

## 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, the Company has not only complied with the relevant provisions of the Listing Rules, but also abided by the PRC Company Law and other applicable laws, regulations and regulatory requirements of Hong Kong and the PRC as fundamental guidelines for the Company's corporate governance. While strictly complying with relevant laws and regulations, the Group is continually striving to further strengthen its internal control and risk management procedures 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 and making recommendations, 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 sound corporate governance structure, in which five committees are set up under the Board with only independent non-executive directors as committee members. The directors are required to make declaration of own interest and abstain from voting for resolutions in which they are interested to ensure the full independence in the major decisions of the Company. The Company strictly complies with the regulations and requirements of information disclosure of the Listing Rules. During the year, the Company made prompt information disclosure for its sensitive information regarding rights issue, acquisitions, etc. Meanwhile, the Company circulated internally the disclosure requirements and guidelines of "Inside Information" of the Securities & Futures Commission of Hong Kong and the Stock Exchange, to ensure that the Company complied with relevant regulations and requirements. In accordance with relevant regulations of the PRC, the Company also kept implementing the measures for the "Three Major One Significant Decision Making System", carried out stringent approval procedures for major decision making, major appointment and removal of personnel, major project arrangement and significant funding operation, to standardize the decision behaviour of the Company and enhance the level of corporate decision making, and strived to prevent operation risks and promote internal management.

The Company's persistent efforts in fostering sound corporate governance have been recognized by the capital market: the Group was awarded No. 1 in "Best Managed Company in China" by *Euromoney*, a Global renowned financial magazine and recognized as one of "The Best of Asia" by *Corporate Governance Asia*, an authoritative journal on Corporate Governance in Asia. Moreover, the Company was awarded again a Gold Award in "Corporate Governance and Investor Relations" again by *The Asset*, a respected financial magazine in Asia.

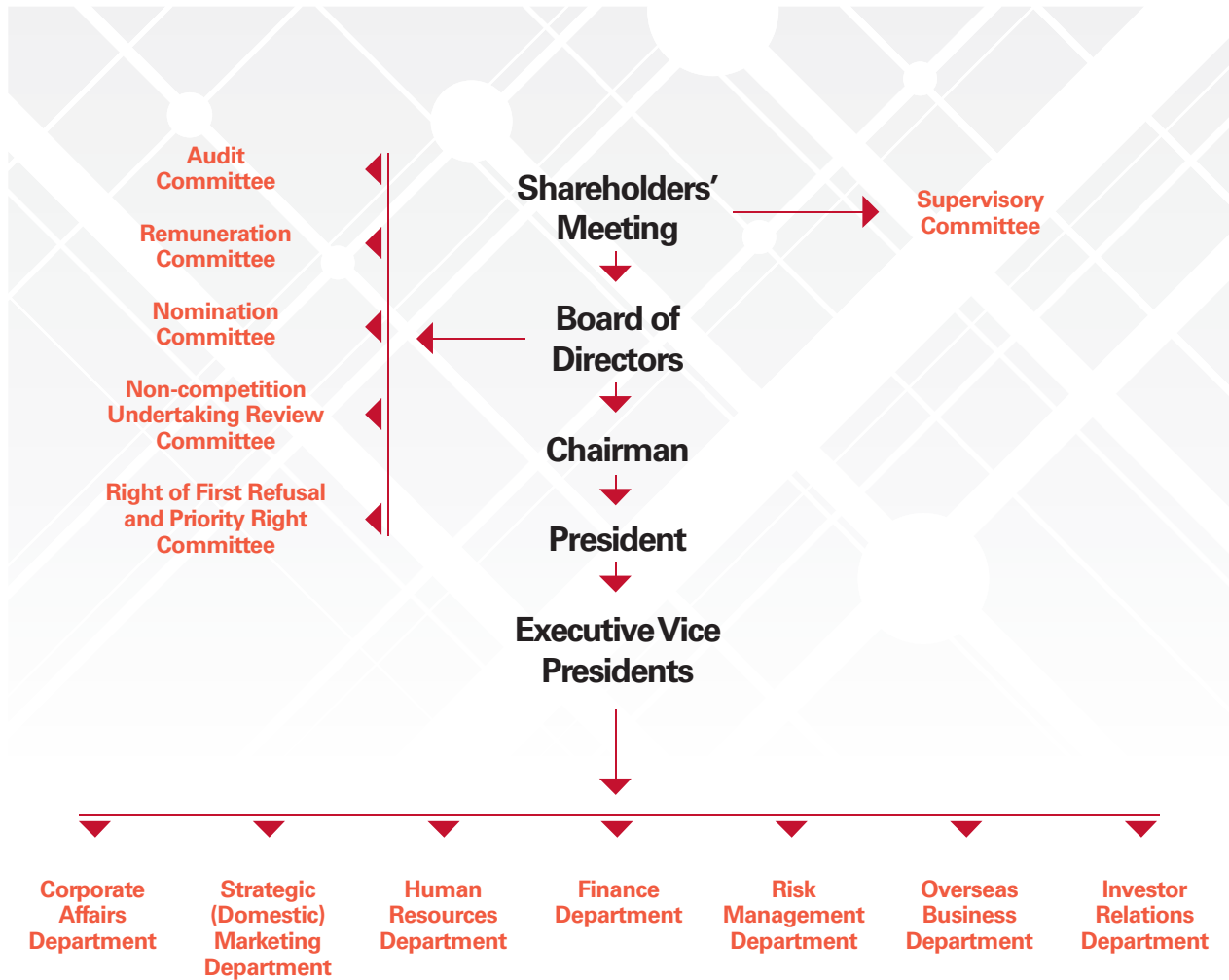
Throughout the twelve months ended 31 December 2012, the Company has complied with the code provisions as set out in the former Code on Corporate Governance Practices and the new Corporate Governance Code (effective from 1 April 2012) contained in Appendix 14 of the Listing Rules.

