
**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, 2019

OR

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

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

For the transition period from to

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)

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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	Trading Symbol	Name of Each Exchange On Which Registered
American depository shares H shares, par value RMB1.00 per share	CHA	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 depository 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, 2019, 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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files) Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer Emerging Growth Company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards[†] provided pursuant to Section 13 (a) of the Exchange Act.

[†] The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification After April 5, 2012.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. 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 following:

- any changes in the regulations or policies of the Ministry of Industry and Information Technology of the PRC (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 or network speed policies;
 - interconnection and settlement arrangements;
 - capital investment priorities;
 - the provision of telephone and other telecommunications services to rural areas in the PRC; 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 telecommunications and related technologies including the fifth generation mobile telecommunications, or 5G, and future generations of mobile technologies, and applications based on such technologies, including testing and monetization of 5G and future generations of mobile technologies;
- the development of new technologies and applications or services affecting the PRC telecommunications industry and our current and future business;
- the potential impact of restrictions, sanctions or other legal or regulatory actions under relevant laws and regulations in various jurisdictions on our telecommunications equipment suppliers and other business partners;
- the impact of COVID-19 pandemic on our operations and financial performance, the PRC economy and world economy, including disruptions to the demand for certain of our services and products such as international roaming services and services provided to corporate clients, a decline in network service quality due to the increased volume of online utilization, temporary closures of our sales outlets and a decline in new subscriber registration due to such closures, disruptions to the delivery of services or supplies and delay in network construction progress due to travel and other restrictions, decline in labor force, increased bad debts risk due to the deteriorating financial condition of certain corporate customers;

- 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 inspections by the relevant PRC regulatory authorities; and
- the development of our mobile business is dependent on the Tower Company.

Please also see “Item 3. Key Information—D. Risk Factors”.

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 depository shares, or ADSs, or matters of corporate governance are to the H shares, ADSs and corporate governance of China Telecom Corporation Limited. 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, 2018 and 2019, and the selected consolidated statements of comprehensive income (except for earnings per ADS) and consolidated cash flow data for the years ended December 31, 2017, 2018 and 2019, 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, 2015, 2016 and 2017 and the selected consolidated statements of comprehensive income (except for earnings per ADS) and consolidated cash flow data for the years ended December 31, 2015 and 2016 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 reflected the tower assets disposal in 2015, the disposal of Chengdu E-store Technology Co., Ltd., or E-store, the establishment of Tianyi Capital Holding Co., Ltd., or Tianyi Capital, and the acquisitions of the satellite communications business and Shaanxi Zhonghe Hengtai Insurance Agent Limited, or Orange Insurance (previously known as Zhonghe Hengtai) in 2017, the establishment of China Telecom Leasing Corporation Limited in 2018, and the establishments of China Telecom Group Finance Co., Ltd., or China Telecom Finance, E-surfing Smart Home Technology Co., Ltd., or Smart Home Company, and E-surfing Internet of Things Technology Co., Ltd., or IoT Company, in 2019, described under “Item 4. Information on the Company—A. History and Development of the Company—Establishment of the Tower Company and the Disposal and Lease of the Telecommunications Towers”, “—Disposal of E-store and Establishment of Tianyi Capital”, “—Establishment of China Telecom Leasing Corporation Limited”, “—Establishment of China Telecom Group Finance Co., Ltd.”, “—Establishment of E-surfing Smart Home Technology Co., Ltd.” and “—Establishment of E-surfing Internet of Things Technology Co., Ltd.” and “Item 5. Operating and Financial Review and Prospects”.

As of or for the year ended December 31,						
2015 RMB	2016 RMB	2017 RMB	2018 RMB	2019 RMB	2019 US\$	
(in millions, except share numbers and per share and per ADS data)						

Consolidated Statements of Comprehensive Income Data:

Operating revenues	331,517	352,534	366,229	377,124	375,734	53,971
Operating expenses	(305,070)	(325,314)	(339,009)	(348,410)	346,664	49,795
Operating income	26,447	27,220	27,220	28,714	29,070	4,176
Earnings before income tax	26,698	24,116	24,953	28,148	27,034	3,883
Income tax	(6,552)	(5,993)	(6,192)	(6,810)	(6,322)	(908)
Profit attributable to equity holders of the Company	20,058	18,018	18,617	21,210	20,517	2,947
Basic earnings per share ⁽¹⁾	0.25	0.22	0.23	0.26	0.25	0.04
Basic earnings per ADS ⁽¹⁾	24.78	22.26	23.00	26.21	25.35	3.64
Cash dividends declared per share	0.08	0.09	0.09	0.11	0.11	0.02

As of or for the year ended December 31,						
2015 RMB	2016 RMB	2017 RMB	2018 RMB	2019 RMB	2019 US\$	
(in millions, except share numbers and per share and per ADS data)						

Consolidated Statements of Financial Position Data:

Cash and cash equivalents	31,869	24,617	19,410	16,666	20,791	2,986
Accounts receivable, net	21,190	21,465	22,096	20,475	21,489	3,087
Total current assets	78,267	74,134	71,550	73,005	73,182	10,512
Property, plant and equipment, net	374,004	389,671	406,257	407,795	410,008	58,894
Total assets	629,747	652,558	661,194	663,382	703,131	100,998
Short-term debt	51,636	40,780	54,558	49,537	42,527	6,109
Current portion of long-term debt and payable	84	62,276	1,146	1,139	4,444	638
Accounts payable	118,128	122,493	119,321	107,887	102,616	14,740
Total current liabilities	256,074	319,133	275,408	258,920	264,661	38,016
Long-term debt and payable	64,830	9,370	48,596	44,852	32,051	4,604
Deferred revenues (including current portion)	2,482	3,558	3,061	1,829	1,455	209
Total liabilities	324,957	336,210	334,497	319,283	348,091	50,000
Equity attributable to equity holders of the Company	303,823	315,377	325,867	343,069	352,510	50,635

Consolidated Cash Flow Data:

Net cash generated from operating activities	108,755	101,135	96,502	99,298	112,600	16,174
Net cash used in investing activities ⁽²⁾	(102,255)	(99,043)	(85,263)	(85,954)	(77,214)	(11,091)
Capital expenditures ⁽²⁾	(101,903)	(96,678)	(87,334)	(83,835)	(82,853)	(11,901)
Net cash generated from / (used in) financing activities	4,809	(9,555)	(16,147)	(16,283)	(31,288)	(4,494)

(1) The basic earnings per share have been calculated based on the respective net profit attributable to equity holders of the Company in 2015, 2016, 2017, 2018 and 2019 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 29, 2019, a final dividend of RMB8,891 million (RMB0.109851 per share equivalent to HK\$0.125 per share, pre-tax) for the year ended December 31, 2018 was declared, all of which has been fully paid. Pursuant to a resolution passed at the Directors' meeting on March 24, 2020, a final dividend of approximately RMB9,126 million (RMB0.112764 per share equivalent to HK\$0.125 per share, pre-tax) for the year ended December 31, 2019 was proposed for shareholders' approval at the forthcoming annual general meeting for the year of 2019 expected to be held on May 26, 2020.

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, 2019 (RMB6.9618 to US\$1.00 and HK\$7.7894 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, 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 “D. Risk Factors—Risks Relating to the People’s Republic of China—Government restriction on currency conversion may adversely affect our financial condition” under this Item.

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.

We operate in a highly competitive industry, and primarily compete against the other two full-service telecommunications providers in the PRC, namely, China Mobile Limited, or China Mobile, and China Unicom (Hong Kong) Limited, or China Unicom.

In mobile telecommunications services, China Mobile and China Unicom are our top two competitors. As of April 2020, each of China Unicom, China Mobile and us provides 4G services nationwide and has officially launched 5G commercial services in the PRC. In June 2019, China Broadcasting Network Corporation Ltd, or China Broadcasting Network, was granted the 5G permit by the MIIT. While we strive to provide competitive services to meet our subscribers’ evolving needs, we cannot assure you that: (i) our mobile telecommunications services will deliver the quality and levels of services currently anticipated; (ii) we will be able to provide all planned services or we will be able to provide such services on schedule; (iii) there will be sufficient demand for our mobile telecommunications services for us to deliver such services profitably; (iv) our competitors’ services will not be more popular among potential subscribers; or (v) we will not encounter unexpected technological difficulties in developing 5G and future generations of mobile services. The failure of any of these possible developments to occur could impede our growth, which might have a material adverse effect on our business, financial condition and results of operations.

In fixed-line telecommunications services, we compete against China Unicom, China Mobile, CITIC NETWORKS Co., Ltd. and China Broadcasting Network. The entry of China Broadcasting Network into the fixed-line telecommunication market in May 2016 has intensified the competition in this sector, which might have a material adverse effect on our business.

We also face increasing competition from other competitors outside the telecommunications industry, in particular, from Internet services providers and mobile software and application developers, such as Over-the-Top messaging or voice services providers who offer contents and services on the Internet without their proprietary telecommunications network infrastructure. These competitors are competing with us in information and application or voice services. During the past few years, some of our traditional revenue streams, such as our voice services or short message services, or SMS have experienced negative growth, primarily due to the alternative means of communication offered by Over-the-Top messaging becoming increasingly popular among the subscribers. Though the increasing popularity of Over-the-Top messaging has generally contributed to the increase in our Internet data traffic and Internet services revenues, we cannot assure you that our Internet data traffic and Internet services revenue will continue to increase in the future or such increase could fully offset the negative effect of these Over-the-Top services on our voice services or SMS. In addition, we expect that competition from competitors outside the telecommunications industry will intensify and the strategic cooperation between these competitors and telecommunications operators may reshape the competitive landscape of the telecommunications industry in which we operate. Though we strive to maintain our competitiveness through our comprehensive transformation and upgrades strategy, we may encounter difficulties and challenges in addressing changing consumer needs and responding to the evolving competitive landscape.

In addition, the PRC government has taken various initiatives to encourage competition in the telecommunications industry, such as the policy encouraging private capital to enter the industry. For a series of government measures to encourage private capital to invest in telecommunications services that could compete with our services, see “Item 4. Information on the Company—B. Business Overview—Competition”. Furthermore, the PRC government had started mobile number portability pilot programs in certain municipalities and provinces. On November 11, 2019, the MIIT promulgated the Notice of the Ministry of Industry and Information Technology on Printing and Publishing the Regulations on the Management of Mobile Number Portability Service. The Regulations on the Management of Mobile Number Portability Service became effective on December 1, 2019. By the end of November 2019, the mobile number portability services have been implemented nationwide. 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.

We face uncertainties in the development and operation of our 5G business, and if we fail to address such uncertainties, our business, prospects and results of operations may be materially and adversely affected.

In June 2019, the MIIT granted the 5G permit to China Telecom Group, China Mobile Communications Group Co., Ltd. (formerly known as China Mobile Communications Corporation) (“China Mobile Group”), China United Network Communications Group Company Limited (formerly known as China United Telecommunications Corporation) (“Unicom Group”) and China Broadcasting Network. The MIIT has allocated the 3400-3500MHz frequency bands to China Telecom Group, the 2515MHz-2675MHz and 4800MHz-4900MHz frequency bands to China Mobile Group, the 3500-3600MHz frequency bands to Unicom Group, respectively, for nationwide 5G programs, and the 4900MHz-5000MHz to China Broadcasting Network for 5G trials. In February 2020, the MIIT approved China Telecom Group, Unicom Group and China Broadcasting Network to share the 3300-3400MHz spectrum to build indoor 5G. In March 2020, the MIIT repurposed the use plan for 700MHz frequency bands to mobile communications. We have been authorized by China Telecom Group to develop 5G business nationwide.

In September 2019, in order to build a 5G network on an efficient basis and to rapidly create our 5G service capabilities, we entered into a 5G Network Co-Build and Co-Share Framework Cooperation Agreement with China United Network Communications Corporation Limited (“CUCL”) (the “5G Cooperation Agreement”). For more details, see “Item 4. Information on the Company—B. Business Overview—Network System—Co-building and co-sharing of 5G network with China Unicom”. Pursuant to the 5G Cooperation Agreement, both parties will delineate and designate districts, jointly co-build one 5G access network nationwide. We will rely on China Unicom’s network to provide our 5G services in the regions for which they are responsible. If the 5G network co-building and co-sharing construction progress falls behind the mutually agreed plan or our subscribers are unsatisfied with the network quality in such regions and turn to our competitors, our business and results of operations might be adversely impacted.

With the gradual maturity of conditions for 5G commercialization, on October 31, 2019, we officially launched 5G commercial services in 50 cities nationwide based on market-oriented judgment, and created a membership-based innovative service model of “5G + Privileges + Applications” for individuals and 5G service combining “5G + Gigabit Broadband + Smart Family Applications” for households. As of March 31, 2020, the number of 5G package subscribers was approximately 16.6 million. For more details of our 5G operations, see “Item 4. Information on the Company—B. Business Overview”.

The network deployment, construction of infrastructure and commercialization of 5G require us to devote significant financial resources and operational efforts, and we have been exploring optimal business models for our 5G business. However, there are significant uncertainties in the prospects of 5G developments and operations, including the competitiveness of 5G products and services, supplies and pricing of 5G terminals, the development of 5G Standalone, or 5G SA industry chain, capital expenditures in constructing 5G base stations, our suppliers’ ability to provide 5G equipment as well as future 5G technology application scenarios. If we are unable to appropriately address such uncertainties, it may adversely impact future benefits of our 5G business, which may materially and adversely affect our business, prospects and results of operations.

Our operations and further development of our mobile business is dependent on the Tower Company.

In July 2014, the Company, CUCL and China Mobile Communication Company Limited (“CMCL”) made the decision to jointly establish China Communications Facilities Services Corporation Limited (currently known as China Tower Corporation Limited, the “Tower Company”), and carried out the establishment of Tower Company and the transfer of certain tower assets. Upon completion of the transfer of tower assets by the Company to the Tower Company, the Company and the Tower Company entered into the Lease Agreement on July 8, 2016 that sets forth the pricing and related arrangements in relation to the lease of telecommunications towers and related assets (including both acquired towers and new towers). On February 1, 2018, the Company and the Tower Company entered into a supplemental agreement, effective from January 1, 2018, on the basis of the original Lease Agreement mainly to adjust the relevant pricing arrangement of tower products under the Lease Agreement. See “Item 4. Information on the Company—A. History and Development of the Company—Establishment of the Tower Company and the Disposal and Lease of the Telecommunications Towers”.

The Tower Company has been and will continue to be of significant importance to the operations and further development of our mobile business and our results of operations. Construction of new tower assets has been carried out by the Tower Company since the completion of the transfer of tower assets and, in principle, we expect the Tower Company will continue to carry out the construction of new tower assets in the future. Therefore, our mobile business has depended on and will continue to depend on the lease arrangement between us and the Tower Company. However, since we do not control the Tower Company, we cannot assure you that it will act in the best interests of us or the services of the Tower Company can sufficiently support our business needs and future plans.

The Lease Agreement, as may be further supplemented and amended from time to time, provides for pricing adjustment mechanism under which the fees may be further negotiated or agreed upon after considering effects of inflation, significant fluctuations in the real estate market or the steel price, many of which are beyond our control, and such pricing adjustment mechanism may result in a further adjustment of the fees charged to us by the Tower Company in the future. Furthermore, prior to the expiration of lease periods of individual towers, we have to negotiate with the Tower Company new leases of such tower, we cannot assure you that we will be able to enter into new leases at all or on favorable terms with the Tower Company. Due to our reliance on Tower Company for tower assets, if we fail to use the relevant tower assets at our desired locations and on terms and conditions that are favorable to us to maintain or expand our mobile network coverage, or if we cannot receive quality and stable services in a timely and economically viable manner from the Tower Company, the operations and further growth of our mobile business as well as our financial condition and results of operations may be materially and adversely affected.

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 state-owned enterprise owned approximately 70.89% of our outstanding shares as of April 23, 2020. 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 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 voice, Internet and other services requires interconnection between our networks and those of China Telecom Group, Unicom Group, China Mobile Group and other domestic, international and Hong Kong, Macau and Taiwan telecommunications operators. Any interruption in our interconnection with the networks of those domestic, international or Hong Kong, Macau and Taiwan 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 transform our Company into a leading integrated intelligent 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 cloud computing, Internet of Things, artificial intelligence and blockchain, present new challenges to our existing services and technologies. 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. Moreover, the successful deployment and application of such cutting edge technologies depend on a number of factors, including the integration of legacy networks and cloud security related challenges. 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.

Our ability to respond to technological developments in a cost-efficient manner may also be adversely affected by external factors, some of which are beyond our control. For example, the development in 5G technology is expected to have a major impact on our services. See “—We face uncertainties in the development and operation of our 5G business, and if we fail to address such uncertainties, our business, prospects and results of operations may be materially and adversely affected” under this Item. In addition, we have been taking the initiatives to explore the feasibility of collaborative development of 5G and 4G. If our efforts turn out to be unsuccessful, our ability to attract and retain subscribers could be adversely affected.

Restrictions, sanctions and other legal or regulatory actions in various jurisdictions could adversely affect us, our telecommunications equipment suppliers and other business partners, which could materially and adversely affect our business operations directly and indirectly.

We procure our telecommunications network equipment and related maintenance and technical support from certain PRC and overseas telecommunications equipment suppliers. See “Item 4. Information on the Company—B. Business Overview—Network System”. We also transact with our overseas branches, as well as our business partners who operate globally. Therefore, both we and our business partners are subject to the laws and regulations of various jurisdictions and international organizations, and any restrictions, sanctions or other legal or regulatory actions, such as restrictions on import and export activities, could cause disruptions or other material difficulties on the business activities of our suppliers and us. The relevant jurisdictions or international organizations include, among others, the United States, the European Union (“EU”) and the United Nations. Furthermore, as the supply of our telecommunications equipment relies on a global supply chain, we are vulnerable to significant disruptions in the supply of parts and other items that are necessary for the relevant manufacturing activities.

For example, certain telecommunications equipment manufacturers were added by the Bureau of Industry and Security of the U.S. Department of Commerce to the Entity List in May 2019, which resulted in the imposition of additional licensing requirements on the export, re-export and transfer of goods, services and technology to such manufacturers. While the U.S. Department of Commerce issued a temporary general license partially restoring the said licensing requirements in limited types of transactions and extended the expiration dates of the temporary license for multiple times, there is no guarantee that the U.S. Department of Commerce will further extend the expiration date of the temporary license or fully withdraw the licensing requirements. Such disruptions could prevent those affected manufacturers from delivering equipment and services to us in accordance with the agreed terms of supply, which in turn could negatively affect our business operations. We may not be able to find suitable alternative suppliers for the affected equipment in a timely manner. Even if we are able to find alternative suppliers, the commercial terms may not be comparable, and we could therefore be subject to a higher procuring cost. Furthermore, if any of our suppliers raises their prices due to an increase in international trade tariffs, we could be subject to a higher cost in procuring the relevant products. We may experience a significant delay in implementing the part of our business plans that relies on delivery of the affected network equipment and difficulties in timely improving our services that rely on those suppliers for upgrading our networks and related software and applications. Any of these and other consequences could materially adversely affect our business, results of operations, financial condition and prospect and cause a significant volatility in and a decline in our share price.

Our business may be materially and adversely affected by COVID-19 pandemic or future health epidemics, pandemics or outbreaks.

The World Health Organization declared the outbreak of COVID-19 a pandemic on March 13, 2020. COVID-19 pandemic has caused significant economic and financial impact around the world. At this time, we are not able to estimate the longer-term effects that COVID-19 pandemic could have on our business. The extent to which the COVID-19 pandemic impacts our business, financial condition, results of operations will depend on future developments which are highly uncertain and cannot be predicted, including the specific degree of severity of COVID-19 pandemic and the actions taken or to be taken to restrain or resolve its impact. We are continuing to monitor the spread of COVID-19 and related risks.

Due to the outbreak of COVID-19, the Chinese government implemented domestic temporary control measures from late January 2020 and it has been gradually easing such control measures since March 2020. Despite the Chinese government’s many efforts to revive China’s economy, China’s economy experienced an evident slowdown and will continue to face new difficulties and challenges due to the spread of the pandemic, increasing risk of imported cases and heightened volatility and uncertainties in the global economy.

In addition, COVID-19 pandemic has been rapidly evolving globally and many countries have implemented quarantine, social distancing and other mitigation measures to slow down the spread. The outbreak of COVID-19 pandemic has severely impacted global economic activities and caused significant volatility and negative pressure in the financial markets.

The outbreak of COVID-19 pandemic and other adverse public health developments could materially and adversely affect our business, financial condition and results of operations. The adverse impacts likely include disruptions to the demand of certain services and products such as international roaming services and services provided to corporate clients, a decline in network service quality due to the increased volume of online utilization, temporary closures of our sales outlets and a decline in new subscriber registration due to such closures, disruptions to the delivery of services or supplies and delay in network construction progress due to travel and other restrictions, decline in labor force and increased bad debts risk due to the deteriorating financial condition of certain corporate customers. In addition, we have transitioned a subset of our employees to a remote work environment and allowed certain suppliers to remotely provide services in an effort to mitigate the spread of COVID-19, which may increase certain costs and risks to our business and operations, including an increased demand for information technology resources.

We may be adversely affected by future health epidemics, pandemics or outbreaks which are beyond our control. These events are impossible to forecast and difficult to mitigate. Any of these events might have a material adverse effect on our results of operations and financial condition. See “—Risks Relating to the People’s Republic of China—The PRC’s economic, political and social conditions, as well as government policies, could affect our business” under this Item.

Cyber security breaches could have a material adverse effect on our operations.

We rely on information technology systems to process, transmit, store, and protect electronic information. As a telecommunications operator, we are considered a critical information infrastructure operator under the relevant PRC law and therefore are subject to the regulations designed to protect critical information infrastructure and therefore may be more likely to be targeted by cyber attack activities. Our information technology systems may be vulnerable to a variety of interruptions due to events beyond our control, including, but not limited to, cyber attacks, computer viruses, hackers, telecommunications failures, natural disasters, terrorist attacks, and other security issues. We have technology and information security processes and disaster recovery plans in place to mitigate our risks to these vulnerabilities. However, these measures may not be adequate to ensure that our operations will not be disrupted, should such an event occur.

Increasing regulatory focus on personal information protection could impact our business and expose us to increased liability.

Regulators in various jurisdictions are increasingly scrutinizing how companies collect, process, use, store, share and transmit personal data. Recent regulations, such as the General Data Protection Regulation (“GDPR”), which went into effect in the EU on May 25, 2018, applies to the collection, use, retention, security, processing, and transfer of personally identifiable information of residents of EU countries. The GDPR created a range of new compliance obligations, and imposes significant fines and sanctions for violations. Although we have not been subject to any GDPR sanctions and have subscriber privacy policy in place, it is possible that the GDPR or other emerging regulations may be interpreted or applied in a manner that is adverse to us. Any failure, or perceived failure, by us to comply with any applicable regulatory requirements or orders, including but not limited to privacy, data protection, information security, or consumer protection-related privacy laws and regulations, could result in proceedings or actions against us by governmental entities or individuals, subject us to fines, penalties, and/or judgments, or otherwise adversely affect our business, as our reputation could be negatively impacted.

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 cyber attacks, including, among others, unauthorized access, denial of service and use of malicious software. In addition, cyber attacks may cause equipment failures, loss of information, including confidential or otherwise protected information stored in our customers’ computer systems and mobile phone systems, failure or perceived failure to comply with applicable privacy, security, or data protection laws or regulations, as well as disruptions to our operations or our customers’ operations. We have devoted significant resources to network security, data security and other security measures to protect our systems and data, but 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. Furthermore, it is difficult to estimate or calculate the economic costs caused by potential cyber security incidents and maintain sufficient insurance coverage relating to them at commercially reasonable rates and terms, as the costs may differ based on the identity and motive of the programmer or hacker, which are often difficult to identify. Thus, the economic costs to us to eliminate or alleviate cyber attacks could be significant. 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. Cyber attacks may also subject us to litigations, liabilities for information loss, breach of confidentiality of private information, and/or reputational damage. While, to date, we have not been subject to cyber attacks which, individually or in the aggregate, have been material to our operations or financial condition, we cannot assure you that we will not experience them in the future. Due to the evolving nature of cyber security threats, the scope and impact of any future incident cannot be predicted. While we continually work to safeguard our systems and mitigate potential risks, there is no assurance that such actions will be sufficient to prevent cyber attacks or security breaches that manipulate or improperly use our systems or networks, compromise confidential or otherwise protected information, destroy or corrupt data, or otherwise disrupt our operations. The occurrence of such events could have a material adverse effect on our financial condition and results of operations.

In addition, because we provide connections to the Internet and host websites for customers and develop Internet information and applications, we may be perceived as being associated with the content carried over our network or displayed on websites that we host. We are not able to 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.

Furthermore, we rely on proper operation and maintenance of our equipment. Any malfunction, capacity constraint or operation interruption of our equipment may have an adverse impact on our business.

Any failure to achieve and maintain effective internal controls could have a material adverse effect on our reputation, business, results of operations and the market prices of our shares and ADSs.

Effective internal controls are necessary for us to provide reasonable assurance with respect to our financial reports and to prevent fraud. We are required to comply with various PRC, U.S. and Hong Kong laws, rules and regulations on internal controls, including the Sarbanes-Oxley Act of 2002. In particular, Section 404 of the Sarbanes-Oxley Act of 2002 requires that we include a report of management on our internal control over financial reporting in our annual reports on Form 20-F that contains an assessment by our management of the effectiveness of our internal control over financial reporting. In addition, our independent registered public accounting firm must issue an auditor's report on the effectiveness of our internal control over financial reporting.

Internal controls may not prevent or detect misstatements because of their inherent limitations, including the possibility of human error, the circumvention or overriding of controls, or fraud. As a result, even effective internal controls are able to provide only reasonable assurance with respect to the preparation and fair presentation of financial statements. Any of the possible failure in maintaining the effective internal control over financial reporting could result in a decline of investor confidence in the reliability of our consolidated financial statements, which could cause the market prices of our ordinary shares and ADSs to fluctuate.

Revenues derived from our voice services may continue to decline, which may adversely affect our results of operations, financial condition and prospects.

Revenues from our voice services continued to decline during the past several years. Our revenues from voice services decreased by 17.6% from RMB61,678 million in 2017 to RMB50,811 million in 2018 and further decreased by 11.1% to RMB45,146 million in 2019. Percentage of revenues derived from our voice services out of our total operating revenues also continued to decrease, from 16.8% in 2017 to 13.5% in 2018 and 12.0% in 2019.

Of revenues from our voice services, revenues from wireline voice services decreased by 11.4% in 2018 compared to 2017 and further decreased by 6.6% in 2019 and the percentage of revenues derived from our wireline voice services out of our total operating revenues also continued to decrease, from 6.1% in 2017 to 5.2% in 2018 and 4.9% in 2019. This is primarily due to the fact that we continued to lose wireline telephone subscribers resulting from the increasing popularity of mobile voice services and other alternative means of communication, such as Over-the-Top messaging services. The number of our wireline telephone subscribers decreased by 4.4% at the end of 2018 compared to that at the end of 2017 and further decreased by 4.8% at the end of 2019.

Revenues from our mobile voice services decreased by 21.1% in 2018 compared to 2017 and further decreased by 14.0% in 2019 and the percentage of revenues derived from our mobile voice services out of our total operating revenues also continued to decrease, from 10.7% in 2017 to 8.3% in 2018 and 7.1% in 2019. In recent years, while the number of subscribers of our mobile services has continued to grow, due to the increasing popularity of alternative means of communication and the continued decrease in our tariffs for mobile voice services, revenues from our mobile voice services still continued to decrease.

We cannot assure you that we will be successful in slowing down the decline of our revenues generated from voice services. Migration from voice services to other alternative means of communication may further intensify and tariffs for voice services may further decrease in the future, which may affect the financial performance of our voice services and thus adversely affect our results of operations, financial condition and prospects as a whole.

Revenues derived from our wireline broadband services may continue to decline, which may adversely affect our results of operations, financial condition and prospects.

Revenues from our wireline broadband services continued to decline during the past several years. Our revenues from wireline broadband services decreased by 3.2% from RMB76,744 million in 2017 to RMB74,262 million in 2018 and further decreased by 7.9% to RMB68,413 million in 2019. Percentage of revenues derived from our wireline broadband services out of our total operating revenues also continued to decrease, from 21.0% in 2017 to 19.7% in 2018 and 18.2% in 2019. This is primarily due to increasing broadband penetration rates and fierce market competition.

We cannot assure you that we will be successful in slowing down the decline of our revenues generated from wireline broadband services. Wireline broadband market competition may further intensify and tariffs for wireline broadband may further decrease in the future, which may adversely affect our results of operations, financial condition and prospects as a whole.

We may suffer damage to our reputation due to communications fraud carried out on our network.

Communications fraud, in which a person defrauds another by means of telecommunications technologies including SMS, telephone, and Internet, poses a risk to us. If communications fraud is committed over our network, we may incur liability as a result of the inadequacy in our measures to prevent such fraud. On September 23, 2016, six departments including the Supreme People's Court, the Supreme People's Procuratorate, the Ministry of Public Security, the MIIT, the People's Bank of China and the China Banking Regulatory Commission jointly released the Announcement on Preventing and Cracking Down on Telecom and Internet Frauds (关于防范和打击电信网络诈骗犯罪的通告), on December 19, 2016, the Supreme People's Court, the Supreme People's Procuratorate and the Ministry of Public Security jointly issued the Opinions on Several Issues concerning the Application of Law to the Handling of Criminal Cases Involving Telecom and Internet Frauds (关于办理电信网络诈骗等刑事案件适用法律若干问题的意见), and on October 25, 2019, the Supreme People's Court and the Supreme People's Procuratorate released the Interpretation on Several Issues concerning the Application of Law in Handling Criminal Cases Involving Crimes of Illegally Using an Information Network or Providing Aid for Criminal Activities in Relation to Information Network (最高人民法院、最高人民检察院关于办理非法利用信息网络、帮助信息网络犯罪活动等刑事案件适用法律若干问题的解释).

