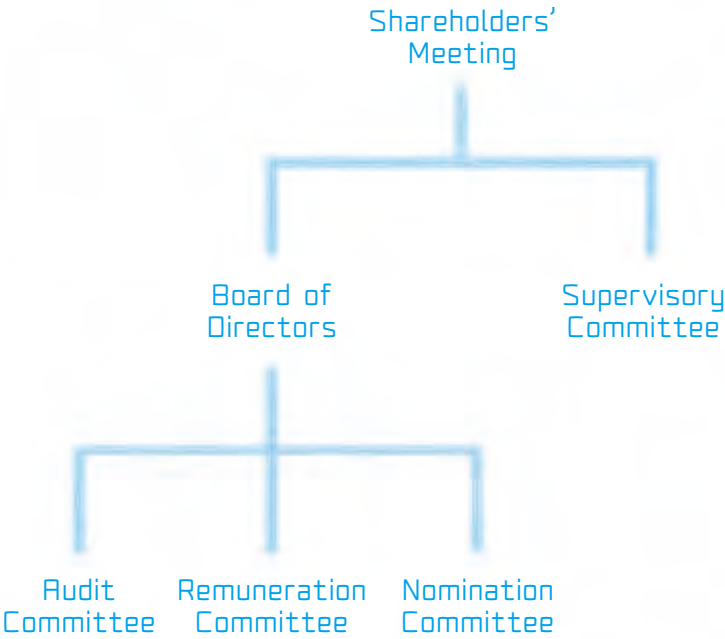


Environmental, Social and Governance Report

Corporate Governance Report



An Overview of Corporate Governance

The Company strives to maintain high level of corporate governance and has inherited an excellent, prudent and efficient corporate governance concepts and continuously improves its corporate governance methodology, regulates its operations, improves its internal control mechanism, implements sound corporate governance and disclosure measures, and ensures that the Company's operations are in line with the long-term interests of the Company and its shareholders as a whole. In 2016, the Shareholders' Meeting, the Board and the Supervisory Committee maintained efficient operations in accordance with the operating specifications, and the Company insisted on reform and innovation and strived to promote corporate transformation and upgrades, while continuously optimised its internal control system and comprehensive risk management in order to effectively ensure corporate steady operation. The sustained enhancement of the Company's corporate governance aligned with the long-term best interest of shareholders and ensured that the interests of shareholders was effectively assured.

The Company persists to refine the basic principles of its corporate governance. As a company incorporated in the PRC, the Company adopts the Company Law of the People's Republic of China and other relevant laws and regulations as the basic guidelines for the Company's corporate governance. As a company dual-listed in Hong Kong and the United States, the Company strives to ensure compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the regulatory requirements for non-US companies listed in the United States. In addition, the Company has regularly

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published statements relating to its internal control in accordance with the US Sarbanes-Oxley Act and the regulatory requirements of the SEC and the New York Stock Exchange to confirm its compliance with related financial reporting, information disclosure, corporate internal control requirements and other regulatory requirements.

For the financial year ended 31 December 2016, save that the roles of Chairman and Chief Executive Officer of the Company were performed by the same individual, the Company has been in compliance with all the code provisions under the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. In the Company's opinion, through supervision by the Board and the Independent Non-Executive Directors, with effective control of the Company's internal check and balance mechanism, the same individual performing the roles of Chairman and Chief Executive Officer can enhance the Company's efficiency in decision-making and execution and effectively capturing business opportunities. Many leading international corporations around the world also have similar arrangements.

In 2016, the Company's continuous efforts in corporate governance gained wide recognition from the capital markets

and the Company was accredited with a number of awards. The Company was voted the "No. 1 Overall Best Managed Company in Asia" by *Euromoney* for seven consecutive years, while at the same time being ranked as the "No. 1 Best Managed Company in Telecommunications Sector in Asia". The Company was accredited with the "Best Telecommunications Company in Asia" and the "Best Company in China" in *FinanceAsia's* Platinum Awards, to honour the Company for consistent provision of quality services and innovation for its clients over the past 20 years. The Company was voted as the "Most Honored Company in Asia" and "Asia's Best Investor Relations Company in Telecommunications Sector" in 2016 All-Asia-Executive-Team ranking organised by *Institutional Investor* for six consecutive years. The Company was accredited the "Platinum Award – Excellence in Governance, CSR & Investor Relations" in the poll of Corporate Awards 2016 by *The Asset*. In addition, Mr. Yang Jie, Chairman and CEO of the Company, was voted as the "Best CEO in Telecommunications" for his excellence in leadership, strategic thinking, team- and relationship- building, effective communication and change management. The Company was awarded "The Best of Asia – Icon on Corporate Governance" by *Corporate Governance Asia* for four consecutive years.



Overall Structure of the Corporate Governance

A double-tier structure has been adopted as the overall structure for corporate governance: the Board and the Supervisory Committee are established under the Shareholders' Meeting. The Audit Committee, Remuneration Committee and Nomination Committee were established under the Board. The Board is authorised by the Articles of Association to make major operational decisions of the Company and to oversee the daily management and operations of the senior management. The Supervisory Committee is mainly responsible for the supervision of the performance of duties of the Board and the senior management. Each of the Board and the Supervisory Committee is independently accountable to the Shareholders' Meeting.

Shareholders' Meeting

In 2016, the Company convened one Shareholders' Meeting, which was the annual general meeting ("AGM") held on 25 May 2016. At the AGM, numerous resolutions such as the consolidated financial statements for the year 2015 of the Company, report of the international auditor's, proposal for profit and dividend

distribution, and the re-appointment of auditors were reviewed and approved. Meanwhile, the Board was authorised to prepare the budget for the year 2016, fix the remuneration of the auditors and issue debentures.

Since the Company's listing in 2002, at each of the Shareholders' Meetings a separate shareholders' resolution was proposed by the Company in respect of each independent item. The circulars to shareholders also provided details of the resolutions. All votes on resolutions tabled at the Shareholders' Meetings of the Company were conducted by poll and all voting results were published on the websites of the Company and The Stock Exchange of Hong Kong Limited. The Company attaches great importance to the Shareholders' Meetings and the communication between Directors and shareholders. The Directors provided detailed and complete answers to the questions raised by shareholders at the Shareholders' Meetings. The Board implemented the shareholders communication policy to ensure that the shareholders are provided with comprehensive, equal, understandable and public information of the Company on a timely basis and to strengthen the communication amongst the Company, and the shareholders and investors.



