
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, DC 20549

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2015

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report _____

Commission file number 1-31517

中国电信股份有限公司

(Exact Name of Registrant as Specified in Its Charter)

China Telecom Corporation Limited

(Translation of Registrant's Name into English)

People's Republic of China

(Jurisdiction of Incorporation or Organization)

31 Jinrong Street, Xicheng District
Beijing, People's Republic of China 100033
(Address of Principal Executive Offices)

Mr. Xu Fei

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(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

| Title of Each Class | Name of Each Exchange On Which Registered |
|-----------------------------------------------------------------------------------|-------------------------------------------------------------------------------|
| American depositary shares H shares, par value RMB1.00 per share | New York Stock Exchange, Inc. New York Stock Exchange, Inc.* |

* Not for trading, but only in connection with the listing on the New York Stock Exchange, Inc. of American depositary shares, each representing 100 H shares.

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

As of December 31, 2015, 67,054,958,321 domestic shares and 13,877,410,000 H shares, par value RMB1.00 per share, were issued and outstanding. H shares are ordinary shares of the Company listed on The Stock Exchange of Hong Kong Limited.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing.

U.S. GAAP

International Financial Reporting Standards as issued by the International Accounting Standards Board

Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

CHINA TELECOM CORPORATION LIMITED
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FORWARD-LOOKING STATEMENTS

This annual report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. These forward-looking statements are, by their nature, subject to significant risks and uncertainties, and include, without limitation, statements relating to:

- our business and operating strategies and our ability to successfully execute these strategies;
- our network expansion and capital expenditure plans;
- our operations and business prospects;
- the expected benefit of any acquisitions or other strategic transactions;
- our financial condition and results of operations;
- the expected impact of new services on our business, financial condition and results of operations;
- the future prospects of and our ability to integrate acquired businesses and assets;
- the industry regulatory environment as well as the industry outlook generally; and
- future developments in the telecommunications industry in the People's Republic of China, or the PRC.

The words “anticipate,” “believe,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “seek,” “will,” “would” and similar expressions, as they relate to us, are intended to identify a number of these forward-looking statements.

These forward-looking statements are subject to risks, uncertainties and assumptions, some of which are beyond our control. In addition, these forward-looking statements reflect our current views with respect to future events and are not a guarantee of future performance. We are under no obligation to update these forward-looking statements and do not intend to do so. Actual results may differ materially from the information contained in the forward-looking statements as a result of a number of factors, including, without limitation, the risk factors set forth in “Item 3. Key Information—D. Risk Factors” and the following:

- any changes in the regulations or policies of the Ministry of Industry and Information Technology (prior to March 2008, the Ministry of Information Industry, or the MII), or the MIIT, and other relevant government authorities relating to, among other matters:
 - the granting and approval of licenses;
 - tariff policies;
 - interconnection and settlement arrangements;
 - capital investment priorities;
 - the provision of telephone and other telecommunications services to rural areas in the PRC;
 - the convergence of television broadcast, telecommunications and Internet access networks, or three-network convergence; and
 - spectrum and numbering resources allocation;
- the effects of competition on the demand for and price of our services;
- any potential further restructuring or consolidation of the PRC telecommunications industry;
- changes in the PRC telecommunications industry as a result of the issuance of the fourth generation mobile telecommunications, or 4G, licenses by the MIIT;
- the development of new technologies and applications or services affecting the PRC telecommunications industry and our current and future business;
- changes in political, economic, legal and social conditions in the PRC, including changes in the PRC government's specific policies with respect to foreign investment in and entry by foreign companies into the PRC telecommunications industry, economic growth, inflation, foreign exchange and the availability of credit;
- results and effects of any investigation by the relevant PRC regulatory authorities;
- implementation of a value-added tax to replace the business tax in the PRC; and
- the uncertainties involved in the operations and the future performance of the Tower Company.

CERTAIN DEFINITIONS AND CONVENTIONS

As used in this annual report, references to “us,” “we,” the “Company,” “our Company” and “China Telecom” are to China Telecom Corporation Limited and its consolidated subsidiaries except where we make clear that the term means China Telecom Corporation Limited or a particular subsidiary or business group only. References to matters relating to our H shares or American depositary shares, or ADSs, or matters of corporate governance are to the H shares, ADSs and corporate governance of China Telecom Corporation Limited. In respect of any time prior to our incorporation, references to “us,” “we” and “China Telecom” are to the telecommunications business in which our predecessors were engaged and which were subsequently assumed by us. All references to “China Telecom Group” are to China Telecommunications Corporation, our controlling shareholder. Unless the context otherwise requires, these references include all of its subsidiaries, including us and our subsidiaries. Unless otherwise indicated, references to and statements regarding China and the PRC in this annual report do not apply to Hong Kong Special Administrative Region, Macau Special Administrative Region or Taiwan.

PART I

Item 1. Identity of Directors, Senior Management and Advisers.

Not applicable.

Item 2. Offer Statistics and Expected Timetable.

Not applicable.

Item 3. Key Information.

A. Selected Financial Data

The following table presents our selected financial data. The selected consolidated statements of financial position data as of December 31, 2014 and 2015, and the selected consolidated statements of comprehensive income (except for earnings per ADS) and consolidated cash flow data for the years ended December 31, 2013, 2014 and 2015, are derived from our audited consolidated financial statements included elsewhere in this annual report, and should be read in conjunction with those consolidated financial statements. The selected consolidated statements of financial position data as of December 31, 2011, 2012 and 2013 and the selected consolidated statements of comprehensive income (except for earnings per ADS) and consolidated cash flow data for the years ended December 31, 2011 and 2012 are derived from our consolidated financial statements which are not included in this annual report. Our consolidated financial statements are prepared in accordance with International Financial Reporting Standards, or IFRS, as issued by the International Accounting Standards Board.

The selected financial data reflect the acquisitions and divestment in 2012 and 2013, the establishment of new subsidiaries in 2014 and the tower assets disposal in 2015 described under “Item 4. Information on the Company—A. History and Development of the Company—Our Acquisition from China Telecom Group of the CDMA Network Assets and Associated Liabilities”, “—Changes in Our Corporate Organization in 2013”, “—Changes in Our Corporate Organization in 2014” and “Establishment of the Tower Company and the Disposal and Use of the Telecommunications Towers”.

On December 31, 2012, we purchased from China Telecom Group certain assets and associated liabilities relating to the CDMA network located in 30 provinces, municipalities and autonomous regions in the PRC for a total consideration of approximately RMB87,210.35 million, of which RMB25,500 million was paid in January 2013 and the balance will be payable at any time on or before the fifth anniversary of December 31, 2012, or the Mobile Network Acquisition. The Mobile Network Acquisition was recognized as an assets acquisition and the assets and associated liabilities acquired by the Company are stated at their respective purchase prices, including related tax expenses, on December 31, 2012.

| As of or for the year ended December 31, | | | | | | |
|--------------------------------------------------------------------|----------|----------|----------|----------|-----------|--|
| 2011 RMB | 2012 RMB | 2013 RMB | 2014 RMB | 2015 RMB | 2015 US\$ | |
| (in millions, except share numbers and per share and per ADS data) | | | | | | |

Consolidated Statements of Comprehensive Income Data:

| | | | | | | |
|------------------------------------------------------|-----------|-----------|-----------|-----------|-----------|----------|
| Operating revenues | 245,149 | 283,176 | 321,584 | 324,394 | 331,202 | 51,129 |
| Operating expenses | (221,028) | (261,968) | (294,116) | (295,886) | (304,760) | (47,047) |
| Operating income | 24,121 | 21,208 | 27,468 | 28,508 | 26,442 | 4,082 |
| Earnings before income tax | 22,006 | 19,817 | 23,088 | 23,257 | 26,693 | 4,121 |
| Income tax | (5,416) | (4,753) | (5,422) | (5,498) | (6,551) | (1,011) |
| Profit attributable to equity holders of the Company | 16,494 | 14,949 | 17,545 | 17,680 | 20,054 | 3,096 |
| Basic earnings per share ⁽¹⁾ | 0.20 | 0.18 | 0.22 | 0.22 | 0.25 | 0.04 |
| Basic earnings per ADS ⁽¹⁾ | 20.38 | 18.47 | 21.68 | 21.85 | 24.78 | 3.83 |
| Cash dividends declared per share | 0.07 | 0.07 | 0.08 | 0.08 | 0.08 | 0.01 |

| As of or for the year ended December 31, | | | | | | |
|--------------------------------------------------------------------|----------|----------|----------|----------|-----------|--|
| 2011 RMB | 2012 RMB | 2013 RMB | 2014 RMB | 2015 RMB | 2015 US\$ | |
| (in millions, except share numbers and per share and per ADS data) | | | | | | |

Consolidated Statements of Financial Position Data:

| | | | | | | |
|------------------------------------------------------|---------|---------|---------|---------|---------|--------|
| Cash and cash equivalents | 27,475 | 30,099 | 16,070 | 20,436 | 31,869 | 4,920 |
| Accounts receivable, net | 18,486 | 18,782 | 20,022 | 21,562 | 21,105 | 3,258 |
| Total current assets | 59,713 | 65,375 | 52,783 | 59,543 | 78,108 | 12,058 |
| Property, plant and equipment, net | 268,925 | 373,781 | 374,341 | 372,876 | 373,981 | 57,733 |
| Total assets | 419,331 | 545,291 | 543,239 | 561,274 | 629,561 | 97,187 |
| Short-term debt | 9,187 | 6,523 | 27,687 | 43,976 | 51,636 | 7,971 |
| Current portion of long-term debt | 11,766 | 10,212 | 20,072 | 82 | 84 | 13 |
| Accounts payable | 44,460 | 68,948 | 81,132 | 88,458 | 118,055 | 18,225 |
| Total current liabilities | 127,397 | 193,610 | 200,098 | 206,325 | 255,929 | 39,509 |
| Long-term debt and payable | 31,150 | 83,070 | 62,617 | 62,494 | 64,830 | 10,008 |
| Deferred revenues (including current portion) | 4,805 | 3,445 | 2,431 | 1,858 | 2,482 | 383 |
| Total liabilities | 162,376 | 279,191 | 264,575 | 271,166 | 324,810 | 50,142 |
| Equity attributable to equity holders of the Company | 256,167 | 265,139 | 277,741 | 289,183 | 303,784 | 46,896 |

Consolidated Cash Flow Data:

| | | | | | | |
|----------------------------------------------------------|----------|----------|-----------|----------|-----------|----------|
| Net cash generated from operating activities | 73,025 | 70,722 | 88,351 | 96,405 | 108,750 | 16,788 |
| Net cash used in investing activities ⁽²⁾ | (43,646) | (48,295) | (107,948) | (81,708) | (102,250) | (15,785) |
| Capital expenditures ⁽²⁾ | (48,506) | (50,071) | (70,921) | (80,273) | (101,898) | (15,730) |
| Net cash (used in) / generated from financing activities | (27,723) | (19,802) | 5,637 | (10,327) | 4,809 | 742 |

(1) The basic earnings per share have been calculated based on the respective net profit attributable to equity holders of the Company in 2011, 2012, 2013, 2014 and 2015 and the weighted average number of shares in issue during each of the relevant years of 80,932,368,321 shares. Basic earnings per ADS have been computed as if all of our issued and outstanding shares, including domestic shares and H shares, are represented by ADSs during each of the years presented. Each ADS represents 100 H shares.

(2) Capital expenditures are part of and not an addition to net cash used in investing activities.

Pursuant to the shareholders' approval at the annual general meeting held on May 27, 2015, a final dividend of RMB6,160 million (RMB0.076120 per share equivalent to HK\$0.095 per share, pre-tax) for the year ended December 31, 2014 was declared, all of which has been fully paid. Pursuant to a resolution passed at the Directors' meeting on March 23, 2016, a final dividend of approximately RMB6,461 million (RMB0.079829 equivalent to HK\$0.095 per share, pre-tax) for the year ended December 31, 2015 was proposed for shareholders' approval at the forthcoming annual general meeting.

Exchange Rate Information

Our business is primarily conducted in China and substantially all of our revenues are denominated in Renminbi. We present our historical consolidated financial statements in Renminbi. In addition, solely for the convenience of the reader, this annual report contains translations of certain Renminbi and Hong Kong dollar amounts into U.S. dollars at specific rates. For any date and period, the exchange rate refers to the exchange rate as set forth in the H.10 statistical release of the Federal Reserve Board. Unless otherwise indicated, conversions of Renminbi or Hong Kong dollars into U.S. dollars in this annual report are based on the exchange rate on December 31, 2015 (RMB6.4778 to US\$1.00 and HK\$7.7507 to US\$1.00). We make no representation that any Renminbi or Hong Kong dollar amounts could have been, or could be, converted into U.S. dollars or vice versa, as the case may be, at any particular rate, the rates stated below, or at all. For a detailed explanation of the risk of currency rate fluctuations, please see “D. Risk Factors—Risks Relating to the People’s Republic of China—Fluctuation of the Renminbi could materially affect our financial condition, results of operations and cash flows.” under this Item. The PRC government imposes controls over its foreign currency reserves in part through direct regulation of the conversion of Renminbi into foreign exchange. Examples of such government regulations and restrictions are set forth in “Risk Factors—Risks Relating to the People’s Republic of China—Government control of currency conversion may adversely affect our financial condition.”

On April 22, 2016, the daily exchange rates reported by the Federal Reserve Board was RMB6.5004 to US\$1.00 and HK\$7.7564 to US\$1.00. The following table sets forth additional information concerning exchange rates between Renminbi and U.S. dollars and between Hong Kong dollars and U.S. dollars for the periods indicated. These rates are provided solely for your convenience and are not necessarily the exchange rates that we use in this annual report or will use in the preparation of our future periodic reports or any information to be provided to you.

| | <u>RMB per US\$1.00</u> | | | <u>HK\$ per US\$1.00</u> | |
|-------------------------------------|-------------------------|------------|-------------------------------------|--------------------------|------------|
| | <u>High</u> | <u>Low</u> | | <u>High</u> | <u>Low</u> |
| October 2015 | 6.3591 | 6.3180 | October 2015 | 7.7503 | 7.7495 |
| November 2015 | 6.3945 | 6.3180 | November 2015 | 7.7526 | 7.7498 |
| December 2015 | 6.4896 | 6.3883 | December 2015 | 7.7527 | 7.7496 |
| January 2016 | 6.5932 | 6.5219 | January 2016 | 7.8270 | 7.7505 |
| February 2016 | 6.5795 | 6.5154 | February 2016 | 7.7969 | 7.7700 |
| March 2016 | 6.5500 | 6.4480 | March 2016 | 7.7745 | 7.7528 |
| April 2016 (through April 22, 2016) | 6.5004 | 6.4571 | April 2016 (through April 22, 2016) | 7.7569 | 7.7537 |

The following table sets forth the average exchange rates between Renminbi and U.S. dollars and between Hong Kong dollars and U.S. dollars for each of 2011, 2012, 2013, 2014 and 2015 calculated by averaging the exchange rates on the last day of each month during each of the relevant years.

Average Exchange Rate

| | <u>RMB per US\$ 1.00</u> | <u>HK\$ per US\$1.00</u> |
|------|--------------------------|--------------------------|
| 2011 | 6.4475 | 7.7793 |
| 2012 | 6.2990 | 7.7556 |
| 2013 | 6.1412 | 7.7565 |
| 2014 | 6.1704 | 7.7554 |
| 2015 | 6.2869 | 7.7519 |

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Risks Relating to Our Business

We face increasing competition, which may materially and adversely affect our business, financial condition and results of operations.

The telecommunications industry in the PRC is rapidly evolving.

After the industry restructuring in 2008, China Unicom (Hong Kong) Limited (formerly known as China Unicom Limited), or China Unicom, and our Company have full-service capabilities and compete with each other in both wireline and wireless telecommunications services. China Mobile Limited, or China Mobile, continues to be the leading provider of mobile telecommunications services in the PRC and competes with us in mobile telecommunications services and other telecommunications services.

In particular, in December 2013, each of China Mobile Communications Corporation, or China Mobile Group, China Telecom Group and China United Network Communications Group Company Limited (formerly known as China United Telecommunications Corporation prior to its merger with China Network Communications Group Corporation), or Unicom Group, received a license from the MIIT to operate 4G business nationwide. The licenses permit each of China Mobile Group, China Telecom Group and Unicom Group to provide 4G services based on LTE/Time Division Duplex standard, or TD-LTE technologies. In addition, in February 2015, each of China Telecom Group and Unicom Group was granted by the MIIT the permit to provide 4G service based on Frequency-Division Long-Term Evolution standard, or LTE FDD technologies nationwide. We have been authorized by China Telecom Group to operate 4G business nationwide based on both TD-LTE technologies and LTE FDD technologies. We cannot assure you that: (i) our 4G services will deliver the quality and levels of services currently anticipated; (ii) we will be able to provide all planned 4G services or we will be able to provide such services on schedule; (iii) there will be sufficient demand for 4G services for us to deliver these services profitably; (iv) our competitors' 4G, or newer technology based, services will not be more popular among potential subscribers; or (v) we will not encounter unexpected technological difficulties in providing 4G services. The failure of any of these possible developments to occur could impede our growth, which could have a material adverse effect on our business, financial condition and results of operations. We expect that the market competition will be further intensified as a result of our competitors expanding their 4G services, which could materially and adversely affect our business and prospect.

In December 2013, China Mobile Group received permission from the MIIT to authorize China Mobile to operate fixed-line telecommunications businesses. Prior to December 2013, China Unicom, China Tietong Telecommunications Corporation, or China Railcom, which is a wholly-owned subsidiary of China Mobile Group, CITIC NETWORKS Co., Ltd., and our Company were the only operators licensed by the MIIT to provide fixed-line telecommunications services in China. At the end of December 2015, China Mobile completed its acquisition from China Mobile Group of the fixed-line telecommunications businesses operated by China Railcom. China Mobile's entry into the fixed-line broadband market has intensified and may continue to intensify competition in this sector, which could have a material adverse effect on our business, financial condition and results of operations.

We also face increasing competition from other competitors outside the telecommunications industry. Television cable companies providing fixed-line broadband services, Internet services providers and mobile software and application developers (such as Over-the-Top messaging services providers who offer contents and services on the Internet without their proprietary telecommunications network infrastructure), are competing with us in voice or data services. During the past few years, some of our traditional revenue contributors have experienced a slowdown in the growth rate or negative growth, primarily due to the alternative means of communication becoming increasingly popular among the consumers. For example, the aggregate revenues contributed by our wireline and mobile voice services grew at a rate of 4.7% in 2013 but decreased at a rate of 8.9% in 2014 and further decreased at a rate of 11.0% in 2015. We cannot assure you that such trend will not continue with respect to some of our traditional services, or our other services will not experience slowdown amid the intense market competition, which could have a material adverse effect on our business, financial condition and results of operations.

In addition, the PRC government has taken various initiatives to encourage competition in the telecommunications industry, such as the three-network convergence policy and the policy encouraging non-State owned companies to enter the industry. For more details of the three-network convergence policy, please see “Item 4. Information on the Company – B. Business Overview – Three-Network Convergence Policy.” In May 2010, the PRC State Council issued Certain Opinion on Encouraging and Guiding the Sound Development of Private Investment, encouraging private investment in industry sectors that are mainly state-controlled, such as basic telecommunications services. In June 2012, the MIIT issued Opinions on Encouraging and Guiding Private Investment in the Telecommunications Industry, encouraging private-sector investment in the telecommunications industry. On May 17, 2013, the MIIT issued the Trial Plan of Mobile Telecommunications Resale Business, pursuant to which the MIIT would grant qualified companies mobile telecommunications resale business approvals on a pilot basis which would allow them to purchase mobile telecommunications services in bulk from mobile networks operators and resell such services to customers. On January 6, 2016, the MIIT issued the Guidance on the Wholesale Price Adjustments of Mobile Telecommunications Resale Business (关于移动通信转售业务批发价格调整的指导意见), pursuant to which the MIIT required that the wholesale price for resale of mobile telecommunications services should be lower than the per unit price (or package price) for similar businesses of the mobile networks operators. All of these measures are expected to encourage non-State owned companies to provide telecommunications services that could compete with our services. On December 25, 2014, the MIIT issued the Notice on Opening the Broadband Access Market to Private Capital, encouraging private capital to invest in the construction and operation of the broadband access network and cooperate with basic telecommunications operators in various ways to provide broadband access services and broadband resale services to customers and determining 17 cities including Beijing to be the first group of cities that would open their broadband access markets to private capital on a pilot basis. On September 23, 2015, the MIIT issued the Notice on Further Broadening the Scope of Trial Opening of the Broadband Access Business, to include another 44 cities into the trial scope that opens up the broadband access market to private capital. As of December 31, 2015, the MIIT granted broadband access pilot enterprises licenses to over 50 private companies. As of April 19, 2016, 67 cities have opened up their broadband access markets to private capital. As of December 31, 2015, we had entered into resale contracts with 25 out of the 42 mobile virtual network operators which had obtained the licenses from the MIIT, and 11 of these companies had started to offer 4G services. As a result, the competitive landscape in the PRC telecommunications industry may further diversify, causing more intensified competition.

Increasing competition from other existing telecommunications services providers, including China Mobile and China Unicom, as well as competition from new competitors, could materially and adversely affect our business and prospect by, among other factors, forcing us to lower our tariffs, reducing or reversing the growth of our customer base and reducing usage of our services. Any of these developments could materially and adversely affect our revenues and profitability. We cannot assure you that the increasingly competitive environment and any change in the competitive landscape of the telecommunications industry in the PRC would not have a material adverse effect on our business, financial condition or results of operations.

The growth of our mobile business is subject to uncertainties involved in the future operations of the Tower Company.

On July 11, 2014, the Company, China United Network Communications Corporation Limited (“CUCL”) and China Mobile Communication Company Limited (“CMCL”) entered into a Promoters’ Agreement for China Communications Facilities Services Corporation Limited to jointly establish China Communications Facilities Services Corporation Limited (later renamed as China Tower Corporation Limited, the “Tower Company”). The Tower Company will be responsible for constructing and operating telecommunications towers and ancillary facilities, while the basic telecommunications services providers, including us, will rent these telecommunications assets from the Tower Company. According to the policies of the MIIT, starting from January 1, 2015, in principle, the three telecommunications operators, including us, will no longer construct their own telecommunications towers. On October 14, 2015, the Company, CUCL, CMCL, the Tower Company and certain other parties entered into an Agreement on Purchase of Stock Tower-related Assets by Issuance of Shares and Payment of Cash, or the Transfer Agreement, pursuant to which each of the Company, CUCL and CMCL agreed to sell certain telecommunications towers and related assets to the Tower Company in exchange for new shares issued by the Tower Company, among others. On January 29, 2016, the Company and the Tower Company entered into a Share Subscription Agreement to acknowledge the number and price of the shares issued by the Tower Company to the Company. Currently, the Company and Tower Company have reached preliminary understanding and are in the process of negotiating arrangements in respect of our usage of certain telecommunications towers and related assets owned by the Tower Company. See “Item 4. Information on the Company—A. History and Development of the Company—Establishment of the Tower Company and the Disposal and Use of the Telecommunications Towers”.

The Tower Company will be of significant importance to the development of our mobile business and our results of operations. In particular, we are expected to use the telecommunications towers owned by the Tower Company for our mobile business. Because we do not control the Tower Company, we cannot assure you that it will act in the best interests of us. Given its short operational history, the operations of the Tower Company are subject to various uncertainties, including uncertainties as to the construction progress of the telecommunications towers and the quality of services provided by the Tower Company. In addition, we are in the process of negotiating with the Tower Company regarding the arrangements for our usage of its telecommunications towers and related assets, and we cannot assure you that we will be able to use such telecommunications towers and related assets on terms and conditions that are favorable to us. If the operations of the Tower Company cannot be carried out in a smooth and timely manner, or if we fail to use the relevant telecommunications towers and related assets at our desired locations and on terms and conditions that are favorable to us in order to expand our mobile network coverage, or if we cannot receive quality services on a timely basis from the Tower Company, the growth of our mobile business as well as our financial condition and results of operations may be materially and adversely affected.

We may further lose wireline telephone subscribers and revenues derived from our wireline voice services may continue to decline, which may adversely affect our results of operations, financial condition and prospects.

We continued to lose wireline telephone subscribers and revenues derived from our wireline voice services continued to decline during the past several years mainly due to the increasing popularity of mobile voice services and other alternative means of communication, such as Over-the-Top messaging services. Tariffs for mobile voice services have continued to decrease in recent years, which further accelerated substitution of the wireline voice services by the mobile voice services. The number of our wireline telephone subscribers decreased by 7.9% at the end of 2014 compared to that at the end of 2013 and further decreased by 6.4% at the end of 2015. Revenues from our wireline voice services decreased by 13.1% in 2014 compared to 2013 and further decreased by 11.8% in 2015. The percentage of revenues derived from our wireline voice services out of our total operating revenues continued to decrease, from 12.0% in 2013 to 10.4% in 2014 and 8.9% in 2015.

We have been taking various measures in order to mitigate the impact of loss of our wireline telephone subscribers and stabilize our revenues from wireline voice services. See “Item 4. Information on the Company—B. Business Overview—Our Products and Services—Wireline Voice Services.” However, we cannot assure you that we will be successful in mitigating the adverse impact of the substitution of wireline voice services by mobile voice services and other alternative means of communication or in slowing down the decline of our revenues generated from wireline voice services. Migration from wireline voice services to mobile services and other alternative means of communication may further intensify in the future, which may affect the financial performance of our wireline voice services and thus adversely affect our results of operations, financial condition and prospects as a whole.

We will continue to be controlled by China Telecom Group, which could cause us to take actions that may conflict with the best interests of our other shareholders.

China Telecom Group, a wholly state-owned enterprise, owned approximately 70.89% of our outstanding shares as of April 22, 2016. Accordingly, subject to our Articles of Association and applicable laws and regulations, China Telecom Group, as our controlling shareholder, will continue to be able to exercise significant influence over our management and policies by:

- controlling the election of our Directors and, in turn, indirectly controlling the selection of our senior management;
- determining the timing and amount of our dividend payments;
- approving our annual budgets;
- deciding on increases or decreases in our share capital;
- determining issuance of new securities;
- approving mergers and acquisitions; and
- amending our Articles of Association.

The interests of China Telecom Group as our controlling shareholder could conflict with our interests or the interests of our other shareholders. As a result, China Telecom Group may take actions with respect to our business that may not be in our or our other shareholders’ best interests.

We depend on China Telecom Group and its other subsidiaries to provide certain services and facilities for which we currently have limited alternative sources of supply.

In addition to being our controlling shareholder, China Telecom Group, by itself and through its other subsidiaries, also provides us with services and facilities necessary for our business activities, including, but not limited to:

- use of international gateway facilities;
- provision of services in areas outside our service regions necessary to enable us to provide end-to-end services to our customers;
- use of certain inter-provincial optic fibers; and
- lease of properties and assets.

The interests of China Telecom Group and its other subsidiaries as providers of these services and facilities may conflict with our interests. We currently have limited alternative sources of supply for these services and facilities. Therefore, we have limited leverage in negotiating with China Telecom Group and its other subsidiaries over the terms for the provision of these services and facilities. Termination or adverse changes of the terms for the provisions of these services and facilities could materially and adversely affect our business, results of operations and financial condition. See “Item 4. Information on the Company—A. History and Development of the Company—Industry Restructuring and Our Acquisition of the CDMA Business in 2008” and “—Our Acquisition from China Telecom Group of the CDMA Network Assets and Associated Liabilities” and “Item 7. Major Shareholders and Related Party Transactions—B. Related Party Transactions” for a description of the services and facilities provided by China Telecom Group and its other subsidiaries.

Since our services require interconnection with networks of other operators, disruption in interconnections with those networks could have a material adverse effect on our business and results of operations.

Under the relevant telecommunications regulations, telecommunications operators are required to interconnect with networks of other operators. China Telecom Group entered into interconnection settlement agreements with other telecommunications operators, including Unicom Group and China Mobile Group. We entered into an interconnection settlement agreement, as amended, with China Telecom Group, which allows our networks to interconnect with China Telecom Group’s networks as well as networks of the other telecommunications operators, with whom China Telecom Group had interconnection arrangements. The effective provision of our wireline voice, mobile voice and other services requires interconnection between our networks and those of China Telecom Group, Unicom Group, China Mobile Group and other telecommunications operators. Any interruption in our interconnection with the networks of those operators or other international telecommunications carriers with which we interconnect due to technical or competitive reasons may affect our operations, service quality and customer satisfaction, and, in turn, our business and results of operations. In addition, any obstacles in existing interconnection arrangements and leased line agreements or any change in their terms, as a result of natural events, accidents, or for regulatory, technological, competitive or other reasons, could lead to temporary service disruptions and increased costs that may seriously jeopardize our operations and adversely affect our profitability and growth.

We may be unable to obtain sufficient financing to fund our capital requirements, which could limit our growth potential and prospects.

We believe that cash from operations, together with any necessary borrowings, will provide sufficient financial resources to meet our projected capital and other expenditure requirements. However, we may require additional funds to the extent we have underestimated our capital requirements or overestimated our future cash from operations. In addition, a significant feature of our business strategy is to continue to transform our Company into a modern integrated information services provider, which may require additional capital resources. The cost of implementing new technologies, upgrading our networks, expanding capacity or acquisitions of businesses or assets may be significant. Furthermore, in order for us to effectively respond to technological changes and more intensive competition, we may need to make substantial investments in the future.

Financing may not be available to us on acceptable terms or at all. In addition, any future issuance of equity securities, including securities convertible or exchangeable into or that represent the right to receive equity securities, may require approval from the relevant government authorities. Our ability to obtain additional financing will depend on a number of factors, including:

- our future financial condition, results of operations and cash flows;
- general market conditions for financing activities by telecommunications companies; and
- economic, political and other conditions in the markets where we operate or plan to operate.

We cannot assure you that we can obtain sufficient financing at commercially reasonable terms or at all. If adequate capital is not available on commercially reasonable terms, our growth potential and prospects could be materially and adversely affected. Furthermore, additional issuances of equity securities will result in dilution to our shareholders. Incurrence of debt would result in increased interest expense and could require us to agree to restrictive operating and financial covenants.

If we are not able to respond successfully and cost-efficiently to technological or industry developments, our business may be materially and adversely affected.

The telecommunications market is characterized by rapid advancements in technology, evolving industry standards and changes in customer needs. We cannot assure you that we will be successful in responding to these developments. In addition, new services or technologies, such as mobile Internet, the three-network convergence, cloud computing and Internet of Things, may render our existing services or technologies less competitive. In the event we do take measures to respond to technological developments and changes in industry standards, the integration of new technology or industry standards or the upgrading of our networks may require substantial time, effort and capital investment. For example, we continue to make significant investment to improve our broadband network, including the upgrade of optic fiber coverage capacity, and our mobile network. However, we may not be able to recover our investment as expected.

Our ability to respond to technological developments may also be adversely affected by external factors, some of which are beyond our control. For example, we have started implementing Internet Protocol version 6, or IPv6, the next-generation Internet Protocol version, on our networks. However, the successful deployment and application of IPv6 depends on a number of external factors, including, among others, timely development of IPv6-compatible devices and applications by third-party suppliers. If the future transition to IPv6 is delayed due to factors beyond our control, we may face obstacles in further developing our Internet-related services in the future. We cannot assure you that we will succeed in integrating these new technologies and industry standards or adapting our network and systems in a timely and cost-effective manner, or at all. Our inability to respond successfully and cost-efficiently to technological or industry developments may materially and adversely affect our business, results of operations and competitiveness.

We face a number of risks relating to our Internet-related services.

We currently provide a range of Internet-related services, including dial-up and broadband Internet access, and Internet-related applications. We face a number of risks in providing these services.

Our network may be vulnerable to unauthorized access, computer viruses and other disruptive problems. We cannot assure you that the security measures we have implemented will not be circumvented or otherwise fail to protect the integrity of our network, including our mobile network. Unauthorized access could jeopardize the security of confidential information stored in our customers' computer systems and mobile phone systems and may subject us to litigations, liabilities for information loss and/or reputational damage. Eliminating computer viruses and other security problems may also require interruptions, delays or suspension of our services, reduce our customer satisfaction and cause us to incur costs.

In addition, because we provide connections to the Internet and host websites for customers and develop Internet content and applications, we may be perceived as being associated with the content carried over our network or displayed on websites that we host. We cannot and do not screen all of this content and may face litigation claims due to a perceived association with this content. These types of claims have been brought against other providers of online services in the past. Regardless of the merits of the lawsuits, these types of claims can be costly to defend, divert management resources and attention, and may damage our reputation.

Risks Relating to the Telecommunications Industry in the PRC

The current and future government regulations and policies that extensively govern the telecommunications industry may limit our flexibility in responding to market conditions, competition or changes in our cost structure.

Our business is subject to extensive government regulation. The MIIT, which is the primary telecommunications industry regulator under the PRC's State Council, regulates, among other things:

- industry policies and regulations;
- licensing;
- competition;
- telecommunications resource allocation;

- service standards;
- technical standards;
- interconnection and settlement arrangements;
- enforcement of industry regulations;
- universal service obligations;
- network information security;
- network access license approval for telecom equipment and terminals; and
- network construction plans.

Other PRC governmental authorities also take part in regulating tariff policies, capital investment and foreign investment in the telecommunications industry. The regulatory framework within which we operate may constrain our ability to implement our business strategies and limit our flexibility to respond to market conditions or to changes in our cost structure. For example, in light of the Overview of the Plan of Achieving Coordinated Development of Beijing Municipality, Tianjin Municipality and Hebei Province which was passed on April 30, 2015 by the PRC government, we cancelled the long-distance and roaming tariffs for voice services within the tariff zones of Beijing Municipality, Tianjin Municipality and Hebei Province so that our customers are only charged with local usage tariff for our voice services provided within the tariff zones. In addition, on May 20, 2015, the office of the State Council promulgated the Guidance Opinions Regarding Expediting the Development of the High-Speed Broadband Network and Promoting the Speed Upgrade and Tariff Reduction, calling for the telecommunications operators to reduce the data tariffs. In order to further implement such policy requirements, we carried out a series of measures, including launching the upgrade service in 2015 October which would allow handset data subscribers who subscribe to our monthly data packages to rollover the unused data remaining in the monthly packages to the next month. On January 6, 2016, the MIIT issued the Guidance on the Wholesale Price Adjustments of Mobile Telecommunication Resale Business (关于移动通信转售业务批发价格调整的指导意见), pursuant to which the MIIT required that the wholesale price for resale of mobile telecommunications services should be lower than the per unit price (or package price) for similar businesses of the mobile networks operators. We may face further policy requirements imposed by the PRC government on network speed upgrade, tariff reduction and price adjustment in the future. Any such requirements could materially adversely affect our profitability and results of operations. In addition, the PRC government has taken various initiatives and promulgated a number of regulations to encourage private capital to invest in the telecommunications industry, all of which have intensified, and are expected to continue to intensify, the competition in the telecommunications industry in the PRC. See “ – D. Risk Factors – Risks Relating to our Business – We face increasing competition, which may materially and adversely affect our business, financial condition and results of operations.”

The regulations and policies that govern the telecommunications industry in the PRC have experienced continuous changes in the past several years. The interpretation and enforcement of the PRC’s World Trade Organization commitments regarding telecommunications services may also affect telecommunications regulations. Possible future changes to regulations and policies of the PRC government governing the telecommunications industry could adversely affect our business and operations. For example, to provide a uniform regulatory framework for the orderly development of the telecommunications industry, the PRC government is currently preparing a draft telecommunications law. If and when the telecommunications law is adopted by the National People’s Congress or its Standing Committee, it is expected to provide a new regulatory framework for telecommunications regulation in the PRC. We cannot be certain how this law will affect our business and operations and whether it will contain more stringent regulatory requirements than the current telecommunications regulations. Any significant future changes in regulations or policies that govern the telecommunications industry may have a material adverse effect on our business and operations.

The PRC government may require us, along with other providers in the PRC, to provide universal services with specified obligations, and we may not be compensated adequately for providing such services.

Under the Telecommunications Regulations promulgated by the State Council, telecommunications service providers in the PRC are required to fulfill universal service obligations in accordance with relevant regulations to be promulgated by the PRC government. The MIIT has the authority to delineate the scope of universal service obligations. The MIIT may also select universal service providers through a tendering process. The MIIT, together with other governmental authorities, is also responsible for formulating administrative rules relating to the establishment of a universal service fund and compensation schemes for universal services. The PRC government currently uses financial resources to compensate for the expenses incurred in the “Village to Village” and the “Broadband China” projects before the establishment of a universal service fund. The State Council issued the Notice on the “Broadband China” Policy and the Implementation Plan on August 1, 2013, which included the provision of broadband services to villages as part of the universal service obligations of telecommunications service providers and mentioned improving the compensation scheme for the expenses incurred by the telecommunications services providers in undertaking the “Broadband China” projects in the villages. On December 24, 2015, the MOF and the MIIT jointly promulgated the Notice on Telecommunications Universal Service Pilot Work (关于开展电信普遍服务试点工作的通知) which sets up certain goals for the telecommunication operators, including broadband coverage in 98% of the administrative villages and over 12Mbps broadband access capacity in rural villages, by 2020. Pursuant to the notice, the central government subsidies will be granted to the pilot areas determined by the MOF and the MIIT and the universal services providers will be selected through an open bidding process. However, the compensation from the PRC government may not be sufficient to cover all of our expenses for providing the telecommunications services under the relevant projects.

Under the Telecommunications Regulations, all PRC telecommunications operators shall provide universal services, and we expect to perform our duties thereunder accordingly. We may not be able to realize adequate return on investments for expanding networks to, and providing telecommunications services in, those economically less developed areas due to potentially higher capital expenditure requirements, lower usage by customers and lack of flexibility in setting our tariffs. If we are required to provide universal services with specified obligations without proper compensation by the government, our business and profitability may be materially adversely affected.

Implementation of a value-added tax to replace the business tax in the PRC has had, and in the short term will continue to have, a material and adverse effect on our revenues and profitability.

Our business operations in China are currently subject to PRC value-added tax, or VAT. On November 16, 2011, the Ministry of Finance, or the MOF, and the State Administration of Taxation, or the SAT, introduced a pilot tax program under which the PRC business tax will be replaced with a VAT. On April 29, 2014, the MOF and the SAT announced that the pilot program would be extended to cover the telecommunications industry. Effective from June 1, 2014, the pilot tax rate for basic telecommunications services (including voice communication and lease or sale of network resources) is 11% and the pilot tax rate for value-added telecommunications services (including, among others, internet access services, short and multimedia messaging services, transmission and application service of electronic data and information) is 6%. On March 18, 2016, the State Council standing committee meeting resolved to expand the VAT pilot program to all other industries which were previously subject to the PRC business tax starting from May 1, 2016. On March 23, 2016, the SAT issued the Notice on Expanding the Pilot Program of Replacing the Business Tax with VAT, promulgating the relevant implementing rules.

The operating revenues are presented in the financial statements as excluding any VAT. Some of the expenditures of the Company do not qualify for input VAT credits, including, among others, depreciation and amortization and personnel expenses. In addition, the actual deduction of some of our expenditures as input VAT credits will depend on the application of VAT to the other industries. As a result, the VAT reform has had, and is expected to continue to have, an adverse effect on the revenues and operating profit of the Company in the short term. In the long term, the overall VAT of the Company is expected to decrease. See “Item 5. Operating and Financial Review and Prospects – A. Operating Results – Year Ended December 31, 2015 Compared to Year Ended December 31, 2014 – Qualitative and Quantitative Analysis of the VAT Reform Impact.”

We have experienced incidents of executive misconduct in the past, which could adversely impact our reputation, our financial condition and results of operations as well as the trading price of our securities.

According to the information disclosed on the website of Communist Party of China Central Commission for Discipline Inspection and Ministry of Supervision of the PRC on December 27, 2015, Mr. Chang Xiaobing, the former Chairman of Unicom Group and the then Chairman of China Telecom Group was under investigation by such authorities for suspected serious disciplinary violations. Mr. Chang was appointed as the chief executive officer of the Company on September 1, 2015 and the director and chairman of the Company on October 23, 2015. On December 30, 2015, Mr. Chang resigned from his positions as the executive director, chairman and chief executive officer of the Company with effect from the same date. Prior to his resignation, Mr. Chang had worked at the Company for four months.

The investigation conducted by the PRC authorities on Mr. Chang may harm our reputation and adversely affect our financial condition and results of operations as well as the trading price of our securities.

Risks Relating to the People's Republic of China

Substantially all of our assets are located in the PRC and substantially all of our revenues are derived from our operations in the PRC. Accordingly, our results of operations and prospects are subject, to a significant extent, to the economic, political and legal developments in the PRC.

The PRC's economic, political and social conditions, as well as government policies, could affect our business.

Substantially all of our business, assets and operations are located in the PRC. The PRC's economy differs from the economies of most developed countries in many respects, including without limitation:

- government involvement;
- level of development;
- growth rate;
- control of foreign exchange; and
- allocation of resources.

While the PRC's economy has experienced significant growth in the past 30 years, growth has been uneven, both geographically and among various sectors of the economy. The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures benefit the overall economy of the PRC, but may also have a negative effect on us.

Economic developments in the PRC have a significant effect on our financial condition and results of operations. Although the PRC has been one of the world's fastest growing economies in terms of GDP growth in the past 30 years, the global financial crisis that unfolded in 2008 and continued in the past few years, coupled with the on-going structural reform of the PRC economy, has led to a marked slowdown in, and may continue to slow down, the economic growth of the PRC. For example, the GDP growth rate of the PRC decreased from 11.4% in 2007 to 6.9% in 2015. The PRC economy may continue to grow at a relatively slow pace in the next few years. There is no assurance that the GDP growth rate of the PRC will not further decline. A slowdown in economic growth could reduce business activities and demand for our services. The global economy may continue to deteriorate in the future and continue to have an adverse impact on the PRC economy. Any significant slowdown in the PRC economy could have a material adverse effect on the PRC telecommunications industry as well as our business and operations.

Government control of currency conversion may adversely affect our financial condition.

We receive substantially all of our revenues in Renminbi, which currently is not a freely convertible currency. A portion of these revenues must be converted into other currencies to meet our foreign currency obligations. These foreign currency-denominated obligations include:

- payment of interest and principal on foreign currency-denominated debt;
- payment for equipment and materials purchased offshore; and
- payment of dividends declared, if any, in respect of our H shares.

Under the PRC's existing foreign exchange regulations, we will be able to pay dividends in foreign currencies without prior approval from the State Administration of Foreign Exchange by complying with certain procedural requirements. However, the PRC government may take measures at its discretion in the future to restrict access to foreign currencies for both current account transactions and capital account transactions. We may not be able to pay dividends in foreign currencies to our shareholders, including holders of our ADSs, if the PRC government restricts access to foreign currencies for current account transactions.

Foreign exchange transactions under our capital account, including foreign currency-denominated borrowings from foreign banks, issuance of foreign currency-denominated debt securities, if any, and principal payments in respect of foreign currency—denominated obligations, continue to be subject to significant foreign exchange controls and require the approval of the State Administration of Foreign Exchange. These limitations could affect our ability to obtain foreign exchange through debt or equity financing, or to obtain foreign exchange to meet our payment obligations under the debt securities, if any, or to obtain foreign exchange for capital expenditures.

Fluctuation of the Renminbi could materially affect our financial condition, results of operations and cash flows.

We receive substantially all of our revenues, and our financial statements are presented, in Renminbi. The value of the Renminbi against U.S. dollar and other currencies fluctuates and is affected by, among other things, changes in the PRC's and international political and economic conditions. Since 1994, the conversion of Renminbi into foreign currencies, including Hong Kong and U.S. dollars, has been based on rates set by the People's Bank of China, which are set daily based on the previous business day's inter-bank foreign exchange market rates and current exchange rates on the world financial markets. On July 21, 2005, the PRC government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. In April 2012, the PRC government expanded the daily floating band of Renminbi trading prices against the U.S. dollar in the inter-bank spot foreign currency exchange market from 0.5% to 1.0%, which was further expanded to 2.0% in March 2014. Fluctuations in exchange rates may adversely affect the value, translated or converted into U.S. dollars or Hong Kong dollars, of our net assets, earnings and any declared dividends payable on our H shares in foreign currency terms. Our financial condition and results of operations may also be affected by changes in the value of certain currencies other than the Renminbi, in which our obligations are denominated. For further information on our foreign exchange risks and certain exchange rates, see "Item 3. Key Information—A. Selected Financial Data—Exchange Rate Information" and "Item 11. Quantitative and Qualitative Disclosures about Market Risk—Foreign Exchange Rate Risk." We cannot assure you that any future movements in the exchange rate of the Renminbi against the U.S. dollar or other foreign currencies will not adversely affect our results of operations and financial condition.

The PRC legal system has inherent uncertainties that could limit the legal protections available to you.

We were incorporated under PRC laws and are governed by our Articles of Association. The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since 1979, the PRC government has promulgated laws and regulations dealing with economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade. However, because these laws and regulations are relatively new, and because of the limited number of published cases and their non-binding nature, interpretation and enforcement of these laws and regulations involve uncertainties.

The ability of our shareholders to enforce their rights in respect of violations of corporate governance procedures may be limited. In this regard, our Articles of Association provide that most disputes between holders of H shares and our Company, directors, supervisors, officers or holders of domestic shares, arising out of our Articles of Association or the PRC Company Law and related regulations concerning the affairs of our Company, are to be resolved through arbitration by an arbitration tribunal in Hong Kong or the PRC, rather than by a court of law. Awards that are made by PRC arbitral authorities recognized under the Arbitration Ordinance of Hong Kong can be enforced in Hong Kong. Hong Kong arbitration awards are also enforceable in the PRC. However, to our knowledge, no action has been brought in the PRC by any holder of H shares to enforce an arbitral award, and we are uncertain as to the outcome of any action, if brought in the PRC to enforce an arbitral award made in favor of holders of H shares. See "Item 10. Additional Information—B. Memorandum and Articles of Association."

To our knowledge, there has not been any published report of judicial enforcement in the PRC by holders of H shares of their rights under the Articles of Association of a PRC company or the PRC Company Law.

Unlike in the United States, the applicable PRC laws did not specifically allow shareholders to sue the directors, supervisors, senior management or other shareholders on behalf of the corporation to enforce a claim against such party or parties that the corporation has failed to enforce itself until January 1, 2006, when the amendments to the PRC Company Law passed on October 27, 2005 became effective. Although the amended PRC Company Law provides that shareholders, under certain circumstances, may sue the directors, supervisors and senior management on behalf of the company, no detailed implementation rules or judicial interpretations have been issued in this regard. In addition, our minority shareholders may not be able to enjoy protections to the same extent afforded to shareholders of companies incorporated under the state laws of the United States.

Although we will be subject to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, or the Listing Rules, and the Hong Kong Codes on Takeovers and Mergers and Share Buy-backs, or the Codes, the holders of H shares will not be able to bring actions on the basis of violations of the Listing Rules or the Codes, and must rely on the Hong Kong Stock Exchange and The Securities and Futures Commission of Hong Kong to enforce the Listing Rules or the Codes, as the case may be.

You may experience difficulties in effecting service of legal process and enforcing judgments against us and our management.

We are a company incorporated under PRC laws, and substantially all of our assets and our subsidiaries are located in the PRC. In addition, most of our directors and officers reside within the PRC, and substantially all of the assets of our directors and officers are located within the PRC. As a result, it may not be possible to effect service of process within the United States or elsewhere outside the PRC upon most of our directors or officers, including with respect to matters arising under applicable laws and regulations. Moreover, our PRC counsel has advised us that the PRC does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States, the United Kingdom or most other Western countries. Our Hong Kong counsel has also advised us that Hong Kong has no arrangement for the reciprocal enforcement of judgments with the United States.

As a result, recognition and enforcement in the PRC of judgments of a court in the United States and any of the other jurisdictions mentioned above in relation to any matter not subject to a binding arbitration provision may be difficult or impossible.

Holders of H shares may be subject to PRC taxation.

Under the Enterprise Income Tax Law of the PRC, or the EIT Law, and its implementing regulations, holders of our H shares or ADSs which are “non-resident enterprises” for the EIT Law’s purpose are subject to enterprise income tax at the rate of 10.0% with respect to dividends paid by us and income derived from sale of our H shares or ADSs, unless reduced under an applicable tax treaty. In addition, a resident enterprise, including a foreign enterprise whose “de facto management body” is located in the PRC, is not subject to any PRC income tax with respect to dividends paid to it by us. The capital gains realized by such resident enterprise are subject to the PRC enterprise income tax. Specifically, according to the Notice of the PRC State Administration of Taxation Concerning the Withholding Enterprise Income Tax on Dividend Distributed by PRC Resident Enterprises to Overseas Non-Resident Enterprise Holders of H shares issued in November 2008 and the Approval of the PRC State Administration of Taxation Concerning the Collection of Enterprise Income Tax on Dividend from B-shares Received by Non—Resident Enterprise issued in July 2009, when PRC resident enterprises distribute dividend to overseas non-resident enterprise holders of H shares for the year 2008 and the years thereafter, the 10.0% enterprise income tax will be withheld. The Company will withhold the 10.0% enterprise income tax when it pays dividend to holders of H shares or ADSs who are non-resident enterprises. See “Item 10. Additional Information—E. Taxation—People’s Republic of China.”

Furthermore, dividends paid by us to holders of our H shares or ADSs who are individuals outside the PRC are subject to a withholding tax of 20.0% unless reduced by an applicable tax treaty. For example, Hong Kong and Macau individual residents are subject to a withholding tax of 10.0% on dividends paid to them. In addition, gains realized by individuals upon the sale or other disposition of our H shares or ADSs are temporarily exempted from PRC capital gains tax. If the exemptions are withdrawn in the future, holders of our H shares or ADSs who are individuals may be required to pay PRC capital gains tax upon the sale or other disposition of our H shares. See “Item 10. Additional Information—E. Taxation— People’s Republic of China.”

Natural disasters and health hazards in the PRC may severely disrupt our business and operations and may have a material adverse effect on our financial condition and results of operations.

Several natural disasters and health hazards have struck mainland China in recent years. In 2010, a major earthquake registering 7.1 on the Richter scale struck Qinghai Province. Our network equipment and other assets in the affected areas sustained some damage in the earthquakes, leading to service stoppage and other disruptions in our operations in those areas. In March 2011, a major earthquake registering 9.0 on the Richter scale struck Japan, which affected our international communications services. In 2013, another major earthquake registering 7.0 on the Richter scale struck Sichuan Province, and floods struck 18 provinces including Gansu and Heilongjiang Provinces, causing widespread damages to telecommunications equipment in the affected areas and resulting in disruptions of the telecommunications services. In 2014, three major earthquakes registering 6.1, 6.5 and 6.6, respectively, on the Richter scale struck Yunan Province and another major earthquake registering 6.3 on the Richter scale struck Sichuan Province, causing severe damages to telecommunications equipment as well as disruptions to telecommunications services in the affected areas. We are unable to predict the effect, if any, that any future natural disasters and health hazards may have on our business. Any future natural disasters and health hazards may, among other things, significantly disrupt our ability to adequately staff our business, and may generally disrupt our operations. Furthermore, such natural disasters and health hazards may severely restrict the level of economic activity in affected areas, which may in turn materially and adversely affect our business and prospects. As a result, any natural disasters or health hazards in the PRC or other regions in the world may have a material adverse effect on our financial condition and results of operations.

The audit reports included in this annual report have been prepared by our independent registered public accounting firm whose work may not be inspected fully by the Public Company Accounting Oversight Board and, as such, you may be deprived of the benefits of such inspection.

Our independent registered public accounting firm that issues the audit reports included in our annual reports filed with the U.S. Securities and Exchange Commission, as auditors of companies that are traded publicly in the United States and a firm registered with the Public Company Accounting Oversight Board (United States), or the PCAOB, is required by the laws of the United States to undergo regular inspections by the PCAOB to assess its compliance with the laws of the United States and professional standards.

Because we have substantial operations within the PRC and the PCAOB is currently unable to conduct inspections of the work of our independent registered public accounting firm as it relates to those operations without the approval of the Chinese authorities, our independent registered public accounting firm is not currently inspected fully by the PCAOB. This lack of PCAOB inspections in the PRC prevents the PCAOB from regularly evaluating our independent registered public accounting firm's audits and its quality control procedures. As a result, investors may be deprived of the benefits of PCAOB inspections.

Inspections of other firms that the PCAOB has conducted outside the PRC have identified deficiencies in those firms' audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. The inability of the PCAOB to conduct full inspections of auditors in the PRC makes it more difficult to evaluate the effectiveness of our independent registered public accounting firm's audit procedures or quality control procedures as compared to auditors outside the PRC that are subject to PCAOB inspections. Investors may lose confidence in our reported financial information and procedures and the quality of our financial statements.

If the settlement recently reached between the SEC and the Big Four PRC-based accounting firms (including the Chinese affiliate of our independent registered public accounting firm), concerning the manner in which the SEC may seek access to audit working papers from audits in China of US-listed companies, is not or cannot be performed in a manner acceptable to authorities in China and the US, we could be unable to timely file future financial statements in compliance with the requirements of the Exchange Act.

In late 2012, the SEC commenced administrative proceedings under Rule 102(e) of its Rules of Practice and also under the Sarbanes-Oxley Act of 2002 against the mainland Chinese affiliates of the "Big Four" accounting firms (including the mainland Chinese affiliate of our independent registered public accounting firm). A first instance trial of the proceedings in July 2013 in the SEC's internal administrative court resulted in an adverse judgment against the firms. The administrative law judge proposed penalties on the Chinese accounting firms including a temporary suspension of their right to practice before the SEC, although that proposed penalty did not take effect pending review by the Commissioners of the SEC. On February 6, 2015, before a review by the Commissioner had taken place, the Chinese accounting firms reached a settlement with the SEC whereby the proceedings were stayed. Under the settlement, the SEC accepts that future requests by the SEC for the production of documents will normally be made to the CSRC. The Chinese accounting firms will receive requests matching those under Section 106 of the Sarbanes-Oxley Act of 2002, and are required to abide by a detailed set of procedures with respect to such requests, which in substance require them to facilitate production via the CSRC. If they fail to meet specified criteria, the SEC retains authority to impose a variety of additional remedial measures on the Chinese accounting firms depending on the nature of the failure. Remedies for any future noncompliance could include, as appropriate, an automatic six-month bar on a single firm's performance of certain audit work, commencement of a new proceeding against a firm, or in extreme cases the resumption of the recently-stayed proceeding against all four firms. The SEC also reserves the right to resume those proceedings in circumstances where, notwithstanding the accounting firms' compliance with the procedures in the settlement agreement, the SEC does not receive a production of documents which it considers satisfactory (for example because of action or inaction by the Chinese authorities).

In the event that the SEC restarts the administrative proceedings, depending upon the final outcome listed companies in the United States with major PRC operations may find it difficult or impossible to retain auditors in respect of their operations in the PRC, which could result in financial statements being determined to not be in compliance with the requirements of the Exchange Act, including possible delisting. Moreover, any negative news about any such future proceedings against these accounting firms may cause investor uncertainty regarding China-based, United States-listed companies and the market price of our ADSs may be adversely affected.

If the Chinese affiliate of our independent registered public accounting firm were denied, even temporarily, the ability to practice before the SEC and we were unable to timely find another registered public accounting firm to audit and issue an opinion on our financial statements, our financial statements could be determined not to be in compliance with the requirements of the Exchange Act. Such a determination could ultimately lead to the delisting of our ordinary shares from the NYSE or deregistration from the SEC, or both, which would substantially reduce or effectively terminate the trading of our ADSs in the United States.

Item 4. Information on the Company.

A. History and Development of the Company

Our Restructuring and Initial Public Offering in 2002

We were incorporated under PRC laws on September 10, 2002 as a joint stock company with limited liability under the name “China Telecom Corporation Limited.” As part of our initial restructuring, China Telecom Group’s telecommunications operations in Shanghai Municipality, Guangdong Province, Jiangsu Province and Zhejiang Province, together with the related assets and liabilities, were transferred to us in consideration of 68,317,270,803 of our shares.

Following our restructuring, China Telecom Group continues to be the holder of the licenses required for operating our telecommunications business. In accordance with the approval of the MIIT, we derive our exclusive rights to operate our business from our status as a subsidiary controlled by China Telecom Group, and China Telecom Group must hold and maintain all licenses received from the MIIT in connection with our business for our benefits. The government currently does not charge license fees for the telecommunications licenses held by China Telecom Group.

In 2002, we successfully completed our initial public offering of H shares and raised approximately RMB10,659 million in aggregate net proceeds for us. Upon completion of our initial public offering, our H shares have been listed for trading on the Hong Kong Stock Exchange, and ADSs representing our H shares have been listed for trading on the NYSE.

Industry Restructuring and Our Acquisition of the CDMA Business in 2008

Industry Restructuring in 2008

In 2008, pursuant to a joint announcement relating to the further reform of the telecommunications industry in the PRC issued by the MIIT, the NDRC and the MOF, the following restructuring transactions took place in the telecommunications industry: (a) the acquisition by China Telecom Group of the assets of the CDMA network and the acquisition by us of the subscriber base of the CDMA network then owned by China Unicom; (b) the acquisition by China Telecom Group of the basic telecommunications service business operated by China Satellite Communications Corporation, or China Satellite; (c) the merger between China Unicom and China Netcom; and (d) the acquisition of China Railcom by China Mobile.

Our Acquisition of the CDMA Business

On July 27, 2008, we, China Unicom and China Unicom Corporation Limited entered into an acquisition agreement, or the CDMA Acquisition Agreement, pursuant to which we agreed to acquire from China Unicom Corporation Limited the CDMA Business and related assets and liabilities (including the entire equity interest in China Unicom (Macau) Company Limited and 99.5% of the equity interest in Unicom Huasheng Telecommunications Technology Co. Ltd., or Unicom Huasheng) for a total consideration of RMB43,800 million. The cost of the acquisition had been fully paid by us by February, 2010.

Related Transactions

Lease of capacity on the CDMA Network by our Company from China Telecom Group

On July 27, 2008, China Telecom Group, Unicom Group, and Unicom New Horizon Mobile Telecommunications Company Limited, or Unicom New Horizon, a wholly-owned subsidiary of Unicom Group, entered into a CDMA network disposal agreement, pursuant to which Unicom Group and Unicom New Horizon sold the CDMA cellular telecommunications network constructed by Unicom New Horizon, or the CDMA Network, to China Telecom Group for a consideration of RMB66,200 million, or the CDMA Network Acquisition. On October 1, 2008, China Telecom Group completed the acquisition of the CDMA Network. On July 27, 2008, we entered into a CDMA network capacity lease agreement with China Telecom Group to lease the capacity on the CDMA Network from China Telecom Group. As we acquired from China Telecom Group certain assets and associated liabilities relating to the CDMA network in 2012, we did not renew the CDMA network capacity lease agreement with China Telecom Group after it expired on December 31, 2012.

Our Acquisition from China Telecom Group of the CDMA Network Assets and Associated Liabilities

On August 22, 2012, we and China Telecom Group entered into an acquisition agreement, or CDMA Network Acquisition Agreement, pursuant to which we agreed to purchase from China Telecom Group certain assets and associated liabilities relating to the CDMA network located in 30 provinces, municipalities and autonomous regions in the PRC for an initial consideration of RMB84,595.41 million, subject to an adjustment based on the change in the value of such assets and associated liabilities from March 31, 2012 to the completion date, or the Mobile Network Acquisition. The Mobile Network Acquisition was completed on December 31, 2012, or the Completion Date, and the final consideration of the Mobile Network Acquisition was agreed to be RMB87,210.35 million, or the Final Consideration.

Pursuant to the CDMA Network Acquisition Agreement, (i) RMB25,500 million of the Final Consideration was paid in January 2013 and (ii) the balance of the Final Consideration, or the Deferred Payment, will be payable at any time on or before the fifth anniversary of the Completion Date. Payment of the Final Consideration was and will be funded from our internal resources and relevant debt financing sources. The Company may, from time to time, prepay all or part of the Deferred Payment at any time after the Completion Date without any penalty until the fifth anniversary of the Completion Date. The Company will pay interest on the outstanding amount of the Deferred Payment to China Telecom Group at half-yearly intervals and the interest will accrue from the day following the Completion Date. The interest rate will be set at a five basis points premium to the yield of the five-year super AAA rated Medium Term Notes most recently published by the National Association of Financial Market Institutional Investors before the Completion Date and will be adjusted once a year in accordance with the last yield of the five-year super AAA rated Medium Term Notes published by the National Association of Financial Market Institutional Investors at the end of each year. The interest rates for the first year, the second year, the third year and the fourth year after the Completion Date are 4.83%, 6.25%, 5.11% and 4.00%, respectively. In the event any amount payable by the Company under the CDMA Network Acquisition Agreement is not paid when due, the Company will be subject to liquidated damages on such amount at a daily rate of 0.03% of the arrears from the date following the applicable due date to the date when such amount has been paid in full.

Changes in Our Corporate Organization in 2013

On April 26, 2013, the Company entered into a disposal agreement with China Telecom Group, pursuant to which the Company agreed to sell to China Telecom Group an 80% equity interest in E-surfing Media, a subsidiary of the Company primarily engaging in providing platform operating services for mobile Internet video and Internet video and offering video services for subscribers through cooperation with content providers, for an initial consideration of RMB1,195 million. The initial consideration was subject to an adjustment based on 80% of the change in the book value of the net assets of E-surfing Media during the period from December 31, 2012 to the completion date of the disposal. The risks and rewards of the ownership of the equity interest in E-surfing Media were transferred to China Telecom Group on June 30, 2013. The final consideration was arrived at RMB1,248 million and received by the Company by December 31, 2013.

On June 9, 2013, we set up a wholly-owned subsidiary, iMUSIC Culture & Technology Co., Ltd., or iMUSIC, which engages in the provision of music production and related information services. The registered capital of iMUSIC is RMB250 million.

On August 19, 2013, we set up a subsidiary, Zhejiang Yixin Technology Co., Ltd., or Zhejiang Yixin, with Netease, Inc., a leading Internet technology company in China, to launch “YiChat”, a mobile Internet multimedia instant messaging application for smartphones. As of December 31, 2015, Zhejiang Yixin had a registered capital of RMB11 million, of which 65% was owned by us and the remaining 35% was owned by Netease, Inc.

On December 16, 2013, China Telecom Global, a wholly-owned subsidiary of the Company primarily engaged in the provision of international value-added network services, entered into an acquisition agreement with China Telecom Group, pursuant to which China Telecom Global agreed to purchase from China Telecom Group 100% of the equity interest in China Telecom (Europe) Limited, or China Telecom Europe, for an initial consideration of RMB261 million. The consideration was subject to an adjustment based on the change in the net asset value of China Telecom Europe from June 30, 2013 to the completion date. The initial consideration was paid within 15 business days upon the completion of the acquisition. The acquisition was completed on December 31, 2013, and the final consideration was RMB278 million, which was paid by June 30, 2014.

Changes in Our Corporate Organization in 2014

On June 17, 2014, we set up a wholly-owned subsidiary, Chengdu E-store Technology Co., Ltd., which engages in software technology development. The registered capital of Chengdu E-store Technology Co., Ltd. is RMB45 million.

Establishment of the Tower Company and the Disposal and Use of the Telecommunications Towers

On July 11, 2014, the Company, CUCL and CMCL entered into a Promoters' Agreement for China Communications Facilities Services Corporation Limited to jointly establish the Tower Company. The registered capital of the Tower Company is RMB10 billion. The Company, CUCL and CMCL subscribed for 2.99 billion shares, 3.01 billion shares and 4.00 billion shares, respectively, of the Tower Company in cash at a par value of RMB1.00 per share, representing a shareholding percentage of 29.9%, 30.1% and 40.0%, respectively. The Tower Company was registered on July 15, 2014 and was renamed as China Tower Corporation Limited on September 2, 2014. We had paid in our subscription of the registered capital of the Tower Company by December 31, 2014.

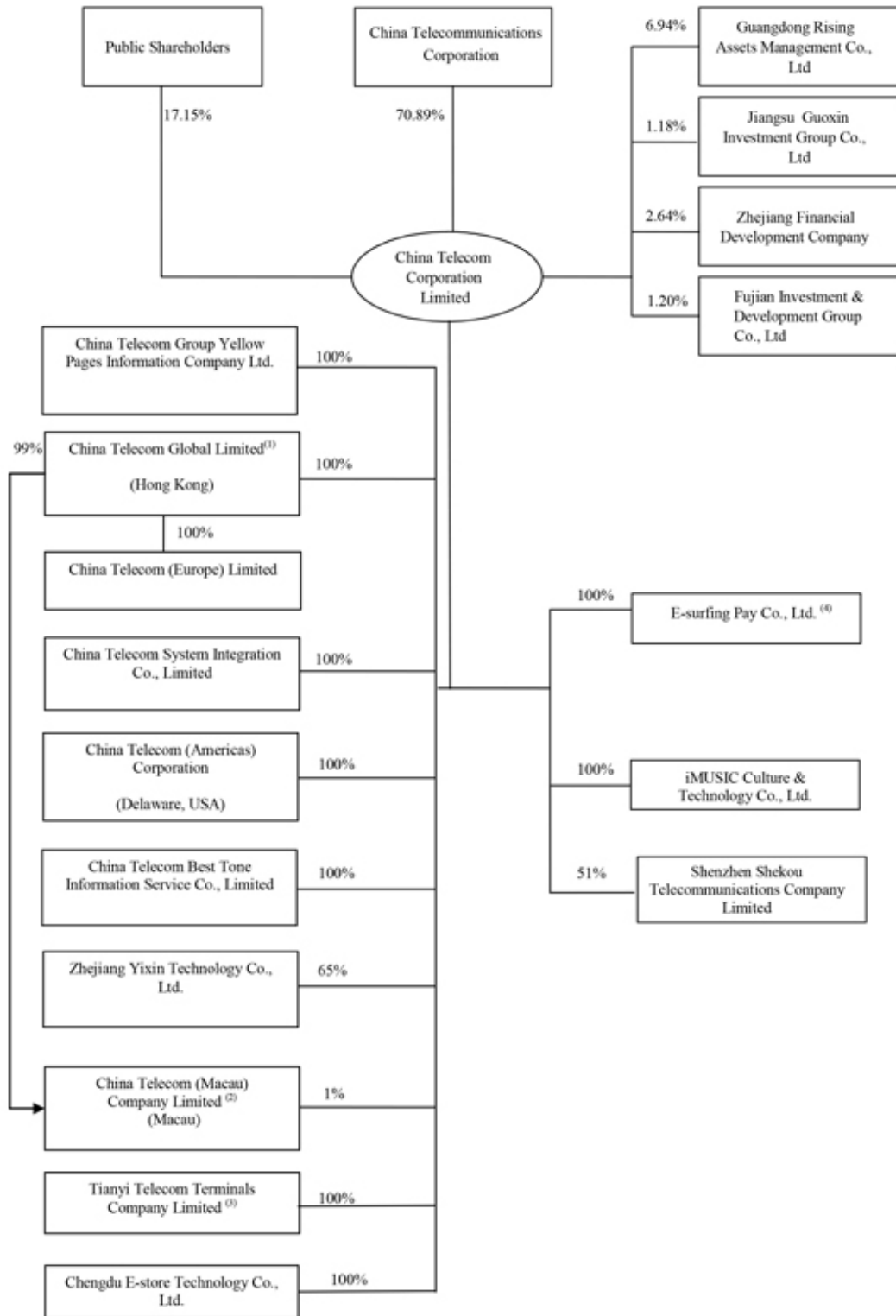
On October 14, 2015, the Company entered into the Transfer Agreement with (i) CMCL and related subsidiaries (together, “Mobile”), (ii) CUCL and Unicom New Horizon Telecommunications Company Limited (“New Horizon”, together with CUCL, “Unicom”), (iii) China Reform Holding Company Limited (“CRHC”) and (iv) the Tower Company. Pursuant to the Transfer Agreement, the Company agreed to sell certain telecommunications towers and related assets in an aggregate amount of RMB30,131 million and inject cash in the amount of RMB2,966 million to the Tower Company in exchange for 33,097 million new shares, with a par value of RMB1.00 per share, issued by the Tower Company. The cash injected by the Company into the Tower Company under the Transfer Agreement was funded by the Company using its internal cash resources. All conditions precedent to the completion of the transactions contemplated under this agreement were fulfilled and completion of the transactions contemplated under this agreement occurred on October 31, 2015. As a result, the Company, Mobile, Unicom and CRHC own 27.9%, 38.0%, 28.1% and 6.0%, respectively, of the share capital of the Tower Company. On January 29, 2016, the Company and the Tower Company entered into a Share Subscription Agreement to acknowledge the number and price of the shares issued by the Tower Company to the Company.

The Company realized a gain (subject to deduction of relevant expenses and taxes) from the tower assets disposal described above, which was calculated based on the surplus of the final consideration for the tower assets disposal over the book value of such assets as at the completion date. The total gain from the tower assets disposal was RMB7,231 million. As the Company holds 27.9% of the share capital of Tower Company following the completion of such tower assets disposal, 72.1% of the aforesaid gain has been recognized at the completion date of such tower assets disposal in the Company’s consolidated statement of comprehensive income for 2015 and the remaining 27.9% of the aforesaid gain is deferred over the remaining useful life of the tower assets. The Company and the Tower Company have reached preliminary understanding, and are currently in the process of negotiating the arrangements, in respect of the Company’s use of certain telecommunications towers and related assets owned by the Tower Company.

The Tower Company is primarily engaged in the construction, maintenance and operation of telecommunications towers as well as ancillary facilities. The Tower Company will have a significant effect on the growth of our mobile business and our results of operations. However, the operations of the Tower Company are subject to significant uncertainties, please see “Item 3. Key Information – D. Risk Factors - Risk Relating to Our Business – The growth of our mobile business is subject to significant uncertainties involved in the future operations of the Tower Company.” We expect that in the long term we would benefit from the operations of the Tower Company in the following aspects: (i) we would leverage the rich resources of the Tower Company to promptly and effectively expand our 4G network coverage and density, remedy the weakness of having relatively less base stations at 800 MHz bandwidth and improve our network competitive strength; (ii) we would enhance our long-term profitability by leveraging on the existing tower assets as well as the co-use synergies made possible by the Tower Company; and (iii) as one of the major shareholders of the Tower Company, we would benefit from its future earnings and value enhancement.

Organizational Structure

Set out below is a chart illustrating our corporate structure and significant subsidiaries as of April 22, 2016:



(1) Formerly known as China Telecom (Hong Kong) International Limited

(2) Formerly known as China Unicom (Macau) Company Limited.

(3) Formerly known as Unicom Huasheng Telecommunications Technology Co., Ltd.

(4) Formerly known as Bestpay Co., Ltd.

In addition, our Company has a branch in each of 22 provinces, five autonomous regions and four centrally administered municipalities in the PRC. See “—Our Acquisition from China Telecom Group and Corporate Organization Restructuring” included elsewhere under this Item.

General Information

Our principal executive offices are located at 31 Jinrong Street, Xicheng District, Beijing, PRC 100033 and our telephone number is (+86-10) 6642-8166. Our website address is www.chinatelecom-h.com. The information on our website is not a part of this annual report. We have appointed CT Corporation System at 13th floor, 111 Eighth Avenue, New York, New York 10011 as our agent for service of process in the United States.

B. Business Overview

We are an integrated information service provider in the PRC with full-service capabilities. Following our acquisition of the CDMA Business in 2008, we began to offer a comprehensive range of telecommunications services, including wireline voice services, mobile voice services, Internet access services, value-added services, integrated information application services, telecommunications network resource services and lease of network equipment and other related services. See “—A. History and Development of the Company—Industry Restructuring and Our Acquisition of the CDMA Business in 2008.”

Since 2005, we have started to implement our business strategy of transformation from a traditional basic telecommunications service provider to a modern integrated information services provider. Specifically, we have enhanced our efforts in developing our non-voice services, such as Internet access services, value-added services and integrated information application services, while we continue to strengthen our traditional services such as the wireline voice services, in achieving a more structurally optimized business and enhanced competitive strength. We aim to provide differentiated and innovative services to create value for customers by leveraging on our integrated resources.

In January 2009, the MIIT issued to China Telecom Group, our controlling shareholder, a license to operate 3G business nationwide based on CDMA2000 technology. We have been authorized by China Telecom Group to operate CDMA2000 3G mobile business in the PRC. We launched our CDMA2000 3G mobile services in March 2009 and have extended our CDMA2000 3G mobile services nationwide in the PRC.

In December 2013, the MIIT issued to China Telecom Group, our controlling shareholder, a license to operate 4G business nationwide based on TD-LTE technology. We have been authorized by China Telecom Group to operate TD-LTE 4G mobile business in the PRC. We launched our TD-LTE 4G mobile services in February, 2014 and have extended our TD-LTE 4G mobile services to around 100 cities in the PRC.

In 2014, China Telecom Group was approved by the MIIT, and authorized us, to commence and expand the LTE FDD and TD-LTE hybrid network trial in a number of key cities in the PRC. In February, 2015, China Telecom Group was granted by the MIIT the permit, and authorized us, to provide 4G services based on LTE FDD technologies nationwide.

Our Operation Strategy

In 2015, we continued to leverage on our economies of scale and focus on our data business to further increase both of our revenues and profits. In particular, we have implemented the following six operational strategies:

- We focused on developing our 4G business and rapidly grew our 4G customers base;
- We continued to expand our optic fiber broadband services to enhance core competitive advantage in broadband services;
- We made every effort to promote all-network six-mode handsets to become the national standard and cooperated with the suppliers to enrich our 4G terminals offering;
- We reinforced our efforts in promoting Internet applications to attract more customers;
- We accelerated the Internet-oriented transformation of marketing channels and improved marketing efficiency;
- We focused on improving service quality for our 4G and broadband services to enhance customer experience.

Subscribers and Service Usage

Our operating revenues depend largely on the size of our customer base, usage volume and the level and structure of our tariffs. The following table shows our selected operating data as of the dates and for the periods indicated.

| | As of or for the year ended December 31, | | |
|-------------------------------------------------------------------------------------------------------------|------------------------------------------|-------|-------|
| | 2013 | 2014 | 2015 |
| Wireline Voice Services: | | | |
| Local wireline access lines in service (in millions) | 155.8 | 143.6 | 134.3 |
| Residential | 97.6 | 90.9 | 84.2 |
| Government and enterprises | 40.2 | 40.9 | 40.8 |
| Public telephones | 12.6 | 11.4 | 9.3 |
| Wireless local access | 5.4 | 0.4 | — |
| Wireline local voice usage (in billion pulses) ⁽¹⁾ | 148.7 | 130.4 | 110.9 |
| Domestic long distance wireline usage (in billion minutes) ⁽²⁾ | 33.5 | 29.4 | 26.0 |
| International, Hong Kong, Macau and Taiwan long distance wireline usage (in billion minutes) ⁽³⁾ | 0.8 | 0.6 | 0.5 |
| Mobile Voice Services: | | | |
| Mobile subscribers (in millions) | 185.6 | 185.6 | 197.9 |
| Mobile voice usage (in billion minutes) | 603.6 | 655.9 | 667.5 |
| Internet Access Services: | | | |
| Wireline broadband subscribers (in millions) | 100.1 | 107.0 | 113.1 |
| 3G + 4G handset data traffic (in KTB) | 175.1 | 266.6 | 554.7 |
| Value-added Services | | | |
| Mobile SMS Usage (in billion messages) | 64.2 | 64.6 | 56.8 |
| Mobile Color Ring Tone subscribers (in millions) | 102.0 | 96.6 | 76.3 |
| Wireline caller ID service subscribers (in millions) | 103.1 | 93.7 | 87.7 |
| Wireline Color Ring Tone subscribers (in millions) | 62.2 | 56.9 | 51.3 |

(1) Pulses are the billing units for calculating local telephone usage fees.

(2) Includes calls originated by mobile subscribers that are carried over our long distance networks.

(3) Includes calls originated by subscribers of other operators that are carried through the international gateways of China Telecom Group.

Our Products and Services

Wireline Voice Services

The total number of wireline telephone subscribers decreased to 134.3 million as of December 31, 2015 from 143.6 million as of December 31, 2014.

Our wireline voice services include local wireline services, domestic long distance wireline services and international, Hong Kong, Macau and Taiwan long distance wireline services. The total local wireline usage decreased by approximately 15.0% from 130.4 billion pulses in 2014 to 110.9 billion pulses in 2015. Total domestic long distance wireline usage was 26,005 million minutes in 2015, representing a decrease of approximately 11.7% from 29,442 million minutes in 2014. Total usage of international, Hong Kong, Macau and Taiwan long distance wireline services in 2015 was 498 million minutes, representing a decrease of approximately 20.3% from 625 million minutes in 2014.

The decrease in the number of wireline telephone subscribers and wireline voice service usage was primarily attributable to the increasing penetration of mobile voice and other alternative communication means, such as Over the Top messaging services and the migration of some of our wireline telephone subscribers to our mobile services.

Mobile Voice Services

Our mobile voice services include local calls, domestic long distance calls, international long distance calls, intra-provincial roaming, inter-provincial roaming and international roaming. Amid the intense market competition in 2015, the number of subscribers of our mobile services grew by 6.6% from 185.6 million as of December 31, 2014 to 197.9 million as of December 31, 2015. The mobile voice usage increased to 667.5 billion minutes in 2015 from 655.9 billion minutes in 2014.

In 2015, we focused on developing our 4G services. We seek to further expand our mobile subscriber base through marketing efforts in open channel sales of 4G mobile handsets.

In addition, we continued to enhance the scale development of industry applications to attract government and enterprise subscribers.

Internet Access Services

Our Internet access services consist of wireline Internet access services, including dial-up and broadband services, and mobile Internet access services. Internet access services have become increasingly important in our revenue structure. We offer Internet access services through integrated and customizable service plans along with other services, which create the synergy that mutually benefits our Internet access, mobile and other services.

In 2015, we focused promotion on 50/100Mbps broadband products and continued to accelerate the optic fiber upgrade of our network and to increase the broadband connection speed. In 2015, we completed optic fiber upgrade in 170,000 copper-network communities, and as a result, the total optic fiber upgraded communities accounted for 85% of all copper-network communities as of December 31, 2015. The number of our wireline broadband subscribers reached 113.1 million as of December 31, 2015, up by 5.7% from 107.0 million as of December 31, 2014. Among these subscribers, fiber-to-the-home subscribers, or FTTH subscribers, reached 70.99 million, accounting for approximately 62.8% of the total wireline broadband subscribers as of December 31, 2015, representing an increase of 66.6% over the number of FTTH subscribers as of December 31, 2014. In addition, by utilizing our competitive wireline broadband access capacity, we continued to develop and incorporate new applications and services in order to build customer loyalty and increase the overall value of our services. Moreover, we further enhanced the coverage and access capabilities of our wireless broadband network by focusing on developing our 4G services. In 2015, we built 330,000 new 4G base stations, including 10,000 new LTE-A base stations in 45 key cities in the PRC, reaching a total of 510,000 4G base stations as of December 31, 2015. The number of subscribers of our 3G and 4G services increased from 118.6 million as of December 31, 2014 to 143.1 million as of December 31, 2015, representing 72.3% of our mobile subscribers. As of December 31, 2015, the number of our 4G terminal users reached 58.5 million, accounting for 29.5% of our mobile subscribers. In 2015, our total 3G/4G handset data traffic reached 555 KTB, representing an increase of 108.1% over 2014, and the monthly average mobile data traffic per 4G terminal user reached 751 MB, which was nearly twice of that per 3G/4G handset subscriber, significantly contributing to the volume and revenue of our data services.

Value-Added Services

Our value-added services comprise primarily wireline and mobile value-added services.

Our wireline value-added services include our wireline voice related services, such as caller ID services, Color Ring Tone services and short messaging services, or SMS. Color Ring Tone refers to a service where subscribers can customize the answer ring tone heard by the caller from a wide selection of songs, melodies, sound effects or voice recordings to replace the monotonous ring connecting tone. Our wireline value-added services also include wireline Internet related services, such as Internet data center, or IDC, services, IP-virtual private dial-up network, or IP-VPDN, services, and Internet protocol TV (e-Surfing HD), or IPTV (e-Surfing HD), services.

