

# CORPORATE GOVERNANCE REPORT



## CORPORATE GOVERNANCE PRACTICES

The Corporate Governance Code (the “Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) provides for code provisions (the “Code Provisions”) and recommended best practices with respect to (i) Directors, (ii) remuneration of Directors and senior management and evaluation of the Board of Directors (the “Board”), (iii) accountability and audit, (iv) delegation by the Board, (v) communication with shareholders and (vi) company secretary.

The Board is responsible for performing overall corporate governance duties, in which the Chairman has the primary responsibility for ensuring that good corporate governance practices and procedures are established. The Company has adopted a Corporate Governance Policy which sets out the key terms of reference of the Board on corporate governance functions, including, amongst others, developing and reviewing the Corporate Governance Policy and corporate governance practices of the Company; reviewing and monitoring the training and continuous professional development of Directors and senior management; reviewing and monitoring the Company’s media enquiry policies and practices on 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 Code.



Other than the disclosures made in the section headed “(1) Board of Directors” below, the Company confirms that for the year ended 31 December 2015, it complied with all the Code Provisions.

## **(1) Board of Directors**

To serve the best interests of the Company and its shareholders, the Board is responsible for reviewing and approving major corporate matters, including, amongst others, business strategies and budgets, major investments, capital market operations, as well as mergers and acquisitions. The Board is also responsible for monitoring internal control, reviewing and approving the announcements periodically published by the Company regarding its business results and operating activities.

The Board membership maintains wide representation. Members of the Board consist of outstanding individuals from different professions in Mainland China, Hong Kong and overseas. As at 31 December 2015, the Board comprises 9 directors, including four executive directors, one non-executive director and four independent non-executive directors. One of the Board members is female. The Board is well diversified and its composition reflects a number of factors, including professional knowledge, skills, experience and diversity of perspectives which are appropriate to the Company’s business model and specific needs. Particulars of the Directors are set out on pages 28 to 32 of this annual report. The Board has a policy concerning diversity of board members. Further information on the board diversity policy is set out on page 42 of this annual report.

Mr. Wang Xiaochu serves as Chairman and Chief Executive Officer (the “CEO”) of the Company. Mr. Lu Yimin serves as President of the Company. Mr. Wang Xiaochu is responsible for chairing the Board and for all material affairs, including business development, strategy and operation and management, of the Company. Mr. Lu Yimin is responsible for the daily operation and management of the Company.

Under Code Provision A.2.1, the roles and responsibilities of the chairman and the chief executive should be separate and should not be performed by the same individual. The Board acknowledges that the principle of Code Provision A.2.1 is to clearly separate the management of the Board from the daily management of the Company so as to ensure balance of power and authority. The Board believes that at the present stage, Mr. Wang Xiaochu and Mr. Lu Yimin have achieved the aforesaid principle of separation of responsibilities. These arrangements also facilitate the formulation and implementation of the Company’s strategies in a more effective manner so as to support the effective development of the Company’s business.

All non-executive director(s) and independent non-executive directors of the Company are influential members of society and possess good knowledge and experience in different areas. They have been making positive contributions to the development of the Company’s strategies and policies through independent, constructive and informed comments. They have kept close contact with management and often actively express different opinions on matters relating to shareholders and the capital market at board meetings. These views and opinions facilitate the Board in their consideration of the shareholders’ best interests. All independent non-executive directors, except for their equity interests and remuneration disclosed in this annual report, do not have any business with or financial interests in the Company, its holding company or subsidiaries, and have confirmed their independence to the Company. The functions of non-executive director(s) and independent non-executive directors include, amongst other things, attending board meetings, exercising independent judgements at meetings, playing a leading role in resolving any potential conflicts of interest, serving on committees by invitation and carefully examining whether the performance of the Company has reached the planned corporate targets and objectives, and monitoring and reporting on matters relating to the performance of the Company.



With respect to the nomination and appointment of new Directors and senior management members, the Nomination Committee would, after considering the Company's need for new Directors and/or senior management members, identify a wide range of candidates from within the Company and the human resources market and make recommendations to the Board. The Nomination Committee will consider candidates on merit against objective criteria and with due regard to the benefits of diversity on the Board. After having obtained the consent from candidates in relation to the relevant nomination and based on the Company's actual needs, the Board would convene a meeting, attendees of which include independent non-executive directors and non-executive directors, to consider the qualifications of the candidates. Under Code Provision A.4.1, non-executive directors shall be appointed for a specific term, subject to re-election. The Company's non-executive directors are not appointed for a specific term but are subject to retirement by rotation at general meetings and re-election by shareholders pursuant to the Company's articles of association (the "Articles of Association"). All Directors of the Company are subject to retirement by rotation at least once every three years.