The directors of the Company confirm that it is their responsibility to prepare the financial statements of the Company and its subsidiaries. The directors of the Company also ensure that the financial statements are prepared in accordance with relevant laws and the accounting standards applicable to the Company and the financial statements of the Company are published promptly.

The responsibility statement of KPMG, our external auditors, regarding its Independent Auditor's Report on the financial statements of the Group is set out on page 109 of this annual report.

2012 is the opening year of the second five-year plan of the Company. In the "Chairman's statement" section of this annual report, the Company states the development objectives and business strategies that will be adopted to achieve our sustainable and stable long-term development target for the coming years.

## Corporate Structure of the Company



## Shareholders' Meeting

Pursuant to the Company's Article of Association, the shareholders' meetings are classified as annual general meeting (the "AGM") and extraordinary general meeting (the "EGM"). The AGM is convened once a year and within six months after the end of a financial year. In 2012, apart from the AGM, the Company also convened one EGM. 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 shareholders' meetings held in 2012.

For the AGM of 2011, a physical meeting was held in Beijing on 28 June 2012, at which the resolutions, including the 2011 financial statements, profit distribution proposal and dividend declaration proposal, appointment of auditors, report of the Directors, report of the Supervisory Committee, election of the third session of Board and the amendments to the Articles of Association, were considered and approved by shareholders.

For the EGM of 2012, a physical meeting was held in Beijing on 27 November 2012, 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 non-executive director, 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 transaction.

The above resolutions at the AGM and EGM were approved and passed by shareholders, and the relevant voting results were published on the websites of the Company and the Stock Exchange.

## Shareholders' Rights

### Convening General Meeting and Submitting Proposals at Shareholders' Meetings by Shareholders

Pursuant to Article 8.24 of the Company's Article of Association, shareholders who request for convening an extraordinary general meeting 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 shareholders' 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 Article of Association, when the Company convenes an annual general meeting, 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 annual general meeting if they are matters falling within the functions and powers of shareholders in general meetings.

## 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 email to ir@chinaccs.com.hk.

## Communication with the Shareholders

In 2012, the Board reviewed the shareholders communication policy, which regulates various regular and irregular daily communication channels with shareholders by the Company, including general meetings, road shows and daily meetings. The above arrangements enable that shareholders and investors can become aware of the latest operating status and development prospects of the Company promptly. Meanwhile, the above arrangements can 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 by the shareholders in general meetings, overseeing the Group's businesses and affairs, approving operation plans and investment proposals, reviewing financial policies and performance, and formulating the basic management systems of the Company. The Board has delegated to the senior management, the powers and responsibilities to conduct the day-to-day management and operations of the Group and to organize the implementation of the resolutions of the Board, annual business plans and investment proposals. The senior management must obtain the approval of the Board before entering into any material transactions. The Articles of Association of the Company has clearly defined the scope of duties of the Board and management of the Company.

