

# 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 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 2011.

## 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 2011 and the financial position of the Company and the Group as at that date are set out in the audited financial statements on pages 88 to 146 in this annual report.

## Dividend

The Board proposes a final dividend in the amount equivalent to HK\$0.085 per share (pre-tax), totalling approximately RMB5,583 million for the year ended 31 December 2011. The dividend proposal will be submitted for consideration at the Annual General Meeting to be held on 30 May 2012. 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 2011 final dividends are expected to be paid on or about 20 July 2012 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 2011 final dividends to non-resident enterprise shareholders of overseas H shares (including Hong Kong Securities Clearing Company 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 12 June 2012.

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 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 shareholders 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 shareholders 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 12 June 2012 (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 6 June 2012. 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	54	Chairman and Chief Executive Officer	20 December 2004
Yang Jie	50	Executive Director, President and Chief Operating Officer*	20 October 2004
Wu Andi	57	Executive Director, Executive Vice President and Chief Financial Officer	10 September 2002
Zhang Jiping	56	Executive Director and Executive Vice President	10 September 2002
Li Ping	58	Executive Vice President	10 September 2002
Yang Xiaowei	48	Executive Director and Executive Vice President	9 September 2008
Sun Kangmin	55	Executive Director and Executive Vice President	20 October 2004
Ke Ruiwen	49	Executive Vice President	20 March 2012
Li Jinming	60	Non-executive Director	20 December 2004
Wu Jichuan	74	Independent Non-executive Director	9 September 2008
Qin Xiao	64	Independent Non-executive Director	9 September 2008
Tse Hau Yin, Aloysius	64	Independent Non-executive Director	9 September 2005
Cha May Lung, Laura	62	Independent Non-executive Director	9 September 2008
Xu Erming	62	Independent Non-executive Director	9 September 2005
Yung Shun Loy, Jacky	49	Assistant Chief Financial Officer, Qualified Accountant and Company Secretary	1 February 2005
Gao Jinxing	49	Financial Controller	1 February 2012

\* On 2 November 2011, Mr. Yang Jie was appointed as the President and Chief Operating Officer of the Company.

## Report of the Directors

On 13 July 2011, Mr. Shang Bing resigned as the President, Chief Operating Officer and Executive Director and was appointed as deputy minister of Ministry of Industry and Information Technology of the People's Republic of China. On 2 November 2011, Mr. Yang Jie was appointed as the President and Chief Operating Officer. On 1 February 2012, Mr. Yang Jianqing resigned as Financial Controller due to job rearrangement and Mr. Gao Jinxing was appointed as the Financial Controller of the Company. On 20 March 2012, Mr. Zhang Chenshuang retired as Executive Director and Executive Vice President of the Company due to his age. On the same day,

the Board appointed Mr. Ke Ruiwen as Executive Vice President and proposed to appoint Mr. Ke Ruiwen as Executive Director of the Company. The proposed appointment of Mr. Ke Ruiwen as Executive Director of the Company is subject to shareholders' approval at Annual General Meeting to be held on 30 May 2012.

### 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
Miao Jianhua	60	Chairman of the Supervisory Committee	29 December 2009
Zhu Lihao	71	Independent Supervisor	10 September 2002
Mao Shejun	58	Supervisor (Employee Representative)	20 May 2011
Xu Cailiao	48	Supervisor	9 September 2005
Han Fang	39	Supervisor	9 September 2008
Du Zuguo	49	Supervisor	20 May 2011

On 20 May 2011, Mr. Du Zuguo, the General Manager of Zhejiang Financial Development Company, the Company's domestic shareholder, was elected as a Supervisor of the Company at the Annual General Meeting. Mr. Ma Yuzhu, the employee elected supervisor of the third session of the Supervisory Committee resigned as supervisor of the Company upon expiry of the term of office of the third session of the Supervisory Committee on 20 May 2011 while Mr. Mao Shejun

was elected by the employees of the Company democratically as a supervisor of the Company representing the employees.

### Share Capital

The share capital of the Company as at 31 December 2011 was RMB80,932,368,321, divided into 80,932,368,321 shares of RMB1.00 each. As at 31 December 2011, the share capital of the Company comprised:

Share category	Number of shares	Percentage of the
	as at 31 December 2011	total number of shares in issue as at 31 December 2011 (%)
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 2011, 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
JPMorgan Chase & Co.	1,663,316,937 (Long Position)	H shares	11.99%	2.06%	131,001,855 shares as beneficial owner; 379,026,000 shares as investment manager; and 1,153,289,082 shares as security interest holder/approved lending agent
	47,412,908 (Short Position)	H shares	0.34%	0.06%	Beneficial owner
	1,153,289,082 (Shares available for lending)	H shares	8.31%	1.43%	Security interest holder/ approved lending agent
Commonwealth Bank of Australia	1,110,034,681 (Long Position)	H shares	8.00%	1.37%	Interest of controlled corporation
Blackrock, Inc.	1,006,713,763 (Long Position)	H shares	7.25%	1.24%	Interest of controlled corporation
	48,612,755 (Short Position)	H shares	0.35%	0.06%	Interest of controlled corporation
RFS Holdings B.V.	907,191,530 (Long Position)	H shares	6.54%	1.12%	Interest of controlled corporation
	1,180,327,134 (Short Position)	H shares	8.51%	1.46%	Interest of controlled corporation

Save as stated above, as at 31 December 2011, 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 2011, 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 2011, 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 2011, 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 compensation (other than statutory compensation).