Every newly appointed Director is provided with a comprehensive, formal and tailored induction on appointment, and would subsequently receive any briefing and professional development necessary to ensure that he/she has proper understanding of the Company's operations and businesses, full understanding of his/her responsibilities under statute and common law, the Listing Rules, applicable legal and regulatory requirements, and the Company's business and corporate governance policies. Furthermore, formal letters of appointment setting out the key terms and conditions of the Directors' appointment will be duly prepared.

Directors' training is an ongoing process. The Company regularly invites various professionals to provide trainings on the latest changes and development of the legal and regulatory requirements as well as the market and/or industrial environment to Directors.

In 2015, the Directors as at 31 December 2015 have participated in training and continuous professional development activities and the summary is as follows:

	Types of training
<b>Executive Director</b>	
Wang Xiaochu (Chairman)	A, B
Lu Yimin	A, B
Li Fushen	A, B
Zhang Junan	A, B
<b>Non-Executive Director</b>	
Cesareo Alierta Izuel	A, B
<b>Independent Non-Executive Director</b>	
Cheung Wing Lam Linus	A, B
Wong Wai Ming	A, B
Chung Shui Ming Timpson	A, B
Law Fan Chiu Fun Fanny	A, B

A: attending relevant seminars and/or conferences and/or forums; delivering speeches at relevant seminars and/or conferences and/or forums

B: reading or writing relevant newspapers, journals and articles relating to general economy, general business, telecommunications, corporate governance or directors' duties



The remuneration package for executive directors includes salary and performance-linked annual bonuses. The remuneration of executive directors is determined by reference to their respective duties and responsibilities in the Company, their respective experience, prevailing market conditions and applicable regulatory requirements while the award of the performance-linked annual bonuses is tied to the attainment of key performance indicators or targets set by the Company. The remuneration of non-executive directors is determined by reference to prevailing market conditions and their respective workload from serving as non-executive directors and members of the board committees of the Company. The Company also adopted share option schemes for the purpose of providing long term incentives to eligible participants, including Directors (details of such share option schemes are set out in the paragraph headed "Share Option Schemes of the Company" on pages 54 to 57 of this annual report). The remuneration for each Director and the remuneration of senior management by band are disclosed on pages 147 to 149 of this annual report. In addition to the remuneration, the Company has arranged appropriate insurance coverage in respect of legal action against the Directors.

The Board has provided clear guidelines for delegation of powers and responsibilities to management. However, certain important matters must be decided only by the Board, including, but not limited to, long-term objectives and strategies, annual budget, initial announcements on quarterly, interim and final results, dividends, major investments, equity-related capital market operations, mergers and acquisitions, major connected transactions and annual internal control evaluation. The arrangements on delegation of powers and responsibilities to management are reviewed by the Board periodically to ensure that they remain appropriate to the needs of the Company.

The Board convenes meetings regularly and all Directors have adequate opportunity to be present at the meetings and to include issues for discussion in the meeting agenda. Notices of regular board meetings are delivered to the Directors at least 14 days in advance of the meetings. The Company delivers, on a best endeavour basis, all documents for regular board meetings to the Directors at least one week prior to the meetings (and ensures that all documents are delivered to the Directors no less than three days prior to the regular meetings as required by the Code Provisions).

The Company Secretary, being an employee of the Company, has day-to-day knowledge of the Company's affairs and reports to the Chairman of the Board. He keeps close contact with all Directors and ensures that the operation of the Board and all board committees is in compliance with the procedures as set forth in the Articles of Association and the charters of the board committees. Additionally, the Company Secretary is responsible for compiling and regularly submitting draft minutes of board meetings and committee meetings to the Directors and committee members for their comment, and final versions of minutes for their records, within a reasonable time after the relevant meetings. Each Director may obtain advice from and the services of the Company Secretary to ensure that board procedures, and all applicable rules and regulations, are followed. Physical board meetings will be held for the selection, appointment or dismissal of the Company Secretary. To ensure the possession of up-to-date knowledge and market information to perform his duties, the Company Secretary attended sufficient professional training in 2015.

The Directors may, upon request, obtain independent professional advice at the expense of the Company. In addition, if any substantial shareholder of the Company or any Directors has significant conflicts of interest in a matter to be resolved, the Board will convene a board meeting in respect of such matter and those Directors who have conflicts of interest must abstain from voting and will not be counted in the quorum of the meeting.

