

# Environmental, Social and Governance Report

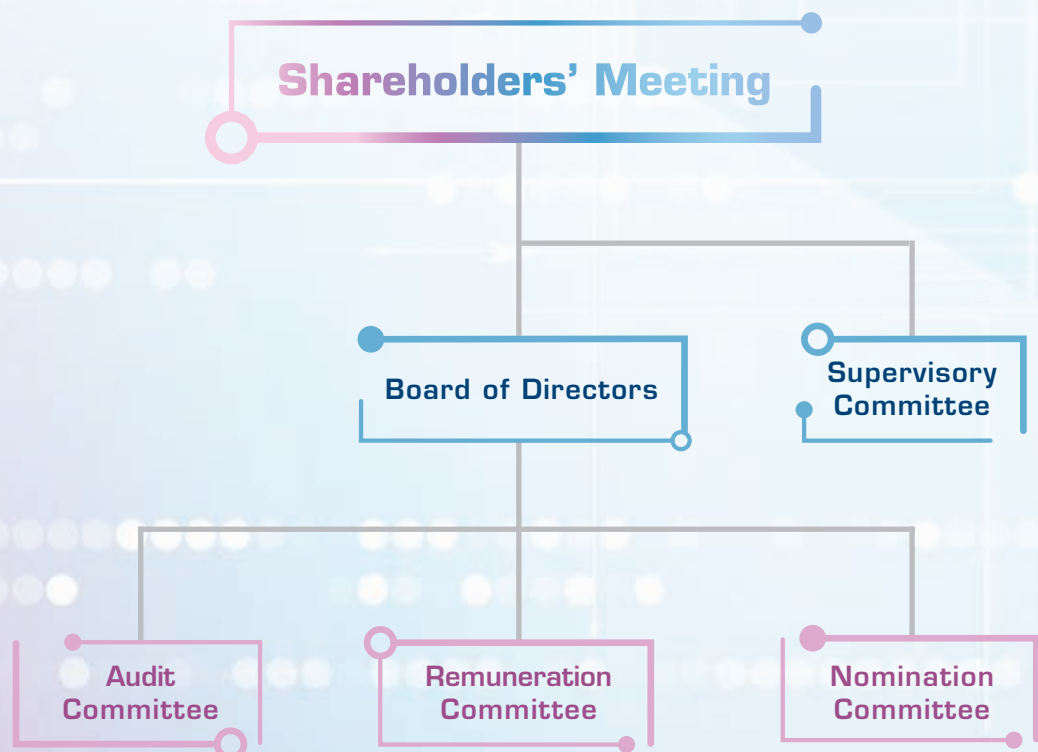
## Corporate Governance Report

### An Overview of Corporate Governance

The Company strives to maintain high level of corporate governance and has always adhered to excellent, prudent and efficient corporate governance principles 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 2018, the shareholders' meeting, the Board and the Supervisory Committee operate soundly and efficiently, and the Company insisted on reform and innovation and strived to promote corporate transformation and upgrades, while continuously optimising its internal control system and

comprehensive risk management in order to effectively ensure corporate steady operation. The standard of the Company's corporate governance continued to improve and is aligned with the long-term best interest of shareholders, ensuring that the interests of shareholders were effectively assured.

The Company persists in refining the basic system 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



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addition, the Company has regularly 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 2018, the roles of Chairman and Chief Executive Officer of the Company were performed by the same individual. 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 capture business opportunities. Many leading international corporations around the world also have similar arrangements. The Company attaches high importance to the annual general meeting which provides an opportunity for direct communication between the Board of Directors of the Company and the shareholders. Mr. Yang Jie, the then Chairman of the Company, was unable to attend the annual general meeting of the Company for the year 2017 convened on 28 May 2018 due to other important work arrangement. Therefore, another executive director was appointed to chair the said annual general meeting and answer the questions raised by the shareholders.

Save as stated above, the Company was in compliance with all the code provisions under the Corporate Governance Code as set out in Appendix 14 to the Listing Rules in the year 2018.

In 2018, 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 named the "Most Honoured Company (2009-2018)" in the Asia's Best Managed Companies Poll 2018 by *FinanceAsia*. The Company was voted as the "Most Honoured Company in Asia" in 2018 All-Asia-Executive-Team ranking organised by *Institutional Investor*, a prestigious financial magazine, for eight consecutive years. The Company was voted as the "Most Outstanding Company in Hong Kong — Telecommunication Services Sector" in the Asia's Outstanding Companies Poll 2018 by *Asiamoney*, and was the only telecom operator in China and Hong Kong to have received such an honour. The Company was accredited with "Platinum Award — Excellence in Environmental, Social and Governance" in the poll of Corporate Awards 2018 by *The Asset*, and was the only telecommunications company that received the Platinum recognition for 10 consecutive years. Meanwhile, the Company was honoured with four other top awards, of which Mr. Yang Jie, the then Chairman and CEO of the Company, was awarded with the "Best CEO in



The then Chairman and CEO Mr. Yang Jie received the "Best CEO" award by *The Asset*

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Telecommunications” for his excellence in leadership, strategic thinking, team- and relationship-building, effective communication and change management. The Company was also awarded “Best Initiative in Diversity and Inclusion” for adopting policies, programs and practices that promote and strengthen diversity and inclusion within the organisation as well as in the community and industry. In addition, the Company was accredited with “The Best of Asia — Icon on Corporate Governance” by *Corporate Governance Asia*, a renowned regional journal on corporate governance, for six consecutive years, and Mr. Yang Jie was honoured with “Asia’s Best CEO” award.

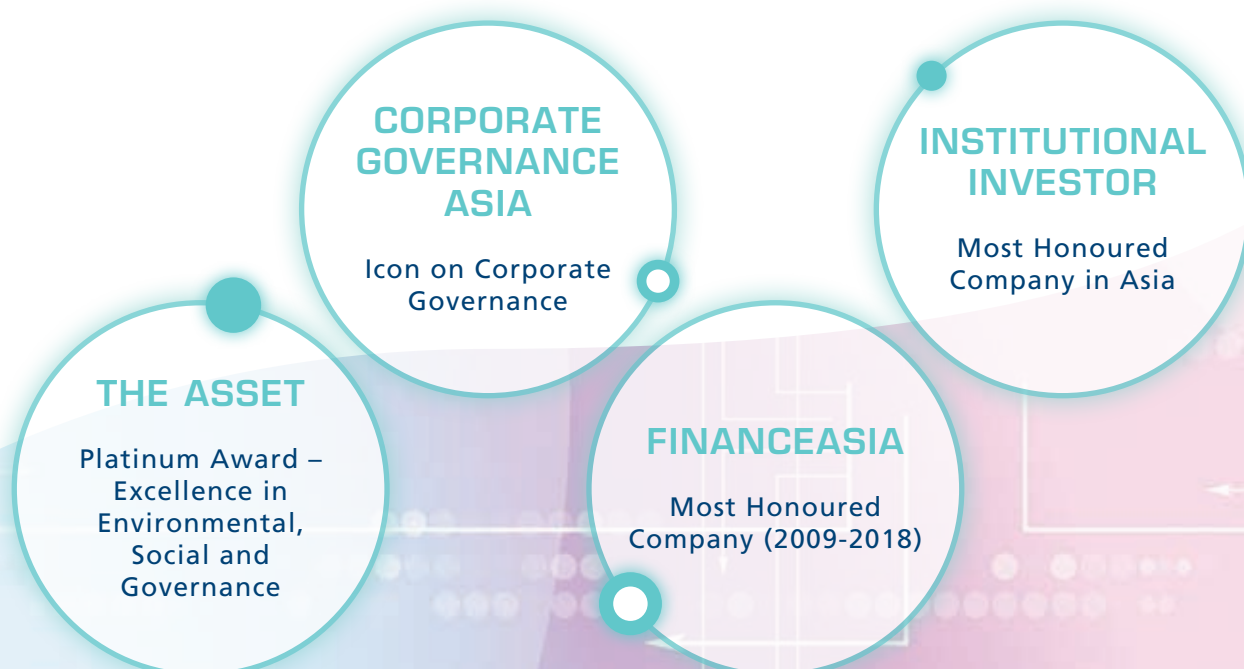
### Overall Structure of the Corporate Governance

A two-tier structure is 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 are 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 2018, the Company convened 3 shareholders’ meetings including an annual general meeting (“AGM”) for the year 2017 and 2 extraordinary general meetings (“EGM”). At the first EGM held on 4 January 2018, the amendments to the Articles of Association of the Company including the updates of contact information of the Company, setting up Party organisations in the Company, the amendment to the number of



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announcements in newspaper in the events of reducing its registered capital, merger, division and establishment of liquidation committee, change of the way of affixing the seal on share certificates and updated description on dividend payment were reviewed and approved. At the AGM held on 28 May 2018, numerous resolutions such as the consolidated financial statements for the year 2017 of the Company, report of the international auditor, proposal for profit and dividend distribution, re-appointment of auditors and amendments to the Articles of Association of the Company (which mainly include the updates of the provisions regarding the Company's scope of business) were reviewed and approved. No significant changes to the Articles of Association of the Company during the year were made. Meanwhile, the Board was authorised to prepare the budget for the year 2018, fix the remuneration of the auditors and issue debentures, etc.. At the

second EGM held on 26 October 2018, the renewal of the continuing connected transactions and the applicable renewed annual caps thereto, the election of Madam Zhu Min and Mr. Yeung Chi Wai, Jason as a Director and independent Director of the Company respectively and the election of Mr. Xu Shiguang as a Supervisor of the Company were approved.

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



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the shareholders' meetings and the communication between Directors and shareholders. The Directors provided detailed and sufficient 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 facilitate the communication amongst the Company, the shareholders and investors.

### Board of Directors

As at 31 December 2018, the Board of the Company comprised 10 Directors including 5 Executive Directors, 1 Non-Executive Director and 4 Independent Non-Executive Directors. 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 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 extensive expertise in accounting and

financial management. The term of office for the 6th session of the Board lasts for 3 years, starting from May 2017 until the day of the Company's annual general meeting for the year 2019 to be held in 2020, upon which the 7th 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 and time commitment, 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.

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In 2018, the Board and the Nomination Committee proposed to appoint Madam Zhu Min (“Madam Zhu”) and Mr. Yeung Chi Wai, Jason (“Mr. Yeung”) as an Executive Director and an Independent Non-Executive Director of the Company respectively. When conducting the evaluation on the candidates, the Board and the Nomination Committee take into account the diversity of the Board and relevant policies. The Board and the Nomination Committee considered that Madam Zhu has extensive experience in finance, management and the telecommunications industry and her appointment to the Board can maintain the proportion of female members in the Board composition. There are currently two female Directors on the Board. Meanwhile, Mr. Yeung is considered as independent and has extensive experience in handling legal, regulatory, compliance and banking matters, and is familiar with relevant laws and regulations. He also complies with the guidelines on independence as set out in Rule 3.13 of the Listing Rules and has sufficient time to discharge his responsibilities as an Independent Non-Executive Director of the Company. The Board believes that the appointments of Madam Zhu and Mr. Yeung as Board members can further

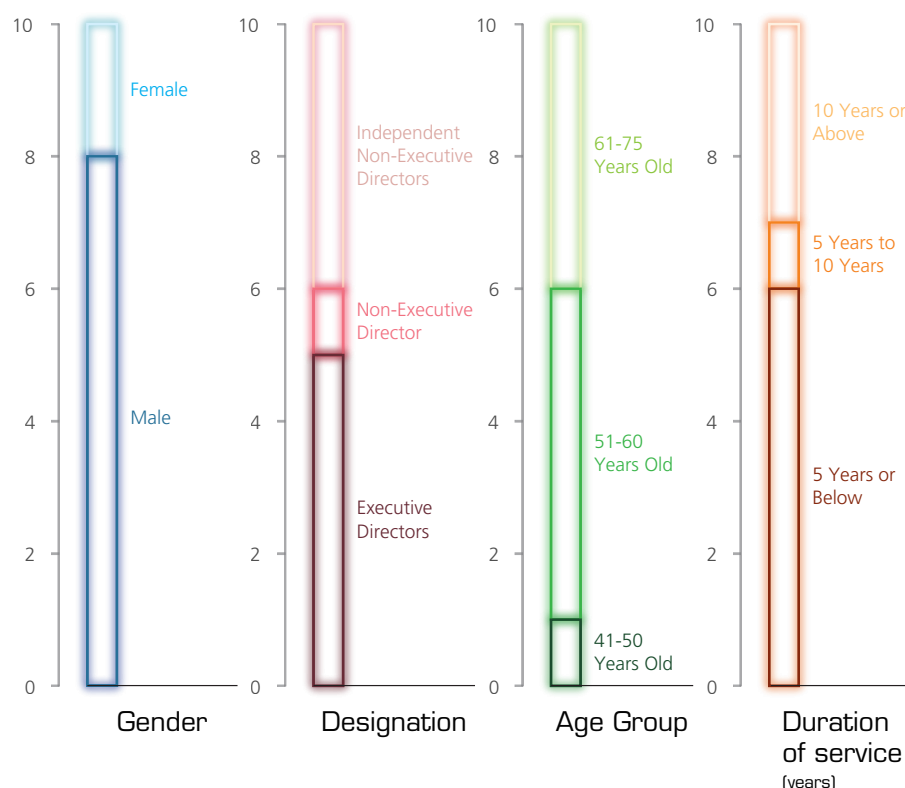
strengthen supervision and management capabilities in finance and legal areas. They can bring different views and perspectives to the Board and further enhance board diversity while promoting the independence and objectiveness in decision-making of the Board and the comprehensive and impartial supervision of the management in accordance with the interests of the Company and its shareholders as a whole. The appointments of Madam Zhu and Mr. Yeung as Directors were approved at the second EGM held on 26 October 2018 by the Company.

