

# 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.

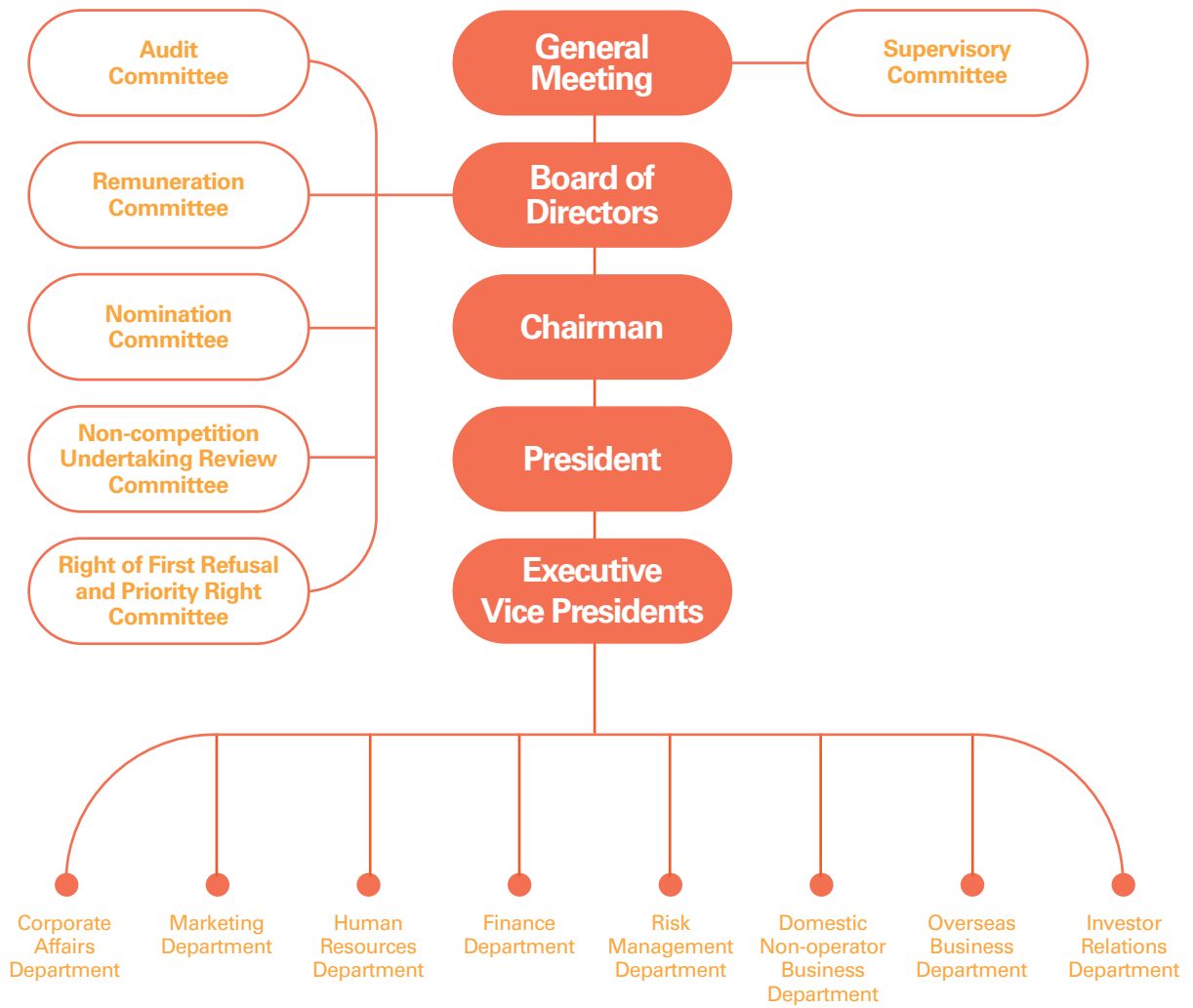
The Board is responsible for performing corporate governance duties, including developing and reviewing the Company's policies and practices on corporate governance; reviewing and monitoring the training and continuous professional development of directors and senior management; reviewing and monitoring 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 2014, 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 once again honored with "The Best Investment Value Listed Company" by *Tai Kung Pao* at the "China Securities Golden Bauhinia Awards".