Our mobile value-added services primarily consist of (i) function-based services, such as mobile Color Ring Tone services, multimedia messaging services, or MMS and email services, (ii) content-based services and applications, such as content services relating to music, as well as (iii) industry-specific applications for government and enterprises, such as government administration and supervision, transport and logistics, digital hospital and integrated e-Surfing radio-frequency identification, or RFID. Our broad portfolio of mobile Internet products and applications has gained wide market acceptance and contributed to the development of our mobile value-added services. The usage volumes of music and video content services through our mobile network increased significantly. Our industry-specific applications continue to gain market acceptance.

The number of subscribers to our wireline caller ID services was 87.7 million as of December 31, 2015, a decrease from 93.7 million as of December 31, 2014. The usage volume of our mobile SMS decreased by 12.1% from 64.6 billion messages in 2014 to 56.8 billion messages in 2015. The number of subscribers to our mobile Color Ring Tone services decreased to 76.3 million as of December 31, 2015 from 96.6 million as of December 31, 2014. We experienced rapid growth in our IPTV (e-Surfing HD) and IDC businesses in 2015. The number of our IPTV (e-Surfing HD) subscribers had an increase of more than 9 million in 2015, reaching approximately 40 million as of December 31, 2015. We enhanced our efficiently-centralized cloud resource operating capacity by constructing the largest “8+2+X” (including eight core regional nodes, two data centers in Inner Mongolia and Guizhou and flexible urban edge nodes according to customers’ demand) cloud resource layout in China. As of December 31, 2015, approximately 155,000 cabinets were put into service. The Inner Mongolia data center was put into operation in 2014 and the construction of the Guizhou data center began in August 2015. In terms of the designed capacities, the Inner Mongolia data center and the Guizhou data center can accommodate 150,000 frames and 2,400,000 servers in the aggregate. In addition, we have begun the construction of Data Center Interconnect, or DCI, and have achieved interconnection of 15 key IDCs.

Integrated Information Application Services

Our integrated information application services consist of “Best Tone” services, IT services and IT application services as well as Internet information services. “Best Tone” service provides our customers with phone number storage, enquiry and call transfer services, as well as various information needed in daily life. IT services and IT application services include information technology-based integrated solutions such as system integration, outsourcing, special advisory, information application, knowledge services and software development. Internet information services refer to products and applications, such as music, video, software and recharge of online game cards, provided through broadband access and operated on a nationwide basis.

In 2015, our integrated information application services continued to expand primarily due to the rapid growth of our IT services and IT application services. By leveraging our strength in the government and enterprise markets, we focused on key areas to provide differentiated and innovative products and services, expand the scale of our industry informatization products, especially in the government, education and healthcare sectors, and promote the transformation from ICT to information Internet-ware technology, or IIT. To further enhance these services, we seek to develop services incorporating new technologies such as cloud computing and Internet of Things.

Telecommunications Network Resource Services and Lease of Network Equipment

Our telecommunications network resource services primarily include services relating to our optic fiber and circuits, such as optic fiber and circuit leasing; virtual private network, or VPN, and bandwidth leasing. We offer telecommunications network resource services as certain of our total telecommunications solutions to large enterprise customers, including government agencies, large corporations and institutions. Many of these customers choose to lease our circuits to form VPNs based on various technologies, and links their local area networks at different locations. We also collaborate with a number of international telecommunications service providers to provide global communications services for multinational corporations. In addition, we lease network equipment to large enterprise customers.

In 2015, we continued to focus on government, financial and large enterprise customers. Our marketing efforts focused on providing global one-stop shop, tailored services and comprehensive solutions to these customers. These customers can enjoy a full range of consulting and technical support and services by contacting any of our designated account managers.

Other Services

Our other services primarily include sales and repairs and maintenance of equipment as well as the resale of mobile services.

Our Customers and Brand Management

In 2015, we continued to promote our full-service brand names under our enterprise brand “China Telecom,” and further enhanced “e-Surfing” as our leading brand name through, among others, promoting our “e-Surfing 4G+” mobile business, all-network smartphones as well as content application services. Through providing contents to our services on a multi-dimensional level and our coordinated marketing efforts, we continue to enhance the brand recognition and market influence for “e-Surfing.”

Tariffs

Prior to May, 2014, the levels and categorization of most of our current tariffs were subject to regulation by various government authorities. As a result of the governmental effort to gradually ease the regulations on the tariffs, the MIIT and the NDRC issued the Notice on Implementing the Market Based Tariffs for Telecommunications Services, pursuant to which, effective from May 10, 2014, telecommunications operators are permitted to set the tariffs of all telecommunications services based on the cost, customers’ demand and market conditions. See “—Regulatory and Related Matters—Tariff Setting” included elsewhere under this Item.

Wireline Voice Services

For our local wireline telephone services, we charge a usage fees based on call usage.

Currently, all domestic long distance wireline services using public switched telephone network, or PSTN, are charged at the unified rate with a discount rate during off-peak hours.

We offer international, Hong Kong, Macau and Taiwan long distance wireline services through the international gateways of China Telecom Group. China Telecom Group negotiates bilateral settlement arrangements and rates based on the international settlement standards in the telecommunications industry, and we follow those settlement arrangements and rates.

Mobile Voice Services

Generally we charge subscribers of our mobile voice services the following categories of tariffs: local usage charges, long-distance call charges and roaming charges.

With respect to international, Hong Kong, Macau and Taiwan roaming of our mobile voice services, we provide roaming services to our customers and determine the roaming charges in accordance with roaming agreements between China Telecom Group and the international, Hong Kong, Macau and Taiwan operators.

Internet Access Services, Value-added Service and Integrated Information Application Services

We determine tariffs for these services according to market conditions.

Telecommunications Network Resource Services and Lease of Network Equipment

Telecommunications Network Resource Services. We determine the tariffs for our telecommunications network resource services according to market conditions. We generally charge a fee for installation of our telecommunications network resource services and a fixed monthly fee. We offer various promotion discounts for our customers who wish to upgrade to higher bandwidth services. These promotion discounts have stimulated demand for our telecommunications network resource services in recent years.

Lease of Network Equipment. We determine the tariffs for our lease of network equipment according to market conditions. We generally charge monthly fees for leased network equipment on a discount basis and leased network equipment tariffs have generally decreased in recent years. We provide different discounts to our customers on a case by case basis.

Interconnection and Roaming Arrangements

Interconnection

Interconnection refers to various arrangements that permit the connection of our networks to other mobile or fixed-line networks. These arrangements provide for the sharing and settlement of revenues from the base usage charges and, if applicable, roaming charges and domestic and international long distance charges.

China Telecom Group entered into interconnection settlement agreements with other telecommunications operators, including Unicom Group and China Mobile Group. We entered into an interconnection settlement agreement, as amended, with China Telecom Group, which allows our networks to interconnect with China Telecom Group's networks as well as networks of the other telecommunications operators, with whom China Telecom Group had interconnection arrangements. Our interconnection arrangements with China Telecom Group and other telecommunications operators enable our subscribers to communicate with the subscribers of those operators and to make and receive local, domestic and international long distance calls. All interconnection and settlement arrangements among public wireline telephone, mobile, and Internet networks in the PRC are governed by the Telecommunications Regulations and the rules on interconnection arrangements and settlement promulgated by the MIIT. See “— Regulatory and Related Matters— Interconnection” included elsewhere under this Item.

International Roaming

We provide international roaming services across different mobile network standards, including CDMA, CDMA to Global System for Mobile Communications, or GSM, CDMA to Wideband Code Division Multiple Access, or WCDMA, and LTE to WCDMA, as well as 4G international roaming services on LTE to LTE networks, to our subscribers, which allow them to access mobile telecommunications services and use voice, SMS and data services while they are physically outside of their registered service area but in the coverage areas of other mobile telecommunications networks in other countries and regions with which we or our GSM/WCDMA roaming sponsor have roaming arrangements.

As of December 31, 2015, subscribers of our mobile services can roam on mobile networks in more than 200 countries and regions based on international roaming agreements between China Telecom Group and the local CDMA operators or GSM/WCDMA/LTE roaming providers. A mobile service subscriber using roaming services is charged at our roaming usage rates for both incoming and outgoing calls, plus applicable long distance tariffs. With respect to international roaming, we settle roaming revenues and expenses with international operators in accordance with roaming agreements between China Telecom Group and the international operators. China Telecom Group has also agreed to arrange for us to participate in its future international roaming arrangements.

Marketing, Sales, Distribution and Customer Services

Marketing, Sales and Distribution

Our marketing strategy is to establish our image as a full-service telecommunications service provider and utilize our comprehensive services platform and nationwide marketing and distribution network. We have devoted substantial efforts in advertisements to promote recognition of and loyalty to our products and services. In order to respond to market competition as well as attract and motivate customers to use our services, we have also grouped certain of our local voice, long distance voice and data services, differentiated price for one or more products and combined certain products into one integrated service plan to targeted customers to address their telecommunications needs.

In order to achieve the scale development of our business, we tailored products and marketing strategies to target different customer groups. For the government and enterprise market, we fully leveraged the integrated edges of networks, cloud computing and security capability, vigorously developed new types of information and communication technology, or ICT, and industrial Internet services, cloud and big data business, provided differentiated and innovative services for healthcare, education, government and other key industries to expand the user base. For the family market, we focused on development of optic fiber broadband, increased the end-to-end speed and enriched the contents for e-Surfing HD and Smart Family applications to provide overall information technology solutions. For the individual market, we focused on differentiated applications, attracting new customers through “4G + Application” to accelerate the acquisition of 4G terminal users. In addition, we seek to further expand our business in the rural areas through establishing distribution channels and setting up all-network stores in towns to achieve “one town, one store” coverage. For the overseas market, we accelerated our resources layout in the key countries and areas involved in the “One Belt One Road” initiative rolled out by the PRC government, in order to provide integrated solutions for overseas carriers, overseas Chinese companies and multinational corporations.

We implement our marketing strategy through an integrated sales and distribution channel network, which covers: (i) dedicated service channel comprising customer managers specifically assigned to market our services to industrial clients, commercial clients and campus clients; (ii) electronic-based service channel such as customer service hotlines, online service centers, mobile applications and third-party e-commerce platforms; (iii) business outlets channel, including self-owned and third-party business outlets; and (iv) mobile handset chain stores, electronics chain stores, supermarkets and large-scale telecommunications equipment distribution stores. As part of our strategy to provide integrated services, we continue to enhance resources sharing with respect to information relating to sales and distribution across our sales and distribution networks. In 2015, we comprehensively promoted Internet-based channel operation by strengthening traffic flow in online channels and enhancing user experience in offline channels. We carried out “Collaboration with Strong Partners” and “e-Surfing Recommended” promotions in our business outlets channel, which resulted in significant increase in sales of terminals and mobile phone cards in open channels. In government and enterprise channels, we implemented the “Sales Elite” program, which resulted in rapid expansion of our subscriber scale. In electronic channels, we reinforced our efforts for data traffic sales, which resulted in a rapid increase in the sales volume of data traffic packages.

In 2015, we implemented “the Excellent 100” program to encourage handset manufacturers to produce popular 4G handsets that are compatible with our network, which in turn enriched our 4G handset portfolio. We made every effort to promote “All-Network Six-Mode Handsets” to become the national standard. We also promoted signature handsets such as security handsets, video handsets and Taobao handsets to cater to the differentiated needs of our customers. The portfolio of handsets offered was further enlarged and the cost performance was further enhanced. In 2015, we offered approximately 300 4G terminal models, including approximately 70 all-network six-mode 4G terminal models and 11 4G+ terminal models to our customers.

Furthermore, we have adopted various marketing approaches and initiatives, such as customer experience, customer relationship management, SMS, telesales, sales plans and joint promotion with our business partners such as Internet portal companies and software development companies, to promote our products and services, in particular, our value-added services.

Customer Service

We provide customer services through all channels on our integrated sales and distribution channel network and continue to enrich our customer services channels by partnering with third-party Internet-based channels, including launching customer service platforms on “Yichat” and “Wechat”, two mobile messaging applications, as well as “Weibo”, a Chinese microblogging website. Our customer services typically include service inquiries, service applications, customers’ complaints, product and service promotions, service initiation and termination, payment reminder services and emergency services. Through establishing and implementing our customer full-service standard, we have significantly improved our basic customer services, such as service processing time, request responding time and providing service related and other information to customers through text messages.

Information Technology System

We employ our information technology, or IT, system to support our wireline voice services, mobile voice services and other services. In recent years, through continuous upgrading, our IT system has the capability to support our wireline, mobile and other services on an integrated basis and to support other services related operations such as account opening, billing and customer services.

Network System

Our network has extensive coverage and scale and employs a variety of advanced technologies and suitable architecture. It offers comprehensive functions and a reliable operation. In addition, it supports a comprehensive range of end-to-end telecommunications services and enables customized products to be delivered for a variety of telecommunications needs. Our network system is managed and operated by our experienced network management and maintenance teams and is supported by our strong research and development capabilities. And in light of future advances in technology, we have formulated viable plans to migrate our network system efficiently to the next generation.

On December 31, 2012, we completed the acquisition from China Telecom Group of certain assets and associated liabilities relating to the CDMA network located in 30 provinces, municipalities and autonomous regions in the PRC. In addition, we lease certain CDMA network facilities in Xizang Autonomous Region from China Telecom Group and have the exclusive right to use and operate such CDMA network to provide our CDMA mobile services. See “Item 4. Information on the Company—A. History and Development of the Company—Our Acquisition from China Telecom Group of the CDMA Network Assets and Associated Liabilities” and “Item 7. Major Shareholders and Related Party Transactions—B. Related Party Transactions” for details.

Network Architecture

Our network system consists of access networks, data networks, core networks, transport networks, service networks and support networks.

- Access networks: Access networks include wireline access network based on copper cables and optic fibers and wireless access network based on CDMA, TD-LTE and LTE FDD, which are directly connected to customers to provide data and voice services.
- Data networks: Data networks include Internet network and basic data network, and provide network support for all telecommunications services based on IP.
- Core networks: Core networks include our wireline telephone network, mobile core network, and support our basic telecommunications services.
- Transport networks: Transport networks provide electronic transmission of various service signals for access networks, data networks and core networks.

- Service networks: The service networks provide the platform and ancillary systems for a variety of value-added services and application products.
- Support networks: Support networks include signaling networks, digital synchronous networks and various network management systems, in order to support the reliable and effective operation of our networks and services at all levels.

Equipment procurement

We purchase most of our network equipment from leading international and domestic suppliers. We purchase a variety of network equipment from domestic suppliers, such as transport equipment and local switches. We make most of our purchases through competitive tenders primarily based on product and service quality, system compatibility and price.

Purchases from our five largest suppliers of telecommunications equipment accounted for approximately 24.1% of our total amount of annual purchases in 2015. Purchases from our single largest supplier of telecommunications equipment accounted for approximately 8.3% of our total amount of annual purchases in 2015.

Competition

Following the industry restructuring in 2008, China Unicom and our Company have full-service capabilities and compete with each other in both wireline and wireless telecommunications services. China Mobile continues to be the leading provider of mobile telecommunications services in the PRC and competes with us in mobile telecommunications services and other telecommunications services. In December 2013, China Mobile received a license from the MIIT to operate fixed-line telecommunications businesses, leading to intensified competition in this sector.

Since the PRC's accession to the WTO, foreign operators have been permitted to gradually increase their investments in the telecommunications industry in the PRC. Like domestic service providers, foreign operators are subject to the licensing requirements of the MIIT. In addition, investments by foreign operators may not exceed limits set forth in the relevant laws and regulations with respect to the amount of investment and percentage of total ownership interests that foreign operators are permitted to make in telecommunications enterprises in the PRC. For example, the foreign ownership in basic telecommunications services will be subject to a limit of 49.0% and the foreign ownership in value-added telecommunications services other than e-commerce services will be subject to a limit of 50.0%. See “—Regulatory and Related Matters—Licensing” included elsewhere under this Item.

We also face increasing competition from other competitors outside the telecommunications industry. Television cable companies providing fixed-line broadband services, Internet services providers and mobile software and application developers (such as Over-the-Top messaging services providers), among others, are competing with us in voice or data services.

In recent years, the PRC Government has taken various initiatives to encourage competition in the telecommunications industry, such as the three-network convergence policy and the policy encouraging non-State owned companies to enter the industry. In May 2010, the PRC State Council issued Certain Opinion on Encouraging and Guiding the Sound Development of Private Investment, encouraging private investment in industry sectors that are mainly state-controlled, such as basic telecommunications services. In June 2012, the MIIT issued Opinions on Encouraging and Guiding Private Investment in the Telecommunications Industry, encouraging private-sector investment in the telecommunications industry. On May 17, 2013, the MIIT issued the Trial Plan of Resale of Mobile Telecommunications Services, pursuant to which the MIIT would grant qualified companies mobile telecommunications resale business approvals on a pilot basis which would allow them to purchase mobile telecommunications services in bulk from mobile networks operators and resell such services to customers. In an effort to further encourage private-sector investment in the broadband network construction and business operation, as well as encourage private capital to enter into the telecommunications market through equity investment, the State Council issued the Notice on the “Broadband China” Policy and the Implementation Plan on August 1, 2013 and Certain Opinion on Promoting Information Consumption and Stimulating Domestic Demand on August 8, 2013, and the MIIT also issued the Informatization Development Plan on September 29, 2013, the Notice on Opening the Broadband Access Market to Private Capital on December 25, 2014 and the Notice on Further Broadening the Scope of Trial Opening of the Broadband Access Business on September 23, 2015. As a result, the competitive landscape in the PRC telecommunications industry may further diversify, causing more intensified competition. As of December 31, 2015, the MIIT had granted broadband access pilot enterprises licenses to over 50 private companies. As of December 31, 2015, we had entered into resale contracts with 25 out of the 42 mobile virtual network operators which had obtained the licenses from the MIIT, and 11 of these companies had started to offer 4G services.

Trademarks

We conduct our business under the “China Telecom” brand name and logo. Currently, China Telecom Group owns certain trademarks in the PRC, some of which have been registered with the Trademark Office of the PRC State Administration for Industry and Commerce, or the Trademark Office, and some of which are in the process of being registered with the Trademark Office. China Telecom Group has executed a trademark license agreement with us. Under this agreement, China Telecom Group agreed to grant to us and our subsidiaries the right to use these trademarks upon the completion of the registration on a royalty-free basis until December 31, 2018, which is automatically renewable for three more years at our option. See “Item 7. Major Shareholders and Related Party Transactions—B. Related Party Transactions—Ongoing Related Party Transactions between Us and China Telecom Group—Trademark License Agreements.”

Regulatory and Related Matters

Overview

The PRC’s telecommunications industry is subject to extensive government regulation. A number of central government authorities have regulatory responsibilities for various aspects of the telecommunications industry. These authorities primarily include:

- The MIIT, which is responsible for, among other things:
 - formulating and enforcing industry policies and regulations as well as technical standards;
 - granting telecommunications service licenses;
 - supervising the operations and quality of service of telecommunications service providers;
 - allocating and administering telecommunications resources such as spectrum and numbers;
 - together with other relevant regulatory authorities, including the NDRC, regulating tariff charging mechanisms for telecommunications services;
 - formulating interconnection and settlement arrangements between telecommunications networks; and
 - maintaining fair and orderly market competition among service providers.
- Provincial communications administrations under the MIIT, which oversee the implementation of the Ministry’s regulations and exercise regulatory authorities delegated by the Ministry within their respective provinces, autonomous regions and centrally administered municipalities.
- The NDRC approves investment and finance projects exceeding certain capital expenditure amounts as well as foreign investment projects exceeding certain investment amounts.

In order to provide a uniform regulatory framework to encourage the orderly development of the telecommunications industry, the PRC government is in the process of drafting a telecommunications law. We expect that, if and when the telecommunications law is adopted by the National People’s Congress or its Standing Committee, the highest state legislative body in the PRC, it will become the basic telecommunications statute and provide a regulatory framework for the telecommunications industry in the PRC.

Telecommunications Regulations

The PRC’s State Council promulgated the Telecommunications Regulations, which became effective as of September 25, 2000 and were amended on July 29, 2014 by the Decision of the State Council on Amending Certain Administrative Regulations. The Telecommunications Regulations are substantially consistent with, and are primarily intended to streamline and clarify, the then existing rules and policies for the telecommunications industry. The Telecommunications Regulations provide the primary regulatory framework for the PRC’s telecommunications industry in the interim period prior to the adoption of the telecommunications law.

The Telecommunications Regulations are intended to develop a transparent and fair regulatory environment to encourage fair and orderly competition and development in the telecommunications industry. The Telecommunications Regulations address all key aspects of telecommunications operations, including, among others, entry into the telecommunications industry, network interconnection, telecommunications resource allocation, tariffs and service standards.

Licensing

The Telecommunications Regulations adopt the existing regulatory distinction between basic and value-added telecommunications services, which are subject to different licensing requirements. Basic telecommunications services include, among others, wireline local and domestic long distance telephone services, international telecommunications services, mobile communications services (such as 900/1800MHz GSM, 800MHz CDMA, 3G and 4G mobile communications services), satellite communications services, paging services, data communications services (such as Internet data transmission services, international data communications services), trunking services, network access services and domestic and international telecommunications facility services. Value-added telecommunications services include, among others, value-added services provided over wireline telephone networks (e.g., telephone information, call center, voice mail and video conferencing services), value-added services provided over mobile networks, value-added services provided over Internet networks (e.g., Internet data center and Internet access and content services) and value-added services provided over other data networks (e.g., computer information, e-mail and electronic data interchange services).

Providers of any basic telecommunications services as well as providers of value-added services in two or more provinces, autonomous regions and centrally administered municipalities in the PRC must apply for licenses from the MIIT. In accordance with the approval of the MIIT, we derive our exclusive rights to operate our business from our status as a subsidiary controlled by China Telecom Group, which holds the licenses required for operating our telecommunications business. In January 2009, China Telecom Group received a license from the MIIT to operate 3G services nationwide, which permits China Telecom Group to provide 3G services based on CDMA2000 technology. We have been authorized by China Telecom Group to operate 3G services nationwide based on CDMA2000 technology. In December 2013, China Telecom Group, Unicom Group and China Mobile Group received licenses from the MIIT to operate 4G services nationwide based on TD-LTE technology. We have been authorized by China Telecom Group to operate 4G services nationwide based on TD-LTE technology. In 2014, China Telecom Group was approved by the MIIT, and authorized us, to expand the LTE FDD and TD-LTE hybrid network trial in a number of cities in the PRC. On February 27, 2015, China Telecom Group was granted by the MIIT the permit, and authorized us, to provide 4G services based on LTE FDD technologies nationwide.

After its accession to the WTO in December 2001, the PRC promulgated the Administrative Regulations on Telecommunications Companies with Foreign Investment, effective on January 1, 2002, implementing its commitments to the WTO. Those commitments include the gradual reduction of foreign ownership restrictions in the telecommunications industry and the step-by-step opening of the telecommunications market in the PRC to foreign operators. According to those regulations, enterprises with foreign investment may operate basic and value-added telecommunications services subject to the approval of the MIIT and the Ministry of Commerce (formerly the Ministry of Foreign Trade and Economic Cooperation). Certain limitations have been placed on the total registered capital of, and maximum foreign shareholdings in, such enterprises. However, the presence or absence of foreign investments in an applicant for telecommunications licenses will presumably bear no direct relation to the decision on whether to issue licenses, inasmuch as the issuance of new licenses is governed by a separate set of rules and regulations. In recent years, the PRC gradually fulfilled the market-opening commitments it made to the WTO and lifted many restrictions for foreign investors and service providers in respect of telecommunications services. The remaining restrictions regarding mobile services, value-added telecommunications services and fixed line services are as follows:

- For mobile voice and data services:
 - there is no longer any geographic restriction and the foreign ownership shall be no more than 49.0%.
- For value-added telecommunications services:
 - there is no longer any geographic restriction and the foreign ownership shall be no more than 50.0%.
- For fixed line services:
 - there is no longer any geographic restriction and the ownership shall be no more than 49.0%.

The MIIT has promulgated the Administrative Measures for the Licensing of Telecommunications Business Operations, which became effective on April 10, 2009. Those regulations apply to the application for, and examination and approval of, telecommunications business licenses in the PRC.

Pursuant to the Circular on the Framework Plan for the China (Shanghai) Pilot Free Trade Zone issued by the State Council on September 18, 2013, qualified foreign investment enterprises will be permitted to provide specific value-added telecommunications services in the China (Shanghai) Pilot Free Trade Zone, subject to protections on Internet information security and approval by the State Council in case of a breakthrough in the limitations provided for under the administrative regulations.

Tariff Setting

Prior to May 10, 2014, under the Telecommunications Regulations, telecommunications tariffs are categorized into government fixed tariffs, government guidance tariffs and market based tariffs. The telecommunications providers are permitted to set tariffs for certain services provided the tariff levels are below the tariff ceilings set by the MIIT and the NDRC.

As a result of the governmental effort to gradually ease the regulations on the tariffs, on May 5, 2014, the MIIT and the NDRC issued the Notice on Implementing the Market Based Tariffs for Telecommunications Services. Pursuant to this Notice, effective from May 10, 2014, the government fixed tariffs and the government guidance tariffs are abolished and telecommunications operators are permitted to set the tariffs of all telecommunications services based on the cost and market conditions. The Telecommunications Regulations were subsequently amended on July 29, 2014 by the Decision of the State Council on Amending Certain Administrative Regulations to reflect this policy change as well as other amendments.

Interconnection

Under the Telecommunications Regulations and the Administrative Rules on Interconnection between the Public Telecommunications Networks promulgated by the MII in May 2001, as amended in September 2014, major telecommunications operators in the PRC cannot refuse requests for interconnection and must enter into interconnection agreements upon request by other service providers. Interconnection agreements must be reported to the MIIT. Telecommunications operators must ensure the smooth interconnection pursuant to the interconnection agreements as well as the applicable regulations and may not unilaterally terminate the interconnection.

The Telecommunications Regulations further provide that the technical standards and settlement methods for network interconnections be formulated by the MIIT. In accordance with these regulations, China Telecom Group has entered into various interconnection agreements with other telecommunications service providers, including China Mobile and China Unicom.

On December 30, 2013, the MIIT issued the Guidance Opinions on Building New National Network Interconnection Hubs, pursuant to which seven new interconnection hubs altogether have been built in Chengdu, Wuhan, Xi'an, Shenyang, Nanjing, Chongqing and Zhengzhou, in addition to the three existing interconnection hubs in Beijing, Shanghai and Guangzhou. The operations of these new interconnection hubs have significantly improved the quality and speed of interconnection between the telecommunications networks.

The MIIT issued the Notice on Public Telecommunications Network Interconnection Settlement and Relay Fees Allocation in October 2003 and two Notices on Adjustment to Settlement Standards for Interconnection Fees of Wireline Local Telephone Networks in October 2006 and April 2009, respectively, which provided for interconnection settlement arrangement standards for local inter-district calls between wireline local telephone operators as well as public telecommunications network. In November 2009, the MIIT issued the Notice on Adjustment to Settlement Standards for Interconnection Fees of Public Telecommunications Network and the Notice on the Settlement Standards for Interconnection Fees of TD-SCDMA, which provided for adjustments to certain interconnections settlement standards between telecommunications operators. Effective from January 1, 2014, some of the settlement standards have been further adjusted pursuant to the Notice on Adjustment to Settlement Standards for Interconnection Fees of Public Telecommunications Network issued by the MIIT on December 17, 2013. Prior to January 1, 2014, when a mobile user of a basic telecommunications operator (excluding China Mobile's TD-SCDMA 157 and 188 prefix numbers users) initiates a call to a mobile user of another basic telecommunications operator, the settlement charge is set uniformly at a rate of RMB0.06 per minute payable by the basic telecommunications operator originating the call to the basic telecommunications operator receiving the call. In the event a China Mobile's TD-SCDMA 157 and 188 prefix numbers user initiates a call to a user of our Company or China Unicom within the scope of local network, China Mobile will pay a settlement charge of RMB0.012 per minute to our Company or China Unicom. With effect from January 1, 2014, when a mobile users of our Company or China Unicom initiates a call to a mobile user of China Mobile (not including TD-SCDMA 157 and 188 prefix numbers users), the interconnection settlement charges payable by our Company or China Unicom to China Mobile will be adjusted from the prevailing rate of RMB0.06 per minute to RMB0.04 per minute. Other existing voice interconnection settlement standards remain unchanged. The MIIT will assess the above interconnection settlement policy once every two years based on the development conditions of the telecommunications market and will make adjustments when appropriate. Meanwhile, the SMS interconnection settlement standard is adjusted from RMB0.03 per message to RMB0.01 per message, and the MMS interconnection settlement standard is adjusted from RMB0.10 per message to RMB0.05 per message.

The following table sets forth selected interconnection revenues sharing and settlement arrangements for local calls and domestic long distance calls:

| <u>Network from Which Calls Originated</u> | <u>Network at Which Calls Terminated</u> | <u>Current Main Settlement Arrangement</u> |
|--------------------------------------------|-------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Mobile operator | Wireline local operator or transferred through mobile operator's long distance network to wireline local operator | (1) Mobile operator collects the cellular usage charge from its subscribers (2) Mobile operator pays RMB0.06 per minute to wireline operator. (3) Starting January 1, 2010, mobile operator (China Mobile) pays RMB0.012 per minute to wireline operator for calls originated from TD-SCDMA "157" or "188" prefix phone numbers in local areas |
| Wireline local operator | Mobile local operator | (1) Wireline operator collects the usage charge from its subscribers (2) No revenues sharing or settlement prior to June 1, 2010. Wireline operator pays RMB0.001 per minute to mobile operator after June 1, 2010 |
| Wireline operator | Transferred through wireline operator's long distance network to mobile operator | (1) Wireline operator collects the usage charge from its subscribers (2) Wireline operator pays RMB0.06 per minute to mobile operator |
| Wireline local operator A | Wireline local operator B | (1) Operator A collects the usage charge from its subscribers (2) In the case of local calls from operator A not using operator B's local inter-district trunk circuit, operator A pays 50.0% of usage charge to operator B (3) In the case of local inter-district calls from operator A using operator B's local inter-district trunk circuit, operator A pays no more than RMB0.06 per minute to operator B |
| Mobile operator A | Mobile local operator B or transferred through mobile operator A's long distance network to mobile operator B | (1) Mobile operator A collects the cellular usage charge from its subscribers (2) Prior to January 1, 2014, mobile operator A pays RMB0.06 per minute to mobile operator B. Starting from January 1, 2010, mobile operator A (China Mobile) pays RMB0.012 per minute to mobile operator B for calls originated from TD-SCDMA "157" or "188" prefix phone numbers users in local areas. Starting from January 1, 2014, mobile operator A (China Telecom or China Unicom) pays RMB0.04 per minute to mobile operator B (China Mobile) for calls originated from a mobile user of operator A (China Telecom or China Unicom) to a mobile user of operator B (China Mobile) (not including TD-SCDMA 157 and 188 prefix numbers). |

The following table sets forth selected current main interconnection revenues sharing and settlement arrangements for PSTN international long distance calls, including calls originated from and terminated in Hong Kong, Macau and Taiwan:

| <u>Network from Which Calls Originated</u> | <u>Network at Which Calls Terminated</u> | <u>Current Main Settlement Arrangement</u> |
|----------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Domestic wireline local or mobile operator A | Without using the carrier identity code of operator B, through the domestic and international long distance network of operator B | (1) Operator A collects the tariff from the subscribers (2) Operator A retains RMB0.06 per minute, and operator B gets the rest of the international long distance tariff. |
| | Using the carrier identity code of operator B, through the domestic and international long distance network of operator B | (1) Operator B collects the tariff from the subscribers (2) Operator B pays operator A RMB0.06 per minute |
| International long distance operator | Operator B through domestic long distance network of operator C and international gateway of domestic operator A | (1) Operator A pays not more than RMB0.54 per minute to operator C, operator C pays not more than RMB0.06 per minute to operator B, where operator A and operator C, or operator B and operator C can be the same operator |

The following table sets forth selected current main interconnection revenues sharing and settlement arrangements for SMS:

| <u>Network from Which SMS Originated</u> | <u>Network at Which SMS Terminated</u> | <u>Current Main Settlement Arrangement</u> |
|------------------------------------------|----------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Wireline or mobile operator A | Wireline or mobile operator B | (1) Operator A collects the tariff from its subscribers (2) Operator A pays RMB0.03 per SMS to operator B. Starting January 1, 2014, operator A pays RMB0.01 per SMS to operator B. |

The following table sets forth selected current main interconnection revenues sharing and settlement arrangements for MMS:

| <u>Network from Which MMS Originated</u> | <u>Network at Which MMS Terminated</u> | <u>Current Main Settlement Arrangement</u> |
|------------------------------------------|----------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Mobile operator A | Mobile operator B | (1) Operator A collects the tariff from its subscribers (2) Operator A pays RMB0.10 per MMS to operator B. Starting January 1, 2014, operator A pays RMB0.05 per MMS to operator B. |

The primary interconnection settlement arrangement for the Internet backbone networks in China is the interconnection settlement through the network access points, or the NAPs, which is determined by the MIIT. The MIIT announced in 2013 that it would reduce the interconnection settlement charges for the Internet backbone networks by 30% per year in the next five years starting from 2013. The interconnection settlement charges for the NAPs was further reduced by the MIIT starting from November 1, 2015, and is currently set as RMB280,000 per gigabyte.

Technical Standards

The MIIT sets industry technical standards for telecommunications terminal and interconnection related equipment used in the public telecommunications networks. A network access license from the MIIT and other relevant regulatory authorities is required for all such equipment. Most of the standards set by the MIIT conform to standards recommended by the International Telecommunications Union and other international telecommunications standards organizations.

Telecommunications Resources

The MIIT is responsible for the administration and allocation of telecommunications resources in the PRC, including radio frequencies and telecommunications network numbers. The use of these resources by telecommunications service providers is subject to the approval of the MIIT or the relevant provincial communications administrations and a usage fee payable to the PRC government.

In 2015, we paid approximately RMB167 million of usage fees for the telecommunications network numbers and approximately RMB382 million of frequency usage fees, respectively.

Quality of Service

Under the Telecommunications Regulations, the MIIT and the relevant provincial communications administration have the responsibility of supervising and monitoring the quality of services provided by telecommunications service providers in the PRC. Under the Telecommunications Regulations, customers of telecommunications service providers have the right to submit complaints to the MIIT and the relevant provincial communications administration or other relevant government authorities.

On March 13, 2005, the MII promulgated the Telecommunications Services Standards which were amended in September 2014. The Telecommunications Services Standards aim to protect the rights of the customers of telecommunications services and sets forth minimum quality requirements for telecommunications services provided by telecommunications operators.

The MII promulgated the Measures on the Supervision and Administration of Quality of Service of the Public Telecommunications Networks, or the Measures on Quality of Service, effective August 1, 2005. The Measures on Quality of Service provide the supervision and administration of services of public telecommunications networks, including, among others, wireline local telephone networks, domestic long distance telephone networks, international telephone networks, and IP telephone networks. Under the Measures on Quality of Service, telecommunications operators are required to set up a unit which is responsible for solving the problems with respect to the public telecommunications network services.

Under the PRC Consumer Protection Law, Consumers' Associations can participate in the inspection and examination of goods and services by relevant governmental authorities; and customers can lodge their complaints with Consumers' Associations, which can investigate the goods or services involved in the complaints, and mediate the complaints.

In addition, the MIIT, together with other governmental authorities, has taken measures to prompt telecommunications operators to screen indecent contents carried through their networks.

Universal Services

Under the Telecommunications Regulations, telecommunications service providers in the PRC are required to fulfill universal service obligations in accordance with relevant regulations to be promulgated by the PRC government, and the MIIT has been given authority by the PRC government to delineate the scope of its universal service obligations. The MIIT may also select universal service providers through a tendering process. The MIIT, together with other regulatory authorities, is also responsible for formulating administrative rules relating to the establishment of a universal service fund and compensation schemes for universal services. The PRC government currently uses financial resources to compensate the expenses incurred in the "Village to Village" and the "Broadband China" projects before the establishment of a universal service fund. The State Council issued the Notice on the "Broadband China" Policy and the Implementation Plan on August 1, 2013, which included the provision of broadband services to villages as part of the universal service obligations of telecommunications service providers and mentioned improving the compensation scheme for the expenses incurred in the "Broadband China" projects undertaken by telecommunications service providers in the villages. Under the compensation scheme, telecommunications operators may receive compensation from the PRC government for the "Broadband China" projects. However, the compensation from the PRC government may not be sufficient to cover all of our expenses for providing the telecommunications services under the relevant projects.

Under the Telecommunications Regulations, all PRC telecommunications operators shall provide universal services, our Company, together with other telecommunications operators, has undertaken the "Village to Village" project since 2004. Currently, the PRC government implements the "Broadband China" projects which require telecommunications operators to provide broadband services in a number of remote villages in the PRC as part of their universal service obligations. The MOF and the MIIT jointly issued the Notice of Implementation of Telecommunications Universal Services on a Trial Basis in December 2015, which provided that the telecommunications universal services should take a market-oriented approach and that the telecommunications universal services providers should be selected through a public bidding process. Under the "Broadband" projects, China Telecom Group and our Company had invested in the construction of broadband network facilities in certain remote villages of 21 provinces and autonomous regions by the end of 2015. We believe the expenses for such operation and maintenance will not have a material effect on our financial condition.

State-Owned Assets Supervision

Under the PRC Company Law, PRC Enterprise State-Owned Assets Law, Interim Measures for the Supervision and Administration of State-Owned Assets of the Enterprises, and other administrative regulations, the State Owned Assets Supervision and Administration Commission of the State Council, or the SASAC, among others, supervises the preservation of the value of state-owned assets, guides the reform and restructuring of state-owned enterprises, and evaluates the performance of management executives of state-owned enterprises through legal procedures. Our controlling shareholder, China Telecom Group, is a wholly state-owned enterprise and subject to the SASAC's supervision.

Three-Network Convergence Policy

In January 2010, the PRC government announced its decision to accelerate the advancement of convergence of telecommunications, television broadcast and Internet access networks to realize interconnection and resource sharing among the three networks and further develop the provision of voice, data, television and other services. Specifically, the three-network convergence policy will be initially carried out on a trial basis in selective geographic locations during the period from 2010 to 2012 and further implemented across-the-board in the following three years. In June 2010, the State Council issued the Trial Plan for Three-Network Convergence and called for 12 volunteer regions (cities) and enterprises for the first trial. Following the completion of the first trial in December 2011, the State Council announced 42 additional regions (cities) for the second phase of the trial. In September 2012, we received the Information Network Communicated Audio-Video Program License from the State Administration of Press, Publication, Radio, Film and Television (the "SARFT", formerly, the State Administration of Radio, Film and Television). In August 2015, the General Office of the State Council issued the Notice of Plan of Furthering the Three-Network Convergence, which marked the completion of the trial plan of the three-network convergence and called for furthering the three-network convergence nationwide.

"Broadband China" Policy

In August 2013, the State Council issued the Notice on the "Broadband China" Policy and the Implementation Plan, which treats broadband as a strategic national infrastructure, strengthens the overall top-level design and planning, coordinates the research and development of the key technologies, formulation of the standard, the safety of the information technology and the construction of the emergency communication system, strengthens the synergy effect of website construction, application, innovative service and industry support, comprehensively utilizes the cable technology and the wireless technology to accelerate the convergence of telecommunications, television broadcast and Internet access networks, and accelerates the construction of the next generation national information infrastructures. In September 2013, the MIIT promulgated an Information-Based Development Plan to further elaborate the "Broadband China" Policy and to encourage private capital to enter into the telecommunications market through equity investment.

VAT Reform Applicable to the Telecommunications Industry

On November 16, 2011, the Ministry of Finance, or the MOF, and the SAT, introduced a pilot tax program under which the PRC business tax would be replaced with a VAT. On April 29, 2014, the MOF and the SAT announced that the pilot program would be extended to cover the telecommunications industry. Effective from June 1, 2014, the pilot tax rate for basic telecommunications services is 11% and the pilot tax rate for value-added telecommunications services is 6%. On March 18, 2016, the State Council standing committee meeting resolved to expand the VAT pilot program to all other industries which were previously subject to the PRC business tax starting from May 1, 2016. On March 23, 2016, the SAT issued the Notice on Expanding the Pilot Program of Replacing the Business Tax with VAT, promulgating the relevant implementing rules. The application of the VAT to the telecommunications industry has had, and is expected to continue to have, a material adverse effect on our revenues and operating profits in the short term, but such adverse effect is expected to gradually decrease in the long term. See "Item 3. Key Information — D. Risk Factors — Risks Relating to Our Business — Implementation of a value-added tax to replace the business tax in the PRC may decrease our revenues and profitability." and "Item 5. Operating and Financial Review and Prospects – A. Operating Results – Year Ended December 31, 2015 Compared to Year Ended December 31, 2014 – Qualitative and Quantitative Analysis of the VAT Reform Impact."

However, we expect that in the long term replacing the business tax with the VAT will be beneficial to the development of our business. We will strive to reduce the adverse effect of the application of VAT to the telecommunications industry on our revenues and profits by taking key measures and considerations such as:

(i) we would optimize development and sales models, implement stringent cost control measure, and enhance control on purchasing and vendors' tax profiles;

(ii) as the VAT pilot program expands to other industries nationwide, it is expected that we would be able to deduct more operating costs and investments as input VAT credits in future;

(iii) following our strategic transformation, the proportion of revenues generated from value-added telecommunications services is expected to increase, resulting in a lower average tax rate of output VAT; and

(iv) input VAT credit on capital expenditures would reduce the carrying amounts of fixed assets, resulting in a reduction of depreciation expenses, which can enhance our future profits.

Amended Employment Contract Law

The amended PRC Employment Contract Law, effective as of July 1, 2013, and the Interim Provisions on Labor Dispatch, effective as of March 1, 2014, focus on strengthening the administration of the employment practice involving dispatched employees, and provide that, among others, the dispatched employees shall have the right to receive the same compensation as that received by other employees hired by the employer for the same type of positions, shall account for no more than 10% of the total employees hired by an employer and shall only be employed for temporary, supporting or substitutive positions. The amended PRC Employment Contract Law and the Interim Provisions on Labor Dispatch have not had, and we do not believe they will have, a material adverse effect on our personnel expenses or number of employees.

Mobile Number Portability Trial

In April 2009, Hainan Province kicked off the mobile number portability trial with a team of experts from the MIIT holding a training session in the city of Haikou to introduce the relevant policies and requirements for the mobile number portability trial, which would allow mobile users to migrate from the network of one telecommunications operator to another without having to change their mobile numbers. In November 2010, Tianjin and Hainan each began mobile number portability trial for the local China Mobile subscribers. Pursuant to the relevant policy then issued by the MIIT, mobile users of China Mobile, China Unicom and our Company in Tianjin may migrate among the networks of the three operators, while mobile users in Hainan may only migrate from China Mobile to our Company or China Unicom and not from China Unicom or our Company to China Mobile. In May 2014, the MIIT promulgated the Administration Measures on Mobile Number Portability Trial, effective as of May 17, 2014, which regulated the implementation measures for mobile number portability trials. On the same date, Hainan began providing the local mobile users with mobile number portability among the local networks of our Company, China Unicom and China Mobile. On September 20, 2014, Jiangxi, Hubei and Yunnan began offering mobile number portability services to the local mobile users. In September 2015, the MIIT commenced a thorough evaluation of the mobile number portability trial in order to determine whether or not to expand the trial across the nation. As of the date of this annual report, such evaluation is still on-going.

C. Organization Structure

See “—A. History and Development of the Company—Our Restructuring and Initial Public Offering in 2002” included elsewhere under this Item.

D. Property, Plants and Equipment

Properties

Executive Offices

Our principal executive offices are located in Beijing and we obtained the right to occupy and use these offices pursuant to an agreement we entered into with China Telecom Group in September 2002 and supplemental agreements on October 26, 2003, April 13, 2004, December 15, 2005, December 26, 2007, March 31, 2008, August 25, 2010, August 22, 2012 and September 23, 2015, respectively. See “Item 7. Major Shareholders and Related Party Transactions—B. Related Party Transactions—Ongoing Related Party Transactions between Us and China Telecom Group—Centralized Services Agreement.”

Properties

We conduct our business on land and premises either owned by ourselves or leased from China Telecom Group and/or its affiliates and third parties. As to our owned properties, although the land and building titles to a majority of these properties have been registered in our name after they were acquired by us as part of our restructuring, land and building titles to the remaining properties are still registered in the name of China Telecom Group. China Telecom Group has agreed to indemnify us against any loss or damage incurred by us caused by or arising from any challenge to, or interference with, our right to use these properties. As to our leased properties, China Telecom Group has undertaken to us that it will indemnify us against any loss or damage caused by or arising from any challenge to, or interference with, such right. See “Item 7. Major Shareholders and Related Party Transactions—B. Related Party Transactions—Ongoing Related Party Transactions between Us and China Telecom Group—Property Leasing Framework Agreement.”

Item 4A. Unresolved Staff Comments.

None.

Item 5. Operating and Financial Review and Prospects.

You should read the following discussion and analysis in conjunction with our audited consolidated financial statements and our selected financial data, in each case included elsewhere in this annual report. Our consolidated financial statements have been prepared in accordance with IFRS, as issued by the International Accounting Standards Board.

Our audited consolidated financial statements included elsewhere in this annual report reflect the acquisitions and divestment in 2013, the establishment of new subsidiaries in 2014 and the tower assets disposal in 2015 described under “Item 4. Information on the Company—A. History and Development of the Company—Industry Restructuring and Our Acquisition of the CDMA Business in 2008”, “—Our Acquisition from China Telecom Group of the CDMA Network Assets and Associated Liabilities”, “—Changes in Our Corporate Organization in 2013”, “—Changes in Our Corporate Organization in 2014” and “Establishment of the Tower Company and the Disposal and Use of the Telecommunications Towers”.

In addition, since we and China Telecom Europe were under common control of China Telecom Group after the completion of our acquisition of China Telecom Europe from China Telecom Group on December 31, 2013, the acquisition of China Telecom Europe has been accounted for as a combination of entities under common control in a manner similar to a pooling-of-interests. Accordingly, the assets and liabilities of China Telecom Europe have been accounted for at historical amounts and the consolidated financial statements for periods prior to the acquisition have been restated to include the financial position and results of operations of China Telecom Europe on a combined basis. Unless otherwise indicated in this section, our financial data for periods prior to the acquisition are presented based on those restated amounts. See Note 1 to our consolidated financial statements included elsewhere in this annual report on Form 20-F.

On October 14, 2015, the Company entered into the Transfer Agreement with the Tower Company and certain other parties thereto, pursuant to which the Company agreed to sell certain telecommunications towers and related assets in an aggregate amount of RMB30,131 million and inject cash in the amount of RMB2,966 million to the Tower Company in exchange for 33,097 million new shares, with a par value of RMB1.00 per share, issued by the Tower Company. Following the completion of such this transaction, the Company holds 27.9% of the share capital of the Tower Company. The Company realized a gain (subject to deduction of relevant expenses and taxes) from such tower assets disposal, which was calculated based on the surplus of the final consideration for the tower assets disposal over the book value of such assets as at the completion date. The total gain from the tower assets disposal was RMB7,231 million. As the Company holds 27.9% of the share capital of Tower Company following the completion of such tower assets disposal, 72.1% of the aforesaid gain has been recognized at the completion date in the Company’s consolidated statement of comprehensive income for 2015 and the remaining 27.9% of the aforesaid gain is deferred over the remaining useful life of the tower assets. As a result, a gain from the tower assets disposal in the amount of RMB5,214 million was recognized in the consolidated statement of comprehensive income for the year ended December 31, 2015. The Company and the Tower Company have reached preliminary understanding, and are currently in the process of negotiating the arrangements, in respect of the Company’s use of certain telecommunications towers and related assets owned by the Tower Company. The Company estimated the telecommunications towers usage fees payable to the Tower Company in 2015 taking into account factors including the depreciation cost, maintenance cost, markup margin and sharing discount. See “Item 4. Information on the Company—A. History and Development of the Company—Establishment of the Tower Company and the Disposal and Use of the Telecommunications Towers”, and Notes 2 and 33(b) to our consolidated financial statements included elsewhere in this annual report on Form 20-F.

Overview

We are an integrated information service provider in the PRC. We offer a comprehensive range of telecommunications services, including wireline voice services, mobile voice services, Internet access services, value-added services, integrated information application services, telecommunications network resource services and lease of network equipment and other related services. We continue to leverage our full-service capabilities to further enhance our integrated and differentiated development of operation of wireline, mobile and Internet access services, and to distinguish us from our competitors.

Financial Overview

Our operating revenues increased by 2.1%, from RMB324,394 million in 2014 to RMB331,202 million in 2015. The increase was mainly attributable to revenues growth from Internet access services, value-added services, integrated information application services and telecommunications network resource services and lease of network equipment as well as other related services. Our total operating expenses increased by 3.0%, from RMB295,886 million in 2014 to RMB304,760 in 2015. The increase in operating expenses was primarily due to increases in network operations and support expenses, which was partially offset by the decrease in selling, general and administrative expenses. Our operating income decreased by 7.2%, from RMB28,508 million in 2014 to RMB26,442 million in 2015. The profit attributable to equity holders of the Company increased from RMB17,680 million in 2014 to RMB20,054 million in 2015.

The table below sets forth a breakdown of our operating revenues in terms of amount and as a percentage of our total operating revenues for the periods indicated:

| | Year Ended December 31, | | | | | |
|--------------------------------------------------------------------------------------------|-------------------------|----------------------------------|----------------|----------------------------------|----------------|----------------------------------|
| | 2013 | | 2014 | | 2015 | |
| | Amount | Percentage of Operating Revenues | Amount | Percentage of Operating Revenues | Amount | Percentage of Operating Revenues |
| (RMB in millions, except percentage data) | | | | | | |
| Operating Revenues: (1) | | | | | | |
| Wireline voice services ⁽²⁾ | 38,633 | 12.0% | 33,587 | 10.4% | 29,610 | 8.9% |
| Mobile voice services ⁽³⁾ | 58,217 | 18.1% | 54,673 | 16.9% | 48,983 | 14.8% |
| Internet access services ⁽⁴⁾ | 99,394 | 30.9% | 112,431 | 34.7% | 126,546 | 38.2% |
| Value-added services ⁽⁵⁾ | 36,230 | 11.3% | 38,419 | 11.8% | 39,044 | 11.8% |
| Integrated information application services ⁽⁶⁾ | 25,233 | 7.8% | 26,939 | 8.3% | 27,299 | 8.3% |
| Telecommunications network resource services and lease of network equipment ⁽⁷⁾ | 17,586 | 5.5% | 17,332 | 5.3% | 17,635 | 5.3% |
| Other services ⁽⁸⁾ | 46,291 | 14.4% | 41,013 | 12.6% | 42,085 | 12.7% |
| Total operating revenues | 321,584 | 100.0% | 324,394 | 100.0% | 331,202 | 100.0% |

- (1) Before June 1, 2014, most of the Group's operating revenues were subject to business tax levied at rates of 3%, and relevant business tax was set off against operating revenues. Pursuant to the Notice on Covering Telecommunications Industries under the VAT Reform (Caishui [2014] No.43) jointly issued by the Ministry of Finance and the State Administration of Taxation, from June 1, 2014, the pilot programme of replacing business tax with VAT is extended to cover the telecommunications industry. VAT is excluded from operating revenues. With effect from June 1, 2014, the Group is no longer required to pay business tax of 3% on telecommunications services.
- (2) Represent the aggregate amount of monthly fees, local usage fees, domestic long distance usage fees, international, Hong Kong, Macau and Taiwan long distance usage fees, interconnections fees and installation fees charged to customers for the provision of wireline telephony services.
- (3) Represent the aggregate amount of monthly fees, local usage fees, domestic long distance usage fees, international, Hong Kong, Macau and Taiwan long distance usage fees and interconnections fees charged to customers for the provision of mobile telephony services.
- (4) Represent amounts charged to customers for the provision of Internet access services.
- (5) Represent the aggregate amount of fees charged to customers for the provision of value-added services, which comprise primarily caller ID services, short messaging services, Color Ring Tone, Internet data center and Virtual Private Network services and etc.
- (6) Represent primarily the aggregate amount of fees charged to customers for Best Tone information services and IT services and applications.
- (7) Represent primarily the aggregate amount of fees charged to customers for the provision of telecommunications network resource services and lease income from other domestic telecommunications operators and enterprise customers for the usage of the Group's telecommunications networks and equipment.
- (8) Represent primarily revenue from sale, and repair and maintenance of equipment as well as the resale of mobile services.

The following table sets forth a breakdown of our operating expenses in terms of amount and as a percentage of our total operating revenues for the periods indicated:

| | Year Ended December 31, | | | | | |
|----------------------------------------------|-------------------------|----------------------------------|----------------|----------------------------------|----------------|----------------------------------|
| | 2013 | | 2014 | | 2015 | |
| | Amount | Percentage of Operating Revenues | Amount | Percentage of Operating Revenues | Amount | Percentage of Operating Revenues |
| (RMB in millions, except percentage data) | | | | | | |
| Operating Expenses: | | | | | | |
| Depreciation and amortization | 69,083 | 21.5% | 66,345 | 20.5% | 67,664 | 20.4% |
| Network operations and support expenses | 53,102 | 16.5% | 68,651 | 21.2% | 81,240 | 24.5% |
| Selling, general and administrative expenses | 70,448 | 21.9% | 62,719 | 19.3% | 54,472 | 16.4% |
| Personnel expenses | 46,723 | 14.6% | 50,653 | 15.6% | 52,541 | 15.9% |
| Other operating expenses | 54,760 | 17.0% | 47,518 | 14.6% | 48,843 | 14.8% |
| Total operating expenses | 294,116 | 91.5% | 295,886 | 91.2% | 304,760 | 92.0% |

The following table sets forth our operating revenues, operating expenses, operating income and profit attributable to equity holders of the Company in terms of amount and as a percentage of our total operating revenues, and cash flows from operating activities for the periods indicated:

| | Year Ended December 31, | | | | | |
|------------------------------------------------------|-------------------------------------------|----------------------------------|---------|----------------------------------|---------|----------------------------------|
| | 2013 | | 2014 | | 2015 | |
| | Amount | Percentage of Operating Revenues | Amount | Percentage of Operating Revenues | Amount | Percentage of Operating Revenues |
| | (RMB in millions, except percentage data) | | | | | |
| Operating revenues | 321,584 | 100.0% | 324,394 | 100.0% | 331,202 | 100.0% |
| Operating expenses | 294,116 | 91.5% | 295,886 | 91.2% | 304,760 | 92.0% |
| Operating income | 27,468 | 8.5% | 28,508 | 8.8% | 26,442 | 8.0% |
| Profit attributable to equity holders of the Company | 17,545 | 5.5% | 17,680 | 5.5% | 20,054 | 6.1% |
| Net cash from operating activities | 88,351 | — | 96,405 | — | 108,750 | — |

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations contained elsewhere in this annual report are based on our consolidated financial statements which have been prepared in accordance with IFRS. Our reported financial condition and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of our financial statements. We base our assumptions and estimates on historical experience and on various other assumptions that we believe to be reasonable and which form the basis for making judgments about matters that are not readily apparent from other sources. On an on going basis, our management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

The selection of critical accounting policies, the judgments and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing our financial statements. Our principal accounting policies are set forth in detail in Note 3 to our consolidated financial statements included elsewhere in this annual report. We believe the following critical accounting policies involve the most significant judgments and estimates used in the preparation of our financial statements.

Revenue recognition

Our revenue recognition methods are as follows:

- (i) Revenue derived from local, domestic long distance and international, Hong Kong, Macau and Taiwan long distance usage are recognized as the services are provided.
- (ii) Fees received for wireline installation charges for periods prior to January 1, 2012 are deferred and recognized over the expected customer relationship period. The direct costs associated with the installation of wireline services are deferred to the extent of the installation fees and amortized over the same expected customer relationship period. From 2012 onwards, since the amounts of fees received and the associated direct costs incurred are insignificant, the fees and associated direct costs are not deferred, and are recognized in profit or loss when received or incurred.
- (iii) Monthly service fees are recognized in the month during which the services are provided to customers.
- (iv) Revenue from sale of prepaid calling cards is recognized as the cards are used by customers.
- (v) Revenue derived from value-added services is recognized when the services are provided to customers.

Revenue from value-added services in which no third party service providers are involved, such as caller display and Internet data center services, are presented on a gross basis. Revenues from all other value-added services are presented on either gross or net basis based on the assessment of each individual arrangement with third parties. The following factors indicate that we are acting as principal in the arrangements with third parties:

- i) We are responsible for providing the applications or services desired by customers, and take responsibility for fulfillment of ordered applications or services, including the acceptability of the applications or services ordered or purchased by customers;
- ii) We take title of the inventory of the applications before they are ordered by customers;
- iii) We have risks and rewards of ownership, such as risks of loss for collection from customers after applications or services are provided to customers;
- iv) We establish selling prices with customers;
- v) We can modify the applications or perform part of the services;
- vi) We have discretion in selecting suppliers used to fulfill an order; and
- vii) We determine the nature, type, characteristics, or specifications of the applications or services.

If majority of the indicators of risks and responsibilities exist in the arrangements with third parties, we are acting as the principal and have exposure to the significant risks and rewards associated with the rendering of services or the sale of applications, and revenues for these services are recognized on gross basis. If majority of the indicators of risks and responsibilities do not exist in the arrangements with third parties, we are acting as the agent, and revenues for these services are recognized on a net basis.

- (vi) Revenue from the provision of Internet and telecommunications network resource services is recognized when the services are provided to customers.
- (vii) Interconnection fees from domestic and foreign telecommunications operators are recognized when the services are rendered as measured by the minutes of traffic processed.
- (viii) Lease income from operating leases is recognized over the term of the lease.
- (ix) Revenue derived from integrated information application services is recognized when the services are provided to customers.
- (x) Sale of equipment is recognized on delivery of the equipment to customers and when the significant risks and rewards of ownership and title have been transferred to the customers. Revenue from repair and maintenance of equipment is recognized when the service is provided to customers.

We offer promotional packages, which involve the bundled sales of terminal equipment (mobile handsets) and telecommunications services, to customers. The total contract consideration of a promotional package is allocated to revenues generated from the provision of telecommunications services and the sales of terminal equipment using the residual method. Under the residual method, the total contract consideration of the arrangement is allocated as follows: the undelivered component, which is the provision of telecommunications services, is measured at fair value, and the remainder of the contract consideration is allocated to the delivered component, which are the sales of terminal equipment. We recognize revenues generated from the delivery and sales of the terminal equipment when the title of the terminal equipment is passed to the customers whereas revenues generated from the provision of telecommunications services are recognized based upon the actual usage of such services. During each of the years in the three-year period ended December 31, 2015, a substantial portion of the total contract consideration is allocated to the provision of telecommunications services since the terminal equipment is typically provided free of charge or at a nominal amount to promote our core business of the provision of telecommunications services, and the fair value of the telecommunications services approximates the total contract consideration.

Accounting for Long-lived Assets

Depreciation. Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets after taking into account their estimated residual value. The following estimated useful lives are used for depreciation purposes. These estimated useful lives are based on our historical experience with similar assets and take into account anticipated technological changes.

| | <u>Depreciable lives primarily range from</u> |
|--------------------------------------------------------|----------------------------------------------------------|
| Buildings and improvements | 8 - 30 years |
| Telecommunications network plant and equipment | 6 - 10 years |
| Furniture, fixture, motor vehicles and other equipment | 5 - 10 years |

We review the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

Impairment. The carrying amounts of long-lived assets, including property, plant and equipment, intangible assets with finite useful lives and construction in progress are reviewed periodically in order to determine whether there is any indication of impairment. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. For goodwill, the impairment testing is performed annually at the end of each reporting period.

The recoverable amount of an asset or a cash-generating unit is the greater of its fair value less costs of disposal and value in use. When an asset does not generate cash flows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e., a cash generating unit). In determining the value in use, expected future cash flows generated by the assets are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risk specific to the asset for which the estimates of future cash flow have not been adjusted. The goodwill arising from a business combination, for the purposes of impairment testing, is allocated to cash generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment loss is recognized as an expense in the profit or loss. Impairment loss recognized in respect of cash-generating units is allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in any unit (group of units) on a pro rata basis.

For the year ended December 31, 2015, provision for impairment losses of RMB51 million were made against the carrying value of long-lived assets. For the years ended December 31, 2013 and 2014, no provision for impairment loss was made against the carrying value of long-lived assets.

Impairment Losses for Bad and Doubtful Debts

We estimate impairment losses for bad and doubtful debts resulting from the inability of our customers to make the required payments. We base our estimates on the aging of our accounts receivable balance, customer credit-worthiness, and historical write-off experience. If the financial condition of our customers were to deteriorate, actual write-offs might be higher than expected.

Amounts due from the provision of telecommunications services to residential and business customers are generally due within 30 days from the date of billing. Customers who have accounts overdue by more than 90 days will have their services disconnected.

The following table summarizes the changes in the provision for impairment losses for bad and doubtful debts for each of the years in the three-year period ended December 31, 2015:

| | Year Ended December 31, | | |
|--------------------------------------|--------------------------------|----------------|----------------|
| | 2013 | 2014 | 2015 |
| | (RMB in millions) | | |
| At beginning of year | 2,024 | 2,198 | 2,478 |
| Impairment losses for doubtful debts | 1,740 | 2,075 | 2,172 |
| Accounts receivable written off | <u>(1,566)</u> | <u>(1,795)</u> | <u>(1,715)</u> |
| At end of year | <u>2,198</u> | <u>2,478</u> | <u>2,935</u> |

Recently Issued International Financial Reporting Standards

Up to the date of issue of our 2015 financial statements, the International Accounting Standards Board has issued the following amendments and new standards which are not yet effective and not early adopted for the annual accounting period ended December 31, 2015:

| | Effective for accounting period beginning on or after |
|---------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------|
| Amendments to IFRS 11, "Accounting for Acquisitions of Interests in Joint Operations" | January 1, 2016 |
| Amendments to IAS 1, "Disclosure Initiative" | January 1, 2016 |
| Amendments to IAS 16 and IAS 38, "Clarification of Acceptable Methods of Depreciation and Amortization" | January 1, 2016 |
| Amendments to IFRSs, "Annual Improvements to IFRSs 2012-2014 Cycle" | January 1, 2016 |
| Amendments to IAS 16 and IAS 41, "Agriculture: Bearer Plants" | January 1, 2016 |
| Amendments to IFRS 10, IFRS 12 and IAS 28, "Investment Entities: Applying the Consolidation Exception" | January 1, 2016 |
| IFRS 14, "Regulatory Deferral Accounts" | January 1, 2016 |
| Amendments to IAS 7, "Disclosure Initiative" | January 1, 2017 |
| Amendments to IAS 12, "Recognition of Deferred Tax Assets for Unrealized Losses" | January 1, 2017 |
| IFRS 9, "Financial Instruments" | January 1, 2018 |
| IFRS 15, "Revenue from Contracts with Customers" | January 1, 2018 |
| IFRS 16, "Leases" | January 1, 2019 |
| Amendments to IFRS 10 and IAS 28, "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture" | A date to be determined |

We are in the process of making an assessment of the impact that will result from adopting the amendments and new standards issued by the IASB which are not yet effective for the accounting period ended December 31, 2015. Except for IFRS 15, "Revenue from Contracts with Customers", and IFRS 16, "Leases", so far we believe that the adoption of these amendments and new standards is unlikely to have a significant impact on our financial position and the results of operations.

A. Operating Results

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

Operating Revenues

Our operating revenues increased by RMB6,808 million, or 2.1%, from RMB324,394 million in 2014 to RMB331,202 million in 2015. This increase was primarily driven by the revenues growth from Internet access services, value-added services, integrated information application services, telecommunications network resource services and lease of network equipment and other services, which was partially offset by a decrease in revenues from wireline voice services and mobile voice services.

Wireline Voice Services. Revenues from our wireline voice services decreased by 11.8%, from RMB33,587 million in 2014 to RMB29,610 million in 2015. This decrease was primarily due to the increasing penetration of mobile voice services and other alternative means of communications, which continued to divert revenues from wireline voice services, as well as the migration of some of our wireline telephone subscribers to our 3G and 4G services. Revenues from our wireline voice services accounted for 8.9% of our operating revenues in 2015, compared to 10.4% in 2014.

Mobile Voice Services. Revenues from our mobile voice services decreased by 10.4%, from RMB54,673 million in 2014 to RMB48,983 million in 2015, representing 14.8% of our operating revenues in 2015, compared to 16.9% in 2014. This decrease was primarily due to the effect of the mobile Internet services, such as Over-the-Top messaging services, as alternative means of communications.

Internet Access Services. Revenues from our Internet access services increased by 12.6% from RMB112,431 million in 2014 to RMB126,546 million in 2015, representing 38.2% of our operating revenues. This increase was primarily due to the increase in our mobile Internet access revenues, which was attributable to the rapid growth in the volume of and revenue from our mobile data traffic. The revenues attributable to mobile Internet access services in 2015 was RMB50,694 million, representing an increase of 34.1% from RMB37,809 million in 2014, of which revenues attributable to handset data traffic was RMB47,770 million, representing an increase of 40.1% from 2014. In addition, the number of our wireline broadband subscribers increased to 113.1 million as of December 31, 2015, representing an increase of 6.11 million, or 5.7%, from 107.0 million as of December 31, 2014. The wireline broadband revenue was RMB74,285 million, an increase of 1.1% from 2014.

Value-Added Services. Revenues from our value-added services increased by 1.6% from RMB38,419 million in 2014 to RMB39,044 million in 2015, representing 11.8% of our operating revenues in 2015. This increase was primarily due to the growth of revenues from our wireline value-added services such as IDC and IPTV (e-Surfing HD) services, which was partially offset by the decrease in revenues from our mobile value-added services. The revenues attributable to wireline value-added services in 2015 were RMB21,529 million, representing an increase of 16.8% from RMB18,428 million in 2014. The revenues attributable to mobile value-added services in 2015 were RMB17,515 million, representing a decrease of 12.4% from 2014.

Integrated Information Application Services. Revenues from our integrated information application services increased by 1.3% from RMB26,939 million in 2014 to RMB27,299 million, representing 8.3% of our operating revenues in 2015. This increase was primarily due to the increase in revenues from our wireline integrated information application services, which was partially offset by the decrease in revenues from our mobile integrated information application services. As a result of the rapid growth of our IT services and industry applications, the revenues attributable to wireline integrated information application services, increased by 4.5% from RMB19,619 million in 2014 to RMB20,505 million in 2015. The revenues attributable to mobile integrated information application services decreased by 7.2% from RMB7,320 million in 2014 to RMB6,794 million in 2015 due to a decrease in traditional information inquiry services.

Telecommunications Network Resource Services and Lease of Network Equipment. Revenues from our telecommunications network resource services and lease of network equipment increased by 1.7%, from RMB17,332 million in 2014 to RMB17,635 million in 2015, representing 5.3% of our operating revenues in 2015. This relatively low increase was primarily due to the slowdown in the demand for our telecommunications network resource services and lease of network equipment. Revenue from lease of mobile network equipment was RMB421 million in 2015.

Other Services. Revenues from other services increased by 2.6%, from RMB41,013 million in 2014 to RMB42,085 million in 2015. The increase in revenues from other services was primarily due to the increase in the sales of mobile terminal and wireline equipment. The revenues from sales of mobile terminal equipment increased by 2.2% to RMB32,026 million in 2015 from RMB31,343 million in 2014.

Operating Expenses

Our operating expenses increased by 3.0%, from RMB295,886 million in 2014 to RMB304,760 million in 2015. The increase in operating expenses was primarily due to the increased depreciation and amortization expenses, network operations and support expenses, personnel expenses and other operating expenses, which was partially offset by the decreases in the selling, general and administrative expenses.

Depreciation and Amortization. Our depreciation and amortization expenses increased by 2.0%, from RMB66,345 million in 2014 to RMB67,664 million in 2015, mainly due to the increase in the assets size in line with our increased investment in 4G network and optic fiber broadband network.

Network Operations and Support Expenses. Our network operations and support expenses increased by 18.3%, from RMB68,651 million in 2014 to RMB81,240 million in 2015, which was primarily due to the newly incurred telecommunications towers usage fees payable to the Tower Company as well as the increase in expenses for the network operating and maintenance for purposes of improving our network qualities.

Selling, General and Administrative Expenses. Our selling, general and administrative expenses decreased by 13.1% from RMB62,719 million in 2014 to RMB54,472 million in 2015. The decrease was primarily due to our continued efforts to optimize our sales models, strengthen the control on sales expenses and improve the utilization efficiency of marketing resources. Commission and service expenses for third parties were RMB26,651 million, a decrease of 6.0% from 2014. Advertising and promotional expenses were RMB19,291 million, a decrease of 26.2% from 2014. The cost of mobile terminal equipment offered to customers for free or at a nominal price is recorded in advertising and promotional expenses and was RMB11,620 million in 2015, a decrease of 24.3% from 2014.

Personnel Expenses. Personnel expenses increased by 3.7%, from RMB50,653 million in 2014 to RMB52,541 million in 2015. This increase was primarily attributable to increased remuneration for our frontline staff. The personnel expenses as a percentage of our operating revenues increased from 15.6% in 2014 to 15.9% in 2015.

Other Operating Expenses. Our other operating expenses primarily consist of interconnection charges, cost of goods sold, donations and other expenses. Our other operating expenses were RMB48,843 million in 2015, which increased by 2.8% from RMB47,518 million in 2014, which was primarily due to the increase in the cost of mobile and wireline goods sold as a result of the increased sales of these goods, as well as other surcharges related to VAT. The cost of mobile terminal equipment sold was RMB30,867 million in 2015, which increased by 3.0% from 2014.

Net Finance Costs

In 2015, our net finance costs decreased by 19.2% from RMB5,291 million in 2014 to RMB4,273 million in 2015, mainly due to the decrease in the interest rate of the deferred consideration of Mobile Network Acquisition from 6.25% per annum in 2014 to 5.11% per annum in 2015.

The net exchange loss was RMB75 million in 2015, compared to a net exchange gain of RMB55 million in 2014, which was mainly due to the depreciation of the RMB against the USD in 2015. According to the exchange rates published by the People's Bank of China on December 31, 2015, the exchange rate of Renminbi depreciated by 5.8% against the USD from December 31, 2014.

Income Tax

In 2015, our income tax expense was RMB6,551 million with an effective tax rate of 24.5%. Our expected income tax expense at our statutory tax rate of 25.0% in 2015 would be RMB6,673 million. The difference between our effective tax rate and the statutory tax rate of 25.0% was primarily due to the preferential income tax rate applicable to some of our subsidiaries and our branches with operations in the western regions of China. See Note 27 to our consolidated financial statements included elsewhere in this annual report for further details in respect of the reconciliation of our effective tax rate to the statutory tax rate of 25.0%.

Profit Attributable to Equity Holders of the Company

As a result of the foregoing, the profit attributable to equity holders of the Company was RMB20,054 million in 2015, with a net margin of 6.1%, compared to a profit attributable to equity holders of the Company of RMB17,680 million with a net margin of 5.5% in 2014.

Foreign Currency Fluctuation Impact

See "Item 3. Key Information—D. Risk Factors—Risks Relating to the People's Republic of China—Fluctuation of the Renminbi could materially affect our financial condition, results of operations and cash flows." and "Item 11. Quantitative and Qualitative Disclosures about Market Risk—Foreign Exchange Rate Risk."

Qualitative and Quantitative Analysis of the VAT Reform Impact

Before the VAT applicable to the telecommunications industry took effect and replaced the business tax, or the VAT Reform (see "Item 4. Information on the Company – B. Business Overview – Regulatory and Related Matters – VAT Reform Applicable to the Telecommunications Industry"), we represented our operating revenues from provision of telecommunications services to customers after deducting business tax at a rate of approximately 3% from the amount collected from customers. After the VAT Reform, we represent our operating revenues from provision of telecommunications services to customers after deducting the related output VAT at a rate ranging from 6% to 17% from the amount collected from customers. The amount of VAT paid by us to the tax authorities were then calculated by deducting the input VAT credits, which is VAT that applies to the goods and services purchased by us, from the output VAT, which is VAT that applies to the goods and services sold or provided by us. By referring to "deducted", it was intended to highlight that we presented operating revenues net of the output VAT. Given that the applicable output VAT rate was generally higher than the applicable business tax rate, and the overall excess of output VAT over business tax was larger than the input VAT credits, the VAT Reform had an adverse impact on our operating results in 2015.

In order to quantify the impact of the VAT Reform on our operating revenues, operating income and net profit in 2015, we first calculated the baseline numbers assuming that we were still subject to business tax instead of VAT in 2015. From January 1, 2015 to December 31, 2015, the total output VAT incurred by us was estimated to be RMB25,680 million, which was arrived at by multiplying the actual operating revenues from basic and value-added telecommunications services during that period with the respective applicable VAT rates. Such output VAT was not included in our operating revenues of RMB331,202 million in 2015, or the 2015 Reported Revenue. Assuming that the VAT Reform had not been implemented, our operating revenues before business tax in 2015 would have been RMB356,882 million, or the 2015 VAT-Inclusive Revenue, which was calculated by adding the total output VAT of RMB25,680 million to the 2015 Reported Revenue. Had we still been subject to business tax, we would have incurred a total business tax of RMB10,241 million in 2015, or the 2015 Business Tax, which was calculated by multiplying the 2015 VAT-Inclusive Revenue with the business tax rate of about 3%. Under such assumptions, we would have reported our operating revenues of RMB346,641 million in 2015, which was calculated by deducting the 2015 Business Tax from the 2015 VAT-Inclusive Revenue. As a result, the adverse impact of the VAT Reform on our operating revenues in 2015 was RMB15,439 million, which was the difference between the operating revenues of RMB346,641 million as calculated above and the 2015 Reported Revenue, representing approximately 4.5% of RMB346,641 million.

From January 1, 2015 to December 31, 2015, the total input VAT credits received by the Company was RMB9,726 million. Assuming the VAT Reform had not been implemented, our operating expenses in 2015 would have been RMB314,486 million, which was calculated by adding such input VAT credits with our operating expenses of RMB304,760 million as reported in 2015. Had the VAT Reform not been implemented, our operating income in 2015 would have been RMB32,155 million, which was arrived at by adding RMB15,439 million (which was the adverse impact of the VAT Reform on our operating revenues in 2015) to, and subtracting RMB9,726 million (which was the beneficial impact of input VAT credits on our operating expenses in 2015) from, our operating income of RMB26,442 million, or the 2015 Reported Income. As such, the adverse impact of the VAT Reform on our operating income in 2015 was RMB5,713 million, which was the difference between the operating income of RMB32,155 million as calculated above and the 2015 Reported Income, representing 17.8% of RMB32,155 million.

Taking into account the effective income tax rate of 24.5% as disclosed in “Item 5. Operating and Financial Review and Prospects – A. Operating Results – Year Ended December 31, 2015 Compared to Year Ended December 31, 2014 – Income Tax”, and assuming that the VAT Reform had not been implemented, our net profit in 2015 would have been RMB24,367 million, which was calculated by adding RMB5,713 million, being the adverse impact of the VAT Reform on our operating income in 2015, to RMB26,693 million, being the earnings before income tax as reported in 2015, and then apply the effective income tax rate of 24.5%. As such, the adverse impact of the VAT Reform on our net profit in 2015 was approximately RMB4,313 million, which was the difference between the net profit of RMB24,367 million as calculated above and our profit attributable to equity holders of RMB20,054 million as reported in 2015, representing 17.7% of RMB24,367 million.

The above quantitative analysis is based on a simplified model and a number of assumptions and estimates. As a result, it may not necessarily reflect the actual impact of the VAT Reform on our operating results in 2015 and may not be indicative of the impact of the VAT Reform on our operating results in any future periods.

Through various measures, including optimization of the development and sales and marketing models, implementation of enhanced management over cost, procurement and vendors’ tax qualifications, obtaining more input VAT credits on capital expenditure, we believe that more input VAT credits will be available to offset our VAT output tax obligation in the short-term. Besides, by actively promoting value-added telecommunications services, which are subject to a lower VAT rate, our revenue structure would be optimized and less VAT output obligation would need to be offset. As a result, our overall VAT obligation would be reduced.

On March 18, 2016, the State Council standing committee meeting resolved to expand the VAT pilot program to all other industries which were previously subject to the PRC business tax starting from May 1, 2016. On March 23, 2016, the SAT issued the Notice on Expanding the Pilot Program of Replacing the Business Tax with VAT, promulgating the relevant implementing rules. We expect that more of capital expenditures and operating expenses, such as commission and service expenses for third parties, would be entitled to input VAT credits in the future, which in turn, would further offset our VAT output tax obligations. This will be beneficial to the development of our business and further reduce the adverse impact of the VAT Reform on our operating revenues and profitability.

Year Ended December 31, 2014 Compared to Year Ended December 31, 2013

Operating Revenues

Our operating revenues increased by RMB2,810 million, or 0.9%, from RMB321,584 million in 2013 to RMB324,394 million in 2014. This increase was primarily driven by the revenues growth from Internet access services, value-added services and integrated information application services, which was partially offset by a decrease in revenues from wireline voice services, mobile voice services, telecommunications network resource services and lease of network equipment and other services.

Wireline Voice Services. Revenues from our wireline voice services decreased by 13.1%, from RMB38,633 million in 2013 to RMB33,587 million in 2014. This decrease was primarily due to the increasing penetration of mobile voice services and other alternative means of communications, which continued to divert revenues from wireline voice services, as well as the migration of some of our wireline telephone subscribers to our 3G and 4G services. Revenues from our wireline voice services accounted for 10.4% of our operating revenues in 2014, compared to 12.0% in 2013.

Mobile Voice Services. Revenues from our mobile voice services decreased by 6.1%, from RMB58,217 million in 2013 to RMB54,673 million in 2014, representing 16.9% of our operating revenues in 2014, compared to 18.1% in 2013. This decrease was primarily due to the effect of the launch of 4G services by our competitors, the VAT reform, the change in our sales model and the mobile Internet services as alternative means of communications.

Internet Access Services. Revenues from our Internet access services increased by 13.1% from RMB99,394 million in 2013 to RMB112,431 million in 2014, representing 34.7% of our operating revenues. This increase was primarily due to the significant increase of data traffic on our wireline broadband as well as wireless broadband and the expansion of our informationization applications. The number of our wireline broadband subscribers increased to 107.0 million as of December 31, 2014, representing an increase of 6.9 million, or 6.8%, from 100.1 million as of December 31, 2013. The revenues attributable to mobile Internet access services in 2014 was RMB37,809 million, representing an increase of 35.2% from RMB27,962 million in 2013, of which revenues attributable to handset data traffic was RMB34,086 million, representing an increase of 48.8% from 2013.

Value-Added Services. Revenues from our value-added services increased by 6.0% from RMB36,230 million in 2013 to RMB38,419 million in 2014, representing 11.8% of our operating revenues in 2014. This increase was primarily due to the rapid growth of revenues from our wireline value-added services such as IDC and iTV services and, to a lesser extent, the increase in revenues from mobile value-added services. The revenues attributable to wireline value-added services in 2014 were RMB18,428 million, representing an increase of 11.8% from RMB16,482 million in 2013. The revenues attributable to mobile value-added services in 2014 were RMB19,991 million, representing an increase of 1.2% from 2013.

Integrated Information Application Services. Revenues from our integrated information application services increased by 6.8% from RMB25,233 million in 2013 to RMB26,939 million in 2014, representing 8.3% of our operating revenues in 2014. This increase was primarily due to the fact that we accelerated the promotion of industry applications, leading to a rapid growth of revenues attributable to wireline integrated information application services. The revenues attributable to wireline integrated information application services in 2014 were RMB19,619 million, representing an increase of 10.3% from RMB17,792 million in 2013, while the revenues attributable to mobile integrated information application services in 2014 were RMB7,320 million, representing a decrease of 1.6% from RMB7,441 million in 2013.

Telecommunications Network Resource Services and Lease of Network Equipment. Revenues from our telecommunications network resource services and lease of network equipment decreased by 1.4%, from RMB17,586 million in 2013 to RMB17,332 million in 2014, representing 5.3% of our operating revenues in 2014. This decrease was primarily due to the high VAT rate applicable to revenues from telecommunications network resource services and lease of network equipment. Revenue from lease of mobile network equipment was RMB463 million in 2014.

Other Services. Revenues from other services decreased by 11.4%, from RMB46,291 million in 2013 to RMB41,013 million in 2014. The decrease in revenues from other services was primarily due to the reduction of the centralized procurement and sales of mobile terminal equipment. The revenues from sales of mobile terminal equipment decreased by 16.3% to RMB31,343 million in 2014 from RMB37,435 million in 2013.

