

# Report of the Directors

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The Board of Directors (the “Board”) of China Telecom Corporation Limited (the “Company”) hereby presents its report together with the audited financial statements of the Company and its subsidiaries (collectively, the “Group”) prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2013.

## Principal Business

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

## Results

Results of the Group for the year ended 31 December 2013 and the financial position of the Company and the Group as at that date are set out in the audited financial statements on pages 110 to 185 of this annual report.

## Dividend

The Board proposes a final dividend in the amount equivalent to HK\$0.095 per share (pre-tax), totalling approximately RMB6,098 million for the year ended 31 December 2013. The dividend proposal will be submitted for consideration at the Annual General Meeting to be held on 29 May 2014. Dividends will be denominated and declared in Renminbi. Dividends on domestic shares will be paid in Renminbi, whereas dividends on H shares will be paid in Hong Kong dollars. The relevant exchange rate will be the average offer 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 or about 18 July 2014 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 2013 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 2014.

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 are Hong Kong or Macau residents and those whose country of domicile is a country which has entered into a tax treaty with the 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 shareholder whose country of domicile is a country which has entered into a tax treaty with the 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 shareholder whose country of domicile is a country which has entered into a tax treaty with the 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 shareholder whose country of domicile is a country which has entered into a tax treaty with the PRC stipulating a dividend tax rate of 20%, or a country which has not entered into any tax treaties with the 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 register of members of the Company on 11 June 2014 (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 5 June 2014. 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 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.

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 over the withholding mechanism or arrangements.

## 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
Wang Xiaochu	55	Chairman and Chief Executive Officer	20 December 2004
Yang Jie	51	Executive Director, President and Chief Operating Officer	20 October 2004
Wu Andi	59	Executive Director, Executive Vice President and Chief Financial Officer	10 September 2002
Zhang Jiping	58	Executive Director and Executive Vice President	10 September 2002
Yang Xiaowei	50	Executive Director and Executive Vice President	9 September 2008
Sun Kangmin	56	Executive Director and Executive Vice President	20 October 2004
Ke Ruiwen	50	Executive Director and Executive Vice President	30 May 2012
Gao Tongqing	50	Executive Vice President	21 June 2013
Xie Liang	50	Non-executive Director	29 May 2013
Wu Jichuan	76	Independent Non-executive Director	9 September 2008
Qin Xiao	66	Independent Non-executive Director	9 September 2008
Tse Hau Yin, Aloysius	66	Independent Non-executive Director	9 September 2005
Cha May Lung, Laura	64	Independent Non-executive Director	9 September 2008
Xu Erming	64	Independent Non-executive Director	9 September 2005
Yung Shun Loy, Jacky	51	Assistant Chief Financial Officer, Qualified Accountant and Company Secretary	1 February 2005
Gao Jinxing	50	Financial Controller	1 February 2012

On 20 March 2013, Mr. Chen Liangxian resigned as Non-executive Director of the Company due to change in work arrangement. On the same date, the Board proposed to appoint Mr. Xie Liang as Non-executive Director of the Company. The proposed appointment of Mr. Xie Liang as Non-executive Director of the Company was approved by the Annual General Meeting held on 29 May 2013. On 21 June 2013, Mr. Li Ping resigned as Executive Vice President of the Company due to

change in work arrangement. On the same day, the Board appointed Mr. Gao Tongqing as Executive Vice President of the Company.

## 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
Shao Chunbao	56	Chairman of the Supervisory Committee	16 October 2012
Zhu Lihao	73	Independent Supervisor	10 September 2002
Tang Qi	55	Supervisor (Employee Representative)	19 August 2013
Zhang Jianbin	48	Supervisor (Employee Representative)	16 October 2012
Hu Jing	38	Supervisor	16 October 2012
Du Zuguo	51	Supervisor	20 May 2011

On 19 August 2013, Mr. Mao Shejun, an Employee Representative Supervisor of the Supervisory Committee, retired from his position as a Supervisor of the Company due to his age, and on the same day, Mr. Tang Qi was elected by the employees of the Company democratically as an Employee Representative Supervisor of the Company.