Board of Directors

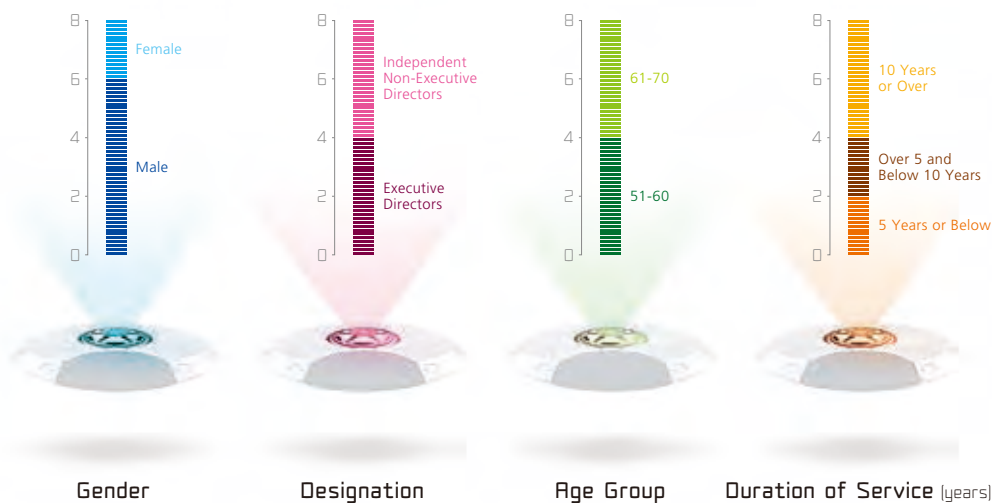
As at 31 December 2016, the Board of the Company comprised 8 Directors with 4 Executive Directors and 4 Independent Non-Executive Directors. The compositions of the Audit Committee, Remuneration Committee and Nomination Committee under the Board consist solely of Independent Non-Executive Directors, which ensure that the Committees are able to provide sufficient review and check and balance, and make independent judgements to protect the interests of shareholders and the Company as a whole. The number of Independent Non-Executive Directors exceeds one-third of the members of the Board of the Company. Mr. Tse Hau Yin, Aloysius, the Chairman of the Audit Committee, is an internationally renowned financial expert with expertise in accounting and financial management. The term of office for the 5th session of the Board lasts for 3 years, starting from May 2014 until the day of the Company's annual general meeting for the year 2016 to be held in 2017, upon which the 6th session of the Board will be elected.

In August 2013, the Company implemented the Board diversity policy. The Company strongly believes that Board diversity will contribute significantly to the enhancement of the overall performance of the Company. The Company views Board diversity as the key element for accomplishing its strategic

goals and sustainable development. In determining the composition of the Board, the Company takes into account diversity of the Board from a number of perspectives, including but not limited to gender, age, education background or professional experience, skills, knowledge, duration of service, etc. All appointments made or to be made by the Board are merit-based, and candidates are selected based on objective criteria taking full consideration of Board diversity. Final decisions are comprehensively made based on each candidate's attributes and the consideration for his/her value contributions to be made to the Board. The Nomination Committee oversees the implementation of Board diversity policy, reviews the existing policy as and when appropriate, and recommends proposals for revisions for the Board's approval. Biographical details of existing Directors are set out in the "Biographical details of Directors, Supervisors and Senior Management" section of this Annual Report. The Company considers that the Board currently comprises experts from diversified professions such as telecommunications, accounting, finance, law and management, and is diversified in terms of gender, age, duration of service, etc., which contributes to the enhanced management standard and more regulated operation of corporate governance of the Company, and results in a more comprehensive and balanced Board structure and decision-making process.

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The below sets out the analysis of the Board composition as at 31 December 2016:



The Company strictly complies with the Corporate Governance Code under the Listing Rules to rigorously regulate the operating procedures of the Board and its committees, and to ensure that the procedures of the Board meetings are in compliance with related rules in terms of organisation, regulations and personnel. The Board responsibly and earnestly supervises the preparation of financial statements for each financial period, so that such financial statements truly and fairly reflect the financial condition, the operating results and cash flows of the Company for such period. In preparing the financial statements for the year ended 31 December 2016, the Directors adopted appropriate accounting policies and made prudent, fair and reasonable judgements and estimates, and prepared the financial statements on a going concern basis.

The Articles of Association of the Company clearly defines the respective duties of the Board and the management. The Board is accountable to the Shareholders' Meetings,

and its duties mainly include the execution of resolutions, formulation of major operational decisions, financial proposals and policies, formulation of the Company's basic management system, and the appointment of senior management personnel of the Company. The management is responsible for the operation and management of the Company, the implementation of the Board resolutions and the annual operation plans and investment proposals of the Company, formulating the proposal of the Company's internal administrative organisations and sub-organisations, and performing other duties as authorised by the Articles of Association and the Board. In order to maintain highly efficient operations, as well as flexibility and swiftness in operational decision-making, the Board may delegate its management and administrative powers to the management when necessary, and shall provide clear guidance regarding such delegation so as to avoid impeding or undermining the capabilities of the Board when exercising its powers as a whole.

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All members of the Board/Committees are informed of the meeting schedule for the Board/Committees for the year at the beginning of each year. In addition, all Directors will receive meeting notification at least 14 days prior to the meeting under normal circumstances. The Company Secretary is responsible for ensuring that the Board meetings comply with all procedures, related rules and regulations while all Directors can make inquiries to the Company Secretary for details to ensure that they have received sufficient information on various matters set out in the meeting agendas.

The Board holds at least 4 meetings in each year. Additional Board meetings will be held in accordance with practical needs. In 2016, the Board played a pivotal role in the Company's operation, budgeting, supervision, internal control, risk management, and other significant decisions and corporate governance. The Board reviewed significant matters including the Company's annual and interim financial statements, quarterly financial results, financial and investment budgets, risk management, internal control implementation and assessment report, annual proposal for profit distribution, implementation of continuing connected transactions, lease of telecommunications towers and related assets, re-appointment and remuneration of auditors and change of directors, senior management and Company Secretary of the Company. During the year, the Company convened 4 Board meetings and completed various written resolutions. In 2016, the Chairman held a meeting to communicate with Non-Executive Directors without the presence of Executive Directors independently to ensure that the Non-Executive Directors can fully express their opinions and further facilitate the communication of different views amongst the Board.