All Directors are required to devote sufficient time and attention to the affairs of the Company. A culture of openness and debate are promoted in the Board and the Directors are encouraged to express their views and concerns. Senior management holds formal and informal meetings with all Directors from time to time to provide sufficient and timely information so that the Directors can make informed decisions. Besides formal board meetings, the Chairman also meets annually with non-executive Directors and independent non-executive Directors, without the presence of the executive Directors, which further promotes the exchange of different views and opinions. In order to ensure that all Directors have appropriate knowledge of the matters discussed at the meetings, adequate, accurate, clear, complete and reliable information regarding those matters is provided in advance and in a timely manner, and all Directors have the right to inspect documents and information in relation to matters to be decided by the Board. The Directors have frequently visited various branches in Mainland China to gain better understanding of the Company's daily operations. In addition, the Company has arranged relevant trainings for the Directors (which include

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training sessions conducted by professional advisers, such as lawyers and accountants, from time to time) in order to broaden their knowledge in the relevant areas and to improve their understanding of the Company's business and the latest operational technologies. The Board also conducts annual evaluation of its performance. Such efforts have improved the corporate governance of the Company.

In 2015, the Board held six full board meetings for, amongst other things, discussion and approval of important matters such as the 2014 annual results, the 2014 Form 20-F, the 2015 annual budget, the 2015 interim results, the first and third quarter results for 2015, reports on risk management and internal control, the appointment of executive director of the Company as well as the disposal of assets to China Tower Corporation Limited.

Set forth below is an overview of the attendance during the year by the Board members at various meetings:

	Meetings Attended/Held				
	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting	Nomination Committee Meeting	Shareholders Meeting
<b>Executive Director</b>					
Wang Xiaochu (Chairman) <sup>3</sup>	2/2	N/A	N/A	0/0	0/0
Lu Yimin	4/6	N/A	N/A	N/A	1/1
Li Fushen	5/6	N/A	N/A	N/A	1/1
Zhang Junan	5/6	N/A	N/A	N/A	1/1
Chang Xiaobing <sup>2</sup>	2/3	N/A	N/A	1/1	1/1
<b>Non-Executive Director</b>					
Cesareo Alierta Izuel	0/6	N/A	N/A	N/A	0/1
<b>Independent Non-Executive Director</b>					
Cheung Wing Lam Linus	6/6	4/4	1/1	N/A	1/1
Wong Wai Ming	5/6	4/4	1/1	N/A	0/1
Chung Shui Ming Timpson	6/6	4/4	1/1	2/2	1/1
Law Fan Chiu Fun Fanny	5/6	4/4	N/A	N/A	1/1
John Lawson Thornton <sup>1</sup>	0/1	0/1	0/1	0/1	0/0
Cai Hongbin <sup>4</sup>	4/6	3/4	1/1	2/2	1/1

Note 1: On 4 March 2015, Mr. John Lawson Thornton resigned as independent non-executive director of the Company.

Note 2: On 24 August 2015, Mr. Chang Xiaobing resigned as executive director of the Company.

Note 3: On 1 September 2015, Mr. Wang Xiaochu was appointed as executive director of the Company.

Note 4: On 25 November 2015, Mr. Cai Hongbin resigned as independent non-executive director of the Company.

Note 5: Certain directors (including independent non-executive directors) did not attend the Annual General Meeting and some of the meetings of the Board and committees due to other business commitments or being overseas.

All directors performed their fiduciary duties and devoted sufficient time and attention to the affairs of the Company. The Board works effectively and performs its responsibilities efficiently with all key and appropriate issues being discussed and approved in a timely manner.



## (2) Committees under the Board

The Company has established three committees under the Board, the Audit Committee, the Remuneration Committee and the Nomination Committee. Each committee has a written charter, which is available on the websites of the Company and the The Stock Exchange of Hong Kong Limited (“Hong Kong Stock Exchange”). From time to time as required by the Listing Rules, the Board also establishes Independent Board Committee for the purpose of advising and providing voting recommendations to independent shareholders on connected transactions and transactions subject to independent shareholders approval entered into by the Company and/or its subsidiaries. The committees are provided with sufficient resources, including, amongst others, obtaining independent professional advice at the expense of the Company, to perform its duties. The committees report their decisions or recommendations to the Board after meetings.

### (a) Audit Committee

#### *Composition*

As at 31 December 2015, the Audit Committee comprises Mr. Wong Wai Ming, Mr. Cheung Wing Lam Linus, Mr. Chung Shui Ming Timpson and Mrs. Law Fan Chiu Fun Fanny, all being independent non-executive directors of the Company. The Chairman of the Audit Committee is Mr. Wong Wai Ming. All members of the Audit Committee have satisfied the “independence” requirements in relation to an Audit Committee member under applicable laws, regulations and rules. The Chairman of the Audit Committee is an accountant with expertise and experience in accounting and financial management. Another member of the Audit Committee is also an accountant with extensive accounting professional experience.

