company by the external auditors during the year.

DIRECTORS' RESPONSIBILITY FOR FINANCIAL STATEMENTS

The directors are responsible for the preparation of financial statements. The directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern, therefore the directors continue to adopt the going concern approach in preparing financial statements.

The responsibility statement of Deloitte Touche Tohmatsu, our external auditors, regarding its Independent Auditor's Report on the financial statements of the Group is set out on pages 92 to 93 of this annual report.

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RISK MANAGEMENT AND INTERNAL CONTROL

Risk Management and Internal Control System

The Board of the Company is fully responsible for maintaining healthy, comprehensive and effective internal control to safeguard the investment of the shareholders and the assets of the Group. The Company has set up the internal control system and risk management mechanism in compliance with the COSO standards, covering the defined management structure and its authority. This aims at ensuring the efficient and effective utilization of the resources of the Company to assist the Company to achieve business target and to safeguard assets, with a view to preventing unauthorized utilization or treatment of the resources of the Company, to secure appropriate accounting records and provide reliable financial data for internal use or external dissemination, so as to ensure that the operating activities are in compliance with relevant laws and rules. The above control system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

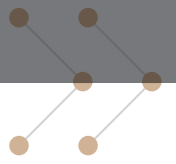
Since listing in 2006, the Company has formulated systems such as internal control guidelines and internal control assessment methods on the basis of COSO internal control framework. Over the years, the Company has strived to perform ongoing revision and improvement to the systems related to internal control in light of the changes in internal and external operating environment and business development requirements. After nearly a decade of refinement and drawing conclusion from the past experience after the listing, the Company put in place a set of practicable risk management methods, which solidified risk management procedures, enhanced risk management efficiency and basically established a comprehensive risk management mechanism. In 2015, the Company took into account the requirements of Rule C.2 of the Corporate Governance Code of the Hong Kong Stock Exchange to continue to strengthen the identification, rationalization and assessment and control of risk, without any material risk issue throughout the year. After strict rationalization and assessment and analysis of risks, the Company conducted initial assessment on the potential risks that the Company may be exposed to in 2016, such as (amongst others) strategic risks and market risks, and proposed practicable corresponding solutions.

The risk management department of the Company has established the internal audit division, which focuses on the emergencies arising from the operating and administrative activities and operating procedures to strengthen audit supervision, and attaches importance to the utilization and transformation of the results of audit, so as to foster management improvement and to prevent loophole. It plays an important role in supporting the Board, the management and the risk management and internal control assessment. The internal audit division is responsible for providing objective guarantee to the Audit Committee and the Board to ensure that the management will maintain effective risk management and internal control system.

Annual Risk Management and Internal Control Assessment

The Company continues to focus on strengthening internal control and risk management and has sound internal control foundations in place. The Company's main control measures in 2015 are summarized as below:

In 2015, the internal audit division of the Company took the lead to organize a self assessment exercise for internal control within the whole Company. The self assessment exercise for internal control strives to, on the basis of comprehensive assessment, focus on the assessment of key control aspects and control points identified after the risk identification assessment. In 2015, we selected the process of fund management, contract management, subcontracting management and inventory management to undergo key assessment, and such self assessment covered all the subsidiaries of the Company.



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The internal control self-assessment was conducted under the supervision of the Company's working group on risk management. The Risk Management Department organized and coordinated the assessment of key processes conducted by the relevant processes leading department, with each relevant department, in particular, the business department, coordinates this internal control self assessment exercise, and tackles risk management issues from the sources. The implementation departments of the control points in the processes participated in the assessment work. By vesting the control points within the processes to each person-in-charge by the implementation department, thereby splitting the assessment work among specific staff in the control points to ensure that the width and depth of the internal control assessment work comply with the requirements.

In response to the defects identified during the self assessment and internal auditing work, the Company enhanced the checking and supervision on the internal control defects rectification so as to ensure the effectiveness of the rectification work. Each of the provincial companies proactively rectified the defects identified during internal and external assessment.

The Board continued to monitor and supervise the Company's risk management and internal control system, and conducted annual review on the internal control system of the Company and its subsidiaries for the financial year ended 31 December 2015. After receiving the report from the internal audit division as to the effectiveness of the relevant system, the Board considered that the internal control system of the Company is stable, healthy, proper, effective and adequate, and has satisfied the requirements under Rule C.2 of the Corporate Governance Code of the Hong Kong Stock Exchange regarding to the internal control.