## Chairman and President

Mr. Li Ping and Mr. Zheng Qibao take up the position of Chairman and President of the Company, respectively. Our Chairman, Mr. Li Ping is responsible for overseeing the operation of the Board and in charge of the Company's overall management. Our President, Mr. Zheng Qibao is responsible for the Company's daily operation and management.

In 2012, 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.

## Composition of the Board

As of 31 December 2012, the Board comprised ten directors, including four executive directors (Mr. Li Ping as Chairman and executive director, Mr. Zheng Qibao, Mr. Yuan Jianxing and Ms. Hou Rui as executive directors), two non-executive directors (Mr. Li Zhengmao and Mr. Zhang Junan) and four independent non-executive directors (Mr. Wang Jun, Mr. Zhao Chunjun, Mr. Wei Leping and Mr. Siu Wai Keung, Francis). Mr. Wang Xiaochu is the Honorary Chairman of the Company. The Honorary Chairman is not a member of the Board and has no voting rights on any matters to be considered by the Board. The profiles of the directors are set out in the "Profiles of Directors, Supervisors and Senior Management" section of this annual report and the Company's website.

The Board has four independent non-executive directors, constituting over 1/3 of the members of the Board. All independent non-executive directors possess considerable experiences in their respective industries and professions. This ensured the independence of the Board and the compliance with Rules 3.10 and 3.10A of the Listing Rules. The four executive directors, one non-executive directors and four independent non-executive directors of the Company are each appointed for a term of three years and may serve consecutive terms if re-elected upon the expiry of the term of their appointment except for Mr. Li Zhengmao. Mr. Li Zhengmao was appointed for a term commencing from the date of the extraordinary general meeting approving his appointment on 27 November 2012 to the date of annual general meeting of the Company for the year 2014 to be held in 2015.

The Company has received the written annual confirmation of independence from each of the independent non-executive directors pursuant to Rule 3.13 of the Listing Rules, and considers all independent non-executive directors to be independent.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules to govern securities transactions by directors. Having made specific enquiries in writing to the directors, each of the directors has confirmed that he has complied with the Model Code in connection with transactions in the Company's securities during the reporting period.

The directors of the Company all devote 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 devote 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.

## **Appointment of Directors**

The Company follows a formal, considered and transparent procedure for the appointments of new directors. Appointments are first considered by the Nomination Committee. The recommendations of the Nomination Committee are then put to the Board for decision. The candidate of director at the shareholders' general meeting should be recommended by the Board and directors shall be elected at the shareholders' general meeting each for a term of three years, effective from the date of election.

On 28 June 2012, the term of office of the second session of the Board and the Supervisory Committee of the Company expired. Except for Mr. Wu Shangzhi and Mr. Hao Weimin who retired as independent non-executive directors of the Company, the remaining directors of the second session of the Board were re-elected as directors of the third session of the Board at the annual general meeting held on the same day. Mr. Wei Leping and Mr. Siu Wai Keung, Francis 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 the directors at least 14 days prior to the date of the meeting. The agenda and related documents of the Board meetings will be delivered to all directors at least 3 days prior to the date of the meeting. The Board and each of the directors may contact the senior management independently if necessary and obtain extra information from the Company so that the directors can make informed decisions with relevant information.

All the minutes of the Board meetings record the details of resolutions considered and decisions made, and were kept by meeting secretary and open for inspection for the directors. In 2012, the Board held four meetings and passed six written resolutions. In addition to general matters such as the 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, acquisition, and 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.