#### *Major Responsibilities*

The major responsibilities of the Audit Committee include: as the key representative body, overseeing the Company’s relationship with the independent auditor, considering and approving the appointment, resignation and removal of the independent auditor; pre-approval of services and fees to be provided by the independent auditor based on the established pre-approval framework; supervising the independent auditor and determining the potential impact of non-audit services on such auditor’s independence; reviewing quarterly and interim financial information as well as annual financial statements; coordinating and discussing with the independent auditor with respect to any issues identified and recommendations made during the audits; reviewing correspondences from the independent auditor to the management and responses of the management; discussing the risk management and internal control system with the management as well as reviewing the reports on the risk management and internal control procedures of the Company.

#### *Work Completed in 2015*

The Audit Committee meets at least four times each year, and assists the Board in its review of the financial statements to ensure effective risk management and internal control as well as efficient audit.



The Audit Committee held four meetings in 2015 for, amongst other things, discussion and approval of the 2014 annual results, the 2014 Form 20-F, the 2015 interim results, and the first and third quarter results for 2015. In addition, the Audit Committee approved in the meetings the report on risk management, the report on internal audit and internal control; the re-appointment, the audit fees and the audit plans of the independent auditor as well as the non-audit services provided by the independent auditor in 2015.

The Audit Committee has performed its duties effectively, and enabled the Board to better monitor the financial condition of the Company, supervise the risk management and internal control of the Company, ensure the integrity and reliability of the financial statements of the Company, prevent significant errors in the financial statements and ensure the Company's compliance with the relevant requirements of the Listing Rules, the U.S. federal securities regulations and the New York Stock Exchange listing standards with respect to audit committee.

## **(b) Remuneration Committee**

### *Composition*

As at 31 December 2015, the Remuneration Committee comprises Mr. Cheung Wing Lam Linus, Mr. Wong Wai Ming and Mr. Chung Shui Ming Timpson, all being independent non-executive directors of the Company. The Chairman of the Remuneration Committee is Mr. Cheung Wing Lam Linus.

### *Major Responsibilities*

The major responsibilities of the Remuneration Committee include: considering and approving the remuneration policies and structure for Directors' and senior management's remuneration; considering and making recommendation to the Board on the remuneration packages of Directors and senior management; and considering and approving the Company's share option schemes. The Remuneration Committee conducts performance review of the CEO and determines the CEO's year-end bonus pursuant to the performance target contract entered into between the Board and the CEO. The CEO is responsible for the performance review and determination of performance-based year-end bonuses for the other members of the Company's management, which is subject to the review of the Remuneration Committee. In addition, the Remuneration Committee consults the Chairman on the remuneration proposals for other executive directors.

### *Work Completed in 2015*

The Remuneration Committee meets at least once a year.

The Remuneration Committee held one meeting in 2015 for, amongst other things, discussion and approval of the 2014 appraisal report and the 2015 performance contract of the CEO and bonus for senior management for 2014.

The Remuneration Committee has performed its duties effectively on reviewing and approving the remuneration packages, especially the performance-based remunerations for the CEO, as well as making recommendations to the Board with regards to the remuneration packages for senior management.



## (c) **Nomination Committee**

### *Composition*

As of the date of this report, the Nomination Committee comprises Mr. Chung Shui Ming Timpson, Mr. Wang Xiaochu and Mrs. Law Fan Chiu Fun Fanny. Except for Mr. Wang Xiaochu, who is the Chairman and CEO of the Company, Mr. Chung Shui Ming Timpson and Mrs. Law Fan Chiu Fun Fanny are independent non-executive directors of the Company. The Chairman of the Nomination Committee is Mr. Chung Shui Ming Timpson.

### *Major Responsibilities*

The major responsibilities of the Nomination Committee include: reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and making recommendations on any proposed changes to the Board to complement the corporate strategy of the Company; identifying individuals suitably qualified to become Board members and selecting or making recommendations to the Board; formulating, reviewing and implementing the board diversity policy; assessing the independence of independent non-executive directors; making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors; giving its opinion to the Board on candidates of the senior management nominated by the CEO and on changes to the senior management of the Company.

### *Work Completed in 2015*

The Nomination Committee meets at least once a year.

The Nomination Committee held two meetings in 2015 for, amongst other things, reviewing the structure, size and composition of the Board, assessment of the independence of independent non-executive directors, making recommendations to the Board on the proposed re-election of Directors and giving option to the Board on appointment of executive director.

The Company has had a policy concerning diversity of board members. The Company recognises and embraces the benefits of having a diverse Board, and notes increasing diversity at Board level as an essential element in maintaining a competitive advantage. All Board appointments are made on merit, in the context of the skills and experience the Board as a whole requires to be effective. In reviewing Board composition, the Nomination Committee will consider a number of factors, including professional knowledge, skills, experience and diversity of perspectives which are appropriate to the Company's business model and specific needs. In identifying suitable candidates for appointment to the Board, the Nomination Committee will consider candidates on merit against objective criteria and with due regard to the benefits of diversity on the Board. Selection of candidates will be based on a range of diversity perspectives including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.