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, banking and management with diversification in terms of gender, age, duration of service, etc., advancing the enhancement of management standard and the further standardisation of corporate governance practices, which 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 2018:



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 2018, 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.

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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 leading the operation and management of the Company, the implementation of 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.

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 notice 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 enquiries 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 2018, 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 and internal control implementation and assessment report, annual proposal for profit distribution, share appreciation rights scheme and the grant proposal, renewal of the continuing connected transactions,

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and the applicable renewed annual caps thereto, the implementation of continuing connected transactions, changes of Directors and Board Committee members, Supervisors and senior management, remuneration proposal for the newly appointed Directors, re-appointment and remuneration of auditors, establishment of independent board committee and appointment of independent financial adviser and implementation of new Lease Standard. During the year, the Company convened 4 Board meetings and completed various written resolutions. In 2018, the Chairman held a meeting to communicate with Non-Executive Directors (including Independent Non-Executive Directors) without the presence of Executive Directors independently to ensure their opinions can be fully expressed, further facilitating the exchange of different views on the Board.

The Company determines the Directors' remuneration with reference to factors such as their respective duties and responsibilities in the Company, as well as their experience 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 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 a monthly basis. Meanwhile, through regular Board meetings and reports from management, the Directors are able to have clearer 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 operational focus 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 in order to contribute to the Company.

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During the year, the Directors as at 31 December 2018 have participated in training and continuous professional development activities, and the summary is as follows:

Directors	Types of training
<b>Executive Directors</b>	
Yang Jie	A, B
Ke Ruiwen	A, B
Gao Tongqing	A, B
Chen Zhongyue	A, B
Zhu Min	A, B
<b>Non-Executive Director</b>	
Chen Shengguang	A, B
<b>Independent Non-Executive Directors</b>	
Tse Hau Yin, Aloysius	A, B
Xu Erming	A, B
Wang Hsuehming	A, B
Yeung Chi Wai, Jason	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 2018.

Meanwhile, the Company has received annual independence confirmation from each of the Independent Non-Executive Directors and considered them to be independent.

### Audit Committee

As at 31 December 2018, the Audit Committee comprised 4 Independent Non-Executive Directors, Mr. Tse Hau Yin, Aloysius as the Chairman and Mr. Xu Erming, Madam Wang Hsuehming and Mr. Yeung Chi Wai, Jason as the members. On 26 October 2018, Mr. Yeung Chi Wai, Jason was appointed as a member of Audit Committee. 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,

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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 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 2018, 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 2018, the Audit Committee convened 5 meetings and passed 1 written resolution, 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 and internal control systems, internal audit, renewal of the continuing connected transactions and the applicable renewed annual caps thereto, implementation of continuing connected transactions and the implementation of new Lease Standard. The Audit Committee reviewed the annual auditor's report, interim review report 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 regularly received risk management reports, 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 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.

On 17 December 2018, the Charter of the Audit Committee was amended to reflect the changes to the Listing Rules relating to the independence requirement of Committee members.

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### Remuneration Committee

As at 31 December 2018, 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 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 personnel 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. The Remuneration Committee convened 1 meeting and completed 1 written resolution in 2018, in which it reviewed and discussed the remuneration proposal for the newly appointed Directors, share appreciation rights scheme and the grant proposal.

On 17 December 2018, the Charter of the Remuneration Committee was amended to reflect the change to the independence requirement of Committee members.

### Nomination Committee

As at 31 December 2018, the Nomination Committee comprised 3 Independent Non-Executive Directors, Madam Wang Hsuehming as the Chairlady and Mr. Tse Hau Yin, Aloysius and Mr. Xu Erming as the members. On 28 May 2018, Madam Cha May Lung, Laura resigned from her positions as a member and the Chairlady of the Nomination Committee of the Company. On the same date, Madam Wang Hsuehming was appointed as a member and the Chairlady of the Nomination Committee of the Company. 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. The Nomination Committee convened 1 meeting and passed 1 written resolution in 2018, in which it performed a review of the structure and operations of the Board and the proposed candidate for Director and other related matters.

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### Independent Board Committee

Pursuant to the requirement under the Listing Rules, the Company convened 1 Independent Board Committee meeting in 2018, with all 3 Independent Non-Executive Directors attended where it

reviewed the renewal of the continuing connected transactions and the applicable renewed annual caps thereto and gave the relevant confirmation as well as submitted the recommendations on these matters to the independent shareholders.

### Number of Board and Committee Meetings Attended/Held in 2018

	Board Meeting	Audit Committee Meeting	Nomination Committee Meeting	Remuneration Committee Meeting	Independent Board Committee Meeting	Shareholders' Meeting
<b>Executive Directors</b>						
Yang Jie	4/4	N/A	N/A	N/A	N/A	1/3
Liu Aili*	1/1	N/A	N/A	N/A	N/A	2/2
Ke Ruiwen	3/4	N/A	N/A	N/A	N/A	2/3
Sun Kangmin*	0/0	N/A	N/A	N/A	N/A	0/1
Gao Tongqing	4/4	N/A	N/A	N/A	N/A	2/3
Chen Zhongyue	4/4	N/A	N/A	N/A	N/A	3/3
Zhu Min*	2/2	N/A	N/A	N/A	N/A	N/A
<b>Non-Executive Director</b>						
Chen Shengguang	2/4	N/A	N/A	N/A	N/A	2/3
<b>Independent Non-Executive Directors</b>						
Tse Hau Yin, Aloysius	4/4	5/5	1/1	1/1	1/1	3/3
Cha May Lung, Laura*	0/1	N/A	0/1	N/A	N/A	1/2
Xu Erming	3/4	4/5	1/1	0/1	1/1	2/3
Wang Hsuehming	4/4	5/5	N/A	1/1	1/1	2/3
Yeung Chi Wai, Jason*	2/2	2/2	N/A	N/A	N/A	N/A

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

\* On 29 January 2018, Mr. Sun Kangmin retired from his positions as an Executive Director and an Executive Vice President of the Company due to his age. On 28 May 2018, Madam Cha May Lung, Laura resigned from her positions as an Independent Non-Executive Director as well as a member and the Chairlady of the Nomination Committee of the Company due to her intention to focus on other business commitments and engagement. On the same date, Madam Wang Hsuehming was appointed as a member and the Chairlady of the Nomination Committee of the Company. On 19 July 2018, Mr. Liu Aili resigned from his positions as an Executive Director, President and Chief Operating Officer of the Company due to change in work arrangement. On 26 October 2018, the appointments of Madam Zhu Min and Mr. Yeung Chi Wai, Jason, as a Director and an Independent Director of the Company respectively were approved at the extraordinary general meeting of the Company. On the same date, Mr. Yeung Chi Wai, Jason was appointed as a member of the Audit Committee of the Company.

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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 the 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

As at 31 December 2018, 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 2018. The term of office for the 6th session of the Supervisory Committee lasts for 3 years, starting from May 2017 until the day of the Company's annual general meeting for the year 2019 to be held in year 2020, upon which the 7th session of the Supervisory Committee will be elected.

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### Number of Supervisory Committee Meetings Attended/Held in 2018

Supervisors	Number of Meetings Attended/Held
Sui Yixun (Chairman of the Supervisory Committee)	2/2
Zhang Jianbin (Employee Representative Supervisor)	2/2
Yang Jianqing (Employee Representative Supervisor)	2/2
Hu Jing*	0/0
Xu Shiguang*	0/0
Ye Zhong	1/2

*Note: Certain Supervisors could not attend some of the meetings of the Supervisory Committee due to other important business commitments.*

\* On 27 February 2018, Mr. Hu Jing resigned from his position as a Supervisor of the Company due to change in work arrangement. On 26 October 2018, the appointment of Mr. Xu Shiguang as a Supervisor of the Company was approved at the extraordinary general meeting of the Company.

### 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 2018 is as follows:

Service item	Fee (including value-added tax) (RMB millions)
Audit services	76.8
Non-audit services (mainly include internal control advisory and other advisory services)	3.4
Total	80.2

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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 158 to 162.

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 six 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 2019, subject to the approval at the 2018 annual general meeting of the Company.

### Risk Management and Internal Control Systems

The Board attaches great importance to the establishment and perfection of the risk management and internal control systems. 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 but not absolute assurance against material misstatements or losses. 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 risk management and internal control systems 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 personnel 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 featured 5-step risk management approach based on risk management theory and practice to achieve closed-loop management of risk identification, risk assessment, key risk analysis, risk reaction and risk management assessment. In continuously strengthening the risk process control and management and focusing on significant risk which may be encountered, the Company established a risk monitoring team, to follow and report the status of risk management and control regularly, improve the collecting mechanism of risk-related information and identify the potential flaws of risk in a timely manner. 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 2018, 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 strived to reduce negative effect from significant risks, the Company was not confronted by any major risk event throughout the whole year.

The Company has identified, assessed and analysed potential major risks faced by the Company in 2019, including economic and policy environment adaptation risks, business development risks and network and information security 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 on the Company is limited and within an expected range.

In 2019, the potential significant risks and the major risk-prevention and countering measures are as follows:

Economic and policy environment adaptation risks: Facing the risks and challenges such as the downward pressure under the macroeconomic environment, upgrade of 5G technology, change of regulatory policies in the industry and

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complicated and changing international environment, the Company will actively adapt to the change of environment, increase effort on stringent control of accounts receivable, proactively embark the trial and application of 5G and innovation on business models, implement the requirements of regulatory policies, promote comprehensive in-depth reform, improve the outside compliance management system and further enhance the quality, efficiency, and motivation of development.

Business development risks: Facing continuously intensified competition in the industry, the Company will insist on customer-oriented focus to build a “Trinity” market value operation system featuring convergence, integration and intelligentisation, promoting cloud-network integration, deepening value operations and promoting high-quality development.

Network and information security risks: Facing the all-round risks and challenges of network and information security, the Company will proactively carry out the obligation of network security protection, increase initiatives on security, enhance the network security protection capability and respond to emergencies in a timely and appropriate manner.

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, maintain the Company’s legitimate rights and support corporate to achieve long-term healthy development target.

The Standing Committee of the National People’s Congress (the “NPCSC”) promulgated the *Anti-Unfair Competition Law of the People’s Republic of China*, which has come into force on 1 January 2018. The amended *Anti-Unfair Competition Law of the People’s Republic of China* defined acts of unfair competition, supplemented unfair competition practices that should be prohibited, clearly identified the rules for confusing behaviour and targets of commercial bribery, strengthened the protection of trade secrets, revised the rules concerning the recognition of prize sales, increased the maximum amount of sales rewards, broadened the terms for unfair competition behaviour in Internet, strengthened the measures for supervision and inspection, and perfected the legal liability systems with priority for civil liability and by paralleling the civil liability and administrative penalty, aggravated the punishment for violations, sorted out and maintained relationship with other laws and regulations.

In August 2018, the NPCSC approved the *E-Commerce Law of the People’s Republic of China*, which was formally implemented on 1 January 2019. *E-Commerce Law* consisted of seven chapters and eighty-nine articles which further regulated the parties conducting e-commerce activities including e-commerce platform operators (“e-commerce platforms”). It was the first time to define and confirm the obligation of e-commerce platforms to protect the consumers’ security and request the e-commerce platforms to bear the corresponding responsibility when the obligation is breached. It further refined the regulation for the responsibility of intellectual property infringement on the e-commerce platforms, regulated the industrial and commercial registration and tax collection and management of e-commerce operators, requested the

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e-commerce operators to publish information when independently terminating the transactions, prohibited fabricating transactions, made up user comments to defraud and mislead consumers, prohibited the e-commerce platforms to abuse the dominant market position and excluded and restricted the competition, regulated the rules of deposits collection and return, marked the ranking of bidding products, etc.