The Company determines the Directors' remuneration with reference to factors such as their respective responsibilities and duties in the Company, as well as their experiences and market conditions at the relevant time.

The Board formulates and reviews the Company's policies and practices on corporate governance; reviews and monitors the training and continuous professional development of Directors and Senior Management; reviews and monitors the Company's policies and practices on compliance with legal and regulatory requirements; develops, reviews and monitors the code of conducts for employees; and reviews the Company's compliance with the Corporate Governance Code and disclosure in the Corporate Governance Report.

Directors' training and continuous professional development

The Company provides guidelines on duties, continuing obligations, relevant laws and regulations, operation and business of the Company to the newly appointed Directors so that they are provided with the tailored induction relating to their appointment. To ensure that the Directors are familiar with the Company's latest operations for decision-making, the Company arranges for key financial data and operational data to be provided to the Directors on monthly basis. Meanwhile, through regular Board meetings and reports from management, the Directors are able to have more clear understandings on the operations, business strategy, the latest development of the Company and the industry. In addition, the Company reminds the Directors of their functions and duties by continuously providing them with information regarding the latest development of the Listing Rules and other applicable regulations, and arranging internal training on topics related to the latest development of the industry and operating focuses of the Company for mutual exchange of ideas and discussion. The Directors actively participate in training and continuous professional development to develop and refresh their knowledge and skills to ensure their contribution to the Company.

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During the year, the Directors as at 31 December 2016 have participated in training and continuous professional development activities, and the summary is as follows:

Directors	Types of training
Executive Directors	
Yang Jie	A, B
Yang Xiaowei	A, B
Ke Ruiwen	A, B
Sun Kangmin	A, B
Independent Non-Executive Directors	
Tse Hau Yin, Aloysius	A, B
Cha May Lung, Laura	A, B
Xu Erming	A, B
Wang Hsuehming	A, B

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

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

Compliance with the Model Code for Securities Transactions by Directors and Supervisors and Confirmation of Independence by the Independent Non-Executive Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules to govern securities transactions by the Directors and Supervisors. Based on the written confirmation from the Directors and Supervisors, the Company's Directors and Supervisors have strictly complied with the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Listing Rules regarding the requirements in conducting securities transactions for the year 2016. Meanwhile, the Company has received annual independence confirmation from each of the Independent Non-Executive Directors and considered them independent.

Audit Committee

At 31 December 2016, the Audit Committee comprised 3 Independent Non-Executive Directors, Mr. Tse Hau Yin, Aloysius as the Chairman and Mr. Xu Erming and Madam Wang Hsuehming as the members. The Audit Committee is responsible to the Board. The Charter of the Audit Committee clearly defines the status, structure and qualifications, work procedures, duties and responsibilities, funding and remuneration, etc. of the Audit Committee. The Audit Committee's principal duties include the supervision of the truthfulness and completeness of the Company's financial statements, the effectiveness and completeness of the Company's internal control and risk management systems as well as the work of the Company's Internal Audit Department. It is also responsible for the supervision and review of the qualifications, selection and appointment, independence

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and services of external independent auditors. The Audit Committee ensures that the management has discharged its duty to establish and maintain an effective risk management and internal control system including the adequacy of resources, qualifications and experience of staff fulfilling the accounting, internal control and financial reporting function of the Company together with the adequacy of the staff's training programmes and the related budget. The Audit Committee also has the authority to set up a reporting system on whistleblowing to receive and handle cases of complaints or complaints made on an anonymous basis regarding the Company's accounting, internal control and audit matters.

In 2016, pursuant to the requirements of the governing laws and regulations of the places of listing and the Charter of the Audit Committee, the Audit Committee fully assumed its responsibilities within the scope of the clear mandate from the Board. The Audit Committee proposed a number of practical and professional recommendations for improvement based on the Company's actual circumstances in order to promote the continuous improvement and perfection of corporate management. The Audit Committee has provided important support to the Board and played a significant role in protecting the interests of independent shareholders.

In 2016, the Audit Committee convened 4 meetings and passed 2 written resolutions, in which it reviewed important matters related to the Company's annual and interim financial statements, quarterly financial results, assessment of the qualifications, independence, performance, appointments and remuneration of the external auditors, effectiveness of risk management, internal control, internal audit and implementation of continuing connected transactions. The Audit Committee reviewed the annual

auditor's report, interim review reports and quarterly agreed-upon procedures reports prepared by the external auditors, communicated with the management and the external auditors in regards to the regular financial reports and proposed them for the Board's approval after review and approval. The Audit Committee received quarterly reports in relation to the internal audit and continuing connected transactions and provided guidance to the Internal Audit Department. Additionally, the Audit Committee reviewed the internal control assessment report and the attestation report, followed up with the implementation procedures of the recommendations proposed by the external auditors, reviewed the U.S. annual report, and communicated independently with the external auditors twice a year.

Remuneration Committee

At 31 December 2016, the Remuneration Committee comprised 3 Independent Non-Executive Directors, Mr. Xu Erming as the Chairman and Mr. Tse Hau Yin, Aloysius and Madam Wang Hsuehming as the members. The Remuneration Committee is responsible to the Board. The Charter of the Remuneration Committee clearly defines the status, structure and qualifications, work procedures, duties and responsibilities, funding and remuneration, etc. of the Remuneration Committee. The Remuneration Committee assists the Company's Board to formulate overall remuneration policy and structure for the Company's Directors and senior management personnel, and to establish related procedures that are standardised and transparent. The Remuneration Committee's principal duties include supervising the compliance of the Company's remuneration system with legal requirements, presenting the evaluation report on the Company's remuneration system to the Board, giving recommendations to the Board in respect

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of the overall remuneration policy and structure for the Company's Directors and senior management personnel and the establishment of a formal and transparent procedure for developing remuneration policy, and determining, with delegated responsibility by the Board, the remuneration packages of individual Executive Directors and Senior Management including benefits in kind, pension rights and compensation payments (including any compensation payable for loss or termination of their office or appointment). Its responsibilities comply with the requirements of the Corporate Governance Code. No Remuneration Committee meeting was held in 2016.