### Share Capital

The share capital of the Company as at 31 December 2013 was RMB80,932,368,321, divided into 80,932,368,321 shares of RMB1.00 each. As at 31 December 2013, the share capital of the Company comprised:

Share category	Number of shares as at 31 December 2013	Percentage of the total number of shares in issue as at 31 December 2013 (%)
Domestic shares (total):	67,054,958,321	82.85
Domestic shares held by:		
China Telecommunications Corporation	57,377,053,317	70.89
Guangdong Rising Assets Management Co., Ltd.	5,614,082,653	6.94
Zhejiang Financial Development Company	2,137,473,626	2.64
Fujian Investment & Development Group Co., Ltd	969,317,182	1.20
Jiangsu Guoxin Investment Group Co., Ltd.	957,031,543	1.18
Total number of H shares (including ADSs)	13,877,410,000	17.15
Total	80,932,368,321	100.00

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

As at 31 December 2013, 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 equity derivatives 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	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
Commonwealth Bank of Australia	2,080,867,924 (Long Position)	H shares	14.99%	2.57%	Interest of controlled corporation
JPMorgan Chase & Co.	1,536,081,879 (Long Position)	H shares	11.07%	1.90%	135,957,249 shares as beneficial owner; 242,674,000 shares as investment manager; and 1,157,450,630 shares as custodian corporation/ approved lending agent
	32,826,934 (Short Position)	H shares	0.24%	0.04%	Beneficial owner
	1,157,450,630 (Shares available for lending)	H shares	8.34%	1.43%	Custodian corporation/ approved lending agent
Blackrock, Inc.	1,301,821,443 (Long Position)	H shares	9.38%	1.61%	Interest of controlled corporation
	8,676,000 (Short Position)	H shares	0.06%	0.01%	Interest of controlled corporation

Save as stated above, as at 31 December 2013, 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 or underlying shares of the equity derivatives of the Company.

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

As at 31 December 2013, none of the Directors and Supervisors of the Company had any interests or short positions in the shares, underlying shares of equity derivatives 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 Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

As at 31 December 2013, the Company had not granted its Directors or Supervisors, or their respective spouses or children below the age of 18 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 Contracts**

For the year ended 31 December 2013, none of the Directors and Supervisors of the Company had any material interest, whether directly or indirectly, in any of the contracts of significance entered into by the Company, any of its holding companies or subsidiaries or subsidiaries of the Company's holding company, apart from their service contracts. None of the Directors and 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 29 of the audited financial statements for details of the emoluments of all Directors and Supervisors of the Company in 2013.

### **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.

### **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 Stock Exchange of Hong Kong Limited.

### **Summary of Financial Information**

Please refer to pages 186 to 187 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 2013.

### **Bank Loans and Other Borrowings**

Please refer to note 16 of the audited financial statements for details of bank loans and other borrowings of the Group.

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## Capitalised Interest

Please refer to note 27 of the audited financial statements for details of the Group's capitalised interest for the year ended 31 December 2013.

## Fixed Assets

Please refer to note 4 of the audited financial statements for movements in the fixed assets of the Group for the year ended 31 December 2013.

## Reserves

Pursuant to Article 147 of the Company's articles of association (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 2013, calculated on the above basis and before deducting the proposed final dividends for 2013, amounted to RMB84,341 million.

Please refer to note 21 of the audited financial statements for details of the movements in the reserves of the Company and the Group for the year ended 31 December 2013.

## Donations

For the year ended 31 December 2013, the Group made charitable and other donations with a total amount of RMB11 million.

## Subsidiaries and Associated Companies

Please refer to note 8 and note 9 of the audited financial statements for details of the Company's subsidiaries and the Group's interests in associated companies as at 31 December 2013.

## Changes in Equity

Please refer to the consolidated statement of changes in equity as contained in the audited financial statements of this year (page 115 of this annual report).

## Retirement Benefits

Please refer to note 38 of the audited financial statements for details of the retirement benefits provided by the Group.

## Stock Appreciation Rights

Please refer to note 39 of the audited financial statements for details of the stock appreciation rights offered by the Company.

## 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 2013, sales to the five largest customers of the Group accounted for an amount no more than 30% of the operating revenues of the Group.

For the year ended 31 December 2013, purchases from the five largest suppliers of the Group accounted for approximately 42.3% of the total annual purchases of the Group.

For the year ended 31 December 2013, purchases from the Group's largest supplier accounted for approximately 13.5% of the total annual purchases of the Group.

The amount of the Group's annual purchases mainly includes terminals purchases, equipment purchases and investments in infrastructure.

To the knowledge of the Board, no Director of the Company, their associates, or any person holding more than 5% of the issued share capital in the Company has any interests in such suppliers.