On 23 August 2018, the Ministry of Industry and Information Technology promulgated the *Notice of Ministry of Industry and Information Technology on Further Regulating Activities to Market Telecommunications Tariff Schemes* (the "Notice") and became effective from 23 August 2018. The Notice encouraged the fundamental telecommunications enterprises to provide a tiered discount pricing formula for tariff plans according to the usage amount of the users and simplify the structure of tariff package. In formulating and implementing the tariff plans of packaging and sales, the tariff plans on each respective service should be provided at the same time and should further improve the tariff rates disclosure policy. When promoting the tariff plans, reminder obligation should be carried out for the matters drawing users' attention to the restrictive condition, the validity period and the billing principle, and for the same type of users with the same transaction conditions should be guaranteed with equal rights to the tariff plans.

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 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.

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In 2018, based on external regulatory supervision, changes in policy environment, and requirements for prevention and control of the Company's key risks, the Company also took into accounts of various measures and business development of its deepening reforms. In order to focus on responding quickly to market demands and supporting business innovation and operational innovation for enterprises, the Company conducted annual revision of internal control manuals and implementation guidance. Branches at all levels further optimised and improved the list of internal audit authority, strengthened the Company's internal supervision and stringent control on problem ratification, continuously improved internal control procedures and policies for capital utilisation, amended the protection for users' information and customer service related procedures, perfected taxation and e-channel partner management; supplemented the contents of outsourcing management of sales outlets and property leasing management, IDC and Internet services management, funds and accounts management, guarantee and legal issues management.

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, which are independent of the Company's business operations, are complementary with the functions of the external auditors while the Internal Audit Department plays an important role in the monitoring of the Company's internal management. The Internal Audit Department is responsible for internal control 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 Auditing 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

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and identify areas which require assessment, (2) assess the effectiveness of the design of internal control, (3) assess the operating effectiveness of 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 amended "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 2018, 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 further reinforces assessment in respect of control points in relation to control environment and material financial statements items. The Company insisted on risk-oriented principles with 100% coverage and focusing on assessing key control areas and control points identified from risk analysis. In 2018, the internal control self-assessment takes the prevention of systemic risk as top priority. Focusing on efforts in the depth and breadth of self-assessment with full exploitation of leading business department in the coordination of self-assessment and risk control, the Company identified major risk, confirmed the key control areas and key control points while conducting self-identification, self-assessment and self-improvement vertically. 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, the Company continued to strengthen the independent assessment of internal control and increased the assessment strength on the major work, major business and the effectiveness of internal control in key risk areas. In 2018, on the basis of conducting regular and independent assessment of internal control, the Company solidified fundamental risk control capabilities to check the quality on self-assessment of internal control and effectiveness of key internal control, conduct independent assessment on city-level branches, and deeply understand and analyse the risks existed in the grassroots operating units, and seek improvement on the flaws of internal control. We also identified successful experiences and applied them to boarder areas to increase the economic radiation effects while effectively promoting implementation of risk prevention measures in different levels, urging all level units to further enhance self-assessment on working quality and rectification in order to effectively enhancing the quality and effectiveness of assessment, enhancing the self-healing ability and promoting the healthy development of the Company.

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

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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, internal control audit and audit from National Audit Office, 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. To ensure effective rectification, the Company also strengthened the verification and supervision of the rectification measures of internal control deficiencies and issued measures to rectify the audit problem identified. All subordinates 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 on-going 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 2018, 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

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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 to 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. Meanwhile, the Company set up 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.

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 and wireline broadband subscribers. The Company attaches great importance to maintaining daily communication with shareholders, investors and analysts. In 2018, 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 2018, the Company attended the following investor conferences held by major international investment banks:

Date	Name of Conference	Location
January 2018	DBS Vickers Pulse of Asia Conference 2018	Singapore
January 2018	Deutsche Bank Access China Conference 2018	Beijing
January 2018	Morgan Stanley China TMT Conference 2018	Beijing
January 2018	UBS 18th Greater China Conference	Shanghai
May 2018	Nomura Hong Kong & China A/H TMT Corporate Day 2018	Hong Kong
May 2018	J.P. Morgan Global China Summit 2018	Beijing
May 2018	BNP Paribas 9th Asia Pacific TMT Conference	Hong Kong
May 2018	Macquarie Greater China Conference 2018	Hong Kong
May 2018	HSBC China Conference 2018	Shenzhen
May 2018	Goldman Sachs TechNet Conference — Asia Pacific 2018	Hong Kong
May 2018	Guotai Junan International Investor Forum 2018	Shenzhen
May 2018	Morgan Stanley China Summit 2018	Beijing
May 2018	CICC 7th Annual New York Investor Forum	United States
May 2018	Deutsche Bank Access Asia Conference 2018	Singapore
June 2018	Nomura Investment Forum Asia 2018	Singapore
June 2018	UBS Asia TMT Conference 2018	Hong Kong
June 2018	CICC Investment Strategy Conference 2018	Shanghai
June 2018	Maybank KimEng Invest Asia Conference 2018	United Kingdom
August 2018	Morgan Stanley China TMT Conference	Beijing
September 2018	Morgan Stanley Asia Pacific Corporate Day 2018	London
September 2018	HSBC GEMs Investor Forum 2018	London
September 2018	Nomura China Investor Forum 2018	Shanghai
September 2018	Haitong International AI Conference 2018	Hong Kong
September 2018	25th CLSA Investors' Forum	Hong Kong
November 2018	Credit Suisse China Investment Conference 2018	Shenzhen
November 2018	Goldman Sachs China Conference 2018	Shenzhen
November 2018	Jefferies 8th Annual Greater China Conference	Hong Kong
November 2018	J.P. Morgan Global TMT Conference 2018	Hong Kong
November 2018	Citi China Investor Conference 2018	Macau
November 2018	Morgan Stanley European Technology, Media & Telecom Conference 2018	Barcelona
November 2018	Daiwa Investment Conference 2018	Hong Kong
November 2018	Daiwa Asia Communication Days 2018	London

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The Company's investor relations website ([www.chinatelecom-h.com](http://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. 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. In addition to setting up a dedicated investor relations enquiry line, a specialised appointment function to schedule a meeting with investor relations professionals was also launched on the Company's website, to promote direct and close communication between the Company and investors, as well as to increase transparency. The Company's website was accredited a number of awards including the "Best Website" by *Institutional Investor*, and "Best IR Website Award" by *IR Magazine*, indicating that the Company's website is highly recognised by the professionals.

The Company also strives to enhance the disclosure quality and format of annual report. The Company further enhanced the transparency of disclosure in environmental, social and governance areas, by following *Environmental, Social and Governance Reporting Guide*, Appendix 27 of Listing Rules, to report the Company's achievements and key performance indicators on environmental protection, while also took initiative to add quantitative disclosures on social responsibility. The data disclosed was analysed and assessed by independent third party to ensure compliance with relevant requirements. 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 English and/or Chinese. The Company clearly and precisely delivered the messages about its strategies and goals in its 2017 Annual Report "*Co-Building Our Smart Future*", so that shareholders and investors can easily understand the Company's development directions and focus. The print and online versions of 2017 Annual Report won a number of top accolades in international competitions, including being awarded the Grand Award and 12 gold awards in "2018 International ARC Awards", as well as winning 7 gold awards in "LACP 2017 Vision Awards Annual Report Competition". The prestigious honours reflect the unanimous worldwide recognition towards China Telecom's tireless pursuit of excellence and globally leading performance on corporate governance and disclosure, on both conventional and digital channels.

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The Company has always maintained a sound and effective information disclosure mechanism while keeping highly transparent communications with media, analysts and investors. Meanwhile, we attach great importance to the handling of inside information and have formulated rules on information disclosures and guidelines on inside information which encompass (including but not limited to) disclosure of sensitive information and rules on confidential information, identifying the scope of inside information, procedures and management guidelines on handling 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

Details of shareholders by type and public float capitalisation can be referred to the Report of the Directors on pages 54 to 75 of this annual report.



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### 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 or requesting for convening of an extraordinary general meeting or a class meeting or proposing new motions:

Shareholders may at any time send their enquiries, requests, proposals 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  
28th Floor, Everbright Centre,  
108 Gloucester Road, Wanchai,  
Hong Kong  
Email: [ir@chinatelecom-h.com](mailto:ir@chinatelecom-h.com)  
Tel No.: (852) 2877 9777  
IR Enquiry: (852) 2582 0388  
Fax No.: (852) 2877 0988

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A dedicated “Investor” section is available on the Company’s website ([www.chinatelecom-h.com](http://www.chinatelecom-h.com)). There is a FAQ function in the “Investor” section designated to enable timely, effective and interactive communication between the Company, 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 9 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.

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Pursuant to the requirements of the NYSE Listed Company Manual, companies shall formulate separate corporate governance guidelines. Under the currently applicable PRC and Hong Kong laws and regulations, the Company is not required to formulate any guidelines for corporate governance; therefore, the Company has not formulated any separate corporate governance guidelines. 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 2018.

#### 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](http://www.chinatelecom-h.com)

# Biographical Details of Directors, Supervisors and Senior Management

## Mr. Ke Ruiwen

Age 55, is an Executive Director, President and Chief Operating Officer of the Company, joined the Board of Directors of the Company in May 2012 and has exercised the powers of the Chairman and Chief Executive Officer of the Company since 8 March 2019. Mr. Ke obtained a doctorate degree in business administration (DBA) from the ESC Rennes School of Business. Mr. Ke served as Deputy Director General of Jiangxi Posts and Telecommunications Administration, Deputy General Manager of Jiangxi Telecom, Managing Director of the Marketing Department of the Company and China Telecommunications Corporation, General Manager of Jiangxi Telecom, Managing Director of the Human Resources Department of the Company and China Telecommunications Corporation, Executive Vice President of the Company, Vice President of China Telecommunications Corporation and the Chairman of Supervisory Committee of China Tower Corporation Limited. He is also a Director and President of China Telecommunications Corporation. Mr. Ke has extensive experience in management and the telecommunications industry.



## Mr. Gao Tongqing

Age 55, is an Executive Director and Executive Vice President of the Company, joined the Board of Directors of the Company in May 2017. Mr. Gao graduated from the Changchun Institute of Posts and Telecommunications with a major in telecommunications engineering and received a doctorate degree in business administration from the Hong Kong Polytechnic University. Mr. Gao served as Deputy Director General of Xinjiang Uygur Autonomous Region Posts and Telecommunications Administration, Deputy General Manager and General Manager of Xinjiang Uygur Autonomous Region Telecom Company and General Manager of China Telecom Jiangsu branch. He is also a Vice President of China Telecommunications Corporation. Mr. Gao has extensive experience in management and the telecommunications industry.



## Biographical Details of Directors, Supervisors and Senior Management

### Mr. Chen Zhongyue



Age 47, is an Executive Director and Executive Vice President of the Company, joined the Board of Directors of the Company in May 2017. Mr. Chen received a bachelor degree from Shanghai International Studies University, a master degree in economics from Zhejiang University and an executive master of business administration (EMBA) from Xiamen University. Mr. Chen served as Deputy General Manager of China Telecom Zhejiang branch, Managing Director of the Public Customers Department of the Company and China Telecommunications Corporation and General Manager of China Telecom Shanxi branch. He is also a Vice President of China Telecommunications Corporation. Mr. Chen has extensive experience in management and the telecommunications industry.

### Madam Zhu Min



Age 54, is an Executive Director, Executive Vice President, Chief Financial Officer and Secretary of the Board of the Company, joined the Board of Directors of the Company in October 2018. Madam Zhu is a senior accountant. She received a master degree in system engineering from the Faculty of Management Engineering at the Beijing Institute of Posts and Telecommunications and a doctorate degree in business administration from the Hong Kong Polytechnic University. Madam Zhu served as Managing Director of Finance Department of China Telecom (Hong Kong) Limited, Managing Director of Finance Department of China Mobile (Hong Kong) Group Limited, Deputy Chief Financial Officer and Managing Director of Finance Department of China Mobile Limited, Director General of Finance Department of China Mobile Communications Corporation, Deputy Chief Accountant and Director General of Finance Department of China Mobile Communications Group Co., Ltd. and Director of Shanghai Pudong Development Bank Co., Ltd.. She is currently the Chief Accountant of China Telecommunications Corporation. Madam Zhu has extensive experience in finance, management and the telecommunications industry.

## Biographical Details of Directors, Supervisors and Senior Management

### Mr. Chen Shengguang

Age 55, is a Non-Executive Director of the Company, joined the Board of Directors of the Company in May 2017. Mr. Chen graduated from Zhongnan University of Economics with a major in finance and accounting, and obtained a postgraduate degree in economics from Guangdong Academy of Social Sciences and a master degree in business administration (MBA) from Lingnan College of Sun Yat-sen University. Mr. Chen is currently the Director and General Manager of Guangdong Rising Assets Management Co., Ltd. (one of the domestic shareholders of the Company). Mr. Chen served as the Manager of Finance Department and Deputy General Manager of Guangdong Foreign Trade Import & Export Corporation, Head of Finance Department, Assistant to General Manager and Chief Accountant of Guangdong Guangxin Foreign Trade Group Co., Limited, Director of FSPG Hi-Tech Co., Ltd., Non-Executive Director of Xingfa Aluminium Holdings Limited, Director of Guangdong Silk-Tex Group Co., Ltd., Chief Accountant and Deputy General Manager of Guangdong Guangxin Holdings Group Ltd.. Mr. Chen has extensive experience in finance and corporate management.