Nomination Committee

At 31 December 2016, the Nomination Committee comprised 3 Independent Non-Executive Directors, Madam Cha May Lung, Laura as the Chairlady and Mr. Tse Hau Yin, Aloysius and Mr. Xu Erming as the members. The Nomination Committee is responsible to the Board. The Charter of the Nomination Committee clearly defines the status, structure and qualifications, work procedures, duties and responsibilities, funding and remuneration, etc. of the Nomination Committee, and it specifically requires that the Nomination Committee

members shall have no significant connection to the Company, and comply with the regulatory requirements related to "independence". The Nomination Committee assists the Board to formulate standardised, prudent and transparent procedures for the appointment and succession plans of Directors, and to further optimise the composition of the Board. The principal duties of the Nomination Committee include regularly reviewing the structure, number of members, composition and diversity of the Board; identifying candidates and advising the Board with the appropriate qualifications for the position of Directors; reviewing the Board Diversity Policy as appropriate to ensure its effectiveness; evaluating the independence of nominees for Independent Non-Executive Directors; advising the Board on matters regarding the appointment or re-appointment of Directors (especially Chairman and Chief Executive Officer) and succession plans for the Directors. 1 meeting was held by the Nomination Committee and 1 Nomination Committee written resolution was passed in 2016, and it performed a review of the structure and operations of the Board and discussed the proposed appointment of Chairman and Chief Executive Officer and other related matters.

The number of Attendance/Meetings of the members of the Board and Committees in year 2016

	Board Meeting	Audit Committee Meeting	Nomination Committee Meeting	Shareholders' Meeting
Executive Directors				
Yang Jie	4/4	N/A	N/A	1/1
Yang Xiaowei	4/4	N/A	N/A	0/1
Ke Ruiwen	3/4	N/A	N/A	1/1
Sun Kangmin	4/4	N/A	N/A	1/1
Zhang Jiping*	1/2	N/A	N/A	0/1
Non-Executive Director				
Zhu Wei*	0/2	N/A	N/A	N/A
Independent Non-Executive Directors				
Tse Hau Yin, Aloysius	4/4	4/4	1/1	1/1
Cha May Lung, Laura	4/4	N/A	1/1	0/1
Xu Erming	2/4	1/4	1/1	1/1
Wang Hsuehming	4/4	4/4	N/A	1/1

Note: Certain Directors (including Non-Executive Director and Independent Non-Executive Directors) could not attend Shareholders' Meeting, some of the Board meetings and other Committee meetings due to other important business commitments. Such Directors have reviewed the relevant meeting agendas and papers before the meeting and authorised other Directors in writing to vote on their behalf so as to ensure their views were fully reflected in the meeting.

* On 10 May 2016, Mr. Zhu Wei resigned from his position as a non-executive director of the Company due to change in work arrangement. On 19 August 2016, Mr. Zhang Jiping retired from his positions as an Executive Director and Executive Vice President of the Company due to his age.

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The Company will identify suitable Director candidates through multiple channels such as internal recruitment and recruiting from the labour market. The criteria of identifying candidates include, but not limited to, their gender, age, educational background or professional experience, skills, knowledge and length of service and capability to commit to the affairs of the Company and, in case of Independent Non-Executive Director, the candidates should fulfill the independence requirements set out in the Listing Rules from time to time. After the Nomination Committee and the Board have reviewed and resolved to appoint the appropriate candidate, the relevant proposal will be put forward in writing to the Shareholders' Meeting for approval.

Directors shall be elected at the Shareholders' Meeting for a term of 3 years. At the expiry of a Director's term, the Director may stand for re-election and re-appointment. According to the Articles of Association, before the convening of the annual general meeting, shareholders holding 5% or more of the total voting shares of the Company shall have the right to propose new motions (such as election of Directors) in writing, and the Company shall place such proposed motions on the agenda for such annual general meeting if there are matters falling within the functions and powers of shareholders in General Meetings. According to the Articles of Association, shareholders can also request for the convening of extraordinary general meeting provided that 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 and they shall sign one or more written requisitions in the same format and with the same content, requiring the Board to convene an extraordinary general meeting and stating the resolutions of meeting (such

as election of Directors). The Board shall convene an extraordinary general meeting within 2 months. The minimum period during which written notice given to the Company of the intention to propose a person for election as a Director, and during which written notice to the Company by such person of his/her willingness to be elected may be given, will be at least 7 days. Such period will commence no earlier than the day after the despatch of the notice of the meeting for the purpose of considering such election and shall end no later than 7 days prior to the date of such meeting. The ordinary resolution to approve the appointment of Directors shall be passed by votes representing more than one-half of the voting rights represented by the shareholders (including proxies) present at the meeting.

Supervisory Committee

At 31 December 2016, the Company's Supervisory Committee comprised 5 Supervisors, including 2 Employee Representative Supervisors. The principal duties of the Supervisory Committee include supervising, in accordance with the law, the Company's financials and performance of its Directors, managers and other Senior Management so as to prevent them from abusing their powers. The Supervisory Committee is a standing Supervisory organisation within the Company, which is accountable to and reports to all shareholders. The Supervisory Committee usually holds meetings at least twice a year. The Supervisory Committee convened 2 meetings in 2016. The term of office for the 5th session of the Supervisory Committee lasts for 3 years, starting from May 2014 until the day of the Company's annual general meeting for the year 2016 to be held in 2017, upon which the 6th session of the Supervisory Committee will be elected.

The number of Attendance/Meetings of members of the Supervisory Committee in year 2016

Supervisors	Number of Attendance/Meetings
Sui Yixun (Chairman of the Supervisory Committee)	2/2
Tang Qi (Employee Representative Supervisor)	2/2
Zhang Jianbin (Employee Representative Supervisor)	2/2
Hu Jing	2/2
Ye Zhong	2/2

External Auditors

The international and domestic auditors of the Company are Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants LLP, respectively. The non-audit services provided by the external auditors did not contravene the requirements of the US Sarbanes-Oxley Act and therefore enabling them to maintain the independence.

A breakdown of the remuneration received by the external auditors for audit and non-audit services provided to the Company for the year ended 31 December 2016 is as follows:

Service item	Fee (including value-added tax) (RMB millions)
Audit services	71.0
Non-audit services (mainly include internal control advisory and other advisory services)	1.6
Total	72.6

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The Directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with the International Financial Reporting Standards as issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

The statements by the external auditors of the Company, Deloitte Touche Tohmatsu, regarding their reporting responsibilities on the consolidated financial statements of the Company is set out in the Independent Auditor's Report on pages 120 to 126.