We have implemented various measures, including, strictly demanding real name registration and strengthening business management, among others, to prevent and crack down on communications fraud. However, there is no assurance that such measures will prevent communications fraud effectively. Communications fraud as a result of our failure in implementing the real name registration measure may result in claims being brought against us and may damage our reputation and could have an adverse effect on our business and results of operations.

Our license to provide telecommunications services in the United States may be subject to actions by the relevant authorities in the United States and we cannot assure you whether we will be able to maintain that license in the future.

Our wholly owned subsidiary, China Telecom (Americas) Corporation provides telecommunications services in the United States pursuant to the license previously issued to it by the United States Federal Communications Commission, or the FCC, under Section 214 of the Communications Act of 1934 ("International 214 License").

On April 4, 2020, the President of the United States issued an executive order for the establishment of a committee to review foreign participation in the telecommunications services in the United States. On April 9, 2020, The U.S. Justice Department and other federal agencies called on the FCC to revoke China Telecom (Americas) Corporation's International 214 License. On April 24, 2020, the FCC issued a Show Cause Order to China Telecom (Americas) Corporation providing it 30 days to explain why the FCC should not initiate proceedings to revoke its authority to operate in the U.S. We will continue to cooperate with the regulators by providing additional details to support our position and address any concerns; however, we cannot assure you that the telecommunications services we provide in the United States and our International 214 License will not be adversely affected. Despite that the revenues from the telecommunications services we provide in the United States in recent years have not been significant to our overall operations and financial results, losing our International 214 License would have an adverse effect on our operations in North America and may also harm our reputation.

Our success depends on the continued services of our senior management team and other qualified employees.

Our continued success and growth depends on our ability to identify, hire, train and retain suitably skilled and qualified employees, including management personnel, with relevant professional skills. The services of our Directors and members of senior management are essential to our success and future growth. As we have to compete for a limited supply of qualified employees, such as managerial, sales, administration, research and development and operating personnel with adequate skills and experience, in China, we may not be able to successfully attract, assimilate or retain all of the personnel we need. We may also need to offer superior compensation and other benefits to attract and retain key personnel and therefore cannot assure you that we will have the resources to fully achieve our staffing need. Due to the intense competition for management and other personnel and qualified employees in the telecommunications industry in mainland China, any failure to recruit and retain the necessary management personnel and other qualified employee could have a material adverse effect on our business and prospects.

We may not be able to effectively detect or prevent misconduct of our executives and other employees, which could adversely harm our reputation and negatively impact our financial conditions and results of operations as well as the trading price of our securities.

We are exposed to the risk of misconduct by executives and other employees and we have experienced incidents of executive misconduct in the past. In May 2017, Mr. Chang Xiaobing, the former Chairman of China Telecom Group was sentenced to six years of imprisonment over corruption charges. 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. In September 2017, Mr. Zhen Caiji, the former Executive Vice President of the Company was expelled from the Communist Party of China and dismissed from public service for serious disciplinary violations and was under investigation of suspected criminal violations. Mr. Zhen was appointed as an executive vice president of the Company on November 4, 2016 and resigned from the position of executive vice president of the Company on May 22, 2017. Prior to his resignation, Mr. Zhen had worked at the Company for seven months. In response to executive misconducts, we have taken various measures to identify and deter employee misconduct and have adopted a code of conducts and ethics of employees. However, we cannot assure you that these measures will be effective in detecting or preventing all employee misconduct. The publicity of the investigation and/or prosecution against our employees or former employees 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 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 as well as competition, and may have a material adverse effect on our profitability and results of operation.

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;
- tariff policies;
- 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. For example, the PRC governmental authorities have promulgated various regulations, rules, guidance opinions and other directives regarding network speed upgrade and tariff reduction. 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. As a result, we carried out a series of measures, including launching the upgrade service in October 2015 which allowed handset data subscribers who subscribe to our monthly data packages to rollover the unused data remaining in the monthly packages to the next month. In addition, we ceased to charge handset subscribers domestic long distance and roaming fees on and from September 1, 2017. Meanwhile, we have significantly reduced the fees of international, Hong Kong, Macau and Taiwan long distance calls since May 1, 2017 and also have reduced the tariff of Internet dedicated line access for small and medium enterprises.

On March 5, 2018, the Government Work Report presented in the first plenary session of the 13th National People's Congress of the PRC included certain policy requirements regarding network speed upgrade and tariff reduction, including requirements to: (i) increase efforts in implementing network speed upgrade and tariff reduction measures; (ii) achieve full coverage of high-speed broadband in cities and rural areas; (iii) expand the coverage of free Wifi Internet access in public areas; (iv) substantially reduce the tariffs of household broadband, corporate broadband and dedicated leased line; (v) cancel data roaming fee; and (vi) reduce mobile data tariff by at least 30% in 2018. In 2018, we implemented corresponding measures in due course to meet such policy requirements, including (i) starting July 1, 2018, we canceled data roaming fee within mainland China; (ii) we launched "large data traffic packages" to reduce the unit price of data traffic products; (iii) we further reduced the tariff for international roaming charges in various countries and regions; (iv) we carried out broadband upgrade by promoting Hundred-Mbps broadband; and (v) we reduced the tariff of Internet dedicated line access and commercial dedicated line access for small and medium enterprises.

On March 5, 2019, the Government Work Report presented in the second plenary session of the 13th National People's Congress of the PRC included policy requirements regarding further promotion of network speed upgrade and tariff reduction. Such requirements include a 15% further reduction in the average broadband tariff for small and medium enterprises and a more than 20% reduction in the average tariff of mobile network in 2019. In 2019, we implemented corresponding measures in due course to meet such policy requirements, including (i) starting January 1, 2019, we reduced out-of-package data tariff; (ii) we enhanced the promotion of large data traffic packages, enabling more subscribers to enjoy data traffic with lower unit tariff; (iii) we launched discounted traffic packages to serve the needs for specific subscribers; and (iv) starting May 1, 2019, we further reduced the tariff of Internet dedicated line access, and carried out free speed upgrade programs for qualified small and medium enterprise subscribers.

Though we strive to sustain our competitive advantages through various initiatives, our revenues and profitability may be affected by these requirements on network speed upgrade and tariff reduction. We may also have to devote substantial resources, incur significant expenses and make strategic adjustment of business and operation strategies in order to meet these requirements and maintain our competitive advantages. Failure to effectively respond to such evolving standards in a timely and cost-efficient manner may materially and adversely affect our business, financial condition and results of operations. In addition, we may face further policy requirements imposed by the PRC government on network speed upgrade and tariff reduction in the future. Any such requirements could materially and adversely affect our revenues, profitability and results of operations.

In China, the regulatory framework governing the collection, processing, storage and use of business information and personal data is rapidly evolving. For example, the Cyber Security Law of the People's Republic of China ("Cyber Security Law") came into force on June 1, 2017, which sets forth the general framework regulating network products, equipment and services, as well as the operation and maintenance of information networks, the protection of personal data, and the supervision and administration of cyber security in China. In 2018, the PRC Government also published Information Security Technology—Personal Information Security Specification (信息安全技术个人信息安全规范), setting forth detailed guidelines on the collection, utilization and retention of personal information and privacy protection. On November 28, 2019, the Cyberspace Administration of China, or the CAC, the MIIT, the Ministry of Public Security, and the State Administration for Market Regulation of the PRC jointly formulated the Method for Identifying the Illegal Collection and Use of Personal Information by Applications (App违法违规收集使用个人信息行为认定方法), which explicitly sets out the specific methods of identifying six types of illegal behaviors of collecting and using personal information through applications. If we are unable to respond to changing laws, regulations, policies and guidelines related to privacy or cyber security, our business, financial condition, results of operations and prospects may be materially and adversely affected.

Moreover, on December 1, 2016, the amended PRC Regulations on the Management of Radio Operation (中华人民共和国无线电管理条例) came into effect. The amended provision provided that a permit is required for using certain radio frequencies, which may be obtained through a bidding process or auctions. As such, we may incur additional costs in the future when we need to obtain the permit to use certain radio frequencies. 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 "—Risks Relating to our Business—We face increasing competition, which may materially and adversely affect our business, financial condition and results of operations" under this Item.

Furthermore, PRC telecommunications services providers operating in other jurisdictions are also subject to the licensing and other regulatory requirements and supervision of the relevant foreign government agencies. See "—Risks Relating to our Business—Our license to provide telecommunications services in the United States may be subject to actions by the relevant authorities in the United States and we cannot assure you whether we will be able to maintain that license in the future" under this Item.

The regulations and policies that govern the telecommunications industry in the PRC have experienced continuous changes in the past several years. 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, 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 "Coverage to All Villages" and the "Broadband China" projects before the establishment of a universal service fund. See "Item 4. Information on the Company—B. Business Overview—Regulatory and Related Matters—Universal Services". However, the compensation from the PRC government may not be sufficient to cover all of our expenses for providing the telecommunications services under the "Coverage to All Villages" and the "Broadband China" 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 adversely affected.

Actual or perceived health risks associated with the use of mobile devices could impair our ability to retain and attract customers of our mobile services, reduce mobile service usage or result in litigation.

Concerns have been expressed in some countries that the electromagnetic signals emitted by wireless telephone handsets and base stations may pose health risks at exposure levels below existing guideline levels, and interfere with the operation of electronic equipment. While we comply with applicable standards for radio frequency emissions and we are not aware that such health risks have been substantiated, there can be no assurance that the actual, or perceived, risks associated with the transmission of electromagnetic signals will not impair our ability to retain customers and attract new customers, significantly reduce mobile service and wireless communications usage or result in litigation.

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 40 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 40 years, the economic growth of the PRC has experienced a marked slowdown in the past few years and may continue to slow down. For example, the GDP growth rate of the PRC decreased from 10.6% in 2010 to 6.1% in 2019. There is no assurance that the economy of the PRC will continue to grow at a similar rate.

In addition, the outbreak of the COVID-19 pandemic and its impact might cause a global recession and an evident slowdown in the economic development in many countries and China might not be able to avoid being affected by such development. The global economy may continue to deteriorate in the future and might have an adverse impact on the PRC economy. As the PRC is increasingly connected with the rest of the world, any slowdown or decline of global economy might adversely impact the PRC economy in various respects, including reduction in exports, decreased consumer spending, higher unemployment levels, declined business confidence and continued volatility in financial markets. Any significant slowdown or decline in the PRC economy might have a material adverse impact on the PRC telecommunications industry as well as our business and operations, including decreased demand for, or delayed purchase of, our services and products, especially with regard to non-essential items, such as value-added or premium services.

We are subject to reviews and inspections by governmental authorities and regulatory agencies.

Certain Chinese regulatory authorities may conduct compliance checks on us in accordance with relevant laws and regulations. These reviews and inspections could cover a broad range of aspects in relation to our business and operations. We cannot predict the impact of any findings of these reviews and inspections, and we cannot assure you that the outcome of any such reviews and inspections would not have a material adverse effect on our business, financial condition, results of operations and prospects.

Government restriction on 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, or SAFE, 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 but not limited to 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 or registration with SAFE or certain banks designated by SAFE, as applicable. 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. For example, the recent COVID-19 pandemic has led to disruption and volatility in the global financial markets, which may increase uncertainties in the foreign exchange markets and also fluctuations in the value of the Renminbi. On July 21, 2005, the People's Bank of China 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 People's Bank of China 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. On August 11, 2015, the People's Bank of China announced that the mid-point exchange rate for the floating range of Renminbi against the U.S. dollar will be determined based on market maker submissions that take into account the Renminbi-U.S. dollar exchange rate at the previous day's closing of the inter-bank spot foreign exchange market, the supply and demand dynamics and the movements of other major currencies. With the development of the foreign exchange market and progress towards interest rate liberalization and Renminbi internationalization, the People's Bank of China may in the future announce further changes to the exchange rate system and there is no guarantee that the Renminbi will not appreciate or depreciate significantly in value against the U.S. dollar in the future. There is uncertainty in the exchange rate of the Renminbi against the U.S. dollar in the future.

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 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. We do not currently engage in any foreign currency hedging activities.

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. With the continuous development of the Chinese economy, the PRC government has promulgated laws and regulations dealing with economic matters, such as issuance and trading of securities, foreign investment, corporate organization and governance, commerce, taxation and trade, with the aim of forming a comprehensive business legal system. However, because many related laws and regulations are relatively new, and because of the rapid development in the PRC telecommunications industry, the impact of these laws and regulations on the rights and obligations of relevant persons involves 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. The amended PRC Company Law provides that shareholders, under certain circumstances, may sue the directors, supervisors and senior management on behalf of the corporation. Furthermore, the Supreme People’s Court issued judicial interpretations on the aforementioned provisions in the PRC Company Law, i.e., Provisions of the Supreme People’s Court on Issues Concerning the Application of the PRC Company Law (I) and (IV) (最高人民法院关于适用《中华人民共和国民事诉讼法》若干问题的规定(一)和(四)) in April 2006 and August 2017, respectively. However, our minority shareholders may not be able to enjoy protections to the same extent as to shareholders of companies incorporated under the state laws of the United States.

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

You may experience difficulties in effecting service of legal process and enforcing judgments against us and our management, and the ability of U.S. authorities to bring action in China may also be limited.

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, you may not have the ability to seek certain legal remedies in U.S. courts as private plaintiffs. Even if you sue successfully in a U.S. court or any of the other jurisdictions mentioned above, you may not be able to collect on such judgment against the Company or our Directors and officers. You may have to rely on domestic legal remedies that are available in the PRC. 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. In addition, the SEC, the U.S. Department of Justice and other U.S. authorities may have difficulties in bringing and enforcing actions against us or our Directors and officers in China.

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. See “—Risks Relating to Our Business—Our business may be materially and adversely affected by COVID-19 pandemic or future health epidemics, pandemics or outbreaks” under this Item. In 2019, certain areas of mainland China suffered from natural disasters, including a 6.0 magnitude earthquake struck Changning County, Sichuan Province, super typhoon “Lekima” hit multiple provinces and cities, multiple landslides in Wenchuan of Sichuan Province and Yanjing of Yunnan Province, which resulted in significant damage to the telecommunications equipment in the affected areas. We have suffered damage from similar nature disasters in the past years. 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 severe natural disasters or health hazards 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.

On December 7, 2018, the SEC and the PCAOB issued a joint statement highlighting continued challenges faced by the U.S. regulators in their oversight of financial statement audits of U.S.-listed companies with significant operations in China. On November 4, 2019, the SEC announced that SEC and PCAOB had dialog with the “Big Four” accounting firms, which emphasized the need for effective and consistent global firm oversight of member firms, including those operating in China. On February 19, 2020, the SEC and the PCAOB further issued a joint statement on continued dialog with “Big Four” accounting firms on audit quality in China, highlighting that PCAOB continues to be prevented from inspecting the audit work and practices of PCAOB-registered audit firms in China on a comparable basis to other non-U.S. jurisdictions. However, it remains unclear what further actions the SEC and PCAOB will take to address the problem.

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. As part of a continued regulatory focus in the United States on access to audit and other information currently protected by national law, in particular PRC laws, in June 2019, a bipartisan group of lawmakers introduced the Ensuring Quality Information and Transparency for Abroad-Based Listings on our Exchanges Act, or the EQUITABLE Act, in both houses of the U.S. Congress to require the SEC to maintain a list of issuers for which the PCAOB is not able to inspect or investigate an auditor report issued by a foreign public accounting firm. The EQUITABLE Act prescribes increased disclosure requirements for these issuers and, beginning in 2025, the delisting from U.S. national securities exchanges (including the New York Stock Exchange) of issuers included on the SEC’s list for three consecutive years. It is unclear if and when this proposed legislation would be enacted. Enactment of this legislation or other efforts to increase U.S. regulatory access to audit information could cause investor uncertainty for affected issuers, including us, and the market price of our ADSs could be adversely affected.

If the settlement 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 U.S.-listed companies, is not or cannot be performed in a manner acceptable to authorities in China and the U.S., 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 China Securities Regulatory Commission (“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). Under the terms of the settlement, the underlying proceeding against the four PRC-based accounting firms was deemed dismissed with prejudice at the end of four years starting from the settlement date, which was February 6, 2019. We cannot predict if the SEC will further challenge the four PRC-based accounting firms’ compliance with U.S. law in connection with U.S. regulatory requests for audit work papers or if the results of such a challenge would result in the SEC imposing penalties such as suspensions. If additional challenges are imposed on the Chinese affiliates of the “Big Four” accounting firms, we could be unable to timely file future financial statements in compliance with the requirements of the Exchange Act.

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. In addition, 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. These could lead to possible 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. 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.

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 basic telecommunications business and the rights to operate related value-added telecommunications 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.

Establishment of the Tower Company and the Disposal and Lease 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 was 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 of 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. Upon completion of the disposal of tower assets by the Company to the Tower Company, the Company and Tower Company entered into the Lease Agreement on July 8, 2016 that sets forth the pricing and related arrangements in relation to the lease of telecommunications towers and related assets (including both acquired towers and new towers). On February 1, 2018, the Company and Tower Company entered into a supplemental agreement on the basis of the original Lease Agreement mainly to adjust the relevant pricing arrangement of tower products under the Lease Agreement and such adjustment was effective from January 1, 2018 and expiring on December 31, 2022.

In August 2018, the Tower Company completed its H shares global offering and was listed on the Main Board of The Stock Exchange of Hong Kong Limited. As a result, our equity interest in the Tower Company is diluted from 27.9% to 20.5%.

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, please see “Item 3. Key Information—D. Risk Factors—Risk Relating to Our Business—Our operations and further development of our mobile business is dependent on the Tower Company”. We have leveraged the rich towers resources of the Tower Company to promptly and effectively expand our 4G network coverage and density, and improve our network competitive strength; in the long term, we would benefit from the operations of the Tower Company in the following aspects: (i) we would enhance our long-term profitability by leveraging on the existing tower assets as well as the cooperation made possible by the Tower Company; and (ii) as one of the major shareholders of the Tower Company, we would benefit from its future earnings and value enhancement.

Disposal of E-store and Establishment of Tianyi Capital

On September 25, 2017, the Company entered into a disposal agreement with Besttone Holding Co., Ltd., or Besttone Holding, a subsidiary of China Telecom Group, pursuant to which the Company agreed to sell to Besttone Holding the 100% equity interest in E-store for an initial consideration of RMB249 million, which was concluded based on the valuation of the equity interest in E-store as of March 31, 2017. In addition, an adjustment was made to the initial consideration to arrive at the final consideration based on the change in the book value of the net assets of E-store during the period from March 31, 2017 to the completion date of the disposal. The control of the equity interest in E-store was transferred to Besttone Holding on October 31, 2017. The final consideration was arrived at RMB251 million, among which the initial consideration amounting to RMB249 million was received by us on November 16, 2017.

On November 30, 2017, we set up a wholly-owned subsidiary, Tianyi Capital, which engages in capital investment activities and provision of consulting services. The registered capital of Tianyi Capital is RMB5,000 million.

Establishment of China Telecom Leasing Corporation Limited

On November 30, 2018, we and China Telecom Global Limited jointly established China Telecom Leasing Corporation Limited, which engages in telecommunications equipment procurement, financial leasing and related fund raising operations. The registered capital of China Telecom Leasing Corporation Limited is RMB5,000 million with 75% and 25% equity interest held by us and China Telecom Global, respectively.

Establishment of China Telecom Group Finance Co., Ltd.

On June 22, 2018, we, China Telecommunications Corporation and China Communications Services Corporation Limited (“CCS”, a subsidiary of China Telecommunications Corporation) entered into a capital contribution agreement to jointly establish China Telecom Finance. China Telecom Finance, a non-banking financial institution legally established with the approval of China Banking and Insurance Regulatory Commission, is a limited liability company incorporated in the PRC on January 8, 2019 with the purpose of providing capital and financial management services to the member units of China Telecommunications Corporation. Pursuant to the capital contribution agreement, the registered capital of China Telecom Finance is RMB5,000 million. The Company, China Telecommunications Corporation and CCS respectively contributed RMB3,500 million, RMB750 million and RMB750 million, which respectively represent 70%, 15% and 15% of the total registered capital of China Telecom Finance. Upon its establishment, China Telecom Finance became a non-wholly owned subsidiary of the Company.

On February 1, 2019, China Telecom Finance entered into financial services framework agreements with the Company, China Telecommunications Corporation and CCS, respectively, pursuant to such agreements China Telecom Finance agreed to provide financial services, including deposit services, loan services and other financial services to the Company and its subsidiaries, China Telecommunications Corporation, its associates and its commonly held entity held with the Company and/or its subsidiaries (not including the Company, CCS and their subsidiaries themselves), and CCS and its subsidiaries.

Establishment of E-surfing Smart Home Technology Co., Ltd.

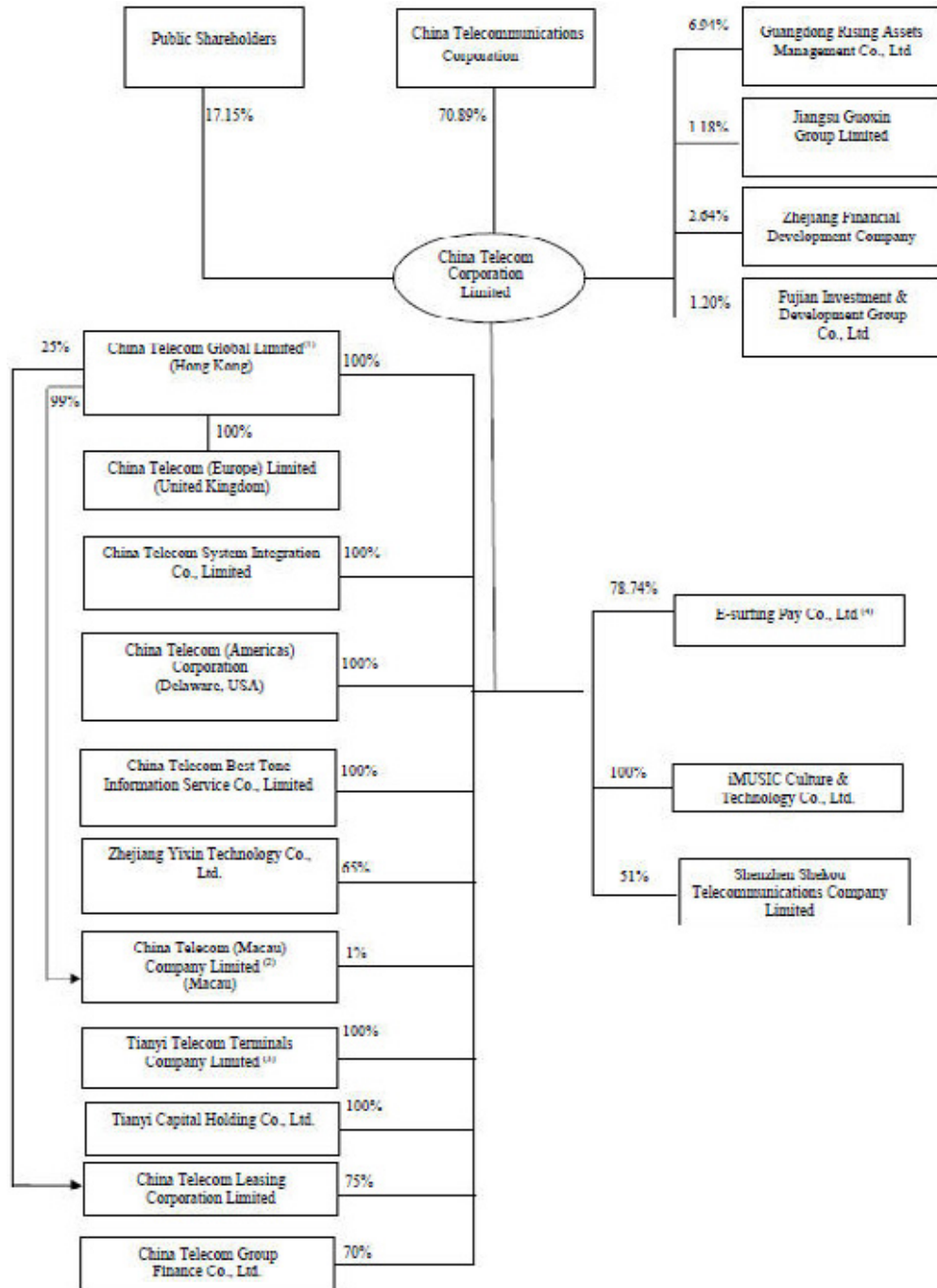
On February 1, 2019, we set up a wholly-owned subsidiary, Smart Home Company, which engages in e-Surfing HD, smart home, home gateway and Smart Home Networking services targeting the Smart Family Ecosystem. The registered capital of Smart Home Company is RMB1,000 million.

Establishment of E-surfing Internet of Things Technology Co., Ltd.

On February 2, 2019, we set up a wholly-owned subsidiary, IoT Company, which engages in the Internet of Things (“IoT”) and Internet of Vehicles services targeting IoT Ecosystem. The registered capital of IoT Company is RMB1,000 million.

Organizational Structure

Set out below is a chart illustrating our corporate structure and significant subsidiaries as of April 23, 2020:



(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.

General Information

Our principal executive offices are located at 31 Jinrong Street, Xicheng District, Beijing, PRC 100033 and our telephone number is (+86-10) 5850-1800. 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 28 Liberty St., New York, New York 10005 as our agent for service of process in the United States.

Our U.S. public filings are available at the website maintained by the SEC at www.sec.gov, which contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

B. Business Overview

We are an integrated intelligent information service provider in the PRC with full-service capabilities. We offer a comprehensive range of telecommunications services, including Internet services, information and application services, voice services, telecommunications network resource and equipment service and other related services. We aim to provide differentiated and innovative services to create value for customers by leveraging on our integrated resources.

In December 2013 and February 2015, the MIIT issued to China Telecom Group, our controlling shareholder, the permit to operate 4G business nationwide based on TD-LTE technology and LTE FDD technology, respectively. We have been authorized by China Telecom Group to operate 4G mobile business in the PRC.

In December 2018, China Telecom Group, our controlling shareholder, was granted the approval from the MIIT to permit China Telecom Group to utilize the 3400-3500MHz spectrum nationwide to conduct fifth generation mobile communication pilot programs. We have been authorized by China Telecom Group to conduct 5G system scale trial in the PRC.

In June 2019, China Telecom Group, our controlling shareholder, was granted the permit from the MIIT to operate 5G digital cellular mobile service nationwide and we have been authorized by China Telecom Group to develop 5G business nationwide. In October 2019, we officially launched the 5G commercial services in 50 cities nationwide offering 5G services to individuals, households and government and enterprise customers.

Our Operation Strategy

In 2019, taking advantage of the invaluable opportunities arising from the digital transformation of the economy and society, as well as 5G commercialization, we accelerated our expansion of integrated information services, consolidated our capabilities in network, service and operation, while continuing to deepen our reform and innovation. We strived to strengthen our capabilities at all levels, while planning future developments on all fronts. In particular:

- Customer-driven and accelerated expansion of integrated information services. Focusing on the flourishing demand among individual customers for informatization services, we seized new opportunities arising from 5G commercialization. With mobile data traffic as the driving force, we broadened our ecological cooperation and created the membership-based individual informatization services model of “5G + Privileges + Applications” to enhance our differentiated market competitiveness in convergence operation. We also proactively planned new household informatization services. The five-in-one Smart Family product and service portfolio—combining Smart Broadband, Smart Home Platform, Smart Applications, Smart Security and Smart Services—began to take shape. Furthermore, we accelerated the extensive integration of emerging technologies into application scenarios for government and enterprise to thoroughly identify the needs of customers in benchmarking industries and to assess the market potential.
- Consolidating network foundation and reinforcing the core competitiveness of cloud-network integration. We continued to optimize the network experience and spurred rapid scale deployment of 5G network by capitalizing on extensive resources and co-building and co-sharing development philosophy. We conducted targeted coverage and dynamic capacity expansion of our 4G network to support the scale development of 4G subscribers and data traffic as well as the full commercialization of our VoLTE business.

- Consolidating service edges and maintaining industry leading customer perceptions. Led by customer perceptions, we enhanced the end-to-end service experience, established the reputation of our products for being secure and reliable, and built the competitive advantages of our services.

In 2019, we strengthened our aggregation and application of data, with capabilities of our corporate core continuing to manifest. By launching the next generation BSS3.0 system and through the optimization of our product management as well as development of operation systems, we achieved rapid loading and automatic activation of our cloud-network integration services. We also conducted network construction and maintenance supported by Big Data and applied AI technologies to automate management functions.

Subscribers and Service Usage

Our operating revenues depend largely on the size of our customer base, usage volume and the structure and level 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,		
	2017	2018	2019
Mobile subscribers (in millions)	250.0	303.0	335.6
Mobile voice usage (in billion minutes)	769.2	827.7	820.3
Handset data traffic (in kTB)	3,597.0	14,073.0	24,370.0
Wireline broadband subscribers (in millions)	133.5	145.8	153.1
Access lines in service (in millions)	121.8	116.5	110.9
Wireline local voice usage (in billion pulses)	75.1	60.2	55.9
e-Surfing HD subscribers (in millions)	85.8	105.3	112.6
BestPay average monthly active users (in millions)	33.0	43.4	56.3
Internet of Things connected devices (in millions)	44.3	106.9	157.4

Our Products and Services

Internet Services

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

In 2019, focusing on customers' perceptions and demands, we adopted proactive sales and marketing strategies and further strengthened data operation as well as business convergence. We strengthened terminal operations by stepping up effort in developing Orange Installment Payment Service and sales and marketing organization in key markets. As of December 31, 2019, the total number of our mobile subscribers was approximately 335.6 million with a net addition of almost 32.6 million for the full year, ranking second in the domestic industry.