Operating Expenses

Our operating expenses increased by 0.6%, from RMB294,116 million in 2013 to RMB295,886 million in 2014. The increase in operating expenses was primarily due to the increased network operations and support expenses and personnel expenses, which was partially offset by the decreases in the depreciation and amortization, and selling, general and administrative expenses as well as other operating expenses.

Depreciation and Amortization. Our depreciation and amortization expenses decreased by 4.0%, from RMB69,083 million in 2013 to RMB66,345 million in 2014, mainly due to the saving in the amortization expenses of the customer relationships in this year.

Network Operations and Support Expenses. Our network operations and support expenses increased by 29.3%, from RMB53,102 million in 2013 to RMB68,651 million in 2014, which was primarily due to the increased expenses on the network operating and maintenance for purposes of improving our 3G and 4G network services, wireline and wireless broadband services and the increased property rental expenses as well as the disposal of the Personal Access System assets.

Selling, General and Administrative Expenses. Our selling, general and administrative expenses decreased by 11.0% from RMB70,448 million in 2013 to RMB62,719 million in 2014. The decrease was primarily due to the fact that we accelerated the optimization and innovation of our sales models, strengthened the management and control on selling expenses, especially on terminal subsidies, and improved the utilization efficiency of marketing resources. Commission and service expenses for third parties were RMB28,367 million, an increase of 11.2% from 2013. Advertising and promotional expenses were RMB26,122 million, a decrease of 28.4% from 2013. The cost of mobile terminal equipment offered to customers for free or at a nominal price is recorded in advertising and promotional expenses and was RMB15,340 million in 2014, a decrease of 32.7% from 2013. Our general and administrative expenses decreased by 2.5% from 2013, primarily due to our continuous detailed and fine management of such expenses.

Personnel Expenses. Personnel expenses increased by 8.4%, from RMB46,723 million in 2013 to RMB50,653 million in 2014. This increase was primarily attributable to increased remuneration for our frontline staff. The personnel expenses as a percentage of our operating revenues increased from 14.6% in 2013 to 15.6% in 2014.

Other Operating Expenses. Our other operating expenses primarily consist of interconnection charges, cost of goods sold, donations and other expenses. Our other operating expenses were RMB47,518 million in 2014, which decreased by 13.2% from RMB54,760 million in 2013, which was primarily due to reduction of the centralized procurement and sales of mobile terminal equipment and savings of mobile interconnection charges. The cost of mobile terminal equipment sold was RMB29,982 million in 2014, which decreased by 14.9% from 2013.

Net Finance Costs

In 2014, our net finance costs increased by 2.7% from RMB5,153 million in 2013 to RMB5,291 million in 2014, mainly due to the fact that the interest rate of the deferred consideration of Mobile Network Acquisition increased from 4.83% per annum in 2013 to 6.25% per annum in 2014.

The net exchange gain was RMB55 million in 2014, compared to a net exchange loss of RMB3 million in 2013, which was mainly due to the appreciation of the RMB against the Euro in 2014, which was partially offset by the depreciation of the RMB against the USD in 2014. According to the exchange rates published by the People's Bank of China on December 31, 2014, the exchange rate of Renminbi appreciated by 12.9% against the Euro from December 31, 2013 and depreciated by 0.4% against the USD from December 31, 2013.

Income Tax

In 2014, our income tax expense was RMB5,498 million with an effective tax rate of 23.6%. Our expected income tax expense at our statutory tax rate of 25.0% in 2014 would be RMB5,814 million. The difference between our effective tax rate and the statutory tax rate of 25.0% was primarily due to the preferential income tax rate applicable to some of our subsidiaries and our branches with operations in the western regions of China. See Note 27 to our consolidated financial statements included elsewhere in this annual report for further details in respect of the reconciliation of our effective tax rate to the statutory tax rate of 25.0%.

Profit Attributable to Equity Holders of the Company

As a result of foregoing, the profit attributable to equity holders of the Company was RMB17,680 million in 2014, with a net margin of 5.5%, compared to a profit attributable to equity holders of the Company of RMB17,545 million with a net margin of 5.5% in 2013.

Foreign Currency Fluctuation Impact

See "Item 3. Key Information—D. Risk Factors—Risks Relating to the People's Republic of China—Fluctuation of the Renminbi could materially affect our financial condition, results of operations and cash flows." and "Item 11. Quantitative and Qualitative Disclosures about Market Risk—Foreign Exchange Rate Risk."

B. Liquidity and Capital Resources

Cash Flows and Working Capital

The following table summarizes our cash flows for the periods indicated:

| | Year Ended December 31, | | |
|----------------------------------------------------------|-------------------------|--------------|---------------|
| | 2013 | 2014 | 2015 |
| | (RMB in millions) | | |
| Net cash generated from operating activities | 88,351 | 96,405 | 108,750 |
| Net cash used in investing activities | (107,948) | (81,708) | (102,250) |
| Net cash generated from / (used in) financing activities | 5,637 | (10,327) | 4,809 |
| (Decrease) / Increase in cash and cash equivalents | <u>(13,960)</u> | <u>4,370</u> | <u>11,309</u> |

Cash and cash equivalents increased by 55.9% from RMB20,436 million as of December 31, 2014, of which 93.1% was denominated in RMB, to RMB31,869 million as of December 31, 2015, of which 92.6% was denominated in RMB. Our net cash inflow was RMB11,309 million in 2015, as compared with RMB4,370 million in 2014.

Our principal source of liquidity is cash generated from operating activities, which was RMB108,750 million in 2015, an increase of RMB12,345 million from RMB96,405 million in 2014. The increase was mainly due to the increase in operating revenues and the decrease in the accounts receivable.

Net cash used in investing activities increased by RMB20,542 million from RMB81,708 million in 2014 to RMB102,250 million in 2015 primarily as a result of the increase in the capital expenditures.

Net cash inflow in financing activities was RMB4,809 million in 2015 compared to RMB10,327 million net cash outflow in financing activities in 2014. This increase in cash inflow was primarily due to the issuance of the short-term bonds and the increase in the government loans with below-market interest rates.

Our working capital (defined as current assets minus current liabilities) was a deficit of RMB177,821 million as of December 31, 2015, compared to a deficit of RMB146,782 million as of December 31, 2014.

We estimate that our current cash and cash equivalents, together with our existing credit facilities from domestic commercial banks, cash flows from operating activities, as well as funds available from short-term and long-term bank borrowings and commercial paper, will be sufficient to satisfy our future working capital requirements and capital expenditures through the end of 2016. We have established and maintained high credit ratings with our principal domestic commercial lenders, which have facilitated our ability to obtain short-term and long-term credit on favorable terms to meet our financing requirements. As of December 31, 2015, we had available credit facilities of RMB128,839 million with major domestic commercial banks, from which we can draw upon.

Indebtedness

Our indebtedness as of the dates indicated was as follows:

| | As of December 31, | | |
|----------------------------------------------------------------------|--------------------|----------------|----------------|
| | 2013 | 2014 | 2015 |
| | (RMB in millions) | | |
| Short-term debt | 27,687 | 43,976 | 51,636 |
| Current portion of long-term debt | 20,072 | 82 | 84 |
| Finance lease obligations (including current portion) | 1 | — | 119 |
| Long-term debt and deferred consideration due to China Telecom Group | 62,617 | 62,494 | 64,830 |
| Total debt | <u>110,377</u> | <u>106,552</u> | <u>116,669</u> |

Our short-term debt constituted 44.3% of our total debt as of December 31, 2015. The weighted average interest rate of our short-term debt was 3.1% as of December 31, 2015, representing a decrease of 2.0% from that as of December 31, 2014.

Our total debt increased by RMB10,117 million from RMB106,552 million as of December 31, 2014 to RMB116,669 million in 2015, primarily due to the issuance of the short-term bonds and the increase in the government loans with below-market interest rates. Our debt-to-asset ratio (total debt divided by total assets) decreased from 19.0% in 2014 to 18.5% in 2015. We believe that our Company has maintained a solid capital structure.

Our long-term debt and deferred consideration due to China Telecom Group (including current portion) increased from RMB62,576 million as of December 31, 2014 to RMB64,914 million as of December 31, 2015.

Of our total debt as of December 31, 2015, 99.4%, 0.4% and 0.2% were denominated in Renminbi, U.S. dollars and Euros, respectively.

Our short-term and long-term debt does not contain any financial covenants which materially restrict our operations.

Capital Expenditure

The following table sets forth our historical and planned capital expenditure requirements for the periods indicated. Actual future capital expenditures for the periods after December 31, 2015 may differ from the amounts indicated below.

| | <u>Year Ended December 31,</u> | | |
|---------------------------|--------------------------------|-------------|-------------|
| | <u>2014</u> | <u>2015</u> | <u>2016</u> |
| | (RMB in millions) | | |
| Total capital expenditure | 76,889 | 109,094 | 97,000 |

In 2015, we increased investment in our 4G network and optic fiber broadband network and achieved the comprehensive upgrade of our network capabilities which lay a solid foundation for the scale development of our core business and our competitiveness in the market. In 2015, our capital expenditure was RMB109,094 million, an increase of 41.9% from RMB76,889 million in 2014.

Our capital expenditure for 2016 is projected to be approximately RMB97,000 million, a portion of which will be invested in continued expansion and deepening of our 4G network coverage in locations at county-level or above across the nation in order to meet the fast growing mobile data traffic and our Voice over LTE business needs, a portion of which will be invested in quickly rolling out our 4G+ network in key areas in cities based on market needs in order to further enhance customer experience, and a portion of which will be invested in expanding our optic fiber broadband network coverage to all city area.

Capital Resources

The main sources of our capital expenditure are cash generated from operating activities, bank borrowings and other indebtedness. We expect that we will have sufficient funding sources to meet our capital expenditure requirements in the future.

C. Research and Development, Patents and Licenses, etc.

Our emphasis on research and development has contributed to the development of our advanced network, system, and the rollout of our new applications and services. Our researchers focus on network planning and support, new technology trials, market evaluation, investment-related financial analysis and other key areas. Specific areas of research include mobile communications technology, optic fiber transmission technology, next generation networks, cloud computing, big data, Internet of Things, broadband access, operation and service support systems and development of value-added services.

D. Trend Information.

Please also refer to our discussion in each section of “—Overview” and “—A. Operating Results” included elsewhere under this Item.

E. Off-Balance Sheet Arrangements

As of December 31, 2015, we did not have any off-balance sheet arrangements or guarantees.

F. Contractual Obligations and Commercial Commitments

The following table sets forth our contractual obligations as of December 31, 2015:

| | Payable in | | | | | | After 2020 |
|-----------------------------------------------|-------------------|---------------|---------------|--------------|--------------|--------------|---------------|
| | Total | 2016 | 2017 | 2018 | 2019 | 2020 | |
| | (RMB in millions) | | | | | | |
| Contractual Obligations⁽¹⁾: | | | | | | | |
| Short-term debt | 51,636 | 51,636 | — | — | — | — | — |
| Long-term debt and payable | 64,914 | 84 | 61,832 | 206 | 206 | 224 | 2,362 |
| Interest payable | 6,727 | 2,851 | 2,517 | 49 | 44 | 43 | 1,223 |
| Finance lease obligations | 119 | 38 | 41 | 40 | — | — | — |
| Operating lease commitments | 14,448 | 3,452 | 2,564 | 2,006 | 1,532 | 1,171 | 3,723 |
| Capital commitments | 10,148 | 10,148 | — | — | — | — | — |
| Total contractual obligations | <u>147,992</u> | <u>68,209</u> | <u>66,954</u> | <u>2,301</u> | <u>1,782</u> | <u>1,438</u> | <u>7,308</u> |

(1) See “Item 11. Quantitative and Qualitative Disclosures about Market Risk” for the contractual obligations relating to interest payments.

Item 6. Directors, Senior Management and Employees.

A. Directors and Senior Management

Directors and Senior Officers

Pursuant to our Articles of Association, our directors must be elected by our shareholders at a general meeting. Our directors are generally elected for a term of three years and may serve consecutive terms if re-elected. The term of office for the fifth session of the Board of Directors, or the Board, is three years, starting from May 29, 2014 until the date of the Company’s annual general meeting for the year 2016 to be held in 2017, upon which the sixth session of the Board will be elected.

On August 24, 2015, Mr. Wang Xiaochu resigned from his positions as the executive director, chairman and chief executive officer of the Company due to change in work arrangement.

On September 1, 2015, Mr. Chang Xiaobing was appointed as the chief executive officer of the Company. On October 23, 2015, the appointment of Mr. Chang Xiaobing as a director of the Company was approved at the extraordinary general meeting and the term of his office commences from October 23, 2015 until the annual general meeting of the Company for the year 2016 to be held in 2017. Mr. Chang was appointed by the Board as the chairman of the Company on the same date.

On December 30, 2015, Mr. Chang resigned from his positions as the executive director, chairman and chief executive officer of the Company. See “Item 3. Key Information—D. Risk Factors—We have experienced incidents of executive misconduct in the past, which could adversely impact our reputation, our business and the trading price of our securities.” in this annual report. Mr. Yang Jie, the executive director, president and chief operating officer of the Company, was approved by the Board on the same date to exercise the powers of the chairman and chief executive officer with effect from December 30, 2015 until new appointment is made by the Board.

On April 25, 2016, Mr. Yang Jie was appointed as the chairman and chief executive officer of the Company and the term of his office commences from April 25, 2016 until the annual general meeting of the Company for the year 2016 to be held in 2017. Mr. Yang Jie no longer held the offices of the president and chief operating officer of the Company. Mr. Yang Xiaowei was appointed as the president and chief operating officer of the Company on the same date and he no longer held the office of the executive vice president of the Company.

On November 1, 2015, Mr. Yung Shun Loy, Jacky resigned from his positions as the company secretary, authorised representative and the deputy chief financial officer of the Company.

The following table sets forth certain information concerning our current Directors and executive officers. The business address of each of our Directors and executive officers is 31 Jinrong Street, Xicheng District, Beijing, PRC 100033.

| <u>Name</u> | <u>Age</u> | <u>Position</u> |
|-----------------------|------------|-----------------------------------------------------------|
| Yang Jie | 53 | Executive Director, Chairman and Chief Executive Officer |
| Yang Xiaowei | 52 | Executive Director, President and Chief Operating Officer |
| Zhang Jiping | 60 | Executive Director and Executive Vice President |
| Sun Kangmin | 58 | Executive Director and Executive Vice President |
| Ke Ruiwen | 52 | Executive Director and Executive Vice President |
| Zhu Wei | 47 | Non-Executive Director |
| Tse Hau Yin, Aloysius | 68 | Independent Non-Executive Director |
| Cha May Lung, Laura | 66 | Independent Non-Executive Director |
| Xu Erming | 66 | Independent Non-Executive Director |
| Wang Hsuehming | 66 | Independent Non-Executive Director |
| Gao Tongqing | 52 | Executive Vice President |
| Chen Zhongyue | 44 | Executive Vice President |

Yang Jie, age 53, is an Executive Director, Chairman and Chief Executive Officer of the Company. Mr. Yang is a professor-level senior engineer. He graduated from the Beijing University of Posts and Telecommunications with a major in radio engineering in 1984 and obtained a doctorate degree in business administration (DBA) from the ESC Rennes School of Business in 2008. Mr. Yang served as Deputy Director General of Shanxi Posts and Telecommunications Administration, General Manager of Shanxi Telecommunications Corporation, Vice President of China Telecom Beijing Research Institute, General Manager of Business Department of the Northern Telecom of China Telecommunications Corporation, Executive Vice President, President and Chief Operating Officer of the Company, and Vice President and the President of China Telecommunications Corporation. He is also the Chairman of China Telecommunications Corporation. Mr. Yang has extensive experience in management and the telecommunications industry.

Yang Xiaowei, age 52, is an Executive Director, President and Chief Operating Officer of the Company. Mr. Yang is a senior engineer. He received a bachelor degree from the Computer Application Department of Chongqing University in 1998 and a master degree in engineering from the Management Engineering Department of Chongqing University in 2001. Mr. Yang was the Assistant to Director General and Deputy Director General of Chongqing Telecommunications Bureau, a Deputy Director General of the Chongqing Telecommunications Administration Bureau and a Director General of Chongqing Municipal Communication Administration Bureau. Mr. Yang served as General Manager of the Chongqing branch and the Guangdong branch of the Unicom Group, Vice President of the Unicom Group, Director of the Unicom Group, and Executive Director and Vice President of China Unicom Limited. Mr. Yang also served as Director and Vice President of China Unicom Corporation Limited, Chairman of Unicom Huasheng Telecommunications Technology Co. Ltd., Executive Vice President of the Company and Vice President of China Telecommunications Corporation. He is also the President of China Telecommunications Corporation. Mr. Yang has extensive experience in management and the telecommunications industry.

Zhang Jiping, age 60, is an Executive Director and Executive Vice President of the Company. Mr. Zhang is a professor-level senior engineer. He graduated from the Beijing University of Posts and Telecommunications with a bachelor degree in radio telecommunications engineering in 1982, studied in a postgraduate program in applied computer engineering at Northeastern Industrial University from 1986 to 1988, and received a doctorate degree in business administration from the Hong Kong Polytechnic University in 2004. Mr. Zhang served as Deputy Director General of Directorate General of Telecommunications (“DGT”) of the MPT, a Deputy Director General and Director of the Telecommunication Technology Centre of the Posts and Telecommunications Administration of Liaoning Province. He is also a Vice President of China Telecommunications Corporation and the Chairman of Supervisory Committee of China Tower Corporation Limited. Mr. Zhang has extensive experience in management and telecommunications industry.

Sun Kangmin, age 58, is an Executive Director and Executive Vice President of the Company. Mr. Sun is a senior engineer. He holds a bachelor degree. Mr. Sun served as Head of the Information Industry Department of Sichuan Province, Director General of Communication Administration Bureau of Sichuan Province, Chairman and General Manager of Sichuan Telecom Company Limited. He is also a Vice President of China Telecommunications Corporation, Chairman of the board of directors and an Executive Director of China Communications Services Corporation Limited and a Director of China Tower Corporation Limited. Mr. Sun has extensive experience in management and the telecommunications industry.

Ke Ruiwen, age 52, is an Executive Director and Executive Vice President of the Company. Mr. Ke obtained a doctorate degree in business administration (DBA) from the ESC Rennes School of Business. Mr. Ke served as Deputy Director General of Jiangxi Posts and Telecommunications Administration, Deputy General Manager of Jiangxi Telecom, Managing Director of the Marketing Department of the Company and China Telecommunications Corporation, General Manager of Jiangxi Telecom and Managing Director of the Human Resources Department of the Company and China Telecommunications Corporation. He is also a Vice President of China Telecommunications Corporation. Mr. Ke has extensive experience in management and the telecommunications industry.

Zhu Wei, age 47, is a Non-Executive Director of the Company. Mr. Zhu received his post-graduate diploma in political economy from Jinan University. Mr. Zhu is currently the Chairman of Guangdong Rising Assets Management Co., Ltd (one of the domestic shareholders of the Company). Mr. Zhu previously served as the Deputy Manager of the Issuing Department, director of the General Office, and Deputy Manager of the Research and Development Department of Guangzhou Securities Company of the People's Bank of China, Guangzhou Branch, Deputy General Manager of Guangzhou Securities Financial Consultancy Company, General Manager of Shenzhen Yuntong Xinda Communications Limited, assistant to the General Manager of Guangdong Technology Ventures Investment Company, General Manager of the Asset Management Department and Director of Guangdong Technology Venture Capital Group Company Limited, General Manager of Guangdong Kerui Investment Management Company, the Chairman of Guangdong Hongtu Technology (Holdings) Company Limited, Deputy Chairman and General Manager of Guangdong Southern Media Holdings Limited, and Deputy Director of Banking Supervision Department IV of the China Banking Regulatory Commission. Mr. Zhu has extensive experience in finance, securities and corporate management.

Tse Hau Yin, Aloysius, age 68, is an Independent Non-Executive Director of the Company. Mr. Tse is currently an Independent Non-Executive Director of CNOOC Limited, Daohe Global Group Limited (formerly known as Linmark Group Limited), Sinofert Holdings Limited, SJM Holdings Limited and China Huarong Asset Management Co., Ltd., all of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited ("HKSE Main Board"). Mr. Tse is also an Independent Non-Executive Director of OCBC Wing Hang Bank Limited (formerly known as "Wing Hang Bank Limited", which was listed on the HKSE Main Board until October 2014). He was an Independent Non-Executive Director of China Construction Bank Corporation, which is listed on the HKSE Main Board, from 2004 to 2010. Mr. Tse was appointed as an Independent Non-Executive Director of CCB International (Holdings) Limited, a wholly owned subsidiary of China Construction Bank Corporation in March 2013. He is also a member of the International Advisory Council of the People's Municipal Government of Wuhan. Mr. Tse is a fellow of the Institute of Chartered Accountants in England and Wales, and the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Mr. Tse is a past President and a former member of the Audit Committee of the HKICPA. He joined KPMG in 1976, became a partner in 1984 and retired in March 2003. Mr. Tse was a Non-Executive Chairman of KPMG's operations in China and a member of the KPMG China advisory board from 1997 to 2000. Mr. Tse is a graduate of the University of Hong Kong.

Cha May Lung, Laura, age 66, is an Independent Non-Executive Director of the Company. Mrs. Cha is currently a Hong Kong Delegate to the 12th National People's Congress, PRC, a Member of the Executive Council of the Government of the Hong Kong Special Administrative Region and Chairman of the Financial Services Development Council of Hong Kong. She is the Non-Executive Deputy Chairman of The Hongkong and Shanghai Banking Corporation, the Asia Pacific subsidiary of HSBC Holdings plc, of which she is also an Independent Non-Executive Director. She is a Non-Executive Director of Unilever, PLC and Unilever, N.V, Vice Chairman of the International Advisory Council of the China Securities Regulatory Commission ("CSRC"), and a Member of the International Advisory Council of the China Banking Regulatory Commission. Mrs. Cha served as Vice Chairman of CSRC from January 2001 to September 2004 and Assistant Director, Senior Director, Executive Director of Corporate Finance and Deputy Chairman of the Securities and Futures Commission of Hong Kong from 1991 to 2001. She received a Juris Doctor degree from Santa Clara University of USA in 1982.

Xu Erming, age 66, is an Independent Non-Executive Director of the Company. Professor Xu is a professor and Ph.D. supervisor of the Graduate School at the Renmin University of China and Vice Chairman of the Chinese Enterprise Management Research Association. He is entitled to the State Council's special government allowances. He is the Independent Supervisor of Harbin Electric Company Limited (formerly known as Harbin Power Equipment Company Limited). Over the years, Professor Xu has conducted research in areas related to strategic management, organizational theories, international management and education management, and has been responsible for research on many subjects put forward by the National Natural Science Foundation, the National Social Science Foundation, and other authorities at provincial and ministry level. He has received many awards such as the Ministry of Education's Class One Excellent Higher Education Textbook Award, the State-Level Class Two Teaching Award and the National Excellent Course Award. Professor Xu has been a visiting professor at over 10 domestic universities and has been awarded the Fulbright Scholar of U.S.A. twice. Professor Xu was previously a lecturer at the New York State University at Buffalo, U.S.A., the University of Scranton, U.S.A., the University of Technology, Sydney, the Kyushu University, Japan and the Hong Kong Polytechnic University.

Wang Hsuehming, age 66, is an Independent Non-Executive Director of the Company. Madam Wang graduated from the University of Massachusetts and attended Columbia University. She is currently a Senior Advisor and former Chairman of BlackRock China. She was also formerly the Chairman of China at Goldman Sachs Asset Management, having joined Goldman Sachs in 1994, became a partner in 2000 and an Advisory Director from 2010 to 2011. Ms. Wang served as a Director of The Paulson Institute. With nearly 30 years of experience in financial services, she participated in pioneering efforts in China's economic reform and restructuring, including serving as an advisor to the CAAC and its subsequent regional airlines on privatization and capital equipment financing.

Gao Tongqing, age 52, is an Executive Vice President of the Company. Mr. Gao graduated from the Changchun Institute of Posts and Telecommunications with a major in telecommunications engineering and received a doctorate degree in business administration from the Hong Kong Polytechnic University. Mr. Gao served as Deputy Director General of Xinjiang Uygur Autonomous Region Posts and Telecommunications Administration, Deputy General Manager and General Manager of Xinjiang Uygur Autonomous Region Telecom Company and General Manager of China Telecom Jiangsu branch. He is also a Vice President of China Telecommunications Corporation. Mr. Gao has extensive experience in management and the telecommunications industry.

Chen Zhongyue, age 44, is an Executive Vice President of the Company. Mr. Chen received a bachelor degree in English studies from Shanghai International Studies University and a master degree in international trade economy from Zhejiang University. Mr. Chen served as Deputy General Manager of China Telecom Zhejiang branch, Managing Director of the Public Customers Department of the Company and China Telecommunications Corporation and General Manager of China Telecom Shanxi branch. He is also a Vice President of China Telecommunications Corporation. Mr. Chen has extensive experience in management and the telecommunications industry.

There is no family relationship between any of our directors or executive officers.

Supervisors

The PRC Company Law requires a joint stock company with limited liability to establish a supervisory committee. Our supervisory committee has five Supervisors. Two members of our supervisory committee are employee representatives elected by our employees. The remaining members are appointed by shareholders at a general meeting. The term of office of our Supervisors is three years, which is renewable upon re-election or re-appointment. The term of office for the fifth session of our Supervisory Committee is three years, starting from May 29, 2014 until the date of the Company's annual general meeting for the year 2016 to be held in 2017, upon which the sixth session of the Supervisory Committee will be elected.

On May 27, 2015, Mr. Sui Yixun and Mr. Ye Zhong were approved to be appointed as supervisors of the Company at the annual general meeting of the Company for the year 2014. Their terms of office commence from May 27, 2015 until the annual general meeting of the Company for the year 2016 to be held in the year 2017.

The following table sets forth certain information concerning our current Supervisors:

| <u>Name</u> | <u>Age</u> | <u>Position</u> |
|---------------|------------|--------------------------------------|
| Sui Yixun | 52 | Supervisor (Chairman) |
| Tang Qi | 57 | Supervisor (Employee Representative) |
| Zhang Jianbin | 50 | Supervisor (Employee Representative) |
| Hu Jing | 40 | Supervisor |
| Ye Zhong | 56 | Supervisor |

Sui Yixun, aged 52, is the Chairman of the Supervisory Committee of the Company. Mr. Sui is currently the Managing Director of audit department of the Company and a Supervisor of Tianyi Telecom Terminals Company Limited. Mr. Sui received a bachelor degree from Beijing Institute of Posts and Telecommunications and a master degree in business administration from Tsinghua University. Mr. Sui served as Deputy General Manager of China Telecom Shandong branch, Deputy General Manager of the Northern Telecom of China Telecommunications Corporation and General Manager of China Telecom Inner Mongolia Autonomous Region branch. Mr. Sui is a senior economist and has extensive experience in operational and financial management in the telecommunications industry.

Tang Qi, age 57, is an Employee Representative Supervisor of the Company. Mr. Tang is currently the Senior President of the Shandong branch of the Company. Mr. Tang received a doctorate degree in business administration (DBA) from the Hong Kong Polytechnic University. Mr. Tang served as the Director of the marketing department of the Posts and Telecommunications Administration of Shandong province, Manager of the marketing department of China Telecommunications Corporation, General Manager of China Telecom Shandong branch, General Manager of China Telecom Chongqing branch and Vice Chairman of the Labour Union of China Telecommunications Corporation and the Company. Mr. Tang is a senior engineer and has extensive experience in operation and management in the telecommunications industry.

Zhang Jianbin, age 50, is an Employee Representative Supervisor of the Company. Mr. Zhang is currently the Deputy Managing Director of the Corporate Strategy Department (Legal Department) and the Deputy General Counsel of China Telecommunications Corporation. Mr. Zhang graduated from the Law School of Peking University in 1989 and received an LLM degree. He also had an EMBA degree from the Guanghua School of Management at Peking University in 2006. He previously worked at the Department of Policy and Regulation of the Ministry of Posts and Telecommunications (“MPT”) and the Directorate General of Telecommunications (“DGT”) of the MPT. He served as Deputy Director of the General Office and Deputy Director of the Legal Affairs Division of the DGT of the MPT, Director of the Corporate Strategy Department (Legal Department) of the Company. Mr. Zhang is a senior economist with extensive experience in telecommunications legislation and regulation, corporate governance, corporate legal affairs and risk management.

Hu Jing, age 40, is a Supervisor of the Company. Mr. Hu is currently the Director in the audit department of the Company. Mr. Hu received a bachelor degree in accounting from the Xi’an University of Finance and Economics in 1997 and a master degree in business administration from the Northwest University in 2003. Mr. Hu served at various financial and auditing positions at Shaanxi Telecom Company and China Telecommunications Corporation. He is a member of the Chinese Institute of Certified Public Accountants and senior accountant with extensive experience in finance and auditing.

Ye Zhong, aged 56, is a Supervisor of the Company. Mr. Ye is a senior accountant. He holds a bachelor degree. Mr. Ye is the Deputy General Manager of Zhejiang Financial Development Company (one of the domestic shareholders of the Company), Chairman and General Manager of Zhejiang Provincial Innovation and Development Investment Co. Ltd., Chairman and General Manager of Zhejiang Provincial Information Economy Investment Co. Ltd., Chairman of Zhejiang Venture Capital Fund of Funds Management Co. Ltd., Chairman of Zhejiang Financial Market Investment Co. Ltd. and Chairman and General Manager of Zhejiang Agricultural Investment and Development Fund Co., Ltd.. Mr. Ye served as Deputy Director of the Social Security Division of the Department of Finance of Zhejiang Province, Deputy Director of the Discipline Inspection Division and Director of Supervisory Office of the Department of Finance of Zhejiang Province delegated by the Discipline Inspection Commission and Department of Supervision of Zhejiang Province. Mr. Ye has extensive experience in government’s work and state-owned enterprise management.

B. Compensation

Compensation of Key Management Personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company and its subsidiaries, directly or indirectly, including directors, supervisors and executive vice presidents of the Company and its subsidiaries. The aggregate amount of compensation we paid to our key management personnel was approximately RMB10.775 million for the year ended December 31, 2015.

Our directors and supervisors receive compensation in the form of fees, salaries, allowances and benefits in kind, including our contribution to the pension plans for our directors and supervisors. The aggregate amount of compensation we paid to our directors and supervisors as a group for the year ended December 31, 2015 was approximately RMB7.298 million. The following table sets forth the compensation received or receivable by our Company’s directors and supervisors⁽¹⁾⁽²⁾:

| | <u>Directors’/ supervisors’ fees</u> | <u>Salaries, allowances and benefits in kind</u> | <u>Discretionary bonuses</u> | <u>Share-based payments</u> | <u>Retirement scheme contributions</u> | <u>Total</u> |
|--------------------------------|----------------------------------------------|--------------------------------------------------------------|----------------------------------|---------------------------------|------------------------------------------------|--------------|
| | RMB thousands | | | | | |
| 2015 | | | | | | |
| <i>Executive Directors</i> | | | | | | |
| Yang Jie | — | 160 | 426 | — | 84 | 670 |
| Yang Xiaowei | — | 136 | 378 | — | 79 | 593 |
| Zhang Jiping | — | 143 | 385 | — | 80 | 608 |
| Sun Kangmin | — | 143 | 378 | — | 80 | 601 |
| Ke Ruiwen | — | 136 | 378 | — | 75 | 589 |
| Wang Xiaochu ⁽³⁾ | — | 111 | 373 | — | 58 | 542 |
| Chang Xiaobing ⁽⁴⁾ | — | 53 | 53 | — | 27 | 133 |
| Wu Andi ⁽⁵⁾ | — | 34 | 284 | — | 24 | 342 |
| <i>Non-Executive Directors</i> | | | | | | |
| Zhu Wei | — | — | — | — | — | — |

| | <u>Directors'/ supervisors' fees</u> | <u>Salaries, allowances and benefits in kind</u> | <u>Discretionary bonuses</u> | <u>Share-based payments</u> | <u>Retirement scheme contributions</u> | <u>Total</u> |
|--------------------------------------------|----------------------------------------------|--------------------------------------------------------------|----------------------------------|---------------------------------|------------------------------------------------|--------------|
| | RMB thousands | | | | | |
| <i>Independent Non-Executive Directors</i> | | | | | | |
| Tse Hau Yin | 407 | — | — | — | — | 407 |
| Cha May Lung | 203 | — | — | — | — | 203 |
| Xu Erming | 200 | — | — | — | — | 200 |
| Wang Hsuehming | 203 | — | — | — | — | 203 |
| <i>Supervisors</i> | | | | | | |
| Sui Yixun ⁽⁶⁾ | — | 104 | 131 | — | 42 | 277 |
| Tang Qi | — | 184 | 450 | — | 68 | 702 |
| Zhang Jianbin | — | 166 | 438 | — | 68 | 672 |
| Hu Jing | — | 98 | 338 | — | 63 | 499 |
| Ye Zhong ⁽⁶⁾ | — | — | — | — | — | — |
| Shao Chunbao ⁽⁷⁾ | — | 23 | 22 | — | 12 | 57 |
| Du Zuguo ⁽⁸⁾ | — | — | — | — | — | — |
| Total | <u>1,013</u> | <u>1,491</u> | <u>4,034</u> | <u>—</u> | <u>760</u> | <u>7,298</u> |

(1) The remuneration of all Directors and Supervisors were calculated based on their respective actual terms of office within this year.

(2) The independent non-executive directors' remuneration were for their services as directors of the Company.

(3) Mr. Wang Xiaochu resigned as an executive director of the Company on August 24, 2015.

(4) Mr. Chang Xiaobing was appointed as an executive director of the Company on October 23, 2015 and resigned as an executive director of the Company on December 30, 2015.

(5) Madam Wu Andi retired as an executive director of the Company on February 10, 2015.

(6) Mr. Sui Yixun and Mr. Ye Zhong were appointed as supervisors of the Company on May 27, 2015.

(7) Mr. Shao Chunbao resigned as a supervisor of the Company on February 18, 2015.

(8) Mr. Du Zuguo resigned as a supervisor of the Company on March 12, 2015.

Discretionary Bonuses for Executive Directors

Compensation of our Executive Directors is determined pursuant to our director compensation plans thereof approved and adopted by the Board and the Remuneration Committee. Under the director compensation plan, Executive Directors receive discretionary bonuses subject to achievement of certain performance targets. The amounts of discretionary bonuses are reviewed and determined annually, with reference to certain financial indicators of the preceding year. Independent directors and non-executive directors do not receive any discretionary bonus.

Discretionary Bonuses for Employee Supervisors

Certain of our supervisors are also our employees. Such employee supervisors are entitled to receiving discretionary bonuses under our compensation policies that are generally applicable to all employees. The amounts of such discretionary bonuses are determined with reference to the performance of the department in which an employee serves as well as his or her individual performance. The amounts of discretionary bonuses are reviewed and determined annually, based on the review of performance in the preceding year. Non-employee supervisors do not receive any discretionary bonus from our Company.

Stock Appreciation Rights

We implemented a plan of stock appreciation rights for members of our management in order to provide further incentives for these employees. The plan is designed to link the financial interests of our senior management with our future results of operations and the performance of our H shares. The number of stock appreciation right units granted to a person may also be adjusted in accordance with the result of his or her performance evaluation. Under this plan, stock appreciation rights were granted in units with each unit representing one H share. No shares will be issued under the stock appreciation rights plan. Upon exercise of the stock appreciation rights, a recipient will receive, subject to any applicable withholding tax, a cash payment in Renminbi, translated from the Hong Kong dollar amount equal to the product of the number of stock appreciation rights exercised and the difference between the exercise price and market price of our Company's H shares at the date of exercise based on the applicable exchange rate between Renminbi and Hong Kong dollar at the date of the exercise.

In 2012, we approved the granting of 916.7 million stock appreciation right units to eligible employees. Under the terms of this grant, all stock appreciation rights will have a contractual life of five years from the date of grant and an exercise price of HK\$4.76 per unit. A recipient of these stock appreciation rights may exercise the rights in stages commencing November 2013. As of each of the third, fourth and fifth anniversary of the date of grant, the total number of stock appreciation rights exercisable may not in aggregate exceed 33.3%, 66.7% and 100.0%, respectively, of the total stock appreciation rights granted to such persons.

In 2013, we did not grant any stock appreciation right units.

In 2014, we did not grant any stock appreciation right units.

In 2015, we did not grant any stock appreciation right units.

During the year ended December 31, 2013, 2014 and 2015, no stock appreciation right units were exercised.

We recognize compensation expense of the stock appreciation rights over the applicable vesting period. Changes in our payment obligation under the stock appreciation rights plan resulting from changes in fair value of our H shares for the period subsequent to the vesting period through the date of the exercise are also reflected in our earnings. For the year ended December 31, 2013, compensation expense of RMB39 million was reversed by us in respect of stock appreciation rights as a result of decline in our share price. For the year ended December 31, 2014, compensation expense recognized in respect of stock appreciation rights was RMB130 million. For the year ended December 31, 2015, compensation expense of RMB102 million was reversed by us in respect of stock appreciation rights as a result of decline in our share price.

C. Board Practices

General

Pursuant to our Articles of Association, our directors must be elected by our shareholders at a general meeting. Our directors are generally elected for a term of three years and may serve consecutive terms if re-elected. On May 29, 2014, election of members of the Board were conducted and this election generated the fifth session of the Board consisting of 12 directors with seven Executive Directors, one Non-Executive Director, and four Independent Non-executive Directors, each having a term of office of three years. The term of the fifth session of the Board ends on the day of our annual general meeting for the year 2016 in 2017, upon which the sixth session of the Board will be elected. None of the service contracts with our directors provide benefits to them upon termination.

On August 24, 2015, Mr. Wang Xiaochu resigned from his position as the executive director, chairman and chief executive officer of the Company due to change in work arrangement. On October 23, 2015, the appointment of Mr. Chang Xiaobing as a director of the Company was approved at an extraordinary general meeting and the term of office commences from October 23, 2015 until the annual general meeting of the Company for the year 2016 to be held in 2017. On December 30, 2015, Mr. Chang Xiaobing resigned from his positions as the executive director, chairman and chief executive officer of the Company with effect from the same date. Our Board currently consists of 10 directors with five Executive Directors, one Non-Executive Director and four Independent Non-Executive Directors.

Audit Committee

The Audit Committee was established in 2002, and currently consists of three members, Mr. Tse Hau Yin, Aloysius, Professor Xu Erming and Madam Wang Hsuehming, all of whom are Independent Non-executive Directors. The Audit Committee is accountable to the Board and reports to it periodically. The Committee meets at least twice each year. The Charter of the Audit Committee was approved by our Board in March 2005 and amended in March 2009, in December 2011 and in March 2015, respectively, pursuant to which the principal responsibilities of our Audit Committee include supervision of our Company to ensure authenticity and completeness of our financial statements and effectiveness and integration of the internal control and risk management system. The Audit Committee also supervises our internal audit department, and is responsible for the review and supervision of the qualifications, independence, selection and appointment of external independent auditors, and approval of services provided by the external independent auditors. In addition, the Audit Committee is responsible for ensuring that the management performs its duty to establish and maintain an effective risk management and internal control system including the adequacy of resources and qualifications and experience of staff fulfilling the accounting, internal control and financial reporting function of the Company as well as the adequacy of the staff's training programs and related budget. The Audit Committee has established a mechanism for receiving and handling complaints or anonymous reports in respect of our accounting, internal control and audit matters.

In 2015, the Audit Committee held five meetings and passed two written resolutions, at which it considered matters within its responsibilities, including our Company's financial statements, assessment of the qualifications, independence and performance of external auditors, appointment and remuneration of independent auditors, effectiveness of risk management, internal control, internal audit, renewal of continuing connected transactions and revision of annual cap for the transactions. The Audit Committee reviewed the annual audited reports, interim review reports and quarterly agreed-upon procedures reports prepared by the external independent auditors, communicated with the management and the external independent auditors with regard to the regular financial reports and proposed them for the Board's approval after review and approval by the Audit Committee itself. The Audit Committee received quarterly reports in relation to the internal audit and connected transactions and provided guidance to the internal audit department. In addition, the Audit Committee reviewed the internal control assessment report and attestation report, followed up with the implementation procedures of the recommendations proposed by the external independent auditors, reviewed the U.S. annual report, and communicated independently with the auditors twice a year.

Remuneration Committee

The Remuneration Committee was established in 2003, and currently consists of three members, Professor Xu Erming, Mr. Tse Hau Yin, Aloysius and Madam Wang Hsuehming, all of whom are Independent Non-Executive Directors. The Remuneration Committee is accountable to the Board and reports to it on its work periodically. The Remuneration Committee meets when necessary. The Charter of the Remuneration Committee was approved by our Board in March 2005 and amended in December 2011, pursuant to which the Remuneration Committee's principal responsibilities include supervising the compliance of the Company's remuneration system with legal requirements, presenting the evaluation report on the Company's remuneration system to the Board, making recommendations to the Board on our overall remuneration policies and structure relating to compensation of directors and senior management and the establishment of a formal and transparent procedure for developing remuneration policy, and determining, with delegated responsibility by the Board, the remuneration packages of individual executive directors and senior management including benefits in kind, pension rights and compensation payments (including any compensation payable for loss or termination of their office or appointment).

The Remuneration Committee did not hold any meeting in 2015.

Nomination Committee

The Nomination Committee was established in 2005. It currently consists of three members, Ms. Cha May Lung, Laura, Mr. Tse Hau Yin, Aloysius and Professor Xu Erming, all of whom are Independent Non-Executive Directors. The Nomination Committee is accountable to the Board and regularly reports to the latter on its work. The Nomination Committee meets when necessary. The Charter of the Nomination Committee was approved by our Board in September 2005 and amended in December 2011 and August 2013, respectively, pursuant to which the Nomination Committee's principal responsibilities include reviewing the structure, size, composition and diversity (including but not limited to gender, age, educational background or professional experience, skills, knowledge and length of service) of the board on a regular basis and making recommendations to the board regarding any proposed changes; identifying individuals suitably qualified to become board members and selecting or making recommendations to the board on the selection of individuals nominated for directorships; assessing the independence of independent non-executive directors; making recommendations to the board on the appointment or re-appointment of directors and succession planning for directors; and reviewing the Board Diversity Policy as appropriate to ensure its effectiveness and if necessary, recommend any revision suggestions to the Board for consideration and approval.

The Nomination Committee held one meeting and passed two written resolutions in 2015, where it performed a review of the structure and operations of the Board and discussed the issue in relation to the appointment of Director and other related matters.

Independent Board Committee

The Independent Board Committee consists of all Independent Non-Executive Directors. Meetings of the Independent Board Committee are convened to review certain connected transactions on a case by case basis pursuant to the Listing Rules of the Hong Kong Stock Exchange.

The Independent Board Committee held one meeting in 2015, where it reviewed the renewal of and revised annual cap for continuing related party transactions and gave the relevant confirmation as well as submitted the recommendations on these matters to the independent shareholders.

D. Employees

General

As of December 31, 2015, we had 291,526 employees. The table below sets forth the numbers of our employees according to their functions as of December 31, 2013, 2014 and 2015:

| | As of December 31, | | | | | |
|----------------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | 2013 | | 2014 | | 2015 | |
| | Number of Employees | Percentage of Total | Number of Employees | Percentage of Total | Number of Employees | Percentage of Total |
| Management, finance and administrative | 49,113 | 16.0% | 49,180 | 16.3% | 43,998 | 15.1% |
| Sales and marketing | 157,915 | 51.5 | 154,456 | 51.3 | 151,448 | 51.9 |
| Operations and maintenance | 97,264 | 31.7 | 95,348 | 31.7 | 94,055 | 32.3 |
| Others | 2,253 | 0.8 | 1,976 | 0.7 | 2,025 | 0.7 |
| Total | <u>306,545</u> | <u>100.0%</u> | <u>300,960</u> | <u>100.0%</u> | <u>291,526</u> | <u>100.0%</u> |

We have implemented a short-term and long-term combined incentive remuneration scheme. The primary components of an employee's remuneration include basic salary, a performance based bonus, compensation based on seniority and stock appreciation rights (stock appreciation rights are exclusively for members of our management). In addition, we also emphasize the importance of employee training and use various means of training to improve the quality and capability of our key employees. We have not been subjected to any material labor disturbances that have interfered with our operations, and we believe that the relationship between our management and the labor union of our Company is good.

E. Share Ownership

As of December 31, 2015, none of our directors, supervisors or other senior executives was a legal or beneficial owner of any shares of our share capital.

Item 7. Major Shareholders and Related Party Transactions.

A. Major Shareholders

The table below sets forth information regarding the ownership of our share capital as of April 22, 2016 by all persons who are known to us to be the beneficial owners of 5.0% or more of each class of our voting securities.

| Title of Shares | Identity of Person or Group | Amount Owned | Nature of Interest | Percentage of the Respective Type of Shares ⁽¹⁾ | Percentage of Total Shares ⁽¹⁾ |
|-----------------|----------------------------------------------|----------------|--------------------|------------------------------------------------------------|-------------------------------------------|
| Domestic shares | China Telecom Group | 57,377,053,317 | long position | 85.57% | 70.89% |
| Domestic shares | Guangdong Rising Assets Management Co., Ltd. | 5,614,082,653 | long position | 8.37% | 6.94% |
| Title of Shares | Identity of Person or Group | Amount Owned | Nature of Interest | Percentage of the Respective Type of Shares ⁽¹⁾ | Percentage of Total Shares ⁽¹⁾ |
| H shares | JPMorgan Chase & Co. | 1,665,425,988 | long position | 12.00% | 2.06% |
| | | 26,856,748 | short position | 0.19% | 0.03% |
| | | 1,073,314,869 | lending pool | 7.73% | 1.33% |
| H shares | BlackRock, Inc. | 1,141,239,295 | long position | 8.22% | 1.41% |
| H shares | The Bank of New York Mellon Corporation | 834,090,669 | long position | 6.01% | 1.03% |
| | | 805,835,485 | lending pool | 5.81% | 1.00% |
| H shares | UBS Group AG | 794,738,122 | long position | 5.73% | 0.98% |
| | | 47,487,176 | short position | 0.34% | 0.06% |
| H shares | Templeton Investment Counsel, LLC | 694,050,154 | long position | 5.00% | 0.86% |

(1) The percentage figures above have been rounded off to the nearest second decimal place.

(2) Information disclosed hereby is based on the information available on the website of the Hong Kong Stock Exchange at www.hkexnews.hk.

China Telecom Group, located at 31 Jinrong Street, Xicheng District, Beijing, PRC 100033, is our controlling shareholder and is a wholly state-owned enterprise regulated by the State Council. Guangdong Rising Assets Management Co., Ltd., located at 17 Pearl River West Road, Pearl River New Town, Tianhe District, Guangzhou, Guangdong Province, PRC, is a state-owned enterprise owned and controlled by the provincial governments in Guangdong Province. JP Morgan Chase & Co. is located at 270 Park Avenue, New York, New York 10017, U.S.A. BlackRock, Inc. is located at 1209 Orange Street, Wilmington DE 19801. The Bank of New York Mellon Corporation is located at Corporate Trust Center 1209 Orange Street Wilmington, Delaware, 19801 USA. UBS Group AG is located at BAHNHOFSTRASSE 45 8001 Zurich Switzerland. Templeton Investment Counsel, LLC is located at 300 S.E. 2nd Street, Fort Lauderdale, FL, 33301, United States.

Based solely on information contained in an Amendment No. 9 to Schedule 13G, or the FRI Schedule 13G/A, jointly filed with the SEC, on February 4, 2016 by Franklin Resources, Inc., or FRI, Charles B. Johnson and Rupert H. Johnson, Jr., 1,552,402,519 shares of our Company, or the FRI Shares, representing approximately 11.2% of the total number of our H shares outstanding as of December 31, 2015, were beneficially owned either by investment companies that were direct or indirect subsidiaries of FRI or by other managed accounts that were investment management clients of investment managers that were direct or indirect subsidiaries of FRI. These subsidiaries of FRI were generally granted all investment and/or voting power over the FRI Shares owned and, as a result, may be deemed to be the beneficial owners of the FRI Shares for the purposes of Rule 13d-3 of the Exchange Act. Each of Charles B. Johnson and Rupert H. Johnson, Jr. owned in excess of 10% of the outstanding common stock of FRI and was a principal shareholder of FRI. Each of FRI, Charles B. Johnson and Rupert H. Johnson, Jr. could be deemed a beneficial owner of securities held by persons and entities for whom or for which the subsidiaries of FRI provided investment management services. However, each of FRI, Charles B. Johnson and Rupert H. Johnson, Jr. disclaims beneficial ownership of any of the FRI Shares. The principal place of business of each of FRI, Charles B. Johnson and Rupert H. Johnson, Jr., is One Franklin Parkway, San Mateo, CA 94403-1906, U.S.A. The above disclosure is based solely on the information contained in the FRI Schedule 13G/A. For the numbers of our H shares that each of the subsidiaries of FRI has sole power to vote or to direct the voting of, or sole power to dispose or to direct the disposition of, or shared power to dispose or to direct the disposition of, and other details of the FRI Schedule 13G/A, please see the Schedule 13G/A jointly filed with the SEC by FRI, Charles B. Johnson and Rupert H. Johnson, Jr. on February 4, 2016.

None of our major shareholders has voting rights that differ from the voting rights of other shareholders. We are not aware of any arrangement which may at a subsequent date result in a change of control of our Company.

B. Related Party Transactions

As of April 22, 2016, China Telecom Group, a wholly state-owned enterprise, directly owned and controlled 70.89% of our issued share capital. Accordingly, transactions between China Telecom Group and us constitute connected transactions under the Listing Rules.

In connection with our restructuring in 2001, our acquisitions of telecommunications assets from China Telecom Group on December 31, 2003 and June 30, 2004, respectively, our acquisition of the CDMA Business in 2008, the Mobile Network Acquisition in 2012, and our sale of E-surfing Media in 2013, we have entered into various agreements with China Telecom Group relating to the mutual provision of ongoing telecommunications and other services. Such agreements include those for trademark licensing, centralized services, interconnection arrangements, optic fiber leasing, property leasing, land use right leasing, CDMA network capacity leasing, CDMA facilities leasing, Internet applications channel services and other services.

Our Independent Non-Executive Directors have confirmed that all connected transactions for the year ended December 31, 2015 to which our Company was a party:

- had been entered into, and the agreements governing those transactions were entered into, by our Company in the ordinary and usual course of business;
- had been entered into either:
 - on normal commercial terms or better; or
 - if there were not sufficient comparable transactions to judge whether they were on normal commercial terms, on terms no less favorable to the Company than those available to or (if applicable) from independent third parties; and
- 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 details of the related party arrangements are described below.

Arrangements Relating to Certain Acquisitions

Indemnification

In connection with the acquisition of telecommunications assets from China Telecom Group by our Company, under the Sale and Purchase Agreement, dated October 26, 2003, between our Company and China Telecom Group, China Telecom Group has undertaken to indemnify Anhui Telecom Company Limited, Fujian Telecom Company Limited, Jiangxi Telecom Company Limited, Guangxi Telecom Company Limited, Chongqing Telecom Company Limited and Sichuan Telecom Company Limited for any loss or damages suffered by those companies as a result of, or related to, the reorganization of those companies under which China Telecom Group transferred to those companies the telecommunications operations of China Telecom Group in Anhui Province, Fujian Province, Jiangxi Province, Guangxi Zhuang Autonomous Region, Chongqing Municipality and Sichuan Province, and for any loss or damages suffered by those companies in connection with events preceding such reorganization.

In connection with the acquisition of telecommunications assets from China Telecom Group by our Company, under the Conditional Sale and Purchase Agreement, dated April 13, 2004, between our Company and China Telecom Group, China Telecom Group has undertaken to indemnify us and keep us indemnified against any loss or liability suffered by us or any acquired company including, but not limited to, any diminution in the value of the assets of or shares in any acquired company, any payment made or required to be made by us or any acquired company and any costs and expenses incurred as a result of or in connection with any claim falling on any acquired company resulting from or by reference to any income, profits or gains earned, accrued or received on or before the date of the acquisition or any event on or before the date of the acquisition whether alone or in conjunction with other circumstances and whether or not such taxation is chargeable against or attributable to any other person, firm or company.

Ongoing Related Party Transactions between Us and China Telecom Group

The following table sets out the amounts of ongoing related party transactions between us and China Telecom Group for the year ended December 31, 2015:

| Transactions | Transaction Amounts (RMB millions) |
|-------------------------------------------------------------------------------|---------------------------------------------------|
| Net transaction amount of centralized services | 486 |
| Net expenses for interconnection settlement | 409 |
| Lease of property from China Telecom Group | 673 |
| Lease of property to China Telecom Group | 47 |
| Provision of IT services by China Telecom Group | 1,365 |
| Provision of IT services to China Telecom Group | 181 |
| Provision of supplies procurement services by China Telecom Group | 5,288 |
| Provision of supplies procurement services to China Telecom Group | 2,855 |
| Provision of engineering services by China Telecom Group | 19,888 |
| Provision of community services by China Telecom Group | 2,860 |
| Provision of ancillary telecommunications services by China Telecom Group | 12,718 |
| Provision of Internet applications channel services to China Telecom Group | 368 |
| Interest on amounts due to and loans from China Telecom Group* | 4,048 |
| Lease of CDMA network facilities from China Telecom Group* | 226 |
| Lease of inter-provincial transmission optic fibers from China Telecom Group* | 22 |
| Lease of land use rights from China Telecom Group* | 13 |

* These transactions are conducted on normal commercial terms and are fully exempted from compliance with the reporting, announcement, independent shareholders' approval and/or annual review requirements either under Rules 14A.76 or 14A.90 of the Listing Rules.

Centralized Services Agreement

Pursuant to the centralized services agreement signed between the Company and China Telecommunications Corporation on September 10, 2002 and the related supplemental agreements subsequently entered into between the two parties (collectively, the “Centralized Services Agreement”), centralized services include centralized business management and operational services provided by the Company to China Telecommunications Corporation in relation to key corporate customers, its network management center and business support center. Centralized services also include the provision of certain premises by China Telecommunications Corporation to the Company and the common use of international telecommunications facilities by both parties. In accordance with the Centralized Services Agreement, the aggregate costs incurred by the Company and China Telecommunications Corporation for the provision of management and operation services will be apportioned between the Company and China Telecommunications Corporation on a pro rata basis according to the revenues generated by each party. Where the Company uses the premises provided by China Telecommunications Corporation, the Company will pay premises usage fees to China Telecommunications Corporation on a pro rata basis according to the apportioned actual area allocated to the Company. 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, such as restoration maintenance costs, the annual utilization 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 utilization fee each year. The utilization fee associated with the shared use of the international telecommunications facilities provided by China Telecommunications Corporation shall be determined through negotiation between the two parties based on market rates.

The Company and China Telecommunications Corporation agreed on August 22, 2012 to renew the Centralized Services Agreement in accordance with its provisions for a further term of three years expiring on December 31, 2015. No later than 30 days prior to the expiry of the Centralized Services Agreement, the Company is entitled to serve a written notice to China Telecommunications Corporation to renew the Centralized 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 September 10, 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 MIIT from time to time, which is currently RMB0.06 per minute. Interconnection charges are RMB0.06 per minute for local calls originated from the Company to China Telecommunications Corporation. The settlement regions include Beijing Municipality, Tianjin Municipality, Hebei Province, Heilongjiang Province, Jilin Province, Liaoning Province, Shanxi Province, Henan Province, Shandong Province, Inner Mongolia Autonomous Region and Xizang Autonomous Region.

The Company and China Telecommunications Corporation agreed on August 22, 2012 to renew the Interconnection Settlement Agreement in accordance with its provisions for a further term of three years expiring on December 31, 2015. No later than 30 days prior to the expiry of the Interconnection Settlement Agreement, the Company is entitled to serve a written notice to China Telecommunications Corporation to renew the Interconnection Settlement Agreement, and the parties shall consult and decide on matters relating to such renewal. In addition, the Company and China Telecommunications Corporation have agreed that interconnection settlement charges will be calculated according to the rules and regulations of the relevant telecommunications regulators. If the telecommunications regulators amend existing, or promulgate new rules or regulations in respect of the interconnection settlement, the parties shall apply such amended or new rules and regulations as acknowledged by both parties.

Property Leasing Framework Agreement

Pursuant to the property leasing framework agreement signed between the Company and China Telecommunications Corporation on August 30, 2006 and the related supplemental agreement subsequently entered into between the two parties (collectively, the “Property Leasing Framework Agreement”), the Company and China Telecommunications Corporation and/or its associates can lease properties from the other party for use as business premises, offices, equipment storage facilities and sites for network equipment. The rental charges under the Property Leasing Framework Agreement shall be determined according to market rates with reference to the standards set forth by local pricing authorities. The rental charges are subject to review every three years.

The Company and China Telecommunications Corporation agreed on August 22, 2012 to renew the Property Leasing Framework Agreement in accordance with its provisions for a further term of three years expiring on December 31, 2015. No later than 30 days prior to the expiry of the Property Leasing Framework Agreement, the Company is entitled to serve a written notice to China Telecommunications Corporation to renew the Property Leasing Framework Agreement, and the parties shall consult and decide on matters relating to such renewal.

IT Services Framework Agreement

Pursuant to the IT services framework agreement signed between the Company and China Telecommunications Corporation on August 30, 2006 and the related supplemental agreements subsequently entered into between the two parties (collectively, the "IT Services Framework Agreement"), the Company 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 Company 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 Company or China Telecommunications Corporation and/or its associates are no less favorable than those offered by an independent third-party provider, the Company or China Telecommunications Corporation and/or its associates may award the tender to the other party.

The Company and China Telecommunications Corporation agreed on August 22, 2012 to renew the IT Services Framework Agreement in accordance with its provisions for a further term of three years expiring on December 31, 2015. No later than 30 days prior to the expiry of the IT Services Framework Agreement, the Company is entitled to serve a written notice to China Telecommunications Corporation to renew the IT Services Framework Agreement, and the parties shall consult and decide on matters relating to such renewal.

Community Services Framework Agreement

Pursuant to the community services framework agreement signed between the Company and China Telecommunications Corporation on August 30, 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 Company 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 (if any), which are the prices at which the same type of services are provided by independent third parties in the ordinary course of business; or
- (4) where none of the above is applicable, the prices are to be agreed between the parties based on the reasonable costs incurred in providing the services plus reasonable profit margin (for this purpose, "reasonable costs" means such costs as confirmed by both parties after negotiations).

The Company and China Telecommunications Corporation agreed on August 22, 2012 to renew the Community Services Framework Agreement in accordance with its provisions for a further term of three years expiring on December 31, 2015. No later than 30 days prior to the expiry of the Community Services Framework Agreement, the Company is entitled to serve a written notice to China Telecommunications Corporation to renew the Community Services Framework Agreement, and the parties shall consult and decide on matters relating to such renewal.

Supplies Procurement Services Framework Agreement

Pursuant to the supplies procurement services framework agreement signed between the Company and China Telecommunications Corporation on August 30, 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 Company provide each other with supplies procurement services, including the 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-telecommunication supplies. The pricing basis of the services for the provision of supplies procurement other than on an agency basis under the Supplies Procurement Services Framework Agreement is the same as those set out in the Community Services Framework Agreement.

The Company and China Telecommunications Corporation agreed on August 22, 2012 to renew the Supplies Procurement Services Framework Agreement in accordance with its provisions for a further term of three years expiring on December 31, 2015. No later than 30 days prior to the expiry of the Supplies Procurement Services Framework Agreement, the Company is entitled to serve a written notice to China Telecommunications Corporation to renew the Supplies Procurement Services Framework Agreement, and the parties shall consult and decide on matters relating to such renewal.

Engineering Framework Agreement

Pursuant to the engineering framework agreement signed between the Company and China Telecommunications Corporation on August 30, 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 Company 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 does not accord any priority to China Telecommunications Corporation and/or its associates to provide such services, and the tender may be awarded to an independent third party. However, if the terms of an offer from China Telecommunications Corporation and/or its associates are at least as favourable as those offered by other tenderers, the Company may award the tender to China Telecommunications Corporation and/or its associates.

The Company and China Telecommunications Corporation agreed on August 22, 2012 to renew the Engineering Framework Agreement in accordance with its provisions for a further term of three years expiring on December 31, 2015. No later than 30 days prior to the expiry of the Engineering Framework Agreement, the Company is entitled to serve a written notice to China Telecommunications Corporation to renew the Engineering Framework Agreement, and the parties shall consult and decide on matters relating to such renewal.

Ancillary Telecommunications Services Framework Agreement

Pursuant to the ancillary telecommunications services framework agreement signed between the Company and China Telecommunications Corporation on August 30, 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 Company with certain repair and maintenance services, including repair of telecommunications equipment, maintenance of fire equipment and telephone booths, as well as other customer services. The pricing terms for such services are the same as those set out in the Community Services Framework Agreement.

The Company and China Telecommunications Corporation agreed on August 22, 2012 to renew the Ancillary Telecommunications Services Framework Agreement in accordance with its provisions for a further term of 3 years expiring on December 31, 2015. No later than 30 days prior to the expiry of the Ancillary Telecommunications Services Framework Agreement, the Company is entitled to serve a written notice to China Telecommunications Corporation to renew the Ancillary Telecommunications Services Framework Agreement, and the parties shall consult and decide on matters relating to such renewal.

Trademark License Agreement

China Telecommunications Corporation has registered a number of trademarks, and is in the process of registering other trademarks with the Trademark Office. Under the trademark license agreement, dated September 10, 2002, and the related supplemental agreements (collectively, the "Trademark License Agreement"), China Telecommunications Corporation has granted to the Company a right to use its registered trademarks and its trademarks pending registration on a royalty-free basis.

The Company and China Telecommunications Corporation agreed on August 22, 2012 to renew the Trademark License Agreement pursuant to its terms for a further term expiring on December 31, 2015. The Company may renew the Trademark License Agreement for such further periods as the parties may agree, by 30 days' written notification to China Telecommunications Corporation.

Optic Fiber Leasing Agreement

The Company leases from China Telecom Group the inter-provincial transmission optic fibers in Shanghai Municipality, Guangdong Province, Jiangsu Province and Zhejiang Province, which the Company's telecommunications services are dependent upon, under the Optic Fiber Leasing Agreement dated September 10, 2002 and the related supplemental agreements (collectively, the "Optic Fiber Leasing Agreement"). The rent payable by the Company to China Telecom Group to lease the relevant parts of the inter-provincial transmission optic fibers will be based on negotiations between the parties with reference to the market price. In addition, The Company agreed to be responsible for the maintenance of these optic fibers within those service regions.

The Company and China Telecommunications Corporation agreed on August 22, 2012 to renew the Optic Fiber Leasing Agreement pursuant to its terms for a further term expiring on December 31, 2015. The Company may renew the Optic Fiber Leasing Agreement for such further periods as the parties may agree, by 30 days' written notification to China Telecommunications Corporation.

Internet Applications Channel Services Framework Agreement

Pursuant to the Internet applications channel services framework agreement signed between the Company and China Telecommunications Corporation on December 16, 2013 (the "Internet Applications Channel Services Framework Agreement"), the Company will provide Internet applications channel services to China Telecommunications Corporation and/or its associates. The channel services mainly include the provision of telecommunications channel and applications support platform, provision of billing and deduction services, coordination of sales promotion and development of customers services, etc.

The charges payable for the services under the Internet Applications Channel Services Framework Agreement are calculated on the following basis:

- (1) the government-prescribed prices (if any);
- (2) where there are no government-prescribed prices but there are government-guided prices, the government-guided prices;
- (3) where there are neither government-prescribed prices nor government-guided prices, the market prices. Market prices shall mean the prices at which the same type of services are provided by independent third parties in the ordinary course of business; or
- (4) where none of the above is applicable, the prices are to be agreed between the parties based on the reasonable costs incurred in providing the services plus reasonable profit margin (for this purpose, "reasonable costs" means such costs as confirmed by both parties after negotiations).

The Internet Applications Channel Services Framework Agreement became effective from January 1, 2014 and will expire on December 31, 2015. No later than 30 days prior to the expiry of the Internet Applications Channel Services Framework Agreement, the Company is entitled to serve a written notice to China Telecommunications Corporation to renew the agreement, and the parties shall consult and decide on matters relating to such renewal.

Renewal of Continuing Connected Transactions

On September 23, 2015, the Company and the 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 Centralized Services Agreement, the Property Leasing Framework Agreement, the IT Services Framework Agreement, the Supplies Procurement Services Framework Agreement, the Internet Applications Channel Services Framework Agreement and the Optic Fiber Leasing Agreement on the same terms (except the pricing terms) for a further term of three years expiring on December 31, 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. The renewal of the Engineering Framework Agreement and the Ancillary Telecommunications Services Framework Agreement were approved at the second extraordinary general meeting of the Company on November 27, 2015. The Trademark License Agreement was renewed upon mutual consent on the same terms for a further term of three years expiring on December 31, 2018.

Our Acquisition from China Telecom Group of the CDMA Network Assets and Associated Liabilities

See “Item 4—Information on the Company—A. History and Development of the Company—Our Acquisition from China Telecom Group of the CDMA Network Assets and Associated Liabilities.”

Our Short Term Borrowings from China Telecom Group

We from time to time borrow short term unsecured loans from China Telecom Group to supplement our working capital needs. As of December 31, 2015, the aggregate outstanding principal amount of such loans was RMB12,098 million, which bear interest at fixed rates ranging from 3.5% to 4.5% per annum. See Note 16 to our audited financial statements included elsewhere in this report for details.

Our Sale of E-surfing Media

See “Item 4—Information on the Company—A. History and Development of the Company—Changes in Our Corporate Organization in 2013”.

Our Acquisition from China Telecommunications Corporation the 100% equity interest of China Telecom Europe

See “Item 4—Information on the Company—A. History and Development of the Company—Changes in Our Corporate Organization in 2013”.

Our Transfer of Assets to and Tower Usage Arrangements with the Tower Company

See “Item 4—Information on the Company—A. History and Development of the Company—Establishment of the Tower Company and the Disposal and Use of the Telecommunications Towers”.

C. Interests of Experts and Counsel

Not applicable.

Item 8. Financial Information.

A. Consolidated Statements and Other Financial Information

Our consolidated financial statements are set forth beginning on page F-1. No significant change has occurred since the date of the annual financial statements.

Legal Proceeding

We are the defendant in certain lawsuits and a named party in other legal proceedings arising in the ordinary course of business. While the outcomes of such contingencies, lawsuits or other legal proceedings cannot be determined at present, we believe that the outcomes of such contingencies, lawsuits or other legal proceedings will not likely result in any material adverse effect on our financial position, results of operations or cash flows.

Policy on Dividend Distributions

Pursuant to the shareholders’ approval at the annual general meeting held on May 27, 2015, a final dividend of RMB6,160 million (RMB0.076120 per share equivalent to HK\$0.095 per share, pre-tax) for the year ended December 31, 2014 was declared, all of which has been fully paid. Pursuant to a resolution passed at the Directors’ meeting on March 23, 2016, a final dividend of approximately RMB6,461 million (RMB0.079829 equivalent to HK\$0.095 per share, pre-tax) for the year ended December 31, 2015 was proposed for shareholders’ approval at the forthcoming annual general meeting.

The declaration and payment of dividends for years following 2015 will depend upon our financial results, our shareholders’ interests, general business conditions and strategies, our capital requirements, contractual restrictions on the payment of dividends by us to our shareholders or by our subsidiaries, if any, to us, possible effects on our creditworthiness and other factors our directors may deem relevant. Our Board will declare dividends, if any, in Renminbi with respect to our H shares on a per share basis and will pay such dividends in Hong Kong dollars. Any final dividend for a fiscal year will be subject to shareholders’ approval. Under the PRC Company Law and our Articles of Association, all of our shareholders have equal rights to dividends and distributions. The holders of our H shares will share proportionately on a per share basis in all dividends and other distributions declared by our Company.

The Bank of New York Mellon, as depositary, will convert the Hong Kong dollar dividend payment and distribute it to holders of ADSs in U.S. dollars, less related fees and expenses and any withholding tax.

Item 9. The Offer and Listing.

In connection with our initial public offering, our ADSs were listed and commenced trading on the NYSE on November 14, 2002 under the symbol “CHA.” Our H shares were listed and commenced trading on the Hong Kong Stock Exchange on November 15, 2002. Prior to these listings, there was no public market for our equity securities. The NYSE and the Hong Kong Stock Exchange are the principal trading markets for our ADSs and H shares, which are not listed on any other exchanges in or outside the United States.

As of December 31, 2015 and April 22, 2016, there were 13,877,410,000 H shares issued and outstanding. As of December 31, 2015 and April 22, 2016, there were, respectively, 53 and 49 registered holders of American depositary receipts evidencing 5,179,596 and 5,218,776 ADSs. Since certain of the ADSs are held by nominees, the above number may not be representative of the actual number of U.S. beneficial holders of ADSs or the number of ADSs beneficially held by U.S. persons. The depositary for the ADSs is The Bank of New York Mellon.

The high and low closing sale prices of the shares on the Hong Kong Stock Exchange and of the ADSs on the NYSE for the periods indicated are as follows.

| | <u>Price per Share (HK\$)</u> | | <u>Price per ADS (US\$)</u> | |
|-------------------------------------|-------------------------------|------------|-----------------------------|------------|
| | <u>High</u> | <u>Low</u> | <u>High</u> | <u>Low</u> |
| Annual | | | | |
| 2011 | 5.23 | 4.08 | 67.13 | 52.68 |
| 2012 | 4.91 | 3.29 | 63.48 | 42.05 |
| 2013 | 4.40 | 3.56 | 57.97 | 45.35 |
| 2014 | 5.17 | 3.15 | 66.61 | 40.35 |
| 2015 | 6.02 | 3.44 | 78.28 | 43.67 |
| Quarterly | | | | |
| Fourth Quarter, 2013 | 4.20 | 3.81 | 54.56 | 48.94 |
| First Quarter, 2014 | 3.86 | 3.15 | 49.16 | 40.35 |
| Second Quarter, 2014 | 4.19 | 3.45 | 53.73 | 44.70 |
| Third Quarter, 2014 | 5.17 | 3.88 | 66.61 | 49.17 |
| Fourth Quarter, 2014 | 5.04 | 4.31 | 64.79 | 55.30 |
| First Quarter, 2015 | 5.04 | 4.22 | 65.85 | 56.01 |
| Second Quarter, 2015 | 6.02 | 4.5 | 78.28 | 57.72 |
| Third Quarter, 2015 | 4.66 | 3.65 | 59.29 | 47.04 |
| Fourth Quarter, 2015 | 4.20 | 3.44 | 54.36 | 43.67 |
| First Quarter, 2016 | 4.10 | 3.31 | 52.57 | 43.00 |
| Monthly | | | | |
| October 2015 | 4.20 | 3.69 | 54.36 | 47.76 |
| November 2015 | 4.20 | 3.80 | 54.23 | 49.13 |
| December 2015 | 3.85 | 3.44 | 49.62 | 43.67 |
| January 2016 | 3.61 | 3.31 | 46.84 | 43.00 |
| February 2016 | 3.80 | 3.57 | 49.58 | 45.01 |
| March 2016 | 4.10 | 3.72 | 52.57 | 47.93 |
| April 2016 (through April 22, 2016) | 4.29 | 3.93 | 55.66 | 50.61 |

Item 10. Additional Information.

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

The following is a summary of certain provisions of our Articles of Association, as amended. Such summary does not purport to be complete. For further information, you and your advisors should refer to the text of our Articles of Association, as amended, and to the texts of applicable laws and regulations. A copy of our Articles of Association is filed as an exhibit to this annual report, which is incorporated herein by reference.

Holders of our domestic shares and H shares are deemed to be shareholders of different classes for various matters, which affect their respective interests. For instance, if we propose an increase in domestic shares, holders of H shares would be entitled to vote on that proposal as a separate class. See “—Voting Rights and Shareholders’ Meetings” included elsewhere under this Item.

Objects and Purposes

We are a joint stock limited company established in accordance with the PRC Company Law, the State Council’s Special Regulations Regarding the Issue of Shares Overseas and the Listing of Shares Overseas by Companies Limited by Shares and other relevant laws and regulations of the State. We registered with the PRC State Administration for Industry and Commerce with business license number 1000001003712. Article 13 of our Articles of Association provides that our scope of business includes, among other things, operation of basic and value-added telecommunications businesses.

Directors

Our Articles of Association provide that each of our directors is obligated to each shareholder to act honestly in our Company’s best interests; not to exploit corporate assets for personal gain; and not to expropriate the rights of our shareholders.

Where a director is materially interested, directly or indirectly, in a contract, transaction or arrangement (including any proposed contract, transaction or arrangement) with us, he or she shall declare the nature and extent of his or her interests to the Board at the earliest opportunity, whether or not such contract, transaction or arrangement is otherwise subject to the approval of the Board. A director shall not vote, and shall not be counted in the quorum of the meeting, on any resolution concerning any contract, transaction or arrangement where the director owns material rights or interests therein. A director is deemed to be interested in a contract, transaction or arrangement in which his associate (as defined in the Listing Rules of the Hong Kong Stock Exchange) is interested.

Unless the interested director discloses his interests to the board and the contract, transaction or arrangement in which the director is materially interested is approved by the board of directors at a meeting in which the director neither votes nor is counted in the quorum, such contract, transaction or arrangement may be revoked by us except with respect to a bona fide party thereto who does not have notice of the breach of duty by the interested director.

Further, we may not make loans or provide guarantees to directors or any of their associates, except where such loan or guarantee is made or provided under a service contract as approved by shareholders at the shareholders’ general meeting and to meet expenditure requirement incurred or for the purpose of enabling the director to perform his or her duties properly or made in the ordinary course of business.

All decisions relating to the compensation of directors are made at shareholders’ meetings.

There are no provisions under our articles of association which relate to:

- the retirement or non-retirement of directors under any age limit requirement;
- directors’ borrowing power; or
- number of shares required for director’s qualification.

Dividends

Our Board may propose dividend distributions at any time. Our Board may declare interim and special dividends under general authorization by a shareholders’ ordinary resolution. A distribution of final dividends for any fiscal year is subject to shareholders’ approval. Dividends may be distributed in the form of cash or shares. A distribution of shares, however, must be approved by special resolution of the shareholders.

We may only distribute dividends from our retained earnings as determined in accordance with the accounting principles of the PRC or IFRS, whichever is lower, after allowance has been made for:

- recovery of losses, if any;
- allocations to the statutory common reserve fund of 10.0% of our profit; and
- allocations to a discretionary common reserve fund if approved by the shareholders.

Our Articles of Association require us to appoint on behalf of the holders of H shares a receiving agent that is registered as a trust company under the Trustee Ordinance of Hong Kong to receive dividends declared by us in respect of the H shares on behalf of such shareholders. Our Articles of Association require that cash dividends in respect of H shares be declared in Renminbi and paid by us in Hong Kong dollars. The Bank of New York Mellon, as the ADS depository, will convert these proceeds into U.S. dollars and will remit the converted proceeds to holders of our ADSs after deduction of related fees and expenses and any withholding tax.

Dividends payments may be subject to the PRC withholding tax. See “—E. Taxation—People’s Republic of China—Taxation of Dividends” included elsewhere under this Item.

Voting Rights and Shareholders’ Meetings

Our Board will convene a shareholders’ annual general meeting once every year and within six months from the end of the preceding fiscal year. Our Board must convene an extraordinary general meeting within two months of the occurrence of any of the following events:

- where the number of directors is less than the number stipulated in the PRC Company Law or two-thirds of the number specified in our Articles of Association;
- where our unrecovered losses reach one-third of the total amount of our share capital;
- where shareholder(s) holding 10.0% or more of our issued and outstanding voting shares so request(s) in writing;
- whenever our Board deems necessary or our supervisory board so requests; or
- whenever two or more of our independent directors so request.

Resolutions proposed by shareholder(s) holding 5.0% or more of the total voting shares shall be included in the agenda for the relevant annual general meeting if they are within the functions and powers of shareholders in general meetings.

All shareholders’ meetings must be convened by our Board by written notice given to shareholders not less than 45 days before the meeting. We may convene a shareholders’ general meeting where the number of voting shares represented by those shareholders from whom we have received 20 days before the meeting notices of intention to attend the meeting reaches one half or more of our voting shares; or, if that number is not reached, we shall within five days notify the shareholders again of the matters proposed to be considered at the meeting, the date and the place of the meeting by way of public announcement. After such public announcement, we may hold the shareholders’ general meeting. The accidental omission by us to give notice of a meeting to, or the non-receipt of notice of a meeting by, a shareholder will not invalidate the proceedings at that shareholders’ meeting.

Shareholders at meetings have the power, among other matters, to approve or reject our profit distribution plans, annual budget, financial statements, increases or decreases in share capital, issuances of debentures, mergers, liquidation and any amendment to our Articles of Association. In addition, the rights of a class of shareholders may not be modified or abrogated, unless approved by a special resolution of shareholders at a general shareholders’ meeting and by a special resolution of shareholders of that class of shares at a separate meeting. Our Articles of Association enumerate various amendments which would be deemed to be a modification or abrogation of the rights of a class of shareholders, including, among others, increasing or decreasing the number of shares of a class disproportionate to increases or decreases of other classes of shares, removing or reducing rights to receive dividends in a particular currency or creating shares with voting or equity rights superior to those of shares of that class. There are no restrictions under PRC law or our Articles of Association on the ability of investors that are not PRC residents to hold H shares and exercise voting rights.

Each share is entitled to one vote on all matters submitted for vote at all shareholders’ meetings, except for meetings of a special class of shareholders where only holders of shares of the affected class are entitled to vote on the basis of one vote per share of the affected class.

Shareholders are entitled to attend and vote at meetings either in person or by proxy. Proxies must be in writing and deposited at our legal address or such other place as is specified in the meeting notice, not less than 24 hours before the time for holding the meeting at which the proxy proposes to vote or the time appointed for the passing of the relevant resolution(s). When the instrument appointing a proxy is executed by the shareholder’s attorney-in-fact, such proxy when deposited must be accompanied by a notary certified copy of the relevant power of attorney or other authority under which the proxy was executed.

Resolutions on any of the following matters must be approved by more than two-thirds of the voting rights held by shareholders who are present in person or by proxy:

- an increase or decrease in our share capital or the issuance of shares, warrants and other similar securities;
- issuance of debentures;
- our division, merger, dissolution or liquidation (shareholders who object to a proposed merger are entitled to demand that either we or the shareholders who approved the merger purchase their shares at a fair price);
- amendments to our Articles of Association;
- amendment of shareholders' rights of any class of shares; and
- any other matters determined by a majority of shareholders at a general meeting to have a material impact on us and which should be approved by two-thirds of the voting rights.

All other actions taken by the shareholders will be approved by a majority of the voting rights held by shareholders.

Any shareholder resolution that is in violation of any PRC laws or regulations or the Articles of Association will be null and void.

Liquidation Rights

In the event of our liquidation, the H shares will rank pari passu with the domestic shares, and any of our assets remaining after payment (in order of priority) of (a) the costs of liquidation (b) wages and social insurance fees payable to or for our employees, (c) outstanding taxes and (d) bank loans, and company bonds and other debts, will be divided among our shareholders in accordance with the class of shares and their proportional shareholdings.

Increases in Share Capital

Under our Articles of Association, issuance of new securities, including ordinary shares, securities convertible into ordinary shares, options, warrants or similar rights to subscribe for any ordinary shares or convertible securities, must be approved by two-thirds of all shareholders and two-thirds of each of the class of domestic shares and the H shares, respectively. No such approval is required if, but only to the extent that, we issue domestic shares and H shares, either separately or concurrently, in numbers not exceeding 20.0% of the number of domestic shares and H shares then outstanding, respectively, in any 12-month period, as already approved by two-thirds of all shareholders. New issues of shares must also be approved by relevant PRC authorities.

Shareholders are not liable to make any further contribution to the share capital other than according to the terms that were agreed upon by the subscriber of the relevant shares at the time of subscription.

Shareholders do not have preemptive rights with respect to new issues of shares of the Company.

Decrease in Share Capital and Repurchase

We may reduce our registered share capital only upon obtaining the approval of at least two-thirds of our shareholders and, in certain circumstances, of relevant PRC authorities. The number of H shares that may be repurchased is subject to the Hong Kong Codes on Takeovers and Mergers and Share Buy-backs.

Ownership Threshold

There are no provisions under our Articles of Association which relate to ownership thresholds above which shareholder ownership is required to be disclosed.