### Emoluments of the Directors and Supervisors

Please refer to note 28 of the audited financial statements for details of the emoluments of all Directors and Supervisors of the Company in 2011.

### 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 147 to 148 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 2011.

### 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.

### Capitalised Interest

Please refer to note 26 of the audited financial statements for details of the Group's capitalised interest for the year ended 31 December 2011.

### 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 2011.

### Reserves

Pursuant to Article 147 of the Company's articles of association (the "Articles of Association"), where the financial statements prepared in accordance with PRC Accounting Standards for Business Enterprises, materially differ from those prepared in accordance with either 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 2011, calculated on the above basis and before deducting the proposed final dividends for 2011, amounted to RMB67,623 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 2011.

## Donations

For the year ended 31 December 2011, the Group made charitable and other donations with a total amount of RMB13 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 2011.

## Changes in Equity

Please refer to the consolidated statement of changes in equity as contained in the audited financial statements of this year (page 93 of this annual report).

## Retirement Benefits

Please refer to note 37 of the audited financial statements for details of the retirement benefits provided by the Group.

## Stock Appreciation Rights

Please refer to note 38 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 2011, 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 2011, purchases from the five largest suppliers of the Group accounted for an amount no more than 30% of the total annual purchases of the Group.

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.

## Continuing Connected Transactions

The following table sets out the amounts of continuing connected transactions between the Group and China Telecom Group for the year ended 31 December 2011:

Transactions	Transaction Amounts (RMB millions)	Annual monetary cap for continuing connected transactions (RMB millions)
Net transaction amount of centralised services	625	800
Net expenses for interconnection settlement	450	1,000
Mutual leasing of properties	412	600
Provision of IT services by China Telecommunications Corporation and its subsidiaries (except for the Group) (the "China Telecom Group") <sup>1</sup>	692	1,200
Provision of IT services to China Telecom Group	365	500
Provision of supplies procurement services by China Telecom Group	2,764	3,800
Provision of supplies procurement services to China Telecom Group	1,642	1,800
Provision of engineering services by China Telecom Group	8,293	8,800
Provision of community services by China Telecom Group	2,362	2,900
Provision of ancillary telecommunications services by China Telecom Group	7,878	9,000
CDMA network capacity lease fee	15,860 <sup>2</sup>	21,000

<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.

<sup>2</sup> The CDMA network capacity lease fee has already deducted the capacity maintenance related costs of CDMA network payable to the Company by China Telecommunications Corporation amounted to RMB3,151 million.

### 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. 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 the 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 entered into a supplemental agreement on 25 August 2010 to renew the Centralised Services Agreement for a further term expiring on 31 December 2012. 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 Tibet Autonomous Region.

The Company and China Telecommunications Corporation entered into a supplemental agreement on 25 August 2010 to renew the Interconnection Settlement Agreement for a further term expiring on 31 December 2012. 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 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 entered into a supplemental agreement on 25 August 2010 to renew the Property Leasing Framework Agreement for a further term expiring on 31 December 2012. 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 entered into a supplemental agreement on 25 August 2010 to renew the IT Services Framework Agreement for a further

term expiring on 31 December 2012. 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 entered into a supplemental agreement on 25 August 2010 to renew the Community Services Framework Agreement for a further term expiring on 31 December 2012. 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 entered into a supplemental agreement on 25 August 2010 to renew the Supplies Procurement Services Framework Agreement for a further term expiring on 31 December 2012. 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 Company and China Telecommunications Corporation entered into a supplemental agreement on 25 August 2010 to renew the Engineering Framework Agreement for a further term expiring on 31 December 2012. 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 entered into a supplemental agreement on 25 August 2010 to renew the Ancillary Telecommunications Services Framework Agreement for a further term expiring on 31 December 2012. 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.



### CDMA Network Capacity Lease Agreement

Pursuant to the CDMA network capacity lease agreement signed between the Company and China Telecommunications Corporation on 27 July 2008 and the related supplemental agreement subsequently entered into between the two parties (collectively, the "CDMA Network Capacity Lease Agreement"), China Telecommunications Corporation agreed to lease its capacity under the CDMA Network to the Company and the Company shall have the exclusive right to use and operate the CDMA Network to provide CDMA services in its service areas. The leasing fee is 28% of the Company's audited CDMA service revenue per year (which is calculated by the total revenue from the CDMA services operations minus any upfront non-refundable revenue arising out of the CDMA operations and any revenue from sale of telecommunications products in connection with the CDMA operations, as derived from the Company's financial statements). Regardless of the revenue of the CDMA operations, the minimum annual leasing fee shall be 90% of the total amount of the leasing fee paid by the Company to China Telecommunications Corporation in the previous year. The cost of network construction shall be borne by China Telecommunications Corporation, while the maintenance-related costs shall be shared as agreed between the two parties.