Since the approval at the annual general meeting of the Company for the financial year 2012, the external auditors, Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants LLP have provided audit services for the Company for 4 consecutive years. The Audit Committee and the Board of the Company have resolved to re-appoint Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants LLP as the international and domestic auditors respectively for the financial year 2017, subject to the approval at the 2016 annual general meeting of the Company.

Risk Management and Internal Control System

The Board attaches great importance to the establishment and perfection of the risk management and internal control system. 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 risk management and internal control systems, and the Board acknowledges that it is responsible for the risk management and internal control systems and for reviewing their effectiveness. Such systems are 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. The Board oversees management in the design, implementation and monitoring of the risk management and internal control systems. The Board takes effective approaches to supervise the implementation of related control measures, whilst enhancing operation efficiency and effectiveness, and optimising corporate governance, risk assessment, risk management and internal control so that the Company can achieve long-term development goals. The internal control system of the Company is built on clear organisational structure and management duties, an effective delegation and

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accountability system, definite targets, policies and procedures, comprehensive risk assessment and management, a sound financial accounting system, and continuing analysis and supervision of operational performance, which plays a pivotal role in the Company's overall operation. The Company has formulated a code of conduct for the Senior Management and employees which ensures their ethical value and competency. The Company attaches great importance to the prevention of fraud and has formulated its internal reporting system, which encourages anonymous reporting of situations where employees, especially Directors and Senior Management personnel, breach the rules.

The Company views comprehensive risk management as an important task within the Company's daily operation. Pursuant to regulatory requirements in capital markets of the United States and Hong Kong, the Company has formulated a unique 5-step risk management approach based on risk management theory and practice, including risk identification, risk assessment, key risk analysis, risk reaction and risk management assessment. The Company has also designed a risk management template, established and refined the centralised risk directories and case studies database of the Company, continued to strengthen the level of risk management informatisation, and solidified a standardised risk management procedure so that risk management terminology is unified across all levels of the Company and the effectiveness of risk management was enhanced. Following the efforts made over the years, the Company has established a structured and highly-effective comprehensive risk management system and has gradually perfected its comprehensive risk monitoring and prevention mechanism.

In 2016, pursuant to the requirement of provision C2 of the Corporate Governance Code promulgated by the Hong Kong Stock Exchange, the Company concentrated resources on the prevention of significant potential risks, and strive to reduce negative effect from significant risk, the Company did not confront with any major risk event throughout the whole year. In 2016, the potential significant risks and the major risk-prevention and countering measures are as follows:

Economic and policy environment adaptation risk: The downward pressure has increased under the macroeconomic environment, and the effects of multiple policy adjustments have accumulated. The telecommunications industry has shown a trend of low growth amid the interweaving of the three periods, namely, the periods of shifting growth rate, structural adjustment and policy adaptation. Therefore, the Company continued to view economic and policy environment adaptation risks as a significant risk to be tackled. The Company will actively adapt to changes in regulatory policies and attain achievements of work implementation. The Company will promote comprehensive in-depth reform to further stimulate vitality; strengthen deployment in investment and cost control to enhance quality and efficiency of development.

Business development risks: The Company is in an industry with intensified competition; traditional business gradually saturated and new entrants further intensified the market competition. Therefore, the Company continued to view business development risks as a significant risk to be tackled. The Company will innovate mobile business development model to reinforce the dominant position of broadband services, to achieve breakthrough in emerging business areas, endeavouring to accomplish the objectives of increasing market share, scale expansion, and structural adjustments.

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The Company has strictly identified, assessed and analysed potential major risks faced by the Company in 2017, including economic and policy environment adaptation risks and business development risks etc., and has put forward detailed response plans. Through strict and appropriate risk management procedures, the Company will ensure the potential impact from the above risks to the Company is limited to and within an expected range.

The Company highly values the compliance with the laws and regulations of the People's Republic of China as well as the places of listing of the Company and where the Company's business operations are located, strictly complies with all laws and regulations and timely and proactively incorporates the laws and regulations into the Company's rules and regulations to protect the Company's legitimate business management, maintains the Company's legitimate rights and supports corporate to achieve long-term healthy development target.

The Counterterrorism Law of the People's Republic of China has come into force on 1 January 2016. It requires telecommunications business operators and Internet service providers to provide technical support and assistance such as technical interface and decryption to the public security authorities and national security authorities for their lawful prevention and investigation of terrorist activities; it requires telecommunications business operators and Internet service providers to put into practice the network security, information content supervision system and technical measures for security protection in accordance with the laws and administrative regulations, in order to prevent the dissemination of information relating to terrorism and extremism; it requires telecommunications business operators and Internet service providers to, where any information in relation

to terrorism or extremism is detected, immediately cease the relevant transmission, keep the relevant records, delete the relevant information and report to the public security divisions or the relevant departments; it also requires telecommunications business operators and Internet service providers to examine the identity of the users and not to provide services to any person of unknown identity or to persons who refuse to have their identity examined. Violation of the above provisions may result in fines and the relevant responsible persons may also be fined or detained.

On 23 September 2016, six departments including the Supreme People's Court, the Supreme People's Procuratorate, Ministry of Public Security, Ministry of Industry and Information Technology, the People's Bank of China and China Banking Regulatory Commission jointly released the Announcement on Preventing and Cracking Down on Telecom and Internet Frauds. The Announcement requires telecom operators to strictly implement the real-name registration system of telephone subscribers. Services to those entities or individuals which/who have not registered in real names and could not complete the true identity information registration within the stipulated time will be terminated. It also requires telecom operators to immediately carry out measures to clean up users accounts who registered multiple phone cards, and to block internet publication, searching, dissemination and sales channels of "change number software". It also strictly prohibits the operation and any business of illegal "change number via internet" services, strictly regulates the transmission of caller IDs of the Administration of International Communication Accesses, fully implements the regulation and cleaning up of private voice lines and caller authentication, strengthens the detection and interception of fake caller IDs in and between networks, immediately takes down and regulates telephone services such as "one-number service", business switchboard and 400.

On 7 November 2016, the Standing Committee of the National People's Congress announced that the Cybersecurity Law of the People's Republic of China shall come into force on 1 June 2017. It specifies the principle of cyberspace sovereignty, the safety obligations of network products and services providers as well as the safety obligations of network operators; and it further enhances the protection of personal data, establishes the framework for the protection of critical information infrastructure facilities, and establishes rules regulating cross-border transmission of key data via critical information infrastructure facilities. Telecom operators shall comply with the requirements under the Cybersecurity Law of the People's Republic of China in respect of network operating security and network information security.