## Biographical Details of Directors, Supervisors and Senior Management

### Mr. Tse Hau Yin, Aloysius



Age 71, is an Independent Non-Executive Director of the Company, joined the Board of Directors of the Company in September 2005. Mr. Tse is currently an Independent Non-Executive Director of CNOOC Limited, Sinofert Holdings Limited, SJM Holdings Limited and China Huarong Asset Management Co., Ltd., all of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited ("HKSE Main Board"). Mr. Tse is also an Independent Non-Executive Director of OCBC Wing Hang Bank Limited (formerly known as "Wing Hang Bank Limited", which was listed on the HKSE Main Board until October 2014). He was an Independent Non-Executive Director of China Construction Bank Corporation, which is listed on the HKSE Main Board, from 2004 to 2010. Mr. Tse was also an Independent Non-Executive Director of Daohe Global Group Limited (formerly known as "Linmark Group Limited"), which is listed on the HKSE Main Board, from 2005 to 2016. Mr. Tse was appointed as an Independent Non-Executive Director of CCB International (Holdings) Limited, a wholly owned subsidiary of China Construction Bank Corporation in March 2013. He is also a member of the International Advisory Council of the People's Municipal Government of Wuhan. Mr. Tse is a fellow of the Institute of Chartered Accountants in England and Wales, and the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Mr. Tse is a past President and a former member of the Audit Committee of the HKICPA. He joined KPMG in 1976, became a partner in 1984 and retired in March 2003. Mr. Tse was a Non-Executive Chairman of KPMG's operations in China and a member of the KPMG China advisory board from 1997 to 2000. Mr. Tse is a graduate of the University of Hong Kong.

## Biographical Details of Directors, Supervisors and Senior Management

### Professor Xu Erming

Age 69, is an Independent Non-Executive Director of the Company, joined the Board of Directors of the Company in September 2005. Professor Xu is a professor and Dean of Business School of Shantou University and Vice Chairman of the Chinese Enterprise Management Research Association. He is entitled to the State Council's special government allowances and is the Independent Non-Executive Director of Comtec Solar Systems Group Limited. Professor Xu served as a professor, Ph.D supervisor of the Graduate School and Dean of Business School at the Renmin University of China, and the Independent Supervisor of Harbin Electric Company Limited. Over the years, Professor Xu has conducted research in areas related to strategic management, innovation and entrepreneurship management, and has been responsible for research on many subjects put forward by the National Natural Science Foundation, the National Social Science Foundation and other authorities at provincial and ministry level. He has received many awards such as the Ministry of Education's Class One Excellent Higher Education Textbook Award, the State-Level Class Two Teaching Award and the National Excellent Course Award. Professor Xu has been awarded the Fulbright Scholar of U.S.A. twice and the visiting scholar of McGill University, Canada. Professor Xu was previously a lecturer at the New York State University at Buffalo, U.S.A., the University of Scranton, U.S.A., the University of Technology, Sydney, the Kyushu University, Japan, Panyapiwat Institute of Management, Thailand and the Hong Kong Polytechnic University.



## Biographical Details of Directors, Supervisors and Senior Management

### Madam Wang Hsuehming



Age 69, is an Independent Non-Executive Director of the Company, joined the Board of Directors of the Company in May 2014. Madam Wang received a bachelor of arts degree from the University of Massachusetts and attended Columbia University. She was a Senior Advisor and former Chairman of BlackRock China. She was also the former Chairman of China at Goldman Sachs Asset Management. She joined Goldman Sachs in 1994, became a Partner in 2000 and an Advisory Director from 2010 to 2011. With nearly 30 years of experience in financial services, she participated in pioneering efforts in China's economic reform and development. She was instrumental in advising Ministry of Posts and Telecommunications and Ministry of Information Industry (now known as Ministry of Industry and Information Technology) in the privatisations and listings of its mobile and fixed line businesses. She also participated in advising appropriate operators in strategic investments by international telecom companies. The early cross-border financings of aircraft and other capital equipment in China's aviation sector, as well as the separate listings of national airlines, and important provincial and municipal credit restructurings also formed part of Madam Wang's understanding of China's economic growth in the past three decades.

## Biographical Details of Directors, Supervisors and Senior Management

### Mr. Yeung Chi Wai, Jason

Age 64, is an Independent Non-Executive Director of the Company, joined the Board of Directors of the Company in October 2018. Mr. Yeung is currently the Group Chief Compliance and Risk Management Officer of Fung Holdings (1937) Limited and its listed companies in Hong Kong, an Independent Non-Executive Director of Bank of Communications Co., Ltd. and a member of Hospital Authority Board of Hong Kong. He served as an Independent Non-Executive Director of AviChina Industry & Technology Company Limited. Mr. Yeung has extensive experience in handling legal, compliance and regulatory matters and previously worked in the Securities and Futures Commission of Hong Kong, law firms and enterprises practising corporate, commercial and securities laws. Mr. Yeung served as a Director and the General Counsel of China Everbright Limited and was also a partner of Woo, Kwan, Lee, & Lo.. He acted as the Board Secretary of BOC Hong Kong (Holdings) Limited from 2001 to 2011 and concurrently acted as the Board Secretary of Bank of China Limited from 2005 to 2008. He also served as the Deputy Chief Executive (Personal Banking) of Bank of China (Hong Kong) Limited from April 2011 to February 2015. Mr. Yeung received a bachelor degree in social sciences from the University of Hong Kong. He then graduated from The College of Law, United Kingdom and received a bachelor degree in law and a master degree in business administration from the University of Western Ontario, Canada.



## Biographical Details of Directors, Supervisors and Senior Management

### Mr. Zhang Zhiyong



Age 53, was appointed as an Executive Vice President of the Company on 10 July 2018. Mr. Zhang is a senior engineer. He graduated from the Changchun Institute of Posts and Telecommunications with a bachelor degree in radio engineering. He also received a master degree in control engineering from Yanshan University and a master of management degree from BI Norwegian School of Management. Mr. Zhang served as Managing Director of the Sideline Industrial Management Department of China Telecommunications Corporation, President and Executive Director of China Communications Services Corporation Limited, General Manager of Xinjiang branch and Beijing branch of China Telecom Corporation Limited. He is also a Vice President of China Telecommunications Corporation, the Chairman of the board of directors and an Executive Director of China Communications Services Corporation Limited and a Non-Executive Director of China Tower Corporation Limited. Mr. Zhang has extensive experience in management and the telecommunications industry.

### Mr. Liu Guiqing



Age 52, was appointed as an Executive Vice President of the Company on 10 July 2018. Mr. Liu is a professor-level senior engineer. He received a doctorate degree in engineering science from National University of Defense Technology. Mr. Liu served as Deputy General Manager and General Manager of China Unicom Hunan branch and General Manager of China Unicom Jiangsu provincial branch. He is also a Vice President of China Telecommunications Corporation. Mr. Liu has extensive experience in management and the telecommunications industry.

## Biographical Details of Directors, Supervisors and Senior Management

### Mr. Wang Guoquan

Age 46, was appointed as an Executive Vice President of the Company on 11 March 2019. Mr. Wang received an executive master degree of business administration (EMBA) from Business School, Renmin University of China. Mr. Wang served as Deputy General Manager and General Manager of the China Telecom Hebei branch and General Manager of the Marketing Department of China Telecommunications Corporation. He is also a Vice President of China Telecommunications Corporation and a director of Besttone Holding Co.,Ltd.. Mr. Wang has extensive experience in management and the telecommunications industry.



## Supervisors

### Mr. Sui Yixun

Age 55, is the Chairman of the Supervisory Committee of the Company, joined the Supervisory Committee of the Company in May 2015. Mr. Sui is currently the Managing Director of audit department of the Company, a Supervisor of Tianyi Telecom Terminals Company Limited and a Supervisor of China Tower Corporation Limited. Mr. Sui received a bachelor degree from Beijing Institute of Posts and Telecommunications and a master degree in business administration from Tsinghua University. Mr. Sui served as Deputy General Manager of China Telecom Shandong branch, Deputy General Manager of the Northern Telecom of China Telecommunications Corporation and General Manager of China Telecom Inner Mongolia Autonomous Region branch. Mr. Sui is a senior economist and has extensive experience in operational and financial management in the telecommunications industry.

### Mr. Zhang Jianbin

Age 53, is an Employee Representative Supervisor of the Company, joined the Supervisory Committee of the Company in October 2012. Mr. Zhang is currently the Deputy Managing Director of the Corporate Strategy Department (Legal Department) and the Deputy General Counsel of China Telecommunications Corporation. Mr. Zhang graduated from the Law School of Peking University in 1989 and received LL.M degree. He also had EMBA degree from the Guanghua School of Management at Peking University in 2006. He previously worked at the Department of Policy and Regulation of the Ministry of Posts and Telecommunications ("MPT") and the Directorate General of Telecommunications ("DGT") of the MPT. He served as Deputy Director of the General Office and Deputy Director of the Legal Affairs Division of the DGT of the MPT, Director of the Corporate Strategy Department (Legal Department) of the Company. Mr. Zhang is a senior economist with extensive experience in telecommunications legislation and regulation, corporate governance, corporate legal affairs and risk management.

## Biographical Details of Directors, Supervisors and Senior Management

### Mr. Yang Jianqing

Age 59, is an Employee Representative Supervisor of the Company, joined the Supervisory Committee of the Company in May 2017. Mr. Yang is currently the senior consultant of Corporate Culture Department of the Company. Mr. Yang graduated from the Beijing Institute of Posts and Telecommunications with a bachelor degree in 1982 and obtained a master degree in business administration from the University of Hong Kong. Mr. Yang served as Director General of Xining Telecommunications Bureau in Qinghai province, Deputy General Manager and General Manager of China Telecom Qinghai branch, General Manager of China Telecom Gansu branch, financial controller of the Company and General Manager of Corporate Culture Department of the Company. Mr. Yang is a senior engineer and has extensive experience in operational and financial management in the telecommunications industry.

### Mr. Xu Shiguang

Age 39, is a Supervisor of the Company, joined the Supervisory Committee of the Company in October 2018. Mr. Xu is currently the Director of general office of audit department of the Company. Mr. Xu received a bachelor degree in auditing and a master degree in accounting from the Nankai University and is studying the PhD course at the Chinese Academy of Fiscal Sciences. Mr. Xu served at various positions in internal control and auditing at China Telecommunications Corporation for many years. Mr. Xu is a member of the Chinese Institute of Certified Public Accountants and a Certified Internal Auditor with extensive experience in internal control and auditing.

### Mr. Ye Zhong

Age 59, is a Supervisor of the Company, joined the Supervisory Committee of the Company in May 2015. Mr. Ye is a senior accountant. He holds a bachelor degree. Mr. Ye is the Director of Zhejiang Provincial Financial Holdings Co., Ltd., Chairman and General Manager of Zhejiang Provincial Innovation and Development Investment Co. Ltd., and Chairman of Zhejiang Financial Market Investment Co. Ltd.. Mr. Ye served as Deputy General Manager of Zhejiang Financial Development Company (one of the domestic shareholders of the Company), Chairman of Zhejiang Venture Capital Fund of Funds Management Co. Ltd., Chairman and General Manager of Zhejiang Agricultural Investment and Development Fund Co. Ltd., Chairman and General Manager of Zhejiang Infrastructure Investment (including PPP) Fund Co. Ltd., Director of Zhejiang Provincial Industry Fund Co., Ltd., Deputy Director of the Social Security Division of the Department of Finance of Zhejiang Province, Deputy Director of the Discipline Inspection Division and Director of Supervisory Office of the Department of Finance of Zhejiang Province delegated by the Discipline Inspection Commission and Department of Supervision of Zhejiang Province. Mr. Ye has extensive experience in government's work and state-owned enterprise management.

# Report of the Directors

The Board of Directors (the “Board”) of China Telecom Corporation Limited (the “Company”) hereby presents its report together with the audited consolidated financial statements of the Company and its subsidiaries (collectively, the “Group”) prepared in accordance with the International Financial Reporting Standards for the year ended 31 December 2018.

## Principal Business

The principal business of the Company and the Group is the provision of fundamental telecommunications services including comprehensive wireline telecommunications services, mobile telecommunications services, value-added services such as Internet access services, information services and other related services within the service area of the Group.

## Results

Results of the Group for the year ended 31 December 2018 and the financial position of the Group as at that date are set out in the audited consolidated financial statements on pages 163 to 261 of this annual report.