In addition, we created a new development mode of "5G + Privileges + Applications" to forge new edges in the area of individual informatization services. We strengthened operation of our membership system, cooperated with leading partners to continue to develop ecosystem privileges and introduced HD contents and launched a number of featured applications such as Cloud VR/AR, Cloud Gaming, and Cloud Computer. We officially launched 5G commercial services in 50 cities nationwide in October 2019 and as of the end of March 2020, the number of 5G package subscribers was approximately 16.6 million, empowering the future growth of our mobile internet business.

We proactively planned household informatization services, created Smart Family product and service portfolio and forged an end-to-end service system for "5G + Gigabit Broadband + Smart Family Applications". See "—Information and Application Services" below for further details. Amidst fierce market competition, we continued to expand our broadband subscriber scale with customer loyalty remaining stable. As of December 31, 2019, the number of our wireline broadband subscribers reached 153.1 million, representing a net addition of 7.3 million from 145.8 million as of December 31, 2018.

In September 2019, in order to build a 5G network on an efficient basis and to rapidly create our 5G service capabilities, we entered into the 5G Cooperation Agreement with CUCL to leverage the mutually complementary advantages in network and spectrum resources and rolled out 5G network co-building and co-sharing, effectively saving costs on network construction, operation and maintenance while enhancing the market competitiveness of 5G network and business. For more details, see “Item 4. Information on the Company—B. Business Overview—Network System—Co-building and co-sharing of 5G network with China Unicom”. By the end of 2019, we had built 40,000 5G base stations, and co-shared more than 20,000 of CUCL’s 5G base stations. The total number of 5G base stations in use exceeded 60,000, covering key areas of over 50 cities where 5G commercialization has commenced. Meanwhile, we accelerated the resources and technologies accumulation for 5G carrying network and core network.

Information and Application Services

Our information and application services include Internet protocol TV, or IPTV (e-Surfing HD), Smart Home Networking Services, Family Cloud, e-Surfing Webcam, Internet data center (the “IDC”), cloud computing, content delivery networks, or CDN, Big Data, digital platform and system integration related services, as well as caller display, SMS, multimedia messaging services, or MMS, email services and music related content and applications services.

In 2019, we continued to promote household informatization services, and our five-in-one Smart Family product and service portfolio, combining Smart Broadband, Smart Home Platform, Smart Applications, Smart Security and Smart Services, began to take shape. The number of our e-Surfing HD (IPTV) subscribers reached 112.6 million as of December 31, 2019 from 105.3 million as of December 31, 2018. The Smart Family applications are becoming more enriched and delivering an increasing value contribution.

We continued to build up and unleash the unique advantages of cloud-network integration, and expanded the combination of basic network access with technologies such as cloud computing, Big Data and IoT. We innovated and optimized organizations and mechanisms, and continued to enhance professional capabilities. We also focused on key areas to develop use cases, as well as gathered industries’ forces to forge the “5G + Cloud + DICT” ecosystem. Our IoT open platform supported mainstream IoT access protocols, enabling the rapid launch of partners’ application products, and the number of IoT connected devices reached 157.4 million as of December 31, 2019, representing an increase of 47.2% over that of December 31, 2018. The number of average monthly active users of “BestPay” reached 56.3 million in 2019, representing an increase of 29.7% over last year.

Voice Services

Our voice services include mobile voice services and wireline voice services.

Prior to September 1, 2017, our mobile voice services included local calls, domestic long distance calls, international long distance calls, intra-provincial roaming, inter-provincial roaming and international roaming. We ceased to charge mobile voice services subscribers the domestic long distance and intra-provincial and inter-provincial roaming fees on and from September 1, 2017. In 2018, we insisted on the multi-mode handset strategy, promoted industry chain development, and published the industry’s first white paper on multi-mode artificial intelligence handsets.

Amid the intense market competition in 2019, the number of our mobile subscribers grew from 303.0 million as of December 31, 2018 to 335.6 million as of December 31, 2019. The mobile voice usage decreased to 820.3 billion minutes in 2019 from 827.7 billion minutes in 2018.

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 number of wireline telephone subscribers decreased to 110.9 million as of December 31, 2019 from 116.5 million as of December 31, 2018. The total wireline local voice usage decreased from 60.2 billion pulses in 2018 to 55.9 billion pulses in 2019.

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

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

Telecommunications Network Resource and Equipment Services

Our telecommunications network resource and equipment services primarily include services relating to our optic fiber and circuits, such as the use of optic fiber and circuit; virtual private network, or VPN, and use of bandwidth. We offer telecommunications network resource and equipment services as certain of our overall telecommunications solutions to large enterprise customers, including government authorities, large corporations and institutions. Many of these customers choose to use 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 provide network equipment to large enterprise customers.

In 2019, we continued to focus on government, financial and large enterprise customers. Our marketing efforts focused on providing global one-stop services, tailored services and total 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.

Others

Our other services primarily include sales and repairs and maintenance of equipment, resale of mobile services and property rental.

Our Customers and Brand Management

In 2019, we continued to promote our full-service brand names under the brand “China Telecom”, and further enhanced the brand image of “China Telecom” as an integrated intelligent information service operator through, among others, promoting China Telecom broadband, e-Surfing Smart Family (including Smart Home Networking, e-Surfing Webcam, Family Cloud and other products), Hello 5G and e-Surfing Cloud services and products. Through providing contents to our services on a multi-dimensional level and our coordinated marketing efforts, we continue to strengthen and enhance the brand recognition and market influence for “China Telecom”.

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 National Development and Reform Commission of the People’s Republic of China (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 usage fees based on call usage.

Currently, all domestic long distance wireline services using public switched telephone network (the “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. However, in 2016, we waived domestic long distance call charges and roaming charges for voice services in our new 4G subscription plans. By the end of 2016, we stopped offering subscription plans with separate billing for long distance call charges and roaming charges, and all new plans had nationally uniform prices for voice services domestically. In addition, we ceased to charge handset subscribers domestic long distance and roaming fees on and from September 1, 2017.

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 Services and Information and Application Services

We determine tariffs for these services according to market conditions. In addition, pursuant to the policy requirements of the PRC government regarding network speed upgrade and tariff reduction, in 2019, we rolled out corresponding measures in due course to meet the policy requirements, including (i) starting January 1, 2019, we reduced out-of-package data tariff; (ii) we enhanced the promotion of large data traffic packages, enabling more subscribers to enjoy data traffic with lower unit tariff; (iii) we launched discounted traffic packages to serve the needs for specific subscribers; and (iv) starting May 1, 2019, we further reduced the tariff of Internet dedicated line access, and carried out free speed upgrade programs for qualified small and medium enterprise subscribers.

Telecommunications Network Resource and Equipment Services

We determine the tariffs for our telecommunications network resource and equipment 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. Besides, we generally charge monthly fees for our network equipment service on a discount basis and the tariff for network equipment service 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, wireline networks or Internet backbone 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 as well as the interconnection arrangement and settlement of Internet backbone networks.

China Telecom Group entered into interconnection settlement agreements with other telecommunications operators, including Unicom Group, China Mobile Group and China Transport Telecommunication Information Group Co., Ltd. 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 and to access the Internet backbone networks. All interconnection and settlement arrangements among public wireline telephone, mobile, and Internet networks in the PRC are governed by the Telecommunications Regulations promulgated by the State Council and the Telecommunications Regulations and the Administrative Rules on Interconnection between the Public Telecommunications Networks promulgated by the MIIT. See “—Regulatory and Related Matters—Interconnection” included elsewhere under this Item.

International Roaming

As for voice and data services, we provide international roaming services 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 roaming provider have roaming arrangements.

As of December 31, 2019, 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 operators or roaming service providers. A mobile service subscriber using international roaming services is charged at our roaming usage rates for both incoming and outgoing calls, plus applicable long distance tariffs. We settle roaming revenues and expenses with international telecommunications operators in accordance with roaming agreements between China Telecom Group and the international operators. China Telecom Group has also agreed to our participation in the negotiation of its future international roaming agreements.

Marketing, Sales, Distribution and Customer Services

Marketing, Sales and Distribution

Our marketing strategy is to establish our image as an intelligent 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 combined certain voice and data products into one integrated service plan to targeted customers to address their telecommunications needs.

We utilized data to enhance our operation efficiency and strengthened data consolidation and analysis to empower our frontline sales by adopting precision matching products strategies, and fully launched the BSS3.0 system resulting in significant increase in the efficiency of product operation. By optimizing the layout of our sales channels, applying chainstore approach in the operations of our core outlets, and exploring scene marketing for 5G + Smart Family services, we further improved our professional competence and steadily increased the operation efficiency of our sales channels. We formed a customer-oriented product system, continued to optimize product management, development and operation based on customers' needs.

Furthermore, we have adopted various sales and 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 information and application services.

Customer Service

We provide customer services through all channels on our integrated sales and distribution channel network. 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 capability, such as service processing time, request responding time and providing service related and other information to customers through text messages.

In 2019, we propelled the construction of customer-oriented service system by continuously promoting AI-powered smart services and optimizing star-grade services, thereby realizing more prominent value of the services. Specifically, in respect of individual customers, we focused on the launch of 5G services with good users perception. We highlighted the usage scenarios from the customers' perspective, benchmarked against industry leading practices, collected real experience perception from users, responded to customers' questions to achieve persistent enhancement of 5G perception. In respect of household customers, we formulated and implemented the services standards for Smart Family applications and promoted the transformation from installation and maintenance services to the delivery of integrated solutions for household informatization. In respect of government and enterprise customers, we strengthened collaborative services of cloud-network integration and enhanced the timely installation rate and timely repair rate of business dedicated lines and end-to-end services for WiFi networking.

In 2019, we continued to maintain leading position in the industry in terms of overall user satisfaction and user satisfaction in handset Internet access according to the assessment conducted by the MIIT.

Information Technology System

We employ our information technology, or IT, system to support our voice services and other services. In recent years, through continuous upgrading, our IT system has the capability to offer full service support to 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 operates in a stable and reliable manner. 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. Furthermore, we procure our network equipment and related maintenance and technical support mainly from a number of PRC and overseas telecommunications network equipment manufacturers and suppliers including Huawei Technologies, Ericsson, Nokia and ZTE Corporation, among others.

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, which are directly connected to customers to provide wireline and wireless 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 safe, stable and effective operation of our networks and services at all levels.

Low frequency refarming

We obtained permits from the MIIT to refarm the 800MHz frequency resources and make use of the unoccupied frequency resources for 4G network construction. We have fully utilized the advantage in the coverage reach of the low frequency of 800MHz by rapidly completing the construction of 4G network in rural areas at a low cost, achieving nationwide full coverage of 4G network, as well as deepening the coverage and supplementing the bandwidth of 4G service in urban areas.

With the support of our nationwide coverage of 4G network, we have established a NB-IoT network with broad nationwide coverage and high quality to support development of the business ecosystems of the Company and our VoLTE network has begun commercialization.

Co-building and co-sharing of 5G network with China Unicom

In September 2019, following market principles, we entered into the 5G Cooperation Agreement with CUCL. Pursuant to the 5G Cooperation Agreement, we will cooperate with CUCL to jointly co-build one 5G access network nationwide and co-share 5G spectrum resources while the 5G core network shall be respectively constructed by each party. Each party will continue to operate its business and branding independently and the subscribers will belong to each party respectively. In respect of settlement under the 5G Cooperation Agreement, based on the principle that parties shall not make a profit from such settlement, we and CUCL will formulate reasonable and precise settlement arrangement, following fair and equitable market practices, to maximize the benefits of cooperation for both parties and maintain a sustainable cooperation. We believe that the cooperation is beneficial to the efficient construction of 5G network and the reduction of network construction and maintenance costs while enhancing efficiency in network and assets operation, which enables us to rapidly create 5G service capability and strengthen network quality and business experience so as to achieve a win-win situation for both parties.

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 transmission 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 28.2% of our total amount of annual purchases in 2019. Purchases from our single largest supplier of telecommunications equipment accounted for approximately 16.8% of our total amount of annual purchases in 2019.

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 June 2019, the MIIT granted the 5G permit to China Telecom Group, China Mobile Group, Unicom Group and China Broadcasting Network. In December 2013 and May 2016, China Mobile and China Broadcasting Network, respectively, received a license from the MIIT to operate fixed-line businesses, leading to intensified competition in this sector.

Since the PRC's accession to The World Trade Organization (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% except in the pilot free trade zones in China. See "—Regulatory and Related Matters—Licensing" included elsewhere under this Item.

We also face increasing competition from other competitors outside the telecommunications industry, in particular, from Internet services providers and mobile software and application developers, such as Over-the-Top messaging or voice services providers who offer contents and services on the Internet without their proprietary telecommunications network infrastructure. These competitors are competing with us in information and application or voice 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 private capital to enter the industry, in addition to a series of guidance to such effect. Specifically, 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-owned, 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 or 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 services of the mobile networks operators. On April 28, 2018, the MIIT issued the Circular on Commercialization of Mobile Telecommunications Resale Business (关于移动通信转售业务正式商用的通告), pursuant to which the MIIT granted commercial operation approval to the mobile communications resale business, effective from May 1, 2018. On November 11, 2019, the MIIT promulgated the Notice of the Ministry of Industry and Information Technology on Printing and Publishing the Regulations on the Management of Mobile Number Portability Service. The Regulations on the Management of Mobile Number Portability Service (the “Portability Provisions”) became effective on December 1, 2019. The Portability Provisions specify that cellular mobile communication users (excluding the IoT users) within the same local network may apply to change the contracted fundamental service operator by keeping the same mobile numbers and users switched to the network have equal rights under the same conditions. 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 three more Notices on Further Broadening the Scope of Trial Opening of the Broadband Access Business on September 23, 2015, October 13, 2016 and September 27, 2017, respectively. By the end of 2019, the broadband access market opened up to private capital in 19 provinces in China on a province-wide basis and also in 32 pilot cities. As a result, the competitive landscape in the PRC telecommunications industry may further diversify, causing more intensified competition. In April 2018, MIIT approved the commercialization of mobile telecommunications resale business, effective from May 2018. By the end of 2019, among the 42 mobile virtual network operators who had been approved by the MIIT to conduct resale business on a pilot basis, 38 of which had been granted commercial operation licenses; and the 25 companies who signed pilot agreements with us had been granted commercial licenses. As of December 31, 2019, there were a total of approximately 19.72 million users of mobile virtual network through resale business that is in cooperation with us.

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 former 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, 2021, which is automatically renewable for three more years as the parties may agree. See “Item 7. Major Shareholders and Related Party Transactions—B. Related Party Transactions—Ongoing Related Party Transactions between Us and China Telecom Group and its affiliated companies—Trademark License Agreement”.

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.

On June 1, 2017, the Cyber Security Law came into force. It stipulates relevant rules for personal data security protection, new types of cybercrime and network real name system; it specifies the principle of cyberspace sovereignty, the security obligations of network products and services providers as well as the security obligations of network operators; and it further enhances the protection of personal data, establishes the framework for the protection of critical information infrastructure facilities, and establishes rules regulating cross-border transmission of key data via critical information infrastructure facilities. In addition, it provides for the punishment for foreign organizations and individuals that attack and destroy China's critical information infrastructure facilities and establishes a system for monitoring, early warning and emergency response. Telecom operators shall comply with the requirements under the Cyber Security Law in respect of network operating security and network information security. In addition, the Measures for the Security Review of Network Products and Services (Provisional) became effective on June 1, 2017. The Cyber Security Law and the Measures for the Security Review of Network Products and Services (Provisional) require procurement of network products and services by operators in key industries and critical information infrastructure facilities that may have national security concerns to go through a cyber security review. Relevant government authorities responsible for the protection of critical information infrastructure facilities will decide on whether such procurement would threaten national security pursuant to the review. The security review of telecommunications industry would be organized and conducted by the MIIT. The security review may be initiated by the enterprises or by the relevant government authorities. The security review would focus on the security and controllability of network products and services. Operators of critical information infrastructure facilities use network products or services that have not been subject to the security review or have not passed the security review, would subject to a fine of no less than one but no more than ten times of the amount of purchase. According to the Cyber Security Law, the CAC has a central role in planning, coordination, supervision, and management of network security measures while the MIIT, the Ministry of Public Security and other relevant authorities are in charge of network security protection, supervision and management within the scope of their respective responsibilities. Several related regulations, including the Measures for the Security Review of Network Products and Services (for Trial Implementation) and the Provisions for the Administration of Internet News Information Services, published by the CAC came into effect on the same day as the Cyber Security Law. The PRC government may amend the relevant regulations or promulgate new regulations to clarify and further implement the Cyber Security Law. Although we expect that the Cyber Security Law will have a positive effect on the overall development of the telecommunications industry and enhance information protection in the PRC, we currently cannot predict the scope of any specific requirements that may be imposed on us and their implications for our operations under the Cyber Security Law and relevant regulations. On January 1, 2018, the Measures for Monitoring and Management of Public Internet Cyber Security Threat issued by the MIIT came into force. It provided for the definition of public Internet cyber security threats, the relevant governing authorities, working principles and remedial measures in connection with the monitoring and management of public internet cyber security threats. Telecom operators are required to strengthen the monitoring and management of public Internet cyber security threats, notify the governing authorities in a timely manner after discovery of cyber security threats, and provide technical assistance to governing authorities in relation to inquiries into IP address attribution and domain name registration.

On May 1, 2018, the national standard on personal information protection, Information Security Technology—Personal Information Security Specification GB/T 35273-2017 (《信息安全技术-个人信息安全规范》(GB/T 35273-2017)), came into force. It provides specific examples on the scope and types of personal information and sensitive personal information; stipulates the basic principles on personal information security and regulates the collection, retention, use, sharing, transfer and public disclosure of personal information. It puts forward specific requirements on the methods and measures to handle personal information security incidents by personal information controllers, as well as the organization and management of personal information controllers. In addition, it provides implementation methods and privacy policy forms for the right of informed consent to be exercised.

On November 28, 2019, the CAC, the MIIT, the Ministry of Public Security and the State Administration for Market Regulation of the PRC jointly formulated the Method for Identifying the Illegal Collection and Use of Personal Information by Applications. It explicitly sets out the specific methods of identifying six types of illegal behaviors, i.e. failure to publish the rules for collection and use; failure to expressly specify the purpose; method and scope of collection and use of personal information; collection and use of personal information without the user's consent; violation of the essential rules to unnecessarily collect personal information which is not related to the service provided; provision of personal information to others without prior consent; and failure to provide the function of deleting or correcting personal information as required by law or failure to publish information in relation to complaint or whistleblowing methods. It serves as a reference for the regulatory authorities to identify the illegal collection and use of personal information by applications and provides guidance for the self-inspection and self-correction of application operators and the social supervision.

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 and February 6, 2016, respectively, 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. On December 28, 2015, the MIIT promulgated the Telecommunications Service Catalog (2015 edition) which took effect on March 1, 2016 and was amended on June 6, 2019. Basic telecommunications services include, among others, wireline communications services, cellular mobile communications services, satellite communications services, data communications services, IP telephone services, trunking communications services, wireless paging services, network access facilities services, domestic communications facilities services and network hosting services. Value-added telecommunications services include, among others, IDC services, content distribution network services, domestic Internet virtual private network services, Internet access services, online data processing and transaction processing services, domestic multi-communication services, storage and forwarding services, call center services, information services and coding and procedures conversion 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 basic telecommunications business from our status as a subsidiary controlled by China Telecom Group, which holds the licenses required for operating the relevant telecommunications business. In December 2013, China Telecom Group, Unicom Group and China Mobile Group received permits 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. 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. In June 2019, China Telecom Group, our controlling shareholder, was granted the permit from MIIT to operate 5G digital cellular mobile service nationwide, and we have been authorized by China Telecom Group to develop 5G business nationwide.

After its accession to the WTO in December 2001, the PRC promulgated the Administrative Regulations on Telecommunications Companies with Foreign Investment, which became effective on January 1, 2002 and were subsequently amended in 2008 and 2016, 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 generally shall be no more than 50.0%.
- For fixed line services:
 - there is no longer any geographic restriction and the foreign ownership shall be no more than 49.0%.

The MIIT has promulgated the Administrative Measures for the Licensing of Telecommunications Business, which aims to strengthen the administration of licensing of telecommunications operations permits and became effective on September 1, 2017. It provides for the establishment of an integrated management platform for telecommunications business, the promotion of online application, approval and management of business license as well as publication, queries and co-sharing of related information, and enhancement of credit management by including credit conditions as a precondition to being granted a business license. The annual business license inspection system would be adjusted to a system of publication of annual reports and announcements. An illegal operations and dishonesty list for telecommunications operators would be established and maintained and the operators on such list would be subject to enhanced supervision from relevant telecommunications regulatory bodies. If a telecommunications business operator is requested by relevant telecommunications regulatory body to suspend operations, its business license is revoked or there are certain other circumstances as stipulated by the MIIT, such operator would be included in the dishonesty list and may not apply for telecommunications business license.

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 certain value-added telecommunications services in specific form in the China (Shanghai) Pilot Free Trade Zone, subject to protections on Internet information security and approval by the State Council is required in case of a breakthrough in the limitations provided for under the administrative regulations. In April 2014, to further promote the pilot program of the value-added telecommunications business in the China (Shanghai) Pilot Free Trade Zone, the MIIT issued the Administrative Measures for the Pilot Operation of the Value-added Telecommunications Business by Foreign Investors in China (Shanghai) Pilot Free Trade Zone.

Tariff Setting

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

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 addition, the Government Work Report in 2017 calls for the deepening of speed upgrade and tariff reduction, the cancellation of domestic long distance and roaming fee for handsets users, the reduction of the tariff of Internet dedicated line access for small and medium enterprises and international long distance calls. Furthermore, the Government Work Report in 2018 calls for a further promotion of network speed upgrade and tariff reduction. We were encouraged to further reduce the average tariff of broadband for small and medium enterprise subscribers and the average data tariff of mobile network to a greater extent in 2019.

On August 23, 2018, the MIIT promulgated the Notice of Ministry of Industry and Information Technology on Further Regulating Marketing Activities for Telecommunications Tariff Schemes which became effective from August 23, 2018. The Notice encourages fundamental telecommunications enterprises to provide a tiered discount pricing formula for tariff plans according to the usage amount of the users and simplify the structure of tariff packages. In formulating and implementing the tariff plans of bundled packages, the tariff plans for each respective service should also be provided, and the tariff rates disclosure policy should be improved. When promoting the tariff plans, the telecommunications enterprises shall fulfill its obligation to remind the users with respect to matters they shall pay attention to, including the restrictive conditions, the validity period and the charging principles. The same type of users with the same transaction conditions should be guaranteed with equal rights to select the tariff plans.

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 Internet Backbone Interconnection Points, pursuant to which seven new backbone interconnection points altogether have been built in Chengdu, Wuhan, Xi'an, Shenyang, Nanjing, Chongqing and Zhengzhou, in addition to the three existing backbone interconnection points in Beijing, Shanghai and Guangzhou. The operations of these new backbone interconnection points have significantly improved the quality and speed of interconnection between the telecommunications networks. On November 9, 2016, the MIIT approved the addition of new national Internet backbone interconnection points in Hangzhou, Fuzhou and Gui'an of Guiyang, achieving 13 Internet backbone interconnection points upon completion of such three new additions in June 2017. On December 30, 2019, the MIIT approved the addition of new Internet backbone interconnection point in Hohhot, which is currently under construction.

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) initiated a call to a mobile user of another basic telecommunications operator, the settlement charge was 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 initiated a call to a user of our Company or China Unicom within the scope of local network, China Mobile would 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 is adjusted from then prevailing rate of RMB0.06 per minute to RMB0.04 per minute. Other existing voice interconnection settlement standards remain unchanged. 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:

Network from Which Calls Originated	Network at Which Calls Terminated	Current Main Settlement Arrangement
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

Network from Which Calls Originated	Network at Which Calls Terminated	Current Main Settlement Arrangement
Wireline local operator	Mobile local operator	<p>(1) Wireline operator collects the usage charge from its subscribers</p> <p>(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</p>
Wireline operator	Transferred through wireline operator's long distance network to mobile operator	<p>(1) Wireline operator collects the usage charge from its subscribers</p> <p>(2) Wireline operator pays RMB0.06 per minute to mobile operator</p>
Wireline local operator A	Wireline local operator B	<p>(1) Operator A collects the usage charge from its subscribers</p> <p>(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</p> <p>(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</p>
Mobile operator A	Mobile local operator B or transferred through mobile operator A's long distance network to mobile operator B	<p>(1) Mobile operator A collects the cellular usage charge from its subscribers</p> <p>(2) Prior to January 1, 2014, mobile operator A paid 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)</p>

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) 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) Starting January 1, 2014, operator A pays RMB0.05 per MMS to operator B

The interconnection settlement arrangement for the Internet backbone networks in China is the interconnection settlement through the network access points, or the NAPs, and backbone interconnection points. The price of NAP settlement is determined by the MIIT, and the price of backbone interconnection points is decided by the Internet backbone networks participants with reference to the NAP settlement standards. Since 2013, the MIIT reduced the interconnection settlement charges for the Internet backbone networks each year and the interconnection settlement charges for the NAPs was reduced by the MIIT to RMB80,000 per gigabyte per month starting from November 1, 2018. The one-way payment of interconnection settlement charges for the Internet backbone networks between China Mobile Group and China Telecom Group or Unicom Group will be ceased and replaced by a peer-to-peer interconnection arrangement without settlement charges from July 1, 2020.

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, IP telephone networks, land cellular mobile communication networks, satellite mobile communication networks, Internet backbone networks (access) and other telecommunications networks regulated by the MII. Under the Measures on Quality of Service, telecommunications operators are required to set up interconnection-related working units to be responsible for the management of quality of services of the public telecommunications networks.

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 2019, we paid approximately RMB100 million of usage fees for the telecommunications network numbers and approximately RMB1,418 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 MIIT 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.

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.

On December 28, 2016, the MIIT promulgated the Notice on Matters Relating to the Regulating of Telecommunications Services Agreements, effective on February 1, 2017, which specifies the standard of signing and record-keeping of telecommunication services agreements and emphasizes that the telecommunications operators should inform the subscribers and carry out remedial work when some or all of the terms under the telecommunications services agreements could not be observed due to force majeure or adjustment of national policies.

Universal Services

Under the Telecommunications Regulations, telecommunications service providers in the PRC are required to fulfill universal service obligations in accordance with relevant regulations 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, 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 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 remote 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. In addition, the Ministry of Finance of the PRC, or the MOF and the MIIT jointly issued the Notice of Implementation of Telecommunications Universal Services Pilot Work 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. This notice sets up certain goals for the telecommunications 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.

The PRC government used financial resources to compensate the expenses incurred in the "Coverage to All Villages" and the "Broadband China" projects before the implementation of universal services pilot projects in 2016. We, together with other telecommunications operators, have undertaken the "Coverage to All Villages" project since 2004. Since 2016, we have undertaken universal services pilot projects in accordance with the requirements of the Chinese government and initially in aggregate won the bids to undertake and completed the construction of broadband networks in approximately 50,000 administrative villages. Since 2018, the PRC government included 4G network coverage into the scope of pilot projects for universal services. By the end of 2019, we had won the bids to undertake 4G base stations constructions in approximately 12,000 administrative villages in remote rural areas. We have continuously promoted the construction of communication networks in rural areas and remote rural villages and strives to improve the fixed line and wireless broadband Internet access capacities in rural areas. In addition, we have set up local service points for rural villages, actively promoted the development of e-commerce in rural areas, and strived to contribute to the informatization upgrade and revitalization of rural areas in various regions. The compensation from the PRC government may not be sufficient to cover all of our expenses for providing the telecommunications universal services. However, 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 state-owned enterprise owned by the SASAC 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 co-sharing among the three networks and further develop the provision of voice, data, television and other services. Specifically, the three-network convergence policy would 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 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 further promotion of the three-network convergence nationwide.

Mobile Telecommunications Resale Business

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 or 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 services of the mobile networks operators. On April 28, 2018, the MIIT issued the Circular on Commercialization of Mobile Telecommunications Resale Business, pursuant to which the MIIT granted commercial operation approval to mobile communication resale business, effective from May 1, 2018. For a series of government measures to encourage private capital to invest in telecommunications services that could compete with our services, see “Item 4. Information on the Company—B. Business Overview—Competition”.

VAT Reform Applicable to the Telecommunications Industry

On November 16, 2011, the MOF and the PRC State Administration of Taxation, or 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 MOF and the SAT issued the Notice on Expanding the Pilot Program of Replacing the Business Tax with VAT, promulgating the relevant implementing rules. On April 4, 2018, the MOF and the SAT issued the Notice on Adjustment of VAT Rates pursuant to which the 11% VAT rate applicable to basic telecommunications services would be reduced to 10% and the 17% VAT rate applicable to sales of goods would be reduced to 16%, with effect from May 1, 2018. On March 20, 2019, the MOF, the SAT, the General Administration of Customs issued the Notice on Deepening the Policies Related to Value-Added Tax Reform, pursuant to which the 10% VAT rate applicable to basic telecommunications services would be reduced to 9% and the 16% VAT rate applicable to sales of goods would be reduced to 13%, with effect from April 1, 2019.