### **(3) Preparation of Financial Statements and Financial Reporting**

The Directors understand that the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the “New Companies Ordinance”) provides that the Directors shall prepare financial statements for each year to give a true and fair view of the financial position of the Company as at the statement of financial position date and profits or losses and cash flows of the Company for the year ended the statement of financial position date.

In preparing financial statements, the Directors shall:

- (a) select and consistently apply appropriate accounting policies and make fair and reasonable judgements and estimates in applying the selected accounting policies;
- (b) state reasons for any serious deviation from the applicable accounting principles; and
- (c) prepare financial statements on a going concern basis, unless it is inadvisable to assume that the Company itself or the Company and its subsidiaries will continue to operate in the foreseeable future.

The financial statements for the year ended 31 December 2015 are prepared under the going concern basis. In preparing the financial statements, appropriate accounting policies have been selected; fair and reasonable judgements and estimates have been made.

A statement of the independent auditors about their reporting responsibilities related to the financial statements is set out in the independent auditor’s report on page 81 of this annual report.

In addition, the Directors are also responsible for keeping appropriate accounting records to safeguard the assets of the Company and taking appropriate procedures to prevent and investigate whether there are any fraud and other irregularities.

With respect to financial reporting, the management provides explanations and information to the Board so that the Board can evaluate the merits of the financial information and other information that need to be approved. The Board has also made a balanced, clear and understandable assessment of the financial position and performance of the Company in the communications to shareholders.

### **(4) Risk Management and Internal Control**

The Board is responsible for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company’s strategic objectives, and ensuring that the Company establishes and maintains appropriate and effective internal control and risk management systems. The Board oversees management in the design, implementation and monitoring of the internal control and risk management systems, and management provides confirmation to the Board on the effectiveness of these systems.

Internal control and risk management systems have been designed to monitor and facilitate the accomplishment of the Company’s business objectives, safeguard the Company’s assets against loss and misappropriation, ensure maintenance of proper accounting records for the provision of reliable financial information, ensure the Company’s compliance with applicable laws, rules and regulations, and to provide reasonable, but not absolute, assurance against fraud and errors.



The Company has continuously refined the policies and standards for the control environment based on the internal control framework and comprehensive risk management framework established in the Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the “COSO”). In the past few years, the Company has: standardized control procedures for monitoring the financial reporting and period-end financial closing procedures at the branch and subsidiary level and upgraded the business performance review processes and controls; expanded accounting manuals and clearly document key controls and processes for preparing consolidated financial statements in accordance with applicable accounting standards; hired additional accounting professionals with experience in financial reporting and familiarity with international accounting practices and increased technical training for the finance and accounting personnel in respect of relevant accounting standards; established and implemented the code of ethics for senior officers and employees, company-wide anti-fraud policies and whistleblowing mechanisms; assessed the effectiveness of risk management and internal control at the company and branch-level and subsidiaries based on the Company’s enterprise risk assessment results and took measures to improve risk management and internal control over the Company, branches and subsidiaries; and implemented the Policy on Risk Management.

The Company has an internal audit department with over 450 staff members, with officers stationed at various provincial branches. The internal audit department reports directly to the Audit Committee and is independent of the Company’s daily operation and accounting functions. With an emphasis on the effectiveness of internal control with respect to the efficiency of operations, accuracy of financial information, and compliance with rules and regulations, the internal audit department conducts, amongst others, internal control assessment and internal audit on economic accountability. In addition, the internal audit department also contributes to strengthening the operation and management, improving internal control systems, mitigating operational risks and increasing the economic efficiency of the Company.

In addition, the Company has a legal and risk management department with over 611 full-time staff members. The Company has continued to improve its comprehensive risk management system for the purpose of “integrating management of day-to-day general risks and spontaneous critical risks”. Based on the key risks that may be faced by the Company during the year, the Company has coordinated legal and risk management departments at all levels to conduct overall risk evaluation, special risk evaluation and internal self-testing etc. The Company has also formulated targeted risk prevention and control measures, conducted risk follow-up inspections and has enhanced the risk awareness of the employees, all of which have played an active role in the Company’s effective support and safeguard of its operation management and business development. In the “Circular regarding the printing and distributing of the Summary Analysis Report of the Comprehensive Risk Management of the Central Enterprises in 2015 (Gai Ge Han [2015] No.29)” issued by the State-owned Assets Supervision and Administration Commission of the State Council, the Company’s achievements in risk management have been fully recognised.