Restrictions on Large or Controlling Shareholders

Our Articles of Association define a controlling shareholder as any person who acting alone or in concert with others:

- is in a position to elect more than one-half of the Board;
- has the power to exercise, or to control the exercise of, 30.0% or more of our voting rights;
- holds 30.0% or more of our issued and outstanding shares; or
- has de facto control of us in any other way.

As of the date of this annual report, China Telecom Group, a wholly state-owned company, is our only controlling shareholder.

Our Articles of Association provide that, in addition to any obligation imposed by laws and administrative regulations or required by the Listing Rules, a controlling shareholder shall not exercise its voting rights in a manner prejudicial to the interests of all or some shareholders:

- to relieve a director or supervisor from his or her duty to act honestly in our best interests;
- to approve the appropriation by a director or supervisor (for his or her own benefit or for the benefit of any other person) of our assets in any way, including, without limitation, opportunities which may benefit us; or
- to approve the appropriation by a director or supervisor (for his or her own benefit or for the benefit of any other person) of the individual rights of any other shareholders, including, without limitation, rights to distributions and voting rights (except in accordance with a restructuring of our company which has been submitted for approval by the shareholders at a general meeting in accordance with our Articles of Association).

If a controlling shareholder exercises its voting rights in violation of the provisions set forth above, a shareholder can sue such controlling shareholder and enforce its rights through arbitration in the PRC or Hong Kong.

Sources of Shareholders' Rights

Currently, the primary sources of shareholders' rights are our Articles of Association, the PRC Company Law and the Listing Rules of the Hong Kong Stock Exchange that, among other things, impose certain standards of conduct, fairness and disclosure on us, our directors and our controlling shareholder. Our Articles of Association have incorporated the provisions set forth in the Mandatory Provisions for the Articles of Association of Companies Listed Overseas, or the Mandatory Provisions, adopted in 1994, pursuant to the requirement of the China Securities Regulatory Commission. Any amendment to those provisions will only become effective after approval by the relevant governmental department authorized by the State Council and the China Securities Regulatory Commission. The Listing Rules of the Hong Kong Stock Exchange require a number of additional provisions to the Mandatory Provisions to be included in our Articles of Association.

The listing agreement between us and the Hong Kong Stock Exchange provides that we may not amend certain provisions of our Articles of Association that have been mandated by the Hong Kong Stock Exchange. These provisions relate to:

- varying the rights of existing classes of shares;
- voting rights;
- our power to purchase our own shares;
- rights of minority shareholders; and
- liquidation procedures.

In addition, for so long as our H shares are listed on the Hong Kong Stock Exchange, we will be subject to the relevant ordinances, rules and regulations applicable to companies listed on the Hong Kong Stock Exchange, including, among other things, the Listing Rules of the Hong Kong Stock Exchange, the Securities & Futures Ordinance and the Hong Kong Codes on Takeovers and Mergers and Share Buy-backs.

Unless otherwise specified, all rights, obligations and protection discussed below are derived from our Articles of Association and the PRC Company Law.

Enforceability of Shareholders' Rights

Enforceability of our shareholders' rights may be limited. See "Item 3. Key Information—D. Risk Factors—Risks Relating to the People's Republic of China—The PRC legal system has inherent uncertainties that could limit the legal protections available to you."

Restrictions on Transferability and the Share Register

Under our Articles of Association, in order for any PRC shareholder to sell its domestic shares to persons outside the PRC who will receive H shares upon the sale, such sales must be approved by two-thirds of our domestic shareholders and H shareholders at duly convened meetings of domestic shareholders and H shareholders held separately and at a duly convened joint meeting of domestic shareholders and H shareholders. Such sales are also subject to approval by the State-Owned Assets Supervision and Administration Commission of the State Council, the China Securities Regulatory Commission and other relevant governmental authorities.

We are required to keep a register of our shareholders which shall be comprised of various parts, including one part which is to be maintained in Hong Kong in relation to holders of H shares. Shareholders have the right to inspect and, for a reasonable charge, to copy the share register. No transfers of ordinary shares shall be recorded in our share register within 30 days prior to the date of a shareholders' general meeting or within five days prior to the record date established for the purpose of distributing a dividend.

We have appointed Computershare Hong Kong Investor Services Limited to act as the registrar of our H shares. This registrar maintains our register of holders of H shares at our offices in Hong Kong and enters transfers of H shares in such register upon the presentation of the documents described above.

C. Material Contracts

See "Item 4. Information on the Company—A. History and Development of the Company" and "Item 7. Major Shareholders and Related Party Transactions—B. Related Party Transactions" for certain arrangements we have entered into with China Telecom Group and/or other entities.

D. Exchange Controls

We conduct our business primarily in Renminbi, which is also our functional and reporting currency. The Renminbi is not a fully-convertible currency. Under the existing PRC foreign exchange regulations, we will be able to pay dividends in foreign currencies without prior approval from the State Administration of Foreign Exchange by complying with certain procedural requirements. However, the PRC government may take measures at its discretion in the future to restrict access to foreign currencies for both current account transactions and capital account transactions if foreign currencies become scarce in the PRC. We may not be able to pay dividends in foreign currencies to our shareholders, including holders of our ADSs, if the PRC government restricts access to foreign currencies for current account transactions.

Foreign exchange transactions under our capital account, including foreign currency-denominated borrowings from foreign banks, issuance of foreign currency-denominated debt securities and principal payments in respect of foreign currency-denominated obligations, continue to be subject to significant foreign exchange controls and require the approval of the State Administration of Foreign Exchange. These limitations could affect our ability to obtain foreign exchange through debt or equity financing, or to obtain foreign exchange to meet our payment obligations under the debt securities or foreign exchange for capital expenditures.

There are no limitations on the right of non-resident or foreign owners to remit dividends or to hold or vote the ordinary shares or the ADSs imposed by Hong Kong law or by our Articles of Association or other constituent documents.

E. Taxation

The taxation of income and capital gains of holders of H shares or ADSs is subject to the PRC laws and practices and of jurisdictions in which holders of H shares or ADSs are resident or otherwise subject to tax. The following summary of certain relevant taxation provisions is based on current law and practice, is subject to change and does not constitute legal or tax advice.

The discussion does not deal with all possible tax consequences relating to an investment in the H shares or ADSs. In particular, the discussion does not address the tax consequences under state, local and other laws, such as non-U.S. federal laws. Accordingly, you should consult your own tax adviser regarding the tax consequences of an investment in the H shares and ADSs.

The discussion is based upon laws and relevant interpretations in effect as of the date of this annual report, all of which are subject to change.

People's Republic of China

The following is a summary of certain PRC tax provisions relating to the ownership and disposition of H shares or ADSs held by the investors as capital assets. This summary does not purport to address all material tax consequences of the ownership of H shares, and does not take into account the specific circumstances of any particular investors. This summary is based on the PRC tax laws as in effect on the date of this annual report, as well as on the Agreement between the United States of America and the PRC for the Avoidance of Double Taxation, or the PRC-US Treaty, all of which are subject to change (or changes in interpretation), possibly with retroactive effect.

This discussion does not address any aspects of PRC taxation other than income taxation, capital taxation, stamp taxation and estate taxation. Prospective investors are urged to consult their tax advisors regarding Chinese, Hong Kong and other tax consequences of owning and disposing of H shares.

Taxation of Dividends

Individual Investors. According to the PRC Individual Income Tax Law and its implementing regulations, dividends paid by PRC companies are ordinarily subject to a PRC withholding tax levied at a flat rate of 20.0%. For a foreign individual who is not a PRC resident, the receipt of dividends from a PRC company is normally subject to a withholding tax of 20.0% unless reduced by an applicable tax treaty. For example, Hong Kong and Macau individual residents are subject to a withholding tax of 10% on dividends paid to them. According to the Notice on Tax Policies for Shanghai-Hong Kong Stock Connect Pilot Program (Cai Shui [2014] No. 81), the Company shall withhold individual income tax at the rate of 20% with respect to dividends received by the mainland individual investors for investing in our H shares through the Southbound Trading Link. The tax levied on dividends derived from the investment by mainland securities investment funds in our H shares through the Southbound Trading Link shall be ascertained by reference to the rules applicable to the individual investors. We are not required to withhold income tax on dividends derived by the mainland enterprise investors through the Southbound Trading Link, and such enterprises shall report the income and make tax payment by themselves.

Enterprises. According to the EIT Law and its implementing regulations, dividends paid by a PRC company to a foreign enterprise which is a “non-resident enterprise,” which is established under the law of a non-PRC jurisdiction and has no establishment or residence in the PRC or whose dividends from the PRC do not relate to its establishment or residence in the PRC, are subject to a 10.0% tax, unless reduced by an applicable tax treaty. A resident enterprise, including an enterprise which is established under the law of a non-PRC jurisdiction but whose “de facto management body” is located in the PRC, is not subject to any PRC withholding tax with respect to dividends paid to it by a PRC company.

Tax Treaties. Investors who do not reside in the PRC and reside in countries that have entered into double-taxation treaties with the PRC may be entitled to a reduction of the withholding tax imposed on the payment of dividends to investors of our Company who do not reside in the PRC. The PRC currently has double-taxation treaties with a number of other countries, which include:

- Australia;
- Canada;
- France;
- Germany;
- Japan;
- Malaysia;
- the Netherlands;
- Singapore;
- the United Kingdom; and
- the United States.

Under the PRC-US Treaty, the PRC may tax a dividend paid by us to an Eligible U.S. Holder up to a maximum of 10.0% of the gross amount of such dividend. It is arguable that under the PRC-US Treaty, the PRC may only tax gains from the sale or disposition by an Eligible U.S. Holder of H shares or ADSs representing an interest in the Company of 25.0% or more, but this position is uncertain and the PRC authorities may take a different position. For the purposes of this discussion, an “Eligible U.S. Holder” is a U.S. holder that (i) is a resident of the United States for the purposes of the PRC-US Treaty, (ii) does not maintain a permanent establishment or fixed base in the PRC to which H shares or ADSs are attributable and through which the beneficial owner carries on or has carried on business (or, in the case of an individual, performs or has performed independent personal services) and (iii) is not otherwise ineligible for benefits under the PRC-US Treaty with respect to income and gains derived in connection with the H shares or ADSs.

Taxation of Capital Gains

With respect to individual holders of H shares or ADSs, the PRC Individual Income Tax Law and its implementation regulations stipulate that gains realized on the sale of equity shares would be subject to income tax at a rate of 20.0%, and empower the MOF to draft detailed tax rules on the mechanism for collecting such tax subject to approval of the State Council. However, as of the date of this annual report, no such tax rules have been enacted and no income tax on gains realized on the sale of equity shares has been collected. Gains on the sale of shares issued by listed companies by individuals were temporarily exempted from individual income tax pursuant to notices issued by the State Administration of Taxation dated March 30, 1998. In the event this temporary exemption is withdrawn or ceases to be effective, individual holders of H shares or ADSs may be subject to capital gains tax at the rate of 20.0% unless such tax is reduced or eliminated by an applicable double-taxation treaty. If tax on capital gains from the sale of H shares or ADSs become applicable, it is arguable that under the PRC-US Treaty, the PRC may only tax gains from the sale or disposition by an Eligible U.S. Holder of H shares or ADSs representing an interest in our Company of 25.0% or more, but this position is uncertain and the PRC authorities may take a different position.

Under the EIT Law and its implementing regulations, capital gains realized by a foreign enterprise which is a “non-resident enterprise” upon the sale of the overseas-listed shares of a PRC company are subject to a 10.0% tax, unless reduced by an applicable double-taxation treaty. Capital gains realized by a resident enterprise, including an enterprise which is established under the law of a non-PRC jurisdiction but whose “de facto management body” is located in the PRC, are subject to the PRC enterprise income tax.

Additional PRC Tax Considerations

PRC Stamp Duty. PRC stamp duty imposed on the transfer of shares of PRC publicly traded companies under the PRC Provisional Regulations Concerning Stamp Duty, or the Provisional Regulations, should not apply to the acquisition and disposal by non-PRC investors of H shares or ADSs outside of the PRC by virtue of the Provisional Regulations, which became effective on October 1, 1988 and which provide that PRC stamp duty is imposed only on documents executed or received within the PRC that are legally binding in the PRC and are protected under PRC law.

Estate Tax. No liability for estate tax under PRC law will arise from non-PRC nationals holding H shares or ADSs.

Hong Kong

Tax on Dividends

Under the current practice of the Hong Kong Inland Revenue Department, no tax is payable in Hong Kong in respect of dividends paid by us.

Profits

No tax is imposed in Hong Kong in respect of capital gains from the sale of H shares. Trading gains from the sale of shares by persons carrying on a trade, profession or business in Hong Kong where such gains are derived from or arise in Hong Kong from such trade, profession or business will be chargeable to Hong Kong profits tax, which is currently (for the year of assessment 2008-2009 onwards) imposed at the rate of 16.5% on corporations and 15.0% on unincorporated businesses. Gains from sales of H shares effected on the Hong Kong Stock Exchange will be considered to be derived from or arise in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales of H shares realized by persons carrying on a business of trading or dealing in securities in Hong Kong. There is no tax treaty in effect between the United States and Hong Kong, and the PRC-US Treaty does not apply to Hong Kong.

There will be no liability for Hong Kong profits tax in respect of profits from the sale of ADSs, where purchases and sales of ADSs are effected outside Hong Kong, e.g., on the NYSE.

Stamp Duty

Hong Kong stamp duty will be payable by the purchaser on every purchase and by the seller on every sale of H shares registered on the Hong Kong branch register. The duty is charged at the ad valorem rate of 0.1% of the consideration for, or (if greater) the value of, the H shares transferred on each of the seller and the purchaser. In other words, a total 0.2% is currently payable on a typical sale and purchase transaction of H shares. In addition, a fixed duty of HK\$5 is currently payable on any instrument of transfer of shares.

The withdrawal of H shares upon the surrender of American Depositary Receipts, or ADRs, and the issuance of ADRs upon the deposit of H shares, will also attract stamp duty at the rate described above for sale and purchase transactions unless such withdrawal or deposit does not result in a change in the beneficial ownership of the H shares under Hong Kong law. The issuance of the ADRs upon the deposit of H shares issued directly to the Depository, as depository of the ADSs, or for the account of the Depository, will not be subject to any stamp duty. No Hong Kong stamp duty is payable upon the transfer of ADSs outside Hong Kong.

Estate Duty

No Hong Kong estate duty is currently payable.

United States

Material United States Federal Income Taxation

This section describes the material United States federal income tax consequences to a U.S. holder of the acquisition, ownership and disposition of H shares or ADSs. It applies to you only if you hold your H shares or ADSs as capital assets for United States federal income tax purposes. This section does not apply to you if you are a member of a special class of holders subject to special rules, including:

- a dealer in securities or currencies;
- a trader in securities that elects to use a mark-to-market method of accounting for your securities holdings;
- a tax-exempt organization;
- an insurance company;
- a person liable for alternative minimum tax;
- a person that actually or constructively owns 10.0% or more of our voting stock;
- a person that holds H shares or ADSs as part of a straddle or a hedging or conversion transaction;
- a person that purchases or sells shares or ADSs as part of a wash sale for tax purposes; or
- a person whose functional currency is not the U.S. dollar.

This section is based on the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations, published rulings and court decisions, all as currently in effect, as well as the PRC-US Treaty. These laws are subject to change, possibly on a retroactive basis. In addition, this section is based in part upon the representations of the Depository and the assumption that each obligation in the deposit agreement and any related agreement will be performed in accordance with its terms.

You are a U.S. holder if you are a beneficial owner of H shares or ADSs and you are:

- a citizen or resident of the United States;
- a domestic corporation;
- an estate whose income is subject to United States federal income tax regardless of its source; or
- a trust if a United States court can exercise primary supervision over the trust's administration and one or more United States persons are authorized to control all substantial decisions of the trust.

If a partnership holds the H shares or ADSs, the United States federal income tax treatment of a partner will generally depend on the status of the partner and the tax treatment of the partnership. If you hold the H shares or ADSs as a partner in a partnership you should consult your tax advisor with regard to the United States federal income tax treatment of an investment in the H shares or ADSs.

You should consult your own tax advisor regarding the United States federal, state and local tax consequences of owning and disposing of H shares and ADSs in your particular circumstances.

In general, and taking into account the earlier assumptions, for United States federal income tax purposes, if you hold ADRs evidencing ADSs, you will be treated as the owner of H shares represented by those ADSs. Exchanges of H shares for ADRs, and ADRs for H shares, generally will not be subject to United States federal income tax.

Taxation of Dividends

Under the United States federal income tax laws, and subject to the passive foreign investment company, or PFIC, rules discussed below, if you are a U.S. holder, the gross amount of any dividend we pay out of our current or accumulated earnings and profits (as determined for United States federal income tax purposes) is subject to United States federal income taxation. If you are a noncorporate U.S. holder, dividends that constitute qualified dividend income will be taxable to you at the preferential rates applicable to long-term capital gains, provided that you hold H shares or ADSs for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date and meet other holding period requirements. Dividends we pay with respect to H shares or ADSs generally will be qualified dividend income.

You must include any PRC tax withheld from the dividend payment in this gross amount even though you do not in fact receive it. The dividend is taxable to you when you, in the case of H shares, or the depository, in the case of ADSs, receive the dividend, actually or constructively. The dividend will not be eligible for the dividends-received deduction generally allowed to United States corporations in respect of dividends received from other United States corporations. Subject to certain limitations, the PRC tax withheld and paid over to the PRC will be creditable or deductible against your United States federal income tax liability. To the extent a refund of the tax withheld is available under PRC law, the amount of tax withheld that is refundable will not be creditable against your United States federal income tax liability. Special rules apply in determining the foreign tax credit limitation with respect to dividends that are subject to the preferential tax rates.

The amount of the dividend distribution that you must include in your income as a U.S. holder will be the U.S. dollar value of the Hong Kong dollar payments made, determined at the Hong Kong dollar/U.S. dollar spot rate on the date the dividend distribution is includible in your income, regardless of whether the payment is in fact converted into U.S. dollars. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date you include the dividend payment in income to the date you convert the payment into U.S. dollars will be treated as ordinary income or loss and will not be eligible for the preferential tax rates applicable to qualified dividend income. The gain or loss generally will be income or loss from sources within the United States for foreign tax credit limitation purposes. Distributions in excess of current and accumulated earnings and profits, as determined for United States federal income tax purposes, will be treated as a non-taxable return of capital to the extent of your basis in the H shares or ADSs and thereafter as capital gain. However, we do not expect to calculate earnings and profits in accordance with United States federal income tax principles. Accordingly, you should expect to generally treat distributions we make as dividends.

For foreign tax credit purposes, dividends will generally be income from sources outside the United States and will, depending on your circumstances, be either “passive” or “general” income for purposes of computing the foreign tax credit allowable to you.

Taxation of Capital Gains

Subject to the PFIC rules discussed below, if you are a U.S. holder and you sell or otherwise dispose of your H shares or ADSs, you will recognize capital gain or loss for United States federal income tax purposes equal to the difference between the U.S. dollar value of the amount that you realize and your tax basis, determined in U.S. dollars, in your H shares or ADSs. Capital gain of a noncorporate U.S. holder is generally taxed at preferential rates where the property is held for more than one year. The gain or loss will generally be income or loss from sources within the United States for foreign tax credit limitation purposes. Your ability to deduct capital losses is subject to limitations.

However, under the U.S.-PRC Treaty, if PRC tax were to be imposed on any gain from the disposition of your H shares or ADSs (as discussed above in “People’s Republic of China — Taxation of Capital Gains”) in accordance with the U.S.-PRC Treaty, then such gain will generally be treated as PRC source income. If you are an Eligible U.S. Holder (as defined above), subject to certain limitations, any such PRC tax will be creditable against your United States federal income tax liability. U.S. holders should consult their tax advisors regarding the tax consequences if a PRC tax were to be imposed on a disposition of H shares or ADSs, including the availability of the foreign tax credit under your particular circumstances.

Hong Kong Stamp Duty

Any Hong Kong stamp duty that you pay will not be a creditable tax for United States federal income tax purposes, but you may be able to deduct such stamp duty subject to limitations under the Code.

PFIC Rules

We believe that H shares and ADSs should not be treated as stock of a PFIC for United States federal income tax purposes, but this conclusion is a factual determination that is made annually and thus may be subject to change. If we were to be treated as a PFIC, gain realized on the sale or other disposition of your H shares or ADSs would in general not be treated as capital gain. Instead, unless you elect to be taxed annually on a mark-to-market basis with respect to your H shares or ADSs, you would be treated as if you had realized such gain and certain “excess distributions” ratably over your holding period for the H shares or ADSs and would generally be taxed at the highest tax rate in effect for each such year to which the gain was allocated, together with an interest charge in respect of the tax attributable to each such year. With certain exceptions, your H shares or ADSs will be treated as stock in a PFIC if we were a PFIC at any time during your holding period in your H shares or ADSs. Dividends that you receive from us will not be eligible for the special tax rates applicable to qualified dividend income if we are a PFIC (or are treated as a PFIC with respect to you) either in the taxable year of the distribution or the preceding taxable year, but instead will be taxable at rates applicable to ordinary income.

F. Dividends and Paying Agents.

Not applicable.

G. Statement by Experts.

Not applicable.

H. Documents on Display

You may read and copy documents referred to in this annual report on Form 20-F that have been filed with the SEC, at its public reference room located at 450 Fifth Street, NW, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms and their copy charges. The SEC also maintains a website at <http://www.sec.gov> that contains reports, proxy statements and other information regarding registrants that file electronically with the SEC.

The SEC allows us to “incorporate by reference” the information we file with the SEC. This means that we can disclose important information to you by referring you to another document filed separately with the SEC. The information incorporated by reference is considered to be part of this annual report on Form 20-F.

I. Subsidiary Information

Not applicable.

Item 11. Quantitative and Qualitative Disclosures about Market Risk.

Our primary market risk exposures are fluctuations in exchange rates and interest rates.

Foreign Exchange Rate Risk

We conduct our business primarily in Renminbi, which is also our functional and reporting currency. The Renminbi is not a fully-convertible currency. The value of the Renminbi against the U.S. dollar and other foreign currencies fluctuates and is affected by, among other things, changes in the PRC’s and international political and economic conditions. Since 1994, the conversion of Renminbi into foreign currencies, including Hong Kong and U.S. dollars, has been based on rates set by the People’s Bank of China, which are set daily based on the previous business day’s inter-bank foreign exchange market rates and current exchange rates on the world financial markets. From 1994 to July 20, 2005, the official exchange rate for the conversion of Renminbi to U.S. dollars was generally stable. On July 21, 2005, the PRC government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. In April 2012, the PRC government expanded the floating band of Renminbi trading prices against the U.S. dollar in the inter-bank spot foreign currency exchange market from 0.5% to 1.0%. Fluctuations in exchange rates may adversely affect the value, translated or converted into United States dollars or Hong Kong dollars, of our net assets, earnings and any declared dividends. We cannot give any assurance that any future movements in the exchange rate of the Renminbi against the United States dollar or other foreign currencies will not adversely affect our results of operations and financial condition. See “Item 3. Key Information—D. Risk Factors—Risks Relating to the People’s Republic of China—Government control of currency conversion may adversely affect our financial condition” and “—Fluctuation of the Renminbi could materially affect our financial condition, results of operations and cash flows.”

The following tables provide information regarding our financial instruments that are sensitive to foreign exchange rates as of December 31, 2015 and 2014, respectively. For debt obligations, the tables present principal cash flows and related weighted average interest rates by expected maturity dates.

As of December 31, 2015:

| | Expected Maturity | | | | | | Total | Fair Value |
|--------------------------------------|-----------------------------------------------------|------|------|------|------|------------|-------|------------|
| | 2016 | 2017 | 2018 | 2019 | 2020 | Thereafter | | |
| | (RMB equivalent in millions, except interest rates) | | | | | | | |
| Assets: | | | | | | | | |
| Cash and cash equivalents | | | | | | | | |
| United States dollars | 1,873 | — | — | — | — | — | 1,873 | 1,873 |
| Japanese yen | 28 | — | — | — | — | — | 28 | 28 |
| Euro | 48 | — | — | — | — | — | 48 | 48 |
| Hong Kong dollars | 142 | — | — | — | — | — | 142 | 142 |
| Other currencies | 279 | — | — | — | — | — | 279 | 279 |
| Short-term bank deposits | | | | | | | | |
| United States dollars | 287 | — | — | — | — | — | 287 | 287 |
| Other currencies | 3 | — | — | — | — | — | 3 | 3 |
| Liabilities: | | | | | | | | |
| Debts in Japanese yen | | | | | | | | |
| Fixed rate | — | — | — | — | — | — | — | — |
| Average interest rate | — | — | — | — | — | — | — | — |
| Debts in United States dollars | | | | | | | | |
| Fixed rate | 50 | 50 | 50 | 50 | 47 | 223 | 470 | 407 |
| Average interest rate | 1.2% | 1.2% | 1.2% | 1.2% | 1.2% | 1.2% | | |
| Variable rate | — | — | — | — | — | — | — | — |
| Average interest rate ⁽¹⁾ | — | — | — | — | — | — | — | — |
| Debts in Euro | | | | | | | | |
| Fixed rate | 30 | 30 | 24 | 24 | 24 | 129 | 261 | 236 |
| Average interest rate | 2.3% | 2.3% | 2.3% | 2.3% | 2.3% | 2.3% | | |
| Variable rate | — | — | — | — | — | — | — | — |
| Average interest rate ⁽¹⁾ | — | — | — | — | — | — | — | — |
| Debts in other currencies | | | | | | | | |
| Fixed rate | 4 | 5 | — | — | — | — | 9 | 9 |
| Average interest rate ⁽¹⁾ | 3% | 3% | — | — | — | — | — | — |

⁽¹⁾ The average interest rates for variable rate debts are calculated based on the rates reported as of December 31, 2015.

As of December 31, 2014:

| | Expected Maturity | | | | | | Total | Fair Value |
|-----------------------------------------------------|-------------------|------|------|------|------|------------|-------|------------|
| | 2015 | 2016 | 2017 | 2018 | 2019 | Thereafter | | |
| (RMB equivalent in millions, except interest rates) | | | | | | | | |
| Assets: | | | | | | | | |
| Cash and cash equivalents | | | | | | | | |
| United States dollars | 845 | — | — | — | — | — | 845 | 845 |
| Japanese yen | 39 | — | — | — | — | — | 39 | 39 |
| Euro | 26 | — | — | — | — | — | 26 | 26 |
| Hong Kong dollars | 172 | — | — | — | — | — | 172 | 172 |
| Other currencies | 327 | — | — | — | — | — | 327 | 327 |
| Short-term bank deposits | | | | | | | | |
| United States dollars | 218 | — | — | — | — | — | 218 | 218 |
| Japanese yen | — | — | — | — | — | — | — | — |
| Liabilities: | | | | | | | | |
| Debts in Japanese yen | | | | | | | | |
| Fixed rate | — | — | — | — | — | — | — | — |
| Average interest rate | — | — | — | — | — | — | — | — |
| Debts in United States dollars | | | | | | | | |
| Fixed rate | 46 | 46 | 46 | 47 | 47 | 259 | 491 | 414 |
| Average interest rate | 1.2% | 1.2% | 1.2% | 1.2% | 1.2% | 1.2% | 1.2% | 1.2% |
| Variable rate | — | — | — | — | — | — | — | — |
| Average interest rate ⁽¹⁾ | — | — | — | — | — | — | — | — |
| Debts in Euro | | | | | | | | |
| Fixed rate | 30 | 31 | 31 | 24 | 24 | 209 | 349 | 304 |
| Average interest rate | 2.3% | 2.3% | 2.3% | 2.3% | 2.3% | 2.3% | 2.3% | 2.3% |
| Variable rate | — | — | — | — | — | — | — | — |
| Average interest rate ⁽¹⁾ | — | — | — | — | — | — | — | — |
| Debts in other currencies | | | | | | | | |
| Fixed rate | 5 | 5 | 5 | — | — | — | 15 | 15 |
| Average interest rate ⁽¹⁾ | 3.0% | 3.0% | 3.0% | — | — | — | — | — |

⁽¹⁾ The average interest rates for variable rate debts are calculated based on the rates reported as of December 31, 2014.

Interest Rate Risk

The People's Bank of China has the sole authority in the PRC to establish the official interest rates for Renminbi-denominated loans. Financial institutions in the PRC set their effective interest rates within the range established by the People's Bank of China. Interest rates and payment methods on loans denominated in foreign currencies are set by financial institutions based on interest rate changes in the international financial market, cost of funds, risk levels and other factors.

We are exposed to interest rate risk resulting from fluctuations in interest rates on our short-term and long-term debts. Increases in interest rates will increase the cost of new borrowing and the interest expense with respect to outstanding floating rate debt. As of December 31, 2014 and 2015, our debt consisted of fixed and variable rate debt obligations with maturities from 2015 to 2060 and from 2016 to 2060, respectively.

The following tables present cash flows and related weighted average interest rates by expected maturity dates of our interest rate sensitive financial instruments as of December 31, 2014 and 2015, respectively.

As of December 31, 2015:

| | Expected Maturity | | | | | | Total | Fair Value |
|-----------------------------------------------------|-------------------|--------|------|------|------|------------|--------|------------|
| | 2016 | 2017 | 2018 | 2019 | 2020 | Thereafter | | |
| (RMB equivalent in millions, except interest rates) | | | | | | | | |
| Liabilities: | | | | | | | | |
| Debits in Renminbi | | | | | | | | |
| Fixed rate | 50,806 | 37 | 132 | 132 | 153 | 3,050 | 54,310 | 53,372 |
| Average interest rate | 3.0% | 1.1% | 1.1% | 1.1% | 1.1% | 1.1% | | |
| Variable rate | 830 | 61,710 | — | — | — | — | 62,540 | 62,768 |
| Average interest rate ⁽¹⁾ | 4.8% | 4.0% | — | — | — | — | | |
| Debits in Japanese yen | | | | | | | | |
| Fixed rate | — | — | — | — | — | — | — | — |
| Average interest rate | — | — | — | — | — | — | | |
| Debits in United States dollars | | | | | | | | |
| Fixed rate | 50 | 50 | 50 | 50 | 47 | 223 | 470 | 407 |
| Average interest rate | 1.2% | 1.2% | 1.2% | 1.2% | 1.2% | 1.2% | | |
| Variable rate | — | — | — | — | — | — | — | — |
| Average interest rate ⁽¹⁾ | — | — | — | — | — | — | | |
| Debits in Euro | | | | | | | | |
| Fixed rate | 30 | 30 | 24 | 24 | 24 | 129 | 261 | 236 |
| Average interest rate | 2.3% | 2.3% | 2.3% | 2.3% | 2.3% | 2.3% | | |
| Variable rate | — | — | — | — | — | — | — | — |
| Average interest rate ⁽¹⁾ | — | — | — | — | — | — | | |
| Debits in other currencies | | | | | | | | |
| Fixed rate | 4 | 5 | — | — | — | — | 9 | 9 |
| Average interest rate ⁽¹⁾ | 3% | 3% | — | — | — | — | | |

As of December 31, 2014:

| | Expected Maturity | | | | | | Total | Fair Value |
|-----------------------------------------------------|-------------------|------|--------|------|------|------------|--------|------------|
| | 2015 | 2016 | 2017 | 2018 | 2019 | Thereafter | | |
| (RMB equivalent in millions, except interest rates) | | | | | | | | |
| Liabilities: | | | | | | | | |
| Debits in Renminbi | | | | | | | | |
| Fixed rate | 43,157 | — | — | — | — | 10 | 43,167 | 43,164 |
| Average interest rate | 5.1% | — | — | — | — | 7.9% | | |
| Variable rate | 820 | — | 61,710 | — | — | — | 62,530 | 62,765 |
| Average interest rate ⁽¹⁾ | 5.6% | — | 5.1% | — | — | — | | |
| Debits in Japanese yen | | | | | | | | |
| Fixed rate | — | — | — | — | — | — | — | — |
| Average interest rate | — | — | — | — | — | — | | |
| Debits in United States dollars | | | | | | | | |
| Fixed rate | 46 | 46 | 46 | 47 | 47 | 259 | 491 | 414 |
| Average interest rate | 1.2% | 1.2% | 1.2% | 1.2% | 1.2% | 1.2% | | |
| Variable rate | — | — | — | — | — | — | — | — |
| Average interest rate ⁽¹⁾ | — | — | — | — | — | — | | |
| Debits in Euro | | | | | | | | |
| Fixed rate | 30 | 31 | 31 | 24 | 24 | 209 | 349 | 304 |
| Average interest rate | 2.3% | 2.3% | 2.3% | 2.3% | 2.3% | 2.3% | | |
| Variable rate | — | — | — | — | — | — | — | — |
| Average interest rate ⁽¹⁾ | — | — | — | — | — | — | | |
| Debits in other currencies | | | | | | | | |
| Fixed rate | 5 | 5 | 5 | — | — | — | 15 | 15 |
| Average interest rate ⁽¹⁾ | 3.0% | 3.0% | 3.0% | — | — | — | | |

⁽¹⁾ The average interest rates for variable rate debts are calculated based on the rates reported as of December 31, 2014.

Item 12. Description of Securities Other than Equity Securities.

The Bank of New York Mellon, as the depository of our ADSs, collects its fees for delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal. The depository collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The depository may generally refuse to provide fee-attracting services until its fees for those services are paid.

ADR holders must pay:

- US\$5.00 (or less) per 100 ADRs (or portion thereof)
- US\$0.02 (or less) per ADR
- Registration or transfer fees (if applicable)
- Expenses of the depository
- Taxes and other governmental charges the depository or the custodian has to pay on any ADR or share underlying an ADR, for example, stock transfer taxes, stamp duty or withholding taxes
- Any other charge incurred by the depository or its agents (including the custodian) for servicing of the deposited securities

For:

- Each issuance of an ADR, including as a result of a distribution of shares or rights or other property
- Each cancellation of an ADR, including if the deposit agreement terminates
- Each distribution of securities, other than shares or ADRs, treating the securities as if they were shares for purpose of calculating fees
- Any cash distribution (not including cash dividend distribution)
- Transfer and registration of shares on the share register of our transfer agent and the registrar in Hong Kong from an ADR holder's name to the name of the depository or its agent when the ADR holder deposit or withdraw shares
- Conversion of foreign currency to U.S. dollars
- Cable, telex and facsimile transmission expenses
- As necessary
- As necessary

The Bank of New York Mellon has agreed to reimburse us annually for our expenses incurred in connection with administration and maintenance of the depository receipt facility. The amount of such reimbursements is subject to certain conditions and limits. From April 23, 2015 to April 22, 2016, with respect to certain expenses incurred by us in connection with our depository facility, including listing and legal fees and expenses related to our attendance at the annual ADR training seminar, we received from the Bank of New York Mellon a total of US\$45,000 reimbursement, net of withholding tax. The Bank of New York Mellon also waived certain costs of US\$130,351.42 in connection with the administration of the ADR program and other services provided to our registered shareholders for the year 2015.

PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies.

None.

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds.

Material Modifications to the Rights of Security Holders

None.

Use of Proceeds

Not applicable.

Item 15. Controls and Procedures.***Disclosure Controls and Procedures***

Our management, with the participation of the person exercising the power of chief executive officer and the person performing the functions of the principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of the end of the period covered by this annual report. Based on this evaluation, the person exercising the power of chief executive officer and the person performing the functions of the principal financial officer have concluded that, as of the end of the fiscal year covered by this annual report, our disclosure controls and procedures were designed, and were effective, to give reasonable assurance that the information required to be disclosed by us in reports that we file under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and were also effective to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including the person exercising the power of chief executive officer and the person performing the functions of the principal financial officer, to allow timely decisions regarding required disclosure.

Management's Report on Internal Control Over Financial Reporting.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) and Rule 15d-15(f) under the Exchange Act. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of management and/or our Board; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As of December 31, 2015, our management, with the participation of the person exercising the power of chief executive officer and the person performing the functions of the principal financial officer, conducted an evaluation of the effectiveness of the internal control over financial reporting based on the framework in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2015.

The effectiveness of our internal control over financial reporting as of December 31, 2015 has been audited by Deloitte Touche Tohmatsu, an independent registered public accounting firm, as stated in their report which is included herein.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of China Telecom Corporation Limited:

We have audited China Telecom Corporation Limited and subsidiaries' internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The management of China Telecom Corporation Limited and subsidiaries is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on China Telecom Corporation Limited and subsidiaries' internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of effectiveness of the internal control over financial reporting to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, China Telecom Corporation Limited and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of China Telecom Corporation Limited and subsidiaries as of and for the year ended December 31, 2015, and our report dated March 23, 2016 expressed an unqualified opinion on those financial statements.

/s/ Deloitte Touche Tohmatsu

Deloitte Touche Tohmatsu
Hong Kong, the People's Republic of China

March 23, 2016

Changes in Internal Control Over Financial Reporting

During the fiscal year ended December 31, 2015, there was no change to our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 16A. Audit Committee Financial Expert.

Our Audit Committee currently consists of three members, Mr. Tse Hau Yin, Aloysius, Professor Xu Erming and Madam Wang Hsuehming. They are all independent non-executive directors. See "Item 6. Directors, Senior Management and Employees—C. Board Practices—Audit Committee," Our Board has determined that Mr. Tse Hau Yin, Aloysius, our independent non-executive director, is qualified as an "audit committee financial expert," as defined in Item 16A of Form 20-F.

Item 16B. Code of Ethics.

We have adopted a code of ethics that applies to our chief executive officer, chief financial officer, controller and other senior officers of our Company. We have filed this code of ethics as an exhibit to our annual report for the fiscal year ended December 31, 2003 and we hereby incorporate that exhibit into this annual report. The text of this code of ethics is also posted on our Internet website at <http://www.chinatelecom-h.com/eng/company/pdf/gaoguan.pdf>.

Item 16C. Principal Accountant Fees and Services.

The following table sets forth the aggregate audit fees, audit-related fees, tax fees of our principal accountants and all other fees billed for products and services provided by our principal accountants other than the audit fees, audit-related fees and tax fees for each of the fiscal years 2014 and 2015:

| | <u>Audit Fees (including VAT)</u> | <u>Audit-Related Fees</u> | <u>Tax Fees</u> | <u>Other Fees</u> |
|------|---------------------------------------|--------------------------------|--------------------------------|--------------------------------|
| 2014 | RMB66.01 million | RMB1.07 million | RMB1.96 million | RMB3.00 million |
| 2015 | RMB68.80 million | RMB1.27 million ⁽¹⁾ | RMB0.45 million ⁽²⁾ | RMB0.15 million ⁽³⁾ |

(1) Audit-related fees in the amount of RMB1.27 million were paid for the advisory services provided to us regarding our internal control.

(2) Tax fees in the amount of RMB0.45 million were paid for profit tax filing assistance service.

(3) Other fees in the amount of RMB0.15 million were paid for other advisory service.

Before our principal accountants were engaged by our Company or our subsidiaries to render audit or non-audit services, the engagements were approved by our Audit Committee.

Item 16D. Exemptions from the Listing Standards for Audit Committees.

Not applicable.

Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers.

None.

Item 16F. Change in Registrant's Certifying Accountant.

Not applicable.

Item 16G. Corporate Governance.

Our Company was incorporated under the PRC laws on September 10, 2002 as a joint stock company with limited liability. Our H shares are listed on the Hong Kong Stock Exchange. Our ADSs are listed on the NYSE. As a foreign private issuer, we are not required to comply with all the corporate governance rules of Section 303A of the Listed Company Manual of the NYSE. However, we are required to disclose the significant ways in which our corporate governance practices differ from those followed by U.S. domestic companies under the listing standards of the NYSE.

Pursuant to the requirements of the Listed Company Manual of the NYSE, the Board of Directors of all U.S. domestic companies listed on the NYSE must have a majority of independent directors. Under currently applicable PRC and Hong Kong laws and regulations, our Board is not required to have a majority of independent directors. Under the Listing Rules, at least one third of the board of directors and at least three directors of a listed company shall be independent non-executive directors. Our Board currently consists of 10 directors, of which four are independent directors, representing over one third of the total number of directors on our Board. These independent directors satisfy the requirements on "independence" under the Listing Rules, which, however differ from the requirements of Section 303A.02 of the Listed Company Manual of the NYSE.

Pursuant to the requirements of the Listed Company Manual of the NYSE, U.S. domestic companies whose securities are listed on the NYSE shall formulate corporate governance rules. Pursuant to the currently applicable PRC and Hong Kong laws and regulations, we are not required to formulate any rules for corporate governance. Therefore, our Company has not formulated any separate corporate governance rules. However, our Company has implemented the Corporate Governance Code of the Hong Kong Stock Exchange for the year ended December 31, 2015.

Item 16H. Mine Safety Disclosure.

Not applicable.

Item 17. Financial Statements.

We have elected to provide the financial statements and related information specified in Item 18 in lieu of Item 17.

Item 18. Financial Statements.

See Index to Financial Statements for a list of all financial statements filed as part of this annual report.

Item 19. Exhibits.

- (a) See Item 18 for a list of the financial statements filed as part of this annual report.
- (b) Exhibits to this annual report:

| <u>Exhibits</u> | <u>Description</u> |
|-----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1.1 | Articles of Association (as amended) (English translation) |
| 2.1 | Form of H Share Certificate. ⁽¹⁾ |
| 2.2 | Form of Deposit Agreement among the Registrant, The Bank of New York, as depository, and Owners and Beneficial Owners from time to time of American Depositary Shares evidenced by American Depositary Receipts issued thereunder, including the form of American Depositary Receipt. ⁽²⁾ |
| 2.3 | We agree to provide the Securities and Exchange Commission, upon request, copies of instruments defining the rights of holders of our long-term debt. |
| 4.1 | Supplemental Trademark License Agreement, dated October 26, 2003, between the Registrant and China Telecommunications Corporation (English translation). ⁽³⁾ |
| 4.2 | Sale and Purchase Agreement, dated October 26, 2003, between the Registrant and China Telecommunications Corporation (English translation). ⁽³⁾ |
| 4.3 | Supplemental Connected Transactions Agreement, dated October 26, 2003, between the Registrant and China Telecommunications Corporation (English translation). ⁽³⁾ |
| 4.4 | Form of Underwriting Agreement. ⁽⁴⁾ |
| 4.5 | Supplemental Trademark License Agreement, dated April 13, 2004, between the Registrant and China Telecommunications Corporation (English translation). ⁽⁵⁾ |
| 4.6 | Supplemental Connected Transactions Agreement, dated April 13, 2004, between the Registrant and China Telecommunications Corporation (English translation). ⁽⁶⁾ |
| 4.7 | Conditional Sale and Purchase Agreement, dated April 13, 2004, between the Registrant and China Telecommunications Corporation (English translation). ⁽⁷⁾ |
| 4.8 | Supplemental Conditional Sale and Purchase Agreement, dated June 9, 2005, between the Registrant and China Telecommunications Corporation (English summary). ⁽⁸⁾ |
| 4.9 | Supplemental Centralized Services Agreement, dated December 15, 2005, between the Registrant and China Telecommunications Corporation (English summary). ⁽⁹⁾ |
| 4.10 | Property Leasing Framework Agreement, dated August 30, 2006, between the Registrant and China Telecommunications Corporation (English summary). ⁽¹⁰⁾ |
| 4.11 | IT Services Framework Agreement, dated August 30, 2006, between the Registrant and China Telecommunications Corporation (English summary). ⁽¹⁰⁾ |
| 4.12 | Equipment Procurement Services Framework Agreement, dated August 30, 2006, between the Registrant and China Telecommunications Corporation (English summary). ⁽¹⁰⁾ |
| 4.13 | Engineering Framework Agreement, dated August 30, 2006, between the Registrant and China Telecommunications Corporation (English summary). ⁽¹⁰⁾ |
| 4.14 | Community Services Framework Agreement, dated August 30, 2006, between the Registrant and China Telecommunications Corporation (English summary). ⁽¹⁰⁾ |

| <u>Exhibits</u> | <u>Description</u> |
|-----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 4.15 | Ancillary Telecommunications Service Framework Agreement, dated August 30, 2006, between the Registrant and China Telecommunications Corporation (English summary). ⁽¹⁰⁾ |
| 4.16 | Strategic Agreement, dated August 30, 2006, between the Registrant and China Communications Services Corporation Limited (English summary). ⁽¹⁰⁾ |
| 4.17 | Supplemental Agreement to the Strategic Agreement, dated June 15, 2007, between the Registrant and the China Communications Services Corporation Limited (English Summary). ⁽¹⁰⁾ |
| 4.18 | Supplemental Agreement to the Strategic Agreement, dated October 29, 2009, between the Registrant and the China Communications Services Corporation Limited (English Summary). ⁽¹³⁾ |
| 4.19 | Master Agreement for sales and purchase of equity interests in China Telecom (Hong Kong) International Limited, China Telecom System Group Integration Co., Ltd. and China Telecom (USA) Corporation, dated June 15, 2007, between China Telecommunications Corporation and China Telecom Corporation Limited. ⁽¹⁰⁾ |
| 4.20 | Stock Purchase Agreement in respect of sales and purchase of shares in China Telecom (USA) Corporation, dated June 15, 2007, between China Telecommunications Corporation and China Telecom Corporation Limited. ⁽¹⁰⁾ |
| 4.21 | Share Purchase Agreement in respect of sales and purchase of shares in China Telecom (Hong Kong) International Limited, dated June 15, 2007, between China Telecommunications Corporation and China Telecom Corporation Limited. ⁽¹⁰⁾ |
| 4.22 | Share Transfer Agreement in respect of transfer of shareholdings in China Telecom System Integration Co., Limited, dated June 15, 2007, among China Telecommunications Corporation, China Huaxin Post and Telecommunications Economy Development Center and China Telecom Corporation Limited. ⁽¹⁰⁾ |
| 4.23 | Agreement on the Transfer of the Entire Equity Interests in China Telecom Group Beijing Corporation, dated March 31, 2008, between the Registrant and China Telecommunications Corporation (English Translation). ⁽¹¹⁾ |
| 4.24 | Form Merger Agreement, dated January 10, 2008, between the Registrant and each of certain subsidiaries wholly owned by the Registrant (English Translation). ⁽¹¹⁾ |
| 4.25 | Supplemental Agreement to the Centralized Services Agreement, dated December 26, 2007, between the Registrant and China Telecommunications Corporation (English Summary). ⁽¹¹⁾ |
| 4.26 | Supplemental Agreement to the Centralized Services Agreement, dated March 31, 2008, between the Registrant and China Telecommunications Corporation (English Summary). ⁽¹¹⁾ |
| 4.27 | Framework Agreement for Transfer of CDMA Business, dated June 2, 2008, among the Registrant, China Unicom Limited and China Unicom Corporation Limited (English Summary). ⁽¹¹⁾ |
| 4.28 | Supplemental Agreement to the Interconnection Settlement Agreement, dated July 27, 2008, between the Registrant and China Telecommunications Corporation (English summary). ⁽¹²⁾ |
| 4.29 | Supplemental Agreement to the IT Services Framework Agreement, dated December 15, 2008, between the Registrant and China Telecommunications Corporation (English summary). ⁽¹²⁾ |
| 4.30 | Supplemental Agreement to the Supplies Procurement Services Framework Agreement, dated December 15, 2008, between the Registrant and China Telecommunications Corporation (English summary). ⁽¹²⁾ |
| 4.31 | Supplemental Agreement to the Engineering Framework Agreement, dated July 27, 2008, between the Registrant and China Telecommunications Corporation (English summary). ⁽¹²⁾ |
| 4.32 | Supplemental Agreement to the Community Services Framework Agreement, dated December 15, 2008, between the Registrant and China Telecommunications Corporation (English summary). ⁽¹²⁾ |
| 4.33 | Supplemental Agreement to the Ancillary Telecommunications Services Framework Agreement, dated July 27, 2008, between the Registrant and China Telecommunications Corporation (English summary). ⁽¹²⁾ |
| 4.34 | CDMA Network Capacity Lease Agreement, dated July 27, 2008, between the Registrant and China Telecommunications Corporation (English translation). ⁽¹²⁾ |
| 4.35 | Agreement for Transfer of CDMA Business, dated July 27, 2008, between the Registrant, China Unicom Limited and China Unicom Corporation Limited (English summary). ⁽¹²⁾ |

| <u>Exhibits</u> | <u>Description</u> |
|-----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 4.36 | Merger Agreement, dated November 14, 2008, between the Registrant and China Telecommunications Corporation Beijing Corporation (English translation). ⁽¹²⁾ |
| 4.37 | Supplemental Agreement to the Optic Fiber Leasing Agreement, dated July 10, 2008, between the Registrant and China Telecommunications Corporation (English summary). ⁽¹²⁾ |
| 4.38 | Underwriting Agreement regarding Medium Term Notes of China Telecom Corporation Limited in 2008, dated April 15, 2008, among the Registrant, Industrial and Commercial Bank of China Limited and CITIC Securities Company Limited (English summary), and its Supplemental Agreement, dated December 15, 2008 (English summary). ⁽¹²⁾ |
| 4.39 | Underwriting Agreement regarding the First Tranche of Short-Term Commercial Paper of China Telecom Corporation Limited in 2008, dated July 7, 2008, among the Registrant, Bank of Communications Co., Ltd. and China Development Bank (English summary). ⁽¹²⁾ |
| 4.40 | Underwriting Agreement regarding the First Tranche of Medium Term Notes of China Telecom Corporation Limited in 2009, dated September 8, 2009 (as supplemented on September 9, 2009), among the Registrant, Bank of Communications Co., Ltd. and Agricultural Bank of China Limited (English summary). ⁽¹³⁾ |
| 4.41 | Underwriting Agreement regarding the Second Tranche of Medium Term Notes of China Telecom Corporation Limited in 2009, dated October 19, 2009 (as supplemented respectively on October 20, 2009 and December 4, 2009), among the Registrant, Agriculture Bank of China Limited and China Merchants Bank Co., Ltd. (English summary). ⁽¹³⁾ |
| 4.42 | Underwriting Agreement regarding the Third Tranche of Medium Term Notes of China Telecom Corporation Limited in 2009, dated October 19, 2009 (as supplemented respectively on October 20, 2009 and December 4, 2009), among the Registrant, China Construction Bank Corporation and Industrial and Commercial Bank of China Ltd. (English summary). ⁽¹³⁾ |
| 4.43 | Supplemental Agreement to the Centralized Services Agreement, dated August 25, 2010, between the Registrant and China Telecommunications Corporation (English summary) ⁽¹⁴⁾ |
| 4.44 | Supplemental Agreement to the Interconnection Settlement Agreement, dated August 25, 2010, between the Registrant and China Telecommunications Corporation (English summary) ⁽¹⁴⁾ |
| 4.45 | Supplemental Agreement to the Property Leasing Framework Agreement, dated August 25, 2010, between the Registrant and China Telecommunications Corporation (English summary) ⁽¹⁴⁾ |
| 4.46 | Supplemental Agreement to the IT services Framework Agreement, dated August 25, 2010, between the Registrant and China Telecommunications Corporation (English summary) ⁽¹⁴⁾ |
| 4.47 | Supplemental Agreement to the Community Services Framework Agreement, dated August 25, 2010, between the Registrant and China Telecommunications Corporation (English summary) ⁽¹⁴⁾ |
| 4.48 | Supplemental Agreement to the Supplies Procurement Services Framework Agreement, dated August 25, 2010, between the Registrant and China Telecommunications Corporation (English summary) ⁽¹⁴⁾ |
| 4.49 | Supplemental Agreement to the Engineering Framework Agreement, dated August 25, 2010, between the Registrant and China Telecommunications Corporation (English summary) ⁽¹⁴⁾ |
| 4.50 | Supplemental Agreement to the Ancillary Telecommunications Services Framework Agreement, dated August 25, 2010, between the Registrant and China Telecommunications Corporation (English summary) ⁽¹⁴⁾ |
| 4.51 | Supplemental Agreement to the CDMA Network Capacity Lease Agreement, dated August 25, 2010, between the Registrant and China Telecommunications Corporation (English summary) ⁽¹⁴⁾ |
| 4.52 | Supplemental Agreement to the Trademark License Agreement, dated August 25, 2010, between the Registrant and China Telecommunications Corporation (English summary) ⁽¹⁴⁾ |
| 4.53 | Supplemental Agreement to the Optic Fiber Leasing Agreement, dated August 25, 2010, between the Registrant and China Telecommunications Corporation (English summary) ⁽¹⁴⁾ |
| 4.54 | Agreement on the Acquisition of CDMA Network Assets and Associated Liabilities, dated August 20, 2012, between the Registrant and China Telecommunications Corporation (English summary) ⁽¹⁵⁾ |
| 4.55 | Agreement on the Disposal of Equity Interest in E-surfing Media Co., Ltd., dated April 26, 2013, between the Registrant and China Telecommunications Corporation (English Summary) ⁽¹⁵⁾ |

| Exhibits | Description |
|-----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 4.56 | Agreement on the Acquisition of China Telecom (Europe) Limited, dated December 16, 2013, between the Registrant and China Telecommunications Corporation ⁽¹⁶⁾ |
| 4.57 | Internet Applications Channel Services Framework Agreement, dated December 16, 2013, between the Registrant and China Telecommunications Corporation (English Summary) ⁽¹⁶⁾ |
| 4.58 | Promoters' Agreement for China Communications Facilities Services Corporation Limited (currently known as China Tower Corporation Limited) dated July 11, 2014, among the Registrant, China United Network Communications Corporation Limited and China Mobile Communication Company Limited ⁽¹⁷⁾ |
| 4.59 | Agreement on Purchase of Stock Tower-related Assets by Issuance of Shares and Payment of Cash, dated October 14, 2015, among the Registrant, the Tower Company, CUCL, CMCL, CRHC and other parties thereto (English translation) |
| 4.60 | Share Subscription Agreement, dated January 29, 2016, between the Registrant and the Tower Company (English translation) |
| 4.61 | Supplemental Agreement to the Centralized Services Agreement, dated September 23, 2015, between the Registrant and China Telecommunications Corporation (English summary) |
| 4.62 | Supplemental Agreement to the Interconnection Settlement Agreement, dated September 23, 2015, between the Registrant and China Telecommunications Corporation (English summary) |
| 4.63 | Supplemental Agreement to the Property Leasing Framework Agreement, dated September 23, 2015, between the Registrant and China Telecommunications Corporation (English summary) |
| 4.64 | Supplemental Agreement to the IT Services Framework Agreement, dated September 23, 2015, between the Registrant and China Telecommunications Corporation (English summary) |
| 4.65 | Supplemental Agreement to the Community Services Framework Agreement, dated September 23, 2015, between the Registrant and China Telecommunications Corporation (English summary) |
| 4.66 | Supplemental Agreement to the Supplies Procurement Services Framework Agreement, dated September 23, 2015, between the Registrant and China Telecommunications Corporation (English summary) |
| 4.67 | Supplemental Agreement to the Engineering Framework Agreement, dated September 23, 2015, between the Registrant and China Telecommunications Corporation (English summary) |
| 4.68 | Supplemental Agreement to the Ancillary Telecommunications Services Framework Agreement, dated September 23, 2015, between the Registrant and China Telecommunications Corporation (English summary) |
| 4.69 | Supplemental Agreement to the Internet Applications Channel Services Framework Agreement, dated September 23, 2015, between the Registrant and China Telecommunications Corporation (English summary) |
| 4.70 | Supplemental Agreement to the Optic Fiber Leasing Agreement, dated September 23, 2015, between the Registrant and China Telecommunications Corporation (English summary) |
| 8.1 | List of subsidiaries of the Registrant |
| 11.1 | Code of Ethics (English translation). ⁽³⁾ |
| 12.1 | Certification of CEO pursuant to Rule 13a-14(a) |
| 12.2 | Certification of CFO pursuant to Rule 13a-14(a) |
| 13.1 | Certification of CEO pursuant to Rule 13a-14(b) |
| 13.2 | Certification of CFO pursuant to Rule 13a-14(b) |

(1) Incorporated by reference to our Registration Statement on Form F-1 (File No. 333-100042), filed with the Securities and Exchange Commission on November 5, 2002.

(2) Incorporated by reference to our Registration Statement on Form F-6 (File No. 333-100617), filed with the Securities and Exchange Commission with respect to American Depositary Shares representing our H shares.

(3) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2003 (File No. 001-31517), filed with the Securities and Exchange Commission.

(4) Incorporated by reference to Exhibit 1.1 to our Form 6-K filed on April 29, 2004

(5) Incorporated by reference to Exhibit 1.2 to our Form 6-K filed on April 29, 2004.

(6) Incorporated by reference to Exhibit 1.3 to our Form 6-K filed on April 29, 2004.

(7) Incorporated by reference to Exhibit 1.5 to our Form 6-K filed on April 29, 2004.

(8) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2004 (File No. 001-31517), filed with the Securities and Exchange Commission.

- (9) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2005 (File No. 001-31517), filed with the Securities and Exchange Commission.
- (10) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2006 (File No. 001-31517), filed with the Securities and Exchange Commission.
- (11) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2007 (File No. 001-31517), filed with the Securities and Exchange Commission.
- (12) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2008 (File No. 001-31517), filed with the Securities and Exchange Commission.
- (13) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2009 (File No. 001-31517), filed with the Securities and Exchange Commission.
- (14) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2010 (File No. 001-31517), filed with the Securities and Exchange Commission.
- (15) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2012 (File No. 001-31517), filed with the Securities and Exchange Commission.
- (16) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2013 (File No. 001-31517), filed with the Securities and Exchange Commission.
- (17) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2014 (File No. 001-31517), filed with the Securities and Exchange Commission.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

CHINA TELECOM CORPORATION LIMITED

By: /s/ Yang Jie
Name: Yang Jie
Title: Chairman and Chief Executive Officer

Date: April 28, 2016

CHINA TELECOM CORPORATION LIMITED AND SUBSIDIARIES
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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| <u>Consolidated statements of financial position as of December 31, 2014 and 2015</u> | F-3 |
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

**To the Board of Directors and Shareholders of
China Telecom Corporation Limited:**

We have audited the accompanying consolidated statements of financial position of China Telecom Corporation Limited and subsidiaries (the “Group”) as of December 31, 2014 and 2015, and the related consolidated statements of comprehensive income, changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2015. These consolidated financial statements are the responsibility of the Group’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of China Telecom Corporation Limited and subsidiaries as of December 31, 2014 and 2015, and the consolidated results of their operations and their consolidated cash flows for each of the years in the three-year period ended December 31, 2015, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Group’s internal control over financial reporting as of December 31, 2015, based on the criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 23, 2016 expressed an unqualified opinion on the effectiveness of the Group’s internal control over financial reporting.

/s/ Deloitte Touche Tohmatsu

Deloitte Touche Tohmatsu
Hong Kong, the People’s Republic of China
March 23, 2016

CHINA TELECOM CORPORATION LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2014 AND 2015
(Amounts in millions)

| | Note | December 31, 2014 RMB | December 31, 2015 RMB |
|-------------------------------------------------------------------|------|-----------------------------|-----------------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | 5 | 20,436 | 31,869 |
| Short-term bank deposits | | 1,379 | 2,519 |
| Accounts receivable, net | 6 | 21,562 | 21,105 |
| Inventories | 7 | 4,225 | 6,281 |
| Prepayments and other current assets | 8 | 10,581 | 16,229 |
| Income tax recoverable | | 1,360 | 105 |
| Total current assets | | 59,543 | 78,108 |
| Non-current assets | | | |
| Property, plant and equipment, net | 9 | 372,876 | 373,981 |
| Construction in progress | 10 | 53,181 | 69,103 |
| Lease prepayments | | 24,410 | 23,609 |
| Goodwill | 11 | 29,917 | 29,920 |
| Intangible assets | 12 | 8,984 | 10,739 |
| Interests in associates | 13 | 4,106 | 34,473 |
| Investments | 14 | 972 | 1,624 |
| Deferred tax assets | 15 | 3,232 | 4,655 |
| Other assets | 19 | 4,053 | 3,349 |
| Total non-current assets | | 501,731 | 551,453 |
| Total assets | | 561,274 | 629,561 |
| LIABILITIES AND EQUITY | | | |
| Current liabilities | | | |
| Short-term debt | 16 | 43,976 | 51,636 |
| Current portion of long-term debt | 16 | 82 | 84 |
| Accounts payable | 17 | 88,458 | 118,055 |
| Accrued expenses and other payables | 18 | 72,442 | 82,934 |
| Income tax payable | | 307 | 2,154 |
| Current portion of finance lease obligations | | — | 38 |
| Current portion of deferred revenues | 19 | 1,060 | 1,028 |
| Total current liabilities | | 206,325 | 255,929 |
| Non-current liabilities | | | |
| Long-term debt and payable | 16 | 62,494 | 64,830 |
| Finance lease obligations | | — | 81 |
| Deferred revenues | 19 | 798 | 1,454 |
| Deferred tax liabilities | 15 | 1,125 | 2,061 |
| Other non-current liabilities | | 424 | 455 |
| Total non-current liabilities | | 64,841 | 68,881 |
| Total liabilities | | 271,166 | 324,810 |
| Equity | | | |
| Share capital | 20 | 80,932 | 80,932 |
| Reserves | 21 | 208,251 | 222,852 |
| Total equity attributable to equity holders of the Company | | 289,183 | 303,784 |
| Non-controlling interests | | 925 | 967 |
| Total equity | | 290,108 | 304,751 |
| Total liabilities and equity | | 561,274 | 629,561 |

See accompanying notes to consolidated financial statements.

CHINA TELECOM CORPORATION LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015
(Amounts in millions, except per share data)

| | Note | Year ended December 31, | | |
|---------------------------------------------------------------------------------------------------|-----------|-------------------------|------------------|------------------|
| | | 2013 | 2014 | 2015 |
| | | RMB | RMB | RMB |
| Operating revenues | 22 | 321,584 | 324,394 | 331,202 |
| Operating expenses | | | | |
| Depreciation and amortization | | (69,083) | (66,345) | (67,664) |
| Network operations and support | 23 | (53,102) | (68,651) | (81,240) |
| Selling, general and administrative | | (70,448) | (62,719) | (54,472) |
| Personnel expenses | 24 | (46,723) | (50,653) | (52,541) |
| Other operating expenses | 25 | (54,760) | (47,518) | (48,843) |
| Total operating expenses | | <u>(294,116)</u> | <u>(295,886)</u> | <u>(304,760)</u> |
| Operating income | | 27,468 | 28,508 | 26,442 |
| Gain from Tower Assets Disposal | 2 | — | — | 5,214 |
| Net finance costs | 26 | (5,153) | (5,291) | (4,273) |
| Investment income | | 670 | 6 | 8 |
| Equity in income / (loss) of associates | | 103 | 34 | (698) |
| Earnings before income tax | | 23,088 | 23,257 | 26,693 |
| Income tax | 27 | (5,422) | (5,498) | (6,551) |
| Profit for the year | | <u>17,666</u> | <u>17,759</u> | <u>20,142</u> |
| Other comprehensive income for the year | | | | |
| <i>Items that may be reclassified subsequently to profit or loss:</i> | | | | |
| Change in fair value of available-for-sale equity securities | | 414 | (54) | 652 |
| Deferred tax on change in fair value of available-for-sale equity securities | | (104) | 14 | (163) |
| Exchange difference on translation of financial statements of subsidiaries outside mainland China | | (79) | 3 | 129 |
| Share of other comprehensive income of associates | | 5 | (3) | 3 |
| Other comprehensive income for the year, net of tax | | <u>236</u> | <u>(40)</u> | <u>621</u> |
| Total comprehensive income for the year | | <u>17,902</u> | <u>17,719</u> | <u>20,763</u> |
| Profit attributable to | | | | |
| Equity holders of the Company | | 17,545 | 17,680 | 20,054 |
| Non-controlling interests | | 121 | 79 | 88 |
| Profit for the year | | <u>17,666</u> | <u>17,759</u> | <u>20,142</u> |
| Total comprehensive income attributable to | | | | |
| Equity holders of the Company | | 17,781 | 17,640 | 20,675 |
| Non-controlling interests | | 121 | 79 | 88 |
| Total comprehensive income for the year | | <u>17,902</u> | <u>17,719</u> | <u>20,763</u> |
| Basic earnings per share | 29 | <u>0.22</u> | <u>0.22</u> | <u>0.25</u> |
| Number of shares (in millions) | 29 | <u>80,932</u> | <u>80,932</u> | <u>80,932</u> |

See accompanying notes to consolidated financial statements.

CHINA TELECOM CORPORATION LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015
(Amounts in millions)

| | Attributable to equity holders of the Company | | | | | | | | | Total Equity RMB | |
|---------------------------------------------|-----------------------------------------------|-------------------------|---------------------------|-------------------------|------------------------------|--------------------------|----------------------------|-----------------------------|--------------|------------------------|-------------------------------------|
| | Note | Share capital RMB | Capital reserve RMB | Share premium RMB | Statutory reserves RMB | Other reserves RMB | Exchange reserve RMB | Retained earnings RMB | Total RMB | | Non-controlling interests RMB |
| Balance as of January 1, 2013 | | 80,932 | 16,821 | 10,746 | 65,729 | 112 | (865) | 91,664 | 265,139 | 961 | 266,100 |
| Profit for the year | | — | — | — | — | — | — | 17,545 | 17,545 | 121 | 17,666 |
| Other comprehensive income | | — | — | — | — | 315 | (79) | — | 236 | — | 236 |
| Total comprehensive income | | — | — | — | — | 315 | (79) | 17,545 | 17,781 | 121 | 17,902 |
| Contribution from non-controlling interests | | — | 141 | — | — | — | — | — | 141 | 59 | 200 |
| Distribution to non-controlling interests | | — | — | — | — | — | — | — | — | (74) | (74) |
| Acquisition of the Seventh Acquired Company | 1 | — | (278) | — | — | — | — | — | (278) | — | (278) |
| Dividends | 28 | — | — | — | — | — | — | (5,433) | (5,433) | — | (5,433) |
| Appropriations | 21 | — | — | — | 1,663 | — | — | (1,663) | — | — | — |
| Disposal of a subsidiary | 1 | — | 380 | — | — | — | — | 11 | 391 | (144) | 247 |
| Balance as of December 31, 2013 | | 80,932 | 17,064 | 10,746 | 67,392 | 427 | (944) | 102,124 | 277,741 | 923 | 278,664 |
| Profit for the year | | — | — | — | — | — | — | 17,680 | 17,680 | 79 | 17,759 |
| Other comprehensive income | | — | — | — | — | (43) | 3 | — | (40) | — | (40) |
| Total comprehensive income | | — | — | — | — | (43) | 3 | 17,680 | 17,640 | 79 | 17,719 |
| Distribution to non-controlling interests | | — | — | — | — | — | — | — | — | (77) | (77) |
| Dividends | 28 | — | — | — | — | — | — | (6,198) | (6,198) | — | (6,198) |
| Appropriations | 21 | — | — | — | 1,680 | — | — | (1,680) | — | — | — |
| Balance as of December 31, 2014 | | 80,932 | 17,064 | 10,746 | 69,072 | 384 | (941) | 111,926 | 289,183 | 925 | 290,108 |
| Profit for the year | | — | — | — | — | — | — | 20,054 | 20,054 | 88 | 20,142 |
| Other comprehensive income | | — | — | — | — | 492 | 129 | — | 621 | — | 621 |
| Total comprehensive income | | — | — | — | — | 492 | 129 | 20,054 | 20,675 | 88 | 20,763 |
| Acquisition of non-controlling interests | | — | (1) | — | — | — | — | — | (1) | (6) | (7) |
| Contribution from non-controlling interests | | — | 87 | — | — | — | — | — | 87 | 40 | 127 |
| Distribution to non-controlling interests | | — | — | — | — | — | — | — | — | (80) | (80) |
| Dividends | 28 | — | — | — | — | — | — | (6,160) | (6,160) | — | (6,160) |
| Appropriations | 21 | — | — | — | 1,901 | — | — | (1,901) | — | — | — |
| Balance as of December 31, 2015 | | 80,932 | 17,150 | 10,746 | 70,973 | 876 | (812) | 123,919 | 303,784 | 967 | 304,751 |

See accompanying notes to consolidated financial statements.

CHINA TELECOM CORPORATION LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015
(Amounts in millions)

| | Note | Year ended December 31, | | |
|----------------------------------------------------------------------------------------------------------|------------|-------------------------|----------------------|----------------------|
| | | 2013 | 2014 | 2015 |
| | | RMB | RMB | RMB |
| Net cash from operating activities | (a) | <u>88,351</u> | <u>96,405</u> | <u>108,750</u> |
| Cash flows used in investing activities | | | | |
| Capital expenditure | | (70,921) | (80,273) | (101,898) |
| Purchase of investments | (b) | — | (2,990) | (10) |
| Lease prepayments | | (111) | (184) | (124) |
| Proceeds from disposal of property, plant and equipment | | 1,538 | 710 | 755 |
| Proceeds from disposal of lease prepayments | | 360 | 121 | 58 |
| Net cash inflow from disposal of a subsidiary | | 512 | — | — |
| Proceeds from disposal of Investments | | — | — | 2 |
| Purchase of short-term bank deposits | | (2,750) | (2,566) | (3,764) |
| Maturity of short-term bank deposits | | 3,193 | 3,474 | 2,731 |
| Payment of the payable to China Telecommunications Corporation related to the Mobile Network Acquisition | | (14,269) | — | — |
| Payment for the first installment of the Mobile Network Acquisition | | (25,500) | — | — |
| Net cash used in investing activities | | <u>(107,948)</u> | <u>(81,708)</u> | <u>(102,250)</u> |
| Cash flows from / (used in) financing activities | | | | |
| Principal element of finance lease payments | | (2) | (1) | (14) |
| Proceeds from bank debt and other loans | | 54,983 | 53,022 | 67,875 |
| Repayment of bank debt and other loans | | (44,053) | (56,819) | (56,862) |
| Payment of dividends | | (5,433) | (6,198) | (6,160) |
| Payment for the acquisition of non-controlling interests | | — | — | (7) |
| Contribution from non-controlling interests | | — | — | 127 |
| Payment for the acquisition price of the Seventh Acquisition | (c) | — | (278) | — |
| Net cash contributions from/ (distributions to) non-controlling interests | | 142 | (53) | (150) |
| Net cash from / (used in) financing activities | | <u>5,637</u> | <u>(10,327)</u> | <u>4,809</u> |
| Net (decrease) / increase in cash and cash equivalents | | <u>(13,960)</u> | <u>4,370</u> | <u>11,309</u> |
| Cash and cash equivalents at beginning of year | | <u>30,099</u> | <u>16,070</u> | <u>20,436</u> |
| Effect of changes in foreign exchange rate | | <u>(69)</u> | <u>(4)</u> | <u>124</u> |
| Cash and cash equivalents at end of year | | <u><u>16,070</u></u> | <u><u>20,436</u></u> | <u><u>31,869</u></u> |

See accompanying notes to consolidated financial statements.

CHINA TELECOM CORPORATION LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013, 2014 AND 2015
(Amounts in millions)

(a) Reconciliation of earnings before income tax to net cash from operating activities

| | Year ended December 31, | | |
|-------------------------------------------------------------------|-------------------------|---------------|----------------|
| | 2013 | 2014 | 2015 |
| | RMB | RMB | RMB |
| Earnings before income tax | 23,088 | 23,257 | 26,693 |
| Adjustments for: | | | |
| Depreciation and amortization | 69,083 | 66,345 | 67,664 |
| Impairment losses for doubtful debts | 1,744 | 2,084 | 2,231 |
| Impairment losses for long-lived assets | — | — | 51 |
| Write down of inventories | 360 | 151 | 147 |
| Investment income | (670) | (6) | (8) |
| Equity in (income) / loss of associates | (103) | (34) | 698 |
| Interest income | (361) | (304) | (375) |
| Interest expense | 5,511 | 5,650 | 4,573 |
| Foreign exchange loss / (gain) | 3 | (55) | 75 |
| Net (gain) / loss on retirement and disposal of long-lived assets | (1,021) | 2,287 | 1,573 |
| Gain from Tower Assets Disposal | — | — | (5,214) |
| Increase in accounts receivable | (3,156) | (3,594) | (1,778) |
| (Increase) / decrease in inventories | (955) | 2,280 | (2,199) |
| Increase in prepayments and other current assets | (1,077) | (2,359) | (5,854) |
| Decrease / (increase) in other assets | 294 | (2) | (87) |
| Increase in accounts payable | 3,210 | 6,473 | 22,156 |
| Increase in accrued expenses and other payables | 3,148 | 6,571 | 7,119 |
| Decrease in deferred revenues | (1,014) | (573) | (417) |
| Cash generated from operations | 98,084 | 108,171 | 117,048 |
| Interest received | 358 | 305 | 375 |
| Interest paid | (5,573) | (5,693) | (4,601) |
| Investment income received | 21 | 29 | 27 |
| Income tax paid | (4,539) | (6,407) | (4,099) |
| Net cash from operating activities | <u>88,351</u> | <u>96,405</u> | <u>108,750</u> |

(b) Major non-cash transaction: The Company completed the disposal of certain telecommunications towers and related assets and injecting cash to China Tower Corporation limited (“China Tower”) in return for new shares issued by China Tower on October 31, 2015. The cash injection was not paid by December 31, 2015, therefore the transaction has no impact on the consolidated statement of cash flows for the year ended December 31, 2015.

(c) The Seventh Acquisition represents the acquisition of the 100% equity interest in China Telecom (Europe) Limited, a wholly owned subsidiary of China Telecommunications Corporation, by China Telecom Global Limited (“CT Global”, a subsidiary of the Company) from China Telecommunications Corporation on December 31, 2013.

See accompanying notes to consolidated financial statements.

CHINA TELECOM CORPORATION LIMITED AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All **Renminbi** amounts in millions, except per share data and except otherwise stated)

1. PRINCIPAL ACTIVITIES, ORGANIZATION AND BASIS OF PRESENTATION

Principal activities

China Telecom Corporation Limited (the “Company”) and its subsidiaries (hereinafter, collectively referred to as the “Group”) offers a comprehensive range of wireline and mobile telecommunications services including wireline voice, mobile voice, Internet, telecommunication network resource services and lease of network equipment, value-added services, integrated information application services and other related services. The Group provides wireline telecommunications services and related services in Beijing Municipality, Shanghai Municipality, Guangdong Province, Jiangsu Province, Zhejiang Province, Anhui Province, Fujian Province, Jiangxi Province, Guangxi Zhuang Autonomous Region, Chongqing Municipality, Sichuan Province, Hubei Province, Hunan Province, Hainan Province, Guizhou Province, Yunnan Province, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Hui Autonomous Region and Xinjiang Uygur Autonomous Region of the People’s Republic of China (the “PRC”). Following the acquisition of Code Division Multiple Access (“CDMA”) mobile telecommunications business in October 2008, the Group also provides mobile telecommunications and related services in the mainland China and Macau Special Administrative Region (“Macau”) of the PRC. The Group also provides international telecommunications services, including lease of network equipment, International Internet access and transit, and Internet data center service in certain countries of the Asia Pacific, Europe, Africa, South America and North America regions. The operations of the Group in the mainland China are subject to the supervision and regulation by the PRC government.

Organization

As part of the reorganization (the “Restructuring”) of China Telecommunications Corporation, the Company was incorporated in the PRC on September 10, 2002. In connection with the Restructuring, China Telecommunications Corporation transferred to the Company the wireline telecommunications business and related operations in Shanghai Municipality, Guangdong Province, Jiangsu Province and Zhejiang Province together with the related assets and liabilities (the “Predecessor Operations”) in consideration for 68,317 million ordinary domestic shares of the Company. The shares issued to China Telecommunications Corporation have a par value of RMB1.00 each and represented the entire registered and issued share capital of the Company at that date.

On December 31, 2003, the Company acquired the entire equity interests in Anhui Telecom Company Limited, Fujian Telecom Company Limited, Jiangxi Telecom Company Limited, Guangxi Telecom Company Limited, Chongqing Telecom Company Limited and Sichuan Telecom Company Limited (collectively the “First Acquired Group”) and certain network management and research and development facilities from China Telecommunications Corporation for a total purchase price of RMB46,000 (hereinafter, referred to as the “First Acquisition”).

On June 30, 2004, the Company acquired the entire equity interests in Hubei Telecom Company Limited, Hunan Telecom Company Limited, Hainan Telecom Company Limited, Guizhou Telecom Company Limited, Yunnan Telecom Company Limited, Shaanxi Telecom Company Limited, Gansu Telecom Company Limited, Qinghai Telecom Company Limited, Ningxia Telecom Company Limited and Xinjiang Telecom Company Limited (collectively the “Second Acquired Group”) from China Telecommunications Corporation for a total purchase price of RMB27,800 (hereinafter, referred to as the “Second Acquisition”).

On June 30, 2007, the Company acquired the entire equity interests in China Telecom System Integration Co., Ltd. (“CTSI”), CT Global and China Telecom (Americas) Corporation (“CT Americas”) (collectively the “Third Acquired Group”) from China Telecommunications Corporation for a total purchase price of RMB1,408 (hereinafter, referred to as the “Third Acquisition”).

On June 30, 2008, the Company acquired the entire equity interest in China Telecom Group Beijing Corporation (“Beijing Telecom” or the “Fourth Acquired Company”) from China Telecommunications Corporation for a total purchase price of RMB5,557 (hereinafter, referred to as the “Fourth Acquisition”).

On August 1, 2011 and December 1, 2011, the subsidiaries of the Company, E-surfing Pay Co., Ltd and E-surfing Media Co., Ltd., acquired the e-commerce business and video media business (collectively the “Fifth Acquired Group”) from China Telecommunications Corporation and its subsidiaries for a total purchase price of RMB61 (hereinafter, referred to as the “Fifth Acquisition”).

CHINA TELECOM CORPORATION LIMITED AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All **Renminbi** amounts in millions, except per share data and except otherwise stated)

1. PRINCIPAL ACTIVITIES, ORGANIZATION AND BASIS OF PRESENTATION (continued)

Organization (continued)

On April 30, 2012, the Company acquired the digital trunking business (the “Sixth Acquired Business”) from Besttone Holding Co., Ltd., a subsidiary of China Telecommunications Corporation, at a purchase price of RMB48 (hereinafter, referred to as the “Sixth Acquisition”).

On June 30, 2013, the Company disposed of an 80% equity interest in E-surfing Media Co., Ltd. (“E-surfing Media”), a subsidiary of the Company primarily engaged in the provision of video media services, to China Telecommunications Corporation. The final consideration for the disposal of the equity interest in E-surfing was arrived at RMB1,248.

Gain on disposal of a subsidiary:

| | <u>2013</u> RMB |
|---------------------------|--------------------|
| Consideration received | 1,248 |
| Net assets disposed of | (722) |
| Non-controlling interests | 144 |
| Gain on disposal | <u>670</u> |

The gain on disposal of E-surfing Media has been included in investment income of the consolidated statement of comprehensive income.

Net cash inflow from disposal of a subsidiary:

| | <u>2013</u> RMB |
|------------------------------------------------------|--------------------|
| Consideration received in cash and cash equivalents | 1,248 |
| Less: cash and cash equivalents disposed of | (736) |
| Net cash inflow from disposal of a subsidiary | <u>512</u> |

On December 31, 2013, the subsidiary of the Company, CT Global acquired 100% equity interest in China Telecom (Europe) Limited (“CT Europe” or the “Seventh Acquired Company”), a wholly owned subsidiary of China Telecommunications Corporation, from China Telecommunications Corporation for a total purchase price of RMB278 (hereinafter, referred to as the “Seventh Acquisition”), and was paid by June 30, 2014.

Hereinafter, the First Acquired Group, the Second Acquired Group, the Third Acquired Group, the Fourth Acquired Company, the Fifth Acquired Group, the Sixth Acquired Business and the Seventh Acquired Company are collectively referred to as the “Acquired Groups”.

Basis of presentation

Since the Group and the Acquired Groups are under common control of China Telecommunications Corporation, the Group’s acquisitions of the Acquired Groups have been accounted for as a combination of entities under common control in a manner similar to a pooling-of-interests. Accordingly, the assets and liabilities of these entities have been accounted for at historical amounts and the consolidated financial statements of the Group prior to the acquisitions are combined with the financial statements of the Acquired Groups. The considerations for the acquisition of the Acquired Groups are accounted for as an equity transaction in the consolidated statement of changes in equity.