Sharing of Telecommunications Infrastructure

In April 2019, the MIIT and the SASAC jointly issued the 2019 Implementation Opinions of the Ministry of Industry and Information Technology and the State-owned Assets Supervision and Administration Committee of the State Council on Promoting the Joint Construction and Sharing of Telecommunications Infrastructure, or the Opinions. The Opinions require that the supporting facilities for base stations, such as the telecommunications towers, and the passive indoor distribution systems for key areas of public transportation and buildings, shall generally be coordinated with respect to construction needs, constructed and delivered by the Tower Company, except that certain facilities may be constructed by a telecommunications operator if serving only such operators’ demand. The Opinions also set forth the sharing requirements in the construction of FTTH infrastructure facilities. The construction of supporting facilities, such as transmission poles, pipelines, and equipment rooms, in newly-built residential and commercial properties must strictly observe the applicable national and local standards. Telecommunications operators are prohibited from entering into any agreement which contains exclusivity arrangement with commercial property owners, their agents and/or property management companies. Moreover, the existing telecommunications infrastructure (transmission poles, pipelines, base station sites, and equipment rooms, etc.) must be co-shared whenever conditions so allow, and new transmission poles or pipes covering the same operation routes must be jointly constructed by the operators.

Anti-Unfair Competition Law

On April 23, 2019, the Standing Committee of the National People's Congress (the "NPCSC") promulgated the amended Anti-Unfair Competition Law of the People's Republic of China (the "Anti-Unfair Competition Law"), which was formally implemented on the same day. The amendments to the Anti-Unfair Competition Law mainly involve the provisions regarding the trade secrets of intellectual property rights. First, the scope of trade secrets has been expanded through the incorporation of a catch-all description, which is no longer limited to "technical" or "business operation" information. Second, the scope of the trade secret infringer has been expanded. Apart from business operators, other natural persons, legal persons and non-legal entities have been included in the scope of the subject of liability for trade secret infringement. Third, given the practical situation of evolving infringement means and conducts, it has been clarified that misappropriation of trade secrets through electronic intrusion or indirect means, such as instigating, inducing and aiding others to acquire the right holder's trade secrets, will constitute trade secret infringement. Fourth, the penalty on trade secret infringement has been increased. Fifth, in relation to the allocation of burden of proof for trade secret infringement in the civil trial procedure, it stipulates that the right holder may only need to provide preliminary evidences which can prove that the right holder has taken confidentiality measures and can reasonably indicate that the trade secret has been infringed. The amendments to the Anti-Unfair Competition Law strengthened the protection of intellectual property rights in China and had a positive impact on the establishment of a fair market order and protection of the legitimate interests of the right holders.

Mobile Number Portability

On November 11, 2019, the MIIT promulgated the Notice of the Ministry of Industry and Information Technology on Printing and Publishing the Regulations on the Management of Mobile Number Portability Service. The Regulations on the Management of Mobile Number Portability Service (the "Regulations") became effective on December 1, 2019. The Regulations expressly allow the cellular mobile telecommunication users (excluding the users of Internet of Things) to apply for a change of the contracted fundamental business operator within the same local network area whilst retaining their phone numbers unchanged. Telecommunications business operators should strictly implement the relevant provisions on the real-name registration of users of mobile number portability service and ensure that the users whose mobile numbers have been transferred from other networks should be entitled to the same rights under the same conditions. Providing an important basis for the supervision and inspection of the telecommunications regulators, the Regulations explicitly require that in the course of providing the mobile number portability service telecommunications business operators should not engage in nine types of prohibited conducts including to refuse, prevent or delay the provision of mobile number portability service to users without justifiable reasons, to restrict the users from switching to another network by means of expanding the scope of the agreement in relation the terms of service, to affect the quality of telecommunications service provided to the mobile number portability service users through technical measures such as interception and restriction, to conduct a comparative promotion, fabricate or disseminate false or misleading information or discredit other telecommunication business operators when promoting the mobile number portability service and the relevant tariff plans, to design special tariff plans and marketing schemes for mobile number portability service users, continue to occupy the mobile numbers transferred-in while the users have exited the network and to hinder or disrupt the normal operation of mobile number portability service by means of handling the mobile number transfer maliciously on behalf of the users, making complaints maliciously on behalf of the users, etc..

E-Commerce Law

In August 2018, the NPCSC approved the E-Commerce Law of the People's Republic of China, which was formally implemented on January 1, 2019. The E-Commerce Law consists of seven chapters and eighty nine articles which further regulate e-commerce activities conducted by relevant parties including e-commerce platform operators ("e-commerce platforms"). The E-Commerce Law defines and confirms, for the first time, the obligation of e-commerce platforms to protect the consumers' security, and requires them to bear the corresponding responsibility when the obligation is breached. It further refines the regulation for the responsibility of intellectual property infringement on the e-commerce platforms, regulates the industrial and commercial registration and tax collection and management of e-commerce operators, requires e-commerce operators to publish information when terminating transactions at their own discretion, prohibits fabricating transactions and user comments to defraud and mislead consumers, prohibits the e-commerce platforms from abusing the dominant market position to exclude and restrict competition, regulates the rules of deposits collection and refund, requests the products participating in bidding ranking with the results marked therein.

Disclosure of Iranian Activities under Section 13(r) of the Securities Exchange Act of 1934

Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012 added Section 13(r) to the Exchange Act of 1934, as amended. Section 13(r) requires an issuer to disclose in its annual or quarterly reports, as applicable, whether it or any of its affiliates knowingly engaged in certain activities, transactions or dealings relating to Iran or with designated natural persons or entities involved in terrorism or the proliferation of weapons of mass destruction. Disclosure is required even where the activities, transactions or dealings are conducted outside the U.S. by non-U.S. affiliates in compliance with applicable law, and whether or not the activities are sanctionable under U.S. law.

As of the date of this report, we are not aware of any activity, transaction or dealing by us or any of our affiliates in 2019 that requires disclosure in this under Section 13(r) of the Exchange Act of 1934, as amended.

C. Organization Structure

See “—A. History and Development of the Company—Organizational Structure” 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, September 23, 2015 and August 20, 2018, respectively. See “Item 7. Major Shareholders and Related Party Transactions—B. Related Party Transactions—Ongoing Related Party Transactions between Us and China Telecom Group and its affiliated companies—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 and its affiliated companies—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. The information included in the following discussion and analysis provides details on the information for the years ended December 31, 2019 and December 31, 2018. Information related to the year ended December 31, 2017 has not been included and can be found on the Company’s previously filed annual report on Form 20-F for the year ended December 31, 2018.

Our audited consolidated financial statements included elsewhere in this annual report reflect the disposal of E-store, the establishment of Tianyi Capital and the acquisitions of the satellite communications business and Orange Insurance in 2017, the establishment of China Telecom Leasing Corporation Limited in 2018, and the establishments of China Telecom Finance, Smart Home Company and IoT Company in 2019, described under “Item 4. Information on the Company—A. History and Development of the Company—Disposal of E-store and Establishment of Tianyi Capital”, “—Establishment of China Telecom Leasing Corporation Limited”, “—Establishment of China Telecom Group Finance Co., Ltd.”, “—Establishment of E-surfing Smart Home Technology Co., Ltd.” and “—Establishment of E-surfing Internet of Things Technology Co., Ltd.”.

Overview

We are an integrated intelligent information service provider in the PRC. We offer a comprehensive range of telecommunications services, including Internet services, information and application services, voice services, telecommunications network resource and equipment services and other related services. We will continue to leverage our full-service capabilities to further enhance our integrated and differentiated development of operation of wireline, mobile and Internet services to achieve steady growth of our business.

Financial Overview

Our operating revenues decreased by 0.4%, from RMB377,124 million in 2018 to RMB375,734 million in 2019. The decrease was mainly attributable to revenues from voice services and others decreased. Our operating expenses decreased by 0.5% from RMB348,410 million in 2018 to RMB346,664 million in 2019. The decrease in operating expenses was primarily due to decreases in other operating expenses, network operations and support expenses as well as selling, general and administrative expenses. Our operating income in 2018 and 2019 was RMB28,714 million and RMB29,070 million, respectively. The profit attributable to equity holders of the Company decreased by 3.3%, from RMB21,210 million in 2018 to RMB20,517 million in 2019. The decrease was mainly attributable to the one-off after-tax gain from the listing of Tower Company, which amounted to approximately RMB1.1 billion recognized by us in 2018.

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,			
	2018		2019	
	Amount	Percentage of Operating Revenues	Amount	Percentage of Operating Revenues
	(RMB in millions, except percentage data)			
Operating Revenues:				
Voice services ⁽¹⁾	50,811	13.5%	45,146	12.0%
Internet services ⁽²⁾	190,871	50.6%	197,244	52.5%
Information and application services ⁽³⁾	83,478	22.1%	87,623	23.3%
Telecommunications network resource and equipment services ⁽⁴⁾	20,211	5.4%	21,978	5.9%
Others ⁽⁵⁾	31,753	8.4%	23,743	6.3%
Total operating revenues	<u>377,124</u>	<u>100.0%</u>	<u>375,734</u>	<u>100.0%</u>

(1) Represent the aggregate amount of voice usage fees, installation fees and interconnections fees charged to customers for the provision of telephony services.

(2) Represent amounts charged to customers for the provision of Internet access services.

(3) Represent primarily the aggregate amount of fees charged to customers for the provision of IDC service, system integration services, e-Surfing HD service, caller ID service and short messaging service and etc.

(4) Represent amounts charged to other domestic telecommunications operators and enterprise customers for the provision of telecommunications network resource and equipment services.

(5) Represent primarily revenue from sale, and repair and maintenance of equipment as well as the resale of mobile services (MVNO) and revenue from other sources, which primarily includes revenue from property rental and other revenues.

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,			
	2018		2019	
	Amount	Percentage of Operating Revenues	Amount	Percentage of Operating Revenues
		(RMB in millions, except percentage data)		
Operating Expenses:				
Depreciation and amortization	75,493	20.0%	88,145	23.5%
Network operations and support expenses	116,062	30.8%	109,799	29.2%
Selling, general and administrative expenses	59,422	15.8%	57,361	15.3%
Personnel expenses	59,736	15.8%	63,567	16.9%
Other operating expenses	37,697	10.0%	27,792	7.4%
Total operating expenses	348,410	92.4%	346,664	92.3%

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,			
	2018		2019	
	Amount	Percentage of Operating Revenues	Amount	Percentage of Operating Revenues
		(RMB in millions, except percentage data)		
Operating revenues	377,124	100.0%	375,734	100.0%
Operating expenses	348,410	92.4%	346,664	92.3%
Operating income	28,714	7.6%	29,070	7.7%
Profit attributable to equity holders of the Company	21,210	5.6%	20,517	5.5%
Net cash flow from operating activities	99,298	—	112,600	—

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 include elsewhere in this annual report 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 consolidated 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 ongoing 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 from contract with customers (upon application of IFRS 15)

Under IFRS 15, we recognize revenue when (or as) a performance obligation is satisfied. i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognized over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by our performance as we perform;
- our performance creates and enhances an asset that the customer controls as we perform; or

- our performance does not create an asset with an alternative use to us and we have an enforceable right to payment for performance completed to date.

As such, revenues from contracts with customers of telecommunications services, including voice, Internet, information and application and telecommunications network resource and equipment services, resale of mobile services (MVNO) and repair and maintenance of equipment are generally recognized over time during which the services are provided to customers.

Otherwise, revenue is recognized at a point in time when the customer obtains control of the distinct good or service. As such, revenues from sales of equipment are recognized at a point in time when the equipment is delivered to the customers and when the control over the equipment have been transferred to the customers.

A contract asset represents our right to consideration in exchange for goods or services that we have transferred to a customer but the right is conditioned on our future performance. A contract asset is transferred to accounts receivable when the right becomes unconditional. A contract asset is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents our unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents our obligation to transfer goods or services to a customer for which we have received consideration (or an amount of consideration is due) from the customer. When we receive an advance payment before the performance obligation is satisfied, this will give rise to a contract liability, until the operating revenues recognized on the relevant contract exceed the amount of the advance payment.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

Contracts with multiple performance obligations (including allocation of transaction price)

For contracts that contain more than one performance obligations, such as our direct sales of promotional packages bundling terminal equipment, e.g. mobile handsets, and the telecommunications services, we allocate the transaction price to each performance obligation on a relative stand-alone selling price basis.

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which we would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, we estimate it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which we expect to be entitled in exchange for transferring the promised goods or services to the customer.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

The progress towards complete satisfaction of a performance obligation is generally measured based on output method, which is to recognize revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract.

Principal versus agent

When another party is involved in providing goods or services to a customer, we determine whether the nature of our promise is a performance obligation to provide the specified goods or services ourselves (i.e. we are a principal) or to arrange for those goods or services to be provided by the other party (i.e. we are an agent).

We are a principal if we control the specified good or service before that good or service is transferred to a customer.

We are an agent if our performance obligation is to arrange for the provision of the specified good or service by another party. In this case, we do not control the specified good or service provided by another party before that good or service is transferred to the customer. When we act as an agent, we recognize revenue in the amount of any fee or commission to which we expect to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

Consideration payable to a customer

Consideration payable to a customer includes cash amounts that we pay, or expect to pay, to the customer, and also includes credit or other items that can be applied against amounts owed to us. We account for such consideration payable to a customer as a reduction of the transaction price and, therefore, of revenue unless the payment to the customer is in exchange for a distinct good or service that the customer transfers to us and the fair value of the good or service received from the customer can be reasonably estimated.

Certain subsidies payable to third party agent incurred by us in respect of customer contracts, which will be ultimately enjoyed by end customers, and other subsidies incurred by us directly payable to our customers, are qualified as consideration payable to a customer and accounted for as a reduction of operating revenues.

Incremental costs of obtaining a contract

Incremental costs of obtaining a contract are those costs that we incur to obtain a contract with a customer that we would not have incurred if the contract had not been obtained.

Certain commissions incurred by us paid or payable to third party agents, whose selling activities result in customers entering into sale agreements for our telecommunications services, are qualified as incremental costs. We recognize such costs as an asset, included in other assets, if we expect to recover these costs. The asset so recognized is subsequently amortized to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate.

We apply the practical expedient of expensing all incremental costs to obtain a contract if these costs would otherwise have been fully amortized to profit or loss within one year.

Costs to fulfill a contract

When we incur costs to fulfill a contract, we first assess whether these costs qualify for recognition as an asset in terms of other relevant standards, failing which we recognize an asset for these costs only if they meet all of the following criteria:

- the costs relate directly to a contract or to an anticipated contract that we can specifically identify;
- the costs generate or enhance our resources that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and
- the costs are expected to be recovered.

The asset so recognized is subsequently amortized to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate. The asset is subject to impairment review.

Revenue recognition (prior to January 1, 2018)

Before the application of IFRS 15, our revenue recognition methods were as follows:

- Revenues from telecommunications services, including voice, Internet, information and application and telecommunications network resource and equipment services, resale of mobile services (MVNO) and repair and maintenance of equipment are recognized over time during which the services are provided to customers.

Revenue from information and application 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 information and application 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:

- We are primarily 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;
- We take title of the inventory of the applications before they are ordered by customers;
- We have risks and rewards of ownership, such as risks of loss for collection from customers after applications or services are provided to customers;
- We have latitude in establishing selling prices with customers;
- We can modify the applications or perform part of the services;
- We have discretion in selecting suppliers used to fulfill an order; and
- 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 a 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 a gross basis. If majority of the indicators of risks and responsibilities do not exist in the arrangements with third parties, we are acting as an agent, and revenues for these services are recognized on a net basis.

- 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.

We offer promotional packages, which involve the bundled sales of terminal equipment, i.e. 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. 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.

Accounting for goodwill and 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.

	Depreciable lives primarily range from
Buildings and improvements	8 - 30 years
Telecommunications network plant and equipment	5 - 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, right-of-use assets, intangible assets with finite useful lives, construction in progress and contract costs included in other assets 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 each year end.

Before we recognize an impairment loss for assets capitalized as contract costs under IFRS 15, we assess and recognize any impairment loss on other assets related to the relevant contracts in accordance with applicable standards. Then, impairment loss, if any, for assets capitalized as contract costs is recognized to the extent the carrying amounts exceeds the remaining amount of consideration that we expect to receive in exchange for related goods or services less the costs which relate directly to providing those goods or services that have not been recognized as expenses. The assets capitalized as contract costs are then included in the carrying amount of the cash-generating unit to which they belong for the purpose of evaluating impairment of that cash-generating unit.

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. The recoverable amount of a tangible and an intangible asset is estimated individually. 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.

We assess 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 year ended December 31, 2019, no provision for impairment losses were made against the carrying value of long-lived assets. For the year ended December 31, 2018, no provision for impairment losses were made against the carrying value of long-lived assets. For the year ended December 31, 2017, provision for impairment losses of RMB10 million were made against the carrying value of long-lived assets.

Provision of expected credit losses (“ECL”) for accounts receivable

We use provision matrix to calculate ECL for the accounts receivable. The provision rates are based on customer’s past history of making payments when due and current ability to pay by groupings of various debtors that have similar loss patterns. The provision matrix is based on our historical default rates taking into consideration reasonable and supportable forward-looking information that is available without undue cost or effort. The historical observed default rates are reassessed annually, and changes in the forward-looking information are considered. In addition, accounts receivable with significant balances and credit-impaired are assessed for ECL individually.

Recently Issued International Financial Reporting Standards

Up to the date of issue of our 2019 financial statements, the International Accounting Standards Board has issued the following new and amendments to standards which are not yet effective and not early adopted for the annual accounting period ended December 31, 2019:

	Effective for accounting period beginning on or after
Amendments to IFRS 3, “ <i>Definition of a Business</i> ”	January 1, 2020
Amendments to IAS 1 and IAS 8, “ <i>Definition of Material</i> ”	January 1, 2020
Amendments to IFRS 9, IAS 39 and IFRS 7, “ <i>Interest Rate Benchmark Reform</i> ”	January 1, 2020
IFRS 17, “ <i>Insurance Contracts</i> ”	January 1, 2021
Amendments to IAS 1 “ <i>Classification of Liabilities as Current or Non-current</i> ”	January 1, 2022
Amendments to IFRS 10 and IAS 28, “ <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ”	To be determined

In addition to the above new and amendments to standards, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the Amendments to References to the Conceptual Framework in IFRS Standards, will be effective for annual periods beginning on or after January 1, 2020.

We are in the process of making an assessment of the impact that will result from adopting the new and amendments to standards issued by the International Accounting Standards Board, or IASB, which are not yet effective for the accounting period ended on December 31, 2019. So far we believe that the adoption of these new and amendments to standards is unlikely to have a significant impact on our financial position and the results of operations.

A. Operating Results

Year Ended December 31, 2019 Compared to Year Ended December 31, 2018

Operating Revenues

Our operating revenues decreased by RMB1,390 million, or 0.4% from RMB377,124 million in 2018 to RMB375,734 million in 2019. This decrease was primarily the results of our revenues from voice services and others decreased, which was partially offset by the revenue growth of Internet services, information and application services and telecommunications network resource and equipment services.

Voice Services. Revenues from our voice services decreased by 11.1% from RMB50,811 million in 2018 to RMB45,146 million in 2019, representing 12.0% of our operating revenues in 2019. Among such revenues, revenues from our wireline voice services decreased by 6.6% from RMB19,723 million in 2018 to RMB18,425 million in 2019 and revenues from our mobile voice services decreased by 14.0% from RMB31,088 million in 2018 to RMB26,721 million in 2019. The decrease in revenue from our voice services was primarily due to the effect of the mobile Internet services, such as Over-the-Top messaging services, as alternative means of communication.

Internet Services. Revenues from our Internet services increased by 3.3% from RMB190,871 million in 2018 to RMB197,244 million in 2019, representing 52.5% of our operating revenues in 2019. This increase was primarily due to our enhanced efforts in strengthening ecological cooperation, and enhanced differentiation market competitiveness of convergence operation to continuously expand the subscriber base, driven by mobile Internet traffic. The number of our mobile subscribers continue to rise. As of December 31, 2019, the number of our mobile subscribers increased to 335.6 million, ranking second in Chinese telecommunications industry. The revenues attributable to mobile handset Internet access was RMB123,203 million in 2019, representing an increase of 10.8% from 2018. In addition, the number of our wireline broadband subscribers increased to 153.1 million as of December 31, 2019, representing an increase of approximately 7.3 million, or 5.0%, from 145.8 million as of December 31, 2018. Due to intensified market competition, the wireline broadband revenue was RMB68,413 million in 2019, representing a decrease of 7.9% from RMB74,262 million in 2018.

Information and Application Services. Revenues from our information and application services increased by 5.0% from RMB83,478 million in 2018 to RMB87,623 million in 2019, representing 23.3% of our operating revenues in 2019. This increase was primarily due to the rapid growth of our emerging business such as IDC, cloud, IoT and Internet Finance services.

Telecommunications Network Resource and Equipment Services. Revenues from our telecommunications network resource and equipment services increased by 8.7% from RMB20,211 million in 2018 to RMB21,978 million in 2019, representing 5.9% of our operating revenues in 2019. This increase was primarily due to the growth in revenues from digital circuit service and IP-VPN service.

Others. Other revenues decreased by 25.2% from RMB31,753 million in 2018 to RMB23,743 million in 2019, representing 6.3% of our operating revenues in 2019. The decrease in other revenues was primarily due to the decrease in the scale of mobile terminals sold.

Operating Expenses

Our operating expenses decreased by 0.5% from RMB348,410 million in 2018 to RMB346,664 million in 2019. The decrease in operating expenses was primarily due to decreases in network operations and support expenses, selling, general and administrative expenses, and other operating expenses, which were partially offset by the increases in depreciation and amortization, and personnel expenses.

Depreciation and Amortization. Our depreciation and amortization expenses increased by 16.8% from RMB75,493 million in 2018 to RMB88,145 million in 2019. The depreciation and amortization expenses as a percentage of our operating revenues increased from 20.0% in 2018 to 23.5% in 2019. This is primarily attributable to depreciation of right-of-use assets, other than leasehold land, amounted to RMB11,611 million, which was recognized upon the application of International Financial Reporting Standard 16 (“New Lease Standard”) in 2019, and our capital expenditures properly maintained at a relatively high level for strengthening our network competitiveness advantage in recent years.

Network Operations and Support Expenses. Our network operations and support expenses decreased by 5.4% from RMB116,062 million in 2018 to RMB109,799 million in 2019. This is mainly attributable to the decrease in expenses related to operating lease arrangements upon the application of the New Lease Standard in 2019. Expenses related to operating lease arrangements were recognized in the form of depreciation of right-of-use assets and interest expenses of lease liabilities according to the New Lease Standard. The decrease in network operations and support expenses was partially offset by the increase in expenses due to the Company’s persistent efforts in maintaining network quality to support rapid development of emerging businesses and thus resulting in appropriate increase in operating and maintenance expenses.

Selling, General and Administrative Expenses. Our selling, general and administrative expenses decreased by 3.5% from RMB59,422 million in 2018 to RMB57,361 million in 2019. The selling expenses were RMB48,472 million in 2019, representing an decrease of 4.6% from 2018, primarily due to our continuous efforts in optimizing sales and marketing model, reinforcing the precise management of sales and marketing resources resulting in enhancement of the effectiveness of sales and marketing resources. Our general and administrative expenses were RMB8,889 million in 2019, representing an increase of 3.0% from 2018, primarily due to our increased research and development expenditure to promote high-quality development and strengthen the building of core capabilities.

Personnel Expenses. Personnel expenses increased by 6.4% from RMB59,736 million in 2018 to RMB63,567 million in 2019, primarily due to the increased incentives for high-tech talents and frontline employees. The personnel expenses as a percentage of our operating revenues increased from 15.8% in 2018 to 16.9% in 2019.

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 RMB27,792 million in 2019, which decreased by 26.3% from RMB37,697 million in 2018. The decrease was primarily due to the decrease in the cost of mobile terminals sold, which is commensurate with the decreased sales of such goods.

Net Finance Costs

Our net finance costs increased by 34.4% from RMB2,708 million in 2018 to RMB3,639 million in 2019. This is primarily attributable to interest expense on lease liabilities amounted to RMB1,607 million, which was recognized upon the application of the New Lease Standard in 2019, and partially offset by appropriate increase in the allocation of bond products with favorable costs and continued to improve the capabilities of internal capital centralization, effectively controlling the scale of indebtedness and financing costs, and further enhancing the capital turnover rate and utilization efficiency.

The net exchange loss was RMB41 million in 2019, compared to a net exchange gain of RMB79 million in 2018, which was primarily due to fluctuation of the Renminbi exchange rate against the U.S. dollars in 2019. According to the exchange rates published by the People’s Bank of China on December 31, 2019, the exchange rate of Renminbi depreciated by 1.6% against the U.S. dollars from December 28, 2018.

Income Tax

In 2019, our income tax expense was RMB6,322 million with an effective tax rate of 23.4%. Our expected income tax expense at our statutory tax rate of 25.0% in 2019 would be RMB6,759 million. The difference between our effective income tax rate and the statutory income tax rate was primarily due to the low tax rates enjoyed by some subsidiaries and some branches located in the western region of China and the preferential income tax policies enjoyed by us such as additional tax deduction on expenses for research and development proactively implemented by us. Furthermore, our income from investments in associate company, Tower Company, is not subject to income tax in the current year. See Note 31 to our consolidated financial statements included elsewhere in this annual report for further details in respect of the reconciliation of the expected tax expense with the actual tax expense.

Profit Attributable to Equity Holders of the Company

As a result of the foregoing, the profit attributable to equity holders of the Company was RMB20,517 million in 2019, representing a decrease of 3.3% from the profit attributable to equity holders of the Company of RMB21,210 million in 2018.

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,	
	2018	2019
	(RMB in millions)	
Net cash flow from operating activities	99,298	112,600
Net cash used in investing activities	(85,954)	(77,214)
Net cash used in financing activities	(16,283)	(31,288)
Net (decrease)/increase in cash and cash equivalents	<u>(2,939)</u>	<u>4,098</u>

Cash and cash equivalents increased by 24.8% from RMB16,666 million as of December 31, 2018, of which 64.0% was denominated in RMB, to RMB20,791 as of December 31, 2019, of which 78.0% was denominated in RMB. Our net cash inflow was RMB4,098 million in 2019, as compared with the net cash outflow of RMB2,939 million in 2018.

Our principal source of liquidity is net cash inflow from operating activities, which was RMB112,600 million in 2019, an increase of RMB13,302 million from RMB99,298 million of net cash inflow in 2018, primarily because the principal portion of the rental expenses paid was classified from operating activities to financing activities, which is a structural adjustment due to the application of the New Lease Standard.

Net cash outflow used in investing activities decreased by RMB8,740 million from RMB85,954 million in 2018 to RMB77,214 million in 2019, primarily attributable to the maturity of our certain short-term bank deposit investments.

Net cash outflow used in financing activities was RMB31,288 million in 2019 compared to RMB16,283 million in 2018, primarily because part of the cash outflow from operating activities was reflected in the financing activities upon the application of the New Lease Standard, and we repaid part of our interest-bearing debt in 2019.

Our working capital (defined as current assets minus current liabilities) was a deficit of RMB191,479 million as of December 31, 2019, representing an increase of deficit of RMB5,564 million, compared to a deficit of RMB185,915 million as of December 31, 2018. It was mainly due to the recognition of lease liabilities as a result of the application of the New Lease Standard.

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 debt financing, will be sufficient to satisfy our future working capital requirements and capital expenditures through the end of 2020. We have established and maintained high credit ratings in domestic major financing markets, 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, 2019, we had unutilized credit facilities of RMB245,847 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,	
	2018	2019
	(RMB in millions)	
Short-term debt	49,537	42,527
Long-term debt maturing within one year	1,139	4,444
Long-term debt	44,852	32,051
Finance lease obligations (including current portion)	216	—
Total debt ⁽¹⁾	95,744	79,022

(1) Upon the application of the New Lease Standard, lease liabilities (including current portion) amounting to RMB42,146 million are not included in indebtedness as of December 31, 2019.

Our total debt decreased by RMB16,722 million from RMB95,744 million as of December 31, 2018 to RMB79,022 million as of December 31, 2019, primarily because we continued to strengthen our intensive management of interest-bearing debt, refined day-to-day management and control, effectively improved the efficiency of capital spending, and reduced the amount of interest-bearing debt outstanding. Our debt-to-asset ratio (total debt divided by total assets) decreased from 14.4% as of December 31, 2018 to 11.2% as of December 31, 2019. We believe that our Company has maintained a solid capital structure.

Our short-term debt constituted 53.8% of our total debt as of December 31, 2019. The weighted average interest rate of our short-term debt was 2.9% as of December 31, 2019, representing a decrease of 0.3 percentage point from that as of December 31, 2018.

Our long-term debt (including current portion) decreased from RMB45,991 million as of December 31, 2018 to RMB36,495 million as of December 31, 2019.

Of our total debt as of December 31, 2019, 99.4%, 0.4% and 0.2% were denominated in Renminbi, U.S. dollars and Euros, respectively, and 82.9% and 17.1% were with fixed interest rate and floating interest rate, 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 period after December 31, 2019 may differ from the amounts indicated below.

	Year Ended December 31,		
	2018	2019	2020 (Planned)
	(RMB in millions)		
Total capital expenditure	74,940	77,557	85,000

In 2019, we continued to optimize network experience, deploying targeted coverage and dynamic capacity expansion for 4G network resulting in strengthening of the comprehensive competitive advantage of networks. At the same time, we promoted the construction of 5G network to gear up the potential for the future development of 5G. In 2019, our capital expenditure was RMB77,557 million, an increase of 3.5% from RMB74,940 million in 2018.

Our capital expenditure for 2020 is expected to be approximately RMB85,000 million. We expect to invest RMB45,300 million in 5G networks developments with the target to construct 140,000 base stations independently. By the end of 2020, with another 110,000 co-shared base stations with CUCL, we expect to realize national 5G coverage in all prefecture-level cities, certain key counties and developed townships. The remaining budget is expected to be mainly used for cloud computing, data centers, informatization applications, and expansion and upgrade of existing network facilities.