In December 2015, the Central Commission for Discipline Inspection of the Communist Party of China and the Ministry of Supervision of the People’s Republic of China jointly announced that a former chairman and chief executive officer of the Company was under investigation for alleged serious violation of disciplinary rules. As of the date of this Annual Report, the relevant discipline inspection authorities have not notified the Company of the incidents underlying the investigation. The Company had high regards for this incident and strengthened education on employees’ awareness of compliance. The Company had requested its internal audit department and other relevant departments to enhance their review of internal control and risk management systems.



The Board oversees the Company's internal control and risk management systems on an ongoing basis and the Board conducted an annual review of the internal control system of the Company and its subsidiaries for the financial year ended 31 December 2015, which covered all material controls including financial, operational and compliance controls, as well as its risk management functions. After receiving the reports from the Internal Audit Department and the Legal and Risk Management Department, as well as the confirmation from the management to the Board on the effectiveness of these systems, the Board is of the view that the Company's internal control system is effective. The review also confirmed, with respect to the Company's accounting, internal audit and financial reporting function, the adequacy of resources, staff qualifications and experience, and training programs and budget.

### **(5) Information Disclosure Controls and Procedural Standards**

In order to further enhance the Company's system of information disclosure, and to ensure the truthfulness, accuracy, completeness and timeliness of its public disclosures, the Company has adopted and implemented the Information Disclosure Control Policy. In an effort to standardize the principles for information disclosures, the Company established the Information Disclosure Review Committee under the management and formulated the procedures in connection with the compilation and reporting of the Company's financial and operational statistics and other information, as well as the procedures in connection with the preparation and review of the periodic reports. Moreover, the Company established detailed implementation rules with respect to the contents and requirements of financial data verification, in particular, the upward undertakings by the individual responsible officers at the levels of subsidiaries, branches and major departments.

### **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF THE COMPANY**

The Company has established the "Code for Dealing of Securities by Directors" in accordance with the "Model Code for Securities Transactions by Directors of Listed Issuers", as set out in Appendix 10 of the Listing Rules. The Company had made specific enquiries to Directors as to their respective compliance with the relevant code for securities transactions for the year ended 31 December 2015, and all of the Directors have confirmed such compliance.

### **REQUIREMENTS UNDER SECTION 404 OF THE SARBANES-OXLEY ACT**

Compliance with the requirements under Section 404 of the U.S. Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act") has been an area of emphasis for the Company. The relevant sections of the Sarbanes-Oxley Act require the management of non-U.S. issuers with equity securities listed on U.S. stock exchanges to issue reports and make representations as to internal control over financial reporting.

The relevant internal control report needs to stress the management's responsibility for establishing and maintaining adequate and effective internal control over financial reporting. Management is required to assess the effectiveness of the Company's internal control over financial reporting as at year end. Under Section 404 of the Sarbanes-Oxley Act, the Company's management is required to conduct an assessment of the effectiveness of the Company's internal control over financial reporting as at 31 December 2015. Management is currently in the process of finalizing the management's report on internal control over financial reporting, which will be included in the Company's annual report on Form 20-F for the year ended 31 December 2015 to be filed with the United States Securities and Exchange Commission by 30 April 2016.



## SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN THE CORPORATE GOVERNANCE PRACTICES OF THE COMPANY AND THE CORPORATE GOVERNANCE PRACTICES REQUIRED TO BE FOLLOWED BY U.S. COMPANIES UNDER THE LISTING STANDARDS OF THE NEW YORK STOCK EXCHANGE

As a company listed on both the Hong Kong Stock Exchange and the New York Stock Exchange, the Company is subject to applicable Hong Kong laws and regulations, including the Listing Rules and the New Companies Ordinance, as well as applicable U.S. federal securities laws, including the U.S. Securities Exchange Act of 1934, as amended, and the Sarbanes-Oxley Act. In addition, the Company is subject to the listing standards of the New York Stock Exchange to the extent applicable to non-U.S. issuers. As a non-U.S. issuer, the Company is not required to comply with all of the corporate governance listing standards of the New York Stock Exchange.

In accordance with the requirements of Section 303A.11 of the New York Stock Exchange Listed Company Manual, the Company has posted on its website ([www.chinaunicom.com.hk](http://www.chinaunicom.com.hk)) a summary of the significant differences between corporate governance practices of the Company and those required to be followed by U.S. companies under the listing standards of the New York Stock Exchange.