Merger with subsidiaries

Pursuant to the resolution passed by the Company’s shareholders at an Extraordinary General Meeting held on February 25, 2008, the Company entered into merger agreements with each of the following subsidiaries: Shanghai Telecom Company Limited, Guangdong Telecom Company Limited, Jiangsu Telecom Company Limited, Zhejiang Telecom Company Limited, Anhui Telecom Company Limited, Fujian Telecom Company Limited, Jiangxi Telecom Company Limited, Guangxi Telecom Company Limited, Chongqing Telecom Company Limited, Sichuan Telecom Company Limited, Hubei Telecom Company Limited, Hunan Telecom Company Limited, Hainan Telecom Company Limited, Guizhou Telecom Company Limited, Yunnan Telecom Company Limited, Shaanxi Telecom Company Limited, Gansu Telecom Company Limited, Qinghai Telecom Company Limited, Ningxia Telecom Company Limited and Xinjiang Telecom Company Limited. In addition, the Company entered into merger agreements with Beijing Telecom on July 1, 2008. Pursuant to these merger agreements, the Company merged with these subsidiaries and the assets, liabilities and business operations of these subsidiaries were transferred to the Company’s branches in the respective regions.

CHINA TELECOM CORPORATION LIMITED AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All **Renminbi** amounts in millions, except per share data and except otherwise stated)

2. DISPOSAL OF CERTAIN TELECOMMUNICATIONS TOWERS AND RELATED ASSETS

On July 11, 2014, the Company, China United Network Communications Corporation Limited (“CUCL”) and China Mobile Communication Company Limited entered into an agreement to establish China Tower. Pursuant to the agreement, the Company, CUCL and China Mobile Communication Company Limited each subscribed for 2.99 billion shares, 3.01 billion shares and 4.00 billion shares of the China Tower, respectively in cash at a par value of RMB1.00 per share, representing a shareholding percentage of 29.9%, 30.1% and 40.0%, respectively. The China Tower primarily engages in the construction, maintenance and operation of telecommunications towers, and also engages in the construction, maintenance and operation of ancillary facilities such as control rooms, power supply systems and air conditioning systems of base stations, etc. and indoor distribution systems as well as the provision of outsourcing maintenance services for base station equipment.

On October 14, 2015, the Company, China Mobile Communication Company Limited and related subsidiaries (together, “China Mobile”), CUCL and Unicom New Horizon Telecommunications Company Limited (together “China Unicom”), China Reform Holding Company Limited (“CRHC”) and China Tower entered into a transfer agreement (the “Transfer Agreement”). Pursuant to the Transfer Agreement, the Company sold certain telecommunications towers and related assets (“Tower Assets”) to China Tower (hereinafter referred to as “Tower Assets Disposal”) and injected cash to China Tower in return for new shares (the “Consideration Shares”) issued by China Tower. China Mobile and China Unicom also sold certain telecommunications towers and related assets to China Tower in return for new shares issued by China Tower and for cash; and CRHC made cash subscription for new shares issued by China Tower.

The Tower Assets Disposal was completed on October 31, 2015 (“Completion Date”). The final consideration amount of the Tower Assets Disposal was determined as RMB30.131 billion. China Tower issued 33.097 billion Consideration Shares to the Company at an issue price of RMB1.00 per share under the Transfer Agreement in return for the Tower Assets and RMB2.966 billion cash (“Cash Consideration”) from the Company. The Cash Consideration was paid in February 2016.

Upon the issuance of the Consideration Shares by China Tower, the Company, China Unicom, China Mobile, and CRHC hold 27.9%, 28.1%, 38.0%, and 6.0% of the share capital of China Tower, respectively.

The Tower Assets Disposal was recognized as an assets disposal. The Company realized a gain (subject to deduction of relevant expenses and taxes) from the Tower Assets Disposal, which was calculated based on the surplus of the final consideration amount for the Tower Assets Disposal over the book value of the Tower Assets as of the Completion Date as set out below. As the Company held 27.9% of the share capital of China Tower, only 72.1% of the aforesaid gain was recognized at the Completion Date and the remaining 27.9% of the aforesaid gain is deferred over the remaining useful life of the Tower Assets.

| | Note | RMB |
|----------------------------------------------------------------------------|------|---------------|
| Final consideration amount of the Tower Assets Disposal | | 30,131 |
| Less: Book value of the Tower Assets: | | |
| Property, plant and equipment, net | 9 | 18,365 |
| Construction in progress | 10 | 2,959 |
| Net other assets and liabilities | | 1,403 |
| Total book value of the Tower Assets | | 22,727 |
| Less: Relevant expenses and taxes | | 173 |
| Total gain from the Tower Assets Disposal | | 7,231 |
| Less: Deferred gain | | 2,017 |
| Gain recognized at the Completion Date of the Tower Assets Disposal | | 5,214 |

CHINA TELECOM CORPORATION LIMITED AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All **Renminbi** amounts in millions, except per share data and except otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). These consolidated financial statements were approved and authorized by the Board of Directors on March 23, 2016.

The consolidated financial statements are prepared on the historical cost basis as modified by the revaluation of certain available-for-sale equity securities at fair value (Note 3(1)).

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The estimates and associated assumptions are based on historical experience and various other factors that management believes are reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of IFRS that have significant effect on the consolidated financial statements and major sources of estimation uncertainty are discussed in Note 37.

(b) Basis of consolidation

The consolidated financial statements comprise the Company and its subsidiaries and the Group’s interests in associates.

A subsidiary is an entity controlled by the Company. When fulfilling the following conditions, the Company has control over an entity: (a) has power over the investee, (b) has exposure, or rights, to variable returns from its involvement with the investee, and (c) has the ability to use its power over the investee to affect the amount of the investor’s returns.

When assessing whether the Company has power over that entity, only substantive rights (held by the Company and other parties) are considered.

The financial results of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases, and the profit attributable to non-controlling interests is separately presented on the face of the consolidated statement of comprehensive income as an allocation of the profit or loss for the year between the non-controlling interests and the equity holders of the Company. Non-controlling interests represent the equity in subsidiaries not attributable directly or indirectly to the Company. For each business combination, the Group measures the non-controlling interests at the proportionate share, of the acquisition date, of fair value of the subsidiary’s net identifiable assets. Non-controlling interests at the end of the reporting period are presented in the consolidated statement of financial position within equity and consolidated statement of changes in equity, separately from the equity of the Company’s equity holders. Changes in the Group’s interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognized. When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognized in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognized at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or a joint venture.

CHINA TELECOM CORPORATION LIMITED AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All **Renminbi** amounts in millions, except per share data and except otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of consolidation (continued)

An associate is an entity, not being a subsidiary, in which the Group exercises significant influence, but not control, over its management. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's net identifiable assets over the cost of the investment (if any) after reassessment. Thereafter, the investment is adjusted for the Group's equity share of the post-acquisition changes in the associate's net assets and any impairment loss relating to the investment. When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognized in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognized at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

All significant intercompany balances and transactions and unrealized gains arising from intercompany transactions are eliminated on consolidation. Unrealized gains arising from transactions with associates are eliminated to the extent of the Group's interest in the entity. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(c) Foreign currencies

The accompanying consolidated financial statements are presented in Renminbi ("RMB"). The functional currency of the Company and its subsidiaries in mainland China is RMB. The functional currency of the Group's foreign operations is the currency of the primary economic environment in which the foreign operations operate. Transactions denominated in currencies other than the functional currency during the year are translated into the functional currency at the applicable rates of exchange prevailing on the transaction dates. Foreign currency monetary assets and liabilities are translated into the functional currency using the applicable exchange rates at the end of the reporting period. The resulting exchange differences, other than those capitalized as construction in progress (Note 3(i)), are recognized as income or expense in profit or loss. For the periods presented, no exchange differences were capitalized.

When preparing the Group's consolidated financial statements, the results of operations of the Group's foreign operations are translated into RMB at average rate prevailing during the year. Assets and liabilities of the Group's foreign operations are translated into RMB at the foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognized in other comprehensive income and accumulated separately in equity in the exchange reserve.

(d) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and time deposits with original maturities of three months or less when purchased. Cash equivalents are stated at cost, which approximates fair value. None of the Group's cash and cash equivalents is restricted as to withdrawal.

(e) Accounts and other receivables

Accounts and other receivables are initially recognized at fair value and thereafter stated at amortized cost using the effective interest method, less allowance for doubtful debts (Note 3(n)) unless the effect of discounting would be immaterial, in which case they are stated at cost less allowance for doubtful debts.

(f) Inventories

Inventories consist of materials and supplies used in maintaining the telecommunications network and goods for resale. Inventories are valued at cost using the specific identification method or the weighted average cost method, less a provision for obsolescence.

Inventories are stated at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion, the estimated costs to make the sale and the related tax expenses.

CHINA TELECOM CORPORATION LIMITED AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All **Renminbi** amounts in millions, except per share data and except otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Property, plant and equipment

Property, plant and equipment are initially recorded at cost, less subsequent accumulated depreciation and impairment losses (Note 3(n)). The cost of an asset comprises its purchase price, any directly attributable costs of bringing the asset to working condition and location for its intended use and the cost of borrowed funds used during the periods of construction. Expenditure incurred after the asset has been put into operation, including cost of replacing part of such an item, is capitalized only when it increases the future economic benefits embodied in the item of property, plant and equipment and the cost can be measured reliably. All other expenditure is expensed as it is incurred.

Assets acquired under leasing agreements which effectively transfer substantially all the risks and benefits incidental to ownership from the lessor to the lessee are classified as assets under finance leases. Assets held under finance leases are initially recorded at amounts equivalent to the lower of the fair value of the leased assets at the inception of the lease or the present value of the minimum lease payments (computed using the rate of interest implicit in the lease). The net present value of the future minimum lease payments is recorded correspondingly as a finance lease obligation. Assets held under finance leases are amortized over their estimated useful lives on a straight-line basis. As of December 31, 2015 no asset was held by the Group under finance leases (2014: RMB18).

Gains or losses arising from retirement or disposal of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the respective asset and are recognized as income or expense in the profit or loss on the date of disposal.

Depreciation is provided to write off the cost of each asset over its estimated useful life on a straight-line basis, after taking into account its estimated residual value, as follows:

| | Depreciable lives primarily range from |
|--------------------------------------------------------|-------------------------------------------|
| Buildings and improvements | 8 to 30 years |
| Telecommunications network plant and equipment | 6 to 10 years |
| Furniture, fixture, motor vehicles and other equipment | 5 to 10 years |

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value are reviewed annually.

(h) Lease prepayments

Lease prepayments represent land use rights paid. Land use rights are initially carried at cost or deemed cost and then charged to profit or loss on a straight-line basis over the respective periods of the rights which range from 20 years to 70 years.

(i) Construction in progress

Construction in progress represents buildings, telecommunications network plant and equipment and other equipment and intangible assets under construction and pending installation, and is stated at cost less impairment losses (Note 3(n)). The cost of an item comprises direct costs of construction, capitalization of interest charge, and foreign exchange differences on related borrowed funds to the extent that they are regarded as an adjustment to interest charges during the periods of construction. Capitalization of these costs ceases and the construction in progress is transferred to property, plant and equipment and intangible assets when the asset is substantially ready for its intended use.

No depreciation is provided in respect of construction in progress.

CHINA TELECOM CORPORATION LIMITED AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All **Renminbi** amounts in millions, except per share data and except otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Goodwill

Goodwill represents the excess of the cost over the Group's interest in the fair value of the net assets acquired in the CDMA business (as defined in Note 11) acquisition.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (Note 3(n)). On disposal of a cash generating unit during the year, any attributable amount of the goodwill is included in the calculation of the profit or loss on disposal.

(k) Intangible assets

The Group's intangible assets are computer software.

Computer software that is not an integral part of any tangible assets, is recorded at cost less subsequent accumulated amortization and impairment losses (Note 3(n)). Amortization of computer software is calculated on a straight-line basis over the estimated useful lives, which mainly range from three to five years.

(l) Investments

Investments in available-for-sale equity securities are carried at fair value with any change in fair value being recognized in other comprehensive income and accumulated separately in equity. For investments in available-for-sale equity securities, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment. When these investments are derecognized or impaired, the cumulative gain or loss previously recognized in other comprehensive income is recognized in profit or loss. Investments in unlisted equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost less impairment losses (Note 3(n)).

(m) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal installments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognized in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(n) Impairment

(i) Impairment of accounts and other receivables and investments in equity securities carried at cost

Accounts and other receivables and investments in equity securities carried at cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor or issuer;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganization; and
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor/ issuer.

CHINA TELECOM CORPORATION LIMITED AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All **Renminbi** amounts in millions, except per share data and except otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Impairment (continued)

(i) Impairment of accounts and other receivables and investments in equity securities carried at cost (continued)

The impairment loss for accounts and other receivables is measured as the difference between the asset's carrying amount and the estimated future cash flows, discounted at the financial asset's original effective interest rate where the effect of discounting is material, and is recognized as an expense in profit or loss.

The impairment loss for investments in equity securities carried at cost is measured as the difference between the asset's carrying amount and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material, and is recognized as an expense in profit or loss.

Impairment losses for accounts and other receivables are reversed through profit or loss if in a subsequent period the amount of the impairment losses decreases. Impairment losses for equity securities carried at cost are not reversed.

(ii) Impairment of long-lived assets

The carrying amounts of the Group's long-lived assets, including property, plant and equipment, intangible assets with finite useful lives and construction in progress are reviewed periodically to determine whether there is any indication of impairment. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. For goodwill, the impairment testing is performed annually at each year end.

The recoverable amount of an asset or cash-generating unit is the greater of its fair value less costs of disposal and value in use. When an asset does not generate cash flows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit). In determining the value in use, expected future cash flows generated by the assets are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. The goodwill arising from a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment loss is recognized as an expense in profit or loss. Impairment loss recognized in respect of cash-generating units is allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

The Group assesses at the end of each reporting period whether there is any indication that an impairment loss recognized for an asset in prior years may no longer exist. An impairment loss is reversed if there has been a favorable change in the estimates used to determine the recoverable amount. A subsequent increase in the recoverable amount of an asset, when the circumstances and events that led to the write-down cease to exist, is recognized as an income in profit or loss. The reversal is reduced by the amount that would have been recognized as depreciation and amortization had the write-down not occurred. An impairment loss in respect of goodwill is not reversed. For the years presented, no reversal of impairment loss was recognized in profit or loss.

(o) Revenue recognition

The revenue recognition methods of the Group are as follows:

- (i) Revenue derived from local, domestic long distance and international, Hong Kong, Macau and Taiwan long distance usage are recognized as the services are provided.
- (ii) Fees received for wireline installation charges for periods prior to January 1, 2012 are deferred and recognized over the expected customer relationship period. The direct costs associated with the installation of wireline services are deferred to the extent of the installation fees and amortized over the same expected customer relationship period. From 2012 onwards, since the amounts of fees received and the associated direct costs incurred are insignificant, the fees and associated direct costs are not deferred, and are recognized in profit or loss when received or incurred.

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(All **Renminbi** amounts in millions, except per share data and except otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Revenue recognition (continued)

- (iii) Monthly service fees are recognized in the month during which the services are provided to customers.
- (iv) Revenue from sale of prepaid calling cards are recognized as the cards are used by customers.
- (v) Revenue derived from value-added services is recognized when the services are provided to customers.

Revenue from value-added services in which no third party service providers are involved, such as caller display and Internet data center services, are presented on a gross basis. Revenues from all other value-added services are presented on either gross or net basis based on the assessment of each individual arrangement with third parties. The following factors indicate that the Group is acting as principal in the arrangements with third parties:

- i) The Group is primarily responsible for providing the applications or services desired by customers, and takes responsibility for fulfillment of ordered applications or services, including the acceptability of the applications or services ordered or purchased by customers;
- ii) The Group takes title of the inventory of the applications before they are ordered by customers;
- iii) The Group has risks and rewards of ownership, such as risks of loss for collection from customers after applications or services are provided to customers;
- iv) The Group has latitude in establishing selling prices with customers;
- v) The Group can modify the applications or perform part of the services;
- vi) The Group has discretion in selecting suppliers used to fulfill an order; and
- vii) The Group determines the nature, type, characteristics, or specifications of the applications or services.

If majority of the indicators of risks and responsibilities exist in the arrangements with third parties, the Group is acting as a principal and has exposure to the significant risks and rewards associated with the rendering of services or the sale of applications, and revenues for these services are recognized on a gross basis. If majority of the indicators of risks and responsibilities do not exist in the arrangements with third parties, the Group is acting as an agent, and revenues for these services are recognized on a net basis.

- (vi) Revenue from the provision of Internet and telecommunications network resource services are recognized when the services are provided to customers.
- (vii) Interconnection fees from domestic and foreign telecommunications operators are recognized when the services are rendered as measured by the minutes of traffic processed.
- (viii) Lease income from operating leases is recognized over the term of the lease.
- (ix) Revenue derived from integrated information application services are recognized when the services are provided to customers.
- (x) Sale of equipment is recognized on delivery of the equipment to customers and when the significant risks and rewards of ownership and title have been transferred to the customers. Revenue from repair and maintenance of equipment is recognized when the service is provided to customers.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Revenue recognition (continued)

The Group offers promotional packages, which involve the bundled sales of terminal equipment (mobile handsets) and telecommunications services, to customers. The total contract consideration of a promotional package is allocated to revenues generated from the provision of telecommunications services and the sales of terminal equipment using the residual method. Under the residual method, the total contract consideration of the arrangement is allocated as follows: The undelivered component, which is the provision of telecommunications services, is measured at fair value, and the remainder of the contract consideration is allocated to the delivered component, which is the sales of terminal equipment. The Group recognizes revenues generated from the delivery and sales of the terminal equipment when the title of the terminal equipment is passed to the customers whereas revenues generated from the provision of telecommunications services are recognized based upon the actual usage of such services. During each of the years in the three-year period ended December 31, 2015, a substantial portion of the total contract consideration is allocated to the provision of telecommunications services since the terminal equipment is typically provided free of charge or at a nominal amount to promote the Group's core business of the provision of telecommunications services, and the fair value of the telecommunication services approximates the total contract consideration.

(p) Advertising and promotion expense

The costs for advertising and promoting the Group's telecommunications services are expensed as incurred. Advertising and promotion expense, which is included in selling, general and administrative expenses, was RMB36,490, RMB26,122 and RMB19,291 for the years ended December 31, 2013, 2014 and 2015 respectively, among which, the costs of terminal equipment offered as part of a promotional package to our customers for free or at a nominal amount to promote the Group's telecommunication service amounted to RMB22,795, RMB15,340 and RMB11,620 for the years ended December 31, 2013, 2014 and 2015 respectively.

(q) Net finance costs

Net finance costs comprise interest income on bank deposits, interest costs on borrowings, and foreign exchange gains and losses. Interest income from bank deposits is recognized as it accrues using the effective interest method.

Interest costs incurred in connection with borrowings are calculated using the effective interest method and are expensed as incurred, except to the extent that they are capitalized as being directly attributable to the construction of an asset which necessarily takes a substantial period of time to get ready for its intended use.

(r) Research and development expense

Research and development expenditure is expensed as incurred. For the years ended December 31, 2013, 2014 and 2015, research and development expense was RMB630, RMB607 and RMB792 respectively.

(s) Employee benefits

The Group's contributions to defined contribution retirement plans administered by the PRC government and defined contribution retirement plans administered by independent external parties are recognized in profit or loss as incurred. Further information is set out in Note 34.

Compensation expense in respect of the stock appreciation rights granted is accrued as a charge to the profit or loss over the applicable vesting period based on the fair value of the stock appreciation rights. The liability of the accrued compensation expense is re-measured to fair value at the end of each reporting period with the effect of changes in the fair value of the liability charged or credited to profit or loss. Further details of the Group's stock appreciation rights scheme are set out in Note 35.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Government grants

The Group's government grants are mainly related to the government loans with below-market rate of interest.

Government grants shall only be recognized until there is reasonable assurance that:

- (i) the Group will comply with all the conditions attaching to them; and
- (ii) the grants will be received.

Government grants that compensate expenses incurred are recognized in the consolidated statement of comprehensive income in the same periods in which the expenses are incurred.

Government grants relating to assets are recognized in deferred revenue and are credited to the consolidated statement of comprehensive income on a straight-line basis over the expected lives of the related assets.

(u) Interest-bearing borrowings

Interest-bearing borrowings are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between the amount initially recognized and the redemption value recognized in profit or loss over the period of the borrowings, together with any interest, using the effective interest method.

(v) Accounts and other payables

Accounts and other payables are initially recognized at fair value and thereafter stated at amortized cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(w) Provisions and contingent liabilities

A provision is recognized in the consolidated statement of financial position when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(x) Value-added tax

Under current PRC tax rules and regulations, output VAT rate for basic telecommunications services (including voice communication, lease or sale of network resources) is 11% while the output VAT rate for value-added telecommunications services (including Internet access services, short and multimedia messaging services, transmission and application service of electronic data and information) is 6%, and the output VAT for sales of telecommunications terminals and equipment is 17%. Input VAT rate depends on the type of services received and the assets purchased as well as the VAT rate applicable to a specific industry, and ranges from 3% to 17%.

Output VAT is excluded from operating revenues while input VAT, which is incurred as a result of the Company's receipt of services and purchases of telecommunications equipment and materials, is excluded from operating expenses or the original cost of equipment purchased and can be netted against the output VAT, arriving at the net amount of VAT recoverable or payable. As the VAT obligations are borne by branches and subsidiaries of the Company, input and output VAT are set off at branches and subsidiaries levels, and the net amount of VAT recoverable or payable of branches and subsidiaries are not offset at the consolidation level. Such net amount of VAT recoverable or payable is recorded in the line item of prepayments and other current assets and accrued expenses and other payables, respectively on the face of consolidated statements of financial position.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(y) Income tax

Income tax for the year comprises current tax and movement in deferred tax assets and liabilities. Income tax is recognized in profit or loss except to the extent that it relates to items recognized in other comprehensive income, or directly in equity, in which case the relevant amounts of tax are recognized in other comprehensive income or directly in equity respectively. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years. Deferred tax is provided using the balance sheet liability method, providing for all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. The amount of deferred tax is calculated on the basis of the enacted or substantively enacted tax rates that are expected to apply in the period when the asset is realized or the liability is settled. The effect on deferred tax of any changes in tax rates is charged or credited to profit or loss, except for the effect of a change in tax rate on the carrying amount of deferred tax assets and liabilities which were previously recognized in other comprehensive income, in such case the effect of a change in tax rate is also recognized in other comprehensive income.

A deferred tax asset is recognized only to the extent that it is probable that future taxable income will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

(z) Dividends

Dividends are recognized as a liability in the period in which they are declared.

(aa) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
- (ii) The entity is an associate or joint venture of the Group (or an associate or joint venture of a member of a group of which the Group is a member); or the Group is an associate or joint venture of the entity (or an associate or joint venture of a member of a group of which the entity is a member);
- (iii) The entity and the Group are joint ventures of the same third party;
- (iv) The entity is a joint venture of a third entity and the Group is an associate of the third entity; or the Group is a joint venture of a third entity and the entity is an associate of the third entity;
- (v) The entity is controlled or jointly controlled by a person identified in (a);
- (vi) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

CHINA TELECOM CORPORATION LIMITED AND SUBSIDIARIES
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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(ab) Segmental reporting

An operating segment is a component of an entity that engages in business activities from which revenues are earned and expenses are incurred, and is identified on the basis of the internal financial reports that are regularly reviewed by the chief operating decision maker in order to allocate resource and assess performance of the segment. For the periods presented, management has determined that the Group has one operating segment as the Group is only engaged in the integrated telecommunications business. The Group's assets located outside mainland China and operating revenues derived from activities outside mainland China are less than 10% of the Group's assets and operating revenues, respectively. No geographical area information has been presented as such amount is immaterial. No single external customer accounts for 10 percent or more of the Group's operating revenues.

4. APPLICATION OF REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, the following amendments to IFRS issued by the IASB that are mandatorily effective for the current year:

- Amendments to International Accounting Standard (“IAS”) 19, “Defined Benefit Plans: Employee Contributions”
- Annual Improvements to IFRSs 2010–2012 Cycle
- Annual Improvements to IFRSs 2011–2013 Cycle

The application of the above amendments to IFRSs has had no material effect on the Group's consolidated financial statements.

The Group has not yet applied any other new and revised standard that is not yet effective for the current year (Note 38).

5. CASH AND CASH EQUIVALENTS

| | December 31, | |
|----------------------------------------------------------|---------------------|---------------|
| | 2014 | 2015 |
| | RMB | RMB |
| Cash at bank and in hand | 18,660 | 30,916 |
| Time deposits with original maturity within three months | 1,776 | 953 |
| | <u>20,436</u> | <u>31,869</u> |

6. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net, are analyzed as follows:

| | Note | December 31, | |
|-----------------------------------------------|------|---------------------|----------------|
| | | 2014 | 2015 |
| | | RMB | RMB |
| Accounts receivable | | | |
| Third parties | | 22,853 | 22,766 |
| China Telecom Group | (i) | 329 | 492 |
| Other telecommunications operators in the PRC | | 858 | 782 |
| | | <u>24,040</u> | <u>24,040</u> |
| Less: Allowance for doubtful debts | | <u>(2,478)</u> | <u>(2,935)</u> |
| | | <u>21,562</u> | <u>21,105</u> |

Note:

- (i) China Telecommunications Corporation together with its subsidiaries other than the Group are referred to as “China Telecom Group”.

CHINA TELECOM CORPORATION LIMITED AND SUBSIDIARIES
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6. ACCOUNTS RECEIVABLE, NET (continued)

The following table summarizes the changes in allowance for doubtful debts for each of the years in the three-year period ended December 31, 2015:

| | Year ended December 31, | | |
|--------------------------------------|-------------------------|--------------|--------------|
| | 2013 | 2014 | 2015 |
| | RMB | RMB | RMB |
| At beginning of year | 2,024 | 2,198 | 2,478 |
| Impairment losses for doubtful debts | 1,740 | 2,075 | 2,172 |
| Accounts receivable written off | (1,566) | (1,795) | (1,715) |
| At end of year | <u>2,198</u> | <u>2,478</u> | <u>2,935</u> |

Ageing analysis of accounts receivable from telephone and Internet subscribers based on the billing dates is as follows:

| | December 31, | |
|------------------------------------|---------------|---------------|
| | 2014 | 2015 |
| | RMB | RMB |
| Current, within 1 month | 11,273 | 10,001 |
| 1 to 3 months | 2,600 | 2,181 |
| 4 to 12 months | 1,865 | 1,821 |
| More than 12 months | 660 | 731 |
| | 16,398 | 14,734 |
| Less: Allowance for doubtful debts | (2,355) | (2,393) |
| | <u>14,043</u> | <u>12,341</u> |

Ageing analysis of accounts receivable from other telecommunications operators and enterprise customers based on date of rendering of services is as follows:

| | December 31, | |
|------------------------------------|--------------|--------------|
| | 2014 | 2015 |
| | RMB | RMB |
| Current, within 1 month | 3,012 | 3,648 |
| 1 to 3 months | 1,679 | 1,618 |
| 4 to 12 months | 1,924 | 2,199 |
| More than 12 months | 1,027 | 1,841 |
| | 7,642 | 9,306 |
| Less: Allowance for doubtful debts | (123) | (542) |
| | <u>7,519</u> | <u>8,764</u> |

Ageing analysis of accounts receivable that are not impaired is as follows:

| | December 31, | |
|----------------------------|---------------|---------------|
| | 2014 | 2015 |
| | RMB | RMB |
| Not past due | 19,408 | 19,263 |
| Less than 1 month past due | 1,356 | 1,154 |
| 1 to 3 months past due | 798 | 688 |
| Amounts past due | 2,154 | 1,842 |
| | <u>21,562</u> | <u>21,105</u> |

7. INVENTORIES

Inventories represent:

| | December 31, | |
|------------------------|--------------|--------------|
| | 2014 | 2015 |
| | RMB | RMB |
| Materials and supplies | 789 | 1,236 |
| Goods for resale | 3,436 | 5,045 |
| | <u>4,225</u> | <u>6,281</u> |

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8. PREPAYMENTS AND OTHER CURRENT ASSETS

Prepayments and other current assets represent:

| | December 31, | |
|--------------------------------------------------------------------------|---------------|---------------|
| | 2014 | 2015 |
| | RMB | RMB |
| Amounts due from China Telecom Group | 818 | 732 |
| Amounts due from China Tower | — | 1,789 |
| Amounts due from other telecommunications operators in the PRC | 414 | 375 |
| Prepayments in connection with construction work and equipment purchases | 1,895 | 2,119 |
| Prepaid expenses and deposits | 3,398 | 3,622 |
| Value-added tax recoverable | 1,072 | 3,797 |
| Other receivables | 2,984 | 3,795 |
| | <u>10,581</u> | <u>16,229</u> |

9. PROPERTY, PLANT AND EQUIPMENT, NET

| | Buildings and improvements RMB | Telecommunications network plant and equipment RMB | Furniture, fixture, motor vehicles and other equipment RMB | Total RMB |
|-------------------------------------------------|--------------------------------------|-------------------------------------------------------------|------------------------------------------------------------------------|------------------|
| Cost/Deemed cost: | | | | |
| Balance at January 1, 2014, | 95,411 | 835,860 | 28,346 | 959,617 |
| Additions | 726 | 1,254 | 703 | 2,683 |
| Transferred from construction in progress | 2,661 | 57,880 | 1,497 | 62,038 |
| Disposals | (642) | (74,688) | (1,670) | (77,000) |
| Reclassification | (2) | 67 | (65) | — |
| Balance at December 31, 2014 | <u>98,154</u> | <u>820,373</u> | <u>28,811</u> | <u>947,338</u> |
| Additions | 509 | 883 | 733 | 2,125 |
| Transferred from construction in progress | 3,161 | 79,569 | 1,738 | 84,468 |
| Tower Assets Disposal (Note 2) | (3,646) | (29,221) | (121) | (32,988) |
| Other disposals | (732) | (51,994) | (1,894) | (54,620) |
| Reclassification | 13 | (353) | 340 | — |
| Balance at December 31, 2015 | <u>97,459</u> | <u>819,257</u> | <u>29,607</u> | <u>946,323</u> |
| Accumulated depreciation and impairment: | | | | |
| Balance at January 1, 2014, | (40,505) | (524,863) | (19,908) | (585,276) |
| Depreciation charge for the year | (4,735) | (55,687) | (2,266) | (62,688) |
| Written back on disposals | 592 | 71,351 | 1,559 | 73,502 |
| Reclassification | 2 | (7) | 5 | — |
| Balance at December 31, 2014 | <u>(44,646)</u> | <u>(509,206)</u> | <u>(20,610)</u> | <u>(574,462)</u> |
| Depreciation and impairment charge for the year | (4,662) | (56,862) | (2,332) | (63,856) |
| Written back on Tower Assets Disposal (Note 2) | 1,520 | 13,051 | 52 | 14,623 |
| Written back on other disposals | 697 | 48,869 | 1,787 | 51,353 |
| Reclassification | (11) | 133 | (122) | — |
| Balance at December 31, 2015 | <u>(47,102)</u> | <u>(504,015)</u> | <u>(21,225)</u> | <u>(572,342)</u> |
| Net book value at December 31, 2015 | <u>50,357</u> | <u>315,242</u> | <u>8,382</u> | <u>373,981</u> |
| Net book value at December 31, 2014 | <u>53,508</u> | <u>311,167</u> | <u>8,201</u> | <u>372,876</u> |

10. CONSTRUCTION IN PROGRESS

| | RMB |
|----------------------------------------------|----------|
| Balance at January 1, 2014 | 44,157 |
| Additions | 74,585 |
| Transferred to property, plant and equipment | (62,038) |
| Transferred to intangible assets | (3,523) |

| | |
|----------------------------------------------|----------------------|
| Balance at December 31, 2014 | 53,181 |
| Additions | 107,762 |
| Tower Assets Disposal (Note 2) | (2,959) |
| Transferred to property, plant and equipment | (84,468) |
| Transferred to intangible assets | (4,413) |
| Balance at December 31, 2015 | <u><u>69,103</u></u> |

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11. GOODWILL

| | <u>December 31,</u> | |
|----------------------------------------------------|---------------------|---------------|
| | <u>2014</u> | <u>2015</u> |
| | <u>RMB</u> | <u>RMB</u> |
| Cost: | | |
| Goodwill arising from acquisition of CDMA business | <u>29,917</u> | <u>29,920</u> |

On October 1, 2008, the Group acquired the CDMA mobile communication business and related assets and liabilities, which also included the entire equity interests of China Unicom (Macau) Company Limited (currently known as China Telecom (Macau) Company Limited) and 99.5% equity interests of Unicom Huasheng Telecommunications Technology Company Limited (currently known as Tianyi Telecom Terminals Company Limited) (collectively the “CDMA business”) from China Unicom Limited and China Unicom Corporation Limited (collectively “China Unicom”). The purchase price of the business combination was RMB43,800, which was fully settled as of December 31, 2010. In addition, pursuant to the acquisition agreement, the Group acquired the customer-related assets and assumed the customer-related liabilities of CDMA business for a net settlement amount of RMB3,471 due from China Unicom. This amount was subsequently settled by China Unicom in 2009. The business combination was accounted for using the purchase method.

The goodwill recognized in the business combination is attributable to the skills and technical talent of the acquired business’s workforce, and the synergies expected to be achieved from integrating and combining the CDMA mobile communication business into the Group’s telecommunications business.

For the purpose of goodwill impairment testing, the goodwill arising from the acquisition of CDMA business was allocated to the appropriate cash-generating unit of the Group, which is the Group’s telecommunications business. The recoverable amount of the Group’s telecommunications business is estimated based on the value in use model, which considers the Group’s financial budgets covering a five-year period and a pre-tax discount rate of 9.7% (2014: 10.3%). Cash flows beyond the five-year period are projected to perpetuity at annual growth rate of 1.5%. Management performed impairment tests for the goodwill at the end of the reporting period and determined that goodwill was not impaired. Management believes any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause its recoverable amount to be less than carrying amount.

Key assumptions used for the value in use calculation model are the number of subscribers, average revenue per subscriber and gross margin. Management determined the number of subscribers, average revenue per subscriber and gross margin based on historical trends and financial information and operational data.

12. INTANGIBLE ASSETS

| | <u>Computer software RMB</u> |
|--------------------------------------------|--------------------------------------|
| Cost: | |
| Balance at January 1, 2014 | 18,091 |
| Additions | 378 |
| Transferred from construction in progress | 3,523 |
| Disposals | <u>(239)</u> |
| Balance at December 31, 2014 | 21,753 |
| Additions | 511 |
| Transferred from construction in progress | 4,413 |
| Disposals | <u>(376)</u> |
| Balance at December 31, 2015 | <u>26,301</u> |
| Accumulated amortization and impairment: | |
| Balance at January 1, 2014 | (10,046) |
| Amortization charge for the year | (2,923) |
| Written back on disposals | 200 |
| Balance at December 31, 2014 | <u>(12,769)</u> |
| Amortization charge for the year | (3,093) |
| Written back on disposals | 300 |
| Balance at December 31, 2015 | <u>(15,562)</u> |
| Net book value at December 31, 2015 | <u>10,739</u> |
| Net book value at December 31, 2014 | <u>8,984</u> |

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13. INTERESTS IN ASSOCIATES

| | December 31, | |
|-------------------------------------------------|---------------------|---------------|
| | 2014 | 2015 |
| | RMB | RMB |
| Unlisted equity investments, at cost | 3,219 | 36,325 |
| Share of post-acquisition changes in net assets | 887 | (1,852) |
| | <u>4,106</u> | <u>34,473</u> |

The Group's interests in associates are accounted for under the equity method. Details of the Group's principal associates are as follows:

| Name of company | Attributable equity interest | Principal activities |
|-----------------------------------------------|-------------------------------------|------------------------------------------------------------------------------------------------------|
| China Tower Corporation Limited | 27.9% | Construction, maintenance and operation of telecommunications towers as well as ancillary facilities |
| Shanghai Information Investment Incorporation | 24.0% | Provision of information technology consultancy services |

The above associates are established in the PRC and are not traded on any stock exchange.

Summarized financial information of the Group's principal associates and reconciled to the carrying amounts of interests in associates in the Group's consolidated financial statements are disclosed below:

| | China Tower Corporation Limited | |
|---------------------------------------------------------------------------------------------------|----------------------------------------|---------------|
| | 2014 | 2015 |
| | RMB | RMB |
| Current assets | 9,676 | 38,586 |
| Non-current assets | 454 | 231,793 |
| Current liabilities | 244 | 47,717 |
| Non-current liabilities | — | 96,535 |
| Operating revenues | — | 10,325 |
| Loss for the year | (114) | (2,944) |
| Other comprehensive income for the year | — | — |
| Total comprehensive income for the year | (114) | (2,944) |
| Dividend received from the associate | — | — |
| Reconciled to the Group's interests in the associate | | |
| Net assets of the associate | 9,886 | 126,127 |
| Non-controlling interests of the associate | — | — |
| Group's effective interest in the associate (Note 2) | 29.9% | 27.9% |
| Group's share of net assets of the associate | 2,956 | 35,189 |
| Adjustment for the remaining balance of the deferred gain from the Tower Assets Disposal (Note 2) | — | (1,939) |
| Carrying amount of the associate in the consolidated financial statements of the Group | <u>2,956</u> | <u>33,250</u> |

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13. INTERESTS IN ASSOCIATES (continued)

| | Shanghai Information Investment Incorporation | |
|----------------------------------------------------------------------------------------|--------------------------------------------------|------------|
| | 2014 | 2015 |
| | RMB | RMB |
| Current assets | 6,309 | 6,872 |
| Non-current assets | 7,773 | 7,943 |
| Current liabilities | 4,887 | 5,228 |
| Non-current liabilities | 3,680 | 3,716 |
| Operating revenues | 3,740 | 4,094 |
| Profit for the year | 236 | 342 |
| Other comprehensive income for the year | — | — |
| Total comprehensive income for the year | 236 | 342 |
| Dividend received from the associate | 10 | 9 |
| Reconciled to the Group's interests in the associate | | |
| Net assets of the associate | 5,515 | 5,871 |
| Non-controlling interests of the associate | (1,738) | (1,850) |
| Group's effective interest in the associate | 24.0% | 24.0% |
| Group's share of net assets of the associate | 906 | 965 |
| Carrying amount of the associate in the consolidated financial statements of the Group | <u>906</u> | <u>965</u> |

14. INVESTMENTS

| | December 31, | |
|--------------------------------------|--------------|--------------|
| | 2014 | 2015 |
| | RMB | RMB |
| Available-for-sale equity securities | 945 | 1,597 |
| Other unlisted equity investments | 27 | 27 |
| | <u>972</u> | <u>1,624</u> |

Other unlisted equity investments mainly represent the Group's various interests in PRC private enterprises which are mainly engaged in the provision of information technology services and Internet contents.

15. DEFERRED TAX ASSETS AND LIABILITIES

The components of deferred tax assets and deferred tax liabilities recognized in the consolidated statement of financial position and the movements are as follows:

| | Assets | | Liabilities | | Net Balance | |
|----------------------------------------------------------------|--------------|--------------|----------------|----------------|--------------|--------------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| | RMB | RMB | RMB | RMB | RMB | RMB |
| Provisions and impairment losses, primarily for doubtful debts | 1,291 | 1,156 | — | — | 1,291 | 1,156 |
| Property, plant and equipment | 3,174 | 1,788 | (1,605) | (773) | 1,569 | 1,015 |
| Deferred revenues and installation costs | 190 | 288 | (130) | (189) | 60 | 99 |
| Available-for-sale equity securities | — | — | (326) | (163) | (326) | (163) |
| Deferred tax assets/(liabilities) | <u>4,655</u> | <u>3,232</u> | <u>(2,061)</u> | <u>(1,125)</u> | <u>2,594</u> | <u>2,107</u> |

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15. DEFERRED TAX ASSETS AND LIABILITIES (continued)

| | Balance at January 1, 2013 RMB | Recognized in consolidated statement of comprehensive income RMB | Disposal of a subsidiary RMB | Balance at December 31, 2013 RMB |
|----------------------------------------------------------------|-----------------------------------------|---------------------------------------------------------------------------------|---------------------------------------|-------------------------------------------|
| Provisions and impairment losses, primarily for doubtful debts | 1,028 | 43 | — | 1,071 |
| Property, plant and equipment | 1,013 | 238 | (4) | 1,247 |
| Deferred revenues and installation costs | 237 | (82) | — | 155 |
| Available-for-sale equity securities | (73) | (104) | — | (177) |
| Net deferred tax assets | <u>2,205</u> | <u>95</u> | <u>(4)</u> | <u>2,296</u> |

| | Balance at January 1, 2014 RMB | Recognized in consolidated statement of comprehensive income RMB | Balance at December 31, 2014 RMB |
|----------------------------------------------------------------|-----------------------------------------|---------------------------------------------------------------------------------|-------------------------------------------|
| Provisions and impairment losses, primarily for doubtful debts | 1,071 | 85 | 1,156 |
| Property, plant and equipment | 1,247 | (232) | 1,015 |
| Deferred revenues and installation costs | 155 | (56) | 99 |
| Available-for-sale equity securities | (177) | 14 | (163) |
| Net deferred tax assets | <u>2,296</u> | <u>(189)</u> | <u>2,107</u> |

| | Balance at January 1, 2015 RMB | Recognized in consolidated statement of comprehensive income RMB | Balance at December 31, 2015 RMB |
|----------------------------------------------------------------|-----------------------------------------|---------------------------------------------------------------------------------|-------------------------------------------|
| Provisions and impairment losses, primarily for doubtful debts | 1,156 | 135 | 1,291 |
| Property, plant and equipment | 1,015 | 554 | 1,569 |
| Deferred revenues and installation costs | 99 | (39) | 60 |
| Available-for-sale equity securities | (163) | (163) | (326) |
| Net deferred tax assets | <u>2,107</u> | <u>487</u> | <u>2,594</u> |

16. SHORT-TERM AND LONG-TERM DEBT AND PAYABLE

Short-term debt comprises:

| | December 31, | |
|------------------------------------------------|---------------|---------------|
| | 2014 RMB | 2015 RMB |
| Loans from banks – unsecured | 5,399 | 5,361 |
| Super short-term commercial papers – unsecured | 18,997 | 33,995 |
| Other loans – unsecured | 182 | 182 |
| Loans from China Telecom Group – unsecured | 19,398 | 12,098 |
| Total short-term debt | <u>43,976</u> | <u>51,636</u> |

The weighted average interest rate of the Group's total short-term debt as of December 31, 2014 and 2015 was 5.1% per annum and 3.1% per annum, respectively. As of December 31, 2015, the Group's loans from banks and other loans bear interest at rates ranging from 3.9% to 5.6% (2014: 4.5% to 11.0%) per annum, and are repayable within one year; as of December 31, 2015, super short-term commercial papers bear interest at rates ranging from 2.1% to 3.0% (2014: 5.3% to 5.6%) per annum and were fully repaid by March 2016; the loans from China Telecom Group bear interest at rates from 3.5% to 4.5% per annum and are repayable within one year.

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16. SHORT-TERM AND LONG-TERM DEBT AND PAYABLE (continued)

Long-term debt and payable comprises:

| | | December 31, | |
|--------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|---------------|---------------|
| | | 2014 | 2015 |
| | | RMB | RMB |
| Interest rates and final maturity | | | |
| Bank loans – unsecured | | | |
| Renminbi denominated (Note (i)) | Interest rates ranging from 1.08% to 7.04% per annum with maturities through 2030 | 10 | 2,463 |
| US Dollars denominated | Interest rates ranging from 1.00% to 8.30% per annum with maturities through 2060 | 491 | 470 |
| Euro denominated | Interest rate of 2.30% per annum with maturities through 2032 | 349 | 261 |
| Other currencies denominated | | 15 | 9 |
| | | 865 | 3,203 |
| Other loans – unsecured | | | |
| Renminbi denominated | | 1 | 1 |
| Amount due to China Telecommunications Corporation - unsecured | | | |
| Deferred consideration of Mobile Network Acquisition – Renminbi denominated (Note (ii)) | | 61,710 | 61,710 |
| Total long-term debt and payable | | 62,576 | 64,914 |
| Less: Current portion | | (82) | (84) |
| Non-current portion | | 62,494 | 64,830 |

Note:

- (i) The Group obtained long-term RMB denominated government loans with below-market interest rate ranging from 1.08% to 1.20% per annum through banks, and recognized the loans at their fair value on initial recognition, and accreted the discount to profit or loss using the effective interest rate method. The difference between the fair value and face value of the loans was recognized as government grants in deferred revenue (Note 19).
- (ii) Represents the remaining balance of the deferred consideration payable to China Telecommunications Corporation in respect of the acquisition of certain CDMA network assets and associated liabilities, which were held by China Telecommunications Corporation through network branches located in 30 provinces, municipalities and autonomous regions in the PRC on December 31, 2012 (hereinafter referred to as the “Mobile Network Acquisition”). The Group may, from time to time, pay all or part of the deferred payment at any time after the completion date without penalty until the fifth anniversary of the completion date of the Mobile Network Acquisition. The Group pays interest on the deferred payment to China Telecommunications Corporation at half-yearly intervals and the interest accrues from the day following the completion of the Mobile Network Acquisition. The interest rate is set at a 5 basis points premium to the yield of the 5-year super AAA rated Medium Term Notes most recently published by the National Association of Financial Market Institutional Investors before the completion date of the Mobile Network Acquisition and will be adjusted once a year in accordance with the last yield of the 5-year super AAA rated Medium Term Notes most recently published by the National Association of Financial Market Institutional Investors at the end of each year. The interest rates for 2015 and 2016 are 5.11% and 4.00%, respectively. If the amount is not paid when due, the Group is required to pay the liquidated damages on such amount at a daily rate of 0.03% of the amount in arrears from the day following the applicable due date to the date that such amount has actually been paid in full.

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16. SHORT-TERM AND LONG-TERM DEBT AND PAYABLE (continued)

The aggregate maturities of the Group's long-term debt and payable subsequent to December 31, 2015 are as follows:

| | RMB |
|------------|---------------|
| 2016 | 84 |
| 2017 | 61,832 |
| 2018 | 206 |
| 2019 | 206 |
| 2020 | 224 |
| Thereafter | 2,362 |
| | <u>64,914</u> |

The Group's short-term and long-term debt and payable do not contain any financial covenants. As of December 31, 2014 and 2015, the Group had unutilized committed credit facilities amounting to RMB130,488 and RMB128,839 respectively.

17. ACCOUNTS PAYABLE

Accounts payable are analyzed as follows:

| | December 31, 2014 | December 31, 2015 |
|-----------------------------------------------|----------------------|----------------------|
| | RMB | RMB |
| Third parties | 71,934 | 95,305 |
| China Telecom Group | 15,667 | 18,702 |
| China Tower | — | 3,272 |
| Other telecommunications operators in the PRC | 857 | 776 |
| | <u>88,458</u> | <u>118,055</u> |

Amounts due to China Telecom Group are payable in accordance with contractual terms which are similar to those terms offered by third parties.

18. ACCRUED EXPENSES AND OTHER PAYABLES

Accrued expenses and other payables represent:

| | December 31, 2014 | December 31, 2015 |
|--------------------------------------------------------------|----------------------|----------------------|
| | RMB | RMB |
| | Note | |
| Amounts due to China Telecom Group | 1,043 | 1,464 |
| Amounts due to China Tower | (i) — | 3,097 |
| Amounts due to other telecommunications operators in the PRC | 72 | 31 |
| Accrued expenses | 16,289 | 17,715 |
| Value-added tax payable | 953 | 1,112 |
| Customer deposits and receipts in advance | 54,014 | 59,514 |
| Dividend payable | 71 | 1 |
| | <u>72,442</u> | <u>82,934</u> |

Note:

- (i) The amounts due to China Tower as of December 31, 2015 includes the cash injection amounting to RMB2,966 pursuant to the Transfer Agreement. The amount was paid in February 2016.

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19. DEFERRED REVENUES

Deferred revenues mainly represent the unearned portion of installation fees for wireline services received from customers, the unused portion of calling cards, and the unamortized portion of government grants (Note 16).

| | December 31, | |
|-------------------------------------|--------------|--------------|
| | 2014 RMB | 2015 RMB |
| Balance at beginning of year | 2,431 | 1,858 |
| Additions for the year | | |
| — calling cards | 547 | 600 |
| — government grants | — | 1,041 |
| | <u>547</u> | <u>1,641</u> |
| Reductions for the year | | |
| — amortization of installation fees | (586) | (416) |
| — usage of calling cards | (534) | (582) |
| — amortization of government grants | — | (19) |
| Balance at end of year | <u>1,858</u> | <u>2,482</u> |
| Representing: | | |
| — current portion | 1,060 | 1,028 |
| — non-current portion | 798 | 1,454 |
| | <u>1,858</u> | <u>2,482</u> |

Included in other assets are primarily capitalized direct costs associated with the installation of wireline services. As of December 31, 2014 and 2015, the unamortized portion of these costs was RMB818 and RMB560 respectively.

20. SHARE CAPITAL

| | December 31, | |
|---------------------------------------------------------|---------------|---------------|
| | 2014 RMB | 2015 RMB |
| Registered, issued and fully paid | | |
| 67,054,958,321 ordinary domestic shares of RMB1.00 each | 67,055 | 67,055 |
| 13,877,410,000 overseas listed H shares of RMB1.00 each | 13,877 | 13,877 |
| | <u>80,932</u> | <u>80,932</u> |

All ordinary domestic shares and H shares rank *pari passu* in all material respects.

21. RESERVES

| | Capital reserve RMB (Note (i)) | Share premium RMB | Statutory reserves RMB (Note (iii)) | Other reserves RMB (Note (ii)) | Exchange reserve RMB | Retained earnings RMB | Total RMB |
|-------------------------------------------------------|-----------------------------------------|-------------------------|----------------------------------------------|-----------------------------------------|----------------------------|-----------------------------|----------------|
| Balance as of January 1, 2013 | 16,821 | 10,746 | 65,729 | 112 | (865) | 91,664 | 184,207 |
| Acquisition of the Seventh Acquired Business (Note 1) | (278) | — | — | — | — | — | (278) |
| Disposal of a subsidiary | 380 | — | — | — | — | 11 | 391 |
| Contribution from non-controlling interests | 141 | — | — | — | — | — | 141 |
| Dividends (Note 28) | — | — | — | — | — | (5,433) | (5,433) |
| Appropriations (Note (iii)) | — | — | 1,663 | — | — | (1,663) | — |
| Total comprehensive income for the year | — | — | — | 315 | (79) | 17,545 | 17,781 |
| Balance as of December 31, 2013 | 17,064 | 10,746 | 67,392 | 427 | (944) | 102,124 | 196,809 |
| Dividends (Note 28) | — | — | — | — | — | (6,198) | (6,198) |
| Appropriations (Note (iii)) | — | — | 1,680 | — | — | (1,680) | — |
| Total comprehensive income for the year, | — | — | — | (43) | 3 | 17,680 | 17,640 |
| Balance as of December 31, 2014, | 17,064 | 10,746 | 69,072 | 384 | (941) | 111,926 | 208,251 |
| Acquisition of non-controlling interests | (1) | — | — | — | — | — | (1) |
| Contribution from non-controlling interests | 87 | — | — | — | — | — | 87 |
| Dividends (Note 28) | — | — | — | — | — | (6,160) | (6,160) |
| Appropriations (Note (iii)) | — | — | 1,901 | — | — | (1,901) | — |
| Total comprehensive income for the year | — | — | — | 492 | 129 | 20,054 | 20,675 |
| Balance as of December 31, 2015 | <u>17,150</u> | <u>10,746</u> | <u>70,973</u> | <u>876</u> | <u>(812)</u> | <u>123,919</u> | <u>222,852</u> |

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21. RESERVES (continued)

Note:

- (i) Capital reserve of the Group mainly represents the sum of (a) the difference between the carrying amount of the Company's net assets and the par value of the Company's shares issued upon its formation; and (b) the difference between the consideration paid by the Group for the entities acquired, other than the Fifth Acquired Group, from China Telecommunications Corporation as described in Note 1, which were accounted for as equity transactions as disclosed in Note 1 to the consolidated financial statements, and the historical carrying amount of the net assets of these acquired entities.
The difference between the consideration paid by the Group and the historical carrying amount of the net assets of the Fifth Acquisition was recorded as a deduction of retained earnings.
- (ii) Other reserves of the Group represent primarily the change in the fair value of available-for-sale equity securities and the deferred tax liabilities recognized due to the change in fair value of available-for-sale equity securities.
- (iii) The statutory reserves consist of statutory surplus reserve and discretionary surplus reserve.
According to the Company's Articles of Association, the Company is required to transfer 10% of its net profit, as determined in accordance with the lower of the amount determined under the PRC Accounting Standards for Business Enterprises and the amount determined under IFRS, to the statutory surplus reserve until such reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of any dividend to shareholders. For the year ended December 31, 2015, the net profit of the Company determined in accordance with the PRC Accounting Standards for Business Enterprises and IFRS are the same. For the year ended December 31, 2015, the Company transferred RMB1,901, being 10% of the year's net profit, to this reserve. For the year ended December 31, 2014, the Company transferred RMB1,680, being 10% of the year's net profit determined in accordance with the IFRS.
The Company did not transfer any discretionary surplus reserve for the years ended December 31, 2014 and 2015.
The statutory and discretionary surplus reserves are non-distributable other than in liquidation and can be used to make good of previous years' losses, if any, and may be utilized for business expansion or converted into share capital by issuing new shares to existing shareholders in proportion to their shareholdings or by increasing the par value of the shares currently held by them, provided that the remaining reserve balance after such issue is not less than 25% of the registered capital.
- (iv) According to the Company's Articles of Association, the amount of retained earnings available for distribution to shareholders of the Company is the lower of the amount of the Company's retained earnings determined in accordance with the PRC Accounting Standards for Business Enterprises and the amount determined in accordance with IFRS. As of December 31, 2014 and 2015, the amount of retained earnings available for distribution was RMB93,635 and RMB105,079 respectively, being the amount determined in accordance with IFRS. Final dividend of approximately RMB6,461 in respect of the financial year 2015 proposed after the end of the reporting period has not been recognized as a liability in the consolidated financial statements at the end of the reporting period (Note 28).

22. OPERATING REVENUES

Operating revenues represent revenues from the provision of telecommunications services. The components of the Group's operating revenues are as follows:

| | Note | Year ended December 31, | | |
|-----------------------------------------------------------------------------|-------|-------------------------|----------------|----------------|
| | | 2013 RMB | 2014 RMB | 2015 RMB |
| Wireline voice | (i) | 38,633 | 33,587 | 29,610 |
| Mobile voice | (ii) | 58,217 | 54,673 | 48,983 |
| Internet | (iii) | 99,394 | 112,431 | 126,546 |
| Value-added services | (iv) | 36,230 | 38,419 | 39,044 |
| Integrated information application services | (v) | 25,233 | 26,939 | 27,299 |
| Telecommunications network resource services and lease of network equipment | (vi) | 17,586 | 17,332 | 17,635 |
| Others | (vii) | 46,291 | 41,013 | 42,085 |
| | | <u>321,584</u> | <u>324,394</u> | <u>331,202</u> |

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22. OPERATING REVENUES (continued)

Note:

Before June 1, 2014, most of the Group's operating revenues were subject to business tax levied at rates of 3%, and relevant business tax was set off against operating revenues. Pursuant to the Notice on Covering Telecommunications Industries under the VAT Reform (Caishui [2014] No.43) jointly issued by the Ministry of Finance and the State Administration of Taxation, from June 1, 2014, the pilot programme of replacing business tax with VAT is extended to cover the telecommunications industry. VAT is excluded from operating revenues. With effect from June 1, 2014, the Group is no longer required to pay business tax of 3% on telecommunications services.

- (i) Represent the aggregate amount of monthly fees, local usage fees, domestic long distance usage fees, international, Hong Kong, Macau and Taiwan long distance usage fees, interconnections fees and installation fees charged to customers for the provision of wireline telephony services.
- (ii) Represent the aggregate amount of monthly fees, local usage fees, domestic long distance usage fees, international, Hong Kong, Macau and Taiwan long distance usage fees and interconnections fees charged to customers for the provision of mobile telephony services.
- (iii) Represent amounts charged to customers for the provision of Internet access services.
- (iv) Represent the aggregate amount of fees charged to customers for the provision of value-added services, which comprise primarily caller ID services, short messaging services, Color Ring Tone, Internet data center and Virtual Private Network services and etc.
- (v) Represent primarily the aggregate amount of fees charged to customers for Best Tone information services and IT services and applications.
- (vi) Represent primarily the aggregate amount of fees charged to customers for the provision of telecommunications network resource services and lease income from other domestic telecommunications operators and enterprise customers for the usage of the Group's telecommunications networks and equipment.
- (vii) Represent primarily revenue from sale, and repair and maintenance of equipment as well as the resale of mobile services (MVNO).

23. NETWORK OPERATIONS AND SUPPORT EXPENSES

Included in the Group's network operations and support expenses are as follows:

| | Year ended December 31, | | |
|------------------------------------|-------------------------|---------------|---------------|
| | 2013 | 2014 | 2015 |
| | RMB | RMB | RMB |
| Operating and maintenance | 29,963 | 38,159 | 46,018 |
| Utility | 11,404 | 11,644 | 12,519 |
| Property rental and management fee | 7,284 | 9,224 | 14,117 |
| Others | 4,451 | 9,624 | 8,586 |
| | <u>53,102</u> | <u>68,651</u> | <u>81,240</u> |

24. PERSONNEL EXPENSES

Personnel expenses are attributable to the following functions:

| | Year ended December 31, | | |
|-------------------------------------|-------------------------|---------------|---------------|
| | 2013 | 2014 | 2015 |
| | RMB | RMB | RMB |
| Network operations and support | 30,551 | 32,855 | 33,810 |
| Selling, general and administrative | 16,172 | 17,798 | 18,731 |
| | <u>46,723</u> | <u>50,653</u> | <u>52,541</u> |

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25. OTHER OPERATING EXPENSES

Other operating expenses consist of:

| | Note | Year ended December 31, | | |
|-------------------------|-------|-------------------------|---------------|---------------|
| | | 2013 | 2014 | 2015 |
| | | RMB | RMB | RMB |
| Interconnection charges | (i) | 15,916 | 12,483 | 12,329 |
| Cost of goods sold | (ii) | 38,764 | 33,836 | 34,963 |
| Donations | | 11 | 23 | 18 |
| Others | (iii) | 69 | 1,176 | 1,533 |
| | | <u>54,760</u> | <u>47,518</u> | <u>48,843</u> |

Note:

- (i) Interconnection charges represent amounts incurred for the use of other domestic and foreign telecommunications operators' networks for delivery of voice and data traffic that originate from the Group's telecommunications networks.
(ii) Cost of goods sold primarily represents cost of telecommunications equipment sold.
(iii) Others mainly include other surcharges related to VAT.

26. NET FINANCE COSTS

Net finance costs comprise:

| | Year ended December 31, | | |
|-------------------------------------|-------------------------|--------------|--------------|
| | 2013 | 2014 | 2015 |
| | RMB | RMB | RMB |
| Interest expense incurred | 5,840 | 5,958 | 4,900 |
| Less: Interest expense capitalized* | (329) | (308) | (327) |
| Net interest expense | 5,511 | 5,650 | 4,573 |
| Interest income | (361) | (304) | (375) |
| Foreign exchange losses | 61 | 21 | 154 |
| Foreign exchange gains | (58) | (76) | (79) |
| | <u>5,153</u> | <u>5,291</u> | <u>4,273</u> |

* Interest expense was capitalized in construction in progress at the following rates per annum

| | | |
|------------------|------------------|------------------|
| <u>4.5%-5.8%</u> | <u>4.5%-6.0%</u> | <u>3.5%-5.5%</u> |
|------------------|------------------|------------------|

27. INCOME TAX

Income tax in the profit or loss comprises:

| | Year ended December 31, | | |
|-----------------------------------------------------|-------------------------|--------------|--------------|
| | 2013 | 2014 | 2015 |
| | RMB | RMB | RMB |
| Provision for PRC income tax | 5,590 | 5,237 | 7,127 |
| Provision for income tax of other tax jurisdictions | 31 | 58 | 74 |
| Deferred taxation | (199) | 203 | (650) |
| | <u>5,422</u> | <u>5,498</u> | <u>6,551</u> |

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27. INCOME TAX (continued)

A reconciliation of the expected tax expense with the actual tax expense is as follows:

| | Note | Year ended December 31, | | |
|-----------------------------------------------------------------|-------|-------------------------|--------|--------|
| | | 2013 | 2014 | 2015 |
| | | RMB | RMB | RMB |
| Earnings before income tax | | 23,088 | 23,257 | 26,693 |
| Expected income tax expense at statutory tax rate of 25% | (i) | 5,772 | 5,814 | 6,673 |
| Differential tax rate on PRC subsidiaries' and branches' income | (i) | (216) | (248) | (400) |
| Differential tax rate on other subsidiaries' income | (ii) | (31) | (31) | (25) |
| Non-deductible expenses | (iii) | 428 | 347 | 431 |
| Non-taxable income | (iv) | (120) | (243) | (75) |
| Effect of change in tax rate | | 4 | — | — |
| Others | (v) | (415) | (141) | (53) |
| Actual income tax expense | | 5,422 | 5,498 | 6,551 |

Note:

- (i) Except for certain subsidiaries and branches which are mainly taxed at a preferential rate of 15%, the provision for mainland China income tax is based on a statutory rate of 25% of the assessable income of the Company, its mainland China subsidiaries and branches as determined in accordance with the relevant income tax rules and regulations of the PRC.
- (ii) Income tax provisions of the Company's subsidiaries in Hong Kong and Macau Special Administrative Regions of the PRC, and in other countries are based on the subsidiaries' assessable income and income tax rates applicable in the respective tax jurisdictions which range from 12% to 38%.
- (iii) Amounts represent miscellaneous expenses in excess of statutory deductible limits for tax purposes.
- (iv) Amounts represent miscellaneous income which are not subject to income tax.
- (v) Amounts primarily represent tax deduction on prior year research and development expenses, losses on disposal of property, plant and equipment approved by tax authorities and other tax benefits.

28. DIVIDENDS

Pursuant to a resolution passed at the Board of Directors' meeting on March 23, 2016, a final dividend of equivalent to HK\$0.095 per share totaling approximately RMB6,461 for the year ended December 31, 2015 was proposed for shareholders' approval at the annual general meeting. The dividend has not been provided for in the consolidated financial statements for the year ended December 31, 2015.

Pursuant to the shareholders' approval at the annual general meeting held on May 27, 2015, a final dividend of RMB0.076120 (equivalent to HK\$0.095) per share totaling RMB6,160 in respect of the year ended December 31, 2014 was declared and paid by July 17, 2015.

Pursuant to the shareholders' approval at the annual general meeting held on May 29, 2014, a final dividend of RMB0.076583 (equivalent to HK\$0.095) per share totaling RMB6,198 in respect of the year ended December 31, 2013 was declared and paid by July 18, 2014.

29. BASIC EARNINGS PER SHARE

The calculation of basic earnings per share for the years ended December 31, 2013, 2014 and 2015 is based on the profit attributable to equity holders of the Company of RMB17,545, RMB17,680 and RMB20,054 respectively, divided by 80,932,368,321 shares.

The amount of diluted earnings per share is not presented as there were no dilutive potential ordinary shares in existence for the periods presented.

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30. COMMITMENTS AND CONTINGENCIES

Operating lease commitments

The Group leases business premises and equipment through non-cancellable operating leases. These operating leases do not contain provisions for contingent lease rentals. None of the rental agreements contain escalation provisions that may require higher future rental payments nor impose restrictions on dividends, additional debt and/or further leasing.

As of December 31, 2015, the Group's future minimum lease payments under non-cancellable operating leases are as follows:

| | RMB |
|-------------------------------------|----------------------|
| 2016 | 3,452 |
| 2017 | 2,564 |
| 2018 | 2,006 |
| 2019 | 1,532 |
| 2020 | 1,171 |
| Thereafter | 3,723 |
| Total minimum lease payments | <u>14,448</u> |

Total rental expense in respect of operating leases charged to profit or loss for the years ended December 31, 2013, 2014 and 2015 were RMB6,057, RMB7,779 and RMB10,331, respectively.

Capital commitments

As of December 31, 2015, the Group had capital commitments as follows:

| | RMB |
|--------------------------------------------------|---------------|
| Contracted for but not provided | |
| - property | 403 |
| - telecommunications network plant and equipment | 9,745 |
| | <u>10,148</u> |

Contingent liabilities

- (a) The Group was advised by their PRC lawyers that, no material contingent liabilities were assumed by the Group.
- (b) As of December 31, 2014 and 2015, the Group did not have contingent liabilities in respect of guarantees given to banks in respect of banking facilities granted to other parties, or other forms of contingent liabilities.

Legal contingencies

The Group is a defendant in certain lawsuits as well as the named party in other proceedings arising in the ordinary course of business. Management has assessed the likelihood of an unfavorable outcome of such contingencies, lawsuits or other proceedings and based on such assessment, believes that any resulting liabilities will not have a material adverse effect on the financial position, operating results or cash flows of the Group.

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31. FINANCIAL INSTRUMENTS

Financial assets of the Group include cash and cash equivalents, bank deposits, investments, accounts receivable, prepayments and other receivables. Financial liabilities of the Group include short-term and long-term debt and payable, other non-current liabilities, accounts payable, accrued expenses and other payables. The Group does not hold nor issue financial instruments for trading purposes.

(a) *Fair Value Measurements*

Based on IFRS 13, Fair Value Measurement, the fair value of each financial instrument is categorized in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1: fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments
- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data
- Level 3: fair values measured using valuation techniques in which any significant input is not based on observable market data

The fair values of the Group's financial instruments (other than long-term debt and payable, other non-current liabilities and available-for-sale equity investment securities) approximate their carrying amounts due to the short-term maturity of these instruments.

The Group's available-for-sale equity investment securities are categorized as level 1 financial instruments. The fair value of the Group's available-for-sale equity investment securities, which amounted to RMB945 and RMB1,597 as of December 31, 2014 and 2015 respectively was based on quoted market price on PRC stock exchanges. The Group's long-term investments, other than the available-for-sale equity investment securities, are unlisted equity interests for which no quoted market prices exist in the PRC and because their fair values cannot be measured reliably, so their fair values were not disclosed.

The fair values of long-term debt and payable and other non-current liabilities are estimated by discounting future cash flows using current market interest rates offered to the Group for debt with substantially the same characteristics and maturities. The fair value measurement of long-term debt and payable and other non-current liabilities is categorized as level 2. The interest rates used by the Group in estimating the fair values of long-term debt and payable and other non-current liabilities, having considered the foreign currency denomination of the debt, ranged from 1.0% to 4.9% (2014: 1.0% to 6.6%). As of December 31, 2014 and 2015, the carrying amounts and fair values of the Group's long-term debt and payable and other non-current liabilities were as follows:

| | December 31, 2014 | | December 31, 2015 | |
|-------------------------------|------------------------|-------------------|------------------------|-------------------|
| | Carrying amount RMB | Fair value RMB | Carrying amount RMB | Fair value RMB |
| Long-term debt and payable | 62,576 | 62,686 | 64,914 | 65,156 |
| Other non-current liabilities | 424 | 357 | 455 | 419 |

During the year, there were no transfers among instruments in level 1, level 2 or level 3.

(b) *Risks*

The Group's financial instruments are exposed to three main types of risks, namely, credit risk, liquidity risk and market risk (which comprises of interest rate risk and foreign currency exchange rate risk). The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. Risk management is carried out under policies approved by the Board of Directors. The Board provides principles for overall risk management, as well as policies covering specific areas, such as liquidity risk, credit risk, and market risk. The Board regularly reviews these policies and authorizes changes if necessary based on operating and market conditions and other relevant risks. The following summarizes the qualitative and quantitative disclosures for each of the three main types of risks:

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31. FINANCIAL INSTRUMENTS(continued)

(b) *Risks (continued)*

(i) Credit risk

Credit risk refers to the risk that a counterparty will be unable to pay amounts in full when due. For the Group, this arises mainly from deposits it maintains at financial institutions and credit it provides to customers for the provision of telecommunications services. To limit exposure to credit risk relating to deposits, the Group primarily places cash deposits only with large state-owned financial institutions in the PRC with acceptable credit ratings. For accounts receivable, management performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on accounts receivable. Furthermore, the Group has a diversified base of customers with no single customer contributing more than 10% of revenues for the periods presented. Further details of the quantitative disclosures in respect of the Group's exposure on credit risk for accounts receivable are set out in Note 6.

(ii) Liquidity risk

Liquidity risk refers to the risk that funds will not be available to meet liabilities as they fall due, and results from timing and amount mismatches of cash inflow and outflow. The Group manages liquidity risk by maintaining sufficient cash balances and adequate amount of committed banking facilities to meet its funding needs, including working capital, principal and interest payments on debts, dividend payments, capital expenditures and new investments for a set minimum period of between 3 to 6 months.

The following table sets out the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on prevailing rates at the end of the reporting period) and the earliest date the Group would be required to repay:

| | 2014 | | | | | |
|-------------------------------------|---------------------|----------------------------------------------|--------------------------------|--------------------------------------------|---------------------------------------------|-----------------------|
| | Carrying amount RMB | Total contractual undiscounted cash flow RMB | Within 1 year or on demand RMB | More than 1 year but less than 2 years RMB | More than 2 years but less than 5 years RMB | More than 5 years RMB |
| Short-term debt | 43,976 | 44,133 | 44,133 | — | — | — |
| Long-term debt and payable | 62,576 | 72,093 | 3,243 | 3,243 | 65,107 | 500 |
| Accounts payable | 88,458 | 88,458 | 88,458 | — | — | — |
| Accrued expenses and other payables | 72,442 | 72,442 | 72,442 | — | — | — |
| Other non-current liabilities | 424 | 424 | — | — | — | 424 |
| | <u>267,876</u> | <u>277,550</u> | <u>208,276</u> | <u>3,243</u> | <u>65,107</u> | <u>924</u> |
| | 2015 | | | | | |
| | Carrying amount RMB | Total contractual undiscounted cash flow RMB | Within 1 year or on demand RMB | More than 1 year but less than 2 years RMB | More than 2 years but less than 5 years RMB | More than 5 years RMB |
| Short-term debt | 51,636 | 51,967 | 51,967 | — | — | — |
| Long-term debt and payable | 64,914 | 71,295 | 2,597 | 64,345 | 768 | 3,585 |
| Accounts payable | 118,055 | 118,055 | 118,055 | — | — | — |
| Accrued expenses and other payables | 82,934 | 82,934 | 82,934 | — | — | — |
| Finance lease obligations | 119 | 134 | 48 | 43 | 43 | — |
| Other non-current liabilities | 455 | 455 | — | — | 408 | 47 |
| | <u>318,113</u> | <u>324,840</u> | <u>255,601</u> | <u>64,388</u> | <u>1,219</u> | <u>3,632</u> |

Management believes that the Group's current cash on hand, expected cash flows from operations and available credit facilities from banks (Note 16) will be sufficient to meet the Group's working capital requirements and repay its borrowings and obligations when they become due.

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31. FINANCIAL INSTRUMENTS (continued)

(b) *Risks (continued)*

(iii) Interest rate risk

The Group's interest rate risk exposure arises primarily from its short-term debt and long-term debt and payable. Debts carrying interest at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group manages its exposure to interest rate risk by closely monitoring the change in the market interest rate.

The following table sets out the interest rate profile of the Group's debt at the end of the reporting period:

| | 2014 | | 2015 | |
|--------------------------------------------------------------------------------------------|---------------------------|----------------|---------------------------|----------------|
| | Effective interest rate % | RMB | Effective interest rate % | RMB |
| Fixed rate debt: | | | | |
| Short-term debt | 5.0 | 43,156 | 3.0 | 50,806 |
| Long-term debt | 2.4 | 866 | 1.2 | 3,204 |
| | | <u>44,022</u> | | <u>54,010</u> |
| Variable rate debt: | | | | |
| Short-term debt | 5.6 | 820 | 4.8 | 830 |
| Deferred consideration due to China Telecommunications Corporation (as defined in Note 16) | 5.1 | 61,710 | 4.0 | 61,710 |
| | | <u>62,530</u> | | <u>62,540</u> |
| Total debt | | <u>106,552</u> | | <u>116,550</u> |
| Fixed rate debt as a percentage of total debt | | <u>41.3%</u> | | <u>46.3%</u> |

As of December 31, 2014 and 2015, it is estimated that an increase of 100 basis points in interest rate, with all other variables held constant, would decrease the Group's net profit for the year and retained earnings by approximately RMB469 and RMB469 respectively.

The above sensitivity analysis has been prepared on the assumptions that the change of interest rate was applied to the Group's debt in existence at the end of the reporting period with exposure to cash flow interest rate risk. The analysis is prepared on the same basis for 2014.

(iv) Foreign currency exchange rate risk

Foreign currency exchange rate risk arises on financial instruments that are denominated in a currency other than the functional currency in which they are measured. The Group's foreign currency risk exposure relates to bank deposits and borrowings denominated primarily in US dollars, Euros and Hong Kong dollars.

Management does not expect the appreciation or depreciation of the Renminbi against foreign currencies will materially affect the Group's financial position and result of operations because 92.6% (2014: 93.1%) of the Group's cash and cash equivalents and 99.4% (2014: 99.2%) of the Group's short-term and long-term debt and payable as of December 31, 2015 are denominated in Renminbi. Details of bank loans denominated in other currencies are set out in Note 16.

32. CAPITAL MANAGEMENT

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide investment returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

Management regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Management monitors its capital structure on the basis of total debt-to-total assets ratio. For this purpose the Group defines total debt as the sum of short-term debt and long-term debt payable, and finance lease obligations. As of December 31, 2014 and 2015, the Group's total debt-to-total assets ratio was 19.0% and 18.5% respectively, which is within the range of management's expectation.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

CHINA TELECOM CORPORATION LIMITED AND SUBSIDIARIES
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33. RELATED PARTY TRANSACTIONS

(a) Transactions with China Telecom Group

The Group is a part of companies under China Telecommunications Corporation, a company owned by the PRC government, and has significant transactions and business relationships with members of China Telecom Group.

The principal transactions with China Telecom Group which were carried out in the ordinary course of business are as follows.

| | Note | Year ended December 31, | | |
|---------------------------------------------------------------|--------|-------------------------|-------------|-------------|
| | | 2013 RMB | 2014 RMB | 2015 RMB |
| Purchases of telecommunications equipment and materials. | (i) | 3,563 | 3,729 | 5,288 |
| Sales of telecommunications equipment and materials. | (i) | 3,885 | 3,089 | 2,855 |
| Construction and engineering services. | (ii) | 14,543 | 15,478 | 19,888 |
| Provision of IT services | (iii) | 192 | 167 | 181 |
| Receiving IT services | (iii) | 1,136 | 1,171 | 1,365 |
| Receiving community services | (iv) | 2,826 | 2,885 | 2,860 |
| Receiving ancillary services. | (v) | 11,208 | 11,549 | 12,718 |
| Property lease income | (vi) | 46 | 39 | 47 |
| Property lease expenses | (vi) | 673 | 695 | 673 |
| Net transaction amount of centralized services | (vii) | 616 | 246 | 486 |
| Interconnection revenues | (viii) | 44 | 45 | 59 |
| Interconnection charges | (viii) | 394 | 391 | 468 |
| Internet applications channel services | (ix) | — | 366 | 368 |
| Interest on amounts due to and loans from China Telecom Group | (x) | 3,912 | 4,431 | 4,048 |
| Lease of CDMA network facilities | (xi) | 157 | 193 | 226 |
| Lease of inter-provincial transmission optic fibres | (xii) | 25 | 22 | 22 |
| Lease of land use rights | (xiii) | 16 | 15 | 13 |

Note:

- (i) Represent the amount of telecommunications equipment and materials purchased from/sold to China Telecom Group and commission paid and payable for procurement services provided by China Telecom Group.
- (ii) Represent construction and engineering as well as design and supervisory services provided by China Telecom Group.
- (iii) Represent IT services provided to and received from China Telecom Group.
- (iv) Represent amounts paid and payable to China Telecom Group in respect of cultural, educational, health care and other community services.
- (v) Represent amounts paid and payable to China Telecom Group in respect of ancillary services such as repairs and maintenance of telecommunications equipment and facilities and certain customer services.
- (vi) Represent amounts of property lease fee received and receivable from/paid and payable to China Telecom Group for mutual leasing of properties.
- (vii) Represent net amount shared between the Company and China Telecom Group for costs associated with centralized services. The amount represents amounts received or receivable for the net amount of centralized services.
- (viii) Represent amounts received and receivable from/paid and payable to China Telecom Group for interconnection of local and domestic long distance calls.
- (ix) Represent amounts received and receivable from China Telecom Group in respect of Internet applications channel services, including the provision of telecommunications channel and applications support platform and billing and deduction services, etc.
- (x) Represent interest paid and payable to China Telecom Group with respect to the amounts due to China Telecommunications Corporation and loans from China Telecom Group (Note 16).

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33. RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with China Telecom Group (continued)

Note (continued) :

- (xi) Represent amounts paid and payable to China Telecom Group primarily for lease of certain CDMA mobile telecommunications network (“CDMA network”) facilities located in Xizang Autonomous Region.
- (xii) Represent amounts paid and payable to China Telecom Group for lease of certain inter-provincial transmission optic fibres within its service regions.
- (xiii) Represent amounts paid and payable to China Telecom Group for leases of land use rights.

Amounts due from/to China Telecom Group are summarized as follows:

| | December 31, | |
|---------------------------------------------------|---------------|---------------|
| | 2014 | 2015 |
| | RMB | RMB |
| Accounts receivable | 329 | 492 |
| Prepayments and other current assets | 818 | 732 |
| Total amounts due from China Telecom Group | 1,147 | 1,224 |
| Accounts payable | 15,667 | 18,702 |
| Accrued expenses and other payables | 1,043 | 1,464 |
| Short-term debt | 19,398 | 12,098 |
| Long-term debt and payable | 61,710 | 61,710 |
| Total amounts due to China Telecom Group | 97,818 | 93,974 |

Amounts due from/to China Telecom Group, other than short-term debt and long-term debt and payable, bear no interest, are unsecured and are repayable in accordance with contractual terms which are similar to those terms offered by third parties. The terms and conditions associated with short-term debt and long-term debt and payable due to China Telecom Group are set out in Note 16.

As of December 31, 2014 and 2015, no material allowance for doubtful debts was recognized in respect of amounts due from China Telecom Group.

(b) Transactions with China Tower

The principal transactions with China Tower are as follows:

| | Note | 2014 | 2015 |
|--------------------------------|------|------|--------|
| | | RMB | RMB |
| Tower Assets Disposal (Note 2) | | — | 30,131 |
| Tower assets usage fee | (i) | — | 2,742 |

Note:

- (i) Represent amounts paid and payable to China Tower for the usage of telecommunications tower and related assets.

Amounts due from/to China Tower are summarized as follows:

| | 2014 | 2015 |
|-------------------------------------------|----------|--------------|
| | RMB | RMB |
| Prepayments and other current assets | — | 1,789 |
| Total amounts due from China Tower | — | 1,789 |
| Accounts payable | — | 3,272 |
| Accrued expenses and other payables | — | 3,097 |
| Total amounts due to China Tower | — | 6,369 |

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33. RELATED PARTY TRANSACTIONS (continued)

(b) Transactions with China Tower (continued)

Amounts due from/to China Tower bear no interest, are unsecured and are repayable in accordance with contractual terms which are similar to those terms offered by third parties.

As of December 31, 2014 and 2015, no material allowance for doubtful debts was recognized in respect of amounts due from China Tower.

(c) Key management personnel compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including directors, supervisors and executive vice presidents of the Group.

Key management personnel compensation of the Group is summarized as follows:

| | Year ended December 31, | | |
|--------------------------------|-------------------------|---------------|---------------|
| | 2013 | 2014 | 2015 |
| | RMB | RMB | RMB |
| | thousands | thousands | thousands |
| Short-term employee benefits . | 14,329 | 11,598 | 9,859 |
| Post-employment benefits. | 794 | 1,069 | 916 |
| | <u>15,123</u> | <u>12,667</u> | <u>10,775</u> |

The above remuneration is included in personnel expenses.

(d) Contributions to post-employment benefit plans

The Group participates in various defined contribution post-employment benefit plans organized by municipal, autonomous regional and provincial governments for its employees. Further details of the Group's post-employment benefit plans are disclosed in Note 34.