Capital Resources

The main sources of our capital resources are cash generated from operating activities, bank borrowings and other indebtedness. We expect that we will have sufficient funding sources to meet our capital resources 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 5G mobile communications technology, ultra-high-speed optic fiber transmission technology, cloud computing, Big Data, AI or artificial intelligence technology, IoT, 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, 2019, 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, 2019:

	Payable in						After 2024
	Total	2020	2021	2022	2023	2024	
	(RMB in millions)						
Contractual Obligations⁽¹⁾:							
Short-term debt	42,527	42,527	—	—	—	—	
Long-term debt	36,495	4,444	1,078	26,032	965	940	
Lease liabilities	42,146	11,569	10,887	10,345	3,658	2,252	
Interest payable	8,855	2,628	1,013	2,980	479	439	
Capital commitments	20,941	20,941	—	—	—	—	
Total contractual obligations	150,964	82,109	12,978	39,357	5,102	3,631	

(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 current sixth session of the Board is three years, starting from May 23, 2017 until the date of the Company’s annual general meeting for the year 2019 expected to be held on May 26, 2020 (“2019 AGM”), upon which the seventh session of the Board will be elected. The Board has proposed to re-elect the current Directors, Mr. Ke Ruiwen, Mr. Chen Zhongyue, Mr. Liu Guiqing, Madam Zhu Min, Mr. Wang Guoquan and Mr. Chen Shengguang as Directors of the seventh session of the Board; and to re-elect Mr. Tse Hau Yin, Aloysius, Mr. Xu Erming, Madam Wang Hsuehming and Mr. Yeung Chi Wai, Jason as Independent Directors of the seventh session of the Board. Meanwhile, the Board will also propose to seek the approval of the shareholders of the Company to elect Mr. Li Zhengmao, the President and Chief Operating Officer of the Company and Mr. Shao Guanglu, respectively as Executive Directors of the seventh session of the Board at the 2019 AGM. As of December 31, 2019, the Board comprised eleven Directors with six Executive Directors, one Non-Executive Director and four Independent Non-Executive Directors. Our Board currently consists of ten Directors with five Executive Directors, one Non-Executive Director and four Independent Non-Executive Directors.

On March 4, 2019, Mr. Yang Jie resigned from his positions as an Executive Director, Chairman and Chief Executive Officer of the Company due to change in work arrangement.

On March 8, 2019, the Board resolved to approve Mr. Ke Ruiwen, an Executive Director, the then President and Chief Operating Officer of the Company, to performing the functions of the Chairman and Chief Executive Officer of the Company.

On March 11, 2019, Mr. Wang Guoquan was appointed as an Executive Vice President of the Company.

On May 22, 2019, Mr. Ke Ruiwen, an Executive Director, the then President and Chief Operating Officer of the Company, was appointed as the Chairman and Chief Executive Officer of the Company.

On August 19, 2019, Mr. Liu Guiqing and Mr. Wang Guoquan, Executive Vice Presidents of the Company, were appointed as Executive Directors of the Company at the extraordinary general meeting of the Company.

On January 17, 2020, Mr. Gao Tongqing resigned from his positions as an Executive Director and Executive Vice President of the Company due to change in work arrangement.

On March 23, 2020, Mr. Li Zhengmao was appointed as the President and Chief Operating Officer of the Company and on the same date, Mr. Ke Ruiwen, an Executive Director, Chairman and Chief Executive Officer of the Company, ceased to act as the President and Chief Operating 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>
Ke Ruiwen	56	Executive Director, Chairman and Chief Executive Officer
Li Zhengmao	57	President and Chief Operating Officer
Chen Zhongyue	48	Executive Director and Executive Vice President
Zhang Zhiyong	54	Executive Vice President
Liu Guiqing	53	Executive Director and Executive Vice President
Zhu Min	55	Executive Director, Executive Vice President, Chief Financial Officer and Secretary of the Board
Wang Guoquan	47	Executive Director and Executive Vice President
Chen Shengguang	56	Non-Executive Director
Tse Hau Yin, Aloysius	72	Independent Non-Executive Director
Xu Erming	70	Independent Non-Executive Director
Wang Hsuehming	70	Independent Non-Executive Director
Yeung Chi Wai, Jason	65	Independent Non-Executive Director

Ke Ruiwen, age 56, is an Executive Director, the Chairman of the Board and Chief Executive Officer of the Company, joined the Board of the Company in May 2012. Mr. Ke obtained a doctorate degree in business administration (DBA) from the ESC Rennes School of Business. Mr. Ke served as Deputy Director General of Jiangxi Posts and Telecommunications Administration, Deputy General Manager of Jiangxi Telecom, Managing Director of the Marketing Department of the Company and China Telecommunications Corporation, General Manager of Jiangxi Telecom, Managing Director of the Human Resources Department of the Company and China Telecommunications Corporation, Executive Vice President, President and Chief Operating Officer of the Company, Vice President and President of China Telecommunications Corporation and the Chairman of Supervisory Committee of China Tower Corporation Limited. He is also the Chairman of China Telecommunications Corporation. Mr. Ke has extensive experience in management and the telecommunications industry.

Li Zhengmao, age 57, is the President and Chief Operating Officer of the Company, graduated from Sichuan University with a major in radio electronics and received a master degree in radio technology from Chengdu Telecommunications Engineering Institute and a doctorate degree in communication and electronic system of radio engineering from Southeast University. Mr. Li served as an Executive Director and Vice President of China Unicom Limited, a Director and Vice President of China United Telecommunications Corporation, a Vice President of China Mobile Limited which is listed on the Main Board of the HKSE, a Vice President and General Counsel of China Mobile Communications Group Co., Ltd. and a Director and Vice President of China Mobile Communication Co., Ltd., a Non-Executive Director of China Communications Services Corporation Limited which is listed on the Main Board of the HKSE and a Vice Chairman of True Corporation Public Company Limited which is listed on the Stock Exchange of Thailand. Mr. Li is also a Director and the President of China Telecommunications Corporation. Mr. Li has extensive experience in management and the telecommunications industry.

Chen Zhongyue, age 48, is an Executive Director and Executive Vice President of the Company and joined the Board of the Company in May 2017. Mr. Chen received a bachelor degree from Shanghai International Studies University, a master degree in economics from Zhejiang University and an executive master of business administration (EMBA) from Xiamen University. Mr. Chen served as Deputy General Manager of China Telecom Zhejiang branch, Managing Director of the Public Customers Department of the Company and China Telecommunications Corporation and General Manager of China Telecom Shanxi branch. He is also a Vice President of China Telecommunications Corporation. Mr. Chen has extensive experience in management and the telecommunications industry.

Zhang Zhiyong, age 54, was appointed as an Executive Vice President of the Company on July 10, 2018. Mr. Zhang is a senior engineer. He graduated from the Changchun Institute of Posts and Telecommunications with a bachelor degree in radio engineering. He also received a master degree in control engineering from Yanshan University and a master of management degree from BI Norwegian School of Management. Mr. Zhang served as Managing Director of the Sideline Industrial Management Department of China Telecommunications Corporation, President and Executive Director of China Communications Services Corporation Limited which is listed on the Main Board of the HKSE, General Manager of Xinjiang branch and Beijing branch of China Telecom Corporation Limited. He is also a Vice President of China Telecommunications Corporation, the Chairman of the board of directors and an Executive Director of China Communications Services Corporation Limited and a Non-Executive Director of China Tower Corporation Limited, both are listed on the Main Board of the HKSE. Mr. Zhang has extensive experience in management and the telecommunications industry.

Liu Guiqing, age 53, is an Executive Director and Executive Vice President of the Company, joined the Board of the Company in August 2019. Mr. Liu is a professor-level senior engineer. He received a doctorate degree in engineering science from National University of Defense Technology. Mr. Liu served as Deputy General Manager and General Manager of China Unicom Hunan branch and General Manager of China Unicom Jiangsu provincial branch. He is also a Vice President of China Telecommunications Corporation. Mr. Liu has extensive experience in management and the telecommunications industry.

Zhu Min, age 55, is an Executive Director, Executive Vice President, Chief Financial Officer and Secretary of the Board and joined the Board of the Company in October 2018. Madam Zhu is a senior accountant. She received a master degree in system engineering from the Faculty of Management Engineering at the Beijing Institute of Posts and Telecommunications and a doctorate degree in business administration from the Hong Kong Polytechnic University. Madam Zhu served as Managing Director of Finance Department of China Telecom (Hong Kong) Limited, Managing Director of Finance Department of China Mobile (Hong Kong) Group Limited, Deputy Chief Financial Officer and Managing Director of Finance Department of China Mobile Limited, which is listed on the Main Board of the HKSE, Director General of Finance Department of China Mobile Communications Corporation, Deputy Chief Accountant and Director General of Finance Department of China Mobile Communications Group Co., Ltd. and a Director of Shanghai Pudong Development Bank Co., Ltd., which is listed on the Shanghai Stock Exchange. She is currently the Chief Accountant of China Telecommunications Corporation. Madam Zhu has extensive experience in finance, management and the telecommunications industry.

Wang Guoquan, age 47, is an Executive Director and Executive Vice President of the Company and joined the Board of the Company in August 2019. Mr. Wang received an executive master degree of business administration (EMBA) from Business School, Renmin University of China. Mr. Wang served as Deputy General Manager and General Manager of the China Telecom Hebei branch, General Manager of the Marketing Department of China Telecommunications Corporation and a director of Besttone Holding Co., Ltd., which is listed on the Shanghai Stock Exchange. He is also a Vice President of China Telecommunications Corporation. Mr. Wang has extensive experience in management and the telecommunications industry.

Chen Shengguang, age 56, is a Non-Executive Director of the Company and joined the Board of the Company in May 2017. Mr. Chen graduated from Zhongnan University of Economics with a major in finance and accounting, and obtained a postgraduate degree in economics from Guangdong Academy of Social Sciences and a master degree in business administration (MBA) from Lingnan College of Sun Yat-sen University. Mr. Chen is currently the Director and General Manager of Guangdong Rising Assets Management Co., Ltd. (one of the domestic shareholders of the Company). Mr. Chen served as the Manager of Finance Department and Deputy General Manager of Guangdong Foreign Trade Import & Export Corporation, Head of Finance Department, Assistant to General Manager and Chief Accountant of Guangdong Guangxin Foreign Trade Group Co., Limited, a Director of FSPG Hi-Tech Co., Ltd. which is listed on the Shenzhen Stock Exchange, a Non-Executive Director of Xingfa Aluminium Holdings Limited which is listed on the Main Board of the HKSE, a Director of Guangdong Silk-Tex Group Co., Ltd., the Chief Accountant and Deputy General Manager of Guangdong Guangxin Holdings Group Ltd. Mr. Chen has extensive experience in finance and corporate management.

Tse Hau Yin, Aloysius, age 72, is an Independent Non-Executive Director of the Company and joined the Board of the Company in September 2005. Mr. Tse is currently an Independent Non-Executive Director of CNOOC Limited, Sinofert Holdings Limited, SJM Holdings Limited and China Huarong Asset Management Co., Ltd., all of which are listed on the Main Board of the HKSE. 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 Main Board of the HKSE until October 2014). From 2004 to 2010, he was an Independent Non-Executive Director of China Construction Bank Corporation, which is listed on the Main Board of the HKSE. From 2005 to 2016, Mr. Tse was also an Independent Non-Executive Director of Daohe Global Group Limited (formerly known as “Linmark Group Limited”), which is listed on the Main Board of the HKSE. 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.

Xu Erming, age 70, is an Independent Non-Executive Director of the Company and joined the Board of the Company in September 2005. Professor Xu is a professor and Dean of Business School of Shantou University and Vice Chairman of the Chinese Enterprise Management Research Association. He is entitled to the State Council's special government allowances and is an Independent Non-Executive Director of Comtec Solar Systems Group Limited, which is listed on the Main Board of the HKSE. Professor Xu served as a professor, Ph.D supervisor of the Graduate School and Dean of Business School at the Renmin University of China, and was an Independent Supervisor of Harbin Electric Company Limited, which is listed on the Main Board of the HKSE. Over the years, Professor Xu has conducted research in areas related to strategic management, innovation and entrepreneurship management, and has been responsible for research on many subjects put forward by the National Natural Science Foundation, the National Social Science Foundation, and other authorities at provincial and ministry level. He has received many awards such as the Ministry of Education's Class One Excellent Higher Education Textbook Award, the State-Level Class Two Teaching Award and the National Excellent Course Award. Professor Xu has been awarded the Fulbright Scholar of U.S.A. twice and the visiting scholar of McGill University, Canada. Professor Xu was previously a lecturer at the New York State University at Buffalo, U.S.A., the University of Scranton, U.S.A., the University of Technology, Sydney, the Kyushu University, Japan, Panyapiwat Institute of Management, Thailand and the Hong Kong Polytechnic University.

Wang Hsuehming, age 70, is an Independent Non-Executive Director of the Company and joined the Board of the Company in May 2014. Madam Wang received a bachelor of arts degree from the University of Massachusetts and attended Columbia University. She was a Senior Advisor and former Chairman of BlackRock China. She was also the former Chairman of China at Goldman Sachs Asset Management. She joined Goldman Sachs in 1994, became a Partner in 2000 and an Advisory Director from 2010 to 2011. With nearly 30 years of experience in financial services, she participated in pioneering efforts in China's economic reform and development. She was instrumental in advising Ministry of Posts and Telecommunications and Ministry of Information Industry (now known as Ministry of Industry and Information Technology) in the privatizations and listings of its mobile and fixed line businesses. She also participated in advising appropriate operators in strategic investments by international telecom companies. The early cross-border financings of aircraft and other capital equipment in China's aviation sector, as well as the separate listings of national airlines, and important provincial and municipal credit restructurings also formed part of Madam Wang's understanding of China's economic growth in the past three decades.

Yeung Chi Wai, Jason, age 65, is an Independent Non-Executive Director of the Company and joined the Board of the Company in October 2018. Mr. Yeung is currently the Group Chief Compliance and Risk Management Officer of Fung Holdings (1937) Limited and its listed companies in Hong Kong, an Independent Non-Executive Director of Bank of Communications Co., Ltd, which is listed on the Main Board of the HKSE and the Shanghai Stock Exchange and a member of Hospital Authority Board of Hong Kong. He served as an Independent Non-Executive Director of AviChina Industry & Technology Company Limited, which is listed on the Main Board of the HKSE. Mr. Yeung has extensive experience in handling legal, compliance and regulatory matters and previously worked in the Securities and Futures Commission of Hong Kong, law firms and enterprises practising corporate, commercial and securities laws. Mr. Yeung served as a Director and the General Counsel of China Everbright Limited, which is listed on the Main Board of the HKSE and was also a partner of Woo, Kwan, Lee, & Lo. He acted as the Board Secretary of BOC Hong Kong (Holdings) Limited which is listed on the Main Board of the HKSE, from 2001 to 2011 and concurrently acted as the Board Secretary of Bank of China Limited which is listed on the Main Board of the HKSE and the Shanghai Stock Exchange, from 2005 to 2008. He also served as the Deputy Chief Executive (Personal Banking) of Bank of China (Hong Kong) Limited from April 2011 to February 2015. Mr. Yeung received a bachelor degree in social sciences from the University of Hong Kong. He then graduated from The College of Law, United Kingdom and received a bachelor degree in law and a master degree in business administration from the University of Western Ontario, Canada.

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. Our Supervisors are generally elected for a term of three years and may serve consecutive terms if re-elected. The term of office for the sixth session of our Supervisory Committee is three years, starting from May 23, 2017 until the date of the 2019 AGM, upon which the seventh session of the Supervisory Committee will be elected. The Supervisory Committee has proposed to re-elect the current Shareholder Representative Supervisors, Mr. Sui Yixun and Mr. Xu Shiguang as members of the seventh session of the Supervisory Committee. Due to his age, Mr. Ye Zhong will retire from his position as a Supervisor of the Company upon the expiry of his term of service at the 2019 AGM. The Employee Representative Supervisors of the seventh session of the Supervisory Committee shall be elected democratically by the employees of the Company.

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

<u>Name</u>	<u>Age</u>	<u>Position</u>
Sui Yixun	56	Supervisor (Chairman of the Supervisory Committee and Shareholder Representative)
Zhang Jianbin	54	Supervisor (Employee Representative)
Yang Jianqing	60	Supervisor (Employee Representative)
Xu Shiguang	40	Supervisor (Shareholder Representative)
Ye Zhong	60	Supervisor (Shareholder Representative)

Sui Yixun, age 56, is the Chairman of the Supervisory Committee of the Company and joined the Supervisory Committee of the Company in May 2015. Mr. Sui is currently a Supervisor of Tianyi Telecom Terminals Company Limited and a Supervisor of China Tower Corporation Limited which is listed on the Main Board of the HKSE. 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, General Manager of China Telecom Inner Mongolia Autonomous Region branch and the Managing Director of audit department of the Company. Mr. Sui is a senior economist and has extensive experience in operational and financial management in the telecommunications industry.

Zhang Jianbin, age 54, is an Employee Representative Supervisor of the Company and joined the Supervisory Committee of the Company in October 2012. Mr. Zhang is currently the Deputy Managing Director of the Corporate Strategy Department (Legal Department) and the Deputy General Counsel of China Telecommunications Corporation. Mr. Zhang graduated from the Law School of Peking University in 1989 and received a 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 of the MPT. Mr. Zhang has extensive experience in corporate legal affairs.

Yang Jianqing, age 60, is an Employee Representative Supervisor of the Company and joined the Supervisory Committee of the Company in May 2017. Mr. Yang graduated from the Beijing Institute of Posts and Telecommunications with a bachelor degree in 1982 and obtained a master degree in business administration from the University of Hong Kong. Mr. Yang served as Director General of Xining Telecommunications Bureau in Qinghai province, Deputy General Manager and General Manager of China Telecom Qinghai branch, General Manager of China Telecom Gansu branch, financial controller of the Company, General Manager and Senior Consultant of Corporate Culture Department of the Company. Mr. Yang is a senior engineer and has extensive experience in operational and financial management in the telecommunications industry.

Xu Shiguang, age 40, is a Supervisor of the Company and joined the Supervisor Committee of the Company in October 2018. Mr. Xu is currently the Director of general office of audit department of the Company. Mr. Xu received a bachelor degree in auditing and a master degree in accounting from the Nankai University. Mr. Xu served at various positions in internal control and auditing at China Telecommunications Corporation for many years. Mr. Xu is a member of the Chinese Institute of Certified Public Accountants and a Certified Internal Auditor with extensive experience in internal control and auditing.

Ye Zhong, age 60, is a Supervisor of the Company and joined the Supervisory Committee of the Company in May 2015. Mr. Ye is a senior accountant. He holds a bachelor degree. Mr. Ye is the Chairman and General Manager of Zhejiang Provincial Innovation and Development Investment 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 the Director of Zhejiang Provincial Financial Holdings Co., Ltd., Deputy General Manager of Zhejiang Financial Development Company (one of the domestic shareholders of the Company), Chairman of Zhejiang Venture Capital Fund of Funds Management Co. Ltd., Chairman and General Manager of Zhejiang Infrastructure Investment (including PPP) Fund Co. Ltd., Director of Zhejiang Provincial Industry Fund Co., Ltd., Deputy Director of the Social Security Division of the Department of Finance of Zhejiang Province, Deputy Director of the Discipline Inspection Division and Director of Supervisory Office of the Department of Finance of Zhejiang Province delegated by the Discipline Inspection Commission and Department of Supervision of Zhejiang Province. Mr. Ye has extensive experience in government's work and state-owned enterprise management.

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 RMB10.802 million for the year ended December 31, 2019.

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, 2019 was approximately RMB9.203 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⁽³⁾</u>	<u>Share-based payments</u>	<u>Retirement scheme contributions</u>	<u>Total</u>
	RMB thousands					
2019						
<i>Executive Directors</i>						
Ke Ruiwen	—	221	648	—	113	982
Chen Zhongyue	—	199	603	—	111	913
Liu Guiqing ⁽⁴⁾	—	66	399	—	43	508
Zhu Min	—	197	458	—	106	761
Wang Guoquan ⁽⁵⁾	—	66	98	—	41	205
Yang Jie ⁽⁶⁾	—	37	399	—	32	468
Gao Tongqing ⁽⁷⁾	—	199	603	—	112	914
<i>Non-Executive Director</i>						
Chen Shengguang	—	—	—	—	—	—
<i>Independent Non-Executive Directors⁽²⁾</i>						
Tse Hau Yin, Aloysius	487	—	—	—	—	487
Xu Erming	250	—	—	—	—	250
Wang Hsuehming	266	—	—	—	—	266
Yeung Chi Wai, Jason	266	—	—	—	—	266
<i>Supervisors</i>						
Sui Yixun	—	265	494	—	107	866
Zhang Jianbin	—	253	494	—	107	854
Yang Jianqing	—	309	458	—	111	878
Xu Shiguang	—	145	356	—	84	585
Ye Zhong	—	—	—	—	—	—
Total	1,269	1,957	5,010	—	967	9,203

- (1) The remuneration of all Directors and Supervisors were calculated based on their respective actual terms of office within this year. None of the Directors or Supervisors received any inducements for joining the Company or compensation for loss of office, or waived or agreed to waive any emoluments during this year.
- (2) The Independent Non-Executive Directors' remuneration were for their services as Directors of the Company.
- (3) The discretionary bonuses of the Executive Directors and Supervisors were determined based on the performance of the Company and its subsidiaries for the year. In addition, according to the respective provision of the SASAC, certain Directors were also entitled to deferred bonuses in relation to the period from 2016 to 2018. The deferred bonuses paid to Mr. Ke Ruiwen, Mr. Chen Zhongyue, Mr. Liu Guiqing, Madam Zhu Min, Mr. Yang Jie and Mr. Gao Tongqing in the current year were RMB583 thousand, RMB578 thousand, RMB206 thousand, RMB111 thousand, RMB642 thousand and RMB578 thousand, respectively.
- (4) Mr. Liu Guiqing was appointed as an Executive Director of the Company on August 19, 2019.
- (5) Mr. Wang Guoquan was appointed as an Executive Director of the Company on August 19, 2019.
- (6) Mr. Yang Jie resigned as an Executive Director of the Company on March 4, 2019.
- (7) Mr. Gao Tongqing resigned as an Executive Director of the Company on January 17, 2020.

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 Non-Executive Directors and Non-Executive Directors do not receive any discretionary bonus.

Discretionary Bonuses for Employee Supervisors

Certain of our Supervisors are also our employees. Mr. Ye Zhong is a non-employee Supervisor. 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.

Share Appreciation Rights

We implemented a plan of share appreciation rights for members of our management in order to provide incentives for these employees. Under this plan, share appreciation rights were granted in units with each unit representing one H share. No shares will be issued under the share appreciation rights plan. Upon exercise of the share 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 share 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. We recognize compensation expense of the share appreciation rights over the applicable vesting period.

In November 2018, we approved the granting of 2,394 million share appreciation right units to eligible employees. Under the terms of this grant, all share appreciation rights had a contractual life of five years from date of grant and an exercise price of HK\$3.81 per unit. A recipient of share appreciation rights may exercise the rights in stages commencing November 2020. As at each of the third, fourth and fifth anniversary of the date of grant, the total number of share appreciation rights exercisable may not in aggregate exceed 33.3%, 66.7% and 100.0%, respectively, of the total share appreciation rights granted to such person.

During the years ended December 31, 2019 and 2018, no share appreciation right units were exercised. For the year ended December 31, 2019, compensation expense of RMB136 million was recognized by us in respect of share appreciation rights. For the year ended December 31, 2018, compensation expense of RMB30 million was recognized by us in respect of share appreciation rights. As of December 31, 2019, the carrying amount of the liability arising from share appreciation rights was RMB166 million. As of December 31, 2018, the carrying amount of the liability arising from share appreciation rights was RMB30 million.

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 23, 2017, election of members of the Board were conducted and this election generated the sixth session of the Board consisting of eleven Directors with six Executive Directors, one Non-Executive Director and four Independent Non-Executive Directors. The term of office for the sixth session of the Board lasts for three years, starting from May 23, 2017 until the date of the 2019 AGM, upon which the seventh session of the Board will be elected. The Board has proposed to re-elect the current Directors, Mr. Ke Ruiwen, Mr. Chen Zhongyue, Mr. Liu Guiqing, Madam Zhu Min, Mr. Wang Guoquan and Mr. Chen Shengguang as Directors of the seventh session of the Board; and to re-elect Mr. Tse Hau Yin, Aloysius, Mr. Xu Erming, Madam Wang Hsuehming and Mr. Yeung Chi Wai, Jason as Independent Directors of the seventh session of the Board. Meanwhile, the Board will also propose to seek the approval of the shareholders of the Company to elect Mr. Li Zhengmao, the President and Chief Operating Officer of the Company and Mr. Shao Guanglu, respectively as Executive Directors of the seventh session of the Board at the 2019 AGM. We determine the Directors' remuneration with reference to factors such as their respective responsibilities and duties in the Company, as well as their experiences and market conditions at the relevant time. None of the service contracts with our Directors provide benefits to them upon termination.

On March 4, 2019, Mr. Yang Jie resigned from his positions as an Executive Director, Chairman and Chief Executive Officer of the Company due to change in work arrangement. On August 19, 2019, Mr. Liu Guiqing and Mr. Wang Guoquan, Executive Vice Presidents of the Company, were appointed as Executive Directors of the Company. On January 17, 2020, Mr. Gao Tongqing resigned from his positions as an Executive Director and Executive Vice President of the Company due to change in work arrangement. Our Board currently consists of ten Directors with five Executive Directors, one Non-Executive Director and four Independent Non-Executive Directors.

The Board holds at least four meetings in each year. Additional Board meetings will be held in accordance with practical needs. In 2019, the Board played a pivotal role in the Company's operation, supervision, internal control, risk management and other significant decisions and corporate governance. Specifically, the Board reviewed matters including, but not limited to, certain financial services framework agreements entered into between China Telecom Finance and the Company, China Telecommunications Corporation and CCS, respectively, the continuing connected transactions contemplated thereunder and the applicable annual caps thereto, the Company's annual and interim financial statements, quarterly financial results, risk management and internal control implementation and assessment report, annual proposal for profit distribution, review of the structure and operations of the Board, two rounds of amendments to the Articles of Association, approval of authorization granted to the Company to issue debentures, proposal for Directors and senior management liabilities insurance, change of the principal place of business in Hong Kong, the implementation of continuing connected transactions, changes of Board members and senior management, remuneration proposal for the newly appointed Directors, re-appointment and remuneration of auditors, the 5G Cooperation Agreement with CUCL, and the progress report on the preparation of the Environmental, Social and Governance Report. During the year, the Company convened four Board meetings and completed various written resolutions. In 2019, the Chairman held a meeting to communicate with Independent Non-Executive Directors (without the presence of other Directors) to ensure their opinions can be fully expressed, further facilitating the exchange of different views on the Board.

Audit Committee

The Audit Committee was established in 2002. It currently consists of four members, Mr. Tse Hau Yin, Aloysius (as the Chairman), Mr. Xu Erming, Madam Wang Hsuehming and Mr. Yeung Chi Wai, Jason, 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, in March 2015 and in December 2018, 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 completeness 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, qualifications and experience of staff fulfilling the accounting, internal control and financial reporting functions of the Company together with 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 2019, the Audit Committee held five meetings and passed two written resolutions, in which it reviewed matters including but not limited to, certain financial services framework agreements entered into between China Telecom Finance and the Company, China Telecommunications Corporation and CCS, respectively, the continuing connected transactions contemplated thereunder and the applicable annual caps thereto, the Company's annual and interim financial statements and quarterly financial results, assessment of the qualifications, independence, performance, appointment and remuneration of the external auditors, effectiveness of risk management and internal control systems, internal audit, implementation of continuing connected transactions, review of the operations in 2018 and the Charter of the Audit Committee, and the progress report on the preparation of the Environmental, Social and Governance Report. The Audit Committee reviewed the annual auditor's report, interim review report and quarterly agreed-upon procedures reports prepared by the external auditors, communicated with the management and the external auditors in regard to the regular financial reports and proposed them for the Board's approval after review and approval. The Audit Committee regularly received quarterly reports in relation to the internal audit and continuing connected transactions and provided guidance to the Internal Audit Department. Additionally, the Audit Committee reviewed the internal control assessment and the attestation report, followed up with the implementation procedures of the recommendations proposed by the external auditors, reviewed the U.S. annual report, and communicated independently with the external auditors twice a year.

Remuneration Committee

The Remuneration Committee was established in 2003, and currently consists of three members, Mr. Xu Erming (as the Chairman), 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 and in December 2018, pursuant to which the Remuneration Committee's principal responsibilities include 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 held one meeting in 2019, in which it reviewed and discussed the remuneration proposals for the newly appointed Directors.

Nomination Committee

The Nomination Committee was established in 2005. It currently consists of three members, Madam Wang Hsuehming (as the Chairlady), Mr. Tse Hau Yin, Aloysius and Mr. Xu Erming, all of whom are Independent Non-Executive Directors. The Nomination Committee is accountable to the Board and regularly reports to the Board on its work. The Nomination Committee meets at least once a year. 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 of the Board on a regular basis; identifying candidates and advising the Board with the appropriate qualifications for the position of Directors; reviewing the Board Diversity Policy as appropriate to ensure its effectiveness; assessing the independence of the Independent Non-Executive Directors; and making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors (especially Chairman and Chief Executive Officer).

The Nomination Committee held one meeting and passed three written resolutions in 2019, where it performed a review of the structure and operations of the Board and the proposed candidates for Chairman and Chief Executive Officer, Directors and other related matters.