The attendance record of the Company's directors in Board meetings, board committee meetings and shareholder meetings in 2012 are as follows:

	Attendance in 2012/Meeting convened during period of appointment							AGM	EGM
	Board of Directors	Audit Committee	Remuneration Committee	Nomination Committee	Non-competition Undertaking Review Committee	Right of First Refusal & Priority Right Committee			
<i>Executive Director</i>									
Li Ping (Chairman)	4/4							1/1	0/1
Zheng Qibao	4/4							1/1	1/1
Yuan Jianxing	4/4 <sup>(8)</sup>							1/1	1/1
Hou Rui	4/4							1/1	1/1
<i>Non-executive Director</i>									
Liu Aili <sup>(1)</sup>	3/3 <sup>(9)</sup>							0/1	
Li Zhengmao <sup>(2)</sup>	1/1								
Zhang Junan	4/4 <sup>(10)</sup>							0/1	0/1
<i>Independent Non-executive Director</i>									
Wang Jun	4/4 <sup>(11)</sup>			1/1				0/1	1/1
Chan Mo Po, Paul <sup>(3)</sup>	2/2 <sup>(12)</sup>	1/1	1/1		2/2			0/1	
Zhao Chunjun	4/4 <sup>(13)</sup>	1/1	1/1	1/1	3/3	1/1		0/1	1/1
Wu Shangzhi <sup>(4)</sup>	2/2 <sup>(14)</sup>	1/1	1/1			1/1		0/1	
Hao Weimin <sup>(5)</sup>	2/2	1/1		1/1	2/2	1/1		1/1	
Wei Leping <sup>(6)</sup>	2/2 <sup>(15)</sup>	1/1	-	-	1/1	-			1/1
Siu Wai Keung, Francis <sup>(7)</sup>	2/2	1/1	-		1/1	-			1/1

- (1) Mr. Liu Aili resigned as a non – executive director of the Company on 11 September 2012.
- (2) Mr. Li Zhengmao was appointed as a non-executive director of the Company on 27 November 2012.
- (3) Mr. Chan Mo Po, Paul resigned as an independent non-executive director of the Company on 28 July 2012.
- (4) Mr. Wu Shangzhi retired as an independent non-executive director of the Company on 28 June 2012.
- (5) Mr. Hao Weimin retired as an independent non-executive director of the Company on 28 June 2012.
- (6) Mr. Wei Leping was appointed as an independent non-executive director of the Company on 28 June 2012.
- (7) Mr. Siu Wai Keung, Francis was appointed as an independent non-executive director of the Company on 28 June 2012.
- (8) Mr. Yuan Jianxing appointed other director to attend in one meeting.
- (9) Mr. Liu Aili appointed other directors to attend in three meetings.
- (10) Mr. Zhang Junan appointed other directors to attend in three meetings.
- (11) Mr. Wang Jun appointed other directors to attend in three meetings.
- (12) Mr. Chan Mo Po, Paul appointed other directors to attend one Board meeting and one committee meeting.
- (13) Mr. Zhao Chunjun appointed other director to attend in one meeting.
- (14) Mr. Wu Shangzhi appointed other directors to attend in one Board meeting and two committee meetings.
- (15) Mr. Wei Leping appointed other director to attend in one meeting.

## Director's Training

Each newly appointed director will be offered training by the Company upon the appointment, so as to ensure that they have appropriate understanding of the Company's business and they are fully aware of their duties as director under the laws and regulations. In 2012, the Company engaged external lawyers to provide the new directors with training regarding issues on directors' duties and the Listing Rules.

Since 1 April 2012, the Company distributes board memorandum to directors each month, setting out monthly updates on major business and financial position of the Company, to facilitate the directors to discharge their duties. In addition, the Company also issues latest information regarding corporate governance and directors' responsibilities under the Listing Rules and other applicable laws and regulations to the directors, to ensure their awareness of their responsibilities under the laws and regulations. All directors are 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. Directors are requested to provide their records of trainings they received in 2012 to the Company for record.

Details of trainings that the Company's directors participated in 2012 are as follows:

	<b>Attend training or seminar relevant to the Company's industry and business, director's duties and/or corporate governance</b>	<b>Give a speech at the meeting relevant to the Company's industry and business, director's duties and/or corporate governance</b>	<b>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</b>
<i>Executive Director</i>			
Li Ping (Chairman)	√	√	√
Zheng Qibao	√	√	√
Yuan Jianxing	√	√	√
Hou Rui	√	√	√
<i>Non-Executive Director</i>			
Li Zhengmao	√		√
Zhang Junan	√	√	√
<i>Independent Non-executive Director</i>			
Wang Jun	√		√
Zhao Chunjun	√	√	√
Wei Leping	√	√	√
Siu Wai Keung, Francis	√		√