Throughout the year ended 31 December 2014, the Company has complied with the code provisions as set out in the Corporate Governance Code contained in Appendix 14 of the Listing Rules.

## CORPORATE GOVERNANCE REPORT

### CORPORATE STRUCTURE OF THE COMPANY



### 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 2014.

For the first EGM of 2014, a physical meeting was held in Beijing on 21 February 2014, the resolution, including appointment of Mr. Si Furong as an executive director of the Company, was considered and approved by shareholders.

For the 2013 AGM, a physical meeting was held in Beijing on 27 June 2014, at which the resolutions, including the 2013 financial statements, profit distribution proposal and dividend declaration proposal, appointment of auditors, report of the Directors, and report of the Supervisory Committee were considered and approved by shareholders.

The above resolutions at the general meeting 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

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#### 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.

### 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](mailto:ir@chinaccs.com.hk).

## CORPORATE GOVERNANCE REPORT

### 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

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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 nine 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 four independent non-executive directors (Mr. Wang Jun, Mr. Zhao Chunjun, Mr. Wei Leping and Mr. Siu Wai Keung, Francis). 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 four independent non-executive directors, of which an independent non-executive director (Mr. Siu Wai Keung, Francis) possesses 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.

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.

Among the board members of the Company, except for Mr. Sun Kangmin, Mr. Si Furong and Mr. Li Zhengmao, the term of office of other directors, including one executive director, one non-executive director and four independent non-executive directors are all three years, commencing from the AGM on 28 June 2012 approving the third session of the Board to the 2014 AGM to be held in 2015. The directors of the Company are all eligible for re-election at the expiration of the term.

The term of office of Mr. Sun Kangmin commenced from 19 January 2015 (the date of the EGM approving his appointment) to the 2014 AGM to be held in 2015. The term of office of Mr. Si Furong commenced from 21 February 2014 (the date of the EGM approving his appointment) to the 2014 AGM to be held in 2015. The term of office of Mr. Li Zhengmao commenced from 27 November 2012 (the date of the EGM approving his appointment) to the 2014 AGM to be held in 2015.

### 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 2014, the Board held four meetings and passed one written resolution. 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 including appointment of directors.

## CORPORATE GOVERNANCE REPORT

In 2014, 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 2014 are as follows:

### Attendance in 2014/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
<i>Executive Directors</i>								
Sun Kangmin <sup>(1)</sup>	-						-	-
Si Furong <sup>(2)</sup>	4/4						1/1	-
Hou Rui	4/4						1/1	1/1
<i>Non-executive Directors</i>								
Li Zhengmao	4/4 <sup>(3)</sup>						1/1	1/1
Zhang Junan	4/4 <sup>(4)</sup>						0/1	0/1
<i>Independent Non-executive Directors</i>								
Wang Jun	4/4 <sup>(5)</sup>			1/1 <sup>(6)</sup>			1/1	0/1
Zhao Chunjun	4/4	2/2	1/1	1/1	3/3	1/1	1/1	1/1
Wei Leping	4/4 <sup>(7)</sup>	2/2	1/1	1/1	3/3	1/1	1/1	1/1
Siu Wai Keung, Francis	4/4	2/2	1/1		3/3	1/1	1/1	1/1
<i>Resigned Director</i>								
Li Ping <sup>(8)</sup>	4/4						1/1	1/1

(1) Mr. Sun Kangmin was appointed as an executive director of the Company and the Chairman of the Board on 19 January 2015.

(2) Mr. Si Furong was appointed as an executive director of the Company on 21 February 2014.

(3) Mr. Li Zhengmao appointed another director to attend one meeting.

(4) Mr. Zhang Junan appointed other directors to attend three meetings.

(5) Mr. Wang Jun appointed other directors to attend three meetings.

(6) Mr. Wang Jun appointed another director to attend one meeting.

(7) Mr. Wei Leping appointed another director to attend one meeting.

(8) Mr. Li Ping resigned as the Chairman and an executive director of the Company on 19 January 2015.