(e) Transactions with other government-related entities in the PRC

The Group is a government-related enterprise and operates in an economic regime currently dominated by entities directly or indirectly controlled by the People's Republic of China through government authorities, agencies, affiliations and other organizations (collectively referred to as "government-related entities").

Apart from transactions with parent company and its fellow subsidiaries(Note 33(a)), the Group has transactions that are collectively but not individually significant with other government-related entities, which include but not limited to the following:

- rendering and receiving services, including but not limited to telecommunications services
- sales and purchases of goods, properties and other assets
- lease of assets
- depositing and borrowing
- use of public utilities

These transactions are conducted in the ordinary course of the Group's business on terms comparable to the terms of transactions with other entities that are not government-related. The Group prices its telecommunications services and products based on government-regulated tariff rates, where applicable, or based on commercial negotiations. The Group has also established procurement policies and approval processes for purchases of products and services, which do not depend on whether the counterparties are government-related entities or not.

The directors of the Company believe the above information provides appropriate disclosure of related party transactions.

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34. POST-EMPLOYMENT BENEFITS PLANS

As stipulated by the regulations of the PRC, the Group participates in various defined contribution retirement plans organized by municipal, autonomous regional and provincial governments for its employees. The Group is required to make contributions to the retirement plans at rates ranging from 14% to 21% of the salaries, bonuses and certain allowances of the employees. A member of the plan is entitled to a pension equal to a fixed proportion of the salary prevailing at the member's retirement date. Other than the above, the Group also participates in supplementary defined contribution retirement plans managed by independent external parties whereby the Group is required to make contributions to the retirement plans at fixed rates of the employees' salaries, bonuses and certain allowances. The Group has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above.

The Group's contributions for the above plans for the years ended December 31, 2013, 2014 and 2015 were RMB5,682 and RMB6,229 and RMB6,584 respectively.

The amount payable for contributions to the above defined contribution retirement plans as of December 31, 2014 and 2015 was RMB669 and RMB791 respectively.

35. STOCK APPRECIATION RIGHTS

The Group implemented a stock appreciation rights plan for members of its management to provide incentives to these employees. Under this plan, stock appreciation rights are granted in units with each unit representing one H share. No shares will be issued under the stock appreciation rights plan. Upon exercise of the stock appreciation rights, a recipient will receive, subject to any applicable withholding tax, a cash payment in RMB, translated from the Hong Kong dollar amount equal to the product of the number of stock appreciation rights exercised and the difference between the exercise price and market price of the Company's H shares at the date of exercise based on the applicable exchange rate between RMB and Hong Kong dollar at the date of the exercise. The Company recognizes compensation expense of the stock appreciation rights over the applicable vesting period.

In 2012, the Company approved the granting of 916.7 million stock appreciation right units to eligible employees. Under the terms of this grant, all stock appreciation rights had a contractual life of five years from date of grant and an exercise price of HK\$4.76 per unit. A recipient of stock appreciation rights may exercise the rights in stages commencing November 2013. As of each of the third, fourth and fifth anniversary of the date of grant, the total number of stock appreciation rights exercisable may not in aggregate exceed 33.3%, 66.7% and 100.0%, respectively, of the total stock appreciation rights granted to such person.

During the years ended December 31, 2013, 2014 and 2015, no stock appreciation right units were exercised. For the year ended December 31, 2015, compensation expense of RMB102 was reversed by the Group in respect of stock appreciation rights as a result of decline in share price of the Company. For the year ended December 31, 2014, compensation expense of RMB130 was recognized by the Group in respect of stock appreciation rights. For the year ended December 31, 2013, compensation expense of RMB39 was reversed by the Group in respect of stock appreciation rights as a result of decline in share price of the Company.

As of December 31, 2014 and 2015, the carrying amount of the liability arising from stock appreciation rights was RMB254 and RMB152 respectively. As of December 31, 2014, 609 million stock appreciation right units vested but were not exercised. The carrying amount of the corresponding liability was RMB183. As of December 31, 2015, 908 million stock appreciation right units vested but were not exercised, and 8.7 million stock appreciation right units were forfeited. The carrying amount of the corresponding liability was RMB152.

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36. PRINCIPAL SUBSIDIARIES

Details of the Company's subsidiaries which principally affected the results, assets and liabilities of the Group as of December 31, 2015 are as follows:

| <u>Name of company</u> | <u>Type of legal entity</u> | <u>Date of incorporation</u> | <u>Place of incorporation and operation</u> | <u>Registered /issued capital (in RMB millions unless otherwise stated)</u> | <u>Principal activities</u> |
|----------------------------------------------------------|-----------------------------|------------------------------|----------------------------------------------------|-----------------------------------------------------------------------------|---------------------------------------------------------|
| China Telecom System Integration Co., Limited | Limited Company | September 13, 2001 | PRC | 392 | Provision of system integration and consulting services |
| China Telecom Global Limited | Limited Company | February 25, 2000 | Hong Kong Special Administrative Region of the PRC | HK\$168 million | Provision of international value-added network services |
| China Telecom (Americas) Corporation | Limited Company | November 22, 2001 | The United States of America | US\$43 million | Provision of telecommunications services |
| China Telecom Best Tone Information Service Co., Limited | Limited Company | August 15, 2007 | PRC | 350 | Provision of Best Tone information services |
| China Telecom (Macau) Company Limited | Limited Company | October 15, 2004 | Macau Special Administrative Region of the PRC | MOP60 million | Provision of telecommunications services |
| Tianyi Telecom Terminals Company Limited | Limited Company | July 1, 2005 | PRC | 500 | Sales of telecommunications terminals |
| China Telecom (Singapore) Pte. Limited | Limited Company | October 5, 2006 | Singapore | S\$1 | Provision of international value-added network services |
| E-surfing Pay Co., Ltd | Limited Company | March 3, 2011 | PRC | 300 | Provision of e-commerce service |
| Shenzhen Shekou Telecommunications Company Limited | Limited Company | May 5, 1984 | PRC | 91 | Provision of telecommunications services |
| China Telecom (Australia) Pty Ltd | Limited Company | January 10, 2011 | Australia | AUD1 million | Provision of international value-added network services |
| China Telecom Korea Co.,Ltd | Limited Company | May 16, 2012 | South Korea | KRW500 million | Provision of international value-added network services |
| China Telecom (Malaysia) SDN BHD | Limited Company | June 26, 2012 | Malaysia | RM500,000 | Provision of international value-added network services |
| China Telecom Information Technology (Vietnam) Co., Ltd | Limited Company | July 9, 2012 | Vietnam | VND6,300 million | Provision of international value-added network services |

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36. PRINCIPAL SUBSIDIARIES (continued)

| <u>Name of company</u> | <u>Type of legal entity</u> | <u>Date of incorporation</u> | <u>Place of incorporation and operation</u> | <u>Registered /issued capital (in RMB millions unless otherwise stated)</u> | <u>Principal activities</u> |
|---------------------------------------|-----------------------------|------------------------------|----------------------------------------------------------|-----------------------------------------------------------------------------|----------------------------------------------------------------|
| iMUSIC Culture & Technology Co., Ltd. | Limited Company | June 9, 2013 | PRC | 250 | Provision of music production and related information services |
| China Telecom (Europe) Limited | Limited Company | March 2, 2006 | The United Kingdom of Great Britain and Northern Ireland | GBP16.15 million | Provision of international value-added network services |
| Zhejiang Yixin Technology Co., Ltd. | Limited Company | August 19, 2013 | PRC | 11 | Provision of instant messenger service |
| Chengdu E-store Technology Co., Ltd | Limited Company | June 17, 2014 | PRC | 45 | Provision of software technology |

Except for Shenzhen Shekou Telecommunications Company Limited which is 51% owned by the Company and Zhejiang Yixin Technology Co., Ltd. which is 65% owned by the Company, all of the above subsidiaries are directly or indirectly wholly owned by the Company. No subsidiaries of the Group have material non-controlling interest.

37. ACCOUNTING ESTIMATES AND JUDGMENTS

The Group's financial position and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of the consolidated financial statements. Management bases the assumptions and estimates on historical experience and on other factors that the management believes to be reasonable and which form the basis for making judgments about matters that are not readily apparent from other sources. On an on-going basis, management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

The selection of significant accounting policies, the judgments and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the consolidated financial statements. The significant accounting policies are set forth in Note 3. Management believes the following significant accounting policies involve the most significant judgments and estimates used in the preparation of the consolidated financial statements.

Allowance for doubtful debts

Management estimates an allowance for doubtful debts resulting from the inability of the customers to make the required payments. Management bases its estimates on the ageing of the accounts receivable balance, customer credit-worthiness, and historical write-off experience. If the financial condition of the customers were to deteriorate, actual write-offs might be higher than expected and could significantly affect the results of future periods.

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37. ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

Impairment of long-lived assets

If circumstances indicate that the carrying amount of a long-lived asset may not be recoverable, the asset may be considered “impaired”, and an impairment loss would be recognized in accordance with accounting policy for impairment of long-lived assets as described in Note 3 (n). The carrying amounts of the Group’s long-lived assets, including property, plant and equipment, intangible assets with finite useful lives and construction in progress are reviewed periodically to determine whether there is any indication of impairment. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. For goodwill, the impairment testing is performed annually at the end of each reporting period. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and fair value less costs of disposal. When an asset does not generate cash flows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit). In determining the value in use, expected future cash flows generated by the assets are discounted to their present value. An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. It is difficult to precisely estimate fair value of the Group’s long-lived assets because quoted market prices for such assets may not be readily available. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value, which requires significant judgment relating to level of revenue, amount of operating costs and applicable discount rate. Management uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and amount of operating costs.

For the year ended December 31, 2015, provision for impairment losses of RMB51 were made against the carrying value of long-lived assets. For the years ended December 31, 2013 and 2014, no provision for impairment loss was made against the carrying value of long-lived assets. In determining the recoverable amount of these equipment, significant judgments were required in estimating future cash flows, level of revenue, amount of operating costs and applicable discount rate.

Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods.

Depreciation and amortization

Property, plant and equipment and intangible assets are depreciated and amortized on a straight-line basis over the estimated useful lives of the assets, after taking into account their estimated residual value. Management reviews the estimated useful lives and residual values of the assets annually in order to determine the amount of depreciation and amortization expense to be recorded during any reporting period. The useful lives and residual values are based on the Group’s historical experience with similar assets and take into account anticipated technological changes. The depreciation and amortization expense for future periods is adjusted if there are significant changes from previous estimates.

38. POSSIBLE IMPACT OF AMENDMENTS AND NEW STANDARDS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED DECEMBER 31, 2015

Up to the date of issue of these consolidated financial statements, the IASB has issued the following amendments and new standards which are not yet effective and not early adopted for the annual accounting period ended December 31, 2015:

| | <u>Effective for accounting period beginning on or after</u> |
|---------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------|
| Amendments to IFRS 11, “Accounting for Acquisitions of Interests in Joint Operations” | January 1, 2016 |
| Amendments to IAS 1, “Disclosure Initiative” | January 1, 2016 |
| Amendments to IAS 16 and IAS 38, “Clarification of Acceptable Methods of Depreciation and Amortization” | January 1, 2016 |
| Amendments to IFRSs, “Annual Improvements to IFRSs 2012-2014 Cycle” | January 1, 2016 |
| Amendments to IAS 16 and IAS 41, “Agriculture: Bearer Plants” | January 1, 2016 |
| Amendments to IFRS 10, IFRS 12 and IAS 28, “Investment Entities: Applying the Consolidation Exception” | January 1, 2016 |
| IFRS 14, “Regulatory Deferral Accounts” | January 1, 2016 |
| Amendments to IAS 7, “Disclosure Initiative” | January 1, 2017 |
| Amendments to IAS 12, “Recognition of Deferred Tax Assets for Unrealized Losses” | January 1, 2017 |
| IFRS 9, “Financial Instruments” | January 1, 2018 |
| IFRS 15, “Revenue from Contracts with Customers” | January 1, 2018 |
| IFRS 16, “Leases” | January 1, 2019 |
| Amendments to IFRS 10 and IAS 28, “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture” | A date to be determined |

CHINA TELECOM CORPORATION LIMITED AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All **Renminbi** amounts in millions, except per share data and except otherwise stated)

38. POSSIBLE IMPACT OF AMENDMENTS AND NEW STANDARDS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED DECEMBER 31, 2015 (continued)

The Group is in the process of making an assessment of the impact that will result from adopting the amendments and new standards issued by the IASB which are not yet effective for the accounting period ended on December 31, 2015. Except for IFRS 15, “Revenue from Contracts with Customers”, and IFRS 16, “Leases”, so far the Group believes that the adoption of these amendments and new standards is unlikely to have a significant impact on its financial position and the results of operations.

39. PARENT AND ULTIMATE HOLDING COMPANY

The parent and ultimate holding company of the Group as of December 31, 2015 is China Telecommunications Corporation, a state-owned enterprise established in the PRC.

ARTICLES OF ASSOCIATION
OF
CHINA TELECOM CORPORATION LIMITED

(The Articles of Association was prepared in Chinese and the English translation is not an official version and for your reference only. In case of any inconsistencies and discrepancies between the Chinese and the English versions, the Chinese version shall prevail)

(Inclusive of alterations approved by the shareholders' general meeting up to 27 May 2015)

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ARTICLES OF ASSOCIATION OF
CHINA TELECOM CORPORATION LIMITED

CHAPTER 1: GENERAL PROVISIONS

Article 1. China Telecom Corporation Limited (the “Company”) is a joint stock limited company established in accordance with the Company Law of the People’s Republic of China (the “Company Law”), the State Council’s Special Regulations Regarding the Issue of Shares Overseas and the Listing of Shares Overseas by Companies Limited by Shares (the “Special Regulations”) and other relevant laws and regulations of the State.

The Company was established by way of promotion with the approval of the State Economic and Trade Commission of the People’s Republic of China, as evidenced by approval document *Guo Jing Mao Qi Gai [2002]* no. 656. It is registered with and has obtained a business licence from the State Administration for Industry & Commerce of the People’s Republic of China on 10 September 2002. The Company’s business licence number is: 1000001003712.

The promoter of the Company is: China Telecommunications Corporation.

Article 2. The Company’s registered Chinese name is: 中国电信股份有限公司
The Company’s registered English name is: China Telecom Corporation Limited.

Article 3. The Company’s address : 31 Jinrong Street
Xicheng District
Beijing
China
Postal code : 100032
Telephone number : 6642-8166
Facsimile number : 6641-5280

Article 4. The Company’s legal representative is the Chairman of the board of directors of the Company.

Article 5. The Company is a joint stock limited company which has perpetual existence.

The rights and liability of a shareholder of the Company is limited to his share in the share capital of the Company, while the Company undertakes all of its liabilities with all of its assets.

The Company is an independent corporate legal person, and is subject to the jurisdiction of and protected by the laws and regulations of the People's Republic of China.

Article 6. The Company's Articles of Association (the "Articles of Association" or "these Articles of Association") are enacted in accordance with the provisions of the Company Law, the Special Regulations and the Mandatory Provisions for Articles of Association of Companies to be Listed Overseas (the "Mandatory Provisions") and relevant provisions under the other PRC laws and administrative regulations.

Article 7. The original Articles of Association took effect from the date of incorporation of the Company.

These Articles of Association shall take effect after being adopted by a special resolution at the Company's general meeting and upon approval by the authorities that are authorized by the State Council to examine and approve companies. After these Articles of Association come into effect, the original articles of association shall be superseded by these Articles of Association.

Article 8. From the date on which the Company's Articles of Association comes into effect, the Company's Articles of Association constitute the legally binding document that regulates the Company's organization and activities, and the rights and obligations between the Company and each shareholder and among the shareholders.

Article 9. The Company's Articles of Association are binding on the Company and its shareholders, directors, supervisors, general manager and other senior management personnel, all of whom may, according to the Company's Articles of Association, assert rights in respect of the affairs of the Company.

Subject to non-contradiction to Chapter 21 of these Articles of Association, a shareholder may sue and vice versa be sued by the Company pursuant to the Company's Articles of Association. A shareholder may also sue another shareholder, and may take action against the directors, supervisors, general manager and other senior officers of the Company pursuant to the Company's Articles of Association.

The suit referred to in the preceding paragraph include court proceedings and an application to an arbitration tribunal to commence arbitration proceedings.

Article 10. The Company may invest in other limited liability companies or joint stock limited companies. The Company's liabilities to an invested company shall be limited to the amount of its capital contribution to the investee company.

The Company shall not be a shareholder with unlimited liabilities of any other organisations operating for profits.

The Company may, according to its operating and management needs, operate as a holding company in accordance with the law.

- Article 11. Subject to compliance with PRC laws and administrative regulations, the Company shall have the right to raise funds, including (but not limited to) loans and company bonds, etc and shall have the right to charge or pledge its assets.

CHAPTER 2: THE COMPANY'S OBJECTIVES AND SCOPE OF BUSINESS

- Article 12. The Company's objectives are: comply with State laws and regulations, be market driven, actively adopt advanced communications technologies, and develop telecommunications and information businesses; strengthen management and increase service quality; provide fast, convenient and accurate communication services to society and satisfy the needs of society; improve enterprise efficiency, increase enterprise competitiveness and create profits for shareholders.

- Article 13. The Company's scope of business shall be consistent with and subject to the scope of business approved by the authority responsible for the registration of the Company.

Basic telecommunications businesses include: engage in second generation 800MHz CDMA digital cellular mobile communications business, third generation CDMA2000 digital cellular mobile communications business and the LTE/4G digital cellular mobile communications business (TD- LTE/LTE FDD) in the People's Republic of China; engage in local fixed telephone business (including local wireless ring circuit business), domestic fixed long-distance telephone business, international fixed long-distance telephone business, IP telephone (limited to Phone-to-Phone telephone service) business, satellite international private line business, Internet data transfer business, international data communications business, public telegraph and subscriber telegraph business, 26GHz wireless access business, and domestic communications facilities servicing business in the twenty-one provinces, municipalities and autonomous regions of Beijing, Shanghai, Jiangsu, Zhejiang, Anhui, Fujian, Jiangxi, Hubei, Hunan, Guangdong, Guangxi, Hainan, Chongqing, Sichuan, Guizhou, Yunnan, Shaanxi, Gansu, Qinghai, Ningxia and Xinjiang; engage in 3.5GHz wireless access business in Nanjing, Hefei, Kunming, Hubei, Hunan, Hainan, Sichuan, Guizhou and Gansu.

Value-added telecommunications businesses include: engage in value-added telecommunications services (including basic telecommunications managed by reference to value-added telecommunications services), domestic Very Small Aperture Terminal (VSAT) communications business, domestic fixed data transfer business, wireless data transfer business, Customer Premises Network (CPN) business, network hosting business, online data processing and transaction processing business, domestic Internet virtual private network business, Internet data centre business, voice mailbox business, fax storage and forwarding business, X.400 email business, call centre business, Internet access services business and information services business (including fixed telephone information service business, Internet information service business and mobile information service business) in the twenty-one provinces, municipalities and autonomous regions of Beijing, Shanghai, Jiangsu, Zhejiang, Anhui, Fujian, Jiangxi, Hubei, Hunan, Guangdong, Guangxi, Hainan, Chongqing, Sichuan, Guizhou, Yunnan, Shaanxi, Gansu, Qinghai, Ningxia and Xinjiang.

Information services business (limited to mobile information services) in the ten provinces, municipalities and autonomous regions of Tianjin, Hebei, Shanxi, Inner Mongolia, Liaoning, Jilin, Heilongjiang, Shandong, Henan and Tibet.

IPTV transmission services: provide signal transmission and the relevant technical support between the IPTV integrated broadcast and control platforms and TV user terminals; the transmission network is built upon the fixed telecommunications network (including the Internet) to set up networks which are exclusive for the transmission of IPTV signals; the IPTV transmission services are conducted in defined territories.

Internet mapping services; engage in music entertainment products, gaming products (including the issuance of online game virtual currency), art, drama performances (programs), shows, and animation products through information network; and undertake the exhibitions and competition campaigns in relation to the network culture products.

General businesses include: engage in system integration, technology development, technical services, technology consulting, information consulting, the manufacture, sale, installation, design and construction of equipment, computer hardware and software in connection with communications and information businesses; leasing of properties, leasing of communications facilities; design, construction and repair of safety technologies and security systems; advertising.

Article 14. The Company may, based on its business development needs, establish wholly-owned subsidiaries, controlled subsidiaries, branches, representative offices and other branch organisations.

Based on its business development needs and upon approval of the relevant governmental authorities, the Company may adjust its scope of business and manner of operation from time to time, and may establish branch organisations and/or representative offices (irrespective of whether controlled or owned by it) in the Hong Kong Special Administrative Region, the Macau Special Administrative Region and the Taiwan Region.

CHAPTER 3: SHARES AND REGISTERED CAPITAL

Article 15. There must, at all times, be ordinary shares in the Company. The ordinary shares issued by the Company include domestic-invested shares and foreign-invested shares. Subject to the approval by the authorities that are authorised by the State Council to examine and approve companies, the Company may, according to its requirements, create different classes of shares.

Article 16. The shares issued by the Company shall each have a par value of Renminbi one (1.00) yuan.

“Renminbi” referred to in the previous paragraph means the legal currency of the PRC.

Article 17. Subject to the approval of the securities authority of the State Council, the Company may issue shares to Domestic Investors and Foreign Investors.

“Foreign Investors” referred to in the previous paragraph mean those investors who subscribe for the shares issued by the Company and who are located in foreign countries and in the regions of Hong Kong, Macau and Taiwan. “Domestic Investors” mean those investors who subscribe for the shares issued by the Company within the territory of the PRC who are located outside of the jurisdictions mentioned above.

Article 18. Shares which the Company issues to Domestic Investors for subscription in Renminbi shall be referred to as “Domestic Shares”. Shares which the Company issues to Foreign Investors for subscription in foreign currencies shall be referred to as “Foreign-Invested Shares”. Foreign-Invested Shares which are listed overseas are called “Overseas-Listed Foreign-Invested Shares”. Both holders of Domestic Shares and holders of Overseas-Listed Foreign-Invested Shares are holders of ordinary shares, and have the same obligations and rights.

“Foreign currencies” mean the legal currencies (other than the RMB) of countries or districts outside the PRC which are recognised by the foreign exchange authority of the State and which can be used to pay the share price to the Company.

Article 19. Foreign-Invested Shares issued by the Company and which are listed in Hong Kong shall be referred to as “H Shares”. H Shares are shares which have been admitted for listing on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the par value of which is denominated in Renminbi and which are subscribed for and traded in Hong Kong dollars.

Article 20. By the approval of the authorities that are authorised by the State Council to examine and approve companies, the Company issue a total of 80,932,368,321 ordinary shares, of which 68,317,270,803 were issued to the promoter of the Company at the time when the Company was established, representing 84.41% of the issued ordinary share capital.

Article 21. All the 12,615,097,518 ordinary shares issued by the Company after its incorporation are the overseas-listed foreign-invested shares (H Shares). Pursuant to the *Provisional Measures on the Administration of the Reduction of the State-Owned Shares for Raising Social Security Funds*, the number of overseas-listed foreign-invested shares (H Shares) converted from a reduction by holders of State-owned shares of their shareholdings of the State-owned shares amounted to 1,262,312,482 shares. The total number of the overseas-listed foreign-invested shares (H Shares) issued by the Company shall be 13,877,410,000 shares, representing 17.15% of the issued ordinary share capital of the Company.

The share capital structure of the Company is as follows: there are a total of 80,932,368,321 ordinary shares issued, of which 57,377,053,317 shares are held by the promoter, China Telecommunications Corporation, representing 70.89% of the total of the ordinary shares issued by the Company. The other holders of the domestic shares are Guangdong Rising Assets Management Co., Ltd., who holds a total of 5,614,082,653 shares representing 6.94% of the total ordinary shares issued by the Company, Jiangsu Guoxin Investment Group Co., Ltd., who holds a total of 957,031,543 shares representing 1.18% of the total ordinary shares issued by the Company, Zhejiang Financial Development Company, who holds a total of 2,137,473,626 shares representing 2.64% of the total ordinary shares issued by the Company and Fujian Investment & Development Group Co., Ltd, who holds a total of 969,317,182 shares representing 1.20% of the total ordinary shares issued by the Company. A total of 13,877,410,000 shares are held by holders of Overseas-Listed Foreign-Invested Shares (H shares), representing 17.15% of the total ordinary shares issued by the Company.

Article 22. The Company's board of directors may take all necessary action for the issuance of Overseas-Listed Foreign-Invested Shares and Domestic Shares separately after proposals for issuance of the same have been approved by the securities authority of the State Council.

The Company may implement its proposal to separately issue Overseas-Listed Foreign-Invested Shares and Domestic Shares pursuant to the preceding paragraph within fifteen (15) months from the date of approval by the China Securities Regulatory Commission (the "CSRC").

Article 23. Where the total number of shares stated in the proposal for the separate issuance of shares includes Overseas-Listed Foreign-Invested Shares and Domestic Shares, such shares should be fully subscribed for at their respective offerings. If the shares cannot be fully subscribed for all at once due to special circumstances, the shares may, subject to the approval of the securities authority of the State Council, be issued in separate Offerings.

Article 24. The registered capital of the Company is RMB 80,932,368,321.

Article 25. The Company may, based on its operating and development needs, authorize the increase of its capital pursuant to the Company's Articles of Association.

The Company may increase its capital in the following ways:

- (1) by offering new shares for subscription by unspecified investors;
- (2) by issuing new shares to its existing shareholders;
- (3) by allotting bonus shares to its existing shareholders;
- (4) by any other means which is permitted by law and administrative regulations.

After the Company's increase of share capital by way of the issuance of new shares has been approved in accordance with the provisions of the Company's Articles of Association, the issuance thereof should be made in accordance with the procedures set out in the relevant State laws and administrative regulations.

Article 26. Except as otherwise provided for by law and administrative regulations, shares of the Company shall be without lien and be freely transferable.

CHAPTER 4: REDUCTION OF CAPITAL AND REPURCHASE OF SHARES

Article 27. According to the provisions of the Company's Articles of Association, the Company may reduce its registered capital.

Article 28. The Company must prepare a balance sheet and an inventory of assets when it reduces its registered capital.

The Company shall notify its creditors within ten (10) days of the date of the Company's resolution for reduction of capital and shall publish an announcement in a newspaper at least three (3) times within thirty (30) days of the date of such resolution. A creditor has the right within thirty (30) days of receipt of the notice from the Company or, in the case of a creditor who does not receive such notice, within ninety (90) days of the date of the first public announcement, to require the Company to repay its debts or to provide a corresponding guarantee for such debt.

The Company's registered capital may not, after the reduction in capital, be less than the minimum amount prescribed by law.

Article 29. The Company may, in accordance with the procedures set out in the Company's Articles of Association and with the approval of the relevant governing authority of the State, repurchase its issued shares under the following circumstances:

- (1) cancellation of shares for the purposes of reducing its capital;
- (2) merging with another company that holds shares in the Company;
- (3) other circumstances permitted by laws and administrative regulations.

The Company's repurchase of its issued shares shall comply with the provisions of Articles 30 to 33.

Article 30. The Company may repurchase shares in one of the following ways, with the approval of the relevant governing authority of the State:

- (1) by making a general offer for the repurchase of shares to all its shareholders on a pro rata basis;
- (2) by repurchasing shares through public dealing on a stock exchange;
- (3) by repurchasing shares outside of the stock exchange by means of an agreement.

Article 31. The Company must obtain the prior approval of the shareholders in a general meeting (in the manner stipulated in the Company's Articles of Association) before it can repurchase shares outside of the stock exchange by means of an agreement. The Company may, by obtaining the prior approval of the shareholders in a general meeting in the same manner as described above cancel, release, vary or waive its rights under an agreement which has been so entered into.

An agreement for the repurchase shares referred to in the preceding paragraph includes (but is not limited to) an agreement to become liable to repurchase shares or an agreement to acquire the right to repurchase shares.

The Company may not assign an agreement for the repurchase of its shares or any right contained in such an agreement.

Article 32. Shares which have been legally repurchased by the Company shall be cancelled within the period prescribed by law and administrative regulations, and the Company shall apply to the original companies registration authority for registration of the change in its registered capital and make a public announcement.

The aggregate par value of the cancelled shares shall be deducted from the Company's registered share capital.

Article 33. Unless the Company is in the course of liquidation, it must comply with the following provisions in relation to the repurchase of its issued shares:

- (1) where the Company repurchases shares at par value, payment shall be made out of carrying amount of the distributable profits of the Company or out of proceeds of a new issue of shares made for that purpose;
- (2) where the Company repurchases shares of the Company at a premium to the par value of its shares payment up to the par value may be made out of the carrying amount of the distributable profits of the Company or out of the proceeds of a new issue of shares made for that purpose. Payment of the portion in excess of the par value shall be effected as follows:
 - (i) if the shares being repurchased were issued at par value, payment shall be made out of the carrying amount of the distributable profits of the Company;
 - (ii) if the shares being repurchased were issued at a premium to their par value, payment shall be made out of the carrying amount of the distributable profits of the Company or out of the proceeds of a new issue of shares made for that purpose, provided that the amount paid out of the proceeds of the new issue shall not exceed the aggregate amount of premiums received by the Company on the issue of the shares repurchased nor shall it exceed the book value of the Company's capital common reserve fund account (including the premiums on the new issue of shares) at the time of the repurchase;
- (3) Funds used by the Company for the following purposes should be paid out of the Company's distributable profits:
 - (i) payment for the acquisition of the right to repurchase the Company's own shares;
 - (ii) payment for variation of any contract for the repurchase of the Company's shares;
 - (iii) payment for the release of the Company's obligation(s) under any contract for the repurchase of its shares;
- (4) after the Company's registered capital has been reduced by the aggregate par value of the cancelled shares in accordance with the relevant provisions, the amount deducted from the distributable profits of the Company for payment of the par value of shares which have been repurchased shall be transferred to the Company's capital common reserve fund account.

CHAPTER 5: FINANCIAL ASSISTANCE FOR THE ACQUISITION OF SHARES

Article 34. The Company or its subsidiaries shall not, at any time, provide any form of financial assistance to a person who is acquiring or intends to acquire shares in the Company. Such persons aforementioned shall include those who directly or indirectly incur any obligation as a result of the acquisition of shares in the Company (the “Obligor”).

At no time shall the Company or its subsidiaries provide any form of financial assistance to the Obligor aforementioned for the purposes of reducing or discharging the obligations assumed by him.

This Article shall not apply to the circumstances specified in Article 36 of this Chapter.

Article 35. For the purposes of this Chapter, “financial assistance” includes (without limitation) the following:

- (1) gift;
- (2) guarantee (including the assumption of liability by the guarantor or the provision of assets by the guarantor to secure the performance of Obligor’s obligations), compensation (other than compensation payable by the Company’s due to its own default) or release or waiver of any rights;
- (3) provision of loans or entering into any agreement under which the obligations of the Company are to be performed prior to the obligations of another party, or the change in parties to, or the assignment of rights under, such loan or agreement;
- (4) any other form of financial assistance given by the Company when the Company is insolvent or has no net assets or where its net assets would thereby be reduced to a material extent.

For the purposes of this Chapter, “assumption of obligations” includes the assumption of obligations by way of contract or by way of arrangement (irrespective of whether such contract or arrangement is enforceable or not and irrespective of whether such obligation is to be borne solely by the Obligor or jointly with other persons), or by any other means which results in a change in his financial position.

Article 36. The following actions shall not be deemed to be activities prohibited by Article 34 of this Chapter:

- (1) the provision of financial assistance by the Company where the financial assistance is given in good faith in the interests of the Company, and the principal purpose of such provision is not for the acquisition of shares in the Company, or the giving of the financial assistance is an incidental part of certain projects of the Company;
- (2) the lawful distribution of the Company's assets by way of dividend;
- (3) the allotment of bonus shares as dividends;
- (4) a reduction of registered capital, a repurchase of shares of the Company or a reorganisation of the share capital structure of the Company effected in accordance with the Company's Articles of Association;
- (5) within its ordinary course of its business, where the lending of money is for the ordinary business activities of the Company (provided that the net assets of the Company are not thereby reduced or that, to the extent that the assets are thereby reduced, the financial assistance is provided out of distributable profits);
- (6) contributions made by the Company to employee share ownership schemes (provided that the net assets of the Company are not thereby reduced or that, to the extent that the assets are thereby reduced, the financial assistance is provided out of distributable profits).

CHAPTER 6: SHARE CERTIFICATES AND REGISTER OF SHAREHOLDERS

Article 37. Share certificates of the Company shall be in registered form.

The share certificate of the Company shall contain following main particulars:

- (1) the name of the Company;
- (2) the date of incorporation of the Company;
- (3) the class of shares, par value and number of shares it represents;
- (4) the share certificate number;
- (5) other matters required to be stated therein by the Company Law, Special Regulations and the stock exchange(s) on which the Company's shares are listed.

- Article 38. Share certificates of the Company may be assigned, given as a gift, inherited or charged in accordance with relevant provisions of laws, administrative regulations and these Articles of Association.
- For assignment and transfer of shares, relevant registration of the share certificates shall be carried out with the share registration institution authorized by the Company.
- Article 39. Share certificates of the Company shall be signed by the Chairman of the Company's board of directors. Where the stock exchange(s) on which the Company's shares are listed require other senior officer(s) of the Company to sign on the share certificates, the share certificates shall also be signed by such senior officer(s). The share certificates shall take effect after being imprinted with the seal of the Company (including the securities seal of the Company). The share certificate shall be imprinted with the seal of the Company or the securities seal of the Company under the authorization of the board of directors. The signatures of the Chairman of the board of directors or other senior officer(s) of the Company may be printed in mechanical form.
- Article 40. The Company shall keep a register of shareholders, which shall contain the following particulars:
- (1) the name (title) and address (residence), the occupation or nature of each shareholder;
 - (2) the class and quantity of shares held by each shareholder;
 - (3) the amount of capital paid-up on or agreed to be paid-up on the shares held by each shareholder;
 - (4) the share certificate number(s) of the shares held by each shareholder;
 - (5) the date on which each person was entered in the register as a shareholder;
 - (6) the date on which any shareholder ceased to be a shareholder.
- Unless there is evidence to the contrary, the register of shareholders shall be sufficient evidence of the shareholders' shareholdings in the Company.
- Article 41. The Company may, in accordance with the mutual understanding and agreements made between the securities authority of the State Council and overseas securities regulatory organisations, maintain the register of shareholders of Overseas-Listed Foreign-Invested Shares overseas and appoint overseas agent(s) to manage such register of shareholders. The original register for holders of Overseas-Listed Foreign-Invested Shares listed in Hong Kong shall be maintained in Hong Kong.
- A duplicate register of shareholders for the holders of Overseas-Listed Foreign-Invested Shares shall be maintained at the Company's registered address. The appointed overseas agent(s) shall ensure consistency between the original and the duplicate register of shareholders at all times.

If there is any inconsistency between the original and the duplicate register of shareholders for the holders of Overseas-Listed Foreign-Invested Shares, the original register of shareholders shall prevail.

Article 42. The Company shall have a complete register of shareholders which shall comprise the following parts:

- (1) the part of the register of shareholders which is maintained at the Company's registered address (other than those share registers which are described in sub-paragraphs (2) and (3) of this Article);
- (2) the part(s) of the register of shareholders in respect of the holders of Overseas-Listed Foreign-Invested Shares of the Company which are maintained in the same location as the overseas stock exchange on which the shares are listed; and
- (3) the part(s) of the register of shareholders which are maintained in such other location as the board of directors considers necessary for the purposes of the listing of the Company's shares.

Article 43. Different parts of the register of shareholders shall not overlap. No transfer of any shares registered in any part of the register shall, during the continuance of that registration, be registered in any other part of the register.

All Overseas-Listed Foreign-Invested Shares listed in Hong Kong which have been fully paid-up may be freely transferred in accordance with the Company's Articles of Association. However, unless such transfer complies with the following requirements, the board of directors may refuse to recognise any instrument of transfer and would not need to provide any reason therefor:

- (1) a fee of HK\$2.50 per instrument of transfer or such higher amount agreed from time to time by the Stock Exchange for the registration of the instrument of transfer and other documents relating to or which affect the right of ownership of the shares;
- (2) the instrument of transfer only relates to Overseas-Listed Foreign-Invested Shares listed in Hong Kong;
- (3) the stamp duty which is chargeable on the instrument of transfer has been duly paid;
- (4) the relevant share certificate(s) and any other evidence which the board of directors may reasonably require to show that the transferor has the right to transfer the shares have been provided;

- (5) if it is intended that the shares be transferred to joint owners, the maximum number of joint owners shall not be more than four (4); and
- (6) the Company does not have any lien on the relevant shares.

The transfer of Overseas-Listed Foreign Invested Shares in the Company listed in Hong Kong shall be in writing on normal or standard instruments of transfer or on a form acceptable to the Board of Directors; and such transfer instrument can be signed only by hand or, if the transferor or transferee is a securities clearing institution or its representative recognised in accordance with section 37 of the Securities and Futures Ordinance (Hong Kong Law Chapter 571), signed by hand or signed in printed mechanical form. All the transfer instruments shall be maintained in the legal address of the Company or other place the Board of Directors may designate from time to time.

Any change or correction to various parts of the register of shareholders shall be carried out in accordance with the law of the place where such parts of the register of shareholders are maintained.

- Article 44. No change may be made to the register of shareholders as a result of a transfer of shares within thirty (30) days prior to the date of a shareholders' general meeting or within five (5) days before the record date for the Company's distribution of dividends.
- Article 45. When the Company needs to determine the rights attaching to shares in the Company for the purposes of convening a shareholders' meeting, for dividend distribution, for liquidation or for any other purpose which requires such determination, the board of directors shall decide on a date for the determination of rights attaching to shares in the Company. The shareholders of the Company shall be such persons who appear in the register of shareholders at the close of such determination date.
- Article 46. Any person aggrieved and claiming to be entitled to have his name (title) entered in or removed from the register of shareholders may apply to a court of competent jurisdiction for rectification of the register.
- Article 47. Any person who is a registered shareholder or who claims to be entitled to have his name (title) entered in the register of shareholders in respect of shares in the Company may, if his share certificate (the "original certificate") relating to the shares is lost, apply to the Company for a replacement share certificate in respect of such shares (the "Relevant Shares").

Application by a holder of Domestic Shares, who has lost his share certificate, for a replacement share certificate shall be dealt with in accordance with the requirements of the Company Law.

Application by a holder of Overseas-Listed Foreign Shares, who has lost his share certificate, for a replacement share certificate may be dealt with in accordance with the law of the place where the original register of shareholders of holders of Overseas-Listed Foreign-Invested Shares is maintained, the rules of the stock exchange or other relevant regulations.

The issue of a replacement share certificate to a holder of H Shares, who has lost his share certificate, shall comply with the following requirements:

- (1) The applicant shall submit an application to the Company in a prescribed form accompanied by a notarial certificate or a statutory declaration, stating the grounds upon which the application is made, the circumstances and evidence of the loss, and declaring that no other person is entitled to have his name entered in the register of shareholders in respect of the Relevant Shares.
- (2) The Company has not received any declaration made by any person other than the applicant declaring that his name shall be entered into the register of shareholders in respect of such shares before it decides to issue a replacement share certificate to the applicant.
- (3) The Company shall, if it intends to issue a replacement share certificate, publish a notice of its intention to do so at least once every thirty (30) days within a period of ninety (90) consecutive days in such newspapers as may be prescribed by the board of directors.
- (4) The Company shall, prior to publication of its intention to issue a replacement share certificate, deliver to the stock exchange on which its shares are listed, a copy of the announcement to be published and may publish the announcement upon receipt of confirmation from such stock exchange that the announcement has been exhibited in the premises of the stock exchange. Such announcement shall be exhibited in the premises of the stock exchange for a period of ninety (90) days.

In the case of an application which is made without the consent of the registered holder of the Relevant Shares, the Company shall deliver by mail to such registered shareholder a copy of the announcement to be published.

- (5) If, by the expiration of the 90-day period referred to in paragraphs (3) and (4) of this Article, the Company has not received any objection from any person in respect of the issuance of the replacement share certificate, it may issue a replacement share certificate to the applicant pursuant to his application.

- (6) Where the Company issues a replacement share certificate pursuant to this Article, it shall forthwith cancel the original share certificate and document the cancellation of the original share certificate and issuance of a replacement share certificate in the register of shareholders accordingly.
- (7) All expenses relating to the cancellation of an original share certificate and the issuance of a replacement share certificate shall be borne by the applicant and the Company is entitled to refuse to take any action until reasonable security is provided by the applicant therefor.

Article 48. Where the Company issues a replacement share certificate pursuant to the Company's Articles of Association and a bona fide purchaser acquires such shares or where a shareholder subsequently becomes a registered shareholder of the Relevant Shares (and such shareholder being a bona fide purchaser), his name (title) shall not be removed from the register of shareholders.

Article 49. The Company shall not be liable for any damages sustained by any person by reason of the cancellation of the original share certificate or the issuance of the replacement share certificate unless the claimant is able to prove that the Company has acted in a deceitful manner.

CHAPTER 7: SHAREHOLDERS' RIGHTS AND OBLIGATIONS

Article 50. A shareholder of the Company is a person who lawfully holds shares in the Company and whose name (title) is entered in the register of shareholders.

A shareholder shall enjoy rights and assume obligations according to the class and amount of shares held by him; shareholders who hold shares of the same class shall enjoy the same rights and assume the same obligations.

In the case of the joint shareholders, if one of the joint shareholders is deceased, only the other existing shareholders of the joint shareholders shall be deemed as the persons who have the ownership of the relevant shares. But the board of directors has the power to require them to provide a certificate of death acceptable to it for the purpose of modifying the register of shareholders. For joint shareholders of any shares, only the joint shareholder whose name appears first in the register of shareholders shall have the right to receive certificates of the relevant shares, receive notices of the Company, and attend and vote at shareholders' general meetings of the Company. Any notice which is delivered to the shareholder shall be considered as all the joint shareholders of the relevant shares who have been delivered.

Article 51. The holders of ordinary shares of the Company shall enjoy the following rights:

- (1) the right to receive dividends and other distributions in proportion to the number of shares held;
- (2) the right to attend or appoint a proxy to attend shareholders' general meetings and to vote thereat;
- (3) the right of supervisory management over the Company's business operations and the right to present proposals or to raise queries;
- (4) the right to transfer shares in accordance with laws, administrative regulations and provisions of the Company's Articles of Association;
- (5) the right to obtain relevant information in accordance with the provisions of the Company's Articles of Association, including:
 - (i) the right to obtain a copy of the Company's Articles of Association, subject to payment of costs;
 - (ii) the right to inspect and copy, subject to payment of a reasonable fee:
 - (a) all parts of the register of shareholders;
 - (b) personal particulars of each of the Company's directors, supervisors, general manager and other senior officers, including:
 - (aa) present and former name and alias;
 - (bb) principal address (place of residence);
 - (cc) nationality;
 - (dd) primary and all other part-time occupations and duties;
 - (ee) identification documents and the numbers thereof;
 - (c) report on the state of the Company's share capital;
 - (d) reports showing the aggregate par value, quantity, highest and lowest price paid in respect of each class of shares repurchased by the Company since the end of the last accounting year and the aggregate amount paid by the Company for this purpose;
 - (e) minutes of shareholders' general meetings;

- (6) in the event of the termination or liquidation of the Company, the right to participate in the distribution of surplus assets of the Company in accordance with the number of shares held;
- (7) other rights conferred by laws, administrative regulations and the Company's Articles of Association.

Article 52. The ordinary shareholders of the Company shall assume the following obligations:

- (1) to comply with the Company's Articles of Association;
- (2) to pay subscription monies according to the number of shares subscribed and the method of subscription;
- (3) other obligations imposed by laws, administrative regulations and the Company's Articles of Association.

Shareholders are not liable to make any further contribution to the share capital other than according to the terms which were agreed by the subscriber of the relevant shares at the time of subscription.

Article 53. In addition to the obligations imposed by laws and administrative regulations or required by the listing rules of the stock exchange on which the Company's shares are listed, a controlling shareholder shall not exercise his voting rights in respect of the following matters in a manner prejudicial to the interests of all or part of the shareholders of the Company:

- (1) to relieve a director or supervisor of his duty to act honestly in the best interests of the Company;
- (2) to approve the expropriation by a director or supervisor (for his own benefit or for the benefit of another person) of the Company's assets in any way, including (but not limited to) opportunities which are beneficial to the Company;
- (3) to approve the expropriation by a director or supervisor (for his own benefit or for the benefit of another person) of the individual rights of other shareholders, including (but not limited to) rights to distributions and voting rights (save pursuant to a restructuring which has been submitted for approval by the shareholders in a general meeting in accordance with the Company's Articles of Association).

- Article 54. For the purpose of the above Article, a “controlling shareholder” means a person who satisfies any one of the following conditions:
- (1) a person who, acting alone or in concert with others, has the power to elect more than half of the board of directors;
 - (2) a person who, acting alone or in concert with others, has the power to exercise or to control the exercise of 30% or more of the voting rights in the Company;
 - (3) a person who, acting alone or in concert with others, holds 30% or more of the issued and outstanding shares of the Company;
 - (4) a person who, acting alone or in concert with others, has de facto control of the Company in any other way.

CHAPTER 8: SHAREHOLDERS’ GENERAL MEETINGS

Article 55. The shareholders’ general meeting is the organ of authority of the Company and shall exercise its functions and powers in accordance with the law.

Article 56. The shareholders’ general meeting shall have the following functions and powers:

- (1) to decide on the Company’s operational policies and investment plans;
- (2) to elect and replace directors and to decide on matters relating to the remuneration of directors;
- (3) to elect and replace supervisors who represent the shareholders and to decide on matters relating to the remuneration of the relevant supervisors;
- (4) to examine and approve the board of directors’ reports;
- (5) to examine and approve the supervisory committee’s reports;
- (6) to examine and approve the Company’s annual financial budgets and final accounts;
- (7) to examine and approve the Company’s profit distribution plans and loss recovery plans;
- (8) to decide on the increase or reduction of the Company’s registered capital;

- (9) to decide on matters such as merger, division, dissolution and liquidation of the Company;
- (10) to decide on the issue of debentures by the Company;
- (11) to decide on the appointment, dismissal and non-reappointment of the accountancy firms of the Company;
- (12) to amend the Company's Articles of Association;
- (13) to consider motions raised by shareholders who represent 5 % or more of the total number of voting shares of the Company;
- (14) to decide on other matters which, according to law, administrative regulation or the Company's Articles of Association, need to be approved by shareholders in general meetings;

The shareholders in a general meeting may authorize or delegate to the board of directors to carry out matters that are authorised by them or may delegate the implementation of such matters to the board of directors.

Article 57. The Company shall not, without the prior approval of shareholders in a general meeting, enter into any contract with any person (other than a director, supervisor, general manager and other senior officers) pursuant to which such person shall be responsible for the management and administration of the whole or the material part of the businesses of the Company.

Article 58. Shareholders' general meetings consist of annual general meetings and extraordinary general meetings. Shareholders' general meetings shall be convened by the board of directors. Annual general meetings are held once every year and within six (6) months from the end of the preceding accounting year.

The board of directors shall convene an extraordinary general meeting within two (2) months of the occurrence of any one of the following events:

- (1) where the number of directors is fewer than the number required by the Company Law or less than two-thirds of the number of directors specified in the Company's Articles of Association;
- (2) where the unrecovered losses of the Company amount to one-third of the total amount of its share capital;
- (3) where shareholder(s) holding 10% or more of the Company's issued and outstanding voting shares request(s) in writing for the convening of an extraordinary general meeting;
- (4) whenever the board of directors deems necessary or the supervisory committee so requests;
- (5) whenever two or more independent directors so request.

Article 59. When the Company convenes a shareholders' general meeting, written notice of the meeting shall be given forty-five (45) days before the date of the meeting (inclusive of the day on which the meeting is held) to notify all of the shareholders whose names appear in the share register of the matters to be considered and the date and place of the meeting. A shareholder who intends to attend the meeting shall deliver to the Company his written reply concerning his attendance at such meeting twenty (20) days before the date of the meeting.

Article 60. When the Company convenes a shareholders' annual general meeting, shareholder(s) holding 5% or more of the total voting shares of the Company shall have the right to propose new motions in writing, and the Company shall place such proposed motions on the agenda for such annual general meeting if they are matters falling within the functions and powers of shareholders in general meetings.

Article 61. The Company shall, based on the written replies that it receives from the shareholders twenty (20) days before the date of the shareholders' general meeting, calculate the number of voting shares represented by the shareholders who intend to attend the meeting. If the number of voting shares represented by the shareholders who intend to attend the meeting amounts to more than one-half of the Company's total voting shares, the Company may hold the meeting; if not, then the Company shall, within five (5) days, notify the shareholders by way of public announcement the matters to be considered at, and the place and date for, the meeting. The Company may then hold the meeting after publication of such announcement.

A shareholders' extraordinary general meeting shall not decide on any matter not stated in the notice for the meeting.

Article 62. A notice of a meeting of the shareholders of the Company shall satisfy the following criteria:

- (1) be in writing;
- (2) specify the place, date and time of the meeting;
- (3) state the matters to be discussed at the meeting;
- (4) provide such information and explanation as are necessary for the shareholders to make an informed decision on the proposals put before them. This principle shall apply to (but not limited to) situations where a proposal is made for the merger of the Company with another, to repurchase the shares of the Company, to reorganize the Company's share capital, or to restructure the Company in any other way. The specific terms of the proposed transaction must be provided together with copies of the proposed agreement, if any, and the cause and effect of such proposal must be properly explained;

- (5) contain a disclosure of the nature and extent, if any, of the material interests of any director, supervisor, general manager and other senior officers in the proposed transaction, and where the effect which the proposed transaction will have on such persons in their capacity as shareholders is different from the effect on the interests of shareholders of the same class, an explanation shall be given on such differences;
- (6) contain the full text of any special resolution to be proposed for adoption at the meeting;
- (7) contain a conspicuous statement that a shareholder entitled to attend and vote at such meeting is entitled to appoint one (1) or more proxies to attend and vote at such meeting on his behalf and that such proxy(ies) need not be a shareholder;
- (8) specify the time and place for lodging proxy forms for the relevant meeting.

Article 63. Notice of shareholders' general meetings shall be served on each shareholder (regardless of whether such shareholder is entitled to vote at the meeting), by personal delivery or prepaid airmail to the address of the shareholder as shown in the register of shareholders. For the holders of Domestic Shares, notice of the meetings may also be issued by way of public announcement.

The public announcement referred to in the preceding paragraph shall be published in one (1) or more national newspapers designated by the securities authority of the State Council within the interval of forty-five (45) days to fifty (50) days before the date of the meeting; after the publication of such announcement, the holders of Domestic Shares shall be deemed to have received the notice of the relevant shareholders' general meeting.

Article 64. The accidental omission to give notice of a meeting to, or the failure to receive the notice of a meeting by, any person entitled to receive such notice shall not invalidate the meeting and the resolutions adopted thereat.

Article 65. Any shareholder who is entitled to attend and vote at a general meeting of the Company shall be entitled to appoint one (1) or more persons (such person(s) does not have to be a shareholder) as his proxy(ies) to attend and vote on his behalf, and a proxy(ies) so appointed shall be entitled to exercise the following rights in accordance with the authorization from that shareholder:

- (1) the shareholders' right to speak at the meeting;
- (2) the right to demand or join in demanding a poll;
- (3) the right to vote by hand or on a poll, but a proxy of a shareholder who has appointed more than one (1) proxy may only vote on a poll.

Where any member, under the Listing Rules, is required to abstain from voting on any particular resolution or is restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

Article 66. The instrument appointing a proxy shall be in writing under the hand of the appointer or his attorney duly authorized in writing, or if the appointer is a legal entity, such instrument shall be delivered either under seal or under the hand of a director or a duly authorized attorney. The letter of authorization shall contain the number of the shares to be represented by the proxy. If several persons are authorized as the proxies of the shareholder, the letter of authorization shall specify the number of shares to be represented by each proxy.

Article 67. The instrument appointing a proxy and, if such instrument is signed by a person under a power of attorney or other authority on behalf of the appointer, a duly notarized power of attorney for signing the proxy form or other documents evidencing such authority shall be deposited at the registered address of the Company or at such other place as is specified for that purpose in the notice convening the meeting, not less than twenty-four (24) hours before either the time for holding the meeting at which the proxy propose to vote or the time appointed for the voting of the resolution. The proxy form shall have on it the date of its execution.

If the appointer is a legal person, its legal representative or such person as is authorized by a resolution of its board of directors or other governing body may attend any meeting of shareholders of the Company as a representative of the appointer.

If the shareholder is a recognized clearing house (or its agent), such shareholder is entitled to appoint one or more persons as his proxies to attend on his behalf at a general meeting or at any class meeting as it sees fit, but, if one or more persons have such authority, the letter of authorization shall contain the number and class of the shares in connection with such authorization. Such person can exercise the right on behalf of the recognized clearing house (or its attorney) as if he is the individual shareholder of the Company.

- Article 68. Any form issued to a shareholder by the directors for use by such shareholder for the appointment of a proxy to attend and vote at meetings of the Company shall be in a form that enables the shareholder to freely instruct the proxy to vote in favour of or against the motions, with such instructions being individually given in respect of each matter to be voted on at the meeting. Such a form shall contain a statement that, in the absence of specific instructions from the shareholder, the proxy may vote as he thinks fit.
- Article 69. A vote given in accordance with the terms of a proxy shall be valid notwithstanding the death or loss of capacity of the appointer or revocation of the proxy or the authority under which the proxy was executed or the transfer of the shares in respect of which the proxy is given, provided that the Company did not receive any written notice in respect of such matters before the commencement of the relevant meeting.
- Article 70. A proxy attending a shareholder's general meeting shall present his proof of identity. Save for shareholders who are recognized clearing houses (or its agent), if a shareholder as a legal person appoints its legal representative to attend a meeting, such legal representative shall present his proof of identity and a duly notarized copy of the resolutions of such shareholder's board of directors or other documents evidencing such authority in respect of the appointment of the proxy or any other copy certified in a manner acceptable to the Company.
- Article 71. Resolutions of shareholders' general meetings shall be divided into ordinary resolutions and special resolutions.
- An ordinary resolution must be passed by votes representing more than one-half of the voting rights represented by the shareholders (including proxies) present at the meeting.
- A special resolution must be passed by votes representing more than two-thirds of the voting rights represented by the shareholders (including proxies) present at the meeting.
- Shareholders (including proxies) shall expressly indicate whether they are in favour of or against any matter being voted on. Any abstention from voting or vote of abstention shall not be regarded as valid votes when the Company counts the votes in respect of the relevant matter.
- Article 72. A shareholder (including a proxy), when voting at a shareholders' general meeting, may exercise such voting rights as are attached to the number of voting shares which he represents. Each share shall have one (1) vote.

Article 73. At any shareholders' general meeting, a resolution shall be decided on a show of hands unless a poll is demanded before or after a vote has been carried out by a show of hands:

- (1) by the chairman of the meeting;
- (2) by at least two (2) shareholders present in person or by proxy entitled to vote thereat;
- (3) by one (1) or more shareholders (including proxies) representing 10% or more of shares (held solely or in combination) carrying the right to vote at the meeting.

Unless a poll is demanded, a declaration by the chairman that a resolution has been passed on a show of hands and the record of such in the minutes of the meeting shall be conclusive evidence of the fact that such resolution has been passed. There shall be no requirement in providing evidence of the number or proportion of votes in favour of or against such resolution.

The demand for a poll may be withdrawn by the person who demands the same.

Article 74. A poll demanded on the election of the chairman of the meeting, or on a question of adjournment of the meeting, shall be taken forthwith. A poll demanded on any other question shall be taken at such time as the chairman of the meeting directs, and the meeting may proceed to any other business pending the taking of the poll. The result of the poll shall be deemed to be a resolution of the meeting at which the poll was demanded.

Article 75. On a poll taken at a meeting, a shareholder (including a proxy) entitled to two (2) or more votes need not cast his votes either all for or all against the resolution.

Article 76. In the case of an equality of votes for and against a resolution, whether on a show of hands or on a poll, the chairman of the meeting shall have a casting vote.

Article 77. The following matters shall be resolved by ordinary resolutions at shareholders' general meetings:

- (1) work reports of the board of directors and the supervisory committee;
- (2) profit distribution plans and loss recovery plans formulated by the board of directors;
- (3) election or removal of members of the board of directors and members of the supervisory committee, remuneration and manner of payment of such members;
- (4) annual budgets and final accounts, balance sheets and profit and loss accounts and other financial statements of the Company;

- (5) matters other than those which are required by the laws and administrative regulations or by the Company's Articles of Association to be adopted by special resolution.

Article 78. The following matters shall be resolved by a special resolution at a shareholders' general meeting:

- (1) the increase or reduction in share capital and the issue of shares of any class, warrants and other securities of a similar nature;
- (2) the issue of debentures by the Company;
- (3) the division, merger, dissolution and liquidation of the Company;
- (4) amendment of the Company's Articles of Association;
- (5) amendment to rights of shareholders of any class; and
- (6) any other matter resolved by way of an ordinary resolution by shareholders in general meeting which the shareholders consider may have a material impact on the Company and should be adopted by a special resolution.

Article 79. Any resolution adopted by a shareholders' general meeting shall comply with relevant provisions of PRC laws, administrative regulations and these Articles of Association.

Article 80. Shareholders who request for the convening of an extraordinary general meeting or a class meeting shall comply with the following procedures:

- (1) Two (2) or more shareholders holding in aggregate 10% or more of the shares carrying the right to vote at the meeting sought to be held shall sign one (1) or more written requisitions in the same format and with the same content, stating the proposed matters to be discussed at the meeting, and requiring the board of directors to convene a shareholders' extraordinary general meeting or a class meeting thereof. The board of directors shall as soon as possible proceed to convene the extraordinary general meeting of shareholders or a class meeting thereof after receipt of such written requisition(s). The shareholdings of such shareholders referred to above shall be calculated as at the date of making the requisition(s).
- (2) If the board of directors fails to issue a notice of such a meeting within thirty (30) days from the date of receipt of the requisition(s), the shareholders who make the requisitions(s) may themselves convene such a meeting (in a manner as similar as possible to the manner in which shareholders' meetings are convened by the board of directors) within four (4) months from the date of receipt of the requisition(s) by the board of directors.

Any reasonable expenses incurred by the shareholders who make the requisition(s) by reason of failure of the board of directors to duly convene a meeting shall be reimbursed by the Company and any sum so reimbursed shall be set-off against sums owed by the Company to the defaulting directors.

Article 81. The Chairman of the board of directors shall convene and chair every shareholders' general meeting. If the Chairman is unable to attend the meeting for any reason, the vice-chairman of the board of directors shall convene and chair the meeting. If both the Chairman and the vice-chairman of the board of directors are unable to attend the meeting, then the board of directors may designate a director to convene and chair the meeting. If no chairman of the meeting has been so designated, shareholders present shall choose one (1) person to act as the chairman of the meeting. If for any reason the shareholders fail to elect a chairman, then the shareholder (including a proxy) holding the largest number of shares carrying the right to vote thereat shall be the chairman of the meeting.

Article 82. The chairman of the meeting shall be responsible for determining whether a resolution has been passed. His decision, which shall be final and conclusive, shall be announced at the meeting and recorded in the minute book.

Article 83. If the chairman of the meeting has any doubt as to the result of a resolution which has been put to vote at a shareholders' meeting, he may have the votes counted. If the chairman of the meeting has not counted the votes, any shareholder who is present in person or by proxy and who objects to the result announced by the chairman of the meeting may, immediately after the declaration of the result, demand that the votes be counted and the chairman of the meeting shall count the votes immediately.

Article 84. If votes are counted at a shareholders' general meeting, the result of the count shall be recorded in the minute book.

The Company secretary shall prepare the record of the shareholders' general meeting, which shall be signed by directors attending the meeting.

Resolutions adopted by a shareholders' general meeting shall be included in the minutes of the meeting. The record and minutes of the meeting shall be in Chinese. Such record and minutes, shareholders' attendance lists and proxy forms shall be kept at the Company's registered address.

Article 85. Copies of the minutes of proceedings of any shareholders' meeting shall, during business hours of the Company, be open for inspection by any shareholder without charge. If a shareholder requests for a copy of such minutes from the Company, the Company shall send a copy of such minutes to him within seven (7) days after receipt of reasonable fees by the Company.

CHAPTER 9: SPECIAL PROCEDURES FOR VOTING BY A CLASS OF SHAREHOLDERS

- Article 86. Class shareholders are those shareholders who hold different classes of shares.
Class shareholders shall enjoy rights and assume obligations in accordance with laws, administrative regulations and the Company's Articles of Association.
- Article 87. Rights conferred on any class of shareholders may not be varied or abrogated save with the approval of a special resolution of shareholders in a general meeting and by holders of shares of that class at a separate meeting convened in accordance with Articles 89 to 93.
- Article 88. The following circumstances shall be deemed to be variation or abrogation of the rights attaching to a particular class of shares:
- (1) to increase or decrease the number of shares of that class, or to increase or decrease the number of shares of a class having voting or equity rights or privileges equal or superior to those of shares of that class;
 - (2) to exchange all or part of the shares of that class for shares of another class, or to exchange or to create a right to exchange all or part of the shares of another class for shares of that class;
 - (3) to remove or reduce rights to accrued dividends or rights to cumulative dividends attached to shares of that class;
 - (4) to reduce or remove preferential rights attached to shares of that class to receive dividends or to the distribution of assets in the event that the Company is liquidated;
 - (5) to add, remove or reduce conversion rights, election rights, voting rights, transfer or pre-emptive rights, or rights to acquire securities of the Company attached to shares of that class;
 - (6) to remove or reduce rights to receive payment payable by the Company in particular currencies attached to shares of that class;
 - (7) to create a new class of shares having voting or equity rights or other privileges equal or superior to those of the shares of that class;

- (8) to restrict the transfer or ownership of shares of that class or to increase the types of restrictions attaching thereto;
- (9) to allot and issue rights to subscribe for, or to convert the existing shares into, shares in the Company of that class or another class;
- (10) to increase the rights or privileges of shares of another class;
- (11) to restructure the Company in such a way so as to result in the disproportionate distribution of obligations between the various classes of shareholders;
- (12) to vary or abrogate the provisions of this Chapter.

Article 89. Shareholders of the affected class, regardless of whether having the right to vote or not at shareholders' general meetings, have the right to vote at class meetings in respect of matters concerning sub-paragraphs (2) to (8), (11) and (12) of Article 88, but interested shareholder(s) shall not be entitled to vote at such class meetings.

“(An) interested shareholder(s)”, as such term is used in the preceding paragraph:

- (1) in the case of a repurchase of shares by way of a general offer to all shareholders of the Company in the same proportion for all shareholders or by way of public dealing on a stock exchange pursuant to Article 30, an “interested shareholder” refers to a controlling shareholder within the meaning of Article 54 herein;
- (2) in the case of a repurchase of shares by an off-market agreement pursuant to Article 30, an “interested shareholder” refers to a shareholder to whom the proposed agreement relates;
- (3) in the case of a restructuring of the Company, an “interested shareholder” refers to a shareholder who assumes a relatively lower proportion of obligation than the obligations imposed on shareholders of that class under the proposed restructuring or who has an interest in the proposed restructuring different from the general interests of the shareholders of that class.

Article 90. Resolutions of a class of shareholders shall be passed by votes representing more than two-thirds of the voting rights of shareholders of that class represented at the relevant meeting who, according to Article 89, are entitled to vote thereat.

Article 91. Written notice of a class meeting shall be despatched to all shareholders who are registered as holders of that class in the register of shareholders forty-five (45) days (inclusive of the day of the class meeting) before the date of the class meeting. Such notice shall give such shareholders notice of the matters to be considered at such meeting, the date and the place of the class meeting. A shareholder who intends to attend the class meeting shall deliver his written reply to the Company twenty (20) days before the date of the class meeting.

If the shareholders who intend to attend such class meeting represent more than half of the total number of shares of that class which have the right to vote at such meeting, the Company may hold the class meeting; if not, the Company shall within five (5) days give the shareholders further notice of the matters to be considered, the date and the place of the class meeting by way of public announcement. The Company may then hold the class meeting after such public announcement has been made.

Article 92. Notice of class meetings need only be served on shareholders entitled to vote thereat.

To the extent possible class meetings shall be conducted in a manner similar to shareholders' general meetings. The provisions of the Company's Articles of Association relating to the conduct of shareholders' general meetings shall also apply to class meetings.

Article 93. Apart from the holders of other classes of shares, the holders of the Domestic Shares and holders of Overseas-Listed Foreign-Invested Shares shall be deemed to be holders of different classes of shares.

The special procedures for approval by a class of shareholders shall not apply in the following circumstances:

- (1) where the Company issues, upon the approval by special resolution of its shareholders in a general meeting once every twelve (12) months, either separately or concurrently, issue not more than 20% of each of its existing issued Domestic Shares and Overseas-Listed Foreign-Invested Shares that has been issued; or
- (2) where the Company's plan to issue Domestic Shares and Overseas-Listed Foreign-Invested Shares at the time of its establishment is carried out within fifteen (15) months from the date of approval of the securities authority of the State Council.

CHAPTER 10: BOARD OF DIRECTORS

Article 94. The Company shall have a board of directors. The board of directors shall consist of twelve (12) directors, of which four (4) shall be independent (non-executive) directors (meaning directors who are independent from the Company's shareholders and do not hold positions within the Company).

The board of directors shall have one (1) Chairman.

Where necessary, the board of directors may establish audit, remuneration, nomination and other specialised committees.

Article 95. Directors shall be elected at the shareholders' general meeting for a term of three (3) years. At the expiry of a director's term, the director may stand for re-election and reappointment for further term.

The minimum period during which written notice given to the Company of the intention to propose a person for election as a director, and during which written notice to the Company by such person of his willingness to be elected may be given, will be at least 7 days. Such period will commence no earlier than the day after the despatch of the notice of the meeting for the purpose of considering such election and shall end no later than 7 days prior to the date of such meeting.

Nine (9) members of the first session of the board of directors shall be nominated by the promoters of the Company and elected at the Company's inaugural meeting. The number of directors elected for each subsequent session of the board of directors shall not be less than that stipulated in Article 94 or more than the maximum determined at the shareholders' general meeting by an ordinary resolution. Where the number of directors elected by voting exceeds the maximum number of directors proposed, directors who are elected within the maximum number so determined shall be those who get the largest number of votes and appointed in the sequence starting with those with the largest number of votes.

Subject to compliance with all relevant laws and administrative regulations, the shareholders' general meeting may by ordinary resolution remove any director prior to the expiration of such director's term of office. However, such director's right to claim for damages pursuant to any contract due to his loss of office shall not be affected.

The Chairman shall be elected and removed by more than one-half of all of the members of the board of directors. The term of office of each of the Chairman is three (3) years. The Chairman may stand for re-election and may be elected for further term.

The external directors shall have sufficient time and necessary knowledge and ability to perform their duties. When an external director performs his duties, the Company must provide necessary information and independent (non-executive) directors may directly report to the shareholders' meeting, the securities regulatory authority under the State Council and other relevant departments.

The executive directors shall handle matters as authorized by the board of directors.

The directors shall not be required to hold shares in the Company.

Article 96. The board of directors is accountable to the shareholders in general meeting and exercises the following functions and powers:

- (1) to be responsible for the convening of the shareholders' general meetings and to report on its work to the shareholders in general meeting;
- (2) to implement the resolutions passed by the shareholders in general meeting;
- (3) to determine the Company's business plans and investment proposals;
- (4) to formulate the Company's annual financial budgets and final accounts;
- (5) to formulate the Company's profit distribution proposal and loss recovery proposal;
- (6) to formulate the Company's debt and financial policies, proposals for the increase or reduction of the Company's registered capital and for the issuance of the Company's debentures;
- (7) to draw up the Company's material acquisition and disposal proposals and plans for the merger, division or dissolution of the Company;
- (8) to decide on the Company's internal management structure;
- (9) to appoint or remove the Company's general manager and to appoint or remove the deputy general managers, and financial deputy general manager of the Company based on the recommendations of the general manager; to appoint or remove the secretary of the board of directors, and to decide on their remuneration;
- (10) to decide on the establishment of the Company's branch organisations;
- (11) to formulate proposals for amendment of the Company's Articles of Association;

- (12) to formulate the basic management structure of the Company;
- (13) except matters that the Company Law and these Articles of Association require to be resolved by the shareholders in general meeting, to decide on other material and administrative matters of the Company and to execute other material agreements;
- (14) to perform any other functions or exercise any other powers conferred by the shareholders in general meeting or these Articles of Association.

Other than the board of directors' resolutions in respect of the matters specified in sub-paragraphs (6), (7) and (11) of this Article, which shall be passed by the affirmative vote of more than two-thirds of all the directors, the board of directors' resolutions in respect of all other matters may be passed by the affirmative vote of a simple majority of the directors.

Resolutions made by the board of directors on the Company's connected transactions shall come into effect only after they are signed by the independent (non-executive) directors.

Article 97.

The board of directors shall not, without the prior approval of shareholders in a general meeting, dispose or agree to dispose of any fixed assets of the Company where the aggregate of the amount or value of the consideration for the proposed disposition, and the amount or value of the consideration for any such disposition of any fixed assets of the Company that has been completed in the period of four (4) months immediately preceding the proposed disposition, exceeds 33% of the value of the Company's fixed assets as shown in the latest balance sheet which was tabled at a shareholders' general meeting.

For the purposes of this Article, a "disposition" includes an act involving the transfer of an interest in assets but does not include the pledging of fixed assets as guarantee.

The validity of a disposition by the Company shall not be affected by any breach of the first paragraph of this Article.

Before the board of directors makes a decision on market development, merger and acquisition, investment in new areas, etc., in relation to projects involving an investment amount or asset value of the acquisition or merger amounting to more than 10% of the total assets of the Company, an independent consulting agency shall be engaged to provide its professional opinions which shall form an important basis of the decisions of the board of directors.

Article 98. The Chairman of the board of directors shall exercise the following powers:

- (1) to preside over shareholders' general meetings and to convene and preside over meetings of the board of directors;
- (2) to organise the implementation of the duties of the board of directors and to check on the implementation status of resolutions passed by the board of directors at its meetings;
- (3) to sign the securities certificates issued by the Company;
- (4) to exercise other powers conferred by the board of directors.

When the Chairman is unable to exercise his powers, such powers shall be exercised by the executive director who has been designated by the Chairman to exercise such powers on his behalf.

Article 99. Meetings of the board of directors shall be held at least twice every year and shall be convened by the Chairman of the board of directors. All of the directors should be notified about the meeting ten (10) days beforehand. Where there is an urgent matter, an extraordinary meeting of the board of directors may be held if it is so requested by six (6) of the directors, the Chairman of the board of directors or the Company's general manager. Such extraordinary meeting shall not be subject to the provisions of Article 100 on notice of the meetings.

Article 100. Notice of meetings of the board of directors shall be delivered as follows:

- (1) For regular meetings of the board of directors of which the time and venue have been stipulated by the board of directors beforehand, no notice of the convening of such meetings will be needed.
- (2) For meetings of the board of directors of which the time and venue have not been decided by the board of directors beforehand, the Chairman of the board of directors shall notify the directors of the time and venue of such meeting 10 days in advance by telex, by telegram, by facsimile, by express courier service or by registered mail or in person, unless otherwise provided for in Article 99.
- (3) Notice of meetings may be served in Chinese, with an English translation attached thereto when necessary, and in each case accompanied by a meeting agenda. A director may waive his right to receive notice of a board meeting.

Article 101. In strict compliance with the required procedures, all executive and external directors must be notified about the material matters that must be decided by the board of directors within the time limit stipulated in Article 100, and sufficient materials must be provided at the same time. Directors may request for supplementary information. If more than one-fourth of the total number of directors or more than two external directors consider that the materials provided are not sufficient or the supporting arguments are not clear, they may jointly propose to postpone the meeting or postpone the discussion of certain matters on the agenda of the meeting and the board of directors shall accept such proposal.

Notice of a meeting shall be deemed to have been given to any director who attends the meeting and does not protest against, before or at its commencement, any lack of notice.

Any regular or extraordinary meeting of the board of directors may be held by way of telephone conferencing or with the assistance of similar communication equipment so long as all directors participating in the meeting can hear and communicate with each other clearly. All such directors shall be deemed to be present in person at the meeting.

Article 102. A board of directors meeting shall only be convened if more than half of the board of directors are present (including any directors appointed pursuant to Article 103 to attend the meeting as the representatives of other directors). Each director has one vote. All resolutions require the affirmative votes of more than half of all the board of directors in order to be passed. In the case of equal number of votes for and against a resolution the Chairman of the board of directors is entitled to a casting vote.

Article 103. Directors shall attend the meetings of the board of directors in person. Where a director is unable to attend a meeting for any reason, he may by a written power of attorney appoint another director to attend the meeting on his behalf. The power of attorney shall set out the scope of the authorization.

A Director appointed as the representative of another director to attend the meeting shall exercise the rights of a director within the scope of authority conferred by the appointing director. Where a director is unable to attend a meeting of the board of directors and has not appointed the representative to attend the meeting on his behalf, he shall be deemed to have waived his right to vote at the meeting.

Expenses incurred by a director for attending a meeting of the board of directors shall be paid by the Company. These expenses include the costs of transportation between the premises of the director and the venue of the meeting in different cities and accommodation expenses during the meeting. Rent of the meeting place, local transportation costs and other reasonable out-of-pocket expenses shall be paid by the Company.

Article 104. The board of directors may accept a written resolution in lieu of a board meeting provided that a draft of such written resolution shall be delivered to each director in person, by mail, by telegram or by facsimile. If the board of directors has delivered such proposed written resolution to all the directors and the directors who signed and approved such resolution have reached the required quorum, and the same has been delivered to the secretary of the board of directors, such resolution shall become a board resolution and a board meeting need not be convened.

Article 105. The board of directors shall keep minutes of matters considered and resolutions passed at meetings of the board of directors in Chinese. Opinions of the independent (non-executive) directors shall be clearly stated in the resolutions of the board of directors. The minutes of each board meeting shall be provided to all the directors promptly. Directors who wish to amend or supplement the minutes shall submit the proposed amendments to the Chairman in writing within one week after receipt of the meeting minutes. After the minutes have been finalized, they shall be signed by the directors present at the meeting and by the person who recorded the minutes. The minutes of board meetings shall be kept at the registered address of the Company in the PRC and a complete copy of the minutes shall be promptly sent to each director.

The directors shall be liable for the resolutions of the board of directors. If a resolution of the board of directors violates the laws, administrative regulations or the Company's Articles of Association and the Company suffers serious losses as a result, the directors who participated in the passing of such resolution are liable to compensate the Company therefore such losses. However, if it has been proven that a director expressly objected to the resolution when the resolution was voted on, and that such objection was recorded in the minutes of the meeting, such director may be released from such liability.

CHAPTER 11: SECRETARY OF THE BOARD OF DIRECTORS

Article 106. The Company shall have one (1) secretary of the board of directors. The secretary shall be a senior officer of the Company.

Where necessary, the board of directors may establish a secretarial office of the board of directors.

Article 107. The secretary of the Company's board of directors shall be a natural person who has the requisite professional knowledge and experience, and shall be appointed by the board of directors.

The main tasks of the secretary of the board of directors include:

- (1) to assist the directors in the day-to-day work of the board of directors, to continuously provide the directors with, to remind the directors of and to ensure that the directors understand the regulations, policies and requirements of the foreign and domestic regulatory authorities on the operation of the Company, to assist the directors and the general manager to effectively implement relevant foreign and domestic laws, regulations, the Company's Articles of Association and other relevant regulations when carrying out their duties;
- (2) to be responsible for the organization and preparation of documents for board meetings and shareholders' meetings, to take proper meeting minutes, to ensure that the resolutions passed at the meetings comply with statutory procedures and to be knowledgeable about the implementation of the resolutions of the board of directors;
- (3) to be responsible for the organization and coordination of information disclosure, to coordinate the relationship with investors and to increase transparency of the Company;
- (4) to participate in the structuring of financing through the capital markets;
- (5) to deal with intermediaries, regulatory authorities and media, and to maintain good public relations.

Duties of the secretary of the board of directors include:

- (1) to organise and prepare for the board meetings and shareholders' meetings, to prepare documents for the meetings, to make relevant arrangements for the meetings, to be responsible for taking meeting minutes, to ensure the accuracy of the records, to keep meeting documents and minutes and to take proactive steps to become knowledgeable about the implementation of relevant resolutions; to report to and advise the board of directors on important issues during implementation of the resolutions.
- (2) to ensure that material decisions of the board of directors are implemented in strict compliance with the required procedures; upon request by the board of directors, to participate in, and to organize the consultation and analysis of matters to be decided by the board of directors and provide relevant advice and recommendations thereon; to carry out the day-to-day work of the board of directors and its relevant committees upon delegation.
- (3) to act as a contact point between the Company and securities regulatory authorities, to be responsible for the organisation of the preparation and timely submission of documents required by the regulatory authorities, responsible for carrying out the tasks given by the regulatory authorities and organising their accomplishment.

- (4) to be responsible for coordinating and organizing the Company's information disclosure, to set up a sound information disclosure system, to participate in all the meetings of the Company in relation to information disclosure, to timely obtain important business decisions and the relevant information.
- (5) to be responsible for keeping price sensitive information of the Company confidential and to formulate an effective system of maintaining confidentiality and related measures; to take necessary remedial actions in the event of the unintended disclosure for whatever reason of any price sensitive information of the Company; and to make prompt explanations and clarifications and notify the regulatory authority of the overseas listing place and CSRC thereof.
- (6) to be responsible for the coordination and organisation of market promotions, to coordinate visits to the Company, to deal with relationship with investors, to maintain communication with investors, intermediaries and media, to be responsible for coordinating and answering questions raised by the public, and to ensure that the investors promptly obtain the information disclosed by the Company; to organise and prepare for marketing and promotion activities outside and in the PRC, to draw up summary reports on market promotion activities and important visits to the Company and to organise the reporting of the same to CSRC.
- (7) to be responsible for administering and keeping the register of the members of the Company, the register of the directors of the Company, the shareholding of major shareholders and directors and list of the holders of the outstanding debentures of the Company in issue.
- (8) to assist the directors and the general manager in complying with foreign and domestic laws, regulations, the Company's Articles of Association and other relevant regulations in exercising their powers. After becoming aware that any resolutions made or likely to be made by the Company are in breach of relevant regulations, the secretary is obliged to give prompt warnings and shall have the right to report such facts to the CSRC and other regulatory authorities.
- (9) to coordinate the provision of necessary information required by the Company's supervisory committee and other examination body for their supervisory functions, and assist them in their investigation on the relevant financial officer, directors of the Company and general manager on whether they have satisfied their responsibility for trust-worthiness.

(10) to exercise other powers and duties authorized by the board of directors and other powers and duties required in the overseas listing jurisdiction.

Article 108. A director or other senior officer of the Company may also act as the secretary of the board of directors. Accountants of the accountancy firm which has been appointed by the Company to act as its auditors shall not act as the secretary of the board of directors.

Where the office of secretary is held concurrently by a director, and an act is required to be done by a director and a secretary separately, the person who holds the office of director and secretary may not perform the act in a dual capacity.

Article 109. The secretary of the board of directors shall diligently exercise his duties in accordance with the relevant provisions of these Articles of Association.

The secretary of the board of directors shall assist the Company in complying with the relevant PRC laws and the rules of the securities exchange on which the shares of the Company are listed.

CHAPTER 12: GENERAL MANAGER

Article 110. The Company shall have a general manager who shall be appointed or dismissed by the board of directors.

The Company shall have several deputy general managers, and financial deputy general manager who shall assist the general manager. The deputy general managers and financial deputy general manager shall be nominated by the general manager and appointed or dismissed by the board of the directors.

A member of the board of directors may act concurrently as the general manager or deputy general manager.

Article 111. The general manager shall be accountable to the board of directors and shall exercise the following functions and powers:

- (1) to be in charge of the Company's production, operation and management and to organise the implementation of the resolutions of the board of directors;
- (2) to organise the implementation of the Company's annual business plan and investment proposal;
- (3) to devise the establishment of the Company's internal management structure;

- (4) to draft plans for the establishment of the Company's branch organisations;
- (5) to devise the Company's basic management system;
- (6) to formulate basic rules and regulations of the Company;
- (7) to propose the appointment or dismissal of the deputy general managers and financial deputy general manager of the Company;
- (8) to appoint or dismiss management personnel other than those required to be appointed or dismissed by the board of directors;
- (9) other powers conferred by the Company's Articles of Association and the board of directors.