## Board Committees

As an important part of sound corporate governance practice and for supervision of the overall affairs of the Company in various areas, the Board has set up the following five board committees to assist it in discharging its responsibilities: the Audit Committee, the Remuneration Committee, the Nomination Committee, the Non-competition Undertaking Review Committee and the Right of First Refusal and Priority Right Committee. All the five board committees comprise of independent non-executive directors to ensure the full expression of independent and objective views and to fulfill each of its responsibilities of the overall safeguard and supervision. The list of members of these committees is 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), Mr. Zhao Chunjun and Mr. Wei Leping. The Chairman, Mr. Siu Wai Keung, Francis holds accounting or related financial management expertise and complied with the relevant provisions of the Listing Rules. 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 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 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 2012, the Audit Committee held two meetings, mainly reviewing the resolutions of the Company for its audited financial report of 2011, interim report of 2012, 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. Zhao Chunjun and Mr. Wei Leping. According to the charter of the Remuneration Committee, meetings will be convened when needed. 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 2012, the Remuneration Committee held one meeting and also passed two written resolutions, mainly reviewing the resolutions of the second phase of share appreciation rights scheme of the Company, adjusting the exercise price and quantity of the first phase of share appreciation rights scheme of the Company, amendment of the Remuneration Committee Charter and the remuneration packages of the third session of the Board.



## **Nomination Committee**

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

In 2012, the Nomination Committee held one meeting and also passed one written resolution, mainly reviewing the resolutions of change of the term of office of the third session of the Board, including the review of the Board structure and composition. The Nomination Committee also reviewed the resolutions of amendment of the Nomination Committee Charter and recommending Mr. Li Zhengmao as the non-executive director of the Company and making their recommendations to the Board.

## **Non-Competition Undertaking Review Committee**

The Non-competition Undertaking Review Committee consists of three independent non-executive directors: Mr. Wei Leping (Chairman), Mr. Zhao Chunjun and Mr. Siu Wai Keung, Francis. 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 2012, the Non-competition Undertaking Review Committee held two meetings, at which the members of the committee mainly reviewed the implementation of the non-competition undertakings by China Telecom, the second supplementary non-competition agreement between the Company and China Telecom and made their recommendations to the Board.

The Company has received a letter issued to the Company by China Telecom stating that they were not in breach of any non-competition undertakings in 2012. 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. Wei Leping (Chairman), Mr. Zhao Chunjun and Mr. Siu Wai Keung, Francis. According to the charter of the Right of First Refusal and Priority Right Committee, meetings will be convened when needed. The Right of First Refusal and Priority Right Committee is mainly responsible for monitoring the enforcement of the right of first refusal and priority right granted by China Telecom upon the listing of the Company, and protecting the interests of independent shareholders when such right of first refusal or priority right is exercised.

In 2012, The Right of First Refusal and Priority Right Committee held one meeting, mainly reviewing the resolutions of the acquisition of equity interests and assets in relation to several telecommunications infrastructure service companies in Ningxia and Xinjiang from China Telecom and made their recommendations to the Board.

## **Independent Board Committee**

Pursuant to the requirements under the Listing Rules, the Company held an Independent Board Committee meeting on 20 September 2012, at which four 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 27 September 2012.

## Supervisory Committee

The Company has established a Supervisory Committee pursuant to the Company Law of the PRC. The Supervisory Committee consists of three members, including one chairperson, one external independent supervisor and one employee representative supervisor. On 28 June 2012, the second session of the Supervisory Committee expired. Upon the re-election at the annual general meeting on 28 June 2012, the chairperson and the external independent supervisor of the second session of the Supervisory Committee, Ms. Xia Jianghua and Mr. Hai Liancheng, continued to hold their offices in the third session of the Supervisory Committee. In addition, Mr. Yan Dong was elected by the employees as the employee representative supervisor. The terms of the supervisors are three years and the supervisors may serve consecutive terms if re-elected upon the expiry of their terms of service. The Supervisory Committee is a standing supervisory institution of the Company and is accountable and reports to all the shareholders. The Supervisory Committee normally meets at least twice a year.