## 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. 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. 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 2014, the training records of the directors of the Company were 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 Directors</i>			
Sun Kangmin <sup>(1)</sup>	–	–	–
Si Furong	√	√	√
Hou Rui	√	√	√
<i>Non-Executive Directors</i>			
Li Zhengmao	√	√	√
Zhang Junan	√	√	√
<i>Independent Non-executive Directors</i>			
Wang Jun			√
Zhao Chunjun	√		
Wei Leping	√	√	√
Siu Wai Keung, Francis	√	√	√
<i>Resigned Director</i>			
Li Ping	√	√	√

<sup>(1)</sup> Mr. Sun Kangmin was appointed as an executive director of the Company and the Chairman of the Board on 19 January 2015.

### 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. Wei Leping. 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.

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In 2014, the Audit Committee held two meetings, mainly reviewing the resolutions of the Company for its audited financial report of 2013, interim report of 2014, 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. 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 2014, the Remuneration Committee held one meeting, mainly reviewing the resolutions of adjusting the exercise price of share appreciation rights scheme of the Company.

#### 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 reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board annually.

In 2014, the Nomination Committee held one meeting, mainly reviewing the resolutions including the review of the Board structure and composition, and recommending Mr. Sun Kangmin as an 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 2014, the Non-competition Undertaking Review Committee held three meetings, mainly reviewing the implementation of the non-competition undertakings by China Telecom, and the implementation of the non-competition undertakings pursuant to the participation in the establishment of China Communications Facilities Services Corporation Limited (now known as "China Tower Corporation Limited") by China Telecom Corporation Limited, 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 2014. 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. 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 2014, the Right of First Refusal and Priority Right Committee held one meeting, mainly reviewing the issue of right of first refusal in relation to the participation in the establishment of China Communications Facilities Services Corporation Limited by China Telecom Corporation Limited, and making their recommendations to the Board.

### 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. In 2014, the Company did not have any transaction requiring independent shareholder's approving and therefore the Independent Board Committee did not hold any meeting.

### Supervisory Committee

The Company established a Supervisory Committee pursuant to the PRC Company Law. The Supervisory Committee consists of three members: Ms. Xia Jianghua (the chairperson), Mr. Hai Liancheng (the external independent supervisor) and Mr. Si Jianfei (the employee representative supervisor). Except for Mr. Si Jianfei, the term of service of the supervisors are three years, commencing from the AGM on 28 June 2012 approving the third session of the Supervisory Committee to the 2014 AGM to be held in 2015, and the supervisors may serve consecutive terms if re-elected upon the expiry of their terms of service. The term of service of Mr. Si Jianfei commenced from 18 June 2013 (the date of the election) to the 2014 AGM to be held in 2015. 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.

## CORPORATE GOVERNANCE REPORT

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 2014, the Supervisory Committee held two meetings, details of which are set out in the "Report of the Supervisory Committee" of this annual report.

### AMENDMENT(S) TO THE ARTICLES OF ASSOCIATION

The Articles of Association of the Company do not have any material changes during 2014.

### 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 2014.

### REMUNERATION OF THE AUDITORS

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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 two 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 RMB33,800 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 95 to 96 of this annual report.

### INTERNAL CONTROL

The Board of the Company is granted full authority to maintain the soundness and effectiveness of the internal control system 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 2014 are summarized as follows:

- Reinforcing internal audit to identify and fix the loopholes in management: The Group focused on unexpected cases in operation and management activities, operation procedures and business structure to strengthen internal audit. It also placed emphasis on the application and conversion of audit results to improve management and to fix loopholes in management.
- Strengthening the rectification and supervision of the problems found. The Group reviewed all the issues identified in internal and external audits and inspections over the years and conducted special inspections on the rectification works of all companies in the Group to ensure the effectiveness of inspections.
- Strengthening internal control assessment: The Group organized subsidiaries of various levels to carry out an assessment on the effectiveness of the design and implementation of internal control system, which focus on the key businesses cycles such as contract management, cost control, cash management, business subcontracting, procurement management, inventory management, sales and engineering, construction and supervision, revealing deficiencies on the design and implementation of internal control procedures and providing suggestions and recommendations so as to prevent material risks on internal control.

The Board considers the Company was in compliance with the internal control requirements under C.2 of the Code Provisions and the internal control and risk management system of the Company was effective. The Board intends to further improve and enhance the Company's internal control and risk management in 2015.