### INDEPENDENT AUDITOR

KPMG is the independent auditor of the Company. Apart from audit services, it also provides non-audit services. The remuneration paid/payable to the independent auditor for provision of services in 2015 is as follows:

Items	Note	2015 (in RMB thousands)
Audit services	(i)	63,821
Non-audit services	(ii)	2,273
<b>Total</b>		<b>66,094</b>

Notes:

- (i) Audit services in 2015 include the audit on the Company's internal control over financial reporting pursuant to Section 404 of the U.S. Sarbanes-Oxley Act of 2002.
- (ii) Non-audit services include other assurance and related services that can be reasonably provided by the independent auditor. In 2015, the provisions of non-audit services mainly include professional services in relation to the issuance of circular regarding Tower Assets Disposal, tax and IT related services.



## SHAREHOLDERS' RIGHTS

### (1) Annual General Meeting

The Board endeavors to maintain an on-going dialogue with shareholders, and in particular, to communicate with shareholders through annual general meetings. Notices of annual general meeting are sent to shareholders at least 20 clear business days before the meeting. The Directors and representatives of the Board committees usually attend the meetings and treasure the opportunities to communicate with shareholders at such meetings. At general meetings, the chairman of the meeting proposes individual resolutions in respect of each substantially separate matter. All matters at the Company's general meetings are resolved by poll and the relevant procedures are explained at the meeting. The Company also appoints external scrutineers to ensure that all votes are counted and recorded appropriately, and publishes the poll results in a timely manner.

The last annual general meeting of the Company was held on 8 May 2015, at which the following resolutions were passed:

- to receive and consider the financial statements and the Reports of the Directors and of the Independent Auditor for the year ended 31 December 2014
- to declare a final dividend for the year ended 31 December 2014
- to re-elect Mr. Chang Xiaobing, Mr. Zhang Junan, Mr. Cesareo Alierta Izuel and Mr. Chung Shui Ming Timpson as Directors, and to authorise the Board to fix remuneration of the Directors for the year ending 31 December 2015
- to re-appoint auditor and authorise the Board to fix their remuneration for the year ending 31 December 2015
- to grant a general mandate to issue new shares
- to grant a general mandate for share buy-back
- to extend the general mandate to issue new shares
- to approve the adoption of the new articles of association of the Company

The next annual general meeting will be held on 12 May 2016. Please refer to the "Notice of Annual General Meeting" on pages 78 to 80 of this annual report for details.

#### Putting Forward Resolutions at Annual General Meetings

Pursuant to Section 615 of the New Companies Ordinance, the following persons may put forward a resolution at the next annual general meeting of the Company: (a) any number of shareholders, together holding not less than 2.5% of the total voting rights of all shareholders which have, as at the date of the requisition, a right to vote at the next annual general meeting, or (b) not less than 50 shareholders who have a right to vote on the resolution at the annual general meeting to which the requests relate.



The resolution must be one which may be properly moved and is intended to be moved at the next annual general meeting. The requisition must be signed by the requisitionists and deposited at the registered office of the Company at least six weeks or if later, the time at which notice is given of the annual general meeting before the annual general meeting, the Company has a duty to give notice of such proposed resolution to all shareholders who are entitled to receive notice of the next annual general meeting.

In addition, requisitionists may require the Company to circulate to shareholders entitled to receive notice of the annual general meeting a statement of not more than 1,000 words with respect to the resolution to be proposed. However, the Company is not required to circulate any statement if the court is satisfied that this right is being abused to secure needless publicity for defamatory matters. In such event, the requisitionists may be ordered to pay for the Company's expenses for application to the court.

If the requisition signed by the requisitionists does not require the Company to give shareholders notice of a resolution, such requisition may be deposited at the registered office of the Company not less than one week before the next annual general meeting.

## **(2) Extraordinary General Meeting**

Notices of extraordinary general meeting are required to be sent to shareholders at least 10 clear business days before the meeting.

### **Convening Extraordinary General Meetings**

Pursuant to Section 566 of the New Companies Ordinance, shareholder(s) holding not less than 5% of the total voting rights of all shareholders having a right to vote at general meetings of the Company as at the date of deposit of the requisition, may request the Directors of the Company to convene an extraordinary general meeting. The requisition must state the objects of the meeting and must be signed by the requisitionists and deposited at the registered office of the Company.

If the Directors do not, within 21 days from the date of deposit of the requisition, proceed duly to convene a meeting to be held not more than 28 days after the notice of the meeting, shareholder(s) requisitioning the meeting, or any of them representing more than half of their total voting rights, may themselves convene a meeting to be held within three months of such date.

Meetings convened by the requisitionists must be convened in the same manner, as nearly as possible, as meetings to be convened by Directors of the Company. Any reasonable expenses incurred by the requisitionists will be reimbursed by the Company due to the failure of the Directors duly to convene a meeting.

### **Putting Forward Resolutions at Extraordinary General Meetings**

Shareholders may not put forward resolutions to be considered at any general meetings other than annual general meetings. However, shareholders may request an extraordinary general meeting to consider any such resolution as described in "Convening Extraordinary General Meetings" above.