Independent Board Committee

The Independent Board Committee consists of four 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.

The Independent Board Committee held one meeting in 2019, where it reviewed matters related to the deposit services and the proposed annual caps applicable thereto contemplated under the financial services framework agreement entered into between the Company and China Telecom Finance on February 1, 2019 and gave the relevant confirmation as well as submitted voting recommendations on these matters to the independent shareholders.

D. Employees

General

As of December 31, 2019, we had 281,215 employees. The table below sets forth the numbers of our employees according to their functions as of December 31, 2017, 2018 and 2019:

	As of December 31,					
	2017		2018		2019	
	Number of Employees	Percentage of Total	Number of Employees	Percentage of Total	Number of Employees	Percentage of Total
Management, finance and administrative	44,289	15.6%	45,045	16.0%	46,521	16.5%
Sales and marketing	141,261	49.7%	138,001	49.2%	135,797	48.3%
Operations and maintenance	89,047	31.3%	87,512	31.2%	87,943	31.3%
Research and development	9,609	3.4%	10,189	3.6%	10,954	3.9%
Total	284,206	100.0%	280,747	100.0%	281,215	100.0%

The primary components of an employee's remuneration include basic salary, a performance based bonus and compensation based on length of service. 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, 2019, 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 23, 2020 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.

<u>Title of Shares</u>	<u>Identity of Person or Group</u>	<u>Amount Owned</u>	<u>Nature of Interest</u>	<u>Percentage of the Respective Type of Shares</u>	<u>Percentage of Total Shares</u>
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%

<u>Title of Shares</u>	<u>Identity of Person or Group</u>	<u>Amount Owned</u>	<u>Nature of Interest</u>	<u>Percentage of the Respective Type of Shares⁽¹⁾</u>	<u>Percentage of Total Shares⁽¹⁾</u>
H shares	Citigroup Inc.	1,692,521,195	long position	12.19%	2.09%
		12,902,000	short position	0.09%	0.01%
		1,657,809,503	lending pool	11.94%	2.04%
H shares	BlackRock, Inc.	1,388,444,490	long position	10.01%	1.71%
H shares	GIC Private Limited	1,249,043,475	long position	9.00%	1.54%
H shares	The Bank of New York Mellon Corporation	1,015,298,374	long position	7.32%	1.25%
		555,577,300	short position	4.00%	0.68%
		421,309,827	lending pool	3.04%	0.52%
H shares	JPMorgan Chase & Co.	966,586,391	long position	6.96%	1.19%
		122,458,167	short position	0.88%	0.15%
		677,081,480	lending pool	4.87%	0.83%

(1) The percentage figures above have been rounded down 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 state-owned enterprise. 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 by the provincial governments in Guangdong Province. Citigroup Inc. is located at 388 Greenwich Street, New York, 10013, USA. BlackRock, Inc. is located at 1209 Orange Street, Wilmington, DE 19801 United States. GIC Private Limited is located at 168 Robinson Road, Capital Tower #37-01, Singapore 068912. The Bank of New York Mellon Corporation is located at Corporate Trust Center, 1209 Orange Street, Wilmington, Delaware, 19801 USA. JPMorgan Chase & Co. is located at 383 Madison Ave., New York 10179, United States.

Based solely on information contained in an Amendment No. 13 to Schedule 13G, or the FRI Schedule 13G/A, jointly filed with the SEC, on February 6, 2020 by Franklin Resources, Inc., or FRI, Charles B. Johnson, Rupert H. Johnson, Jr. and Templeton Global Advisors Limited, 1,429,370,572 shares of our Company, or the FRI Shares, representing approximately 10.3% of the total number of our H shares outstanding as of December 31, 2019, were beneficially owned by investment companies or 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, Rupert H. Johnson, Jr. and Templeton Global Advisors Limited 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 principal place of business of Templeton Global Advisors Limited is Templeton Building, Lyford Cay, Nassau, Bahamas. 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, Rupert H. Johnson, Jr. and Templeton Global Advisors Limited on February 6, 2020.

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

The details of the related party arrangements are described below.

Ongoing Related Party Transactions between Us and China Telecom Group and its affiliated companies

The following table sets out the amounts of ongoing related party transactions between our Company and China Telecom Group (as defined as China Telecom Group and its subsidiaries other than our Company under this section) for the year ended December 31, 2019:

Transactions	Transaction Amounts (RMB millions)
Net transaction amount of centralized services	133
Net expenses for interconnection settlement	86
Property lease income	57
Property lease related expenses	577
Addition to right-of-use assets	284
Interest expense on lease liabilities	11
Provision of IT services by China Telecom Group	2,175
Provision of IT services to China Telecom Group	464
Provision of supplies procurement services by China Telecom Group	3,538
Provision of supplies procurement services to China Telecom Group	1,444
Provision of engineering services by China Telecom Group	14,014
Provision of community services by China Telecom Group	3,464
Provision of ancillary telecommunications services by China Telecom Group	18,571
Provision of Internet applications channel services to China Telecom Group	108
Interest on loans from China Telecom Group	1,485
Others*	189
Net deposit by China Telecom Group with China Telecom Finance	4,098
Interest expense on the deposit by China Telecom Group with China Telecom Finance	7

* Represent usage of CDMA network facilities, usage of inter-provincial transmission optic fibers, and usage of land use rights from China Telecom Group.

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. 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 (for example, 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. Market rates shall mean the rates at which the same or similar type of products or services are provided by independent third parties in the ordinary course of business and under normal commercial terms. When determining whether the transaction price for any transaction under the agreement represents 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.

On August 20, 2018, the Company and China Telecommunications Corporation have entered into a supplemental agreement and renewed the Centralized Services Agreement pursuant to the terms thereof for a further term of three years from January 1, 2019 to December 31, 2021. 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 of the PRC from time to time. Interconnection charges are currently RMB0.06 per minute for local calls originated from the Company to China Telecommunications Corporation. 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 MIIT of the PRC. The MIIT 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 MIIT of the PRC amends the existing, or promulgates new rules or regulations in respect of interconnection settlement, the parties shall apply such amended or new rules and regulations as acknowledged by both parties. The settlement regions include Beijing Municipality, Tianjin Municipality, Hebei Province, Heilongjiang Province, Jilin Province, Liaoning Province, Shanxi Province, Henan Province, Shandong Province, Inner Mongolia Autonomous Region and Xizang Autonomous Region.

On August 20, 2018, the Company and China Telecommunications Corporation have entered into a supplemental agreement and renewed the Interconnection Settlement Agreement pursuant to the terms thereof for a further term of three years from January 1, 2019 to December 31, 2021. 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.

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 installation. 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 on normal commercial terms. When determining whether the rental charges for any property under the agreement represents market rates, to the extent practicable, management of the Company shall take into account the rental charges of at least two similar and comparable transactions entered into with or carried out by independent third parties in the ordinary course of business in the corresponding period for reference. The rental charges are subject to review every three years.

On August 20, 2018, the Company and China Telecommunications Corporation have entered into a supplemental agreement and renewed the Property Leasing Framework Agreement pursuant to the terms thereof for a further term of three years from January 1, 2019 to December 31, 2021. 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. 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 on normal commercial terms. When determining whether the transaction price for any transaction under the agreement represents market rates, to the extent practicable, management of the Company shall take into account the rates of at least two similar and comparable transactions entered into with or carried out by independent third parties in the ordinary course of business in the corresponding period for reference.

In the circumstances where the relevant laws or regulations in the PRC specify that the prices and/or the fee standards for particular services to be provided pursuant to such agreement are to be determined by a tender process, the charges payable for such services shall be finally determined in accordance with the “Bidding Law of the PRC” and the “Regulations on the Implementation of the Bidding Law of the PRC” or the relevant tender procedures. The Company shall solicit at least three tenderers for the 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.

On August 20, 2018, the Company and China Telecommunications Corporation have entered into a supplemental agreement and renewed the IT Services Framework Agreement pursuant to the terms thereof for a further term of three years from January 1, 2019 to December 31, 2021. 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 in accordance with the following pricing terms:

(1) market prices, which shall mean the prices at which the same or similar type of products or services are provided by independent third parties in the ordinary course of business and on normal commercial terms. When determining whether the transaction price for any transaction under the agreement represents market prices, to the extent practicable, management of the Company shall take into account the prices of at least two similar and comparable transactions entered into with or carried out by independent third parties in the ordinary course of business over the corresponding period for reference;

(2) where there is no or it is not possible to determine the market prices, the prices are to be agreed between the parties based on the reasonable costs incurred in providing the services plus the amount of the relevant taxes and reasonable profit margin. For this purpose, “reasonable profit margin” is to be fairly determined by negotiations between the parties in accordance with the internal policies of the Company. When determining the relevant “reasonable profit margin” for any transaction under the agreement, 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.

On August 20, 2018, the Company and China Telecommunications Corporation have entered into a supplemental agreement and renewed the Community Services Framework Agreement pursuant to the terms thereof for a further term of three years from January 1, 2019 to December 31, 2021. 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-telecommunications supplies.

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

On August 20, 2018, the Company and China Telecommunications Corporation have entered into a supplemental agreement and renewed the Supplies Procurement Services Framework Agreement pursuant to the terms thereof for a further term of three years from January 1, 2019 to December 31, 2021. 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. 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 on normal commercial terms. When determining whether the transaction price for any transaction under the agreement represents market rates, to the extent practicable, management of the Company shall take into account the rates of at least two similar and comparable transactions entered into with or carried out by independent third parties in the ordinary course of business in the corresponding period for reference. The charges payable for the design or supervision of engineering projects with a value of over RMB1 million or engineering construction projects with a value of over RMB4 million shall be determined by the tender award price, which is determined in accordance with the “Bidding Law of the PRC” and the “Regulations on the Implementation of the Bidding Law of the PRC” or the final confirmed price in the relevant tender process. The Company shall solicit at least three tenderers for the tender process.

In the circumstances there are amended rules or regulations in respect of tender scope and scale of the engineering construction projects promulgated by PRC laws and regulations during the term of the agreement, both parties agreed to apply such amended rules and regulations and no amendment to the supplemental agreement is required. 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 favorable as those offered by other tenderers, the Company may award the tender to China Telecommunications Corporation and/or its associates.

On August 20, 2018, the Company and China Telecommunications Corporation have entered into a supplemental agreement and renewed the Engineering Framework Agreement on the same terms for a further term of three years from January 1, 2019 to December 31, 2021, excepting the pricing terms updates. 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.

On August 20, 2018, the Company and China Telecommunications Corporation have entered into a supplemental agreement and renewed the Ancillary Telecommunications Services Framework Agreement pursuant to the terms thereof for a further term of three years from January 1, 2019 to December 31, 2021. 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.

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. Market rates shall mean the rental charge 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 on 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. In addition, The Company agreed to be responsible for the maintenance of these optic fibers within those service regions.

On August 20, 2018, the Company and China Telecommunications Corporation have entered into a supplemental agreement and renewed the Optic Fiber Leasing Agreement pursuant to the terms thereof for a further term of three years from January 1, 2019 to December 31, 2021. 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 and the related supplemental agreement subsequently entered into between the two parties (collectively, the "Internet Applications Channel Services Framework Agreement"), the Company provides Internet applications channel services to China 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 pricing terms for such services are the same as those set out in the Community Services Framework Agreement.

On August 20, 2018, the Company and China Telecommunications Corporation have entered into a supplemental agreement and renewed the Internet Applications Channel Services Framework Agreement pursuant to the terms thereof for a further term of three years from January 1, 2019 to December 31, 2021. No later than 30 days prior to the expiry of the Internet Applications Channel Services Framework Agreement, the Company is entitled to serve a written notice to China Telecommunications Corporation to renew the Internet Applications Channel Services Framework Agreement, and the parties shall consult and decide on matters relating to such renewal.

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.

On August 20, 2018, the Company and China Telecommunications Corporation have entered into a supplemental agreement and renewed the Trademark License Agreement pursuant to the terms thereof for a further term of three years from January 1, 2019 to December 31, 2021. 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.

Transactions between China Telecom Finance and the Parent Group and the CCS Group Respectively

On February 1, 2019, China Telecom Finance entered into the financial services framework agreement with China Telecommunications Corporation and CCS, respectively, pursuant to such agreements China Telecom Finance agreed to provide financial services, including deposit services, loan services and other financial services to (i) China Telecommunications Corporation, its associates and its commonly held entity held with our Company, excluding our Company and the CCS Group ("Parent Group"), and (ii) CCS and its subsidiaries ("CCS Group").

China Telecommunications Corporation Financial Services Framework Agreement Entered into between China Telecom Finance and China Telecommunications Corporation

On February 1, 2019, China Telecom Finance and China Telecommunications Corporation entered into a financial services framework agreement (the “China Telecommunications Corporation Financial Services Framework Agreement”), pursuant to which China Telecom Finance agreed to provide financial services, including deposit services, loan services and other financial services to the Parent Group. The pricing policy under the China Telecommunications Corporation Financial Services Framework Agreement is set out below:

(i) Deposit Services

The deposit interest rates offered by China Telecom Finance to the Parent Group shall comply with the relevant requirements of the People’s Bank of China and be with reference to the deposit benchmark interest rates promulgated by the People’s Bank of China from time to time (if any) and the deposit interest rates of the same type of deposit services for the same period offered by the major cooperative commercial banks of the Parent Group and are conducted on normal commercial terms or better. The deposit interest rates offered shall be equivalent to or higher than those offered by the major cooperative commercial banks of the Parent Group. Under the same conditions, the interest rates and terms for the deposit services offered by China Telecom Finance to the Parent Group shall be the same as those interest rates and terms of the same type of deposit services for the same period offered by China Telecom Finance to other member units.

(ii) Loan Services

The loan interest rates offered by China Telecom Finance to the Parent Group shall comply with the relevant requirements of the People’s Bank of China and be with reference to the loan benchmark interest rates promulgated by the People’s Bank of China from time to time (if any) and the loan interest rates of the same type of loan services for the same period offered by the major cooperative commercial banks of the Parent Group and are conducted on normal commercial terms or better. The loan interest rates offered shall be equivalent to or lower than those offered by the major cooperative commercial banks of the Parent Group. Under the same conditions, the interest rates and terms for the loan services offered by China Telecom Finance to the Parent Group shall be the same as those interest rates and terms of the same type of loan services for the same period offered by China Telecom Finance to other member units.

The above loan services provided by China Telecom Finance to the Parent Group do not require the Parent Group to pledge any security over its assets or make other arrangements for the loan services as guarantee.

(iii) Other Financial Services

China Telecom Finance provides other financial services (other than deposit and loan services) including financial and financing advice, credit authentication, guarantees, acceptance of bills and discounted bills, internal fund transfer and settlement and designs of relevant settlement and clearance arrangement proposals to the Parent Group under the China Telecommunications Corporation Financial Services Framework Agreement.

The fees charged for other financial services provided by China Telecom Finance to the Parent Group mentioned above shall comply with the fees standard promulgated by regulatory departments including the People's Bank of China or China Banking and Insurance Regulatory Commission (including its designated institution) ("CBIRC") (if applicable), and be with reference to the handling fees standard for the same type of other financial services charged by the major cooperative commercial banks of the Parent Group and are conducted on normal commercial terms or better. The handling fees standard shall be equivalent to or lower than those charged by the major cooperative commercial banks of the Parent Group. Under the same conditions, the fees standard charged to the Parent Group by China Telecom Finance shall be the same as those fees standard for the same type of other financial services charged by China Telecom Finance to other member units.

For the respective specific transactions under the China Telecommunications Corporation Financial Services Framework Agreement, under the same conditions, the Parent Group should, in principle, choose the services provided by China Telecom Finance. If the Parent Group considers it is appropriate and beneficial to the Parent Group, the Parent Group has the discretion to engage one or more major cooperative commercial banks of the Parent Group as its financial services providers.

The China Telecommunications Corporation Financial Services Framework Agreement became effective from February 1, 2019 and will expire on December 31, 2021. Subject to the compliance of relevant laws and regulations and relevant regulatory requirements, both parties will negotiate and agree on the renewal arrangement.

CCS Financial Services Framework Agreement Entered into between China Telecom Finance and CCS

On February 1, 2019, China Telecom Finance and CCS entered into a financial services framework agreement (the "CCS Financial Services Framework Agreement"), pursuant to which China Telecom Finance agreed to provide financial services, including deposit services, loan services and other financial services to the CCS Group. The pricing policy under the CCS Financial Services Framework Agreement is set out below:

(i) Deposit Services

The deposit interest rates offered by China Telecom Finance to the CCS Group shall comply with the relevant requirements of the People's Bank of China and be with reference to the deposit benchmark interest rates promulgated by the People's Bank of China from time to time (if any) and the deposit interest rates of the same type of deposit services for the same period offered by the major cooperative commercial banks of the CCS Group and are conducted on normal commercial terms or better. The deposit interest rates offered shall be equivalent to or higher than those offered by the major cooperative commercial banks of the CCS Group. Under the same conditions, the interest rates and terms for the deposit services offered by China Telecom Finance to the CCS Group shall be the same as those interest rates and terms of the same type of deposit services for the same period offered by China Telecom Finance to other member units.

(ii) Loan Services

The loan interest rates offered by China Telecom Finance to the CCS Group shall comply with the relevant requirements of the People's Bank of China and be with reference to the loan benchmark interest rates promulgated by the People's Bank of China from time to time (if any) and the loan interest rates of the same type of loan services for the same period offered by the major cooperative commercial banks of the CCS Group and are conducted on normal commercial terms or better. The loan interest rates offered shall be equivalent to or lower than those offered by the major cooperative commercial banks of the CCS Group. Under the same conditions, the interest rates and terms for the loan services offered by China Telecom Finance to the CCS Group shall be the same as those interest rates and terms of the same type of loan services for the same period offered by China Telecom Finance to other member units. The above loan services provided by China Telecom Finance to the CCS Group do not require the CCS Group to pledge any security over its assets or make other arrangements for the loan services as guarantee.

(iii) Other Financial Services

China Telecom Finance provides other financial services (other than deposit and loan services) including financial and financing advice, credit authentication, guarantees, acceptance of bills and discounted bills, internal fund transfer and settlement and designs of relevant settlement and clearance arrangement proposals to the CCS Group under the CCS Financial Services Framework Agreement.

The fees charged for other financial services provided by China Telecom Finance to the CCS Group mentioned above shall comply with the fees standard promulgated by regulatory departments including the People's Bank of China or the CBIRC (if applicable), and be with reference to the handling fees standard for the same type of other financial services charged by the major cooperative commercial banks of the CCS Group and are conducted on normal commercial terms or better. The handling fees standard shall be equivalent to or lower than those charged by the major cooperative commercial banks of the CCS Group. Under the same conditions, the fees standard charged to the CCS Group by China Telecom Finance shall be the same as those fees standard for the same type of other financial services charged by China Telecom Finance to other member units.

For the respective specific transactions under the CCS Financial Services Framework Agreement, provided that it is in compliance with the terms and conditions of the CCS Financial Services Framework Agreement, China Telecom Finance was appointed as one of the financial institutions providing financial services to the CCS Group. Prior to the signing of any specific agreement with China Telecom Finance in respect of respective transactions under the CCS Financial Services Framework Agreement, the CCS Group will compare the interest rates and terms or fees charged and other relevant transactions terms offered by China Telecom Finance with those interest rates and terms of the same type of deposit or loan services for the same period or fees charged and other relevant transaction terms for the same type of financial services offered by the major cooperative commercial banks of the CCS Group. Only when the interest rates and terms or fees charged or other relevant transactions terms offered by China Telecom Finance are equivalent to or better than those interest rates and terms offered or fees charged or other relevant transactions terms (e.g. transaction approval terms, procedures or time limit, etc) offered by the major cooperative commercial banks of the CCS Group, the CCS Group has the discretion to enter into the transactions with China Telecom Finance. Under the circumstances which the CCS Group considers appropriate, the CCS Group may engage additional or other financial institutions other than China Telecom Finance to provide financial services.

The CCS Financial Services Framework Agreement became effective from February 1, 2019 and will expire on December 31, 2021. Subject to the compliance of relevant laws and regulations and relevant regulatory requirements, both parties will negotiate and agree on the renewal arrangement.

Our Transfer of Assets to and Tower Lease 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 Lease of the Telecommunications Towers". Furthermore, during 2016 and 2017, the SEC issued comment letters relating to the Company's previously filed annual reports on Form 20-F for the fiscal years ended December 31, 2015 and 2016. The comment letters inquired mainly about the background, execution process, and accounting treatment in relation to the Company's disposal and lease of telecommunications towers and related assets with the Tower Company. The Company responded to these comment letters and was notified by the SEC in its letter dated October 20, 2017 that it has completed its review of such previously filed annual reports of the Company. The SEC did not in its October 2017 letter require us to make any amendment to those previously filed annual reports.

Disposal of E-store to Besttone Holding

See "Item 4. Information on the Company—A. History and Development of the Company—Disposal of E-store and Establishment of Tianyi Capital".

Establishment of China Telecom Finance

See "Item 4. Information on the Company—A. History and Development of the Company—Establishment of China Telecom Group Finance Co., Ltd.".

Our 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, 2019, the aggregate outstanding principal amount of such loans was RMB6,621 million, which bear interest at fixed rate of 3.5% per annum. On December 25, 2017, we obtained long-term unsecured loans from China Telecom Group to meet our long-term funding needs. As of December 31, 2019, the aggregate outstanding principal amount of such loans was RMB23,300 million, which bear interest at fixed rate of 3.8% per annum and are payable within one to three years. See Note 18 to our audited financial statements included elsewhere in this report for details.

C. Interests of Experts and Counsel

Not applicable.

Item 8. 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 29, 2019, a final dividend of RMB8,891 million (RMB0.109851 per share equivalent to HK\$0.125 per share, pre-tax) for the year ended December 31, 2018 was declared, all of which has been fully paid. Pursuant to a resolution passed at the Directors' meeting on March 24, 2020, a final dividend of approximately RMB9,126 million (RMB0.112764 per share equivalent to HK\$0.125 per share, pre-tax) for the year ended December 31, 2019 was proposed for shareholders' approval at the 2019 AGM.

The Company attaches great importance to the investment returns of shareholders, strives to maintain the continuity and stability of the dividend policy taking into the consideration the long-term interest and sustainable development of the Company. The following factors will be considered by the Company when formulating the dividend distribution plan:

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

Our Board is responsible for formulating the dividend distribution plan and will execute the relevant approval procedures in accordance with relevant laws, rules, regulations and Articles of Association of the Company before proceeding with the distribution. In the future, we will strive for improvement on profitability and at the same time continue to deliver favorable dividend return for the shareholders. Our Board will declare dividends, if any, with respect to our H shares and domestic shares on a per share basis and will pay such dividends in Hong Kong dollars and in Renminbi respectively. 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 depository, 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 under the symbol "728". Prior to these listings, there was no public market for our equity securities. The NYSE and the Hong Kong Stock Exchange are the principal host 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, 2019 and April 23, 2020, there were 13,877,410,000 H shares issued and outstanding. As of December 31, 2019 and April 23, 2020, there were, respectively, 34 and 33 registered holders of American depository receipts evidencing 5,080,159 and 5,554,344 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 depository for the ADSs is The Bank of New York Mellon.

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. Article 14 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 or her associate (as defined in the Listing Rules) is interested.

Unless the interested director discloses his or her 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.

Furthermore, 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 committee 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.

Pursuant to the Reply of the State Council on the Adjustment of the Notice Period of the General Meeting and Other Matters Applicable to the Overseas Listed Companies (Guo Han [2019] No. 97) (《国务院关于调整适用在境外上市公司召开股东大会通知期限等事项规定的批覆》(国函〔2019〕97号)) to amend the requirements with respect to notice period, shareholders' proposal rights and convening procedures for general meetings applicable to joint stock companies incorporated in the People's Republic of China and listed overseas, the Board proposes to amend the relevant provisions of the Articles of Association regarding the procedures convening general meetings accordingly. We filed a Form 6-K with the SEC on March 25, 2020 in relation to the proposed amendments.

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 Takeovers Code.

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 state-owned enterprise, 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 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, the Securities and Futures Ordinance and the Takeovers Code.

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 SASAC, 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.

In addition, we entered into the 5G Cooperation Agreement with CUCL in relation to the co-building and co-sharing of 5G network on September 9, 2019. See “Item 4. Information on the Company—B. Business Overview—Network System—Co-building and co-sharing of 5G network with China Unicom”.

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 SAFE 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 but not limited to 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 or registration with SAFE or certain banks designated by SAFE, as applicable. 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 10.0% on dividends paid to them. According to the Notice on Taxation Policies for Shanghai-Hong Kong Stock Connect Pilot Program (Cai Shui [2014] No. 81) and Notice on Taxation Policies for Shenzhen-Hong Kong Stock Connect Pilot Program (Cai Shui [2016] No. 127), the Company shall withhold individual income tax at the rate of 20.0% 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 but are not limited to:

- 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 SAT 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, which became effective on October 1, 1988 and were amended on January 8, 2011, 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 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 the 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, unless such gains are chargeable under the respective half-rates of 8.25% and 7.5% that may apply for the first HK\$2 million of assessable profits for years of assessment beginning on or after April 1, 2018. Gains from sales of H shares effected on the Hong Kong Stock Exchange will be considered by the Hong Kong Inland Revenue Department 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, in which case only a fixed duty of HK\$5 is payable on the transfer. 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 discussion address only United States federal income taxation and does not discuss all of the tax consequences that may be relevant to you in light of your individual circumstances, including foreign, state or local tax consequences, estate and gift tax consequences, and tax consequences arising under the Medicare contribution tax on net investment income or the alternative minimum tax. 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 that actually or constructively owns 10.0% or more of the combined voting power of our voting stock or of the total value of our 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 H 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 authorities are subject to change, possibly on a retroactive basis. In addition, this section is based in part upon the representations of the Depositary 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, for United States federal income tax purposes:

- 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 an entity or arrangement that is treated as a partnership for United States federal income tax purposes 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.

The tax treatment of your H shares or ADSs will depend in part on whether or not we are classified as a passive foreign investment company, or PFIC, for United States federal income tax purposes. Except as discussed below under “-PFIC Rules”, this discussion assumes that we are not classified as a PFIC for United States federal income tax purposes.

Taxation of Dividends

Under the United States federal income tax laws, if you are a U.S. holder, the gross amount of any distribution we pay out of our current or accumulated earnings and profits (as determined for United States federal income tax purposes), other than certain pro-rata distributions of our shares, will be treated as a dividend that 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, provided that, in the year that you receive the dividend, we are eligible for the benefits of the PRC-US Treaty. We believe that we are currently eligible for the benefits of the PRC-US Treaty and we therefore expect that dividends on the shares and ADSs will be qualified dividend income, but there can be no assurance that we will continue to be eligible for the benefits of the PRC-US Treaty. Furthermore, even if we are not eligible for the benefits of the PRC-US Treaty in a taxable year, dividends on the ADSs will nevertheless be treated as qualified dividend income if the ADSs are readily tradable on an established securities market in the United States. Our ADSs are listed on the New York Stock Exchange, and we therefore expect that dividends on the ADSs will be treated as qualified dividend income irrespective of whether we are eligible for the benefits of the PRC-US Treaty.

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 depositary, 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 or under the PRC-US Treaty, 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 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 generally be “passive” income for purposes of computing the foreign tax credit allowable to you.

Taxation of Capital Gains

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 PRC-US 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 PRC-US 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 would generally increase your basis in your H Shares or ADSs (in the case of stamp duty paid in respect of a purchase) or reduce your amount realized (in the case of stamp duty paid in respect of a sale).

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 100 F 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. 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 restriction on 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”. We are exposed to foreign currency risk primarily because we receive some of our revenue from our international operations and pay-related expenses in foreign currencies. As a result, our foreign currency exposure relates to our foreign currency-denominated debt and, to a limited extent, cash and cash equivalents denominated in foreign currencies.

The following tables provide information regarding our financial instruments that are sensitive to foreign exchange rates as of December 31, 2019 and 2018, respectively. For debt obligations, the tables present principal cash flows and related weighted average interest rates by expected maturity dates.

As of December 31, 2019:

	Expected Maturity						Total	Fair Value
	2020	2021	2022	2023	2024	Thereafter		
Assets:								
Cash and cash equivalents								
United States dollars	3,055	—	—	—	—	—	3,055	3,055
Japanese yen	27	—	—	—	—	—	27	27
Euro	75	—	—	—	—	—	75	75
Hong Kong dollars	327	—	—	—	—	—	327	327
Other currencies	1,092	—	—	—	—	—	1,092	1,092
Short-term bank deposits								
United States dollars	2,724	—	—	—	—	—	2,724	2,724
Liabilities:								
Debts in United States dollars								
Fixed rate	48	37	24	20	18	141	288	235
Average interest rate	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%		
Debts in Euro								
Fixed rate	25	25	25	25	11	62	173	157
Average interest rate	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%		

As of December 31, 2018:

	Expected Maturity						Total	Fair Value
	2019	2020	2021	2022	2023	Thereafter		
	(RMB equivalent in millions, except interest rates)							
Assets:								
Cash and cash equivalents								
United States dollars	4,909	—	—	—	—	—	4,909	4,909
Japanese yen	20	—	—	—	—	—	20	20
Euro	76	—	—	—	—	—	76	76
Hong Kong dollars	251	—	—	—	—	—	251	251
Other currencies	751	—	—	—	—	—	751	751
Short-term bank deposits								
United States dollars	69	—	—	—	—	—	69	69
Liabilities:								
Debts in United States dollars								
Fixed rate	52	47	36	22	22	157	336	272
<i>Average interest rate</i>	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%		
Debts in Euro								
Fixed rate	25	25	25	25	25	74	199	176
<i>Average interest rate</i>	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%		

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, 2018 and 2019, our debt consisted of fixed and variable rate debt obligations with maturities from 2019 to 2048 and from 2020 to 2036, 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, 2019 and 2018, respectively.