On 7 November 2016, the Ministry of Industry and Information Technology issued the Implementation Opinions on the Work of Further Prevention and Crack Down on Communication Information Fraud, which requires telecom operators to rigorously implement the real-name registration for telephone subscribers, rectify and standardise the key telecommunications services, rectify the issue of "changing number via internet" services and strengthen the protection of telephone subscribers' personal data.

On 28 December 2016, the Ministry of Industry and Information Technology promulgated the Notice on Matters Relating to the Regulating Telecommunications Services Agreements, which has come into force on 1 February 2017. It specifies the standard of signing and record-keeping of telecommunications services agreements

and emphasises that the telecom operators should inform the telephone subscribers and carry out remedial work when some or all of the terms under the telecommunications service agreements could not be observed due to force majeure or adjustment of national policies.

Apart from implementing the latest and newly-amended laws and regulations in a timely manner, the Company also actively and closely monitors forthcoming changes in the relevant laws and regulations in order to strengthen the management of the relevant business operation behaviour, safeguards the effective adherence to relevant laws and regulations so as to ensure that the Company's operations are in full compliance with the laws.

Since 2003, based on the requirements of the U.S. securities regulatory authorities and the COSO Internal Control Framework, and with the assistance of other advisory institutions including external auditors, the Company has formulated manuals, implementation rules and related rules in relation to internal control, and has developed the Policies on Internal Control Management and Internal Control Accountability Management to ensure the effective implementation of the above systems. The Company has all along continuously revises and improves the manuals and implementation rules in view of the ever changing internal and external operation environment as well as the requirements of business development over the years. While continuing to improve the internal control related policies, the Company has also been strengthening its IT internal control capabilities, which has

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improved the efficiency and effectiveness of internal control, enhancing the safety of the Company's information system so that the integrity, timeliness and reliability of data and information are maintained. At the same time, the Company attaches great importance to the control and monitoring of network information safety. The Company persistently optimises the relevant rules and guidances, further defines the responsible entities and regularly commences the inspection of network safety and information safety in order to promote the enhancement of the awareness of network information safety and relevant skills and knowledge.

In 2016, in accordance with the requirements of external regulation and policy environment, the Company comprehensively considered the various initiatives of deepening reforms, the changes in business development, and the needs of information system upgrade. The Company corresponded with the new strategy on transformation and upgrades, promptly addressed market needs, solved new problems and new conditions arising in the course of business innovation, operation innovation and co-operation innovation, as well as revised the internal control manuals during the year. The Company strengthened the special control requirement on transactions with financing arrangement, advanced payment and other businesses, enhanced relevant control and management in accordance with rules and regulations and persistently optimised the control over liquidity risk so as to promote business development. In response to the impact on the Company's information system after the implementation of MSS system, the Company amended the general control over IT system, increased the control requirement of MSS system, refined

the authority limits of internal control and further refined the approval procedures and authorisation requirements of provincial branches on significant matters.

The Internal Audit Department plays a vital role in supporting the Board, the management and the risk management and internal control systems. The functions of the Internal Audit Department are independent of the Company's business operations and are complementary to the duties of the external auditors, and play an important role in the monitoring of the Company's internal management. The Internal Audit Department is responsible for internal controls assessment of the Company, and provides an objective assurance to the Audit Committee and the Board that the risk management and internal control systems are maintained and operated by the management in compliance with agreed processes and standards. The Internal Audit Department regularly reports the internal audit results to the Audit Committee on a quarterly basis, and reports the internal audit results to the Board through the Audit Committee.

Annual Evaluation of Risk Management and Internal Control Systems

The Company has been continuously improving its risk management and internal control systems so as to meet the regulatory requirements of its places of listing, including the United States and Hong Kong, and strengthen its internal control while guarding against operational risk.

The Company has adopted the COSO Internal Control Framework (2013) as the standard for the internal control assessment. With the management's internal control

testing guidelines and the Audit Standard No. 5 that were issued by PCAOB as its directives, the Company's internal control assessment system is composed of the self-assessment conducted by the persons responsible for internal control together with the independent assessment conducted by the Internal Audit Department. In order to evaluate the nature of internal control deficiencies and reach a conclusion as to the effectiveness of the internal control system, the Company adopts the following 4 major steps of assessment: (1) analyse and identify areas which require assessment, (2) assess the effectiveness of the design of internal control, (3) assess the operating effectiveness of the internal control, (4) analyse the impact of deficiencies in internal control. At the same time, the Company rectifies any deficiencies found during the assessment. By formulating "Interim Measures for the Internal Control Assessment", "Manual for the Self-Assessment of Internal Control", "Manual for the Independent Assessment of Internal Control" and other documents, the Company has ensured the assessment procedures are in compliance. In 2016, the Company's Internal Audit Department initiated and coordinated the assessment of internal control all over the Company, and reported the results to the Audit Committee and the Board.

Self-assessment of internal control adopts a top-down approach which reinforces assessment in respect of control points corresponding to control environment and material financial statements items. The Company insisted on risk-oriented principles and, on the basis of comprehensive assessment, identified key control areas and control points for major assessment through risk analysis. In 2016, the Company further strengthens the leading function of business

departments and various units in the internal control self-assessment. In order to promote the effectiveness of self-assessment, the Company conducted focused and targeted self-evaluation exercises surrounding the major risks of respective business areas. Through independent internal control assessment to evaluate the performance assessment of the self-assessment, it promoted the self-assessment to become effective. The above measures effectively promoted the participation of various departments and units and ensured the self-assessment work of the Company with 100% coverage. Focusing on the internal control deficiencies identified during the self-assessment, the Company promptly identified the responsibilities and timely rectified the deficiencies, effectively control and eliminate any potential risks. The Company also worked towards perfecting the systems and procedures, and deepening its governance measures, while continuously enhancing the design and operating effectiveness of internal control.

On the basis of risk-oriented independent assessment of the Company's internal control, we consolidated audit resources, worked around key areas and major business processes and conducted assessments. At the same time, we focused on new services and new units including mobile Internet, and build upon our internal control construction and selected key businesses and units for assessment to prevent and manage the risks associated with the new business areas. In 2016, the Company further reinforced cross evaluation amongst various units and organised independent assessments of 8 units and follow-up assessments of 12 units to strengthen the execution of internal control system and rectification of internal control deficiencies. Besides, amongst various audit projects,

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the Company continuously paid attention to the effectiveness of the internal control over fundamental businesses. Through independent assessment, the Company not only grasped the overall situation of internal control, but also developed key tests for its high-risk processes. In addition, the Company inspected the related units in respect of their rectification of internal control deficiencies and focused on the key issues in order to ensure the depth and quality of assessment.