Article 112. The general manager who is not a director shall be entitled to attend meetings of the board of directors and receive the notice of meeting and the relevant documents. The general manager who is not a director does not have any voting rights at board meetings.

Article 113. In performing their duties and exercising their powers, the general manager, the deputy general managers and the financial deputy general manager shall not depart from the resolutions of the shareholders' general meetings or the board of directors, or exceed their respective authority.

Article 114. In performing their duties and powers, the general manager, the deputy general managers and the financial deputy general manager shall act honestly and diligently and in accordance with laws, administrative regulations and the Company's Articles of Association.

Article 115. The general manager, the deputy general managers, the financial deputy general manager and other senior officers who wish to resign shall give a three-month written notice to the board of directors. Department managers who wish to resign shall give a two-month written notice to the general manager.

CHAPTER 13: SUPERVISORY COMMITTEE

Article 116. The Company shall have a supervisory committee. The supervisory committee is a permanent supervisory body of the Company responsible for supervising the board of directors and its members, the general manager, deputy general managers, financial deputy general manager and other senior officers of the Company to prevent them from abusing their powers and infringing the legitimate rights and interests of the shareholders, the Company and its employees.

- Article 117. The supervisory committee shall compose of five (5) supervisors including one external supervisor (hereinafter meaning supervisors who do not hold office in the Company).
- The supervisory committee shall have one (1) chairman. Each supervisor shall serve for a term of three (3) years, which term is renewable upon re-election and re-appointment.
- The election or removal of the chairman of the supervisory committee shall be determined by the affirmative votes of two-thirds or more of the members of the supervisory committee.
- The chairman of the supervisory committee shall organise the implementation of the duties of the supervisory committee.
- Article 118. The supervisory committee shall comprise three (3) supervisors who represent the shareholders (hereinafter including those qualified as external supervisors) and two (2) supervisors who shall represent the employees. Supervisors who represent the shareholders shall be elected or removed by the shareholders in general meetings, and the supervisor who represents employees shall be elected or removed by the employees democratically.
- Where necessary, the supervisory committee may establish an office responsible for the day-to-day work of the supervisory committee.
- Article 119. The directors, the general manager, the deputy general managers and the financial deputy general manager of the Company shall not act concurrently as supervisors.
- Article 120. Meetings of the supervisory committee shall be held at least twice every year, and shall be convened by the chairman of the supervisory committee.
- Article 121. The supervisory committee shall be accountable to the shareholders in general meeting and shall exercise the following functions and powers in accordance with the law:
- (1) to review the Company's financial position;
 - (2) to supervise the directors, general manager, deputy general managers, financial controller and other senior officers to ensure that they do not act in contravention of any law, administrative regulation or the Company's Articles of Association;
 - (3) to require any director, general manager, deputy general manager, financial controller or other senior officer who acts in a manner which is harmful to the Company's interest to rectify such behaviour;

- (4) to check the financial information such as the financial report, business report and plans for distribution of profits to be submitted by the board of directors to the shareholders' general meetings and to authorize, in the Company's name, publicly certified accountants and practising auditors to assist in the re-examination of such information should any doubt arise in respect thereof;
- (5) to propose to convene an extraordinary general meeting;
- (6) to represent the Company in negotiations with or in bringing actions against a director;
- (7) other functions and powers specified in the Company's Articles of Association.

The supervisory committee may provide its opinions on the appointment of accountancy firm by the Company, and may appoint another accountancy firm in the name of the Company when necessary to independently examine financial affairs of the Company, and may directly report relevant information to the securities supervisory and management authorities of the State Council and other relevant authorities.

External supervisors shall report independently to the shareholders' meeting on whether the senior officers have performed their duties honestly and diligently.

Supervisors shall attend meetings of the board of directors as observers.

Article 122. Resolutions of the supervisory committee shall be passed by the affirmative vote of more than two-thirds of all of its members.

Article 123. All reasonable fees incurred in respect of the employment of professionals (such as lawyers, certified public accountants and practising auditors) for the exercise of the supervisory committee's functions and powers shall be borne by the Company.

Article 124. A supervisor shall carry out his duties honestly and faithfully in accordance with laws, administrative regulations and the Company's Articles of Association.

**CHAPTER 14: THE QUALIFICATIONS AND DUTIES OF THE DIRECTORS, SUPERVISORS, GENERAL MANAGER
AND OTHER SENIOR OFFICERS OF THE COMPANY**

Article 125. A person may not serve as a director, supervisor, general manager or any other senior officer of the Company if any of the following circumstances apply:

- (1) a person who does not have or who has limited capacity for civil conduct;
- (2) a person who has been sentenced for corruption, bribery, infringement of property rights or misappropriation of property or other crimes which disrupt the social economic order, where less than a term of five (5) years has lapsed since the sentence was fully served, or a person who has been deprived of his political rights and not more than five (5) years have lapsed since the sentence was fully served;
- (3) a person who is a former director, factory manager or manager of a company or enterprise which has been dissolved or put into liquidation as a result of mismanagement and who was made personally liable for such dissolution or liquidation, and where less than three (3) years have lapsed since the date of completion of the insolvent liquidation of the company or enterprise;
- (4) a person who is a former legal representative of a company or enterprise the business licence of which was revoked due to violation of law and who are personally liable therefor, where less than three (3) years have elapsed since the date of the revocation of the business licence;
- (5) a person who has a relatively large amount of debts which have become overdue;
- (6) a person who is currently undergoing investigation by judicial organs for violation of criminal law;
- (7) a person who, according to laws and administrative regulations, cannot act as a leader of an enterprise;
- (8) a person other than a natural person;
- (9) a person who has been convicted by the competent authority for violation of relevant securities regulations and such conviction involves a finding that such person has acted fraudulently or dishonestly, and where less than five (5) years have lapsed from the date of such conviction.

- Article 126. The validity of an act carried out by a director, the general manager, and other senior officers of the Company on behalf of the Company as against a bona fide third party acting in good faith, shall not be affected by any irregularity in his office, his election or any defect in his qualification.
- Article 127. In addition to the obligations imposed by laws, administrative regulations or the listing rules of the stock exchange on which shares of the Company are listed, each of the Company's directors, supervisors, general manager and other senior officers owes a duty to each shareholder, in the exercise of the functions and powers entrusted to him by the Company:
- (1) not to cause the Company to exceed the scope of business stipulated in its business licence;
 - (2) to act honestly and in the best interests of the Company;
 - (3) not to expropriate the Company's property in any way, including (but not limited to) usurpation of opportunities which benefit the Company;
 - (4) not to expropriate the individual rights of shareholders, including (but not limited to) rights to distribution and voting rights, save and except pursuant to a restructuring of the Company which has been submitted to the shareholders for approval in accordance with the Company's Articles of Association.
- Article 128. Each of the Company's directors, supervisors, general manager and other senior officers owes a duty, in the exercise of his powers and in the discharge of his duties, to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.
- Article 129. Each of the Company's directors, supervisors, general manager and other senior officers shall exercise his powers or perform his duties in accordance with the fiduciary principle, and shall not put himself in a position where his duty borne and his personal interest may conflict. This principle shall mean (without limitation) discharging the following obligations:
- (1) to act honestly and in the best interests of the Company;
 - (2) to act within the scope of his powers and not to exceed such powers;

- (3) to exercise the discretion vested in him personally and not to allow himself to act under the control of another and, unless and to the extent permitted by laws, administrative regulations or with the informed consent of shareholders given in a general meeting, not to delegate the exercise of his discretion;
- (4) to treat shareholders of the same class equally and to treat shareholders of different classes fairly;
- (5) unless otherwise provided for in the Company's Articles of Association or except with the informed consent of the shareholders given in a general meeting, not to enter into any contract, transaction or arrangement with the Company;
- (6) not to use the Company's property for his own benefit unless with the informed consent of the shareholders given in a general meeting;
- (7) not to exploit his position by accepting bribes or other illegal income or expropriate the Company's property in any way, including (but not limited to) opportunities which benefit the Company;
- (8) not to accept commissions in connection with the Company's transactions unless with the informed consent of the shareholders given in a general meeting;
- (9) to comply with the Company's Articles of Association, to perform his official duties faithfully, to protect the Company's interests and not to exploit his position and power in the Company to advance his own interests;
- (10) not to compete with the Company in any way unless with the informed consent of the shareholders given in a general meeting;
- (11) not to misappropriate the Company's funds or to lend such funds to any other person, not to use the Company's assets to set up deposit accounts in his own name or in any other name or to use such assets to guarantee the debts of a shareholder of the Company or any other personal liabilities;
- (12) not to release any confidential information which he has obtained during his term of office unless with the informed consent of the shareholders in a general meeting; nor shall he use such information in any other way other than for the Company's benefit, save that disclosure of such information to the court or other governmental authorities is permitted if:
 - (i) disclosure is made under compulsion of law;

- (ii) public interests so warrants;
- (iii) the interests of the relevant director, supervisor, general manager or other senior officer so requires.

Article 130. Each director, supervisor, general manager and other senior officer of the Company shall not direct the following persons or institutions (“associates”) to act in a manner which he is prohibited from so acting:

- (1) the spouse or minor child of the director, supervisor, general manager or other senior officer;
- (2) the trustee of the director, supervisor, general manager or other senior officer or of any person described in sub-paragraph (1) above;
- (3) the partner of that director, supervisor, general manager or other senior officer or any person referred to in sub-paragraphs (1) and (2) of this Article;
- (4) a company in which that director, supervisor, general manager or other senior officer, whether alone or jointly with one (1) or more of the persons referred to in sub-paragraphs (1), (2) and (3) of this Article and other directors, supervisors, general manager and other senior officers, has de facto controlling interest;
- (5) the directors, supervisors, general manager and other senior officers of a company which is being controlled in the manner set out in sub-paragraph (4) above.

Article 131. The fiduciary duties of the directors, supervisors, general manager and other senior officers of the Company do not necessarily cease with the termination of their tenure. The duty of confidentiality in respect of trade secrets of the Company survives the termination of their tenure. Other duties may continue for such period as the principle of fairness may require depending on the amount of time which has lapsed between the termination and the act concerned and the circumstances and the terms under which the relationship between the relevant director, supervisor, general manager and other senior officer on the one hand and the Company on the other hand was terminated.

Article 132. A director, supervisor, general manager or other senior officer of the Company may be relieved of his liability for specific breaches of his duty with the informed consent of the shareholders given at a general meeting, but this shall not apply for the matters set out in Article 53 of these Articles of Association.

Article 133. Where a director, supervisor, general manager or other senior officer of the Company is in any way, either directly or indirectly, materially interested in a contract, transaction or arrangement or proposed contract, transaction or arrangement with the Company (other than his contract of service with the Company), he shall declare the nature and extent of his interests to the board of directors at the earliest opportunity, whether or not the contract, transaction or arrangement or proposal is ordinarily subject to the approval of the board of directors.

If a director or his associate (as defined in the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited) has a material interest in any contract, transaction, arrangement or other matters that requires the approval of the board of directors, the relevant director shall not vote for the relevant matter at the meeting of the board of directors, and shall not be counted towards the quorum of the meeting.

Unless the interested director, supervisor, general manager or other senior officer has disclosed his interests in accordance with the preceding sub-paragraph of this Article, and he has neither been counted as part of the quorum nor participated in voting for such matter the Company may annul such contract, transaction or arrangement, except as against a bona fide party thereto who does not have notice of the breach of duty by the interested director, supervisor, general manager or other senior officer.

A director, supervisor, general manager or other senior officer of the Company is deemed to be interested in a contract, transaction or arrangement in which his associate is interested.

Article 134. Where a director, supervisor, general manager or other senior officer of the Company gives to the board of directors a notice in writing stating that, by reason of the facts specified in the notice, he is interested in contracts, transactions or arrangements which may subsequently be made by the Company, that notice shall be deemed for the purposes of the preceding Article to be a sufficient declaration of his interests, so far as the content stated in such notice is concerned, provided that such written notice is given before the date on which the question of entering into the relevant contract, transaction or arrangement is first taken into consideration by the Company.

Article 135. The Company shall not pay taxes for or on behalf of a director, supervisor, general manager or other senior officer in any manner.

Article 136. The Company shall not directly or indirectly make a loan to or provide any guarantee in connection with the making of a loan to a director, supervisor, general manager or other senior officer of the Company or of the Company's holding company or any of their respective associates.

The foregoing prohibition shall not apply to the following circumstances:

- (1) the provision by the Company of a loan or a guarantee in connection with the making of a loan to its subsidiary;
- (2) the provision by the Company of a loan or a guarantee in connection with the making of a loan or any other funds available to any of its directors, supervisors, general manager and other senior officers to meet expenditure incurred or to be incurred by him for the purposes of the Company or for the purpose of enabling him to perform his duties properly, in accordance with the terms of a service contract approved by the shareholders in a general meeting;
- (3) if the ordinary course of business of the Company includes the lending of money or the giving of guarantees, the Company may make a loan to or provide a guarantee in connection with the making of a loan to any of the relevant directors, supervisors, general manager and other senior officers or their respective associates in the ordinary course of its business on normal commercial terms.

Article 137. Any person who receives funds from a loan which has been made by the Company acting in breach of the preceding Article shall, irrespective of the terms of the loan, forthwith repay such funds.

Article 138. A guarantee for the repayment of a loan which has been provided by the Company acting in breach of Article 136(1) shall not be enforceable against the Company, save in respect of the following circumstances:

- (1) the guarantee was provided in connection with a loan which was made to an associate of any of the directors, supervisors, general manager and other senior officers of the Company or of the Company's holding company and the lender of such funds did not know of the relevant circumstances at the time of the making of the loan; or
- (2) the collateral which has been provided by the Company has already been lawfully disposed of by the lender to a bona fide purchaser.

Article 139. For the purposes of the foregoing provisions of this Chapter, a "guarantee" includes an undertaking of responsibility or property provided by the guarantor to secure the obligor's performance of his obligations.

- Article 140. In addition to any rights and remedies provided by the laws and administrative regulations, where a director, supervisor, general manager or other senior officer of the Company breaches the duties which he owes to the Company, the Company has the right:
- (1) to demand such director, supervisor, general manager or other senior officer to compensate it for losses sustained by it as a result of such breach;
 - (2) to rescind any contract or transaction which has been entered into between the Company and such director, supervisor, general manager or other senior officer or between the Company and a third party (where such third party knows or should have known that such director, supervisor, general manager other senior officer representing the Company has breached his duties owed to the Company);
 - (3) to demand such director, supervisor, general manager or other senior officer to account for profits made as result of the breach of his duties;
 - (4) to recover any monies which should have been received by the Company and which was received by such director, supervisor, general manager or other senior officer instead, including (without limitation) commissions; and
 - (5) to demand repayment of interest earned or which may have been earned by such director, supervisor, general manager or other senior officer on monies that should have been paid to the Company.

Article 141. The Company shall, with the prior approval of shareholders in a general meeting, enter into a contract in writing with a director or supervisor wherein his emoluments are stipulated. The aforesaid emoluments include:

- (1) emoluments in respect of his service as director, supervisor or senior officer of the Company;
- (2) emoluments in respect of his service as director, supervisor or senior officer of any subsidiary of the Company;
- (3) emoluments in respect of the provision of other services in connection with the management of the affairs of the Company and any of its subsidiaries;
- (4) payment by way of compensation for loss of office, or as consideration for or in connection with his retirement from office.

No proceedings may be brought by a director or supervisor against the Company for anything due to him in respect of the matters mentioned in this Article except pursuant to the contract mentioned above.

Article 142. The contract concerning the emoluments between the Company and its directors or supervisors should provide that in the event that the Company is being acquired, the Company's directors and supervisors shall, subject to the prior approval of shareholders in a general meeting, have the right to receive compensation or other payment in respect of his loss of office or retirement. For the purposes of this paragraph, the acquisition of the Company includes any of the following:

- (1) an offer made by any person to the all shareholders;
- (2) an offer made by any person with a view to the offeror becoming a "controlling shareholder" within the meaning of Article 54 hereof.

If the relevant director or supervisor does not comply with this Article, any sum so received by him shall belong to those persons who have sold their shares as a result of such offer. The expenses incurred in distributing such sum on a pro rata basis amongst such persons shall be borne by the relevant director or supervisor and shall not be paid out of such sum.

CHAPTER 15: FINANCIAL AND ACCOUNTING SYSTEMS AND PROFIT DISTRIBUTION

Article 143. The Company shall establish its financial and accounting systems in accordance with laws, administrative regulations and PRC accounting standards formulated by the finance regulatory department of the State Council.

Article 144. The fiscal year of the Company shall be on the basis of the Gregorian calendar beginning on 1 January and ending on 31 December of each year.

The Company shall use Renminbi as its standard unit of account. The accounts shall be prepared in Chinese.

At the end of each fiscal year, the Company shall prepare a financial report which shall be examined and verified in a manner prescribed by law.

Article 145. The board of directors of the Company shall place before the shareholders at every annual general meeting such financial reports which the relevant laws, administrative regulations and directives promulgated by competent regional and central governmental authorities require the Company to prepare. Such reports must be verified and certified.

Article 146. The Company's financial reports shall be made available for shareholders' inspection at the Company twenty (20) days before the date of every shareholders' annual general meeting. Each shareholder shall be entitled to obtain a copy of the financial reports referred to in this Chapter.

The Company shall deliver or send to each shareholder of Overseas-Listed Foreign-Invested Shares by prepaid mail at the address registered in the register of shareholders the said reports not later than twenty-one (21) days before the date of every annual general meeting of the shareholders.

- Article 147. The financial statements of the Company shall, in addition to being prepared in accordance with PRC accounting standards and regulations, be also prepared in accordance with either international accounting standards, or the accounting standard of the place outside the PRC where the Company's shares are listed. If there is any material difference between the financial statements prepared respectively in accordance with the two accounting standards, such difference shall be specifically stated in the financial statements. In distributing its after-tax profits for the relevant fiscal year, the lower of the two amounts shown in the two financial statements shall be distributed.
- Article 148. Any interim results or financial information published or disclosed by the Company must also be prepared and presented in accordance with PRC accounting standards and regulations, and also in accordance with either international accounting standards or the accounting standard of the place overseas where the Company's shares are listed.
- Article 149. The Company shall publish its financial reports twice every fiscal year, that is, the interim financial report shall be published within sixty (60) days after the expiration of the first six (6) months of each fiscal year; the annual financial report shall be published within one hundred and twenty (120) days after the expiration of each fiscal year.
- Article 150. The Company shall not keep accounts other than those required by law.
- Article 151. When distributing its after-tax profits in a given year, the Company shall allocate 10% of such profits to the Company's statutory common reserve fund. Where the accumulated amount of the statutory common reserve fund reaches 50% or more of the registered capital of the Company, no further allocation is required.

Where the statutory common reserve fund is insufficient to make up for the losses of the Company in the previous year, before making contribution to the statutory common reserve fund, the profits made in the current year shall be used to make up for the losses first.

After making contribution to the statutory common reserve fund from its after-tax profits, the Company may, subject to resolutions adopted at a shareholders' general meeting, make contributions to discretionary common reserve fund.

After making up for the losses and making contributions to the common reserve fund, any remaining profits shall be distributed to the shareholders in proportion to their respective shareholdings.

- Article 152. The Company shall not allocate dividends or carry out other allocations in the form of bonuses before it has made up for its losses and made allocations to the statutory common reserve fund. Dividends paid by the Company shall not carry any interest except where the Company has failed to pay the dividends to the shareholders on the date on which such dividends become payable.
- Any amount paid up in advance of calls on any share shall carry interest, but shall not entitle the holder of the share to receive, by way of advance payment, the dividend declared and distributed thereafter.
- Article 153. Capital surplus reserve fund includes the following items:
- (1) premium on shares issued at a premium price;
 - (2) any other income designated for the capital surplus reserve fund by the regulations of the finance regulatory department of the State Council.
- Article 154. The common reserve funds of the Company shall be applied for making up for losses, expanding the Company's production and operation or capitalisation. However, the capital surplus reserve fund shall not be applied for making up losses of the Company.
- If a general meeting of the Company resolves to capitalise any common reserve fund, the Company shall issue new shares to the existing shareholders in proportion to their respective shareholdings or increase the par value of each share provided that when capitalising the statutory common reserve fund, the balance of such fund shall not be less than 25% of the registered capital.
- Article 155. The Company may distribute dividends in the form of:
- (1) cash;
 - (2) shares.
- Article 156. The Company shall declare and pay cash dividends and other amounts which are payable to holders of Domestic Shares in Renminbi. The Company shall calculate and declare cash dividends and other payments which are payable to holders of Overseas-Listed Foreign-Invested Shares in Renminbi, and shall pay such amounts in Hong Kong dollars. The foreign exchange required by the Company to pay cash dividends and other amounts to holders of Overseas-Listed Foreign-Invested Shares shall be obtained in accordance with the relevant foreign exchange administrative regulations of the State.

- Article 157. Unless otherwise provided for in relevant laws and administrative regulations, where cash dividends or other amounts are to be paid in Hong Kong dollars, the applicable exchange rate shall be the average offer rate for the relevant foreign currency announced by the Peoples' Bank of China during the calendar week prior to the declaration of payment of dividend and other amounts.
- Article 158. Subject to Article 56(2) and 96(14) of these Articles of Associations, the board of directors may decide to distribute interim or special dividends.
- Article 159. When distributing dividends to its shareholders, the Company shall withhold and pay on behalf of its shareholders the taxes levied on the dividends in accordance with the provisions of the PRC tax law.
- Article 160. The Company shall appoint receiving agents for holders of the Overseas-Listed Foreign-Invested Shares. Such receiving agents shall receive dividends which have been declared by the Company and all other amounts which the Company should pay to holders of Overseas-Listed Foreign-Invested Shares on such shareholders' behalf.
- The receiving agents appointed by the Company shall meet the relevant requirements of the laws of the jurisdiction at which the Company's shares are listed or the relevant regulations of such stock exchange.
- The receiving agents appointed for holders of Overseas-Listed Foreign- Invested Shares listed in Hong Kong shall each be a company registered as a trust company under the Trustee Ordinance of Hong Kong.

CHAPTER 16: APPOINTMENT OF ACCOUNTANCY FIRM

- Article 161. The Company shall appoint an independent firm of accountants which is qualified under the relevant regulations of the State to audit the Company's annual report and review the Company's other financial reports.
- The first auditors of the Company may be appointed before the first annual general meeting of the Company at the inaugural meeting. Auditors so appointed shall hold office until the conclusion of the first annual general meeting.
- If the inaugural meeting does not exercise the powers under the preceding paragraph, those powers shall be exercised by the board of directors.
- Article 162. The accountancy firm appointed by the Company shall hold office from the conclusion of the annual general meeting of shareholders at which they were appointed until the conclusion of the next annual general meeting of shareholders.

- Article 163. The accountancy firm appointed by the Company shall enjoy the following rights:
- (1) a right to review to the books, records and vouchers of the Company at any time, and the right to require the directors, general manager and other senior officers of the Company to supply relevant information and explanations;
 - (2) a right to require the Company to take all reasonable steps to obtain from its subsidiaries such information and explanation as are necessary for the discharge of its duties;
 - (3) a right to attend shareholders' general meetings and to receive all notices of, and other information relating to, any shareholders' general meeting which any shareholder is entitled to receive, and to speak at any shareholders' general meeting in relation to matters concerning its role as the Company's accountancy firm.
- Article 164. If there is a vacancy in the position of accountant of the Company, the board of directors may appoint an accountancy firm to fill such vacancy before the convening of the shareholders' general meeting. Any other incumbent accountancy firm which has been appointed by the Company may continue to act during the period where such vacancy subsists.
- Article 165. The shareholders in a general meeting may by ordinary resolution remove the Company's accountancy firm before the expiration of its term of office, irrespective of the provisions in the contract between the Company and the Company's accountancy firm. However, the accountancy firm's right to claim for damages which arise from its removal shall not be affected.
- Article 166. The remuneration of an accountancy firm or the manner in which such firm is to be remunerated shall be determined by the shareholders in a general meeting. The remuneration of an accountancy firm appointed by the board of directors shall be determined by the board of directors.
- Article 167. The Company's appointment, removal or non-renewal of appointment of an accountancy firm shall be resolved by the shareholders in a general meeting. Such resolution shall be filed with the securities authority of the State Council.
- Where a resolution at a general meeting of shareholders is passed to appoint an accountancy firm other than an incumbent accountancy firm to fill any casual vacancy in the office of accountancy firm, to re-appoint a retiring accountancy firm that was appointed by the board of directors to fill a casual vacancy, or to dismiss an accountancy firm before the expiration of its term of office, the following provisions shall apply:
- (1) A copy of the appointment or removal proposal shall be sent (before notice of meeting is given to the shareholders) to the accountancy firm proposed to be appointed or proposing to leave its post or the firm which has left its post in the relevant fiscal year (leaving includes leaving by removal, resignation and retirement).

- (2) If the accountancy firm leaving its post makes representations in writing and requests the Company to give the shareholders notice of such representations, the Company shall (unless the representations have been received too late) adopt the following measures:
 - (a) in any notice of the resolution given to shareholders, state the fact of the representations having been made; and
 - (b) attach a copy of the representations to the notice and deliver it to the shareholders in the manner stipulated in the Company's Articles of Association.
- (3) If the Company fails to send out the accountancy firm's representations in the manner set out in sub-paragraph (2) above, such accountancy firm may require that the representations be read out at the meeting and may make further appeals to the meeting.
- (4) An accountancy firm which is leaving its post shall be entitled to attend the following shareholders' general meetings:
 - (a) the general meeting at which its term of office would otherwise have expired;
 - (b) the general meeting at which it is proposed to fill the vacancy caused by its removal; and
 - (c) the general meeting which is convened as a result of its resignation,and to receive all notices of, and other information relating to, any such meeting, and to speak at any such meeting which concerns it as a former accountancy firm of the Company.

Article 168. Prior notice should be given to the accountancy firm if the Company decides to remove such accountancy firm or not to renew its appointment. Such accountancy firm shall be entitled to make representations at the shareholders' general meeting. Where the accountancy firm resigns from its position, it shall make clear to the shareholders in a general meeting whether there has been any impropriety on the part of the Company.

An accountancy firm may resign its office by depositing at the Company's registered address a resignation notice which shall become effective on the date of such deposit or on such later date as may be stipulated in such notice. Such notice shall contain the following statements:

- (1) a statement to the effect that there are no circumstances connected with its resignation which it considers should be brought to the notice of the shareholders or creditors of the Company; or
- (2) a statement of any of the foregoing circumstances.

The Company shall, within fourteen (14) days after receipt of the notice referred to in the preceding paragraph, send a copy of the notice to the relevant regulatory authority. If the notice contains a statement under the preceding sub-paragraph (2), a copy of such statement shall be placed at the Company for shareholders' inspection. The Company should also send a copy of such statement by prepaid mail to every shareholder of Overseas- Listed Foreign Shares at the address registered in the register of shareholders.

Where the accountancy firm's notice of resignation contains a statement in respect of the above, it may require the board of directors to convene a shareholders' extraordinary general meeting for the purpose of receiving an explanation of the circumstances connected with its resignation.

CHAPTER 17: MERGER AND DIVISION OF THE COMPANY

Article 169. In the event of the merger or division of the Company, a plan shall be presented by the Company's board of directors and shall be approved in accordance with the procedures stipulated in the Company's Articles of Association. The Company shall then undertake the relevant approval process in a manner prescribed by law. A shareholder who objects to the plan of merger or division shall have the right to demand the Company or the shareholders who consent to the plan of merger or division to acquire such dissenting shareholders' shareholding at a fair price.

The contents of the resolution of merger or division of the Company shall be compiled into special documents which shall be available for inspection by the shareholders of the Company. Such special documents shall be sent by post to holders of Overseas-Listed Foreign-Invested Shares.

Article 170. The merger of the Company may take the form of either merger by absorption or merger by the establishment of a new company.

In the event of a merger, the merging parties shall execute a merger agreement and prepare a balance sheet and an inventory of assets. The Company shall notify its creditors within ten (10) days of the date of the Company's resolution approving the merger and shall publish a public notice in a newspaper at least three (3) times within thirty (30) days of the date of the Company's resolution approving the merger.

Upon the merger, receivables and indebtedness of each of the merger parties shall be assumed by the company which survives the merger or the newly established company.

Article 171. Where there is a division of the Company, its assets shall be divided up accordingly.

In the event of division of the Company, the parties to such division shall execute a division agreement and prepare a balance sheet and an inventory of assets. The Company shall notify its creditors within ten (10) days of the date of the Company's resolution approving the division and shall publish a public announcement in a newspaper at least three (3) times within thirty (30) days of the date of the Company's resolution approving the division.

Debts of the Company prior to division shall be assumed by the companies which exist after the division in accordance with the agreement of the parties.

Article 172. The Company shall, in accordance with law, apply for change in its registration particulars with the companies registration authority where a change in any item in its registration arises as a result of any merger or division. Where the Company is dissolved, the Company shall apply for cancellation of its registration in accordance with law. Where a new company is established, that company shall apply for registration in accordance with the law.

CHAPTER 18: DISSOLUTION AND LIQUIDATION

Article 173. The Company shall be dissolved and liquidated in accordance with the law upon the occurrence of any of the following events:

- (1) a resolution for dissolution is passed by shareholders at a general meeting;
- (2) dissolution is necessary due to a merger or division of the Company;
- (3) the Company is declared insolvent in accordance with the law due to its failure to repay debts as they become due; and
- (4) the Company is ordered to wind-up because of its violation of laws and administrative regulations.

Article 174. A liquidation committee shall be set up within fifteen (15) days of the Company being dissolved pursuant to subparagraph (1) of the preceding Article, and the composition of the liquidation committee of the Company shall be determined by an ordinary resolution of shareholders in a general meeting. If the Company fails to set up the liquidation committee within the above time limit, the creditors may apply to the People's Court for appointment of relevant persons to form a liquidation committee and conduct the liquidation.

Where the Company is dissolved under sub-paragraph (3) of the preceding Article, the People's Court shall in accordance with the provisions of relevant laws organise the shareholders, the relevant organisations and the relevant professional personnel to establish a liquidation committee to carry out the liquidation.

Where the Company is dissolved under sub-paragraph (4) of the preceding Article, the relevant governing authorities shall organise the shareholders, the relevant organisations and professional personnel to establish a liquidation committee to carry out the liquidation.

Article 175. Where the board of directors proposes to liquidate the Company for any reason other than the Company's declaration of its own insolvency, the board shall include a statement in its notice convening a shareholders' general meeting to consider the proposal to the effect that, after making full inquiry into the affairs of the Company, the board of directors is of the opinion that the Company will be able to pay its debts in full within twelve (12) months from the commencement of the liquidation.

Upon the passing of the resolution by the shareholders in a general meeting for the liquidation of the Company, all functions and powers of the board of directors shall immediately cease.

The liquidation committee shall act in accordance with the instructions of the shareholders' general meeting to make a report at least once every year to the shareholders' general meeting on the committee's income and expenses, the business of the Company and the progress of the liquidation, and to present a final report to the shareholders' general meeting on completion of the liquidation.

Article 176. The liquidation committee shall, within ten (10) days of its establishment, send notices to the Company's creditors and shall, within sixty (60) days of its establishment, publish a public announcement in a newspaper at least three (3) times.

Article 177. During the liquidation period, the liquidation committee shall exercise the following functions and powers:

- (1) to put in order the Company's assets and prepare a balance sheet and an inventory of assets respectively;

- (2) to notify the creditors or to publish public announcements;
- (3) to handle of and liquidate any outstanding businesses of the Company;
- (4) to pay all outstanding taxes;
- (5) to settle claims and debts;
- (6) to deal with the surplus assets remaining after the Company's debts have been repaid;
- (7) to represent the Company in any civil proceedings.

Article 178. After the liquidation committee has put in order the Company's assets and prepared the balance sheet and an inventory of assets, the liquidation committee shall formulate a liquidation plan and present it to a shareholders' general meeting or to the relevant governing authority for confirmation.

After the payment of liquidation expenses with priority, the Company's assets shall be distributed in accordance with the following sequence: (i) salaries and labour insurance expenses of employees of the Company; (ii) outstanding taxes; (iii) bank loans, debentures of the company and other debts of the Company.

Any surplus assets of the Company remaining after payment referred to in the preceding paragraph shall be distributed to its shareholders according to the class of shares and the proportion of shares held in the following sequence:

- (1) In the case of preferential shares, distribution shall be made to holders of such preferential shares according to the par value thereof; if the surplus assets are not sufficient to repay the amount of preferential shares in full, the distribution shall be made to holders of such shares in proportion to their respective shareholdings.
- (2) In the case of ordinary shares, distribution shall be made to holders of such shares in proportion to their respective shareholdings.

During the liquidation period, the Company shall not commence any new business activities.

Article 179. If after putting the Company's assets in order and preparing a balance sheet and an inventory of assets in connection with the liquidation of the Company, the liquidation committee discovers that the Company's assets are insufficient to repay the Company's debts in full, the liquidation committee shall immediately apply to the People's Court for a declaration of insolvency.

After a Company is declared insolvent by a ruling of the People's Court, the liquidation committee shall transfer all matters arising from the liquidation to the People's Court.

Article 180. Following the completion of the liquidation, the liquidation committee shall prepare a liquidation report, a statement of income and expenses received and made during the liquidation period and a financial report, which shall be verified by a Chinese registered accountant and submitted to the shareholders' general meeting or the relevant governing authority for confirmation.

The liquidation committee shall, within thirty (30) days after such confirmation, submit the documents referred to in the preceding paragraph to the companies registration authority and apply for cancellation of registration of the Company, and publish a public announcement relating to the termination of the Company.

CHAPTER 19: PROCEDURES FOR AMENDMENT OF THE COMPANY'S ARTICLES OF ASSOCIATION

Article 181. The Company may amend its Articles of Association in accordance with the requirements of laws, administrative regulations and the Company's Articles of Association.

Article 182. Save as otherwise specified in Articles 60 and 80 of these Articles of Association, the following procedure shall be followed when amending the these Articles of Association:

- (1) The board of directors shall adopt a resolution thereon in accordance with these Articles of Associations and prepare a proposal for amendment of the Articles; or the shareholders may present a motion for amendment of the Articles;
- (2) The foregoing proposal shall be furnished to the shareholders and a shareholders' meeting shall be convened for voting on it;
- (3) The amendments presented to the shareholders' meeting shall be adopted through a special resolution.

Article 183. Amendment of the Company's Articles of Association which involves the contents of the Mandatory Provisions of Overseas-Listed Companies' Articles of Association shall become effective upon receipt of approvals by the authorities that are authorised by the State Council to examine and approve Companies.

Article 184. Where amendment of the Articles of Association involves the registered particulars of the Company, procedures for alteration of registration shall be handled in accordance with the law.

CHAPTER 20: NOTICES

Article 185. Subject to the proper compliance of all the applicable laws, rules and regulations (including but not limited to the rules of the designated stock exchanges) and obtaining all the required consent (if any), any notice or document published by the Company (including but not limited to the “Corporate Communication” as defined by the rules of the designated stock exchanges) could be delivered by the following methods:

- (1) by hand;
- (2) by post;
- (3) by sending it to the facsimile number or other number of electronic communication (including but not limited to email address) or website as provided by the addressee to the Company for the said purpose;
- (4) by public announcement;
- (5) by uploading the notice or document to the website of the Company or the Hong Kong Stock Exchange and issuing a notice to the addressee for notifying him/her on the availability of such notice or document on such website (the “Availability Notice”). The Company shall deliver the Availability Notice to the holders of overseas listed foreign shares by hand or by pre-paid post;
- (6) by any other methods as agreed between the Company and the addressee or as accepted by the addressee after the notice is received; or
- (7) by any other methods as authorized by the relevant regulatory body of the place of listing of the Company or as stipulated by the Articles of Association.

In case of joint holders of shares, all the notices or documents shall be delivered to the holder whose name stands first in the register of members and such notices or documents delivered thereby shall be deemed duly delivered to and received by all such joint holders.

Unless as otherwise provided for in these Articles of Association, all the notices, materials or written statements issued by the Company to holders of Overseas-Listed Foreign-Invested Shares shall be delivered by hand or by pre-paid post to the registered address of each holder of such shares.

Any notice or document shall be:

- Article 186. (1) Deemed issued when the envelope containing such notice was put into post-box, and deemed duly received after 48 hours thereafter if it was delivered by post, provided that the address was clearly written, postage fee was pre-paid and the said notice was put inside such envelope.
- (2) Deemed delivered on the receiving date (i.e. the sending date) if it was sent by facsimile, in such case the receiving date shall be the date shown on the facsimile transmission report. If it was sent as an electronic message, it shall be deemed delivered on the date when the message was transmitted from the server of the Company or its agent.
- (3) Deemed delivered on the date when the availability notice is deemed delivered to the shareholder if the notice or document was uploaded onto the website of the Company.
- (4) Deemed delivered on the date when the notice or document is published for the first time if it is published as a public announcement, provided that such announcement shall be published on newspaper provided for the relevant rules.
- (5) Deemed delivered at the time it is delivered by hand or (as the case may be) at the time of such delivery is deemed delivered if the notice or document is sent or delivered by any other methods as stipulated in the Articles of Association.

Article 187. If the listing rules in the listing place require the Company to dispatch, mail, distribute, issue or otherwise provide the relevant document of the Company in English and in Chinese, the Company shall be allowed to deliver either the English or the Chinese version in accordance with the choice of the shareholder, provided that the Company has made appropriate arrangement to confirm whether the shareholders would like to receive either the English or the Chinese version and subject to and to the extent as permitted by the applicable laws and regulations.

CHAPTER 21: DISPUTE RESOLUTION

Article 188. The Company shall abide by the following principles for dispute resolution:

- (1) Whenever any disputes or claims arise between: holders of the Overseas-Listed Foreign-Invested Shares and the Company; holders of the Overseas-Listed Foreign-Invested Shares and the Company's directors, supervisors, general manager or other senior officers; or holders of the Overseas-Listed Foreign-Invested Shares and holders of Domestic Shares, in respect of any rights or obligations arising from these Articles of Association, the Company Law or any rights or obligations conferred or imposed by the Company Law and other relevant laws and administrative regulations concerning the affairs of the Company, such disputes or claims shall be referred by the relevant parties to arbitration.

Where a dispute or claim of rights referred to in the preceding paragraph is referred to arbitration, the entire claim or dispute must be referred to arbitration, and all persons who have a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the resolution of such dispute or claim, shall, where such person is the Company, the Company's shareholders, directors, supervisors, general manager, or other senior officers of the Company, shall comply with the arbitration award. Disputes in respect of the definition of shareholders and disputes in relation to the register of shareholders need not be resolved by arbitration.

- (2) A claimant may elect for arbitration to be carried out at either the China International Economic and Trade Arbitration Commission in accordance with its Rules or the Hong Kong International Arbitration Centre in accordance with its Securities Arbitration Rules. Once a claimant refers a dispute or claim to arbitration, the other party must submit to the jurisdiction of arbitral body elected by the claimant.

If a claimant elects for arbitration to be carried out at Hong Kong International Arbitration Centre, any party to the dispute or claim may apply for a hearing to take place in Shenzhen in accordance with the Securities Arbitration Rules of the Hong Kong International Arbitration Centre.

- (3) If any disputes or claims of rights are arbitrated in accordance with sub-paragraph (1) of this Article, the laws of the PRC shall apply, save as otherwise provided in the laws and administrative regulations.
- (4) The award of an arbitral body shall be final and conclusive and binding on all parties.

CHAPTER 22: SUPPLEMENTARY

Article 189. The newspapers required by these Articles of Association for the publication of announcements shall be those designated or required by the relevant State laws and administrative regulations. If it is necessary to make an announcement to holders of Overseas-Listed Foreign-Invested Shares as required by these Articles of Association, the relevant announcement shall at the same time be published in the newspapers designated by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in accordance with the provisions for "press announcements" set out therein.

- Article 190. The board of directors of the Company shall be responsible for the interpretation of these Articles of Association, and the shareholders in general meeting shall have the right to amend the Articles of Association.
- Article 191. These Articles of Association are written in Chinese. If there is any discrepancy between the Chinese version and any other translated versions, the Chinese version shall prevail.
- Article 192. In these Articles of Association, reference to “accountancy firm” shall have the same meaning as “auditor”.

Agreement on Purchase of Stock Tower-related Assets by Issuance of Shares and Payment of Cash

Entered into by and between

China Mobile Communications Corporation and Its 31 Subsidiaries

China United Network Communications Corporation Limited and 1 of Its Subsidiaries

China Telecom Corporation Limited

China Reform Holdings Corporation Limited

China Tower Corporation Limited

October 2015

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This Agreement is made and entered into by and between the following parties hereto on October 14, 2015 in Beijing, the People's Republic of China ("China").

Sellers:

Seller A: China Mobile Communications Corporation and its 31 subsidiaries

Seller B: China United Network Communications Corporation Limited and 1 of its subsidiaries

Seller C: China Telecom Corporation Limited

China Reform Corporation: China Reform Holdings Corporation Limited

Buyer/Issuer: China Tower Corporation Limited

Please refer to Annex 1 for the specifics of contracting parties.

The terms used in this Agreement shall be defined and explained in accordance with Annex 2.

Whereas:

- (A) As of the signing date of this Agreement, China Tower has a registered capital of RMB 10 billion yuan, and its business scope includes construction, maintenance and operation of towers; construction, maintenance and operation of base station plant rooms, power supply and air conditioning facilities; maintenance of base station devices. The shareholders of China Tower are China Telecom Corporation Limited, China United Network Communications Corporation Limited and China Mobile Communications Corporation, which hold 29.9%, 30.1% and 40% of the shares, respectively.
- (B) To build a resource-saving and environment-friendly society, reduce redundant construction of telecom infrastructure and achieve intensive, large-scale, professional and efficient operations and sharing of tower resources, the sellers intend to sell their stock towers-related assets to China Tower. And China Tower agrees to purchase and receive the aforementioned stock towers-related assets ("Asset Transfer") in accordance with the terms and conditions of this Agreement, and issues shares to China Reform Corporation to raise funds for paying part of the consideration of purchasing stock towers-related assets. China Reform Corporation agrees to pay to subscribe for the shares issued by China Tower in accordance with the terms and conditions of this Agreement ("Investment Attraction", "Investment Attraction" and "Asset Transfer" collectively referred to "the Transaction").

In this Agreement, the "parties" refer to the sellers, China Reform Corporation and the buyers; the "sellers and buyer" or the "parties" refer to the sellers and the buyer. The three parties hereto shall be Seller A, B and C; China Reform Corporation; and the Buyer.

In view of the above and for the purpose of this transaction, the parties hereto have reached the following agreement (this Agreement) through friendly consultations and on the basis of equality and mutual benefit:

1. Target Assets

1.1 The sellers shall sell all of the assets listed in Annex 3 hereto (“Target Assets”) to the buyer in accordance with the terms and conditions of this Agreement;

1.2 The buyer and the sellers will determine the final list of target assets by way of stock-taking.

2. Transaction Consideration and Purchase Price of Subscription Shares

2.1 According to the Appraisal Report, the appraised values of target assets of asset transfer under this Agreement amounts to RMB 213.8928009 billion yuan. The details of appraised values of target assets of each seller are contained in Annex 4 hereto.

2.2 The transaction consideration of the buyer and the sellers shall be ultimately determined in the following manner:

Transaction Consideration = Appraised Value - Depreciation and Amortization of Appraised Assets from Reference Date to Delivery Date - Value of Reduced Assets + Value of Newly-added Assets

Wherein:

(1) the amount of depreciation and amortization shall be calculated by the remaining useful life and appraised value of assets identified in the appraisal report;

(2) the reduced asset value includes inventory losses, obsolescence, the appraised assets that are confirmed as non-deliverable by the buyer and the sellers, the recovered receivables, the appraised value corresponding to the projects under construction that have been transferred fixed assets;

(3) the added asset value includes the book value of added target assets and the appraised value corresponding to the repaid liabilities. The added target assets refer to the stock towers-related assets that are actually owned by the sellers and have not been listed into the scope of appraised assets as of the delivery date, which are within the defined scope of target assets in Annex 3 hereto, including fixed assets, projects under construction, Construction supplies, long-term deferred expenses, intangible assets and other assets related to towers that are added to the sellers from the day after the reference date to the delivery date, and the towers-related assets of inventory profit when the parties conduct on-site handover. The book value shall be subject to the book value of such assets as of the delivery date that is stated by the sellers in accordance with the customary accounting principles; and the book value of inventory profit assets that cannot be determined shall be determined in accordance with the book value of similar assets.

2.3 Payment of shares subscribed by China Reform Corporation

Payment of shares subscribed by China Reform Corporation = issue price of shares* number of shares subscribed by China Reform Corporation

2.4 The parties hereto agree to confirm the transaction consideration of the buyer and the sellers when signing the Delivery Confirmation in accordance with Article 4.4 hereof.

2.5 The buyer agrees to pay the transaction consideration to the sellers with directed issue of shares (“Share Consideration”) plus cash (“Cash Consideration”), and attract investment through directed issue of shares to China Reform Corporation, of which:

(1) the issue price of shares is RMB 1 yuan/share; the number of shares shall be calculated by taking the stock towers-related assets of Seller C, China Telecom Corporation Limited and its subsidiaries as the benchmark; the number of finally-issued shares shall be calculated in accordance with the following principles of this article; and the total number of newly-added shares issued by the buyer accordingly shall not exceed 135.02863 billion, of which:

(i) the number of shares issued by the buyer to Seller A (including Seller A1 to A10) shall not exceed 51.11088 billion, and Seller A shall subscribe for the shares with part of the target assets owned by it. Base on the value of target assets delivered by Seller A1 to A10, the amounts of shares subscribed by Seller A1 to A10 shall be allocated by Seller A independently. If the adjustment of transaction consideration under Article 2 hereof results in any change to the injected assets, Seller A may reduce the number of entities subscribing for the shares according to the actual situation;

(ii) the number of shares issued by the buyer to Seller B1 shall not exceed 37.74305 billion, and Seller B1 shall subscribe for the shares with part of the target assets owned by it;

(iii) the number of shares issued by the buyer to Seller C shall not exceed 37.47299 billion, and Seller C shall subscribe for the shares with all of the target assets owned by it and RMB cash; and the cost for the shares subscribed with RMB cash shall equal to the transaction consideration of stock towers-related assets sold by China Telecom Corporation Limited and its subsidiaries to the buyer;

(iv) the number of shares issued by the buyer to China Reform Corporation shall not exceed 8.70172 billion, and China Reform Corporation shall subscribe for the shares with RMB cash;

(v) after the issue of shares is completed, the final proportions of shares held by Seller A (including Seller A1 to A10), Seller B1, Seller C and China Reform Corporation shall be 38%, 28.1%, 27.9% and 6%, respectively;

(2) the cost of shares subscribed by Seller C and China Reform Corporation with RMB cash shall be paid within 30 days after determining the transaction consideration in accordance with Article 2.4 hereof;

(3) the difference between the shares consideration and the transaction consideration paid by Seller A and B to the buyer shall be paid by the buyer with cash consideration, where:

(i) the buyer shall pay the first batch of cash consideration of RMB 5 billion yuan to Seller A within 30 days after China Reform Corporation pays the cost of subscribed shares to the buyer;

(ii) the buyer shall pay the first batch of cash consideration of RMB 3 billion yuan to Seller B within 30 days after China Reform Corporation pays the cost of subscribed shares to the buyer;

(iii) the remaining portion of cash consideration shall be paid before December 31, 2015. the interests of unpaid cash consideration shall be calculated from the day after the Delivery Date, and the rate shall be 90% of the one-year benchmark lending rate for financial institutions released by the People’s Bank of China on the Delivery Date. The buyer shall pay interests to the sellers on June 30 and December 31 each year. The sellers agree that the buyer may pay the cash consideration in advance within the aforementioned period;

2.6 The parties agree to complete the issue and subscription of shares within 30 days after the sellers and the buyer determine all of the transaction consideration in accordance with Article 2.4 hereof. The day when the parties sign the Share Subscription Agreement (such as Annex 5 hereto) is the completion date of issue of shares. The buyer shall complete the change of share register, the amendments to the Articles of Association and the change of business registration, and obtain the Corporate Business License after the increase of registered capital.

2.7 Unless otherwise notified in writing, one party shall pay the cash involved in this transaction (if any) to the bank account designated by the other party. The information of bank accounts designated by the parties is listed in Annex 6 hereto.

2.8 After the completion of this transaction, China Reform Corporation is entitled to nominate one director.

3. Prerequisites for Delivery

3.1 As the premise for the delivery, the following prerequisites shall be satisfied or waived:

(1) the representations and warranties made by the sellers on the signing date of this Agreement remain true, accurate and complete in all material respects, without misleading, false representations or omissions in all significant respects;

(2) the sellers have approved this transaction in accordance with their internal organizational documents; as for Seller B, such approvals include the approvals of shareholders of China Unicom (Hong Kong) Limited and China United Network Communications Limited;

(3) China Reform Corporation has approved this transaction in accordance with its internal organizational documents;

(4) the buyer has approved this transaction in accordance with its internal organizational documents;

(5) this transaction has obtained approval, licensing and registration of all application Chinese government departments, including but not limited to the approval of the Ministry of Commerce; the filing procedure of appraisal report has been fulfilled in accordance with national laws and regulations;

As for the prerequisites for delivery, those listed in Article 3.1(2) and (2) are the prerequisites for the sellers; those listed in Article 3.1(3) are the prerequisites for China Reform Corporation; those listed in Article 3.1(4) are the prerequisites for the buyer; and those listed in Article 3.1(5) are the common prerequisites.

3.2 The parties agree that before the delivery date and to the practicable extent, they shall meet all the prerequisites set out in Article 3.1 hereof as soon as possible.

3.3 In case that all of the above prerequisites have not been met or waived prior to the delivery date, the parties shall have consultation to determine the deadlines for such prerequisites in writing, or termination matters of this Agreement (except for the provisions remaining in force). In that case, any party (or its affiliates) shall not make a claim of any nature to the other party (or its affiliates) in accordance with this Agreement, unless such claim involves rights or liabilities generated before the termination or under the provisions remaining in force.

4. Delivery and Handover

4.1 The parties hereby confirm that, unless otherwise agreed by the parties, the ownership and risks of the target assets shall be transferred on October 31, 2015 (the "Delivery Date").

4.2 The buyer and the sellers agree to cooperate with each other to complete the preparations of the handover of all target assets. Unless otherwise agreed, the target assets shall be officially delivered on the Delivery Date.

4.3 The ownership of target assets and related responsibilities

(1) From the day after the Delivery Date, the buyer shall be deemed to be the legal owner of the target assets. Unless otherwise agreed, before the Delivery Date (including the day), the rights and interests related to the target assets shall belong to the sellers, and the obligations and responsibilities related to the target assets shall also be assumed by the sellers; after the Delivery Date, the rights and interests related to the target assets shall belong to the buyer, and the obligations and responsibilities related to the target assets shall also be assumed by the buyer;

(2) As for a single site, from the completion of on-site handover, the maintenance of towers-related assets shall be undertaken by the buyer, and the parties shall sign the *On-site Handover Form of Physical Stock Towers* after completing on-site handover site by site to confirm the handover of assets and maintenance work. The signing date of *On-site Handover Form of Physical Stock Towers* shall be the Handover Date.

(3) From the day after the Delivery Date, the sellers shall be entitled to continue to use towers-related assets. After the buyer and the sellers determine the price of service fees of towers-related assets, the sellers shall pay the service fees of towers-related assets from the day after the Delivery Date. Unless otherwise agreed by the parties, the maintenance costs of towers-related assets generated before the Delivery Date (including the day) shall be borne by the sellers, and those generated after the Delivery Date shall be borne by the buyer.

4.4 The buyer and the sellers shall conduct the handover of target assets in accordance with the provisions of Annex 7. Both of them agree that:

(1) The buyer and the sellers shall complete the handover within 30 days after the Delivery Date (or other period agreed by the parties), and sign the Delivery Confirmation at the level of headquarters. The material, core handover matters shall be completed before the signing of Delivery Confirmation (see Article 5.1.3(5) of Annex 7 hereto), and the subsequent handover matters shall be arranged.

(2) In case of failure to complete all handover matters before the expire of the aforementioned period, the buyer and the sellers agree to continue to complete the handover in accordance with Annex 7, or handle such issue according to the arrangements made by both parties in the Delivery Confirmation.

(3) If the buyer and the sellers fail to complete the handover of some sites within 2 months from the Delivery Date, they shall solve this issue through consultation at the level of headquarters.

4.5 Special Agreement

(1) The buyer and the sellers shall jointly handle the transfer procedures for relevant house ownership and land use right certificates. For the land and housing assets that are within the scope of target assets; whose defects are disclosed by the sellers in the transaction documents; and the relevant ownership certificates of which cannot be obtained by the sellers, the parties agree to complete the handover on the as-is basis. The sellers shall provide the buyer with necessary assistance in applying for relevant ownership certificates, and the associated costs shall be borne by the buyer.

(2) The sellers shall acknowledge that the original copies of asset and business information related to the target assets that are transferred to the buyer are true, accurate and complete, or the copies are consistent with the originals in terms of content and form. If the information is not complete due to objective reasons, the parties hereto shall solve such issue through friendly consultation.

(3) Except for Article 10 of Annex 7 hereto or otherwise agreed by the parties, the names of the sellers' contracts with external parties that are related to the target assets shall be transferred to the buyer ("contracts that shall be transferred"). As for such contracts, their rights and obligations shall be divided as follows: the original sellers' rights and obligations before the Delivery Date shall be enjoyed and assumed by the sellers; the original sellers' rights and obligations after the Delivery Date under such contracts shall be enjoyed and assumed by the buyer. The contracts that have been officially transferred to the buyer by the sellers without agreement of other signatories before the Delivery Date shall be deemed as "contracts that have not been transferred", which shall be temporarily owned by the sellers on behalf of the buyer. Unless otherwise provided in this Agreement, the rights, obligations, profits or losses owned by the sellers since the Delivery Date under the "contracts that have not been transferred" shall belong to the buyer. Where the sellers suffer losses and bear additional expenses for holding contracts on behalf of the buyer, the buyer shall make compensation to the sellers, except for those caused by the sellers.

(4) For the sites which the sellers are not able to control and whose inaccessibility is confirmed by both the buyer and the sellers, the parties hereto agree to the following approaches:

i. the sites in operation shall be delivered, and the buyer shall undertake the maintenance of such sites to the extent practicable, and make every effort to maintain the owners of such sites;

ii. both parties acknowledge that the sites that are not in operation shall not be delivered.

4.6 The buyer and the sellers agree to conduct and complete the handover in good faith in accordance with the handover program in Annex 7. If the handover cannot be conducted properly due to any party's willful conducts or negligence, or related businesses cannot be properly operated, such party shall bear the corresponding liability.

5. Pre-delivery Commitments

5.1 The sellers undertake to:

(1) provide the buyer with all the necessary conditions to check the target assets, allow the buyer's representatives to enter the premises where the target assets are managed and used after sending reasonable notices, and provide the buyer with necessary information and assistance;

(2) promptly inform the buyer of any matter that may result in material adverse changes to the target assets or significant changes such as sites demolition and relocation to the best of its knowledge, and consult with the buyer.

5.2 Except the normal accrual depreciation and amortization, loss, scrap of target assets, the recovery of accounts receivable, debt settlement and construction work in progress being transferred to fixed assets, without the written consent of the buyer, the sellers shall not dispose of any target asset.

5.3 Unless otherwise agreed by the parties, the sellers undertake that after the Delivery Date, the above commitments shall continue to be applicable to the target assets that have not been transferred to the buyer.

6. Transitional Arrangements

6.1 The buyer and the sellers agree to complete and perform the relevant transitional arrangements in accordance with Annex 7 hereto.

7. Joint Work Organization

7.1 The buyer and the sellers agree to establish a joint work organization to ensure the smooth operation and transition of target assets.

8. Representations and Warranties of The Sellers

8.1 As of the Signing Date and Delivery Date of this Agreement, except for the matters disclosed in the transaction documents or unless otherwise agreed by the parties, any seller individually rather than jointly makes the following representations and warranties to the buyer:

(1) its signing and performance of this Agreement:

i. will not result in violation of the provisions of its internal organizational documents and other related documents, or any laws, rules or regulations applicable to the company;

ii. will not result in violation of any important agreement, contract or license to which it is a party , or any order, judgement or decree issued by courts, government departments or regulatory bodies;

iii. perform the procedures required by applicable laws and/or binding agreements and documents before the Delivery Date, except for those will not have significant adverse impact on the buyer's operation of target assets;

(2) all representations and warranties set forth in Annex 8;

(3) from January 1, 2015, in principle, the sellers and their subsidiaries shall not towers and other infrastructure facilities, as well as indoor distribution systems in key public transport sites and large-scale venues such as subway, railways, highways, airports, railway stations; commercial and residential buildings jointly used by multiple owners; and offices of party and government organs;

(4) the sellers shall complete the handover as soon as possible in accordance with the terms and conditions of this Agreement;

(5) if there is evidence showing that the sellers have made false statements, omissions and misleading statements, causing losses to the buyer, the sellers shall compensate the buyer for its direct actual losses.

8.2 In view of that after the issue of shares is completed, the buyer's shares will be held by multiple entities of Seller A (Seller A1 to A10), and to facilitate the unified management, Seller A undertakes that the shareholder rights and obligations corresponding to the buyer's shares held by the aforementioned entities in accordance with this Agreement shall be exercised and performed by Seller A1. Seller A shall use its commercially reasonable efforts to transfer the buyer's shares held by the subsidiaries of Seller A1 to Seller A1 within 30 days after the issue of shares is completed or before December 31, 2015.

9. Representations and Warranties of China Reform Corporation

9.1 As of the Signing Date and Delivery Date of this Agreement, China Reform Corporation makes the following representations and warranties:

(1) as a company duly organized and validly existing under the laws of China, China Reform Corporation has the full right to sign this Agreement and fulfill the rights and obligations hereunder;

(2) its signing and performance of this Agreement:

i. will not result in violation of the provisions of its internal organizational documents and other related documents, or any laws, rules or regulations applicable to the company; or

ii. has performed/will perform the procedures required by applicable laws and/or binding agreements and documents, and will not result in violation of any important agreement, contract or license to which it is a party , or any order, judgement or decree issued by courts, government departments or regulatory bodies;

(3) China Reform Corporation shall pay for the subscribed shares in accordance with the terms and conditions of this Agreement.

10. Representations and Warranties of The Buyer

10.1 As of the Signing Date and Delivery Date of this Agreement, the buyer makes the following representations and warranties:

(1) as a company duly organized and validly existing under the laws of China, the buyer has the full right to sign this Agreement and fulfill the rights and obligations hereunder;

(2) its signing and performance of this Agreement:

i. will not result in violation of the provisions of its internal organizational documents and other related documents, or any laws, rules or regulations applicable to the company; or

ii. has performed/will perform the procedures required by applicable laws and/or binding agreements and documents, and will not result in violation of any important agreement, contract or license to which it is a party, or any order, judgement or decree issued by courts, government departments or regulatory bodies;

(3) the buyer shall pay the transaction consideration to complete the handover as soon as possible in accordance with the terms and conditions of this Agreement.

10.1 The buyer guarantees and undertakes to, subject to relevant laws, regulations and regulatory rules, observe and implement the matters that it explicitly stated to China Communications Services Corporation Limited when it was established.

10.2 The buyer guarantees and undertakes that, as for the plant rooms that are provided by the sellers but not included into the scope of target assets, it shall comply with the sellers' relevant management rules, and compensate the sellers for any damage arising from its usage.

11. Liability for Breach

11.1 Any party's untrue, inaccurate or incomplete representations and/or warranties in all material respects in this Agreement, false representations, omissions or misleading representations in all material respects, breach of any of its commitments made hereunder or any provisions hereof that result in failure to complete the delivery, payment of transaction consideration and cost of subscribed shares shall constitute breach of contract.

11.2 Unless otherwise agreed upon by the parties, the breaching party shall compensate the observant party for its direct, actual losses (i.e. excluding any actual or anticipated consequential or incidental damages). For avoidance of doubt, as for Asset Transfer, the terms of "breaching party" and "observant party" shall apply only to the buyer and the sellers; as for Investment Attraction, such terms shall apply only to China Reform Corporation and the buyer.

11.3 Where the buyer fails to pay the transaction consideration or its interests in accordance with Article 2.5 hereof, for each overdue day from the first day after the payment date set forth in the sellers' written notice, the buyer shall pay the overdue fines to the sellers in accordance with the six-month loan rate of People's Bank of China for the overdue balance.

11.4 If the sellers were informed of some circumstances after the signing date of this Agreement which may cause that any aspects of any representation, warranty and commitment that have significant relations with the financial or operating conditions of target assets to become untrue, inaccurate or misleading, the sellers shall do its utmost to inform the buyer in writing within a reasonable period.

11.5 The parties hereto shall solve any event of default under this Agreement through friendly consultations, which shall be handled by the headquarters of the parties.

11.6 The total amount of liability for breach and compensation for damage bore by the breaching party under this Agreement shall not exceed 30% of its transaction consideration agreed upon in Article 2 hereof, or 10% of the cost for the shares subscribed by China Reform Corporation (only applicable to the liability of breach between China Reform Corporation and the buyer), and the starting amount of its liability of compensation shall be RMB 1 million yuan. The observant party shall lodge a claim against the breaching party in writing within 90 days following the day of being informed of the breach; otherwise, the breaching party shall not bear the related liability for breach. From the expiration date of 24 months after the Delivery Date, any party shall no longer be liable for breach of representations and warranties under this Agreement, except for the claims lodged by the observant party to the breaching party. To avoid ambiguity, the payment obligations of the buyer shall not be exempted or restricted by provisions of this section.

12. Third-party Claims

12.1 As for the disputes that occur on the Delivery Date or the handover and thereafter but arise from the activities and facts of target assets prior to the Delivery Date, if the buyer is aware of any claims, lawsuits or potential claims that are made by any third-party and shall be borne by the sellers in accordance with this Agreement (“Third-party Claims”), it shall notify the sellers.

12.2 As for the disputes arising from the activities and facts following the Delivery Date, if the sellers are aware of the third-party claims that shall be borne by the buyer in accordance with this Agreement, it shall notify the buyer.

12.3 Except as otherwise agreed in this Agreement:

(1) the party who is aware of the third-party claim shall inform the other party of such claim within 15 business days after receiving such claim, and enable the other party and its representatives to obtain reasonable information and convenience; the other party shall reply in writing within 15 business days after receiving such notice;

(2) without the prior written consent of the other party, any party shall admit its liability for third-party claims or enter into any agreement or make a settlement to make other arrangements that set obligations or responsibilities for the other party;

(3) on the premise of compensating for any actual costs incurred from such claims, it shall:

i. take actions reasonably requested by the other party to avoid, deny or challenge any third-party claim, or lodge an appeal, make a settlement or defense against such claim;

ii. within the scope permitted by applicable law, allow the other party (if it choose to do so) to take over all legal proceedings and/or negotiations arising from third-party claims; and

iii. provide the information and assistance reasonably requested by the other party (if needed) for preparing and conducting any proceedings and/or negotiations related to third-party claims.

12.4 The sellers shall indemnify and hold harmless the buyer against and from any actual or potential dispute, claim or legal proceeding involving the target assets exists or occurs before the Delivery Date (including the day), or occurs after the Delivery Date but incurred by the activities of target assets before the Delivery Date (including the day), which may result in any loss, liability, judgment and expense suffered or incurred by the buyer.

13. Announcement

13.1 Without the prior consent of the other party (not to be unreasonably withheld or delay giving such consent), any party (and any of its respective affiliates) shall not publish any announcement or issue any circular on the presence of this Agreement (or any other transaction document) or its subject matters.

13.2 If it is required by laws or any stock exchange or any regulatory or supervisory body or authority of competent jurisdiction (regardless of whether the request is legally binding) to issue notices, announcements or circulars, then the restriction of Article 13.1 shall not be applicable. In cases where such provisions are applicable, the party issuing an announcement or circular shall use its reasonable efforts to conduct prior consultation with the other party concerning the form, content and timing of such announcement or circular.

14. Confidentiality

14.1 The information provided by the party having such information under this Agreement (the "Provider") to the other party (the "Recipient") in accordance with this Agreement, including but not limited to any information related to the target assets, or any information in connection with the terms of this Agreement and other transaction documents and relevant negotiations (hereinafter referred to as "Confidential Information"), shall only be used by the Recipient and its personnel for the purpose of this Agreement. Unless otherwise provided in this Agreement, as for any confidential information provided by the Provider, without the written consent of the Provider, the Recipient and its personnel having the right to know such information shall not directly or indirectly, by any means, provide, disclose or transfer such information to any third party, or license such third party to use, or provide it with any advice or recommendation with such confidential information. For the purpose of this section, "third party" shall any natural person, legal person or other organization other than the parties to this Agreement, but excluding the affiliated companies of the parties hereto.

14.2 The confidential information provided or disclosed by the Provider to the Recipient shall only be disclosed by the Recipient to its designated employees for the purpose of performing this Agreement, and such disclosure shall only be made within the scope necessary for performing this Agreement. However, before taking all reasonable precautions, the Recipient shall not disclose any confidential information to its employees. Such precautions include but are not limited to informing such employees of the confidential nature of information to be disclosed and asking such employees to make confidentiality commitments at least as strict as confidentiality obligations of this Agreement, which are made to prevent such employees from using confidential information for personal gain or making any unauthorized disclosure to any third party. The violation of confidentiality obligations by the Recipient's employees shall be deemed as the breach of confidentiality obligations by the Recipient.

14.3 When the Recipient's lawyers, accountants, contractors and consultants need to know Confidentiality Information to provide professional assistance, the Recipient may disclose such information to them. However, it shall request the above persons to sign confidentiality agreements or fulfill confidentiality obligations in accordance with relevant ethical standards.

14.4 If the relevant government departments or regulatory agencies require the Recipient to disclose any confidential information, it may make disclosure within the scope required by such government departments or agencies without any liability under this Agreement. But the premise is that, the Recipient shall immediately notify the Provider in writing of the information that is required to be disclosed, so that the Provider can take necessary protective measures. And such notice shall be made before the disclosure as far as possible, and the Recipient shall use reasonable commercial efforts to ensure that such disclosed information obtain the confidential treatment of relevant government authorities or agencies.

14.5 The confidentiality obligations specified in this article shall remain in effect permanently.

14.6 The confidentiality obligations specified in this article shall not apply to the information which:

(1) is or becomes part of the public domain when one party discloses or after its disclosure other than through the faults of the Recipient or its employees, lawyers, accountants, contractors, consultants or other persons;

(2) can be proved by documentary evidence that it is possessed by the Recipient at the time of disclosure, and it is not directly or indirectly derived from the Provider;

(3) can be proved by documentary evidence that it has been disclosed by any third party to the Recipient, and such third party does not bear any confidentiality obligations and is entitled to make the disclosure.

14.7 When this Agreement is released or terminated, the Recipient shall immediately halt using and shall not allow any third party to use the confidential information of the Provider. At the same time, the Recipient shall, in accordance with the written requirements of the Provider, return, delete or destroy the confidential information provided by the Provider, which shall not be retained in any form.

15. Non-transferable

15.1 Unless provided in this Agreement or agreed in writing by the parties hereto, no person shall transfer, assign, mortgage or otherwise dispose of his/her rights under this Agreement in whole or in part (collectively referred to as "Transfer" together with this Article 15), nor shall grant, set or dispose of any rights, benefits or obligations therein. Any transfer contrary to this Article 15 shall be invalid.

16. Further Warranty

16.1 Each of the parties hereto shall sign (or be procured to sign) other documents required by laws, the performance or entry into force of this Agreement.

16.2 Each of the parties hereto shall cause its affiliates to fulfill all obligations clearly applying to such affiliates.

17. Taxation and Expenses

17.1 Taking Article 17.2 as the premise, and unless otherwise specified by this Agreement (or any other transaction documents), each party shall be legally responsible for its costs, fees and other expenses generated by the transaction.

17.2 Each party shall, in accordance with laws, regulations and relevant national rules or decisions, assume and pay all taxes generated by this Agreement or any other transaction documents as well as all fees charged by government departments, regulatory bodies and stock exchanges.

17.3 For the purpose of this transaction, unless otherwise provided by laws and regulations and/or agreed by the parties hereto, all costs associated with the transfer of target assets shall be reasonably arranged by the parties through consultation.

18. Notice

18.1 Any notice associated with this Agreement shall be written in Chinese, and delivered by personal delivery, fax, registered mail or express mail service by the courier companies recognized by the parties hereto. Such notices shall be deemed as effective at the time of receipt, and shall be considered as received when: (a) they are delivered to the recipients if delivered by personal delivery, registered mail or express mail service; or (b) the sender transmits and the status is displayed as "Delivered" if delivered by fax. In either case, if delivered outside of business hours, such notices shall be deemed to be received at the beginning of business hours of the next business day.

18.2 For the purposes of Article 18.1, addresses, fax numbers and other contact information of the parties hereto shall be found in Annex 6 of this Agreement.

19. Conflicts with Other Agreements

19.1 In the event of any conflict between the terms of this Agreement and any other agreement (between the parties hereto, as well as between any member of the sellers and any member of the buyer), the terms of this Agreement shall prevail; in the event of any conflict between the Annexes hereto and the terms of main body, the latter shall prevail, unless (a) such other agreement expressly provides that it shall take precedence over this Agreement in relevant respects; and (b) the sellers and the buyer also are the signatories of such other agreement, or have otherwise agreed in writing that such other agreement shall take precedence over this Agreement in relevant respects.

19.2 This Agreement and its Annexes shall constitute the whole legal documents of this transaction, and supersedes all prior oral discussions and written agreements reached by the parties hereto, unless otherwise expressly provided by the transaction documents.

20. Exemption, Rights and Remedies

20. Unless otherwise expressly provided in this Agreement, any party who does not exercise, fails or delays exercising any of its rights, power or remedies under this Agreement or any transaction document shall not be deemed to waive such rights, power or remedies, without prejudice to its exercise of such rights, power or remedies at any subsequent time. Single or partial exercise of any such rights, power or remedies should not impede further exercise thereof.

21. Text

21.1 Written in Chinese, this Agreement is executed in 45 counterparts, and each party holds one copy. The rest shall be submitted to government authorities for examination and/or record filing. The forgoing agreement texts shall have the same legal effect.

22. Entry into Force and Amendment

22.1 This Agreement shall take effect upon the signing and official stamps affixed by the legal representatives of the parties or their authorized representatives. Any amendment to this Agreement (or any other transaction documents) must be in writing, and shall come into force upon the signing and official stamps affixed by the legal representatives of the parties or their authorized representatives.

23. Invalidity

23.1 The terms of this Agreement and other transaction documents are severable. In case any such term is deemed as or becomes invalid or unenforceable in any aspect in accordance with laws of any jurisdiction, they shall be invalid in such aspect. And the parties shall use their reasonable efforts to replace such term with valid and enforceable substitution term that is as close as possible to the effect and predetermined effect in such aspect.

24. Governing Law and Arbitration

24.1 This Agreement shall be governed by, and construed in accordance with the laws of the People's Republic of China.

24.2 The parties shall endeavor to resolve, through friendly consultation, any dispute, controversy or claim arising from or in connection with the interpretation or performance of this Agreement ("Dispute"). They may seek the opinions of regulatory agencies during the process of consultation. In case no resolution can be reached within 60 days after one party raises such matter to the other party, the parties may submit such matter to arbitration.

24.3 The dispute shall be submitted to China International Economic and Trade Arbitration Commission ("CIETAC") to be settled in accordance with its rules in effect at the time of arbitration. The dispute shall be decided by three arbitrators. Each party shall appoint one arbitrator, and the third arbitrator shall be appointed by the other two arbitrators. But if the other two arbitrators cannot decide on the selection of the third arbitrator, then the appointment shall be made by CIETAC.

24.4 The arbitration proceedings shall be presided over by CIETAC and shall be conducted in Chinese, unless otherwise agreed by the parties. Such arbitration proceedings shall be conducted in Beijing.

24.5 The arbitral awards made in accordance with the aforesaid arbitral proceedings shall be final and binding upon the parties, which shall be enforceable according to its terms.

24.6 The arbitration fee shall be paid by the losing party. And the parties agree that, if one party considers it necessary to enforce the arbitral award through any type of legal procedure, then the party which the legal procedure is against shall pay all reasonable costs, expenses and attorneys' fees.

24.7 During the dispute resolution, the parties hereto shall continue to perform this Agreement in all other respects.

25. Miscellaneous

25.1 Viability of Representations, Warranties and Claims

Any representation, warranty and commitment made by the sellers under this Agreement, subject to the content of such representation, warranty and commitment, shall remain valid upon the signing of this Agreement and after the completion of this transaction.

25.2 If the target assets bear the sellers' trade trademarks and logos, the buyer's use of such target assets after accepting them shall not be deemed as infringement of the sellers' relevant intellectual property rights or goodwill. And the buyer shall be entitled to remove such trademarks and logos after notifying the sellers.

25.3 Force Majeure

In case any force majeure event occurs, the parties' obligations under this Agreement may be suspended during the period of delay caused by such force majeure event, and automatically extend for a period equal to the duration of the suspension. The party affected by such force majeure event shall notify the other parties in writing as soon as possible, and provide a valid proof of the force majeure event and its time of occurrence within 15 days. The party affected by force majeure shall take all reasonable measures to mitigate the consequences of force majeure as soon as possible. In case of force majeure, the parties hereto shall conduct consultations immediately to find an equitable solution, and make every effort to mitigate the consequences of force majeure.

25.4 Relevance

(1) Seller A2 to A32 are the subsidiaries of Seller A1, which shall exercise and perform Seller A's rights and obligations under this Agreement on behalf of the entirety of Seller A.

(2) Seller B2 is the subsidiary of Seller B1, which shall exercise and perform Seller B's rights and obligations under this Agreement on behalf of the entirety of Seller B.

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China Mobile Communications Corporation
(seal)
Legal representative or authorized representative:

China United Network Communications Corporation Limited
(seal)
Legal representative or authorized representative:

China Telecom Corporation Limited
(seal)
Legal representative or authorized representative:

China Reform Holdings Corporation Limited
(seal)
Legal representative or authorized representative:

China Tower Corporation Limited
(seal)
Legal representative or authorized representative:

Annex 1: Signatories

The contracting parties of the *Agreement on Purchasing Tower-related Assets by Issuance of Shares and Payment of Cash* are as follows:

Seller A:

Seller A1: China Mobile Communication Company Limited (China Mobile, Seller A1), a limited liability company incorporated under the laws of the People's Republic of China with its registered address at No.29 Jinrongdajie, Xicheng District, Beijing; legal representative: Shang Bing;

Seller A2: China Mobile Group Jiangsu Company Limited, a limited liability company incorporated under the laws of the People's Republic of China with its registered address at No.59 Huju Road, Nanjing City, Jiangsu Province; legal representative: Wang Jian.

Seller A3: China Mobile Group Shandong Company Limited, a limited liability company incorporated under the laws of the People's Republic of China with its registered address at No. 20569 Jingshi Road, Jinan City; legal representative: Yan Yongqing.

Seller A4: China Mobile Group Guangdong Company Limited, a limited liability company incorporated under the laws of the People's Republic of China with its registered address at Guangdong GoTone Building, No. 11 Zhujiang West Road, Zhujiang New Town, Tianhe District, Guangzhou City; legal representative: Zhong Tianhua.

Seller A5: China Mobile Group Henan Company Limited, a limited liability company incorporated under the laws of the People's Republic of China with its registered address at No. 48 Jingsan Road, Zhengzhou City; legal representative: Wei Ming.

Seller A6: China Mobile Group Zhejiang Company Limited, a limited liability company incorporated under the laws of the People's Republic of China with its registered address at No. 19 Jiefang East Road, Hangzhou City; legal representative: Zheng Jie.

Seller A7: China Mobile Group Anhui Company Limited, a limited liability company incorporated under the laws of the People's Republic of China with its registered address at No. 609 Huangshan Road, Hefei City, Anhui Province; legal representative: Yang Jianyu.

Seller A8: China Mobile Group Hebei Company Limited, a limited liability company incorporated under the laws of the People's Republic of China with its registered address at No. 136 Dongfeng Road, Shijiazhuang City, Hebei Province; legal representative: Li Liangui.

Seller A9: China Mobile Group Hunan Company Limited, a limited liability company incorporated under the laws of the People's Republic of China with its registered address at No. 446 3rd Section of Furongzhong Road, Tianxin District, Changsha City; legal representative: Zhou Chengyang.

Seller A10: China Mobile Group Hubei Company Limited, a limited liability company incorporated under the laws of the People's Republic of China with its registered address at No. 66 Changqingsan Road, Jianghan District, Wuhan City; legal representative: Guo Yonghong.

Seller A11: China Mobile Group Sichuan Company Limited, a limited liability company incorporated under the laws of the People's Republic of China with its registered address at No. 10 Gaopeng Avenue, Gaoxin District, Chengdu City; legal representative: Jian Qin.

Seller A12: China Mobile Group Liaoning Company Limited, a limited liability company incorporated under the laws of the People's Republic of China with its registered address at No. 6 Xinlong Street, Hunnanxin District, Shenyang City; legal representative: Chen Li.

Seller A13: China Mobile Group Yunnan Company Limited, a limited liability company incorporated under the laws of the People's Republic of China with its registered address at China Mobile Building (Intersection of Guangfu Road and Yongguang Road), Middle Section of Guangfu Road, Kunming City, Yunnan Province; legal representative: Ma Kui.

Seller A14: China Mobile Group Jiangxi Company Limited, a limited liability company incorporated under the laws of the People's Republic of China with its registered address at No. 58 Zi'an Road, Xihu District, Nanchang City, Jiangxi Province; legal representative: Li Feng.

Seller A15: China Mobile Group Shaanxi Company Limited, a limited liability company incorporated under the laws of the People's Republic of China with its registered address at No. 29 Jinyeyi Road, High-tech Industrial Development Zone, Xi'an City; legal representative: Zhao Dachun.

Seller A16: China Mobile Group Shanxi Company Limited, a limited liability company incorporated under the laws of the People's Republic of China with its registered address at Block A of China Mobile Building, Wuluo Street, Economic & Technological Development Zone, Taiyuan City; legal representative: Miao Jianzhong.

Seller A17: China Mobile Group Heilongjiang Company Limited, a limited liability company incorporated under the laws of the People's Republic of China with its registered address at No. 168 Xinwan Road, Songbei District, Harbin City, Heilongjiang Province; legal representative: Zhang Hongsen.

Seller A18: China Mobile Group Inner Mongolia Company Limited, a limited liability company incorporated under the laws of the People's Republic of China with its registered address at No. 2 Xinhua East Street, Saihan District, Hohhot City, Inner Mongolia Autonomous Region; legal representative: Hong Xiaoqin.

Seller A19: China Mobile Group Guangxi Company Limited, a limited liability company incorporated under the laws of the People's Republic of China with its registered address at No. 117 Minzu Avenue, Qingxiu District, Nanning City, Guangxi Province; legal representative: Gu Xiong.

Seller A20: China Mobile Group Gansu Company Limited, a limited liability company incorporated under the laws of the People's Republic of China with its registered address at No. 666 Beibinhe West Road, Anning District, Lanzhou City, Gansu Province; legal representative: Lu Zhihong.

Seller A21: China Mobile Group Fujian Company Limited, a limited liability company incorporated under the laws of the People's Republic of China with its registered address at No. 140 Hudong Road, Fuzhou City, Fujian Province; legal representative is: Huang Liwei.

Seller A22: China Mobile Group Xinjiang Company Limited, a limited liability company incorporated under the laws of the People's Republic of China with its registered address at No. 118, Nanhu North Road, Shuimogou District, Urumqi City, Xinjiang; legal representative: Liu Jian.

Seller A23: China Mobile Group Jilin Company Limited, a limited liability company incorporated under the laws of the People's Republic of China with its registered address at No. 2899 Jiefang Avenue, Changchun City; legal representative: Tian Limin.

Seller A24: China Mobile Group Guizhou Company Limited, a limited liability company incorporated under the laws of the People's Republic of China with its registered address at No. 19 Beijing Road, Guiyang City, Guizhou Province; legal representative: Mi Dawei.

Seller A25: China Mobile Group Shanghai Company Limited, a limited liability company incorporated under the laws of the People's Republic of China with its registered address at No. 200 Changshou Road, Putuo District, Shanghai City; legal representative: Xu Da.