As of December 31, 2019:

	Expected Maturity						Total	Fair Value
	2020	2021	2022	2023	2024	Thereafter		
(RMB equivalent in millions, except interest rates)								
Liabilities:								
Debits in Renminbi								
Fixed rate	33,393	1,016	25,983	920	911	2,833	65,056	64,410
<i>Average interest rate</i>	2.8%	2.8%	2.8%	1.2%	1.2%	1.2%		
Variable rate	13,505	—	—	—	—	—	13,505	13,505
<i>Average interest rate⁽¹⁾</i>	3.8%	—	—	—	—	—		
Debits in United States dollars								
Fixed rate	48	37	24	20	18	141	288	235
<i>Average interest rate</i>	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%		
Debits in Euro								
Fixed rate	25	25	25	25	11	62	173	157
<i>Average interest rate</i>	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%		

⁽¹⁾ The average interest rates for variable rate debts are calculated based on the rates reported as of December 31, 2019.

As of December 31, 2018:

	Expected Maturity						Total	Fair Value
	2019	2020	2021	2022	2023	Thereafter		
(RMB equivalent in millions, except interest rates)								
Liabilities:								
Debits in Renminbi								
Fixed rate	50,409	18,019	968	20,945	876	3,586	94,803	93,867
<i>Average interest rate</i>	3.3%	3.3%	3.3%	3.3%	1.2%	1.2%		
Variable rate	190	—	—	—	—	—	190	190
<i>Average interest rate⁽¹⁾</i>	4.2%	—	—	—	—	—		
Debits in United States dollars								
Fixed rate	52	47	36	22	22	157	336	272
<i>Average interest rate</i>	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%		
Debits in Euro								
Fixed rate	25	25	25	25	25	74	199	176
<i>Average interest rate</i>	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%		

⁽¹⁾ The average interest rates for variable rate debts are calculated based on the rates reported as of December 31, 2018.

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

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)

- 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
- 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 25, 2019 to April 23, 2020, 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\$68,000 reimbursement, net of withholding tax. The Bank of New York Mellon also waived certain costs of US\$132,266.01 in connection with the administration of the ADR program and other services provided to our registered shareholders for the year 2019.

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 Chief Executive Officer and the Chief 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 Chief Executive Officer and the Chief 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 Chief Executive Officer and the Chief 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, 2019, our management, with the participation of the Chief Executive Officer and the Chief 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, 2019.

The effectiveness of our internal control over financial reporting as of December 31, 2019 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

To the shareholders and the Board of Directors of China Telecom Corporation Limited:

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of China Telecom Corporation Limited and subsidiaries (the "Company") as of December 31, 2019, based on criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control—Integrated Framework (2013) issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2019, of the Company, and our report dated March 24, 2020, expressed an unqualified opinion on those consolidated financial statements, and included explanatory paragraphs regarding the Company's change in its method of accounting for revenues from contracts with customers and its method of accounting for financial instruments in 2018 due to the adoption of International Financial Reporting Standard 15, "Revenue from Contracts with Customers" and the related Amendments and International Financial Reporting Standard 9, "Financial Instruments", respectively, and the Company's change in its method of accounting for leases in 2019 due to the adoption of International Financial Reporting Standard 16, "Leases".

Basis for Opinion

The Company's management 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 the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. 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, 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.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process 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. 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 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.

/s/ Deloitte Touche Tohmatsu

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

March 24, 2020

Changes in Internal Control Over Financial Reporting

During the fiscal year ended December 31, 2019, 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 four members, Mr. Tse Hau Yin, Aloysius, Mr. Xu Erming, Madam Wang Hsuehming and Mr. Yeung Chi Wai, Jason. 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 the Chief Executive Officer, President, Chief Operating Officer, Chief Financial Officer, Vice Presidents, controllers 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/en/cg/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 2018 and 2019:

	<u>Audit Fees (including VAT)</u>	<u>Audit-Related Fees</u>	<u>Tax Fees</u>	<u>Other Fees</u>
2018	RMB76.80 million	RMB0.72 million	RMB0.96 million	RMB1.73 million
2019	RMB81.46 million	RMB0.70 million ⁽¹⁾	RMB1.70 million ⁽²⁾	RMB0.82 million ⁽³⁾

(1) Audit-related fees in the amount of RMB0.70 million were primarily paid for the advisory services provided to us regarding our internal control and the assurance service provided to us regarding our environmental, social and governance report.

(2) Tax fees in the amount of RMB1.70 million were primarily paid for profit tax filing assistance services.

(3) Other fees in the amount of RMB0.82 million were primarily paid for other operating advisory services.

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 ADSs are listed on the NYSE. Our H shares are listed on the Hong Kong Stock Exchange. As a foreign private issuer, in respect of its listing on the NYSE, we are not required to comply with all corporate governance rules of Section 303A of the Listed Company Manual of the NYSE. However, we are required to disclose the significant differences between our corporate governance practices and the listing standards followed by NYSE-listed U.S. companies.

Pursuant to the requirements of Section 303A.01 of the Listed Company Manual of the NYSE, the Board of Directors of all NYSE-listed U.S. companies must be made up by a majority of independent directors. Under applicable PRC and Hong Kong laws and regulations, our Board is not required to be formed with a majority of independent directors. As a listed company on the Hong Kong Stock Exchange, we need to comply with the Listing Rules, which require that at least one-third of the board of directors of a listed company in Hong Kong be independent non-executive directors. Our Board currently consists of ten Directors, of which four are Independent Directors, making the number of Independent Directors exceeds one-third of the total number of Directors on the Board, in compliance with the requirements of the Listing Rules. These independent directors satisfy the requirements on "independence" under the Listing Rules, which, however, differ from the requirements in Section 303A.02 of the Listed Company Manual of the NYSE.

Section 303A.03 of the Listed Company Manual of the NYSE provides that listed companies must schedule regular executive sessions in which non-management directors meet without management participation. As a listed company on the Hong Kong Stock Exchange, the Company is subject to the requirement under the Listing Rules that the chairman of the board should hold meetings at least annually with the independent non-executive directors without the presence of other directors. It has been our practice that our Chairman holds a meeting to communicate with Independent Non-Executive Directors without the presence of other Directors at least annually to ensure the views and opinions of Independent Non-Executive Directors are expressed. In addition, when a Board meeting considers a matter in which a substantial shareholder or a Director has a conflict of interest, the Independent Directors with no material interest in such matter must be present.

Section 303A.04 of the Listed Company Manual of the NYSE provides that a listed company must have a nominating/corporate governance committee that consists entirely of independent directors and the nominating/corporate governance committee of a listed company must have a written charter that addresses the committee's purpose and responsibilities, which shall include, among others, the development and recommendation of corporate governance guidelines to the board of directors, and an annual performance evaluation of the committee. The Listing Rules also contain a code provision that the listed companies should establish a nomination committee which is chaired by the chairman of the board or an independent non-executive director and consists of a majority of independent non-executive directors. The Company's Nomination Committee was established in 2005 with a written charter that specifies its duties and authorities. In addition, our Board is in charge of developing our corporate governance guidelines.

Section 303A.05 of the Listed Company Manual of the NYSE provides that a listed company must have a compensation committee that consists entirely of independent directors and the compensation committee must have a written charter that addresses the committee's purpose and responsibilities and an annual performance evaluation of the compensation committee. The Listing Rules require that the listed companies should establish a remuneration committee which is chaired by an independent non-executive director and consists of a majority of independent non-executive directors. The Company's Remuneration Committee has a written charter that specifies its duties and authorities.

Section 303A.07 of the Listed Company Manual of the NYSE also provides that if an audit committee member simultaneously serves on the audit committee of more than three public companies, and the listed company does not limit the number of audit committees on which its audit committee members serve to three or less, then, the board of directors of the listed company must determine that such simultaneous service would not impair the ability of such member to effectively serve on the audit committee of the listed company and disclose such determination. The Company is not required, under applicable PRC laws or the Listing Rules to make such determination, and the Company has not made such determination.

Section 303A.10 of the Listed Company Manual of the NYSE provides that listed companies must adopt and disclose a code of business conduct and ethics for directors, officers and employees. While the Company is not required to adopt any similar code under the applicable PRC laws or the Listing Rules, the Company, as required under the Sarbanes-Oxley Act, has adopted a code of ethics that is applicable to the Chief Executive Officer, President, Chief Operating Officer, Chief Financial Officer, Vice Presidents, general managers, controller and other senior officers of the Company. We also adopted a code of ethics for our employees.

Section 303A.12(a) of the Listed Company Manual of the NYSE provides that each listed company's chief executive officer must certify to the NYSE each year that he or she is not aware of any violation by the company of NYSE corporate governance listing standards. The Chief Executive Officer of the Company is not required, under the applicable PRC laws or the Listing Rules, to make similar certifications.

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 Consolidated 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	<u>Articles of Association (as amended) (English translation)</u>
2.1	Form of H Share Certificate. ^{(1)(P)}
2.2	Form of Deposit Agreement among the Registrant, The Bank of New York, as depositary, 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)(P)}
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.
2.4	<u>Description of rights of each class of securities registered under Section 12 of the Securities Exchange Act of 1934.</u>
4.1	<u>Supplemental Trademark License Agreement, dated October 26, 2003, between the Registrant and China Telecommunications Corporation (English translation).</u> ⁽³⁾
4.2	<u>Sale and Purchase Agreement, dated October 26, 2003, between the Registrant and China Telecommunications Corporation (English translation).</u> ⁽³⁾
4.3	<u>Supplemental Connected Transactions Agreement, dated October 26, 2003, between the Registrant and China Telecommunications Corporation (English translation).</u> ⁽³⁾
4.4	<u>Form of Underwriting Agreement.</u> ⁽⁴⁾
4.5	<u>Supplemental Trademark License Agreement, dated April 13, 2004, between the Registrant and China Telecommunications Corporation (English translation).</u> ⁽⁵⁾
4.6	<u>Supplemental Connected Transactions Agreement, dated April 13, 2004, between the Registrant and China Telecommunications Corporation (English translation).</u> ⁽⁶⁾
4.7	<u>Conditional Sale and Purchase Agreement, dated April 13, 2004, between the Registrant and China Telecommunications Corporation (English translation).</u> ⁽⁷⁾
4.8	<u>Supplemental Conditional Sale and Purchase Agreement, dated June 9, 2004, between the Registrant and China Telecommunications Corporation (English summary).</u> ⁽⁸⁾
4.9	<u>Supplemental Centralized Services Agreement, dated December 15, 2005, between the Registrant and China Telecommunications Corporation (English summary).</u> ⁽⁹⁾
4.10	<u>Property Leasing Framework Agreement, dated August 30, 2006, between the Registrant and China Telecommunications Corporation (English summary).</u> ⁽¹⁰⁾

<u>Exhibits</u>	<u>Description</u>
4.11	<u>IT Services Framework Agreement, dated August 30, 2006, between the Registrant and China Telecommunications Corporation (English summary).</u> ⁽¹⁰⁾
4.12	<u>Equipment Procurement Services Framework Agreement, dated August 30, 2006, between the Registrant and China Telecommunications Corporation (English summary).</u> ⁽¹⁰⁾
4.13	<u>Engineering Framework Agreement, dated August 30, 2006, between the Registrant and China Telecommunications Corporation (English summary).</u> ⁽¹⁰⁾
4.14	<u>Community Services Framework Agreement, dated August 30, 2006, between the Registrant and China Telecommunications Corporation (English summary).</u> ⁽¹⁰⁾
4.15	<u>Ancillary Telecommunications Service Framework Agreement, dated August 30, 2006, between the Registrant and China Telecommunications Corporation (English summary).</u> ⁽¹⁰⁾
4.16	<u>Strategic Agreement, dated August 30, 2006, between the Registrant and China Communications Services Corporation Limited (English summary).</u> ⁽¹⁰⁾
4.17	<u>Supplemental Agreement to the Strategic Agreement, dated June 15, 2007, between the Registrant and the China Communications Services Corporation Limited (English Summary).</u> ⁽¹⁰⁾
4.18	<u>Supplemental Agreement to the Strategic Agreement, dated October 29, 2009, between the Registrant and the China Communications Services Corporation Limited (English Summary).</u> ⁽¹³⁾
4.19	<u>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.</u> ⁽¹⁰⁾
4.20	<u>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.</u> ⁽¹⁰⁾
4.21	<u>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.</u> ⁽¹⁰⁾
4.22	<u>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.</u> ⁽¹⁰⁾
4.23	<u>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).</u> ⁽¹¹⁾
4.24	<u>Form Merger Agreement, dated January 10, 2008, between the Registrant and each of certain subsidiaries wholly owned by the Registrant (English Translation).</u> ⁽¹¹⁾
4.25	<u>Supplemental Agreement to the Centralized Services Agreement, dated December 26, 2007, between the Registrant and China Telecommunications Corporation (English Summary).</u> ⁽¹¹⁾
4.26	<u>Supplemental Agreement to the Centralized Services Agreement, dated March 31, 2008, between the Registrant and China Telecommunications Corporation (English Summary).</u> ⁽¹¹⁾
4.27	<u>Framework Agreement for Transfer of CDMA Business, dated June 2, 2008, among the Registrant, China Unicom Limited and China Unicom Corporation Limited (English Summary).</u> ⁽¹¹⁾
4.28	<u>Supplemental Agreement to the Interconnection Settlement Agreement, dated July 27, 2008, between the Registrant and China Telecommunications Corporation (English summary).</u> ⁽¹²⁾
4.29	<u>Supplemental Agreement to the IT Services Framework Agreement, dated December 15, 2008, between the Registrant and China Telecommunications Corporation (English summary).</u> ⁽¹²⁾
4.30	<u>Supplemental Agreement to the Supplies Procurement Services Framework Agreement, dated December 15, 2008, between the Registrant and China Telecommunications Corporation (English summary).</u> ⁽¹²⁾
4.31	<u>Supplemental Agreement to the Engineering Framework Agreement, dated July 27, 2008, between the Registrant and China Telecommunications Corporation (English summary).</u> ⁽¹²⁾

<u>Exhibits</u>	<u>Description</u>
4.32	<u>Supplemental Agreement to the Community Services Framework Agreement, dated December 15, 2008, between the Registrant and China Telecommunications Corporation (English summary).</u> ⁽¹²⁾
4.33	<u>Supplemental Agreement to the Ancillary Telecommunications Services Framework Agreement, dated July 27, 2008, between the Registrant and China Telecommunications Corporation (English summary).</u> ⁽¹²⁾
4.34	<u>CDMA Network Capacity Lease Agreement, dated July 27, 2008, between the Registrant and China Telecommunications Corporation (English translation).</u> ⁽¹²⁾
4.35	<u>Agreement for Transfer of CDMA Business, dated July 27, 2008, between the Registrant, China Unicom Limited and China Unicom Corporation Limited (English summary).</u> ⁽¹²⁾
4.36	<u>Merger Agreement, dated November 14, 2008, between the Registrant and China Telecommunications Corporation Beijing Corporation (English translation).</u> ⁽¹²⁾
4.37	<u>Supplemental Agreement to the Optic Fiber Leasing Agreement, dated July 10, 2008, between the Registrant and China Telecommunications Corporation (English summary).</u> ⁽¹²⁾
4.38	<u>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).</u> ⁽¹²⁾
4.39	<u>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).</u> ⁽¹²⁾
4.40	<u>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).</u> ⁽¹³⁾
4.41	<u>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).</u> ⁽¹³⁾
4.42	<u>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).</u> ⁽¹³⁾
4.43	<u>Supplemental Agreement to the Centralized Services Agreement, dated August 25, 2010, between the Registrant and China Telecommunications Corporation (English summary)</u> ⁽¹⁴⁾
4.44	<u>Supplemental Agreement to the Interconnection Settlement Agreement, dated August 25, 2010, between the Registrant and China Telecommunications Corporation (English summary)</u> ⁽¹⁴⁾
4.45	<u>Supplemental Agreement to the Property Leasing Framework Agreement, dated August 25, 2010, between the Registrant and China Telecommunications Corporation (English summary)</u> ⁽¹⁴⁾
4.46	<u>Supplemental Agreement to the IT services Framework Agreement, dated August 25, 2010, between the Registrant and China Telecommunications Corporation (English summary)</u> ⁽¹⁴⁾
4.47	<u>Supplemental Agreement to the Community Services Framework Agreement, dated August 25, 2010, between the Registrant and China Telecommunications Corporation (English summary)</u> ⁽¹⁴⁾
4.48	<u>Supplemental Agreement to the Supplies Procurement Services Framework Agreement, dated August 25, 2010, between the Registrant and China Telecommunications Corporation (English summary)</u> ⁽¹⁴⁾
4.49	<u>Supplemental Agreement to the Engineering Framework Agreement, dated August 25, 2010, between the Registrant and China Telecommunications Corporation (English summary)</u> ⁽¹⁴⁾
4.50	<u>Supplemental Agreement to the Ancillary Telecommunications Services Framework Agreement, dated August 25, 2010, between the Registrant and China Telecommunications Corporation (English summary)</u> ⁽¹⁴⁾
4.51	<u>Supplemental Agreement to the CDMA Network Capacity Lease Agreement, dated August 25, 2010, between the Registrant and China Telecommunications Corporation (English summary)</u> ⁽¹⁴⁾

<u>Exhibits</u>	<u>Description</u>
4.52	<u>Supplemental Agreement to the Trademark License Agreement, dated August 25, 2010, between the Registrant and China Telecommunications Corporation (English summary) ⁽¹⁴⁾</u>
4.53	<u>Supplemental Agreement to the Optic Fiber Leasing Agreement, dated August 25, 2010, between the Registrant and China Telecommunications Corporation (English summary) ⁽¹⁴⁾</u>
4.54	<u>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⁾</u>
4.55	<u>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⁾</u>
4.56	<u>Agreement on the Acquisition of China Telecom (Europe) Limited, dated December 16, 2013, between the Registrant and China Telecommunications Corporation ⁽¹⁶⁾</u>
4.57	<u>Internet Applications Channel Services Framework Agreement, dated December 16, 2013, between the Registrant and China Telecommunications Corporation (English Summary) ⁽¹⁶⁾</u>
4.58	<u>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⁾</u>
4.59	<u>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) ⁽¹⁸⁾</u>
4.60	<u>Share Subscription Agreement, dated January 29, 2016, between the Registrant and the Tower Company (English translation) ⁽¹⁸⁾</u>
4.61	<u>Supplemental Agreement to the Centralized Services Agreement, dated September 23, 2015, between the Registrant and China Telecommunications Corporation (English summary) ⁽¹⁸⁾</u>
4.62	<u>Supplemental Agreement to the Interconnection Settlement Agreement, dated September 23, 2015, between the Registrant and China Telecommunications Corporation (English summary) ⁽¹⁸⁾</u>
4.63	<u>Supplemental Agreement to the Property Leasing Framework Agreement, dated September 23, 2015, between the Registrant and China Telecommunications Corporation (English summary) ⁽¹⁸⁾</u>
4.64	<u>Supplemental Agreement to the IT Services Framework Agreement, dated September 23, 2015, between the Registrant and China Telecommunications Corporation (English summary) ⁽¹⁸⁾</u>
4.65	<u>Supplemental Agreement to the Community Services Framework Agreement, dated September 23, 2015, between the Registrant and China Telecommunications Corporation (English summary) ⁽¹⁸⁾</u>
4.66	<u>Supplemental Agreement to the Supplies Procurement Services Framework Agreement, dated September 23, 2015, between the Registrant and China Telecommunications Corporation (English summary) ⁽¹⁸⁾</u>
4.67	<u>Supplemental Agreement to the Engineering Framework Agreement, dated September 23, 2015, between the Registrant and China Telecommunications Corporation (English summary) ⁽¹⁸⁾</u>
4.68	<u>Supplemental Agreement to the Ancillary Telecommunications Services Framework Agreement, dated September 23, 2015, between the Registrant and China Telecommunications Corporation (English summary) ⁽¹⁸⁾</u>
4.69	<u>Supplemental Agreement to the Internet Applications Channel Services Framework Agreement, dated September 23, 2015, between the Registrant and China Telecommunications Corporation (English summary) ⁽¹⁸⁾</u>
4.70	<u>Supplemental Agreement to the Optic Fiber Leasing Agreement, dated September 23, 2015, between the Registrant and China Telecommunications Corporation (English summary) ⁽¹⁸⁾</u>
4.71	<u>Lease Agreement, dated July 8, 2016, between the Registrant and the Tower Company (English translation) ⁽¹⁹⁾</u>
4.72	<u>Supplemental Lease Agreement, dated February 1, 2018, between the Registrant and the Tower Company (English translation) ⁽²⁰⁾</u>
4.73	<u>Supplemental Agreement to the Centralized Services Agreement, dated August 20, 2018, between the Registrant and China Telecommunications Corporation (English summary) ⁽²¹⁾</u>
4.74	<u>Supplemental Agreement to the Interconnection Settlement Agreement, dated August 20, 2018, between the Registrant and China Telecommunications Corporation (English summary) ⁽²¹⁾</u>

<u>Exhibits</u>	<u>Description</u>
4.75	<u>Supplemental Agreement to the Property Leasing Framework Agreement, dated August 20, 2018, between the Registrant and China Telecommunications Corporation (English summary) ⁽²¹⁾</u>
4.76	<u>Supplemental Agreement to the IT Services Framework Agreement, dated August 20, 2018, between the Registrant and China Telecommunications Corporation (English summary) ⁽²¹⁾</u>
4.77	<u>Supplemental Agreement to the Community Services Framework Agreement, dated August 20, 2018, between the Registrant and China Telecommunications Corporation (English summary) ⁽²¹⁾</u>
4.78	<u>Supplemental Agreement to the Supplies Procurement Services Framework Agreement, dated August 20, 2018, between the Registrant and China Telecommunications Corporation (English summary) ⁽²¹⁾</u>
4.79	<u>Supplemental Agreement to the Engineering Framework Agreement, dated August 20, 2018, between the Registrant and China Telecommunications Corporation (English summary) ⁽²¹⁾</u>
4.80	<u>Supplemental Agreement to the Ancillary Telecommunications Services Framework Agreement, dated August 20, 2018, between the Registrant and China Telecommunications Corporation (English summary) ⁽²¹⁾</u>
4.81	<u>Supplemental Agreement to the Internet Applications Channel Services Framework Agreement, dated August 20, 2018, between the Registrant and China Telecommunications Corporation (English summary) ⁽²¹⁾</u>
4.82	<u>Supplemental Agreement to the Optic Fiber Leasing Agreement, dated August 20, 2018, between the Registrant and China Telecommunications Corporation (English summary) ⁽²¹⁾</u>
4.83	<u>Supplemental Agreement to the Trademark License Agreement, dated August 20, 2018, between the Registrant and China Telecommunications Corporation (English summary) ⁽²¹⁾</u>
4.84	<u>China Telecommunications Corporation Financial Services Framework Agreement, dated February 1, 2019, between China Telecommunications Corporation and China Telecom Group Finance Co., Ltd. (English summary) ⁽²¹⁾</u>
4.85	<u>China Telecom Financial Services Framework Agreement, dated February 1, 2019, between the Registrant and China Telecom Group Finance Co., Ltd. (English summary) ⁽²¹⁾</u>
4.86	<u>CCS Financial Services Framework Agreement, dated February 1, 2019, between China Communications Services Corporation Limited and China Telecom Group Finance Co., Ltd. (English summary) ⁽²¹⁾</u>
4.87	<u>5G Network Co-Build and Co-Share Framework Cooperation Agreement, dated September 9, 2019, between the Registrant and China United Network Communications Corporation Limited (English translation)</u>
8.1	<u>List of Significant Subsidiaries of the Registrant</u>
11.1	<u>Code of Ethics (English translation).⁽³⁾</u>
12.1	<u>Certification of CEO pursuant to Rule 13a-14(a)</u>
12.2	<u>Certification of CFO pursuant to Rule 13a-14(a)</u>
13.1	<u>Certification of CEO pursuant to Rule 13a-14(b)</u>
13.2	<u>Certification of CFO pursuant to Rule 13a-14(b)</u>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

(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.
- (18) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2015 (File No. 001-31517), filed with the Securities and Exchange Commission.
- (19) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2016 (File No. 001-31517), filed with the Securities and Exchange Commission.
- (20) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2017 (File No. 001-31517), filed with the Securities and Exchange Commission.
- (21) Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2018 (File No. 001-31517), filed with the Securities and Exchange Commission.
- (P) Paper filing.

CHINA TELECOM CORPORATION LIMITED AND SUBSIDIARIES
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Financial Statements

We have audited the accompanying consolidated statements of financial position of China Telecom Corporation Limited and subsidiaries (the “Company”) as of December 31, 2018 and 2019, the related consolidated statements of comprehensive income, changes in equity, and cash flows, for each of the three years in the period ended December 31, 2019, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, 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) (“PCAOB”), the Company’s internal control over financial reporting as of December 31, 2019, 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 24, 2020, expressed an unqualified opinion on the Company’s internal control over financial reporting.

Changes in Accounting Policies

As discussed in Note 3(l) and 3(j) to the consolidated financial statements, the Company changed its method of accounting for revenues from contracts with customers and its method of accounting for financial instruments in 2018 due to the adoption of International Financial Reporting Standard 15, “*Revenue from Contracts with Customers*” and the related Amendments and International Financial Reporting Standard 9, “*Financial Instruments*”, respectively.

As discussed in Note 2 to the consolidated financial statements, the Company has changed its method of accounting for leases in 2019 due to adoption of International Financial Reporting Standard 16, “*Leases*”.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM (continued)

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

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current-period audit of the financial statements that were communicated or required to be communicated to the audit committee and that (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Revenue Recognition—Refer to Notes 3(l) and 26 to the consolidated financial statements

Critical Audit Matter Description

Revenues from the provision of telecommunications services are, in general, recognized as performance obligations are satisfied. Fees for telecommunications packages are recognized for each service type in the packages. The data records are captured and the revenue transactions are recorded by the IT billing systems.

We identified revenue recognition as a critical audit matter because there is an inherent industry risk around the accuracy of revenue recorded by the IT billing systems given the complexity of the systems and the large volumes of data processed by the systems. This required an increased extent of effort, including the need for us to involve our IT specialists, to identify, test, and evaluate the Company's systems, software applications, and automated controls.

How the Critical Audit Matter Was Addressed in the Audit

Our procedures in relation to revenue recognition included the following, among others:

- With the assistance of our IT specialist, we tested below:
 - the IT environment in which the billing systems reside, including interface controls between different IT applications.
 - the key controls over the calculation of the amounts billed to customers and the capturing and recording of the revenue transactions.
 - the key controls over the authorization of the rate changes and the input of such rates to the billing systems.
 - the end-to-end reconciliations from data records to the billing systems and to the general ledger.
 - the material journals processed between the billing systems and the general ledger, on a sample basis.
 - the accuracy of customer bill calculations and the respective revenue transactions recorded, on a sample basis.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM (continued)

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

Critical Audit Matters (continued)

Impairment of goodwill and long-lived assets—Refer to Notes 3(h), 12 and 42 to the consolidated financial statements

Critical Audit Matter Description

The Company's evaluation of goodwill and long-lived assets for impairment involves the comparison of the recoverable amount of the cash-generating unit, which is the greater of its value in use and fair value less costs of disposal, to its carrying value. 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. 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.

We identified the impairment of goodwill and long-lived assets as a critical audit matter because the impairment assessment of goodwill and long-lived assets requires the management to exercise significant judgments. This required a high degree of auditor judgment and an increased extent of effort, including the need to involve our valuation specialists, when performing audit procedures to evaluate the reasonableness of management's estimates and assumptions related to the estimation of level of revenue, amount of operating costs and applicable discount rate.

How the Critical Audit Matter Was Addressed in the Audit

Our procedures in relation to the impairment of goodwill and long-lived assets included, among others:

- We tested the effectiveness of controls over management's impairment assessment of goodwill and long-lived assets, such as controls related to management's selection of the discount rate and key inputs to the projected cash flows, such as the number of subscribers, average revenue per subscriber and amount of operating costs.
- With the assistance of our valuation specialists, we assessed the discount rate and assumptions used by the management in the value in use model and compared the discount rate used by the management to externally derived data and our own assessments of key inputs used in deriving the discount rate.
- With the assistance of our valuation specialists, we compared the key inputs to the projected cash flows, such as the number of subscribers, average revenue per subscriber and amount of operating costs, with corresponding historical data to evaluate the reasonableness of the management's projections.
- We assessed and challenged the significant judgments and estimates used in the management's impairment assessment and evaluated the sensitivity analysis performed by the management.

/s/ Deloitte Touche Tohmatsu

Deloitte Touche Tohmatsu
Hong Kong, the People's Republic of China
March 24, 2020

We have served as the Company's auditor since 2013.