Furthermore, the Company organised the risk management and internal control assessment team and other relevant departments to closely coordinate with the external auditors' audit of internal control over financial reporting. The internal control audit covered the Company and all its subsidiaries as well as the key processes and control points in relation to material financial statements items. The external auditors regularly communicated with the management in respect of the audit results.

All levels of the Company have been attaching great importance to rectifying internal control deficiencies. Focusing on deficiencies identified through self-assessment, independent assessment and internal control audit, the Company required all units to carry out rectification measures and established a collaborative risk prevention mechanism to promote different professional reporting lines of various departments in the headquarters office to execute vertical supervision and system improvement for the rectification work whilst exploring the establishment of an internal control mechanism with long-term effectiveness. To ensure effective rectification, the Company also strengthened the verification and supervision of the rectification measures of internal control

deficiencies. All subordinate entities proactively rectified deficiencies identified from the internal and external assessments on the request from the Company.

Through self-assessments and independent assessments conducted at different levels, the Company carried out multi-layered and full-dimensional reviews of its internal control system, and put its utmost efforts into rectifying the problems which were identified. Through this method, the Company was able to ensure the effectiveness of its internal control and successfully passed the year-end attestation undertaken by the external auditors.

The Board oversees the Company's risk management and internal control systems on an ongoing basis and the Board, through the Audit Committee, conducted an annual review of the risk management and internal control systems of the Company and its subsidiaries for the financial year ended 31 December 2016, which covered all material areas including financial controls, operational controls and compliance controls, as well as its risk management functions. After receiving the reports from the Internal Audit Department and the confirmation from the management to the Board on the effectiveness of the Company's risk management and internal control systems (including Environmental, Social and Governance risk management and internal control systems), the Board is of the view that these systems are solid, well-established, effective and sufficient. The annual review also confirms the adequacy of resources relating to the Company's accounting, internal control and financial reporting functions, the sufficiency of the qualifications and experience of staff, together with the adequacy of the staff's training programmes and the relevant budget.

Investor Relations and Transparent Information Disclosure Mechanism

The Company established an Investor Relations Department which is responsible for providing shareholders and investors with the necessary information, data and services in a timely manner. It also maintains proactive communications with shareholders, investors and other capital market participants so as to allow them to fully understand the operation and development of the Company. The Company's senior management presents the annual results and interim results every year. Through various activities such as analyst meetings, press conferences, global investor telephone conferences and investors road shows, senior management provides the capital market and media with important information and responds to key questions which are of prime concerns to the investors. This has helped reinforce the understanding of the Company's business and the overall development of the telecommunications industry in China. Since 2004, the

Company has been holding the Annual General Meetings in Hong Kong to provide convenience and encourage its shareholders, especially the public shareholders, to actively participate in the Company's Annual General Meetings and to promote direct and two-way communications between the Board and shareholders.

With an aim of strengthening communications with the capital market and enhancing transparency of information disclosure, the Company has provided quarterly disclosure of revenue, operating expenses, EBITDA, net profit figures and other key operational data, and monthly announcements of the number of access lines in service, mobile subscribers and wireline broadband subscribers. The Company attaches great importance to maintaining daily communication with shareholders, investors and analysts. In 2016, the Company participated in a number of investor conferences held by a number of major international investment banks in order to maintain active communication with institutional investors.



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In 2016, the Company attended the following investors conferences held by major international investment banks:

Date	Name of Conference	Location
January 2016	DBS Vickers Pulse of Asia Conference 2016	Singapore
January 2016	Deutsche Bank Access China Conference 2016	Beijing
January 2016	UBS 16th Greater China Conference	Shanghai
April 2016	Credit Suisse Asian Investment Conference 2016	Hong Kong
April 2016	DBS Vickers Pulse of Asia Conference 2016	Hong Kong
May 2016	Macquarie Greater China Conference 2016	Hong Kong
May 2016	CLSA China Forum 2016	Chengdu
May 2016	BNP Paribas 7th Asia Pacific TMT Conference	Hong Kong
May 2016	Nomura China TMT Corporate Day 2016	Hong Kong
May 2016	Deutsche Bank Access Asia Conference 2016	Singapore
May 2016	Morgan Stanley China Summit 2016	Beijing
June 2016	UBS Pan-Asian Telco Conference 2016	Hong Kong
June 2016	Bank of America Merrill Lynch Global Telecom & Media Conference 2016	London
June 2016	J.P. Morgan Global China Summit 2016	Beijing
September 2016	Morgan Stanley China Corporate Day	London
September 2016	Nomura China Investor Forum 2016	Shanghai
September 2016	23rd CLSA Investors' Forum 2016	Hong Kong
October 2016	Jefferies 6th Annual Greater China Summit	Hong Kong
November 2016	CICC Investment Forum 2016	Beijing
November 2016	Bank of America Merrill Lynch China Conference 2016	Beijing
November 2016	Citi China Investor Conference 2016	Macau
November 2016	Daiwa Investment Conference 2016	Hong Kong
November 2016	J.P. Morgan Global TMT Conference 2016	Hong Kong
November 2016	Morgan Stanley 15th Annual Asia Pacific Summit	Singapore
November 2016	Daiwa Asia Communication Days 2016 & Non-Deal Roadshow	Europe
November 2016	Jefferies and BNY Mellon 2nd ADR Conference	New York

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In 2016, the Company organised reverse roadshow with over 20 participants. The analysts first attended a meeting with management in Beijing, followed by a site visit to Beijing Yongfeng Internet Data Centre (IDC) and a demonstration of e-surfing HD (IPTV) in Chengdu, Sichuan. The reverse roadshow served as an introduction of the Company's strategies and development in IDC and cloud services, as well as the implementation of new convergence strategy, "Internet+" industry applications, end-to-end fibre network speed upgrade and intelligent network management in Sichuan. The reverse roadshow successfully enhanced analysts' understanding of the Company's development in the emerging businesses and new convergence, and strengthened investor confidence in the Company's prospect.

