

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

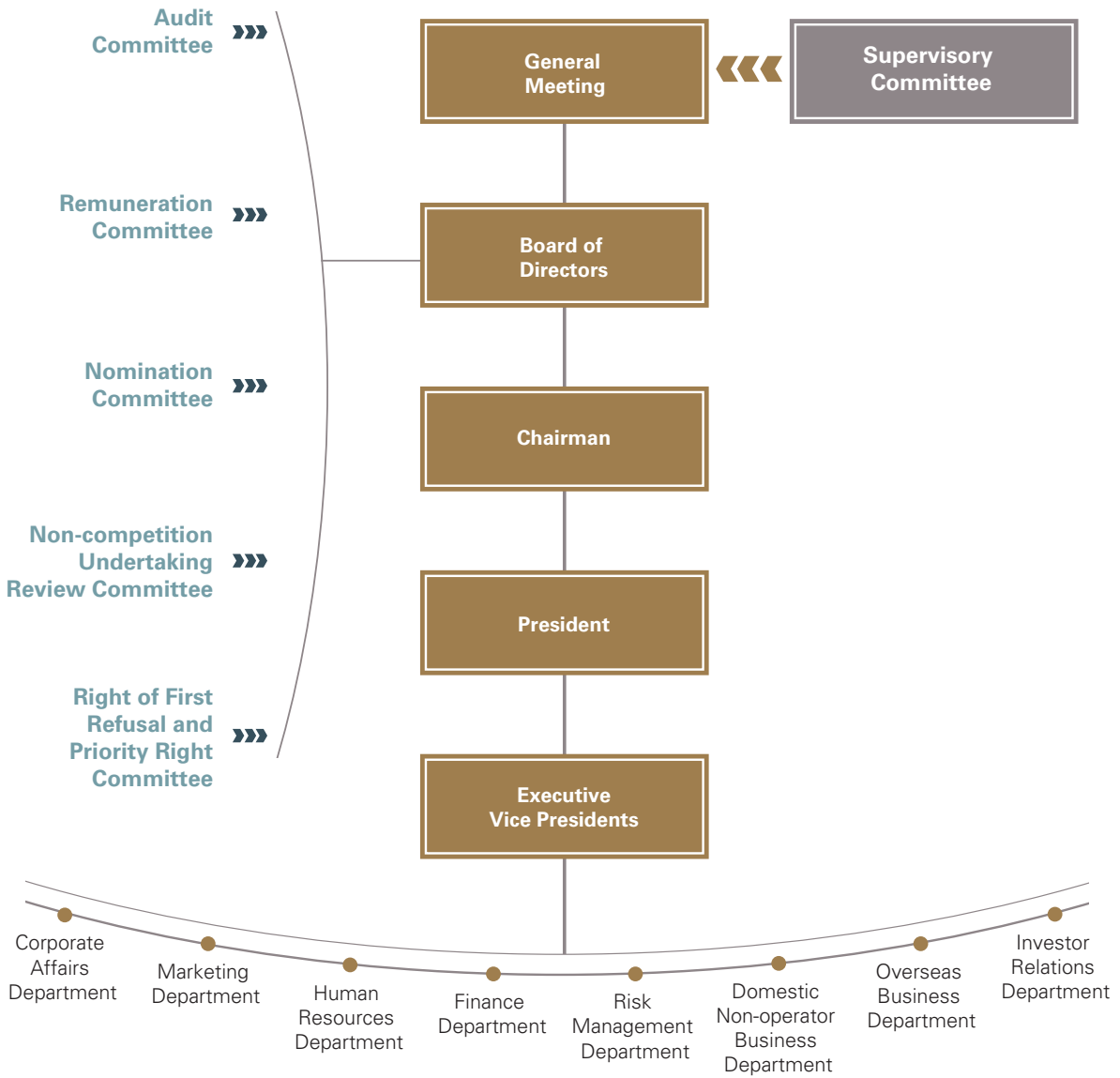
As a company incorporated in the PRC and listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company has not only complied with the relevant provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), but also 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 systems 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 as well as 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 for its sound corporate governance over the years. In 2016, the Company was awarded The Best of Asia – "Icon on Corporate Governance" and "Asian Corporate Director" by *Corporate Governance Asia*. Moreover, the Company was awarded for the first time the "Platinum Award – Excellence in Governance, CSR & Investor Relations" by *The Asset*.

Throughout the year ended 31 December 2016, the Company has complied with the code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules.

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 will be proposed for consideration in respect of each independent matter. The details of the voting procedures will be set out in the notices of the general meetings in accordance with the provisions of the Articles of Association and the Listing Rules. In accordance with the Listing Rules, all the resolutions were voted by poll in the general meeting held in 2016.