## Dividend Policy

The Company attaches great importance to the investment returns of shareholders, strives to maintain the continuity and stability of the dividend policy taking into

the consideration the long-term interest and sustainable development of the Company. The following factors will be considered by the Company when formulating the dividend distribution plan:

1. the operating results and cash flow level of the Company;
2. the Company’s future business development position and the capital expenditure requirements;
3. capital needs and gearing ratio;
4. the expectation from shareholders and investors;
5. other factors that the Board deems appropriate.

The Board is responsible for formulating the dividend distribution plan and will execute the relevant approval procedures in accordance with relevant laws, rules, regulations and articles of association of the Company (the “Articles of Association”) before proceeding with the distribution. In the future, the Company will strive for improvement on profitability and at the same time continue to deliver favourable dividend return for the shareholders.

### Dividend

The Board proposes a final dividend in the amount equivalent to HK\$0.125 per share (pre-tax), totalling approximately RMB8,629 million for the year ended 31 December 2018. The dividend proposal will be submitted for consideration at the annual general meeting to be held on 29 May 2019 (the "Annual General Meeting"). Dividends will be denominated and declared in Renminbi.

Dividends for holders of domestic shares and the investors of the Shanghai Stock Exchange and Shenzhen Stock Exchange (including enterprises and individuals) investing in the H shares of the Company listed on the Hong Kong Stock Exchange (the "Southbound Trading Link") (the "Southbound Investors") will be paid in Renminbi, whereas dividends for H share shareholders other than Southbound Investors will be paid in Hong Kong dollars. The relevant exchange rate will be the average median rate of Renminbi to Hong Kong dollars as announced by the People's Bank of China for the week prior to the date of declaration of dividends at the annual general meeting. The proposed final dividends are expected to be paid on 26 July 2019 upon approval at the Annual General Meeting.

Pursuant to the "Enterprise Income Tax Law of the People's Republic of China" and the "Implementation Rules of the Enterprise Income Tax Law of the People's Republic of China" in 2008, the Company shall be obliged to withhold and pay 10% enterprise income tax when it distributes the proposed 2018 final dividends to non-resident enterprise shareholders of overseas H shares (including HKSCC Nominees Limited, other corporate nominees or trustees, and other entities or

organisations) whose names appear on the Company's H share register of members on 11 June 2019.

According to regulations by the State Administration of Taxation (Guo Shui Han [2011] No. 348) and relevant laws and regulations, if the individual H share shareholders who are Hong Kong or Macau residents and those whose country of domicile is a country which has entered into a tax treaty with PRC stipulating a dividend tax rate of 10%, the Company will finally withhold and pay individual income tax at the rate of 10% on behalf of the individual H share shareholders. If the individual H share shareholders whose country of domicile is a country which has entered into a tax treaty with PRC stipulating a dividend tax rate of less than 10%, the Company will finally withhold and pay individual income tax at the rate of 10% on behalf of the individual H share shareholders. If the individual H share shareholders whose country of domicile is a country which has entered into a tax treaty with PRC stipulating a dividend tax rate of more than 10% but less than 20%, the Company will withhold and pay individual income tax at the actual tax rate stipulated in the relevant tax treaty. If the individual H share shareholders whose country of domicile is a country which has entered into a tax treaty with PRC stipulating a dividend tax rate of 20%, or a country which has not entered into any tax treaties with PRC, or under any other circumstances, the Company will withhold and pay individual income tax at the rate of 20% on behalf of the individual H share shareholders.

The Company will determine the country of domicile of the individual H share shareholders based on the registered address as recorded in the H share register of members of the Company on 11 June

## Report of the Directors

2019 (the “Registered Address”). If the country of domicile of an individual H share shareholder is not the same as the Registered Address or if the individual H share shareholder would like to apply for a refund of the additional amount of tax finally withheld and paid, the individual H share shareholder shall notify and provide relevant supporting documents to the Company on or before Tuesday, 4 June 2019. Upon examination of the supporting documents by the relevant tax authorities, the Company will follow the guidance given by the tax authorities to implement relevant tax withholding and payment provisions and arrangements. Individual H share shareholders may either personally attend or appoint a representative to attend to the procedures in accordance with the requirements under the tax treaties notice if they do not provide the relevant supporting documents to the Company within the time period stated above.

For Southbound Investors (including enterprises and individuals), the Shanghai branch of China Securities Depository and Clearing Corporation Limited and the Shenzhen branch of China Securities Depository and Clearing Corporation Limited, as the nominees of the investors of the Southbound Trading Link, will receive all dividends distributed by the Company and will distribute the dividends to the relevant investors under the Southbound Trading Link through its depository and clearing system. According to the relevant provisions under the “Notice on Taxation Policies for Shanghai-Hong Kong Stock Connect Pilot Programme (Cai Shui [2014] No. 81)” and “Notice on Taxation Policies for Shenzhen-

Hong Kong Stock Connect Pilot Programme (Cai Shui [2016] No. 127)”, the Company shall withhold and pay individual income tax at the rate of 20% with respect to dividends received by the Mainland individual investors for investing in the H shares of the Company listed on the Hong Kong Stock Exchange through the Southbound Trading Link. In respect of the dividends received by Mainland securities investment funds investing in the H shares of the Company listed on Hong Kong Stock Exchange through the Southbound Trading Link, the tax levied shall be ascertained by reference to the rules applicable to individual investors. The Company is not required to withhold and pay income tax on dividends derived by the Mainland enterprise investors under the Southbound Trading Link, and such enterprises shall report the income and make tax payment by themselves. The record date for entitlement to the shareholders’ rights and the relevant arrangements of dividend distribution for the Southbound Investors are the same as those for the Company’s H share shareholders.

The Company assumes no responsibility and disclaims all liabilities whatsoever in relation to the tax status or tax treatment of the individual H share shareholders and for any claims arising from any delay in or inaccurate determination of the tax status or tax treatment of the individual H share shareholders or any disputes relating to the tax withholding and payment mechanism or arrangements.

## Report of the Directors

### Directors and Senior Management of the Company

The following table sets out certain information of the Directors and senior management of the Company as at the date of this report:

Name	Age	Position in the Company	Date of appointment as Directors/Senior Management
Ke Ruiwen	55	Exercising the powers of the Chairman and Chief Executive Officer; Executive Director, President and Chief Operating Officer	30 May 2012
Gao Tongqing	55	Executive Director and Executive Vice President	23 May 2017
Chen Zhongyue	47	Executive Director and Executive Vice President	23 May 2017
Zhu Min	54	Executive Director, Executive Vice President, Chief Financial Officer and Secretary of the Board	26 October 2018
Chen Shengguang	55	Non-Executive Director	23 May 2017
Tse Hau Yin, Aloysius	71	Independent Non-Executive Director	9 September 2005
Xu Erming	69	Independent Non-Executive Director	9 September 2005
Wang Hsuehming	69	Independent Non-Executive Director	29 May 2014
Yeung Chi Wai, Jason	64	Independent Non-Executive Director	26 October 2018
Zhang Zhiyong	53	Executive Vice President	10 July 2018
Liu Guiqing	52	Executive Vice President	10 July 2018
Wang Guoquan	46	Executive Vice President	11 March 2019

## Report of the Directors

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As mentioned in the announcements in relation to the changes in Directors and senior management published by the Company in the following dates: On 29 January 2018, Mr. Sun Kangmin retired from his positions as an Executive Director and Executive Vice President of the Company due to his age. On 28 May 2018, Madam Cha May Lung, Laura resigned from her positions as an Independent Non-Executive Director as well as a member and the Chairlady of the Nomination Committee of the Company due to her intention to focus on other business commitments and engagements. On the same date, Madam Wang Hsuehming, an Independent Non-Executive Director of the Company was appointed as a member and the Chairlady of the Nomination Committee of the Company. On 10 July 2018, Mr. Zhang Zhiyong and Mr. Liu Guiqing were appointed as Executive Vice Presidents of the Company. On 19 July 2018, Mr. Liu Aili resigned from his positions as an Executive Director, President and Chief Operating Officer of the Company due to change in work arrangement. On 20 July 2018, Madam Zhu Min was appointed as an Executive Vice President, the Chief Financial Officer and Secretary of the Board of the Company. On the same date, Mr. Ke Ruiwen resigned from his position as a Joint Company Secretary of the Company due to change in work arrangement. On 25 October 2018, Mr. Ke Ruiwen was appointed as the President and Chief Operating Officer of the Company and no longer held the position of the Executive Vice President of the Company. On 26 October 2018, the appointment of Madam Zhu Min as a Director of the Company was approved at

the extraordinary general meeting of the Company. On the same date, Mr. Ke Ruiwen no longer acts as the Authorised Representative of the Company due to change in work arrangement and Madam Zhu was appointed as the Authorised Representative of the Company. Meanwhile, the appointment of Mr. Yeung Chi Wai, Jason as an Independent Director of the Company was approved at the extraordinary general meeting of the Company and he was also appointed as a member of the Audit Committee of the Company.

On 4 March 2019, Mr. Yang Jie resigned from his positions as an Executive Director, Chairman and Chief Executive Officer of the Company due to change in work arrangement. On 8 March 2019, the Board resolved to approve Mr. Ke Ruiwen, the Executive Director, President and Chief Operating Officer of the Company, to exercise the powers of the Chairman and Chief Executive Officer. On 11 March 2019, Mr. Wang Guoquan was appointed as an Executive Vice President of the Company.

## Report of the Directors

### Supervisors of the Company

The following table sets out certain information of the Supervisors of the Company as at the date of this report:

Name	Age	Position in the Company	Date of appointment as Supervisors
Sui Yixun	55	Chairman of the Supervisory Committee	27 May 2015
Zhang Jianbin	53	Supervisor (Employee Representative)	16 October 2012
Yang Jianqing	59	Supervisor (Employee Representative)	23 May 2017
Xu Shiguang	39	Supervisor	26 October 2018
Ye Zhong	59	Supervisor	27 May 2015

On 27 February 2018, Mr. Hu Jing resigned from his position as a Supervisor of the Company due to change in work arrangement. On 26 October 2018, the appointment of Mr. Xu Shiguang as a Supervisor of the Company was approved at the extraordinary general meeting of the Company.

### Share Capital

The share capital of the Company as at 31 December 2018 was RMB80,932,368,321, divided into 80,932,368,321 shares of RMB1.00 each. As at 31 December 2018, the share capital of the Company comprised:

Share category	Number of shares as at 31 December 2018	Percentage (%) of the total number of shares in issue as at 31 December 2018
Total number of Domestic shares (held by the companies as follows):		
China Telecommunications Corporation	67,054,958,321	82.85
Guangdong Rising Assets Management Co., Ltd.	57,377,053,317	70.89
Zhejiang Financial Development Company	5,614,082,653	6.94
Fujian Investment & Development Group Co., Ltd	2,137,473,626	2.64
Jiangsu Guoxin Group Limited	969,317,182	1.20
Total number of H shares (including ADSs)	957,031,543	1.18
Total	13,877,410,000	17.15
	80,932,368,321	100.00

# Report of the Directors

## Material Interests and Short Positions in Shares and Underlying Shares of the Company

As at 31 December 2018, the interests or short position of persons who are entitled to exercise or control the exercise of 5% or more of the voting power at any of the Company's general meetings (excluding the Directors and Supervisors) in the shares and underlying shares of the Company as recorded in the register required to be maintained under Section 336 of the Securities and Futures Ordinance (the "SFO") are as follows:

Name of shareholders	Number of shares	Type of shares	Percentage of the respective type of shares in issue	Percentage of the total number of shares in issue	Capacity
China Telecommunications Corporation	57,377,053,317 (Long Position)	Domestic shares	85.57%	70.89%	Beneficial owner
Guangdong Rising Assets Management Co., Ltd.	5,614,082,653 (Long Position)	Domestic shares	8.37%	6.94%	Beneficial owner
JPMorgan Chase & Co.	1,659,402,128 (Long Position)	H shares	11.96%	2.05%	220,567,873 shares as interest of controlled corporation; 1,740,600 shares as investment manager; 54,658,331 shares as person having a security interest in shares; 100,000 shares as trustee; and 1,382,335,324 shares as approved lending agent
	79,275,927 (Short Position)	H shares	0.57%	0.10%	78,657,927 shares as interest of controlled corporation; and 618,000 shares as investment manager
	1,382,335,324 (Shares available for lending)	H shares	9.96%	1.71%	Approved lending agent
Citigroup Inc.	1,245,294,634 (Long Position)	H shares	8.97%	1.54%	44,001,651 shares as interest of controlled corporation; and 1,201,292,983 shares as approved lending agent
	9,914,632 (Short Position)	H shares	0.07%	0.01%	Interest of controlled corporation
	1,201,292,983 (Shares available for lending)	H shares	8.66%	1.48%	Approved lending agent
The Bank of New York Mellon Corporation	1,190,211,519 (Long Position)	H shares	8.58%	1.47%	Interest of controlled corporation
	625,101,100 (Short Position)	H shares	4.50%	0.77%	Interest of controlled corporation
	534,051,135 (Shares available for lending)	H shares	3.85%	0.66%	Interest of controlled corporation
BlackRock, Inc.	1,132,947,753 (Long Position)	H shares	8.16%	1.40%	Interest of controlled corporation
	22,056,000 (Short Position)	H shares	0.16%	0.03%	Interest of controlled corporation
Templeton Global Advisors Limited	1,087,529,062 (Long Position)	H shares	7.84%	1.34%	Investment manager

Save as disclosed above, as at 31 December 2018, in the register required to be maintained under Section 336 of the SFO, no other persons were recorded to hold any interests or short positions in the shares and underlying shares of the Company.