The Company's investor relations website (www.chinatelecom-h.com) not only serves as an important channel for the Company to disseminate press releases and corporate information to investors, media and the capital market, but also plays a significant role in the Company's valuation and our compliance with regulatory requirements for information disclosure. In 2016, the Company revamped its corporate website to enhance the design and functionality, with an aim to align with the latest international best practices, as well as enhance the level of transparency and timeliness of the Company's information disclosure. The Company launched a responsive website with the latest technology, which allows automatic adjustment to fit for different screen resolution and user interface, assuring the best browsing experience of website content with desktop computers, laptops or mobile devices. This allows investors, shareholders, reporters and the general public to browse the updated information on the Company's website with any device more easily and promptly anytime anywhere. The Company's website is equipped with a number of useful functions including interactive stock quote, interactive KPI, interactive FAQs, auto

email alerts to investors, downloading to excel, RSS Feeds, self-selected items in investors briefcase, html version annual report, financial highlights, investor toolbar, historical stock quote, add investor events to calendars, content sharing to social media, etc. The Company's website was accredited a number of awards in the professional rankings of *Institutional Investor*, *W3* and *iNova*, indicating that the Company's website is highly recognised by the professionals. The Company also actively seeks recommendations on how to improve the Company's annual report from shareholders through survey, and prepared and distributed the annual report in a more environmentally-friendly and cost-saving manner according to the recommendations received. Shareholders can ascertain their choice of receiving the annual reports and communications by electronic means, or receiving printed version in both English and Chinese, English only or Chinese only. In 2016, the Company launched a dedicated investor relations enquiry line, for the purpose of providing a direct channel to address enquiries from the investment community. This allows the Company to better serve its shareholders and investors.

The Company has always maintained a good information disclosure mechanism. While keeping highly transparent communications with media, analysts and investors, we attach great importance to the handling of inside information. In general, the authorised speakers only clarify and explain on information that are available on the market, and avoid providing or divulging any unpublished inside information either as an individual or as a team. Before conducting any external interview, if the authorised speaker has any doubt about the information to be disclosed, he/she would seek verification from the relevant person or the person-in-charge of the relevant department, so as to determine if such information is accurate. In addition, discussions on the Company's key financial data or other financial indicators are avoided during the blackout periods.

Shareholders' Rights

According to the Articles of Association, shareholders who request for the convening of an extraordinary general meeting or a class meeting shall comply with the following procedures:

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 1 or more written requisitions in the same format and with the same content, stating the proposed matters to be discussed at the meeting, and requiring the Board to convene an extraordinary general meeting or a class meeting thereof. If the Board fails to issue a notice of such a meeting within 30 days from the date of receipt of the requisitions, the shareholders who make the requisitions may themselves convene such a meeting (in a manner as similar as possible to the manner in which shareholders' meetings are convened by the Board) within 4 months from the date of receipt of the requisitions by the Board.

When the Company convenes an annual general meeting, shareholders holding 5% or more of the total voting shares of the Company shall have the right to propose new motions in writing, and the Company shall place such proposed motions on the agenda for such annual general meeting if they are matters falling within the functions and powers of shareholders' meetings.

Process of forwarding shareholders' enquiries to the Board:

Shareholders may at any time send their enquiries and concerns to the Board in writing through the Company Secretary and the Investor Relations Department.

The contact details of the Company Secretary are as follows:

The Company Secretary
China Telecom Corporation Limited
38th Floor, Dah Sing Financial Center,
108 Gloucester Road, Wanchai,
Hong Kong
Email: ir@chinatelecom-h.com
Tel No.: (852) 2877 9777
IR Enquiry: (852) 2582 0388
Fax No.: (852) 2877 0988

A dedicated "Investor" section is available on the Company's website (www.chinatelecom-h.com). There is a FAQ function in the "Investor" section designated to enable timely, effective and interactive communication between the Company,



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shareholders and investors. Company Secretary and the Investor Relations Department of the Company handle both telephone and written enquiries from shareholders of the Company from time to time. Shareholders' enquiries and concerns will be forwarded to the Board and/or the relevant Board Committees of the Company, where appropriate, which will answer the shareholders' questions. Information on the Company's website is updated regularly.

Significant Differences Between the Corporate Governance Practices followed by the Company and those followed by NYSE-Listed U.S. Companies

The Company was established in the PRC and is currently listed on The Stock Exchange of Hong Kong Limited and the New York Stock Exchange ("NYSE"). As a foreign private issuer in respect of its listing on the NYSE, the Company is not required to comply with all corporate governance rules of Section 303A of the NYSE Listed Company Manual. However, the Company is required to disclose the significant differences between the corporate governance practices of the Company and the listing standards followed by NYSE-listed U.S. companies.

Pursuant to the requirements of the NYSE Listed Company Manual, the Board of Directors of all NYSE-listed U.S. companies must be made up by a majority of Independent Directors. Under currently applicable PRC and Hong Kong laws and regulations, the Board of the Company is not required to be formed with a majority of Independent Directors. As a listed company on The Stock Exchange of Hong Kong Limited, the Company needs to comply with the Listing Rules. The Listing Rules require that at least one-third of the Board of Directors of a listed company in Hong Kong be Independent Non-Executive Directors. The Board of the Company currently comprises 8 Directors, of which 4 are Independent Directors, making the number of

Independent Directors exceeds one-third of the total number of Directors on the Board, in compliance with the requirements of the Corporate Governance Code of the Listing Rules. These Independent Directors also satisfy the requirements on "independence" under the Listing Rules. However, the related standard set out in the Listing Rules is different from the requirements in Section 303A.02 of the NYSE Listed Company Manual.

Pursuant to the requirements of the NYSE Listed Company Manual, companies shall formulate separate corporate governance rules. Under the currently applicable PRC and Hong Kong laws and regulations, the Company is not required to formulate any rules for corporate governance; therefore, the Company has not formulated any separate corporate governance rules. However, the Company has implemented the code provisions under the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 of the Listing Rules for the financial year ended 31 December 2016.

Continuous Evolution of Corporate Governance

The Company continuously analyses the corporate governance development of international advanced enterprises and the investors' desires, constantly examines and strengthens the corporate governance measures and practice, and improves the current practices at the appropriate time; we strongly believe that by adhering to good corporate governance principles, and improving the transparency of operations, as well as the establishment of the effective accountability system, we can ensure the long-term stable development of the Company and seek sustainable returns for the shareholders and investors.

**For further information,
please browse our website at
www.chinatelecom-h.com**