For the 2015 AGM, a physical meeting was held in Beijing on 24 June 2016, at which the resolutions, including the 2015 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 Mr. Liu Linfei as an independent non-executive director of the Company were considered and approved by shareholders. Shareholders and authorized proxies representing 82.5% of the total voting shares of the Company were present at the AGM, and the percentage of votes cast in favour of each resolution was over 80%.

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

SHAREHOLDERS' RIGHTS TO CONVENE GENERAL MEETINGS AND SUBMIT PROPOSALS AT GENERAL MEETINGS

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 requisition(s) 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.

COMMUNICATION WITH SHAREHOLDERS

The Board has 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.

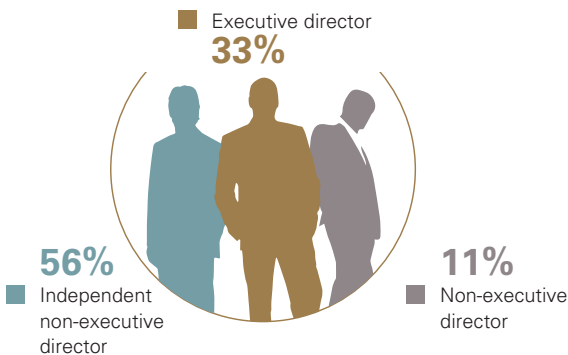
CHAIRMAN AND PRESIDENT

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

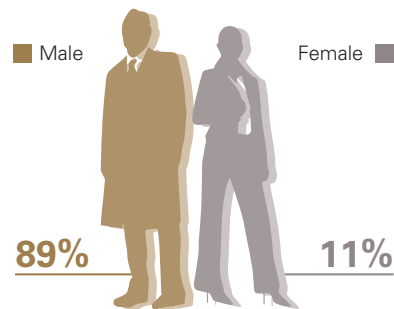
COMPOSITION OF THE BOARD

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), one non-executive director (Mr. Li Zhengmao) and five independent non-executive directors (Mr. Zhao Chunjun, Mr. Siu Wai Keung, Francis, Mr. Lv Tingjie, Mr. Wu Taishi and Mr. Liu Linfei).

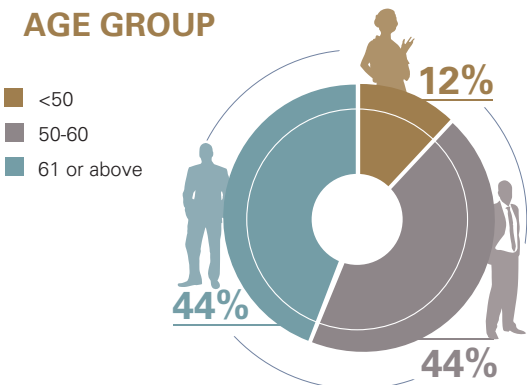
COMPOSITION



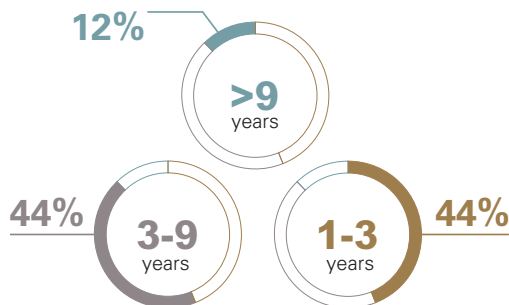
GENDER



AGE GROUP



YEARS OF SERVICES IN THE BOARD



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, professional experience, gender and age. The Board comprises professionals with diversified backgrounds including telecommunications industry, finance, legal, management and academics. The Nomination Committee

of the Board will also review the Board structure at least annually. 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.

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 has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules to govern securities transactions by the directors and supervisors of the Company. The Company has made specific enquiries to the directors and supervisors, and each of the directors and supervisors has confirmed his/her compliance with the Model Code in connection with the transactions of the Company’s securities in the reporting period.

APPOINTMENT OF DIRECTORS

The Company follows a formal, considered and transparent procedure for the appointments of new directors. The Nomination Committee of the Board first considers and discusses the nomination and appointment of a new director, and also considers the board diversity policy and 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. If an independent non-executive director serves more than 9 years in the Company, his further appointment should be subject to a separate resolution to be approved by shareholders. The papers to shareholders accompanying that resolution should include the reasons why the Board believes he is still independent and should be re-elected.

Among the board members of the Company, except for Mr. Liu Linfei, the term of office of other directors are all three years, commencing from the AGM on 26 June 2015 approving the fourth session of the Board to the 2017 AGM to be held in 2018. The term of office of Mr. Liu Linfei commenced from 24 June 2016 (the date of the AGM approving his appointment) to the 2017 AGM to be held in 2018. The directors of the Company are all eligible for re-election at the expiration of the term.