### Directors' and Supervisors' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2018, none of the Directors and Supervisors of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (as defined in Part XV of the SFO) as recorded in the register required to be maintained under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

During the year in 2018, the Company has not granted its Directors or Supervisors, or their respective spouses or any of their respective minor child (natural or adopted) or on their behalf any rights to subscribe for the shares or debentures of the Company or any of its associated corporations and none of them has ever exercised any such right.

### Directors' and Supervisors' Interests in Transactions, Arrangements or Contracts

On 22 June 2018, the Company, China Telecommunications Corporation and China Communications Services Corporation Limited ("CCS") entered into the Capital Contribution Agreement to jointly establish a finance company currently named as China Telecom Group

Finance Co., Ltd.. Mr. Yang Jie, the then Chairman of the Company who also served as the then Chairman of China Telecommunications Corporation, and Mr. Sun Kangmin, a then executive Director, who was the then Chairman of CCS, both abstained from voting on the relevant board resolutions. Please refer to page 64 of this annual report for further details.

At the Board meeting held on 20 August 2018 in relation to the renewal of continuing connected transactions between the Company and China Telecommunications Corporation, Mr. Yang Jie, the then Chairman of the Company who also served as the then Chairman of China Telecommunications Corporation, abstained from voting on the relevant board resolutions. Please refer to pages 73 to 74 of this annual report for details of the above renewal.

In addition, save as disclosed above and the service agreements with the Company, for the year ended 31 December 2018, the Directors and Supervisors of the Company did not have any material interest, whether directly or indirectly, in any transactions, arrangement or contract which was significant to the Company's business and which was entered into by the Company, its parent company or any of its subsidiaries or fellow subsidiaries. None of the Directors or Supervisors of the Company has entered into any service contract which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

### Emoluments of the Directors and Supervisors

Please refer to note 33 of the audited consolidated financial statements for details of the emoluments of all Directors and Supervisors of the Company in 2018.

# Report of the Directors

## Purchase, Sale and Redemption of Shares

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any securities of the Company during the reporting period.

## Material Acquisitions and Disposals

For the year ended 31 December 2018, the Company had no material acquisitions and disposals.

## Public Float

As at the date of this report, based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed public float under the Listing Rules and as agreed with the Hong Kong Stock Exchange.

## Summary of Financial Information

Please refer to pages 262 to 263 of this annual report for a summary of the operating results, assets and liabilities of the Group for each of the years in the five-year period ended 31 December 2018.

## Bank Loans and Other Borrowings

Please refer to note 19 of the audited consolidated financial statements for details of bank loans and other borrowings of the Group.

## Capitalised Interest

Please refer to note 31 of the audited consolidated financial statements for details of the Group's capitalised interest for the year ended 31 December 2018.

## Fixed Assets

Please refer to note 4 of the audited consolidated financial statements for movements in the fixed assets of the Group for the year ended 31 December 2018.

## Reserves

Pursuant to Article 149 of the Articles of Association, where the financial statements prepared in accordance with the China Accounting Standards for Business Enterprises and regulations, materially differ from those prepared in accordance with either the International Financial Reporting Standards, or accounting standards at a place outside the PRC where the Company's shares are listed, the distributable profit for the relevant accounting period shall be deemed to be the lesser of the amounts shown in those respective financial statements. Distributable reserves of the Company as at 31 December 2018, calculated on the above basis and before deducting the proposed final dividends for 2018, amounted to RMB133,076 million.

Please refer to note 25 of the audited consolidated financial statements for details of the movements in the reserves of the Company and the Group for the year ended 31 December 2018.

## Equity-linked Agreements

For the year ended 31 December 2018, the Company has not entered into any equity-linked agreement.

## Donations

For the year ended 31 December 2018, the Group made charitable and other donations with a total amount of RMB20 million.

## Report of the Directors

### Subsidiaries and Associated Companies

Please refer to note 8 and note 9 of the audited consolidated financial statements for details of the Company's subsidiaries and the Group's interests in associated companies as at 31 December 2018.

### Permitted Indemnity

For the year ended 31 December 2018 and as at the date of approval of this report, the Company has arranged appropriate insurance cover in respect of legal actions against the directors of the Group.

### Changes in Equity

Please refer to the consolidated statement of changes in equity as contained in the audited consolidated financial statements of the year (page 166 of this annual report).

### Retirement Benefits

Please refer to note 44 of the audited consolidated financial statements for details of the retirement benefits provided by the Group.

### Pre-Emptive Rights

There are no provisions for pre-emptive rights in the Articles of Association requiring the Company to offer new shares to the existing shareholders in proportion to their shareholdings.

### Major Customers and Suppliers

For the year ended 31 December 2018, revenue generated from the five largest customers of the Group accounted for an amount of less than 30% of the total operating revenues of the Group.

For the year ended 31 December 2018, purchases from the five largest suppliers of the Group accounted for an amount of less than 30% of the total annual purchases of the Group.

### Share Appreciation Rights

At the second extraordinary general meeting held by the Company on 26 October 2018, the adoption of share appreciation rights scheme was approved. The share appreciation rights scheme shall remain valid for 10 years from the effective date of the scheme. During the effective period of the share appreciation rights scheme, the Company may grant the share appreciation rights to the incentive recipients pursuant to the scheme. Upon the expiry of the share appreciation rights scheme, the Company shall not grant any share appreciation rights to any incentive recipients pursuant to the scheme; however, all provisions contemplated thereunder the scheme shall remain in force for any share appreciation rights granted pursuant to the scheme.

As set out in the Company's supplemental circular dated 4 October 2018, the purpose of the share appreciation rights scheme is to provide incentives to certain key personnel (excluding independent Directors and Supervisors) of the Company. The scheme will enable the Company to establish and optimise the performance-oriented culture for value creation for the shareholders so as to promote long-term stable development as well as strengthen the core competitiveness of the Group.

## Report of the Directors

Under the share appreciation rights scheme, (1) the total number of share appreciation rights units to be granted to the key personnel of the Company within the effective period of the scheme shall not exceed 10% of the total share capital of the Company; (2) the number of share appreciation rights units to be granted to each grantee in any 12-month period shall not exceed 1% of the total share capital of the Company; (3) the highest proportion of the earnings from exercise of share appreciation rights to the total remuneration of the incentive recipient at the grant of the share appreciation rights shall be 40%. The above total share capital refers to the total issued share capital of the Company at the time of the most recent grant under the scheme.

The effective date of grant of the share appreciation rights shall be determined by the Board after the respective grant is approved by the State-owned Assets Supervision and Administration Commission of the State Council of the PRC. The exercise price of the share appreciation rights under the scheme shall be the highest of the following three prices:

- (1) the closing price of the H Shares of the Company stated in the daily quotations sheets of the Hong Kong Stock Exchange on the date of grant;
- (2) the average closing price of the H Shares of the Company stated in the daily quotations sheets of the Hong Kong Stock Exchange for the five consecutive trading days prior to the date of grant;
- (3) nominal value of the H Shares of the Company.

Please refer to note 45 of the audited consolidated financial statements for other details of the share appreciation rights scheme of the Company.

### Connected Transactions

#### Establishment of a Finance Company

On 22 June 2018, the Company, China Telecommunications Corporation and CCS entered into the Capital Contribution Agreement, pursuant to which the parties agreed to jointly establish China Telecom Group Finance Co., Ltd. ("China Telecom Finance"), a limited liability company incorporated in the PRC for the purpose of providing capital and financial management services to the member units of China Telecommunications Corporation. Pursuant to the Capital Contribution Agreement, the registered capital of China Telecom Finance is RMB5,000 million. The Company, China Telecommunications Corporation and CCS respectively contributed RMB3,500 million, RMB750 million and RMB750 million, which respectively represent 70%, 15% and 15% of the total registered capital of China Telecom Finance. Please refer to the announcement published by the Company on 22 June 2018 for further details.

On 1 February 2019, the Board of the Company announced that the respective financial services framework agreements were entered into by the Company and China Telecom Finance, China Telecom Finance and China Telecommunications Corporation, China Telecom Finance and CCS on 1 February 2019. For the terms of the financial services framework agreements, please refer to the announcement published by the Company on 1 February 2019 and the Company's circular dated 27 February 2019.

## Continuing Connected Transactions

The following table sets out the amounts of the Group's continuing connected transactions with China Telecommunications Corporation and its subsidiaries (except for the Group) (the "China Telecom Group")<sup>1</sup> for the year ended 31 December 2018:

Transactions	Transaction amounts (RMB millions)	Annual monetary cap for continuing connected transactions (RMB millions)
Net transaction amount of centralised services	519	1,300
Net expenses for interconnection settlement	124	800
Mutual leasing of properties	761	1,600
Provision of IT services by China Telecom Group	1,895	2,200
Provision of IT services by the Group	531	700
Provision of community services by China Telecom Group	3,296	4,000
Provision of supplies procurement services by China Telecom Group	3,760	7,000
Provision of supplies procurement services by the Group	2,760	5,500
Provision of engineering services by China Telecom Group	16,396	19,500
Provision of ancillary telecommunications services by China Telecom Group	16,744	17,000
Provision of Internet applications channel services by the Group	298	4,000

*Note 1: China Telecommunications Corporation is a controlling shareholder of the Company. Each of China Telecommunications Corporation and its subsidiaries (except for the Group) constitutes a connected person of the Company under the Listing Rules.*

## Report of the Directors

On 23 September 2015, the Company and China Telecommunications Corporation entered into supplemental agreements and renewed the Engineering Framework Agreement, the Ancillary Telecommunications Services Framework Agreement, the Interconnection Settlement Agreement, the Community Services Framework Agreement, the Centralised Services Agreement, the Property Leasing Framework Agreement, the IT Services Framework Agreement, the Supplies Procurement Services Framework Agreement and the Internet Applications Channel Services Framework Agreement (the "Agreements") with the same terms (except the pricing terms) for a further term of 3 years expiring on 31 December 2018. The pricing terms of the agreements were elaborated or amended with a view to complying with the guidance letter on pricing policies for continuing connected transactions and their disclosure published by the Hong Kong Stock Exchange in March 2014 (HKEx-GL73-14) and aligning with the transactions contemplated under the agreements. Details of the respective Agreements are shown below:

### Centralised Services Agreement

Pursuant to the centralised services agreement signed between the Company and China Telecommunications Corporation on 10 September 2002 and the related supplemental agreements subsequently entered into between the two parties (collectively, the "Centralised Services Agreement"), centralised services include centralised business management and operational services provided by the Group to China Telecom Group in relation to key corporate customers, its network management centre and business support centre. Centralised services also include the provision of certain premises by China Telecom Group to the Group and the common use of international telecommunications facilities by both parties. The aggregate costs incurred by

the Group and China Telecom Group for the provision of management and operation services will be apportioned between the Group and China Telecom Group on a pro rata basis according to the revenues generated by each party. Where the Group uses the premises provided by China Telecom Group, the Group will pay premises usage fees to China Telecom Group on a pro rata basis according to the apportioned actual area allocated to the Group. The premises usage fees shall be determined through negotiation between the two parties based on comparable market rates. When both parties use international telecommunications facilities provided by third parties and accept services by such third parties (for example, restoration maintenance costs, the annual utilisation fee and related service costs) and when both parties use the international telecommunications facilities of China Telecom Group, the associated costs shall be shared on a pro rata basis according to volume of the inbound and outbound voice calls to and from international regions, Hong Kong, Macau and Taiwan originating from each party divided by the proportion of the aggregate volume of the inbound and outbound voice calls to and from international regions, Hong Kong, Macau and Taiwan originating from both parties. When the two parties use international telecommunications facilities provided by a third party and accept restoration maintenance costs, such fees shall be determined according to the actual utilisation fee each year. The utilisation fee associated with the shared use of the international telecommunications facilities provided by China Telecom Group shall be determined through negotiation between the two parties based on market rates. Market rates shall mean the rates at which the same or similar type of products or services are provided by independent third parties in the ordinary course of business and under normal commercial terms. When determining whether the relevant

market rates, to the extent practicable, management of the Company shall take into account the rates of at least two similar and comparable transactions entered into with or carried out by independent third parties in the ordinary course of business in the corresponding period for reference.

