

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

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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.

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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

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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.

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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

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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.

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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.

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.

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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")¹ 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.

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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. 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.

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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.

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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.

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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.

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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