Pursuant to the CDMA Network Capacity Lease Agreement, China Telecommunications Corporation has granted the Company an option to purchase the CDMA Network. The option may be exercised, at the discretion of the Company, at any time during the term of the lease or within one year after the expiry of the lease. No premium has been paid or will be payable by the Company for the grant of the option.

The Company and China Telecommunications Corporation entered into a supplemental agreement on 25 August 2010 to renew the CDMA Network Capacity Lease Agreement for a further term expiring on 31 December 2012.

### Strategic Agreement between Our Company and China Communications Services Corporation Limited

Pursuant to the strategic agreement signed between the Company and China Communications Services Corporation Limited ("China Communications Services") on 30 August 2006 and the related supplemental agreements (collectively, the "Strategic Agreement"), the Company agreed that, in the period between 1 January 2007 and 31 December 2009, if the service terms relating to the design, implementation and

supervision of the communications engineering projects provided by China Communications Services are basically the same as those of other service providers, the provincial branches of the Company in the service area of China Communications Services shall receive such services from the relevant wholly-owned subsidiaries of China Communications Services annually with a total annual value of no less than 10.6% of the total annual capital expenditure of the relevant provincial branches of the Company in that year. China Communications Services will offer at least 5% price discount to the Company based on the applicable standard prices for the services such as design, implementation and supervision of communications engineering projects. Meanwhile, the Company agreed that, in the period between 1 January 2007 and 31 December 2009, if the terms relating to certain maintenance management services provided by China Communications Services are basically the same as those of other service providers, the provincial branches of the Company in the service area of China Communication Services shall receive such services from the relevant wholly-owned subsidiaries of China Communications Services with a total value of not less than RMB1,780 million annually.

The business areas of the strategic alliance between the two parties governed by the terms and conditions in the Strategic Agreement include: design, implementation and supervision of the communications engineering projects, maintenance management service, contents application service, sales channel service, usage of telecommunications service and other new businesses arising from time to time which are appropriate for the collaboration between the two parties. China Communications Services pledges its support to the strategic transformation of the Company from a traditional basic telecommunications operator to an integrated information service provider, its active support to the Company's business development, and its active use of the Company's products and services in its own business. Such services shall comply with the related PRC standards or the standards agreed by both parties, and shall be on terms no less favourable than those available to any third parties to which the same or similar services are provided by either party. Without breaching the requirements under PRC laws, where the terms and conditions of services provided by either party to the Strategic Agreement are as favourable as those provided by an independent third party in respect of the same services, the party under the Strategic Agreement shall have the priority to be appointed as the service provider by the other party.

The Company and China Communications Services entered into a supplemental agreement (the “2009 Supplemental Agreement”) on 29 October 2009 to renew the Strategic Agreement for a further term expiring on 31 December 2012. Upon expiration, both parties may negotiate the renewal of the Strategic Agreement which is subject to the requirements of Chapter 14A of the Listing Rules (including disclosure and independent shareholders’ approval requirements).

The Strategic Agreement does not set out any annual caps for the transactions thereunder as China Telecommunications Corporation, the holding company of China Communications Services, has signed certain framework agreements with the Company (including the Engineering Framework Agreement, the Ancillary Telecommunications Services Framework Agreement and the Community Services Framework Agreement), which cover the transactions contemplated under the Strategic Agreement. These framework agreements are subject to annual caps, and the proposed annual caps for the transactions under the Strategic Agreement are subsumed under the annual caps of these framework agreements.

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 in accordance with 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 Transaction 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 2011 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 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 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 Code on Corporate Governance Practices

Please refer to the “Corporate Governance Report” set out in page 54 of this 2011 annual report of the Company for details of our compliance with the Code on Corporate Governance Practices.

## Report of the Directors

### Material Legal Proceedings

As at 31 December 2011, 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

KPMG and KPMG Huazhen were appointed as the international and domestic auditors of the Company for the year ended 31 December 2011. KPMG has audited the accompanying financial statements, which have been prepared in accordance with International Financial Reporting Standards. The Company has engaged KPMG and KPMG Huazhen since the date of its listing. A resolution for the re-appointment of KPMG and KPMG Huazhen as the international and domestic auditors of the Company for the year ending 31 December 2012 will be proposed at the Annual General Meeting of the Company to be held on 30 May 2012.

By Order of the Board

**Wang Xiaochu**

*Chairman and Chief Executive Officer*

Beijing, PRC  
20 March 2012