The Company and China Telecommunications Corporation have entered into a supplemental agreement on 23 September 2015 and renewed the Centralised Services Agreement on the same terms (except the pricing terms) for a further term of 3 years expiring on 31 December 2018. No later than 30 days prior to the expiry of the Centralised Services Agreement, the Company is entitled to serve a written notice to China Telecommunications Corporation to renew the Centralised Services Agreement, and the parties shall consult and decide on matters relating to such renewal.

### Interconnection Settlement Agreement

Pursuant to the interconnection settlement agreement signed between the Company and China Telecommunications Corporation on 10 September 2002 and the related supplemental agreements subsequently entered into between the two parties (collectively, the “Interconnection Settlement Agreement”), the telephone operator connecting a telephone call made to its local access network shall be entitled to receive from the operator from which the telephone call originated a fee prescribed by the Ministry of Industry and Information Technology of the PRC from time to time. Interconnection charges are currently RMB0.06 per minute for local calls originated from the Group to China Telecom Group. The interconnection settlement charges will be calculated

according to the “Notice Concerning the Issue of the Measures on Interconnection Settlement between Public Telecommunications Networks and Sharing of Relaying Fees (Xin Bu Dian [2003] No. 454)” promulgated by the Ministry of Information Industry of the PRC. The Ministry of Industry and Information Technology of the PRC may, from time to time, take into account the relevant regulatory rules and market conditions, amend or promulgate new rules or regulations in respect of interconnection settlement which will be announced on its official website at [www.miit.gov.cn](http://www.miit.gov.cn). If the Ministry of Industry and Information Technology of the PRC amends the existing, or promulgates new rules or regulations in respect of interconnection settlement, the parties shall apply such amended or new rules and regulations as acknowledged by both parties. The settlement regions include Beijing Municipality, Tianjin Municipality, Hebei Province, Heilongjiang Province, Jilin Province, Liaoning Province, Shanxi Province, Henan Province, Shandong Province, Inner Mongolia Autonomous Region and Xizang Autonomous Region.

The Company and China Telecommunications Corporation have entered into a supplemental agreement on 23 September 2015 and renewed the Interconnection Settlement Agreement on the same terms (except the pricing terms) for a further term of 3 years expiring on 31 December 2018. No later than 30 days prior to the expiry of the Interconnection Settlement Agreement, the Company is entitled to serve a written notice to China Telecommunications Corporation to renew the Interconnection Settlement Agreement, and the parties shall consult and decide on matters relating to such renewal.

# Report of the Directors

## Property Leasing Framework Agreement

Pursuant to the property leasing framework agreement signed between the Company and China Telecommunications Corporation on 30 August 2006 and the related supplemental agreement subsequently entered into between the two parties (collectively, the "Property Leasing Framework Agreement"), the Group and China Telecom Group can lease properties from the other party for use as business premises, offices, equipment storage facilities and sites for network equipment. The rental charges under the Property Leasing Framework Agreement shall be determined according to market rates. Market rates shall mean the rental charges at which the same or similar type of properties or adjacent properties are leased by independent third parties in the ordinary course of business under normal commercial terms. When determining the relevant market rates, to the extent practicable, management of the Company shall take into account the rental charges of at least two similar and comparable transactions entered into with or carried out by independent third parties in the ordinary course of business in the corresponding period for reference. The rental charges are subject to review every 3 years.

The Company and China Telecommunications Corporation have entered into a supplemental agreement on 23 September 2015 and renewed the Property Leasing Framework Agreement on the same terms (except the pricing terms) for a further term of 3 years expiring on 31 December 2018. No later

than 30 days prior to the expiry of the Property Leasing Framework Agreement, the Company is entitled to serve a written notice to China Telecommunications Corporation to renew the Property Leasing Framework Agreement, and the parties shall consult and decide on matters relating to such renewal.

## IT Services Framework Agreement

Pursuant to the IT services framework agreement signed between the Company and China Telecommunications Corporation on 30 August 2006 and the related supplemental agreements subsequently entered into between the two parties (collectively, the "IT Services Framework Agreement"), the Group and China Telecom Group can provide the other party with information technology services, including office automation and software testing. Each of the Group and China Telecom Group is entitled to participate in bidding for the right to provide information technology services to the other party in accordance with the IT Services Framework Agreement. The charges payable for such services shall be determined by reference to the market rates. Market rates shall mean the rates at which the same or similar type of products or services are provided by independent third parties in the ordinary course of business and under normal commercial terms. When determining the relevant market rates, to the extent practicable, management of the Company shall take into account the rates of at least two similar and comparable transactions entered into with or carried out by independent third parties in the ordinary course of business in the corresponding period for reference.

In the circumstances where the relevant laws or regulations in the PRC specify that the prices and/or the fee standards for particular services to be provided pursuant to such agreement are to be determined by a tender process, the charges payable for such services shall be finally determined in accordance with the “Bidding Law of the PRC” and the “Regulations on the Implementation of the Bidding Law of the PRC” or the relevant tender procedures. The Group shall solicit at least three tenderers for the tender process. If the terms offered by the Group or China Telecom Group are no less favourable than those offered by an independent third party provider, the Group or China Telecom Group may award the tender to the other party.

The Company and China Telecommunications Corporation have entered into a supplemental agreement on 23 September 2015 and renewed the IT Services Framework Agreement on the same terms (except the pricing terms) for a further term of 3 years expiring on 31 December 2018. No later than 30 days prior to the expiry of the IT Services Framework Agreement, the Company is entitled to serve a written notice to China Telecommunications Corporation to renew the IT Services Framework Agreement, and the parties shall consult and decide on matters relating to such renewal.

### **Community Services Framework Agreement**

Pursuant to the community services framework agreement signed between the Company and China Telecommunications Corporation on 30 August 2006 and the related supplemental agreements subsequently entered into between the two parties (collectively, the “Community Services Framework Agreement”), China

Telecom Group provides the Group with community services such as culture, education, property management, vehicle service, health and medical care, hotel and conference service, community and sanitary service. The community services under the Community Services Framework Agreement are provided at:

- (1) market prices, which shall mean the prices at which the same or similar type of products or services are provided by independent third parties in the ordinary course of business and under normal commercial terms. When determining the relevant market prices, to the extent practicable, management of the Company shall take into account the prices of at least two similar and comparable transactions entered into with or carried out by independent third parties in the ordinary course of business over the corresponding period for reference;
- (2) where there is no or it is not possible to determine the market prices, the prices are to be agreed between the parties based on the reasonable costs incurred in providing the services plus the amount of the relevant taxes and reasonable profit margin. For this purpose, “reasonable profit margin” is to be fairly determined by negotiations between the parties in accordance with the internal policies of the Group. When determining the relevant “reasonable profit margin”, to the extent practicable, management of the Company shall take into account the profit margin of at least two similar and comparable transactions entered into with independent third parties in the corresponding period or the relevant industry profit margin for reference.

## Report of the Directors

The Company and China Telecommunications Corporation have entered into a supplemental agreement on 23 September 2015 and renewed the Community Services Framework Agreement on the same terms (except the pricing terms) for a further term of 3 years expiring on 31 December 2018. No later than 30 days prior to the expiry of the Community Services Framework Agreement, the Company is entitled to serve a written notice to China Telecommunications Corporation to renew the Community Services Framework Agreement, and the parties shall consult and decide on matters relating to such renewal.

### **Supplies Procurement Services Framework Agreement**

Pursuant to the supplies procurement services framework agreement signed between the Company and China Telecommunications Corporation on 30 August 2006 and the related supplemental agreements subsequently entered into between the two parties (collectively, the "Supplies Procurement Services Framework Agreement"), China Telecom Group and the Group provide each other with supplies procurement services, including comprehensive procurement services, the sale of proprietary telecommunications equipment, resale of third-party equipment, management of tenders, verification of technical specifications, storage, transportation and installation services.

Where the procurement services are provided on an agency basis, the maximum commission for such procurement services shall be calculated at:

- (1) not more than 1% of the contract value for procurement of imported telecommunications supplies; or
- (2) not more than 3% of the contract value for the procurement of domestic telecommunications supplies and domestic non-telecommunications supplies.

The pricing basis of the services for the provision of supplies procurement other than on an agency basis under the Supplies Procurement Services Framework Agreement is the same as those set out in the Community Services Framework Agreement.

The Company and China Telecommunications Corporation have entered into a supplemental agreement on 23 September 2015 and renewed the Supplies Procurement Services Framework Agreement on the same terms (except the pricing terms) for a further term of 3 years expiring on 31 December 2018. No later than 30 days prior to the expiry of the Supplies Procurement Services Framework Agreement, the Company is entitled to serve a written notice to China Telecommunications Corporation to renew the Supplies Procurement Services Framework Agreement, and the parties shall consult and decide on matters relating to such renewal.

### Engineering Framework Agreement

Pursuant to the engineering framework agreement signed between the Company and China Telecommunications Corporation on 30 August 2006 and the related supplemental agreements subsequently entered into between the two parties (collectively, the “Engineering Framework Agreement”), China Telecom Group through bids provides to the Group services such as construction, design, equipment installation and testing and/or engineering project supervision services. The charges payable for such engineering services shall be determined by reference to market rates. Market rates shall mean the rates at which the same or similar type of products or services are provided by independent third parties in the ordinary course of business and under normal commercial terms. When determining the relevant market rates, to the extent practicable, management of the Company shall take into account the rates of at least two similar and comparable transactions entered into with or carried out by independent third parties in the ordinary course of business in the corresponding period for reference. The charges payable for the design or supervision of engineering projects with a value of over RMB500,000 or engineering construction projects with a value of over RMB2 million shall be determined by the tender award price, which is determined in accordance with the relevant tendering procedure of the Group and the relevant laws and regulations in the PRC, including the “Bidding Law of the PRC” and the “Regulations on the Implementation of the Bidding Law of the PRC”. The Group shall solicit at least three tenderers for the tender process.

The Group does not accord any priority to China Telecom Group to provide such services, and the tender may be awarded to an independent third party. However, if the terms of an offer from China Telecom Group are at least as favourable as those offered by other tenderers, the Group may award the tender to China Telecom Group.

The Company and China Telecommunications Corporation have entered into a supplemental agreement on 23 September 2015 and renewed the Engineering Framework Agreement on the same terms (except the pricing terms) for a further term of 3 years expiring on 31 December 2018. No later than 30 days prior to the expiry of the Engineering Framework Agreement, the Company is entitled to serve a written notice to China Telecommunications Corporation to renew the Engineering Framework Agreement, and the parties shall consult and decide on matters relating to such renewal.

### Ancillary Telecommunications Services Framework Agreement

Pursuant to the ancillary telecommunications services framework agreement signed between the Company and China Telecommunications Corporation on 30 August 2006 and the related supplemental agreements subsequently entered into between the two parties (collectively, the “Ancillary Telecommunications Services Framework Agreement”), China Telecom Group provides the Group with certain repair and maintenance services, including repair of telecommunications equipment, maintenance of fire equipment and telephone booths, as well as other customer services. The pricing terms for such services are the same as those set out in the Community Services Framework Agreement.

## Report of the Directors

The Company and China Telecommunications Corporation have entered into a supplemental agreement on 23 September 2015 and renewed the Ancillary Telecommunications Services Framework Agreement on the same terms (except pricing terms) for a further term of 3 years expiring on 31 December 2018. No later than 30 days prior to the expiry of the Ancillary Telecommunications Services Framework Agreement, the Company is entitled to serve a written notice to China Telecommunications Corporation to renew the Ancillary Telecommunications Services Framework Agreement, and the parties shall consult and decide on matters relating to such renewal.

### **Internet Applications Channel Services Framework Agreement**

Pursuant to the Internet Applications Channel Services Framework Agreement signed between the Company and China Telecommunications Corporation on 16 December 2013 and the related supplemental agreement subsequently entered into between the two parties (collectively, the “Internet Applications Channel Services Framework Agreement”), the Company provides Internet applications channel services to China Telecom Group. The channel services mainly include the provision of telecommunications channel and applications support platform, provision of billing and deduction services, coordination of sales promotion and development of customers services, etc. The pricing terms for such services are the same as those set out in the Community Services Framework Agreement.

The Company and China Telecommunications Corporation have entered into a supplemental agreement on 23 September 2015 and renewed the Internet Applications Channel Services Framework Agreement on the same terms (except the pricing terms) for a further term of 3 years expiring on 31 December 2018. No later than 30 days prior to the expiry of the Internet Applications Channel Services Framework Agreement, the Company is entitled to serve a written notice to China Telecommunications Corporation to renew the Internet Applications Channel Services Framework Agreement, and the parties shall consult and decide on matters relating to such renewal.

### **Review of Continuing Connected Transactions**

The Company confirms that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules in respect of the connected transactions the Company conducted in the year 2018.