The primary duties of the Supervisory Committee are to supervise the financial activities of the Group, review the financial statements and other financial information prepared and presented by the Board to the shareholders in general meetings, supervise the performance of duties of the directors and other senior management and prevent them from any abuse of power and represent the Company in dealing with the directors or initiate legal actions against the directors on behalf of the Company.

In 2012, the Supervisory Committee held three meetings, details of which are set out in the "Report of the Supervisory Committee" of this annual report.

## Amendment on the Articles of Association

During the 2011 Annual General Meeting, the shareholders of the Company approved the amendments to the Articles of Association, including the amendments of the Company's scope of business as requested by the competent PRC regulatory authority and the changes of the shareholding structure of the Company after the completion of the rights issue. 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 the daily operation of the Board and its compliance with the policy and procedure 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 "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 2012.

## Remuneration of the Auditors

The international and domestic auditors of the Company are KPMG and KPMG Huazhen (SGP), respectively. The remuneration received by the external auditors for the audit services provided to the Company during the year amounted to RMB40,085 thousand. No non-audit services were provided to the Company by the external auditors during the year.

## Internal Control

The Board of the Company is granted full authority to maintain the soundness and effectiveness of the internal control system and risk management procedures of the Group to secure the investment of the shareholders and the assets of the Group. The Group established internal control system and risk management system which conform to COSO standard, including setting management structure and its terms of reference. The purpose is to ensure efficient and effective use of the Group's resources to assist the Group in achieving its operation objectives, safeguarding the Group's assets against any unauthorized use or disposal, ensuring an appropriate maintenance of accounting records and the availability of reliable financial information for internal use or external release, and ensuring compliance of all operating activities with the relevant laws and regulations. Such control system is intended to have in place reasonable safeguards, but not an absolute guarantee, against material misrepresentation or loss, and to minimize but not eliminate any defects in the Group's operating system and the risk of failing to achieve its objectives.

The Group is committed to strengthening its internal control and risk management and has established a sound internal control foundation. The major control measures of the Group in 2012 are summarized as follows:

- Improving the system for significant decision making. Subsidiaries of various levels also established their implementation rules on "Three Major One Significant Decision Making System", which refers to major decision making, major appointment and removal of personnel, major project arrangement and significant funding operation; refining the scope of decision making, authority and procedures, to further standardize the decision making behaviors.
- Revising the internal control system. In accordance with the needs from new business development and management, the Group supplemented and improved "Internal Control Guidance of China Communications Services Corporation Limited (2012 edition)", focused on revising internal control procedures such as investment, contract management and business subcontracting.
- Strengthening internal control assessment. Subsidiaries of various levels all established internal control assessment team, focused on the assessment on key business cycles such as contract management, cash management, business subcontracting, procurement management, inventory management, sales and material delivery, revealing deficiencies on the design and implementation of internal procedures, and providing suggestion and recommendation so as to prevent material risks on internal control.
- Reinforcing the monitor and review on important business issues. Promoting integration of "Three Major One Significant Decision Making System", internal control system and meeting system; intensifying reviews on procedure and compliance of significant economic decision; promoting efficiency monitor on the key areas and steps in the operating management; strengthening internal audit review to avoid risk of compliance on accounting records.
- Keep advancing construction on internal control information management system. Combining internal control with EMOSS (Enterprise Management Operation Support System) and utilizing the information system to strengthen each control procedures; improving function of project management systems and reinforcing project control, so as to enhance the profitability and delivery capability of project; establishing contract management system and achieving overall control on business contracts; focusing on lying out the business information management system, realizing the effective management and sharing of business information, and facilitating expansion of domestic non-operator market; utilizing risk management information network to promote communication among various internal control departments, so as to increase the ability to against the risks.

The Board considers that by implementing the above measures, the Company was in compliance with the internal control requirements under C.2 of the Code Provisions and that the internal control and risk management system of the Company was effective. The Board intends to continue to further improve and enhance its internal control and risk management in 2013.

# 6 Management





- **Collaboration management**
- **Sub-contracting management**
- **Human resource management**
- **Fund management**
- **Project management**
- **Contract management**

Strengthen management over those six aspects to enhance management capability, thereby effectively bolstering synergistic management, enhancing management standard and operational efficiency.