### Connected transactions

#### Disposal of 80% of the share capital in E-surfing Media Co., Ltd. ("E-surfing Media")

The Company and the controlling shareholder of the Company, China Telecommunications Corporation, entered into an agreement on 26 April 2013, pursuant to which the Company has agreed to sell and China Telecommunications Corporation has agreed to purchase 80% of the share capital in E-surfing Media, a subsidiary of the Company. Pursuant to the agreement, the initial consideration for the disposal of the E-surfing Media Shares was RMB1,195 million. The relevant consideration was adjusted in accordance with the relevant clauses in the agreement and was settled by cash. Please refer to note 1 to the audited financial statements for details.

E-surfing Media is primarily engaged in the provision of video media services. Upon the completion of the disposal, the Company realised a gain of approximately RMB670 million. Meanwhile, the Company continues

to maintain close cooperation with E-surfing Media to promote the data traffic operation and the development of mobile Internet service of the Company, so as to enhance the value of the Company.

#### Acquisition of 100% of the share capital in China Telecom (Europe) Limited ("China Telecom Europe")

China Telecom Global Limited, the wholly-owned subsidiary of the Company, and the controlling shareholder of the Company, China Telecommunications Corporation, entered into an agreement on 16 December 2013, pursuant to which China Telecommunications Corporation has agreed to sell and China Telecom Global Limited has agreed to purchase 100% of the share capital in China Telecom Europe, a wholly-owned subsidiary of China Telecommunications Corporation. Pursuant to the acquisition agreement, the initial consideration was RMB261 million. The relevant consideration was adjusted in accordance with the relevant clauses in the agreement and was settled by cash. Please refer to note 1 to the audited financial statements for details.

China Telecom Europe is primarily engaged in providing international leased line service, Internet service, voice wholesale service and other value-added telecommunications services in Europe, the Middle East and Africa. On completion, China Telecom Europe has become a wholly-owned subsidiary of China Telecom Global Limited and an indirect wholly-owned subsidiary of the Company. At present, the overseas business of the Company, primarily including Asia-Pacific region and the Americas, is operated by China Telecom Global Limited. As a result of the acquisition, the Company will further strengthen its competitive position in the overseas telecommunications market, improve and integrate the operation of its overseas business, take full advantage of the synergy benefits, expand its service regions and increase its profitability.

## Continuing Connected Transactions

The following table sets out the amounts of continuing connected transactions between the Group and China Telecommunications Corporation for the year ended 31 December 2013:

Transactions	Transaction Amounts (RMB millions)	Annual monetary cap for continuing connected transactions (RMB millions)
Net transaction amount of centralised services	616	800
Net expenses for interconnection settlement	350	1,000
Mutual leasing of properties	719	800
Provision of IT services by China Telecommunications Corporation and its subsidiaries (except for the Group) (the "China Telecom Group") <sup>1</sup>	1,136	1,300
Provision of IT services by the Group	192	500
Provision of supplies procurement services by China Telecom Group	3,563	4,500
Provision of supplies procurement services by the Group	3,885	4,500
Provision of engineering services by China Telecom Group	14,543	16,000
Provision of community services by China Telecom Group	2,826	3,500
Provision of ancillary telecommunications services by China Telecom Group	11,208	14,000

<sup>1</sup> 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.

### 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 Telecommunications Corporation 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 Telecommunications Corporation to the Group and the common use of international telecommunications facilities by both parties. In accordance with the Centralised Services Agreement, the aggregate costs incurred by the Group and China Telecommunications Corporation for the provision of management and operation services will be apportioned between the Group and China Telecommunications Corporation on a pro rata basis according to the revenues generated by each party. Where the Group uses the premises provided by China Telecommunications Corporation, the Group will pay premises usage fees to China Telecommunications Corporation 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 Telecommunications Corporation, 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 Telecommunications Corporation shall be determined through negotiation between the two parties based on market rates.

The Company and China Telecommunications Corporation agreed on 22 August 2012 to renew the Centralised Services Agreement in accordance with its provisions for a further term of three years expiring on 31 December 2015. 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 from time to time, which is currently RMB0.06 per minute. Interconnection charges are RMB0.06 per minute for local calls originated from the Group to China Telecommunications Corporation. 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 agreed on 22 August 2012 to renew the Interconnection Settlement Agreement in accordance with its provisions for a further term of three years expiring on 31 December 2015. 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. In addition, the Company and China Telecommunications Corporation have agreed that interconnection settlement charges will be calculated according to the rules and regulations

of the relevant telecommunications regulators. If the telecommunications regulators amend existing, or promulgate new rules or regulations in respect of the interconnection settlement, the parties shall apply such amended or new rules and regulations as acknowledged by both parties.