The Company’s external auditor was engaged to report on the Group’s continuing connected transactions for the year ended 31 December 2018 in accordance with the Hong Kong Standard on Assurance Engagements 3000 “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” and with reference to Practice Note 740 “Auditor’s Letter on Continuing Connected Transactions under the Hong Kong Listing Rules” issued by the Hong Kong Institute of Certified Public Accountants.

## Report of the Directors

The auditors of the Group have reviewed the continuing connected transactions of the Group for the year ended 31 December 2018 and have confirmed to the Board that nothing has come to their attention that causes them to believe that the relevant continuing connected transactions:

- (1) have not been approved by the Board of the Company;
- (2) (for transactions involving the provision of goods or services by the Group) were not entered into, in all material respects, in accordance with the pricing policies of the Group;
- (3) were not entered into, in all material respects, in accordance with the terms of the agreements governing such transactions; and
- (4) have exceeded the annual caps as set by the Company.

A copy of the auditors' letter in relation to the continuing connected transactions has been provided by the Company to the Hong Kong Stock Exchange.

The Independent Non-Executive Directors of the Company have confirmed that all continuing connected transactions for the year ended 31 December 2018 to which the Group was a party:

- (1) had been entered into, and the agreements governing those transactions were entered into, by the Group in the ordinary and usual course of business;

- (2) had been entered into either:

- (i) on normal commercial terms or better; or
- (ii) if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than those available to or (if applicable) from independent third parties; and

- (3) had been entered into in accordance with the relevant terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Independent Non-Executive Directors have further confirmed that:

The values of continuing connected transactions for the year ended 31 December 2018 entered into between the Group and its connected persons which are subject to annual caps have not exceeded their respective annual caps.

### Renewal of Continuing Connected Transactions

On 20 August 2018, the Company and China Telecommunications Corporation entered into supplemental agreements, and renewed the Engineering Framework Agreement, the Ancillary Telecommunications Services Framework Agreement, the Interconnection Settlement Agreement, the Community Services Framework Agreement, the Centralised Services Agreement, the

## Report of the Directors

Property Leasing Framework Agreement, the IT Services Framework Agreement, the Supplies Procurement Services Framework Agreement and the Internet Applications Channel Services Framework Agreement for a further term of three years from 1 January 2019 to 31 December 2021. Pursuant to the Engineering Framework Agreement as amended by the supplemental agreement dated 20 August 2018, the charges payable for the design or supervision of engineering projects with a value of over RMB1,000,000 or engineering construction projects with a value of over RMB4,000,000 shall be the tender award price, which is determined in accordance with the "Bidding Law of the PRC" and the "Regulations on the Implementation of the Bidding Law of the PRC" or the final confirmed price in the relevant tender process. The Group shall solicit at least three tenderers for the tender process. In the circumstances there are amended rules or regulations in respect of tender scope and scale of the engineering construction projects promulgated by PRC laws and regulations, both parties agreed to apply such amended rules and regulations and no amendment to the supplemental agreement is required. The renewal of the Engineering Framework Agreement and the Ancillary Telecommunications Services Framework Agreement and the applicable renewed annual caps thereto were approved at the second extraordinary general meeting of the Company held on 26 October 2018. For details of the pricing terms of all other renewed agreements, please refer to the announcement published by the Company on 20 August 2018 and the circular dated 10 September 2018.

### Commercial Pricing Arrangement in respect of the Lease of Telecommunications Towers and Related Assets from China Tower Corporation Limited

On 8 July 2016, the Company and China Tower entered into the Commercial Pricing Agreement pursuant to which the provincial companies of both parties entered into the Provincial Service Agreement (I) therein. On 1 February 2018, both parties entered into a supplemental agreement on the basis of the original agreement for adjustment of certain pricing terms. Please refer to the announcements published by the Company on 8 July 2016 and 1 February 2018 for further details.

### Business Review

Relating to the details of the material development of the Group in 2018, a fair review of the business and a discussion and analysis of the Group's performance during the year and the material factors underlying its results and financial position are provided in the Statement from the Board on pages 10 to 19, Business Review on pages 32 to 43 and Financial Review on pages 44 to 51 of this annual report. Description of the principal risks and uncertainties faced the Group can be found throughout this annual report, particularly in the Environmental, Social and Governance Report on pages 82 to 155 of this annual report. Particulars of important events affecting the Group that have occurred after 31 December 2018, if any, can also be found in the Notes to the Consolidated Financial Statements. The outlook of the Group's business is discussed throughout this annual report including in the Statement from the Board.

## Report of the Directors

Description of the Group's key relationships with its employees, customers, suppliers and others that have a significant impact on the Company and on which the Company's success depends can be found throughout this annual report, particularly in the Environmental, Social and Governance Report on pages 82 to 155 of this annual report. In addition, more details regarding the Group's performance by reference to financial key performance indicators and environmental policies, as well as compliance with relevant laws and regulations which have a significant impact on the Group, are provided in the Statement from the Board, Business Review, Financial Review, Environmental, Social and Governance Report of this annual report. Each of the above-mentioned relevant contents form an integral part of this Report of the Directors.

### Compliance with the Corporate Governance Code

Please refer to the Environmental, Social and Governance Report set out on pages 82 to 155 of this 2018 annual report of the Company for details of our compliance with the Corporate Governance Code.

### Material Legal Proceedings

As at 31 December 2018, the Company was not involved in any material litigation or arbitration, and as far as the Company is aware, no material litigation or claims

were pending or threatened or made against the Company.

### Auditors

Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants LLP were appointed as the international and domestic auditors of the Company, respectively for the year ended 31 December 2018. Deloitte Touche Tohmatsu has audited the accompanying consolidated financial statements, which have been prepared in accordance with the International Financial Reporting Standards. The Company has appointed Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants LLP since 29 May 2013. The relevant re-appointment of Deloitte Touche Tohmatsu and Deloitte Touche Tohmatsu Certified Public Accountants LLP as the Company's international and domestic auditors, respectively for the year ending 31 December 2019 will be proposed to the Annual General Meeting of the Company to be held on 29 May 2019.

By Order of the Board

**Ke Ruiwen**

*Executive Director, President and  
Chief Operating Officer*

Beijing, China

19 March 2019

# Report of the Supervisory Committee

During the reporting period, all members of the Supervisory Committee acted in accordance with the Company Law of the People's Republic of China and the Articles of Association of the Company, followed the principles of integrity and diligently carried out their supervisory function to safeguard the interests of the shareholders, the Company and the employees.

## I. The work status of the Supervisory Committee of the Company

During the reporting period, the Supervisory Committee held two meetings. At the second meeting of the Sixth Session of the Supervisory Committee held on 20 March 2018, the Supervisory Committee reviewed and approved five agenda items, including the financial statements for the year 2017, the auditor's report issued by the external auditors, the profit distribution and dividend proposal, the Supervisory Committee's report for the year 2017, the working plan of the Supervisory Committee for the year 2018, and passed the relevant resolutions. Regarding profit distribution and dividend proposal, internal control formulation and connected transactions, the Supervisory Committee has communicated with the Finance Department, Internal Audit Department and external auditors and raised certain recommendations. At the third meeting of the Sixth Session of the Supervisory Committee held on 13 August 2018, the Supervisory Committee reviewed and approved the interim financial statements of the Company for year 2018 and the review report of the external auditors, and passed the relevant resolutions. Regarding the Company's operating results, the review of the interim financial statements and connected transactions, the Supervisory

Committee has communicated with the Finance Department, Internal Audit Department and external auditors and raised certain recommendations. During the reporting period, members of the Supervisory Committee supervised the major decision-making process of the Company and the performance of duties by the members of the Board and the senior management through their attendance at the relevant Board meetings and Audit Committee meetings.

## II. The overall assessment of the operation management and performance during the reporting period

The Supervisory Committee believed that during the reporting period, all members of the Board and members of senior management have complied with rules and regulations, upheld the principles of diligence and integrity, safeguarded the interests of shareholders, fully fulfilled their responsibilities in accordance with the Articles of Association of the Company, diligently implemented the resolutions of shareholders' meetings and the Board meetings, and strictly complied with the relevant regulations governed for listed companies. The Supervisory Committee has not observed any behaviours that breached the laws, rules and Articles of Association of the Company, or damaged the interests of shareholders.

## Report of the Supervisory Committee

During the reporting period, the Company grasped the opportunities arising from the development of digital economy and rode on the tide by leveraging the precision insights into market trends and customer demands. With deepened implementation of step-up transformation, promotion of reform and innovation on all fronts, and proactive accumulation of 5G capability, the Company accelerated the development of new impetus, effectively responding to the complicated and challenging external environment, as well as increasingly fierce competition and achieving new breakthroughs in expanding the business scale while firmly elevating the corporate value. In 2018, the operating revenues of the Company amounted to RMB377.1 billion, of which, service revenues amounted to RMB350.4 billion, representing an increase of 5.9% over last year (if excluding the impact of the application of International Financial Reporting Standard 15 for the current year, it represented an increase of 7.2% over last year), with revenue growth surpassing the industry average for many consecutive years. Revenues from emerging businesses accounted for 51.9% of service revenues, representing an increase of nearly 6 percentage points over last year with continual optimisation of revenue structure. EBITDA reached RMB104.2 billion, representing an increase of 2.0% over last year. Net profit amounted to RMB21.2 billion, representing an increase of 13.9% over last year, while basic earnings per share were RMB0.262, achieving rapid growth. Capital expenditure was RMB74.9 billion, representing a decrease of 15.5% over last year being the third consecutive annual decline. Free cash flow reached RMB22.5 billion, representing a remarkable increase over last year.

In summary, the Company seized the precious opportunities arising from the benefits released from data traffic, while actively capitalising on increasing demand from corporates subscribing for cloud services. The Company expedited products innovation, promoted overall upgrade of integration, strengthened its network edges, and improved its operational capability. As a result, the Company rapidly improved its competitiveness, achieved a record high pace in terms of market expansion, and rapidly magnified corporate growth momentum. Meanwhile, while conscientiously fulfilling its responsibility to shareholders, the Company voluntarily committed itself to the sustainable economic, social and environmental development and persisted in as well as excelled in fulfilling its social responsibilities, such as its inherent corporate responsibilities, responsibilities towards customers, responsibilities towards employees, environmental responsibilities and social welfare responsibilities.

## Report of the Supervisory Committee

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### III. The independent opinion on the relevant matters during the reporting period

#### 1. The opinion raised by the Supervisory Committee on the compliance of the operation of the Company with laws and regulations

Pursuant to the relevant laws and regulations of PRC, the Supervisory Committee monitored the convening procedures and resolutions of the meetings of the Board, the implementation by the Board of the resolutions approved by the shareholders' meetings, the performance of duties by the Company's senior management, and the Company's management policies. The Supervisory Committee is of the view that the Directors and the senior management, in performing their duties, strictly complied with the relevant rules and regulations, safeguarded the legitimate rights and interests of the Company and the shareholders as a whole especially those of the minority shareholders, actively promoted the regulated operations of the Company, enhanced the level of corporate governance of the Company, followed lawful procedures in their decision-making, implemented

resolutions of the shareholders' meetings. The Supervisory Committee was not aware of any behaviours of the Directors or the senior management which violated the laws, regulations, the Articles of Association of the Company or were detrimental to the interests of the Company.

#### 2. The opinion raised by the Supervisory Committee on the financial implementations of the Company

Through the supervision and inspection of the Company's financial policies and financial condition, the Supervisory Committee is of the view that the Company is able to strictly comply with the regulatory requirements such as section 404 of the US Sarbanes-Oxley Act and to continue to enhance its internal controls over financial reporting, while effectively controlling and managing the Company in accordance with rules and regulations. The Supervisory Committee suggested the Company to strengthen risk control as well as investment efficiency assessment in the area of emerging businesses. Upon the review of the financial statements for the year 2018 with unqualified audit opinion and other

## Report of the Supervisory Committee

relevant information to be tabled at shareholders' meetings, which were prepared in accordance with the China Accounting Standards for Business Enterprises and the International Financial Reporting Standards as audited by PRC certified accountants and international auditors of the Company respectively, the Supervisory Committee is of the opinion that the financial statements truly and fairly reflect the Company's financial condition, operating results and cash flows.

In 2019, the Supervisory Committee will continue to strictly adhere to the Articles of Association of the Company and relevant regulations, assume its responsibility to protect the interests of the shareholders and the Company and monitor the Company to fulfill its commitment to its shareholders. The Supervisory Committee will supervise the Company's implementation of important measures committed to shareholders and focus on "Three Goals, Three Missions and Three Initiatives to drive transformation", to speedily promote the implementation of important measures in the process of corporate high-quality development, and will further broaden the work plan of the Supervisory Committee and strengthen its efforts in monitoring so as to protect the interests of all investors.

By Order of the Supervisory Committee  
**Sui Yixun**  
*Chairman of the Supervisory Committee*

Beijing, China  
19 March 2019