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 are 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 2016, 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, ESG report and budget, the Board also considered the resolutions regarding the appointment of a director, remuneration package of a director and amendment to the Audit Committee Charter. Meanwhile, in the agenda of approving director remuneration, any director with conflicts of interests on his own remuneration also abstained from voting.

In 2016, 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 2016 are as follows:

Attendance in 2016/Meeting convened during period of appointment

	Board of Directors	Audit Committee	Remuneration Committee	Nomination Committee	Non- competition Undertaking Review Committee	AGM
Executive Directors						
Sun Kangmin	4/4	–	–	–	–	1/1
Si Furong	4/4	–	–	–	–	0/1
Hou Rui	4/4	–	–	–	–	1/1
Non-executive Director						
Li Zhengmao	4/4 ⁽¹⁾	–	–	–	–	0/1
Independent Non-executive Directors						
Zhao Chunjun	4/4	1/1	–	1/1	1/1	1/1
Siu Wai Keung, Francis	4/4 ⁽²⁾	2/2	1/1	–	1/1	1/1
Lv Tingjie	4/4 ⁽³⁾	2/2 ⁽³⁾	1/1	1/1	2/2 ⁽³⁾	1/1
Wu Taishi	4/4 ⁽⁴⁾	1/1	1/1 ⁽⁴⁾	1/1 ⁽⁴⁾	1/1 ⁽⁴⁾	1/1
Liu Linfei ⁽⁵⁾	2/2	–	–	–	1/1	–
Resigned Directors						
Wang Jun ⁽⁶⁾	2/2 ⁽⁷⁾	–	–	–	–	–
Zhang Junan ⁽⁸⁾	4/4 ⁽⁹⁾	–	–	–	–	0/1

Notes:

- (1) Mr. Li Zhengmao appointed other directors to attend two meetings.
- (2) Mr. Siu Wai Keung, Francis appointed another director to attend one meeting.
- (3) Mr. Lv Tingjie appointed another director to attend one meeting.
- (4) Mr. Wu Taishi appointed another director to attend one meeting.
- (5) Mr. Liu Linfei was appointed as an independent non-executive director of the Company with effect from 24 June 2016.
- (6) Mr. Wang Jun resigned as an independent non-executive director of the Company on 24 June 2016.
- (7) Mr. Wang Jun appointed other directors to attend two meetings.
- (8) Mr. Zhang Junan resigned as a non-executive director of the Company on 10 March 2017.
- (9) Mr. Zhang Junan appointed other directors to attend four meetings.

DIRECTOR'S TRAINING

Newly appointed directors will receive trainings provided 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 directors under the laws and regulations. The Company engaged external lawyers to provide the new directors appointed during the reporting period with trainings 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 2016, 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 Director			
Li Zhengmao	✓	–	✓
Independent Non-executive Directors			
Zhao Chunjun	–	✓	✓
Siu Wai Keung, Francis	✓	✓	✓
Lv Tingjie	–	✓	✓
Wu Taishi	✓	✓	✓
Liu Linfei	✓	–	✓

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 each committee 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. Lv Tingjie and Mr. Liu Linfei. 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, overseeing the execution of the connected transactions, and also listening to the external auditor's audit memorandum. 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 2016, the Audit Committee held two meetings and passed one written resolution, mainly reviewing the resolutions of the Company for the amendment to the Audit Committee Charter, the audited financial report of the Company of 2015, interim report of 2016, 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. Wu Taishi (Chairman), Mr. Siu Wai Keung, Francis and Mr. Lv Tingjie. 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 2016, 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 a director of the Company.

Nomination Committee

The Nomination Committee consists of three independent non-executive directors: Mr. Zhao Chunjun (Chairman), Mr. Wu Taishi and Mr. Liu Linfei. 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 professional experience) of the Board annually.

In 2016, the Nomination Committee held one meeting, mainly reviewing the Board structure and composition, as well as the resolution of recommending Mr. Liu Linfei as an independent non-executive director of the Company and making their recommendations to the Board. Based on the background and extensive legal experience of Mr. Liu Linfei, his appointment was in line with the Company's board diversity policy and enhanced the Board's overall performance.

Non-Competition Undertaking Review Committee

The Non-competition Undertaking Review Committee consists of three independent non-executive directors: Mr. Lv Tingjie (Chairman), Mr. Siu Wai Keung, Francis and Mr. Liu Linfei. The Non-competition Undertaking Review Committee is mainly responsible for monitoring the implementation of the non-competition undertakings given by China Telecom to the Company.