Any queries relating to shareholders' rights on putting forward resolutions at general meetings and convening extraordinary general meetings should be directed to the Company Secretary of the Company. Requisitions should be deposited at the Company's registered office and marked for the attention of the Company Secretary.

## (3) Articles of Association

Rights of the shareholders are provided under the Articles of Association. In light of the New Companies Ordinance, the Board put forward to shareholders for approval, and the shareholders approved in the annual general meeting of the Company held on 8 May 2015, a special resolution to adopt new Articles of Association of the Company, in order to reflect certain changes and corporate governance measures under the New Companies Ordinance. The new Articles of Association of the Company is available on the websites of the Company and the Hong Kong Stock Exchange.

## CORPORATE TRANSPARENCY AND INVESTOR RELATIONS

In addition to publishing annual reports and interim reports, the Company discloses major unaudited financial information on a quarterly basis and announces operational statistics on a monthly basis in order to enhance the Company's transparency and improve investors' understanding of the business operations of the Company. In addition, the Company submits annual reports and regular reports to the United States Securities and Exchange Commission pursuant to the requirements under the U.S. federal securities laws.

Upon the announcement of interim and annual results or major transactions, the Company will generally hold analyst and press conferences. During such conferences, the management of the Company would interact directly with fund managers, investors and journalists to provide them with relevant information and data of the Company. The Company's management would accurately and thoroughly respond to questions raised by analysts and journalists. Archived webcast of the analyst conference is also available on the Company's website to ensure wide dissemination of information and data.

The Company's investor relations department is responsible for providing information and services requested by investors, maintaining timely communications with investors and fund managers, including responding to investors' inquiries and meeting with company-visit investors, as well as gathering market information and passing views from shareholders to the Directors and management to ensure such views are properly communicated. The Company also arranges from time to time road shows and actively attends investor conferences arranged by investment banks, through which the Company's management meets and communicates with investors to provide them with opportunities to understand more accurately the Company's latest development and performance in various aspects, including business operations and management.





In 2015, the Company participated in the following investor conferences:

Date	Event
Jan 2015	UBS Greater China Conference 2015
Jan 2015	Deutsche Bank dbAccess China Conference 2015
Mar 2015	Morgan Stanley Third Annual Asia TMT & Internet Conference
Mar 2015	Credit Suisse 18th Asian Investment Conference
May 2015	Macquarie Greater China Conference
May 2015	CLSA China Forum
May 2015	Nomura China TMT Corporate Day
May 2015	BNP Paribas 6th Asia Pacific TMT Conference
May 2015	Goldman Sachs Telecom & Internet Corporate Day
May 2015	Morgan Stanley China Summit
Jun 2015	JP Morgan 11th Annual China Summit
Jun 2015	Bank of America Merrill Lynch 2015 Global Telecom & Media Conference
Jun 2015	UBS Pan-Asian Telco Conference
Sep 2015	22nd CLSA Investors' Forum
Nov 2015	Bank of America Merrill Lynch 2015 China Conference
Nov 2015	Credit Suisse China Investment Conference 2015
Nov 2015	CICC Investment Forum
Nov 2015	Citi China Investor Conference 2015
Nov 2015	JP Morgan Global TMT Conference 2015
Nov 2015	Morgan Stanley 14th Annual Asia Pacific Summit
Dec 2015	Barclays Asia TMT Conference

In addition, through announcements and press releases, the Company disseminates the latest information regarding any significant business development in a timely and accurate manner. The website of the Company is also updated from time to time to provide investors and the public with information and news of the Company in various respects.

Furthermore, the Company has adopted a Shareholders' Communication Policy to ensure that the shareholders of the Company are provided with readily, equal and timely access to balanced and understandable information about the Company, to enable shareholders to exercise their rights in an informed manner, and to enhance the shareholders' and the investment community's communication with the Company.



# CORPORATE GOVERNANCE REPORT

## ENQUIRY ON THE COMPANY

Shareholders may raise any enquiry on the Company at any time through the following channels:

### China Unicom (Hong Kong) Limited

Address: 75th Floor, The Center, 99 Queen's Road Central, Hong Kong  
Tel: (852) 2126 2018  
Fax: (852) 2126 2016  
Website: [www.chinaunicom.com.hk](http://www.chinaunicom.com.hk)  
Email: [ir@chinaunicom.com.hk](mailto:ir@chinaunicom.com.hk)

These contact details are also available in the "Contact Us" section on the Company's website ([www.chinaunicom.com.hk](http://www.chinaunicom.com.hk)) designated to enable shareholders to send enquiries to the Company on a timely and effective manner.