### 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 Telecommunications Corporation and/or its associates 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 with reference to the standards set forth by local pricing authorities. The rental charges are subject to review every three years.

The Company and China Telecommunications Corporation agreed on 22 August 2012 to renew the Property Leasing Framework Agreement in accordance with its provisions for a further term of three years expiring on 31 December 2015. 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 Telecommunications Corporation and/or its associates can provide the other party with information technology services, including office automation and software testing. Each of the Group and China Telecommunications Corporation and/or its associates 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 or rates obtained through a tender process. If the terms offered by the Group or China Telecommunications Corporation and/or its associates are no less favourable than those offered by an independent third-party provider, the Group or China Telecommunications Corporation and/or its associates may award the tender to the other party.

The Company and China Telecommunications Corporation agreed on 22 August 2012 to renew the IT Services Framework Agreement in accordance with its provisions for a further term of three years expiring on 31 December 2015. 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 Telecommunications Corporation and/or its associates provide 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) the government-prescribed prices (if any);
- (2) where there are no government-prescribed prices but there are government-guided prices, the government-guided prices;
- (3) where there are neither government-prescribed prices nor government-guided prices, the market prices. Market prices shall mean the prices at which the same type of services are provided by independent third parties in the ordinary course of business; or
- (4) where none of the above is applicable, the prices are to be agreed between the parties based on the reasonable costs incurred in providing the services plus reasonable profit margin (for this purpose, “reasonable costs” means such costs as confirmed by both parties after negotiations).

The Company and China Telecommunications Corporation agreed on 22 August 2012 to renew the Community Services Framework Agreement in accordance with its provisions for a further term of three years expiring on 31 December 2015. 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 Telecommunications Corporation and/or its associates 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 agreed on 22 August 2012 to renew the Supplies Procurement Services Framework Agreement in accordance with its provisions for a further term of three years expiring on 31 December 2015. 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 Telecommunications Corporation and/or its associates through bids provide 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. 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.

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

The Company and China Telecommunications Corporation agreed on 22 August 2012 to renew the Engineering Framework Agreement in accordance with its provisions for a further term of three years expiring on 31 December 2015. 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 Telecommunications Corporation and/or its associates provide 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.

The Company and China Telecommunications Corporation agreed on 22 August 2012 to renew the Ancillary Telecommunications Services Framework Agreement in accordance with its provisions for a further term of three years expiring on 31 December 2015. 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, the Company agreed to provide Internet applications channel services to China Telecommunications Corporation and/or its associates. 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 charges payable for the services under the Internet Applications Channel Services Framework Agreement are calculated on the following basis:

- (1) the government-prescribed prices (if any);
- (2) where there are no government-prescribed prices but there are government-guided prices, the government-guided prices;
- (3) where there are neither government-prescribed prices nor government-guided prices, the market prices. Market prices shall mean the prices at which the same type of services are provided by independent third parties in the ordinary course of business; or

- (4) where none of the above is applicable, the prices are to be agreed between the parties based on the reasonable costs incurred in providing the services plus reasonable profit margin (for this purpose, “reasonable costs” means such costs as confirmed by both parties after negotiations).

The Internet Applications Channel Services Framework Agreement became effective from 1 January 2014 and will expire on 31 December 2015. 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.

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

The Company’s auditor was engaged to report on the Group’s continuing connected transactions for the year ended 31 December 2013 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.

The Independent Non-executive Directors of the Company have confirmed that all continuing connected transactions for the year ended 31 December 2013 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
  - (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 overall 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 2013 entered into between the

Group and its connected persons which are subject to annual caps have not exceeded their respective annual caps.

The auditors of the Group have reviewed the continuing connected transactions of the Group for the year ended 31 December 2013 and have confirmed to the Board that the transactions:

1. have received the approval of the Board;
2. have been entered into in accordance with the pricing policies as stated in the relevant agreements; and
3. have been entered into in accordance with the terms of the agreements governing such transactions; and the values of continuing connected transactions entered into between the Group and its connected persons which are subject to annual caps have not exceeded their respective annual caps.

### **Compliance with the Corporate Governance Code**

Please refer to the “Corporate Governance Report” set out on page 64 of this 2013 annual report of the Company for details of our compliance with the Corporate Governance Code.

## Material Legal Proceedings

As at 31 December 2013, 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 2013. Deloitte Touche Tohmatsu has audited the accompanying 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 2014 will be proposed to the Annual General Meeting of the Company to be held on 29 May 2014.

By Order of the Board

**Wang Xiaochu**

*Chairman and Chief Executive Officer*

Beijing, PRC

19 March 2014