In 2016, 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 2016. 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. Liu Linfei (Chairman), Mr. Siu Wai Keung, Francis and Mr. Wu Taishi. 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 2016, the Right of First Refusal and Priority Right 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. 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, commencing from the AGM on 26 June 2015 approving the fourth session of the Supervisory Committee to the 2017 AGM to be held in 2018. 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 general meeting approving her appointment) 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 2016, the Supervisory Committee held two meetings, details of which are set out in the "Report of the Supervisory Committee" of this annual report.

AMENDMENTS TO THE ARTICLES OF ASSOCIATION

There were no material changes to the Articles of Association of the Company during 2016.

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 2016.

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 four 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 RMB35,100 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, and 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 99 to 102 of this annual report.

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 and 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 its business targets and safeguard its assets, with a view to preventing unauthorized utilization or treatment of the resources of the Company, securing appropriate accounting records to 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.

With the refinement of a decade's 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 2016, the Company took into account the requirements of Rule C.2 of the Corporate Governance Code of the Stock Exchange and continued to strengthen the identification, classification and assessment and control of risks, without any material risk issue during the year. After strict identification and assessment and analysis of risks, the Company conducted initial assessment on the potential risks that the Company may be exposed to in 2017, such as market risks and financial risks, and proposed practicable corresponding solutions. Since 2006, the Company has formulated the internal control guidelines, internal control assessment rules and other systems based on the COSO internal control framework. Over the years, the Company has strived to improve the systems related to internal control and risk management in light of the changes in internal and external operating environments and business development requirements.

The risk management department of the Company has established an internal audit division. In 2016, the Company further strengthened audit supervision, and attached importance to the utilization of the results of audit, so as to foster management improvement and to prevent loophole. The above work 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 the daily risk management and internal control of the Company, and providing objective report to the Audit Committee and the Board to ensure that the Board and the management will maintain and operate proper risk management and internal control system in accordance with the pre-determined procedures and standards.

The Company has formulated guidelines on information disclosure management to regulate the disclosure of the periodical result announcements, sensitive information and other important information of the Company and to make proper disclosure in accordance with the requirements of the Stock Exchange. The Company has established a progressive accountability, verification and reviewing system, to ensure the truthfulness, accuracy and timeliness of information disclosure. The Company will appoint external independent advisors, such as legal advisors, for reviewing and verifying when necessary. The vice general managers and the Company Secretary of the Company are responsible for coordinating and organizing information disclosure to ensure the compliance of the information disclosure. The Company Secretary is responsible for the daily management of information disclosure, including the disclosure of inside information. The Company also has the Office of the Board to assist in the detailed work regarding information disclosure.

In order to fulfil the requirements of the Hong Kong Stock Exchange, to ensure connected transactions are carried out according to the pricing policy or mechanism under the framework agreements and to regulate and enhance the management of connected transactions, the Company has formulated the Administrative Measures on Connected Transactions of China Communications Services Corporation Limited. The Company enters into a connected transaction agreement with China Telecommunications Corporation and applies for the annual caps of connected transactions every three years. At the end of each year, the Company evaluates the connected transactions entered into in each province in the previous year. The risk identification and control targets for connected transactions formulated by the Company are set out in the internal control manual. A series of internal control procedures have been established in respect of the submission, confirmation and delivery of budgets for connected transactions, signing and execution of contracts, implementation of internal control, data verification, accounting, reconciliation with connected parties, verification of information disclosure and information disclosure.

Annual Risk Management and Internal Control Assessment

The Company continues to focus on strengthening internal control and risk management and has sound internal control and management systems in place. The main internal control and risk management measures of the Company in 2016 are summarized as below:

In 2016, the internal audit division of the Company took the lead in organizing self-assessment for internal control within the whole Group. Based on comprehensive assessment, the self-assessment exercise for internal control focuses on the assessment of key control aspects and control points identified after the risk identification, including contract management, subcontracting management, cash management and inventory management. According to its actual needs, the Company carried out a special self-assessment which covered all of its subsidiaries.

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

After the completion of the assessment, the Company focused on prevention of material risks, and reviewed and examined the design and implementation of its internal control and risk management systems. The Company also formulated practical and effective rectification measures in relation to defects identified during the self-assessment.

The Board continued to monitor and supervise the risk management and internal control systems of the Company through the Audit Committee, and conducted an annual review on the risk management and internal control systems of the Company and its subsidiaries for the financial year ended 31 December 2016. After receiving the report from the internal audit division as to the effectiveness of the relevant systems and the relevant confirmation from the management to the Board, the Board considered that the risk management and internal control systems of the Company were stable, healthy, proper, effective and adequate, and has satisfied the requirements under Rule C.2 of the Corporate Governance Code of the Stock Exchange regarding risk management and internal control.