Seller A26: China Mobile Group Hainan Company Limited, a limited liability company incorporated under the laws of the People's Republic of China with its registered address at No. 88 Jinlong Road, Jinmao District, Haikou City, Hainan Province; legal representative: Lu Bing.

Seller A27: China Mobile Group Ningxia Company Limited, a limited liability company incorporated under the laws of the People's Republic of China with its registered address at No. 217 Xinchang East Road, Jinfeng District, Yinchuan City, Ningxia Hui Autonomous Region; legal representative: Peng Xiaochuan.

Seller A28: China Mobile Group Chongqing Company Limited, a limited liability company incorporated under the laws of the People's Republic of China with its registered address at No. 2 3rd Xingguang Road, Yubei District, Chongqing City; legal representative: Qin Dabin.

Seller A29: China Mobile Group Tibet Company Limited, a limited liability company incorporated under the laws of the People's Republic of China with its registered address at No. 84 Jinzhuzhong Road, Lhasa City; legal representative: Zhuo Feng.

Seller A30: China Mobile Group Qinghai Company Limited, a limited liability company incorporated under the laws of the People's Republic of China with its registered address at No. 48 Kunlun East Road, Xining City, Qinghai Province; legal representative: Xia Bing.

Seller A31: China Mobile Group Tianjin Company Limited, a limited liability company incorporated under the laws of the People's Republic of China with its registered address at No. 64 Zone M, Tianjin Port Free Trade Zone, Tianjin City; legal representative: Yan Jiang.

Seller A32: China Mobile Group Beijing Company Limited, a limited liability company incorporated under the laws of the People's Republic of China with its registered address at No. 7 Dongzhimen South Avenue, Dongcheng District, Beijing; legal representative: Zhou Yi.

Seller A1 to A32 shall be collectively referred to as Seller A.

Seller B:

China United Network Communications Corporation Limited (China Unicom, Seller B1), a limited liability company incorporated under the laws of the People's Republic of China with its registered address at No. 21 Jinrong Avenue, Xicheng District, Beijing; legal representative: Wang Xiaochu.

Unicom New Horizon Telecommunications Company Limited (New Horizon, Seller B2), a limited liability company incorporated under the laws of the People's Republic of China with its registered address at Room 610, 3rd Office Building, No. 18, Jianguomennei Avenue, Dongcheng District, Beijing; legal representative: Shen Hongbo.

Seller B1 and B2 shall be collectively referred to as Seller B.

Seller C:

China Telecom Corporation Limited (China Telecom, Seller C), a limited liability company incorporated under the laws of the People's Republic of China with its registered address at No. 31 Jinrong Avenue, Xicheng District, Beijing.

Seller A, B and C shall be collectively referred to as the "Seller".

China Reform Corporation: China Reform Holdings Corporation Limited, a limited liability company incorporated under the laws of the People's Republic of China with its registered address at 6F, Boxing Building, No.9 Fuxing Road, Haidian District, Beijing; legal representative: Liu Dongsheng.

Buyer/Issuer: China Tower Corporation Limited, a company limited by shares incorporated under the laws of the People's Republic of China with its registered address at 19F, No. 73 Fucheng Road, Haidian District, Beijing, China; legal representative: Liu Aili.

Annex 2: Definitions and Interpretation

1. Definitions.

In this Agreement, the following terms shall have the following meaning:

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| Confidential Information | Refers to | as for the buyer's obligations, it shall refer to any information related to the sellers and the target assets that is received or owned by China Tower (or any of its representatives); as for the sellers' obligations, it shall refer to any information related to China Tower that is received or owned by the sellers (or any of its representatives), or any information related to the target assets that is received or owned by the sellers (or any of its representatives) before and after the delivery; or any information related to the terms of this Agreement and other transaction documents and relevant negotiations. |
| This Agreement | Refers to | this <i>Agreement on Purchase of Tower-related Assets by Issuance of Shares and Payment of Cash</i> . |
| Force Majeure | Refers to | unforeseeable, unavoidable and insurmountable objective circumstances, including the occurrence of natural disasters such as earthquake, typhoon, floods, storm (subject to the information released by the local government, weather service or other functional departments), fire, war, any governmental act as well as changes and enactment of any law, which directly affect the performance of this Agreement or cause the affected party to be unable to perform this Agreement according to the agreed conditions. |
| Representatives | Refers to | as for one party and/or its affiliates, it shall refer to the directors, senior officers, employees, agents, advisors, accountants and consultants of such party and/or its affiliates. |
| Third-party | Refers to | other organization or individual other than the buyer and the sellers in this Agreement. |
| Third-party Rights | Refers to | any rights (including any purchasing right, option, right of preemption or conversion right) or any mortgage, charge, pledge, lien, transfer, security interests or any other security agreement or arrangement of any body, or any agreement that sets forth any of the above rights. |
| Third-party Claims | Refers to | have the meaning ascribed to it by Section 12.1 hereof. |
| Telecom Group | Refers to | China Telecom Corporation Limited. |
| Telecom Enterprises, Operators | Refers to | basic telecom service operators, including China Telecom Corporation Limited, China United Network Communications Corporation Limited, China Mobile Communication Company Limited and their parent companies, subsidiaries and other affiliated companies. For the purpose of this Agreement, the term shall only refer to telecom enterprises holding stock tower-related assets. |

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| Power Equipment & Environment Variables Monitoring System | Refers to | the electronic system conducting centralized monitoring of power equipment and environment variables in the plant room. |
| Liabilities | Refers to | all liabilities, responsibilities and liabilities of various natures, regardless of whether they arise from contract, law or other causes; or whether they are present or future, actual, or some, determined or yet-to-be-determined; or whether they are owed or incurred by individually or jointly by one party as the party concerned or guarantor. |
| Working Day | Refers to | any day except Saturdays, Sundays and other national holidays announced by the Chinese government. |
| Shares Consideration | Refers to | has the meaning ascribed to it by Section 2.5 hereof. |
| Affiliates | Refers to | as for any party, it means the then subsidiary, parent company and any subsidiary of its any parent company. |
| Transition Period | Refers to | the transition period defined by Annex 7 hereto. Unless otherwise noted, the transition period contained in this Agreement shall mean the transition period of this transaction provided by Annex 7 hereto. |
| Mixed Plant Room | Refers to | plant room consisting mainly of mobile network and fixed-line devices. |
| Base Station | Refers to | a radio receiver/transmitter that transmits or receives information to/from mobile terminals via the mobile communication hub in a certain area with wireless coverage, which generally consists of transmission system, power system, power equipment & environment variables monitoring system; antenna and feeding system, BTS master device and other auxiliary equipment. |
| Reference Date | Refers to | the appraisal reference date set forth in the appraisal report: October 31, 2014 and March 31, 2015. |
| Surviving Terms | Refers to | Article 13 (Announcement), Article 14 (Confidentiality), Article 15 (Non-transferrable), Article 17 (Taxation and Expenses), Article 18 (Notice), Article 19 (Conflicts with Other Agreements), Article 20 (Exemption, Rights and Remedies), Article 22 (Entry into Force and Amendment), Article 23 (Invalidity) and Article 24 (Governing Law and Arbitration) of this Agreement and Annex 2 (Definitions and Interpretation) hereto. |
| Delivery | Refers to | the delivery of target assets that shall be completed in accordance with Article 5 hereto. |
| Delivery Date | Refers to | has the meaning ascribed to it by Section 4.1 hereof. |
| Handover | Refers to | the handover of target assets, related information and contracts conducted by the buyer and the sellers in accordance with Annex 7 hereto. |

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| Handover Plan | Refers to | the specific deployment and arrangements listed in Annex 7 hereto that are made by the buyer and the sellers for the handover of target assets. |
| Handover Date | Refers to | has the meaning ascribed to it by Section 4.3(2) hereof. |
| Completion of Handover | Refers to | the handover of target assets, related information, contracts and maintenance work is completed in accordance with Annex 7 hereto. |
| Transaction Consideration | Refers to | has the meaning ascribed to it by Section 2.2 hereof. |
| Transaction Documents | Refers to | this Agreement, the Handover Plan, the List of Target Assets, the Appraisal Report (including the Breakdown of Appraised Assets), the Delivery Confirmation, the Share Subscription Agreement and other related documents. |
| Recipient | Refers to | has the meaning ascribed to it by Section 14.1 hereof. |
| Joint Work Organization | Refers to | has the meaning ascribed to it by Article 7 hereof. |
| China Unicom Group | Refers to | China United Network Communications Corporation Limited. |
| Buyer, China Tower, Tower Company | Refers to | China Tower Corporation Limited. |
| Sellers | Refers to | the sellers listed in Annex 1 of this Agreement. |
| CIETAC | Refers to | has the meaning ascribed to it by Section 24.3 hereof. |
| Parent Company | Refers to | any company that owns the majority of voting rights of the other company; or is the shareholder of the other company and owns the right to appoint or remove the majority of directors of the other company's board; or is the shareholder of the other company and control the majority of its voting rights in accordance with agreements with other shareholders, regardless of whether such ownership is direct or indirect through one or multiple companies. |
| Target Assets | Refers to | has the meaning ascribed to it by Section 1.1 hereof. |
| List of Target Assets | Refers to | in accordance with Section 1.2 of this Agreement, the buyer and the sellers shall determine the List of Target Assets by way of stocktaking. The List shall serve as an attachment of the "Delivery Confirmation", including the target assets of final handover, liabilities (if any), contract, maintenance work and other items. |
| Asset Inventory Surplus | Refers to | the newly-added assets that are found by the buyer and the sellers by way of on-site stocktaking and have not been stated on the sellers' accounts. |
| Dispatching | Refers to | the process of dispatching work orders by the system to the responsible persons, which is driven by warning, planned or temporary transactions. |
| Dispatching System | Refers to | the electronic system dispatching work orders to relevant responsible persons. |

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| Appraisal Report | Refers to | “Appraisal Report of Tower-related Assets of Provincial Branches involved in China Telecom Corporation Limited’s Intended Subscription for China Tower Corporation Limited’s Shares” (Company Reference No.: (2015) 1286-2), “Appraisal Report of Tower-related Assets of Provincial Branches and Unicom New Horizon Telecommunications Company Limited involved in China United Network Communications Corporation Limited’s Intended Subscription for China Tower Corporation Limited’s Shares and Transfer of Its Assets” (Company Reference No.: (2015) 1286-4) and “Appraisal Report of Tower-related Assets of 31 Provincial Branches involved in China Mobile Communications Corporation’s Intended Subscription for China Tower Corporation Limited’s Shares and Transfer of Its Assets” (Company Reference No.: (2015) 1286-6) issued by China Enterprise Appraisals Co., Ltd. |
| Appraised Assets | Refers to | the stock tower-related assets owned by the sellers as of the appraisal reference date that are stated in the appraisal report. |
| Encumbrances | Refers to | any rights (including any right acquired, subscription right, right of preemption or conversion right) or any mortgage, charge, pledge, lien, transfer, mortgage credit, security interests, retention of title or any other security agreement or arrangement of any body, or any agreement that sets forth any of the above rights. |
| Renminbi | Refers to | the legal currency of the People’s Republic of China. |
| Day | Refers to | unless otherwise specified, it refers to calendar days, but in either case, if the last day of the expiry of the period agreed by this Agreement is holiday, then the first day after such holiday shall be the expiry date. Unless otherwise noted, “prior to a certain date” shall include the date, while “after a certain date” shall not include the date. |
| On-site Assignment | Refers to | maintenance agent or maintenance personnel go to the designated site to complete the tasks according to the work order or requirements of the party having the ownership of the assets. |
| Taxes | Refers to | include (a) taxes imposed on total or net revenues, profits and earnings; (b) all other taxes, levies, duties, import duties, charges and withholding taxes of any nature, including any consumption tax, property tax, VAT, sales tax, transfer tax, franchise tax, payroll tax and any national insurance or social security contributions, as well as any payment that may be payable or become payable by the person concerned to any person who pays any outstanding tax on his/her behalf, in conjunction with all fines, fees and interest imposed on any of such taxes or any late or incorrect tax return form, regardless of whether such taxes, levies, taxation, charges, withholding taxes, penalties and interest are directly or initially levied on such person concerned or any other person, or directly or initially attributed to such person concerned or any other person; and regardless of whether any relevant payment can be recovered from any other person. |

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| Tower Assets | Refers to | devices used for erecting antenna and other communication equipment, including ground tower, floor tower, heighten frame, holding pole and other facilities (including beautification Antenna, tower facilities in integrated base station and super base station). |
| Provider | Refers to | has the meaning ascribed to it by Section 14.1 hereof. |
| China Reform Corporation | Refers to | China Reform Holdings Corporation Limited. |
| Contracts that have not been transferred | Refers to | has the meaning ascribed to it by Section 4.5(3) hereof. |
| Prerequisites | Refers to | the prerequisites contained in Section 3.1 hereof, and one prerequisite shall refer to any of these conditions. |
| Cash Consideration | Refers to | has the meaning ascribed to it by Section 2.5 hereof. |
| Newly-added Target Assets | Refers to | has the meaning ascribed to it by Section 2.2(3) hereof. |
| China Mobile Group | Refers to | China Mobile Communications Corporation |
| Contracts that shall be transferred | Refers to | has the meaning ascribed to it by Section 4.5(3) hereof. |
| Transfer to Fixed Assets | Refers to | The completed CIP will be transferred to fixed assets on the sellers' accounts after final acceptance and being put into operation. |
| Station Site | Refers to | short for station site equipment, including towers, plant room (including power equipment & environment variables monitoring) devices of unit base station |
| Disputes | Refers to | has the meaning ascribed to it by Section 24.2 hereof. |
| Support System | Refers to | related system composed of network management monitoring system and dispatching system |
| Intellectual Property Rights | Refers to | Patents, trademarks, service marks, company logos, trade names, domain names, design rights, copyrights (including but not limited to copyrights of computer software) and database rights, semiconductor line rights, utility models, exterior design rights, invention rights, know-how and other intellectual property rights (whether registered) as well as all the rights or form of protection having the same or similar utility anywhere in the world, and the term "registration" shall include "registration" and "application for registration". |
| "PRC" or "China" | Refers to | the People's Republic of China (for the purpose of this Agreement only, which excludes Hong Kong, the Macau Special Administration Region and Taiwan) |
| China Telecom | Refers to | China Telecom Corporation Limited |
| China Unicom | Refers to | China United Network Communications Corporation Limited |

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| China Mobile | Refers to | China Mobile Communications Corporation |
| Material Adverse Change | Refers to | any event that individually causes loss of RMB 30 million yuan to the target assets and related businesses, or collectively causes loss of RMB 100 million yuan and above to the target assets and related businesses. |
| Major Defects | Refers to | defects that affect the buyer's continued legitimate ownership of target assets or rights of continuous use of related assets |
| Subsidiary | Refers to | the other company is any company of its parent company. |
| Delivery Confirmation | Refers to | the Delivery Confirmations at levels of city, province and headquarters that are agreed upon by the parties pursuant to Section 4.4 hereof and Article 6 of Annex 7. |
| "Comprehensive Services Agreement" | Refers to | the Comprehensive Services Agreement signed by the buyer and the sellers. |

2. Interpretation.

In this Agreement, unless the context otherwise requires:

(1) the reference to "person" shall include any person, firm, group, company (regardless of whether it is a legal entity), government, state or state agencies, any joint venture, association, partnership, work council or employee representative body (regardless of whether it has independent legal status);

(2) in this agreement, the "Buyer and Sellers", "Both Parties" shall mean the buyer and the sellers, and the "Parties" shall mean each of the sellers, China Reform Corporation and the buyer;

(3) the reference to "Terms" shall mean the terms of this Agreement;

(4) the headings are for convenience only, which shall not affect the interpretation of this Agreement;

(5) the singular terms shall refer to plural and vice versa; the reference of one part of speech shall refer to all parts of speech;

(6) in order to refer to the amount of payments in RMB, the amounts in other currencies shall be considered as being converted into RMB at the exchange rates of relevant dates;

(7) any phrase led by terms such as "include(s)", "including" and "in particular" and any other similar words shall be interpreted as explanatory, which shall not restrict the meaning of words before such phrases;

(8) as for laws and regulations, including laws, administrative regulations, administrative rules, local laws and regulations, except as otherwise expressly provided in this Agreement, any explicit reference to any law or regulation (including any law or regulation in any jurisdiction) shall include: (a) such law and regulation that has been revised, consolidated or re-enacted by or pursuant to any other law and regulation before or after the signing date of this Agreement; (b) re-enacted such law and regulation (whether revised or not); and (c) any supporting regulations (including the provisions) developed pursuant to the revised, consolidated or re-enacted law and regulation (before or after the signing date of this Agreement) as described above in paragraph (a) or (b), unless any matter referred to in paragraph (a) to (c) occurs after the signing date of this Agreement, which has increased or changed the buyer or the sellers' obligations under this Agreement.

3. Annexes. Annexes shall constitute an integral part of this Agreement.

4. Inconsistency. In case any inconsistency exists between the definitions contained in Annex 2 and the definitions set forth in any term or any other annex, then for the purpose of interpreting such term or annex, the latter shall prevail.

Annex 3: Target Assets

Pursuant to Article 1 of this Agreement, the target assets shall be the stock tower-related assets owned by the sellers on the delivery date, and the buyer and the sellers agree to inject/transfer such assets to the buyer.

1. Scope of Target Assets

1.1 Towers

1.1.1 The sellers' devices used for erecting antenna and other communications equipment, including ground tower, floor tower, heighten frame, holding pole and other facilities (including beautification Antenna, tower facilities in integrated base station and super base station);

1.1.2 The towers leased to any third party by the sellers (excluding towers leased or co-constructed and shared by other telecom enterprises): such lease agreement explicitly states that the ownership of tower-related assets belongs to the sellers and the sellers have acquired such ownership.

1.2 Plant Room

1.2.1 The relatively independent base station plant rooms (excluding the sellers' own telecom bureaus/offices, comprehensive office buildings and separate plant room in their own business outlets), plant rooms in integrated base stations and super base stations supporting the towers contained in Section 1.1;

1.2.2 The following plant rooms shall not belong to the scope of target assets: (1) one small plant room located in the sellers' own telecom bureaus/offices (separate plant rooms in the sellers' own telecom bureaus/offices, comprehensive office buildings and business outlets) that supports the towers contained in Section 1.1; (2) mixed plant rooms (plant rooms mainly composed of mobile network equipment or fixed-line equipment) supporting the towers contained in Section 1.1;

1.2.3 For the towers-supporting mixed plant rooms that have not been included into the scope of contribution, in principle, a work area of about 20 square meters shall be set aside for free use by the buyer in 3 years (from the next day of Delivery Date). The Sellers shall charge the buyer for a certain amount of rental in accordance with market principles after 3 years.

1.2.4 The sellers' leased plant rooms in line with Section 1.2.1 shall be changed to the buyer's leased plant rooms.

- 1.2.5 The sellers' leased plant rooms in line with Section 1.2.2 shall be disposed of in accordance with Section 1.2.3, and shall not be changed to the buyer's leased plant rooms.
 - 1.2.6 The ownership of the seller's own premises described in Section 1.2.1 shall be transferred to the buyer; the plant rooms operated by the sellers by way of rental that are described in Section 1.2.4, as well as the rights and obligations that become effective from the Delivery Date under related lease contracts shall be transferred to the buyer.
 - 1.2.7 Both parties agree that, the proportion of the plant rooms described in Section 1.2.1 in the total number of the sellers' tower-supporting plant rooms shall reach 70% and above, and such proportion shall be controlled at the headquarters level.
- 1.3 Ancillary Equipment
- 1.3.1 Power equipment, air-conditioning facilities, lightning protection facilities and security devices (including security monitoring and fire-fighting equipment) in the plant rooms agreed in Sections 1.2.1 and 1.2.4, as well as plant room-related external circuit introduction and power & environment monitoring front-end acquisition equipment;
 - 1.3.2 Transmission and platforms related to power and environment monitoring do not belong to the scope of target assets.
- 1.4 Intangible Assets
- 1.4.1 The land use rights owned by the sellers for the lands occupied by assets stated in Sections 1.1 and 1.2.1;
 - 1.4.2 The sellers' leased land in line with Section 1.4.1 shall be changed to the buyer's leased land;
 - 1.4.3 The information owned by the sellers that is associated with the target assets described in Article 1 of this Agreement;
 - 1.4.4 The premises (including floors) occupied by the target assets described in Sections 1.1 and 1.2 shall be disposed of according to Section 1.4.
- 1.5 Construction-in-Progress and Construction Materials
- 1.5.1 Construction-in-progress related to the target assets described in Sections 1.1 and 1.2.1;
 - 1.5.2 Construction materials related to CIPs described in Section 1.5.1.

1.6 Accounts Payable

- 1.6.1 Rentals payable of premises and sites related to the target assets described in Sections 1.2.4 and 1.4.2 that are attributable to the period after the Delivery Date, which are disclosed in the Appraisal Report and confirmed by both parties;
- 1.6.2 Costs and expenses-type accounts payable that are attributable to the period after the Delivery Date and related to the target assets;
- 1.6.3 Accounts payable related to fixed assets and construction-in-progress do not belong to the scope of target assets.

1.7 Long-term Deferred Expenses

- 1.7.1 Long-term deferred expenses related to the target assets described in Sections 1.2.4, 1.3.1 and 1.4.2, including premises of 1 year and above, venue rental, external circuit introduction costs, costs of decoration and reconstruction, etc.

1.8 Current Assets

- 1.8.1 Other receivables related to the target assets described in Sections 1.1, 1.2, 1.3 and 1.4, including deposit of electricity bill receivable, guarantee/deposit of venue and premise rental, deposit of property management fee, etc.;
- 1.8.2 Inventory related to the target assets described in Sections 1.1, 1.2, 1.3 and 1.4, including dedicated instruments, maintenance tools, energy conservation equipment, consumables, etc.;
- 1.8.3 Deferred expenses related to the target assets described in Sections 1.2.4 and 1.4.2, including premises of 1 year, venue rental, etc.

2. Methods of Confirming Target Assets

- 2.1 The list of target assets may be adjusted upon the consent of both parties. Both parties shall determine the list of target assets of final delivery by signing the Delivery Confirmation.
- 2.2 The assets and resources of other third parties that are in the possession of the sellers shall not belong to the scope of asset transfer of this transaction. However, to the applicable extent, if the sellers enjoy contract rights and interests, then in accordance with the principles determined through consultation, the rights and obligations under such contract shall be transferred to the buyer in accordance with Annex 6.

3. About Liabilities

Except Section 1.6, for avoidance of doubt, any liability or payment obligation (regardless of whether the actual payment is required to be made before or after the Delivery Date) generated by the target assets before the Delivery Date (including the day) other than those listed in the Appraisal Report and confirmed by both parties in the Delivery Confirmation shall be borne by the sellers, and the buyer shall not bear any preceding liability or payment obligation related to the target assets. Unless otherwise agreed by both parties, any liability or payment obligation generated by the target assets from the day after the Delivery Date shall be borne by the buyer.

Annex 4: Breakdown of Appraised Value of Sellers' Target Assets

Unit: RMB 10,000 yuan

| No. | Sellers | Appraised Value 1 (Reference Date: Oct. 31, 2014) | Appraised Value 2 (Reference Date: Mar. 31, 2015) | Total |
|-----|---------------------------------------------------|------------------------------------------------------|------------------------------------------------------|--------------|
| A1 | China Mobile Communication Company Limited | — | — | — |
| A2 | China Mobile Group Jiangsu Company Limited | 618,201.23 | 560,404.83 | 1,178,606.06 |
| A3 | China Mobile Group Shandong Company Limited | 749,585.23 | 162,409.97 | 911,995.19 |
| A4 | China Mobile Group Guangdong Company Limited | 497,832.80 | 309,469.27 | 807,302.07 |
| A5 | China Mobile Group Henan Company Limited | 622,437.68 | 120,466.96 | 742,904.64 |
| A6 | China Mobile Group Zhejiang Company Limited | 443,707.79 | 159,495.27 | 603,203.06 |
| A7 | China Mobile Group Anhui Company Limited | 414,845.97 | 186,792.93 | 601,638.89 |
| A8 | China Mobile Group Hebei Company Limited | 495,225.28 | 59,064.25 | 554,289.53 |
| A9 | China Mobile Group Hunan Company Limited | 398,885.30 | 114,751.66 | 513,636.96 |
| A10 | China Mobile Group Hubei Company Limited | 315,545.29 | 149,161.51 | 464,706.80 |
| A11 | China Mobile Group Sichuan Company Limited | 289,940.25 | 136,376.80 | 426,317.05 |
| A12 | China Mobile Group Liaoning Company Limited | 297,719.89 | 116,226.59 | 413,946.48 |
| A13 | China Mobile Group Yunnan Company Limited | 244,194.53 | 162,018.87 | 406,213.40 |
| A14 | China Mobile Group Jiangxi Company Limited | 346,233.33 | 47,601.39 | 393,834.73 |
| A15 | China Mobile Group Shaanxi Company Limited | 281,490.59 | 86,170.50 | 367,661.09 |
| A16 | China Mobile Group Shanxi Company Limited | 262,545.13 | 58,375.12 | 320,920.25 |
| A17 | China Mobile Group Heilongjiang Company Limited | 248,879.12 | 54,636.18 | 303,515.30 |
| A18 | China Mobile Group Inner Mongolia Company Limited | 252,616.84 | 47,541.64 | 300,158.48 |

| | | | | |
|-----|---------------------------------------------------------|--------------|--------------|--------------|
| A19 | China Mobile Group Guangxi Company Limited | 238,868.98 | 52,682.01 | 291,550.99 |
| A20 | China Mobile Group Gansu Company Limited | 221,394.34 | 49,099.27 | 270,493.61 |
| A21 | China Mobile Group Fujian Company Limited | 165,760.45 | 83,057.18 | 248,817.63 |
| A22 | China Mobile Group Xinjiang Company Limited | 157,911.11 | 64,314.89 | 222,226.00 |
| A23 | China Mobile Group Jilin Company Limited | 158,168.31 | 37,009.95 | 195,178.27 |
| A24 | China Mobile Group Guizhou Company Limited | 137,900.28 | 49,806.87 | 187,707.15 |
| A25 | China Mobile Group Shanghai Company Limited | 138,991.05 | 42,031.70 | 181,022.76 |
| A26 | China Mobile Group Hainan Company Limited | 86,001.53 | 37,827.88 | 123,829.42 |
| A27 | China Mobile Group Ningxia Company Limited | 73,218.83 | 50,480.21 | 123,699.05 |
| A28 | China Mobile Group Chongqing Company Limited | 89,687.50 | 32,873.62 | 122,561.12 |
| A29 | China Mobile Group Tibet Company Limited | 72,645.15 | 19,409.44 | 92,054.59 |
| A30 | China Mobile Group Qinghai Company Limited | 73,670.32 | 17,612.70 | 91,283.03 |
| A31 | China Mobile Group Tianjin Company Limited | 68,924.13 | 19,309.03 | 88,233.17 |
| A32 | China Mobile Group Beijing Company Limited | 66,431.38 | 20,689.52 | 87,120.91 |
| B1 | China United Network Communications Corporation Limited | 4,979,850.39 | 1,329,365.58 | 6,309,215.97 |
| B2 | Unicom New Horizon Telecommunications Company Limited | 8,796.28 | 461.86 | 9,258.14 |
| C | China Telecom Corporation Limited | 2,263,860.89 | 1,170,317.42 | 3,434,178.31 |

Annex 5: Template for Shares Subscription Agreement Shares

Subscription Agreement

(This Agreement is signed by the following parties on []/[]/2015 in Beijing)

Issuer: China Tower Corporation Limited (“China Tower”)

Subscriber: []

In view of that the issuer and the subscriber have signed the Agreement on Purchase of Stock Tower-related Assets by Issuance of Shares and Payment of Cash on October 14, 2015. Based on the preceding agreement and the specific circumstances of delivery of tower-related assets, the issuer has determined to issue a total of [] shares with the price at RMB 1 yuan/share, and the subscriber shall be entitled to subscribe for [] shares.

1. Subscription Price

RMB 1 yuan/share.

2. Subscription Amount and Quantity

The subscriber has confirmed to pay RMB []*10000 yuan to subscriber for [] shares.

3. Subscription Method

The subscriber has agreed to subscribe for the shares issued with a combination of assets of RMB []*10000 yuan and cash of RMB []*10000 yuan.

4. Payment Method

The subscriber shall complete the payment of contribution assets within [] days.

5. Shareholders' Rights and Obligations

The Subscriber shall enjoy shareholder rights and bear the obligations of shareholders from the effective date of this Agreement.

6. Entry into Force

This Agreement shall enter into force upon signature and stamp being affixed by both parties.

(Reminder of this page intentionally left blank)

(In witness whereof, both parties have signed this Shares Subscription Agreement on the date first above written.)

Issuer: China Tower Corporation Limited (Seal)

Legal Representative:

Subscriber: []
Legal Representative:

Annex 6: Bank Accounts and Contact Info of The Parties

1. Pursuant to Section 2.7 of this Agreement, the bank account information of parties hereto is as follows:

(1) Bank Account Info of Seller A

Account Name: China Mobile Communication Company Limited

Opening Bank: Beijing Chang'an Branch of Industrial and Commercial Bank of China Limited

Account No.: 0200003309221088855

(2) Bank Account Info of Seller B

Account Name: China United Network Communications Corporation Limited

Opening Bank: Chang'an Branch of Industrial and Commercial Bank of China

Account No.: 0200003309221111116

(3) Bank Account Info of Seller C

Account Name: China Telecom Corporation Limited

Opening Bank: Beijing Chang'an Branch of Industrial and Commercial Bank of China

Account No.: 0200003309221003474

(4) Bank Account Info of China Reform Corporation

Account Name: China Reform Holdings Corporation Limited

Opening Bank: Beijing Yonganli Branch of China Construction Bank

Account No.: 11001069700059666888

(5) Account Information of Buyer/Issuer

Account Name: China Tower Corporation Limited

Opening Bank: Beijing Anhui Branch of China Construction Bank

Account No.: 11001018500059588888

2. Pursuant to Section 18.2 of this Agreement, the contact information of parties hereto is as follows:

(1) Seller A: China Mobile Communication Company Limited

Address: No. 29 Jinrong Avenue, Xicheng District, Beijing

Fax: 010-66006424

Addressee: Han Fei

(2) Seller B: China United Network Communications Corporation Limited

Address: No. 21 Jinrong Avenue, Xicheng District, Beijing

Fax: 010-66259614

Addressee: Bi Ye

(3) Seller C: China Telecom Corporation Limited
Address: No. 31 Jinrong Avenue, Xicheng District, Beijing
Fax: 010-58501824
Addressee: Tan Zuduo

(4) China Reform Corporation: China Reform Holdings Corporation Limited
Address: 6F, Boxing Building, No.9 Fuxing Road, Haidian District, Beijing
Fax: 010-88656676
Addressee: Wang Zhixue

(5) Buyer: China Tower Corporation Limited
Address: 19F, No. 73 Fucheng Road, Haidian District, Beijing
Addressee: Wang Tianpeng

Annex 7: Handover Plan

Pursuant to this Agreement, the sellers and the buyer (including their respective branches and subsidiaries at provincial and municipal levels, and the same as below) shall complete the handover in accordance with the handover plan contained in this annex. In addition, for the purpose of successful handover, both parties agree to, in accordance with relevant arrangements of this transaction, further elaborate the handover plan and complete the handover with unified deployment and close collaboration:

1. Objectives

1.1 to ensure authentic information, clear property rights and complete handover of target assets;

1.2 to ensure smooth transition of maintenance services, quick acceptance of maintenance work, and standardized and orderly transition process.

2. Principles of Handover Work

2.1 unified physical and maintenance handovers: both physical and maintenance handovers shall become effective upon the on-site signature by both parties; the maintenance of related assets shall be transferred to the buyers; and the information and contracts of related assets shall also be transferred to the buyer in conjunction with the assets;

2.2 to complete the handover site by site and check physical items against the list: both parties shall compare and verify the on-site physical items against the “List of On-site Handover of Stock Tower-related Physical Items” (refer to Appendix 1 of this Annex for the template), accurately record change information, asset status information such as overage, shortage and damage of physical items of the handover as well as contents of business handover;

2.3 smooth transfer and guaranteed operations: by fully relying on the sellers’ existing resources, the handover work shall ensure stable operation quality after site handover, successful transfer of maintenance work and business, smooth operations in the transition period and stable network quality;

2.4 both parties shall, based on the principle of good faith and fairness, properly handle the disputes and differences arising out of handover work, and complete the handover of target assets through cooperation.

3. Organizational Arrangements for Handover

According to the needs of handover work, both parties shall establish joint work organizations at headquarters, provincial and municipal levels to be responsible for the handover of target assets within their respective territories.

4. Preparations for Handover

4.1 After the signing of this Agreement, for the purpose of the handover of target assets, both parties agree to complete the following preparation-related work.

4.1.1 The specific preparations for asset handover shall include:

- (1) both parties shall jointly organize training programs on the handover;
- (2) both parties shall jointly provide the required equipment for the handover, including tools and apparatus, vehicles, handover forms, labels, etc.;
- (3) both parties shall import the breakdown of appraised assets into the asset stocktaking system to generate a preliminary list of target assets, and formulate the “List of On-site Handover of Stock Tower-related Physical Items” as the data basis for on-site handover;
- (4) both parties shall determine the specific arrangements of handover work by mutual consultation, including but not limited to time schedule, roadmap, organization & implementation and other arrangements;
- (5) the sellers shall provide its breakdown of newly-added target assets as of the Delivery Date in the form of “Breakdown of Stocktaking and Appraisal of Tower-related Assets” in the second asset stocktaking.

4.1.2 Preparations for Maintenance Handover

- (1) provincial and municipal companies of both companies shall make adequate communication to complete preparations such as building alignment mechanism, developing handover plan, determining maintenance units, preparing support system and conducting pilots in existing networks, and reach consensus on handover time of maintenance work, maintenance interface, maintenance handover organization, continuation of maintenance teams, maintenance plan for monitoring and dispatching;
- (2) regarding maintenance interface, both parties agree to the related maintenance division of labor interface contained in the “Comprehensive Services Agreement”;
- (3) regarding maintenance quality, relevant requirements of the “Comprehensive Services Agreement” shall be executed, which, in principle, shall not be lower than the sellers’ existing maintenance level;
- (4) both parties agree that, before completing reconstruction and construction of power and environment monitoring system of stock sites, the buyer shall conduct monitoring and dispatching by relying on the sellers’ network management system or power and environment monitoring system or dispatching system; and provincial companies of both parties shall determine specific maintenance programs through consultation;
- (5) the sellers shall provide the buyer with power and environment monitoring data in a certain period before the Delivery Date, and the specific period shall be determined by provincial companies of both parties through consultation;
- (6) provincial companies of both parties shall jointly the list of site names for site names and serial numbers in the stage of asset stocktaking, the sellers’ network management system or power and environment monitoring system;
- (7) regarding emergency communication support, the provincial companies of both parties shall jointly determine division of responsibilities, scope of assurance, assurance standards, contingency plans and liaison system through consultation;

(8) provincial companies of both parties shall determine related matters such as on-site collaboration, troubleshooting (including power generation), information push, emergency support and retaining sites;

(9) provincial and municipal branches of both parties shall jointly determine the specific arrangements of handover of property management, water and electricity supply through consultation;

(10) in order to maintain the stability of maintenance teams as far as possible, the sellers shall provide the buyer with maintenance mode list of stock sites, information of co-location agreements, co-location agreements and records of co-location appraisal for nearly a year; the buyer shall consult with the former maintenance organization about co-location matters to ensure the smooth transition of maintenance work.

4.1.3 Preparations of Support Systems

(1) Network management system or power and environment monitoring system

For stock sites without power & environment monitoring system or needing alteration, both parties shall conduct communication and consultation on construction and alteration arrangements, and the sellers shall provide the buyer with necessary assistance. Before the buyer completes alteration and construction of power & environment monitoring system of stock sites, it shall conduct monitoring and dispatching by relying on the sellers' network management system or power & environment monitoring or dispatching system, and the sellers shall provide it with necessary assistance. On the premise of ensuring normal implementation of maintenance work and system security, the sellers shall open use rights of relevant network management system or power & environment monitoring or dispatching system, and the buyer may use such systems according to the sellers' authorization.

4.1.4 Preparations for Information Handover

(1) both parties shall jointly determine the specific arrangements for handover of information and contracts through consultation;

(2) the sellers shall make an itemized list of information in accordance with Article 9 of this Annex (refer to Appendix 2 hereto for the template) and prepare relevant information.

5. Implementation of Handover

5.1 For the purpose of the handover, both parties agree to:

5.1.1 Centralized Handover of Information

(1) both parties shall complete centralized handover of relevant information in accordance with the agreed plan and the requirements of Article 9 of this Annex;

(2) both parties shall sort out key materials (contracts of electric supply, property lease and co-location) according to sites;

(3) both parties shall faithfully record the information that the sellers fail to provide in the "List of Information Handover for Stock Towers" (refer to Appendix 3 of this Annex for the template);

(4) both parties agree to prioritize the handover and collation of key materials, and the handover of other information can be completed in subsequent handover.

5.1.2 On-site Handover

(1) For the sites corresponding to plant rooms included into the scope of target assets, the on-site handover shall be completed by following the following procedure:

confirm the existence of assets, verify and confirm the physical information of asset handover, and supplement and record asset inventory surplus in accordance with the “List of On-site Handover of Stock Tower-related Physical Items”; assets with inventory surplus need to be photographed; record types and integrity of door locks and electricity meter readings, hand over access cards and keys; both parties shall affix their signatures on the site to confirm that all entries of the “List of On-site Handover of Stock Tower-related Physical Items” are correct; the List is done in duplicate, each party holding one copy; the maintenance work for target assets located in such site shall be assumed by the buyer.

(2) For the sites corresponding to plant rooms that are not included into the scope of target assets, the on-site handover shall be completed by following the following procedure:

confirm the existence of tower-related assets, verify and confirm the physical information of tower-related assets and supplement and record asset inventory surplus and affix resources labels; assets with inventory surplus need to be photographed; record the location and size of defined area in plant room, and record whether such area is equipped with antenna feeder, cable and ingress and egress routes, and whether is convenient for pass-through of personnel and equipment; both parties shall affix their signatures on the site to confirm that all entries of the “List of On-site Handover of Stock Tower-related Physical Items” are correct; the List is done in duplicate, each party holding one copy; the maintenance work for target assets located in such site shall be assumed by the buyer.

(3) Both parties shall, in accordance with the “List of On-site Handover of Stock Tower-related Physical Items” confirmed by their signatures, import the results of on-site handover into the asset stocktaking system, and aggregate inventory overage and shortage, differences of information and views.

5.1.3 Other

(1) Both parties shall jointly complete related transfer of water and electricity use rights, transfer and registration of property management relations through collaboration;

(2) Both parties shall jointly apply for registration of change of ownership for the assets which need such procedure to be validly transferred, except those recognized by both parties as without such need or cannot apply;

(3) The consent/confirmation of third party shall be obtained or the contract name shall be transferred for the matters requiring such consent or confirmation, except the contracts that have not been transferred and held by the sellers on behalf of the third party. Where actual contractual relations exist between the sellers and any third party without signing any written contract, the sellers shall provide the buyer with information of such third party, and assist it in directly signing agreements with such third party. The specific implementation shall be in accordance with Article 10 of this Annex;

(4) The sellers shall hand over the control and use rights of access system to the buyer;

(5) Both parties agree to complete the handover of core items within the period agreed in Section 4.4 of this Agreement, including physic assets, maintenance work, electricity supply and property management relations, key materials (contracts of electric supply, property lease and co-location) and the confirmation of accounts payable. The deadlines of subsequent handover matters, such as registration of asset transfer, transfer of contract names and handover of other information, shall be otherwise agreed by both parties in the Delivery Confirmation.

5.1.4 The above arrangements shall not impede any other arrangements of the target assets made by both parties through consultation.

6. Confirmation of Handover

6.1 Both parties shall confirm the list of target assets of final handover by signing the Delivery Confirmation. The parts of unfinished handover (assets, businesses, contracts) shall be specified in the list as the basis for subsequent handover, and both parties shall continue to complete handover of such parts in accordance with this Agreement or the provisions of "Delivery Confirmation".

6.2 Both parties shall, according to the levels of assets management, arrange branches at provincial and municipal levels to confirm the handover, sign the Delivery Confirmation and report the results to the headquarters level by level. The branch at the next higher level shall ensure that the Delivery Confirmation submitted by the branch at the next lower level is complete.

7. Subsequent Handovers

7.1 Both parties shall indicate the target assets, contracts, businesses that they need to continue to hand over in the Delivery Confirmation, which shall be handed over in accordance with this Annex.

7.2 Both parties agree that:

(1) they shall continue to apply for contract changes or obtain the consents of third parties according to the scope, program, method and schedule commonly recognized by them;

(2) they shall apply for transfer and registration of land use rights and property rights as well as registration formalities of related ownership according to the scope, program, method and schedule commonly recognized by them;

(3) unless otherwise specified, the sellers shall bear and be responsible for the settlement of the assets-related costs before the Delivery Date, including but not limited to rent and maintenance fees. In case the outstanding costs before the Delivery Date is actually borne by the buyer, the sellers shall truly settle such costs and pay related fees.

8. Handover Methods and Standards for Target Assets

8.1 Fixed Assets

8.1.1 Towers

Base on the List of On-site Handover of Stock Tower-related Physical Items, the sellers shall hand over towers to the buyer, and the handover shall be deemed as completed after the buyer takes stock and sign the Delivery Confirmation (unless otherwise specified, it shall refer to the Delivery Confirmation at headquarters level, the same below).

8.1.2 Plant Rooms

(1) premises for which any party can apply for housing ownership right certificates: the sellers and the buyer shall confirm the list of target assets of final handover by signing the Delivery Confirmation; both parties shall jointly apply for change of housing ownership right certificate at relevant housing authorities, and the handover shall be deemed as completed when the transfer procedures of housing ownership right certificate is completed; after such change, the handover of such housing ownership right certificate shall be deemed as completed after the buyer becomes the owner.

(2) plant rooms that any party cannot apply for the housing ownership right certificate or both parties confirmed no need for applying for such certificate: the sellers shall hand over such plant rooms to the buyer, and the handover shall be deemed as completed when the buyer takes stock and signs the Delivery Confirmation.

(3) plant rooms leased by the sellers: both parties shall complete the handover of contract in accordance with Article 10 of this Annex, and the handover of such plant rooms shall be deemed as completed when the Delivery Confirmation is signed.

(4) processing fees for transfer and registration of property rights shall be borne by the buyer.

(5) for the mixed plant rooms that have not been included into the scope of contribution, in principle, a work area of about 20 square meters shall be set aside for free use by the buyer in 3 years. The Sellers shall charge the buyer for a certain amount of rental in accordance with market principles after 3 years.

8.2 Ancillary Equipment

Base on the List of On-site Handover of Stock Tower-related Physical Items, the sellers shall hand over such equipment to the buyer, and the handover shall be deemed as completed after the buyer takes stock and sign the Delivery Confirmation.

8.3 Land Use Rights

(1) where the land use rights can be applies for, both parties shall confirm the list of target assets of final handover by signing the Delivery Confirmation; the handover shall be deemed as completed when the transfer procedures of land use right certificate is completed and the certificate is handed over to the buyer.

(2) for the land use rights that the sellers have disclosed the existence of defects or the sellers cannot apply for relevant ownership certificate or transfer procedures, both parties agree to hand over such rights as is, and the handover shall be deemed as completed when the Delivery Confirmation is signed.

(3) land that any party temporarily cannot apply for land use right certificate or is applying for such certificate: the buyer shall subsequently apply for and improve legal relations and formalities of such land and bear related costs generated after the Delivery Date; the sellers shall give the buyer necessary assistance, including but not limited to providing necessary information for applying for related certificates.

(4) lands/venues leased by the sellers: both parties shall complete the handover of contract in accordance with Article 10 of this Annex, and the handover of such lands/venues shall be deemed as completed when the Delivery Confirmation is signed.

(5) processing fees for transfer and registration of land use rights shall be borne by the buyer.

8.4 Construction-in-progress and Construction Materials

(1) On the premise of guaranteeing project quality, the sellers shall do their utmost to complete final accounts of projects under construction and transfer them into fixed assets (“transfer to fixed assets”) prior to the Delivery Date, and hand them over to the buyer in the form of assets.

(2) For projects that truly cannot be transferred to fixed assets on schedule due to specific causes, both parties shall confirm book values of such projects on the Delivery Date, and hand them over in the form of CIPs. The handover shall be deemed as completed after both parties confirm the list of target assets of final handover by signing the Delivery Confirmation.

(3) At the buyer’s specific request, for buildings under construction, the subjects of Construction Land Use Permit, Land Planning Permit, Project Planning Permit, Project Construction Permit and other relevant materials originally applied by the sellers to local governments shall be changed from the sellers to the buyer. The two parties shall jointly go through relevant procedures by collaboration if required. Relevant change procedure fees shall be borne by the buyer.

8.5 Long-term Deferred Expenses

(1) The handover shall be deemed as completed when contract change procedure and other procedures with the third party of the contracts are completed with on-site stock-taking and signature confirmation, and the change of electricity user registered at the power supplier is completed (if necessary).

(2) Other long-term deferred expenses (such as plant room renovation expenses, site and house lease etc.) shall be based on the List of On-site Handover of Stock Tower-related Physical Items, and the account entry basis shall be provided by the sellers. The handover shall be deemed as completed after the contract change procedures with the third party are completed.

8.6 Current Assets

(1) Other Receivables

The handover shall be deemed as completed when contract change with the third party is completed or the sellers as creditors inform the debtors of the transfer of creditors’ rights.

(2) Stock

In accordance with the List of On-site Handover of Stock Tower-related Physical Items, transfer is made by the sellers to the buyer in kind. The handover shall be deemed as completed after both parties confirm the target assets list for final handover by taking stock and signing the Delivery Confirmation.

(3) Deferred Expenses

Relevant site and house rental agreement shall be handled in accordance with the delivery methods in Article 10 of this Annex. The balances of deferred expenses and corresponding deadlines and ownership shall be determined by both parties, and sellers shall provide account entry bases. The handover shall be deemed as completed upon the signing of Delivery Confirmation by both parties.

8.7 Liabilities

Regarding liabilities transferred to the buyer, the handover shall be deemed as completed after both parties' complete contracts changes with the third party and/or the sellers as debtors inform the creditors of the transfer of debts with the consent of creditors, and both parties confirm the target assets list for final handover by signing the Delivery Confirmation.

8.8 Other

(1) Unless otherwise provided herein, pursuant to the scope of target assets provided in Annex 3, for assets and relevant materials and agreements that are owned by the sellers but not included in the List of On-site Handover of Stock Tower-related Physical Items or within the scope of appraised assets, if confirmed by both parties as within the scope of target assets of this transaction, such assets shall be handed over by the sellers to the buyers in accordance with this Annex. The handover shall be deemed as completed when both parties confirm the target assets list for final handover by signing the Delivery Confirmation.

(2) Pursuant to the scope of target assets provided in Annex 3, for assets that are included in the List of On-site Handover of Stock Tower-related Physical Items or within the scope of appraised assets but confirmed by both parties as not within the scope of target assets of this transaction, no delivery shall be made upon agreement by both parties.

(3) The sellers shall be responsible for removing other limitation of rights (if any).

9. Handover Methods and Standards for Materials

9.1 The sellers shall make reasonable efforts to provide following materials within the material scope of this transaction that are owned by them:

(1) Tower-related materials: project archives (including: designs, design approvals, contracts, construction drawings, final acceptance documents and final accounts report), planning permission, construction permits and other project-related documents; purchase agreement for directly purchasing tower (if any) and photocopies of purchase invoices; operation instructions, warranty cards and repair records and other relevant materials; environment protection acceptance materials; for leased towers, in addition to aforementioned materials, a letter of approval from the third party in support of transferring the ownership to the buyer or an agreement regarding the ownership of tower-related assets and other arrangements signed by both parties with the third party and rental payment vouchers are required.

(2) House assets related materials: for out-purchased houses, original copies of house purchase contracts and photocopies of house ownership certificate and invoices are required; for self-built houses, photocopies of house ownership certificate, Land Planning Permit, Project Planning Permit, Project Construction Permit, completion acceptance documents and relevant project documents (original, including designs, design approvals, contracts, construction drawings, final acceptance documents, final accounts report and other relevant materials); house ownership transfer registration materials are required; for materials required for leased houses, please refer to Item (6) of this Annex.

(3) Materials related to electricity, accumulators, air conditioning equipment, fire fighting equipment and security equipment: purchase contracts (if any), photocopies of purchase invoices, operation instructions, warranty cards & repair records, and other relevant materials.

(4) Land use right related materials: original copies of State Land Use Certificate, original copies of land sale/transfer contract, original copies or photocopies of relevant government approvals, land asset change records and corresponding proofs; original copies of collective construction land use right certificate, original copies of land circulation contract, original copies or photocopies of related government approvals, as well as land assets change records and corresponding proofs; land use right transfer registration materials; for materials required for leased sites, please refer to Item (6) of this Annex.

(5) Construction-in-progress related materials: statements of outstanding amount of project payments as of Delivery Date corresponding to project image progress, breakdown of project expenses, project management materials (provided in line with practical situation of a specific project, including feasibility study materials, feasibility approvals, designs, design approvals, contracts, consignment sheets, image progress reports, preliminary testing documents, trial operation reports etc.); relevant financial data (such as photocopies of invoices, preliminary accounts data etc.); other related materials shall be obtained through friendly consultation between two parties, including but not limited to environment assessment report issued by government departments, resource use approvals, assets receipt sheets, supervision reports, integration reports, inspection records of concealed works, equipment operation instruction, installation manuals, project acceptance specification etc.

(6) Long-term deferred expenses related materials: for house land asset related long-term deferred expenses, the following documents are required: house lease contracts, original copies of land lease contracts/ land occupation compensation contracts, photocopies of rental/ compensation invoices and receipts, photocopies of land ownership certificates/land use right certificates, property ownership certificates, confirmation letter stating that the property owner agrees to sublease or authorizes the lessor to lease the property or other documentary proofs that guarantee buyer's rights (applicable if the lessor is not the property owner), the lessor's original delivery list and video, leased items handover list etc.

(7) Other receivables-related materials: relevant contracts, original agreements, original copies of corresponding invoices, receipts and their attachments, change records from appraisal base date to Delivery Date and corresponding proofs.

(8) Stock related materials: stock related purchase contract, photocopies of purchase invoices, and stock out-put & in-put of warehouse records from Delivery Date to actual receipt date confirmed by both parties.

(9) Deferred expenses related materials: original copies of relevant contracts and agreements, photocopies of corresponding invoices and receipts, and change records from appraisal base date to Delivery Date and corresponding proofs. For materials required for deferred expenses related to house and land assets, please refer to Item (6) of this Annex.

(10) Liabilities-related materials: original copies of relevant contracts and agreements, photocopies of corresponding invoices, receipts and deposit certificates, and change records from appraisal base date to Delivery Date and corresponding proofs.

(11) Contract-related materials: original copies of contracts and agreements that are not included in the above categories but related to target assets (such as electricity fee contracts, house lease contracts and site lease contracts).

(12) Maintenance-related materials: technical specifications, mobile base station commission maintenance lists, mobile comprehensive commission maintenance lists, commission maintenance technology answering letters, commission maintenance management system, base station blackout emergency management methods, safety in production administrative measures & agreements, letters of commitment regarding integrity, evaluation system documents, base station maintenance service examination methods, base station maintenance service examination methods/commission maintenance methods, technical files, technical materials, asset lists, standby material plans within one year prior to the Delivery Date, commission maintenance unit examination records within one year, asset maintenance materials and resource occupation account, maintenance inspection records, equipment maintenance contracts, maintenance contact person accounts, maintenance records, inspection and check records, renovation and transformation project materials, proprietor maintenance accounts, rentals, electricity fee payment accounts etc.

(13) Above materials involving contracts and agreements shall include the original copies of all their attachments, supplemental agreements and memorandums, letters of authorizations, payment/charge vouchers, letters of approval from the other party of the contract obtained for this transaction, statements of contract implementation, and other documents and materials regarding the signing, implementation, termination and interpretation of the contracts.

9.2 The sellers shall provide a document list for the buyer, and hand over above materials as their original forms and /or photocopies (including paper and electronic texts and other forms). The original copies of land use certificate and housing ownership certificate shall be provided. Both parties shall check and confirm the correspondence between the materials provided and station sites. The handover shall be deemed as completed upon the signing of the Delivery Confirmation by the two parties.

10. Handover Methods and Standards for Asset-Related Contract Relations

10.1 Summary

(1) Unless otherwise agreed, in principle, the names of the sellers' contracts with external parties that are related to the target assets shall be transferred to the buyer ("contracts that shall be transferred"), including but not limited to property lease contracts, land lease contracts, site lease contract, land occupation compensation agreements, commission maintenance agreements, maintenance and protection agreements, external cable entrance contracts, electricity supply contracts, quality guarantee contracts, as well as *de facto* contracts based on which two parties perform their rights and obligations despite the fact that the sellers do not sign them.

(2) For contracts that shall be transferred, their rights and obligations shall be divided as follows: original sellers' rights and obligations before the Delivery Date (including this day) shall be enjoyed and assumed by the sellers; the original sellers' rights and obligations after the Delivery Date under such contracts shall all be enjoyed and assumed by the buyer.

(3) The contracts that have been officially transferred to the buyer by the sellers without agreement of other signatories before the Delivery Date due to problems concerning time and quantity shall be deemed as "contracts that have not been transferred".

10.2 Handover of contracts that shall be transferred

(1) For contracts that shall be transferred, following procedures shall be implemented:

i. Both parties shall make efforts to make other signatories of the contracts agree the buyer to replace the sellers to become a party of such contracts from the Delivery Date. Such replacement shall be completed by the signing of modification agreements among other signatories, the sellers and the buyer, or issuance of letter of approval by the other signatories to the sellers and buyer.

ii. For expired contracts, or contracts that are not expired but will terminate prior to the Delivery Date, the sellers agree to take necessary actions to extend the term of such contracts to the Delivery Date or any other reasonable dates after the Delivery Dates provided that the extension is feasible, reasonable and necessary. For contracts whose term is extended to the Delivery Date, the sellers shall offer information related to the other party of the contracts to the buyer so as to assist the buyer to develop relevant agreements; for contracts whose term is extended to a reasonable date after the delivery date, the handover shall be completed at the earliest time possible in line with provisions regarding contracts that shall be transferred in this Annex. Costs incurred by extension after the Delivery Date shall be borne by the buyer.

(2) Contracts that have not been transferred could temporarily be owned by the sellers on behalf of the buyer. Special arrangements between the two parties are as follows:

i. Unless otherwise provided in this Agreement, the rights, obligations, profits or losses owned by the sellers since the Delivery Date under the “contracts that have not been transferred” shall belong to the buyer. Any profits collected or owned by the sellers from contracts that have not been transferred shall belong to the buyer.

ii. The sellers shall execute and perform rights and obligations under contracts that have not been transferred in accordance with the buyer’s demands after the Delivery Date. Unless otherwise required by the buyer, the sellers shall not modify any terms of contracts that have not been transferred nor terminate any such contracts.

iii. If the buyer’s rights under contracts that have not been transferred shall be executed by the sellers in the name of the buyer (including filing legal proceedings or arbitration, or taking other necessary actions), the sellers shall assist the buyer to execute such rights in the sellers’ names.

iv. Both parties shall make their best reasonable efforts to complete the transfer procedure and/or obtain the letter of approval from the other parties of contracts that have not been transferred within the period agreed by the two parties otherwise.

v. All actual costs incurred by the Sellers’ performance of obligations under Item (i) (ii) (iii) (iv) hereof shall be chargeable to the buyer.

10.3 Special Agreement Regarding Lease Contract

(1) For contracts that will expire within one year after the Delivery Date, they could be temporarily owned by the sellers on behalf of the buyer. The buyer will sign contracts with the third parties directly prior to the expiration of agreements.

(2) If both parties agree not to transfer a contract, or a contract could not be transferred due to disagreement of the third party or any other reasons, or the third party remarkably raises the price causing substantial increase of rental costs, both parties shall agree that the contract shall be temporarily owned by the sellers on behalf of the buyer. The buyer will sign contracts with the third parties directly prior to the expiration of agreements.

(3) The sellers shall inform the lessor and make reasonable efforts to arrange the lessor to participate in the handover of leased properties.

10.4 Other

For the avoidance of doubt, arrangements mentioned above shall be without prejudice to other arrangements regarding the handover of target assets related contractual relationship made by both parties through negotiation.

11. Special Agreement Regarding Handover of Sellers' Assets

11.1 Use right of Intellectual Property

The handover of use right of Intellectual Property attached to the target assets (if any) shall be implemented pursuant to the methods and procedures provided in relevant contracts above.

11.2 Sellers' Affiliated Companies and Third Party Assistance

If the contracts related to target assets involve the sellers and their affiliated companies and third parties, the sellers shall arrange involved subjects or their representatives to go through handover procedures uniformly.

12. Special Agreement Regarding Transition Period after Handover

12.1 Transition Period

Transition period of a single station site refers to the period from Handover Date to Delivery Date, or Delivery Date to Handover Date; the transition period of the transaction hereof refers to the period from Delivery Date to the date when the establishment and reform of the dynamic environment monitoring system of the stock towers carried out by the buyer is completed. The buyer plans to complete the establishment and reform of the dynamic environment monitoring system before June 30, 2016.

12.2 Special Agreement during Transition Period

In order to guarantee the smooth transition and operation of target assets, the normal operation of business relying on the target assets and service quality, and to avoid major negative impacts on the current production and business order of both parties, the two parties agree to perform their own duties and obligations during the transition period as follows:

(1) Prior to the completion of the buyer's reform and establish dynamic environment monitoring system for existing station sites, the buyer shall utilize the sellers' existing monitoring and maintenance methods to carry out maintenance work. The sellers agree that the buyer could use relevant network management system or dynamic environment monitoring system and worksheet processing system with the sellers' authorization, and the sellers shall provide relevant support.

(2) Provincial branches of both parties shall implement daily maintenance work accordance with the maintenance handover plan agreed by both parties. The buyer shall make positive responses to the maintenance requirements made by the sellers. During maintenance the sellers shall provide assistance and support for the buyer to guarantee smooth transition.

Annex7 Appendix 1 List of On-site Handover of Stock Tower-related Physical Items
 List of On-site Handover of Stock Tower-related Physical Items

| <u>Operator physical station site No.</u> | <u>Operator asset No./ tag number</u> | <u>Tower company asset No.</u> | <u>Operator</u> | <u>Location</u> | <u>Unit of measurement</u> | <u>Quantity</u> | <u>Specification & model</u> | <u>Manufacturer</u> | <u>Use status</u> | <u>Exist or not</u> | <u>Note</u> |
|-------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------|-----------------|-----------------|----------------------------|-----------------|----------------------------------|---------------------|-------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|
| Breakdown of appraised assets | | | | | | | | | | <input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Yes <input type="checkbox"/> No | |
| Breakdown of newly-added target assets | | | | | | | | | | <input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Yes <input type="checkbox"/> No | |
| On-site maintenance record | Ammeter No.: Closing ammeter readings: Key to the plant <input type="checkbox"/> Key card <input type="checkbox"/> General key <input type="checkbox"/> Dedicated key <input type="checkbox"/> Property management key room: Hand over keys <input type="checkbox"/> Yes <input type="checkbox"/> No or not Defined area <input type="checkbox"/> Yes <input type="checkbox"/> No satisfies the needs or not Electricity supply <input type="checkbox"/> Transferring supply <input type="checkbox"/> Direct supply <input type="checkbox"/> Self-built transformer mode Property management contact person & telephone: Electricity supply contact person & telephone: Dispute record | | | | | | | | | | |

Operator:
Tower company:
Commission maintenance company:
Handover date:

Annex 7 Appendix 2 Contract List Template

| <u>Serial No.</u> | <u>Operator contract subject</u> | <u>Contract No.</u> | <u>Contract Name</u> | <u>The other subject</u> | <u>Start date</u> | <u>Termination date</u> | <u>Contract status</u> | <u>Handling progress (to be completed by joint work organization)</u> | <u>Held by the other company on behalf of the subject or not (to be completed by joint work organization)</u> |
|-------------------|----------------------------------|---------------------|----------------------|--------------------------|-------------------|-------------------------|------------------------|-----------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------|
| 1 | | | | | | | | | |
| 2 | | | | | | | | | |
| 3 | | | | | | | | | |

Annex 7 Appendix3 List of Information Handover for Stock Towers

List of Information Handover for Stock Towers

| <u>Operator:</u> Tower <u>Company:</u> | | <u>Filled in</u> <u>by:</u> | | <u>Date of</u> <u>filling</u> <u>in:</u> | | <u>Date of</u> <u>receipt:</u> | | <u>Storage</u> <u>type</u> | | <u>Note</u> |
|----------------------------------------------|----------------------|-----------------------------------------------------|------------|------------------------------------------------|--|-----------------------------------|--|-------------------------------|--|-------------|
| <u>Serial No.</u> | <u>Material type</u> | <u>Recipient:</u> <u>Material</u> <u>name</u> | <u>No.</u> | | | | | | | |
| 1 | | | | | | | | | | |
| 2 | | | | | | | | | | |
| 3 | | | | | | | | | | |
| 4 | | | | | | | | | | |
| 5 | | | | | | | | | | |
| 6 | | | | | | | | | | |
| 7 | | | | | | | | | | |
| 8 | | | | | | | | | | |
| 9 | | | | | | | | | | |
| 10 | | | | | | | | | | |

Appendix 3-2 Breakdown of A single Station List of Information Handover for Stock Towers-

| Physical station site No. | Property Ownership Certificate (Original) | Land Certificate (Original) | Tower Lease Contract | Property Lease Contract | Land Lease Contract | Property Purchase Contract (Original) | Land Purchase Contract (Original) | Co-building & Sharing Agreement and Settlement List | Commission Maintenance Agreement | Energy (Electricity fee) Agreement | Design documents relevant to the towers and base station plant room and completion files | Tower/Switching Power Supply/Accumulator/Air Conditioning Equipment Purchase Agreement after January 1, 2014 | Other |
|---------------------------|-------------------------------------------|-----------------------------|----------------------|-------------------------|---------------------|---------------------------------------|-----------------------------------|-----------------------------------------------------|----------------------------------|------------------------------------|------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------|-------|
| | | | | | | | | | | | | | |

Note: Unless otherwise specified, documents could be provided in the forms of original copies, photocopies and scanning copies.

Annex 8: Sellers' Representations and Warranties

As of the Signing Date and Delivery Date of this Agreement, in addition to what has been disclosed in writing in transaction documents (including the breakdown of appraised assets disclosed by the sellers) or as otherwise agreed by both parties, in all material respects, the sellers make the following representations and warranties to the buyer:

1. Information

- 1.1 All target assets-related information that is provided to the buyer or its representatives and consultants is authentic, accurate and complete in all material respects, which has no false representation, major omission or misleading statement in material respects.

2. Target Assets

2.1 Ownership

- (1) regarding the target assets whose ownership is transferred by the sellers to the buyer, in addition to those disclosed in the list of target assets or other transaction documents, it shall include the completed ownership and/or right of disposal legally owned by the sellers (or their subsidiaries) for such target assets;
- (2) regarding the target assets bought by the buyer pursuant to this Agreement, except as otherwise agreed in this Agreement, the buyer shall be entitled to all relevant rights that shall be legally enjoyed by the owner and user of such target assets according to the original property status, and transfer and dispose of such rights in accordance with the law, and shall not be restricted by any seizure, mortgage, burden, other third-party right and security right.

2.2 Setup, existence and actual use of target assets

- (1) the sellers' operation and management of target assets conform to established practices;
- (2) comply with national laws and policies, national and industry standards, which can function normally and don't have critical flaws.

2.3 Changes to target assets

- (1) comply with relevant national laws and regulations and internal management requirements of the sellers, and will not materially and adversely affect handover and operations of target assets;
- (2) the sellers shall conduct assets management and construction in its usual manner, and promptly inform the buyer of material changes involving the target assets.

3. Intellectual Property Rights

In addition to the restrictions of intellectual property rights agreements signed by the sellers, all necessary intellectual property licenses shall be obtained for the operations of target assets to enable the buyer to continue to use such licenses within the period in the same way before the signing date of this Agreement.

4. Assets-related Contracts

4.1 Contractual relations and operational arrangements included into target assets:

- (1) all conform to the general business principles, which are concluded based on fair and reasonable commercial terms in the normal course of operations;
- (2) shall be handled in accordance with the principles and approaches set forth in this Agreement, and there is no substantial obstacles.

5. Compliance with Taxation and Other Laws

- 5.1 the sellers shall comply with the requirements of taxation and other laws, and shall bear all the taxes and other legal liability arising from it and the target assets prior to the Delivery Date (including the day);
- 5.2 the taxes and other legal liability generated prior to the Delivery Date that continue thereafter shall be borne by the sellers.

6. Litigations and Investigations

6.1 Litigations

- (1) to the best knowledge of the sellers, except the sellers' recovery of debts arising from the ordinary course of business, there is no important litigation, arbitration or administrative procedure, government or official investigation involving target assets which is ongoing, threatened to be conducted or pending;
- (2) to the best knowledge of the sellers, there is no situation that may result in the above procedures, investigations or reviews.

6.2 the sellers shall continue to be responsible for any significant litigation, arbitration, administrative investigation and other dispute related to target assets that is brought about on the Delivery Date or before such date, and bear the corresponding responsibilities.

Share Subscription Agreement

(This Agreement was signed by the following two parties on 29/1/2016 in Beijing)

Issuer: China Tower Corporation Limited (“China Tower”)

Subscriber: China Telecom Corporation Limited

In view that the Issuer and the Subscriber signed the “Agreement in relation to the Acquisition of Acquired Towers and Related Assets by Allotment and Issue of Shares and Payment of Cash” on 14 October 2015. Based on the aforesaid Agreement and the practical circumstances of Completion of tower-related assets, the Issuer confirmed the allotment of 119,344,615,024 shares in total at an issue price of RMB 1 per share.

1. Subscription Price

RMB 1 per share.

2. Subscription Amount and Quantity

The Subscriber confirmed to pay RMB 33,097,147,592 to subscriber for 33,097,147,592 shares.

3. Subscription Method

The Subscriber agreed to subscribe for the shares issued by way of assets contribution and cash contribution, of which the assets contribution was RMB 30,131,155,844 and the cash contribution was RMB 2,965,991,748.

4. Payment Method

The Subscriber has practically completed the assets contribution before 31 December 2015 and the cash contribution would be settled before 30 January 2016.

5. Shareholders’ Rights and Obligations

Both parties confirmed that the Subscriber should become the owner of shares allotted (or to be allotted) for this transaction on the effective date of this Agreement, and thereby entitle to the shareholder rights and bear the shareholders’ responsibilities. Both parties agreed that the Issuer should arrange the relevant procedures including the update of register of shareholders, amendments to Articles of Association and change in business registration within 30 days after signing the Share Subscription Agreement.

6. Effective Date and Copies

This Agreement was with effect from December 31, 2015. This agreement was executed in six duplicates where each party holding two copies and the rest copies to be submitted for examination and approval/record filing.

(Below was intentionally left blank)

This page is the signature page to the Share Subscription Agreement.

China Tower Corporation Limited

(seal)

Legal representative or authorized representative:

China Telecom Corporation Limited

(seal)

Legal representative or authorized representative:

English Summary
of
Supplemental Agreement to the Centralized Services Agreement
Between
China Telecommunications Corporation
and
China Telecom Corporation Limited

China Telecommunications Corporation (“Party A”) and China Telecom Corporation Limited (“Party B”) entered into the Supplemental Agreement to the Centralized Services Agreement on September 23, 2015.

The key terms and conditions of the Supplemental Agreement are as follows:

1. The Parties agree to add Sub-article 2.2 to Article 2 of the Centralized Services Agreement as follows: “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.”
2. The execution, validity, performance, interpretation of this Supplemental Agreement and any relevant dispute resolutions shall be governed by the PRC laws.
3. This Supplemental Agreement shall become effective on January 1, 2016. If there is any conflict between this Supplemental Agreement and the Centralized Services Agreement, this Supplemental Agreement shall prevail.

English Summary
of
Supplemental Agreement to the Interconnection Settlement Agreement
Between
China Telecommunications Corporation
and
China Telecom Corporation Limited

China Telecommunications Corporation (“Party A”) and China Telecom Corporation Limited (“Party B”) entered into the Supplemental Agreement to the Interconnection Settlement Agreement on September 23, 2015.

The key terms and conditions of the Supplemental Agreement are as follows:

1. The Parties agree to amend Article 6.5 of the Interconnection Settlement Agreement as follows: “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 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.”
2. The execution, validity, performance, interpretation of this Supplemental Agreement and any relevant dispute resolutions shall be governed by the PRC laws.
3. This Supplemental Agreement shall become effective on January 1, 2016. If there is any conflict between this Supplemental Agreement and the Interconnection Settlement Agreement, this Supplemental Agreement shall prevail.

English Summary
of
Supplemental Agreement to the Property Leasing Framework Agreement
Between
China Telecommunications Corporation
and
China Telecom Corporation Limited

China Telecommunications Corporation (“Party A”) and China Telecom Corporation Limited (“Party B”) entered into the Supplemental Agreement to the Property Leasing Framework Agreement on September 23, 2015.

The key terms and conditions of the Supplemental Agreement are as follows:

1. The Parties agree to amend the first paragraph in Sub-article 1 of Article 3 of the Property Leasing Framework Agreement as follows: “The Parties agree that the rental charges under the Property Leasing Framework Agreement shall be determined according to comparable 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 and 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.”
2. The execution, validity, performance, interpretation of this Supplemental Agreement and any relevant dispute resolutions shall be governed by the PRC laws.
3. This Supplemental Agreement shall become effective on January 1, 2016. If there is any conflict between this Supplemental Agreement and the Property Leasing Framework Agreement, this Supplemental Agreement shall prevail.

English Summary
of
Supplemental Agreement to the IT Services Framework Agreement
Between
China Telecommunications Corporation
and
China Telecom Corporation Limited

China Telecommunications Corporation (“Party A”) and China Telecom Corporation Limited (“Party B”) entered into the Supplemental Agreement to the IT Services Framework Agreement on September 23, 2015.

The key terms and conditions of the Supplemental Agreement are as follows:

1. The Parties agree to amend Article 3.1 of the IT Services Framework Agreement as follows: “The charges payable for such services, subject to the provisions in Article 3.2, 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.”

2. The Parties agree to amend the first paragraph in Article 3.2 of the IT Services Framework Agreement as follows: “The Parties agree that 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.”

3. The execution, validity, performance, interpretation of this Supplemental Agreement and any relevant dispute resolutions shall be governed by the PRC laws.

4. This Supplemental Agreement shall become effective on January 1, 2016. If there is any conflict between this Supplemental Agreement and the IT Services Framework Agreement, this Supplemental Agreement shall prevail.

English Summary
of
Supplemental Agreement to the Community Services Framework Agreement
Between
China Telecommunications Corporation
and
China Telecom Corporation Limited

China Telecommunications Corporation (“Party A”) and China Telecom Corporation Limited (“Party B”) entered into the Supplemental Agreement to the Community Services Framework Agreement on September 23, 2015.

The key terms and conditions of the Supplemental Agreement are as follows:

1. The Parties agree to amend Article 3.1 of the Community Services Framework Agreement as follows: “The charges payable under the Community Services Framework Agreement shall be determined by reference to market rates. Market rates 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 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.

For avoidance of doubt, 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 Company. 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.”

2. The execution, validity, performance, interpretation of this Supplemental Agreement and any relevant dispute resolutions shall be governed by the PRC laws.

3. This Supplemental Agreement shall become effective on January 1, 2016. If there is any conflict between this Supplemental Agreement and the Community Services Framework Agreement, this Supplemental Agreement shall prevail.

English Summary
of
Supplemental Agreement to the Supplies Procurement Services Agreement
Between
China Telecommunications Corporation
and
China Telecom Corporation Limited

China Telecommunications Corporation (“Party A”) and China Telecom Corporation Limited (“Party B”) entered into the Supplemental Agreement to the Supplies Procurement Services Agreement on September 23, 2015.

The key terms and conditions of the Supplemental Agreement are as follows:

1. The Parties agree to amend Article 3.2 of the Supplies Procurement Services Agreement as follows: “The charges payable under the Supplies Procurement Services Agreement, subject to the provisions in Article 3.1, shall be determined by reference to market prices. Market prices 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 in the corresponding period for reference.

For avoidance of doubt, 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 Company. 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.”

2. The execution, validity, performance, interpretation of this Supplemental Agreement and any relevant dispute resolutions shall be governed by the PRC laws.

3. This Supplemental Agreement shall become effective on January 1, 2016. If there is any conflict between this Supplemental Agreement and the Supplies Procurement Services Agreement, this Supplemental Agreement shall prevail.

English Summary
of
Supplemental Agreement to the Engineering Framework Agreement
Between
China Telecommunications Corporation
and
China Telecom Corporation Limited

China Telecommunications Corporation (“Party A”) and China Telecom Corporation Limited (“Party B”) entered into the Supplemental Agreement to the Engineering Framework Agreement on September 23, 2015.

The key terms and conditions of the Supplemental Agreement are as follows:

1. The Parties agree to amend Article 3.1 of the Engineering Framework Agreement as follows: “The charges payable under the Engineering Framework Agreement, subject to the provisions in Article 3.2, 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.”
2. The Parties agree to amend the first paragraph in Article 3.2 of the Engineering Framework Agreement as follows: “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 in accordance with the relevant tender procedure of the Company 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.”
3. The execution, validity, performance, interpretation of this Supplemental Agreement and any relevant dispute resolutions shall be governed by the PRC laws.
4. This Supplemental Agreement shall become effective on January 1, 2016. If there is any conflict between this Supplemental Agreement and the Engineering Framework Agreement, this Supplemental Agreement shall prevail.

English Summary
of
Supplemental Agreement to the Ancillary Telecommunications Services Agreement
Between
China Telecommunications Corporation
and
China Telecom Corporation Limited

China Telecommunications Corporation (“Party A”) and China Telecom Corporation Limited (“Party B”) entered into the Supplemental Agreement to the Ancillary Telecommunications Services Agreement on September 23, 2015.

The key terms and conditions of the Supplemental Agreement are as follows:

1. The Parties agree to amend Article 3.1 of the Ancillary Telecommunications Services Agreement as follows: “The charges payable under the Ancillary Telecommunications Services Agreement shall be determined by reference to market prices. Market prices 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 in the corresponding period for reference.

For avoidance of doubt, 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 Company. 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.”

2. The execution, validity, performance, interpretation of this Supplemental Agreement and any relevant dispute resolutions shall be governed by the PRC laws.

3. This Supplemental Agreement shall become effective on January 1, 2016. If there is any conflict between this Supplemental Agreement and the Ancillary Telecommunications Services Agreement, this Supplemental Agreement shall prevail.

English Summary
of
Supplemental Agreement to the Internet Applications Channel Services Framework Agreement
Between
China Telecommunications Corporation
and
China Telecom Corporation Limited

China Telecommunications Corporation (“Party A”) and China Telecom Corporation Limited (“Party B”) entered into the Supplemental Agreement to the Internet Applications Channel Services Framework Agreement on September 23, 2015.

The key terms and conditions of the Supplemental Agreement are as follows:

1. The Parties agree to amend Article 3.1 of the Internet Applications Channel Services Framework Agreement as follows: “The charges payable under the Internet Applications Channel Services Framework Agreement shall be determined by reference to market prices. Market prices 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 in the corresponding period for reference.

For avoidance of doubt, 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 Company. 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.”

2. The execution, validity, performance, interpretation of this Supplemental Agreement and any relevant dispute resolutions shall be governed by the PRC laws.

3. This Supplemental Agreement shall become effective on January 1, 2016. If there is any conflict between this Supplemental Agreement and the Internet Applications Channel Services Framework Agreement, this Supplemental Agreement shall prevail.

English Summary
of
Supplemental Agreement to the Optic Fiber Leasing Agreement
Between
China Telecommunications Corporation
and
China Telecom Corporation Limited

China Telecommunications Corporation (“Party A”) and China Telecom Corporation Limited (“Party B”) entered into the Supplemental Agreement to the Optic Fiber Leasing Agreement on September 23, 2015.

The key terms and conditions of the Supplemental Agreement are as follows:

1. The Parties agree to amend the first paragraph in Article 5.1 of the Optic Fiber Leasing Agreement as follows: “The charges payable under the Optic Fiber Leasing Agreement shall be determined by reference to market prices. Market prices 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 in the corresponding period for reference.”
2. The execution, validity, performance, interpretation of this Supplemental Agreement and any relevant dispute resolutions shall be governed by the PRC laws.
3. This Supplemental Agreement shall become effective on January 1, 2016. If there is any conflict between this Supplemental Agreement and the Optic Fiber Leasing Agreement, this Supplemental Agreement shall prevail.

Exhibit 8.1**List of Subsidiaries**

| Name | Jurisdiction of Incorporation |
|----------------------------------------------------------------------------------------------------------------------------|-----------------------------------------|
| China Telecom Group Yellow Pages Information Company Ltd. | The People's Republic of China |
| China Telecom Global Limited (formerly known as China Telecom (Hong Kong) International Limited) | Hong Kong Special Administrative Region |
| China Telecom (Europe) Limited | London, United Kingdom |
| China Telecom System Integration Co., Limited | The People's Republic of China |
| China Telecom (Americas) Corporation | Delaware, United States of America |
| China Telecom Best Tone Information Service Co., Limited | The People's Republic of China |
| Zhejiang Yixin Technology Co., Ltd. | The People's Republic of China |
| China Telecom (Macau) Company Limited (formerly known as China Unicom (Macau) Company Limited) | Macau Special Administrative Region |
| Tianyi Telecom Terminals Company Limited (formerly known as Unicom Huasheng Telecommunications Technology Company Limited) | The People's Republic of China |
| E-surfing Pay Co., Ltd. (formerly known as Bestpay Co., Ltd.) | The People's Republic of China |
| Shenzhen Shekou Telecommunications Company Limited | The People's Republic of China |
| iMUSIC Culture & Technology Co., Ltd. | The People's Republic of China |
| Chengdu E-store Technology Co., Ltd. | The People's Republic of China |

Certification

I, Yang Jie, certify that:

1. I have reviewed this annual report on Form 20-F of China Telecom Corporation Limited (the “Company”);
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this annual report;
4. The Company’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the Company’s disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and
 - d) Disclosed in this annual report any change in the Company’s internal control over financial reporting that occurred during the period covered by this annual report that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting; and
5. The Company’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company’s auditors and the audit committee of the Company’s board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company’s ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company’s internal control over financial reporting.

Date: April 28, 2016

/s/ Yang Jie
Name: Yang Jie
Title: Chief Executive Officer

Certification

I, Ke Ruiwen, certify that:

1. I have reviewed this annual report on Form 20-F of China Telecom Corporation Limited (the “Company”);
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this annual report;
4. The Company’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the Company’s disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this annual report based on such evaluation; and
 - d) Disclosed in this annual report any change in the Company’s internal control over financial reporting that occurred during the period covered by this annual report that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting; and
5. The Company’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company’s auditors and the audit committee of the Company’s board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company’s ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company’s internal control over financial reporting.

Date: April 28, 2016

/s/ Ke Ruiwen
Name: Ke Ruiwen
Title: Executive Director and Executive Vice
President (performing the functions of the
principal financial officer)

Certification

Pursuant to 18 U.S.C. § 1350, the undersigned officer of China Telecom Corporation Limited (the “Company”), hereby certifies, to his knowledge, that the Company’s Annual Report on Form 20-F for the year ended December 31, 2015 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 28, 2016

/s/ Yang Jie

Name: Yang Jie

Title: Chief Executive Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350 and is not being filed as part of the Report or as a separate disclosure document.

Certification

Pursuant to 18 U.S.C. § 1350, the undersigned officer of China Telecom Corporation Limited (the “Company”), hereby certifies, to his knowledge, that the Company’s Annual Report on Form 20-F for the year ended December 31, 2015 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 28, 2016

/s/ Ke Ruiwen

Name: Ke Ruiwen

Title: Executive Director and Executive Vice
President (performing the functions of the
principal financial officer)

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350 and is not being filed as part of the Report or as a separate disclosure document.