CHINA TELECOM CORPORATION LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2018 AND 2019
(Amounts in millions)

	Notes	December 31, 2018 RMB	December 31, 2019 RMB
ASSETS			
Current assets			
Cash and cash equivalents	4	16,666	20,791
Short-term bank deposits		6,814	3,628
Accounts receivable, net	5	20,475	21,489
Contract assets	6	478	474
Inventories	7	4,832	2,880
Prepayments and other current assets	8	23,619	22,219
Financial assets at fair value through profit or loss		—	39
Income tax recoverable		121	1,662
Total current assets		73,005	73,182
Non-current assets			
Property, plant and equipment, net	9	407,795	410,008
Construction in progress	10	66,644	59,206
Right-of-use assets	11	—	61,549
Lease prepayments		21,568	—
Goodwill	12	29,922	29,923
Intangible assets	13	14,161	16,349
Interests in associates	14	38,051	39,192
Equity instruments at fair value through other comprehensive income	15	852	1,458
Deferred tax assets	16	6,544	7,577
Other assets	17	4,840	4,687
Total non-current assets		590,377	629,949
Total assets		663,382	703,131
LIABILITIES AND EQUITY			
Current liabilities			
Short-term debt	18	49,537	42,527
Current portion of long-term debt	18	1,139	4,444
Accounts payable	19	107,887	102,616
Accrued expenses and other payables	20	43,497	48,516
Contract liabilities	21	55,783	54,388
Income tax payable		601	243
Current portion of finance lease obligations/lease liabilities	22	101	11,569
Current portion of deferred revenues	23	375	358
Total current liabilities		258,920	264,661
Non-current liabilities			
Long-term debt	18	44,852	32,051
Finance lease obligations/lease liabilities	22	115	30,577
Deferred revenues	23	1,454	1,097
Deferred tax liabilities	16	13,138	19,078
Other non-current liabilities		804	627
Total non-current liabilities		60,363	83,430
Total liabilities		319,283	348,091
Equity			
Share capital	24	80,932	80,932
Reserves	25	262,137	271,578
Total equity attributable to equity holders of the Company		343,069	352,510
Non-controlling interests		1,030	2,530
Total equity		344,099	355,040
Total liabilities and equity		663,382	703,131

See accompanying notes to consolidated financial statements.

CHINA TELECOM CORPORATION LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017, 2018 AND 2019
(Amounts in millions, except per share data)

	Notes	Year ended December 31,		
		2017 RMB	2018 RMB	2019 RMB
Operating revenues	26	366,229	377,124	375,734
Operating expenses				
Depreciation and amortization		(74,951)	(75,493)	(88,145)
Network operations and support	27	(103,969)	(116,062)	(109,799)
Selling, general and administrative		(58,434)	(59,422)	(57,361)
Personnel expenses	28	(56,043)	(59,736)	(63,567)
Other operating expenses	29	(45,612)	(37,697)	(27,792)
Total operating expenses		<u>(339,009)</u>	<u>(348,410)</u>	<u>(346,664)</u>
Operating income		27,220	28,714	29,070
Net finance costs	30	(3,291)	(2,708)	(3,639)
Investment income		147	38	30
Income from investments in associates		877	2,104	1,573
Earnings before income tax		24,953	28,148	27,034
Income tax	31	(6,192)	(6,810)	(6,322)
Profit for the year		<u>18,761</u>	<u>21,338</u>	<u>20,712</u>
Other comprehensive income for the year				
<i>Items that will not be reclassified subsequently to profit or loss:</i>				
Change in fair value of investments in equity instruments at fair value through other comprehensive income		—	(324)	604
Deferred tax on change in fair value of investments in equity instruments at fair value through other comprehensive income		—	82	(147)
		<u>—</u>	<u>(242)</u>	<u>457</u>
<i>Items that may be reclassified subsequently to profit or loss:</i>				
Change in fair value of available-for-sale equity securities		(400)	—	—
Deferred tax on change in fair value of available-for-sale equity securities		100	—	—
Exchange difference on translation of financial statements of subsidiaries outside mainland China		(259)	154	102
Share of other comprehensive income of associates		7	(7)	(2)
		<u>(552)</u>	<u>147</u>	<u>100</u>
Other comprehensive income for the year, net of tax		<u>(552)</u>	<u>(95)</u>	<u>557</u>
Total comprehensive income for the year		<u>18,209</u>	<u>21,243</u>	<u>21,269</u>
Profit attributable to				
Equity holders of the Company		18,617	21,210	20,517
Non-controlling interests		144	128	195
Profit for the year		<u>18,761</u>	<u>21,338</u>	<u>20,712</u>
Total comprehensive income attributable to				
Equity holders of the Company		18,065	21,115	21,074
Non-controlling interests		144	128	195
Total comprehensive income for the year		<u>18,209</u>	<u>21,243</u>	<u>21,269</u>
Basic earnings per share	33	<u>0.23</u>	<u>0.26</u>	<u>0.25</u>
Number of shares (in millions)	33	<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, 2017, 2018 AND 2019
(Amounts in millions)

	Notes	Attributable to equity holders of the Company									Non-controlling interests	Total Equity
		Share capital	Capital reserve	Share premium	Surplus reserves	General risk reserve	Other reserves	Exchange reserve	Retained earnings	Total		
		RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB		
Balance as of January 1, 2017		80,932	17,160	10,746	72,611	—	711	(622)	133,839	315,377	971	316,348
Profit for the year		—	—	—	—	—	—	—	18,617	18,617	144	18,761
Other comprehensive income for the year		—	—	—	—	—	(293)	(259)	—	(552)	—	(552)
Total comprehensive income for the year		—	—	—	—	—	(293)	(259)	18,617	18,065	144	18,209
Acquisition of the Eighth Acquired Group	1	—	(80)	—	—	—	—	—	(7)	(87)	—	(87)
Acquisition of non-controlling interests		—	46	—	—	—	—	—	—	46	(196)	(150)
Distribution to non-controlling interests		—	—	—	—	—	—	—	—	—	(89)	(89)
Dividends	32	—	—	—	—	—	—	—	(7,530)	(7,530)	—	(7,530)
Appropriations to statutory surplus reserve	25	—	—	—	1,686	—	—	—	(1,686)	—	—	—
Others		—	—	—	—	—	(4)	—	—	(4)	—	(4)
Balance as of December 31, 2017		80,932	17,126	10,746	74,297	—	414	(881)	143,233	325,867	830	326,697
Changes in accounting policies		—	—	—	302	—	—	—	2,673	2,975	(1)	2,974
Balance as of January 1, 2018		80,932	17,126	10,746	74,599	—	414	(881)	145,906	328,842	829	329,671
Profit for the year		—	—	—	—	—	—	—	21,210	21,210	128	21,338
Other comprehensive income for the year		—	—	—	—	—	(249)	154	—	(95)	—	(95)
Total comprehensive income for the year		—	—	—	—	—	(249)	154	21,210	21,115	128	21,243
Disposal of investments in equity instruments at fair value through other comprehensive income		—	—	—	—	—	(5)	—	5	—	—	—
Disposal of a subsidiary		—	—	—	—	—	—	—	—	—	5	5
Contribution from non-controlling interests		—	680	—	—	—	—	—	—	680	265	945
Reduction of capital by non-controlling interests		—	—	—	—	—	—	—	—	—	(20)	(20)
Distribution to non-controlling interests		—	—	—	—	—	—	—	—	—	(177)	(177)
Dividends	32	—	—	—	—	—	—	—	(7,568)	(7,568)	—	(7,568)
Appropriations to statutory surplus reserve	25	—	—	—	1,875	—	—	—	(1,875)	—	—	—
Balance as of December 31, 2018		80,932	17,806	10,746	76,474	—	160	(727)	157,678	343,069	1,030	344,099
Changes in accounting policy	2	—	—	—	(243)	—	—	—	(2,197)	(2,440)	(3)	(2,443)
Balance as of January 1, 2019, as restated		80,932	17,806	10,746	76,231	—	160	(727)	155,481	340,629	1,027	341,656
Profit for the year		—	—	—	—	—	—	—	20,517	20,517	195	20,712
Other comprehensive income for the year		—	—	—	—	—	455	102	—	557	—	557
Total comprehensive income for the year		—	—	—	—	—	455	102	20,517	21,074	195	21,269
Contribution from non-controlling interests		—	—	—	—	—	—	—	—	—	1,500	1,500
Acquisition of non-controlling interests		—	3	—	—	—	—	—	—	3	(11)	(8)
Distribution to non-controlling interests		—	—	—	—	—	—	—	—	—	(181)	(181)
Share of an associate's other changes in reserves		—	(305)	—	—	—	—	—	—	(305)	—	(305)
Dividends	32	—	—	—	—	—	—	—	(8,891)	(8,891)	—	(8,891)
Appropriations to statutory surplus reserve	25	—	—	—	1,812	—	—	—	(1,812)	—	—	—
Appropriations to general risk reserve of Finance Company	25	—	—	—	—	23	—	—	(23)	—	—	—
Balance as of December 31, 2019		80,932	17,504	10,746	78,043	23	615	(625)	165,272	352,510	2,530	355,040

See accompanying notes to consolidated financial statements.

CHINA TELECOM CORPORATION LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017, 2018 AND 2019
(Amounts in millions)

	Notes	Year ended December 31,		
		2017 RMB	2018 RMB	2019 RMB
Net cash from operating activities	(a)	96,502	99,298	112,600
Cash flows used in investing activities				
Capital expenditure		(87,334)	(83,835)	(82,853)
Payments for lease prepayments / right-of-use assets		(89)	(20)	(310)
Purchase of investments		(443)	(328)	(478)
Proceeds from disposal of property, plant and equipment		2,066	1,866	2,514
Proceeds from disposal of lease prepayments / right-of-use assets		72	45	115
Proceeds from disposal of investments		—	96	296
Net cash inflow / (outflow) from disposal of subsidiaries		184	(1)	—
Purchase of short-term bank deposits		(2,815)	(7,726)	(5,119)
Maturity of short-term bank deposits		3,096	3,949	8,621
Net cash used in investing activities		(85,263)	(85,954)	(77,214)
Cash flows used in financing activities				
Repayments of principal of finance lease obligations / lease liabilities		(84)	(73)	(10,699)
Proceeds from bank debt and other loans		123,250	97,829	103,315
Repayments of bank debt and other loans		(69,953)	(106,923)	(120,107)
Repayment of deferred consideration in respect of the Mobile Network Acquisition		(61,710)	—	—
Payment of the acquisition price of the Eighth Acquisition (Note 1)		—	(87)	—
Payment of dividends		(7,530)	(7,568)	(8,891)
Cash distributions to non-controlling interests		(89)	(177)	(181)
Payment for the acquisition of non-controlling interests		(31)	(119)	(8)
Contribution from non-controlling interests		—	855	1,590
Net deposits with Finance Company	(b)	—	—	4,098
Increase in statutory reserve deposits placed by Finance Company	(b)	—	—	(405)
Reduction of capital by non-controlling interests		—	(20)	—
Net cash used in financing activities		(16,147)	(16,283)	(31,288)
Net (decrease) / increase in cash and cash equivalents		(4,908)	(2,939)	4,098
Cash and cash equivalents at beginning of year		24,617	19,410	16,666
Effect of changes in foreign exchange rate		(299)	195	27
Cash and cash equivalents at end of year		19,410	16,666	20,791

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, 2017, 2018 AND 2019
(Amounts in millions)

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

	Year ended December 31,		
	2017	2018	2019
	RMB	RMB	RMB
Earnings before income tax	24,953	28,148	27,034
Adjustments for:			
Depreciation and amortization	74,951	75,493	88,145
Impairment losses for financial assets and other items, net of reversal	2,036	2,050	1,695
Impairment losses for long-lived assets	10	—	—
Write down of inventories, net of reversal	178	66	61
Investment income	(147)	(38)	(30)
Income from investments in associates	(877)	(2,104)	(1,573)
Interest income	(429)	(306)	(492)
Interest expense	3,586	3,093	4,090
Net foreign exchange loss / (gain)	134	(79)	41
Net loss on retirement and disposal of long-lived assets	1,841	1,757	2,710
Increase in accounts receivable	(2,770)	(1,848)	(2,601)
Decrease in contract assets	—	170	4
Decrease / (increase) in inventories	905	(622)	1,891
(Increase) / decrease in prepayments and other current assets	(2,618)	(1,349)	1,134
(Increase) / decrease in other assets	(231)	271	414
Decrease in accounts payable	(4,213)	(3,181)	(2,657)
Increase in accrued expenses and other payables	7,232	9,842	614
Decrease in contract liabilities	—	(6,414)	(1,412)
Decrease in deferred revenues	(202)	(138)	(90)
Cash generated from operations	104,339	104,811	118,978
Interest received	433	306	474
Interest paid	(3,707)	(3,094)	(4,200)
Investment income received	63	34	133
Income tax paid	(4,626)	(2,759)	(2,785)
Net cash from operating activities	<u>96,502</u>	<u>99,298</u>	<u>112,600</u>

(b) “Finance Company” refers to China Telecom Group Finance Co., Ltd., a subsidiary of the Company established on January 8, 2019, providing capital and financial management services to the member units of China Telecommunications Corporation.

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 voice, Internet, telecommunications network resource and equipment services, information and 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”). 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 network equipment services, international Internet access and transit, Internet data center and mobile virtual network services in certain countries and regions of the Asia Pacific, Europe, Africa, South America and North America. The operations of the Group in the mainland China are subject to the supervision by the PRC government and relevant regulations.

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 in consideration for 68,317 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. (“CTS”), China Telecom Global Limited (“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 (“E-surfing Pay”) and E-surfing Media Co., Ltd. (“E-surfing Media”), 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”). The Company disposed the equity interest in E-surfing Media to China Telecommunications Corporation in 2013.

CHINA TELECOM CORPORATION LIMITED AND SUBSIDIARIES
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(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. (“Besttone Holding”), a subsidiary of China Telecommunications Corporation, at a purchase price of RMB48 (hereinafter, referred to as the “Sixth Acquisition”).

On December 31, 2013, CT Global, a subsidiary of the Company, 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”).

On October 31, 2017, the Company disposed of the 100% equity interest in Chengdu E-store Technology Co., Ltd (“E-store”), a subsidiary of the Company, to Besttone Holding. The final consideration for the disposal of the equity interest in E-store amounted to RMB251, among which RMB249 was received on November 16, 2017 and the remaining balance of RMB2 was received in 2018.

Gain on disposal of a subsidiary:

	2017
	RMB
Consideration for the disposal	251
Net assets disposed of	(143)
Gain on disposal	108

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

Net cash inflow from disposal of a subsidiary:

	2017
	RMB
Consideration received in cash and cash equivalents	249
Less: Cash and cash equivalents disposed of	(65)
Net cash inflow from disposal of a subsidiary	184

CHINA TELECOM CORPORATION LIMITED AND SUBSIDIARIES
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1. PRINCIPAL ACTIVITIES, ORGANIZATION AND BASIS OF PRESENTATION (continued)

Organization (continued)

In December 2017, the Company acquired the satellite communications business (the “Satcom Business”) from China Telecom Satellite Communication Co., Ltd., a wholly owned subsidiary of China Telecommunications Corporation, at a purchase price of RMB70. In the same month, E-surfing Pay acquired a 100% interest in Shaanxi Zhonghe Hengtai Insurance Agent Limited (currently known as Orange Insurance Agent Limited (“Orange Insurance”), a wholly owned subsidiary of Shaanxi Communications Services Company Limited (“Shaanxi Comservice”, a company ultimately held by China Telecommunications Corporation), from Shaanxi Comservice, at a purchase price of RMB17. The acquisitions of the Satcom Business and Orange Insurance (collectively referred to as the “Eighth Acquired Group”) are two separate transactions, which are collectively referred to as the “Eighth Acquisition”. The total final consideration of the Eighth Acquisition was paid by June 30, 2018.

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, the Seventh Acquired Company and the Eighth Acquired Group 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
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2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) AND INTERPRETATION

In the current year, the Group has applied, for the first time, the following new and amendments to IFRSs and interpretation issued by the International Accounting Standards Board (“IASB”) that are mandatorily effective for the current year:

- IFRS 16, “*Leases*”
- IFRIC 23, “*Uncertainty over Income Tax Treatments*”
- Amendments to IFRS 9, “*Prepayment Features with Negative Compensation*”
- Amendments to IAS 19, “*Plan Amendment, Curtailment or Settlement*”
- Amendments to IAS 28, “*Long-term Interests in Associates and Joint Ventures*”
- Amendments to IFRSs, “*Annual Improvements to IFRS Standards 2015-2017 Cycle*”

Except for IFRS 16, “*Leases*” (“IFRS 16”), the application of the above amendments to IFRSs and interpretation has had no material effect on the Group’s consolidated financial statements.

The Group has not yet applied any new and revised standard that is not yet effective for the current year (Note 43).

IFRS 16, “Leases”

The Group has applied IFRS 16 for the first time in the current year. IFRS 16 superseded IAS 17, “*Leases*” (“IAS 17”), and the related interpretations.

Definition of a lease

The Group applies the definition of a lease in accordance with the requirements set out in IFRS 16 in assessing whether a contract contains a lease. Upon application of new definition of a lease, certain operating lease under IAS 17 does not fall into the definition of a lease under IFRS 16 as portion of the asset under such operating lease arrangement is not an identified asset.

As a lessee

The Group has applied IFRS 16 retrospectively with the cumulative effect recognized at the date of initial application, January 1, 2019.

As of January 1, 2019, the Group recognized additional lease liabilities and measured right-of-use assets at the carrying amounts as if IFRS 16 had been applied since commencement dates, but discounted using the incremental borrowing rates of the relevant lessees at the date of initial application by applying IFRS 16 transition provisions. Any cumulative effect at the date of initial application is recognized in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under IFRS 16 at transition, the Group applied the following practical expedients to all lease arrangements, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- i. elected not to recognize right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;
- ii. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of telecommunications towers, buildings, equipment and other assets in mainland China was determined on a portfolio basis; and
- iii. used hindsight based on facts and circumstances as of date of initial application in determining the lease term for the Group’s leases with extension and termination options.

CHINA TELECOM CORPORATION LIMITED AND SUBSIDIARIES
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2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) AND INTERPRETATION (continued)

IFRS 16, “Leases” (continued)

As a lessee (continued)

When recognizing the lease liabilities for operating leases, the Group has applied incremental borrowing rates of the relevant lessees at the date of initial application. The weighted average lessee’s incremental borrowing rate applied is 3.6%.

	<u>At January 1, 2019</u>
	RMB
Operating lease commitments disclosed as of December 31, 2018	65,805
Less: Recognition exemption—short-term leases	(684)
Recognition exemption—low-value assets	(85)
Variable lease payments not depending on an index or a rate	(12,265)
Reassessment on definition of a lease and change in allocation basis between lease and non-lease components	(2,852)
	<u>49,919</u>
Less: Total future interest expenses	(4,271)
Lease liabilities relating to operating leases recognized upon application of IFRS 16	45,648
Add: Finance lease obligations recognized as of December 31, 2018	216
Lease liabilities as of January 1, 2019	<u>45,864</u>
Analyzed as	
Current	10,260
Non-current	35,604

The carrying amount of right-of-use assets as of January 1, 2019 comprises the following:

	Note	<u>Right-of-use assets</u>
		RMB
Right-of-use assets relating to operating leases recognized upon application of IFRS 16		43,956
Reclassified from lease prepayments	(a)	21,568
		<u>65,524</u>

Note:

- (a) Upon application of IFRS 16, lease prepayments amounting to RMB21,568 were reclassified to right-of-use assets on the date of initial application.

As a lessor

In accordance with the transitional provisions in IFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with IFRS 16 from the date of initial application and comparative information has not been restated.

Effective on January 1, 2019, the Group has applied IFRS 15, “Revenue from Contracts with Customers” (“IFRS 15”) to allocate consideration in the contract to each lease and non-lease components. The change in allocation basis has had no material impact on the consolidated financial statements of the Group for the current year.

CHINA TELECOM CORPORATION LIMITED AND SUBSIDIARIES
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2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) AND INTERPRETATION (continued)

IFRS 16, “Leases” (continued)

Interests in associates

The net effects arising from the initial application of IFRS 16 resulted in a decrease in the carrying amounts of interests in associates of RMB263 with corresponding adjustments to retained profits.

The following adjustments were made to the amounts recognized in the consolidated statement of financial position at January 1, 2019. Line items that were not affected by the changes have not been included.

	<u>Note</u>	<u>Carrying amounts previously reported at December 31, 2018</u> RMB	<u>Adjustments</u> RMB	<u>Carrying amounts under IFRS 16 at January 1, 2019</u> RMB
Non-current assets				
Right-of-use assets		—	65,524	65,524
Lease prepayments	(a)	21,568	(21,568)	—
Interests in associates		38,051	(263)	37,788
Deferred tax assets		6,544	676	7,220
Other assets		4,840	(746)	4,094
Current assets				
Prepayments and other current assets		23,619	(518)	23,101
Current liabilities				
Accounts payable		107,887	(100)	107,787
Current portion of lease liabilities		—	10,260	10,260
Current portion of finance lease obligations		101	(101)	—
Non-current liabilities				
Lease liabilities		—	35,604	35,604
Finance lease obligations		115	(115)	—
Equity				
Total equity attributable to equity holders of the Company		343,069	(2,440)	340,629
Non-controlling interests		1,030	(3)	1,027

CHINA TELECOM CORPORATION LIMITED AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The accompanying consolidated financial statements have been prepared in accordance with IFRSs as issued by IASB. The consolidated financial statements of the Group have been prepared on a going concern basis. These consolidated financial statements were approved and authorized by the Board of Directors on March 24, 2020.

The consolidated financial statements are prepared on the historical cost basis as modified by the revaluation of certain financial instruments measured at fair value (Note 3(j)).

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgments, 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 IFRSs that have significant effect on the consolidated financial statements and major sources of estimation uncertainty are discussed in Note 42.

(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, other than business combination under common control, 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(e)), 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) Property, plant and equipment

Property, plant and equipment are initially recorded at cost, less subsequent accumulated depreciation and impairment losses (Note 3(h)). 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.

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.

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)

(d) Property, plant and equipment (continued)

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	5 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.

(e) 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(h)). 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.

(f) 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 12) 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(h)). 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.

(g) Intangible assets

The Group's intangible assets are primarily software.

Software that is not an integral part of any tangible assets, is recorded at cost less subsequent accumulated amortization and impairment losses (Note 3(h)). Amortization of software is mainly calculated on a straight-line basis over the estimated useful lives, which range from 3 to 5 years.

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

(h) Impairment of goodwill and long-lived assets

The carrying amounts of the Group's long-lived assets, including property, plant and equipment, right-of-use assets, intangible assets with finite useful lives, construction in progress and contract costs included in other assets 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.

Before the Group recognizes an impairment loss for assets capitalized as contract costs under IFRS 15, the Group assesses and recognizes any impairment loss on other assets related to the relevant contracts in accordance with applicable standards. Then, impairment loss, if any, for assets capitalized as contract costs is recognized to the extent the carrying amounts exceeds the remaining amount of consideration that the Group expects to receive in exchange for related goods or services less the costs which relate directly to providing those goods or services that have not been recognized as expenses. The assets capitalized as contract costs are then included in the carrying amount of the cash-generating unit to which they belong for the purpose of evaluating impairment of that cash-generating unit.

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. The recoverable amount of a tangible and an intangible asset is estimated individually. 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.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Financial instruments

Effective January 1, 2018, the Group applied IFRS 9, “*Financial instruments*” (“IFRS 9”) and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for (1) the classification and measurement of financial assets and financial liabilities, (2) expected credit losses (“ECL”) for financial assets and other items (for example, contract assets) and (3) general hedge accounting.

The Group applied IFRS 9 in accordance with the transition provisions set out in IFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognized as of January 1, 2018 (date of initial application) and not applied the requirements to instruments that have already been derecognized as of January 1, 2018. The difference between carrying amounts as of December 31, 2017 and the carrying amounts as of January 1, 2018 are recognized in and reduced the opening reserves as of January 1, 2018 by RMB716, without restating comparative information. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 39, “*Financial Instruments: Recognition and Measurement*”.

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognized and derecognized on a settlement date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for accounts receivable arising from contracts with customers which are initially measured in accordance with IFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities, other than financial assets or financial liabilities at fair value through profit or loss (“FVTPL”) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

The effective interest method is a method of calculating the amortized cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets (upon application of IFRS 9)

(i) Financial assets measured subsequently at amortized cost

Financial assets that meet the following conditions are subsequently measured at amortized cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Interest income is recognized using the effective interest method for financial assets measured subsequently at amortized cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

(ii) Equity instruments designated as of fair value through other comprehensive income (“FVTOCI”)

At the date of initial application of IFRS 9 / initial recognition of a financial asset, the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in OCI, and accumulate in other reserves, if that equity investment is neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which IFRS 3, “*Business Combinations*” applies. These equity instruments are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained earnings.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (upon application of IFRS 9) (continued)

(ii) Equity instruments designated as of fair value through other comprehensive income (“FVTOCI”) (continued)

Dividend from these investments in equity instruments are recognized in profit or loss when the Group’s right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the “investment income” line item in profit or loss.

(iii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortized cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognized in profit or loss. The net gain or loss recognized in profit or loss includes any dividend or interest earned on the financial asset and is included in the “investment income” line item.

Impairment of financial assets and other items subject to impairment assessment (upon application of IFRS 9)

The Group performs impairment assessment under ECL model on financial assets (including accounts receivable and financial assets included in prepayments and other current assets) and other items (contract assets) which are subject to impairment under IFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL (“12m ECL”) represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessments are done based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognizes lifetime ECL for accounts receivable and contract assets. The ECL on these assets are assessed individually for debtors with significant balances or credit-impaired debtors, and collectively using a provision matrix with appropriate groupings based on shared credit risk characteristics, nature of services provided as well as type of customers, such as receivable from telephone and Internet subscribers and from enterprise customers.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognizes lifetime ECL. The assessment of whether lifetime ECL should be recognized is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as of the reporting date with the risk of a default occurring on the financial instrument as of the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument’s external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor’s ability to meet its obligation to the Group.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets and other items subject to impairment assessment (upon application of IFRS 9) (continued)

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. A write-off constitutes a derecognition event. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any subsequent recoveries are recognized in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on the historical data adjusted by forward-looking information.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's accounts receivable and financial assets included in prepayments and other current assets are each assessed as a separate group);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

The Group recognizes an impairment gain or loss in profit or loss for all financial instruments measured at amortized cost by adjusting their carrying amount, with the exception of accounts receivable and other receivables where the corresponding adjustment is recognized through a loss allowance account.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (prior to January 1, 2018)

The Group's financial assets are classified into the following specified categories: AFS financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of the financial assets are recognized and derecognized on a settlement date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

(i) AFS financial assets

Investments in available-for-sale listed 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 listed 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 (see below).

(ii) Loans and receivables

Accounts receivable 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 (see below) unless the effect of discounting would be immaterial, in which case they are stated at cost less allowance for doubtful debts.

Impairment of financial assets (prior to January 1, 2018)

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.

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.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Financial instruments (continued)

Financial assets (continued)

Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

On derecognition of an investment in equity instrument which the Group has elected on initial recognition / initial application to measure at FVTOCI upon application of IFRS 9, the cumulative gain or loss previously accumulated in other reserves is not reclassified to profit or loss, but is transferred to retained earnings.

On derecognition of an AFS financial asset, the cumulative gain or loss previously accumulated in other reserves is reclassified to profit or loss.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are subsequently measured at amortized cost using the effective interest method.

Financial liabilities including short-term and long-term debt, accounts payable, and financial liabilities included in accrued expenses and other payables are subsequently measured at amortized cost, using the effective interest method.

Offsetting a financial asset and a financial liability

A financial asset and a financial liability are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognized amounts; and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

(k) 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.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(I) Revenue from contract with customers (upon application of IFRS 15)

Effective January 1, 2018, the Group applied IFRS 15 and the related Amendments. IFRS 15 superseded IAS 18, “*Revenue*”, IAS 11, “*Construction Contracts*” and the related interpretations. The Group applied IFRS 15 retrospectively with the cumulative effect of initially applying this standard recognized at the date of initial application, January 1, 2018. Any difference at the date of initial application was recognized in and increased the opening reserves as of January 1, 2018 by RMB3,691 and comparative information was not restated. Furthermore, in accordance with the transition provisions in IFRS 15, the Group has elected to apply the standard retrospectively only to the contracts that are not completed at January 1, 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18, “*Revenue*” and the related interpretations.

Under IFRS 15, the Group recognizes revenue when (or as) a performance obligation is satisfied. i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognized over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group’s performance as the Group performs;
- the Group’s performance creates and enhances an asset that the customer controls as the Groups performs; or
- the Group’s performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

As such, revenues from contracts with customers of telecommunications services, including voice, Internet, information and application and telecommunications network resource and equipment services, resale of mobile services (MVNO) and repair and maintenance of equipment are generally recognized over time during which the services are provided to customers.

Otherwise, revenue is recognized at a point in time when the customer obtains control of the distinct good or service. As such, revenues from sales of equipment are recognize at a point in time when the equipment is delivered to the customers and when the control over the equipment have been transferred to the customers.

A contract asset represents the Group’s right to consideration in exchange for goods or services that the Group has transferred to a customer but the right is conditioned on the Group’s future performance. A contract asset is transferred to accounts receivable when the right becomes unconditional. A contract asset is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group’s unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group’s obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. When the Group receives an advance payment before the performance obligation is satisfied, this will give rise to a contract liability, until the operating revenues recognized on the relevant contract exceed the amount of the advance payment.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

Contracts with multiple performance obligations (including allocation of transaction price)

For contracts that contain more than one performance obligations, such as the Group’s direct sales of promotional packages bundling terminal equipment, e.g. mobile handsets, and the telecommunications services, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(I) Revenue from contract with customers (upon application of IFRS 15) (continued)

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

The progress towards complete satisfaction of a performance obligation is generally measured based on output method, which is to recognize revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract.

Principal versus agent

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognizes revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

Consideration payable to a customer

Consideration payable to a customer includes cash amounts that the Group pays, or expects to pay, to the customer, and also includes credit or other items that can be applied against amounts owed to the Group. The Group accounted for such consideration payable to a customer as a reduction of the transaction price and, therefore, of revenue unless the payment to the customer is in exchange for a distinct good or service that the customer transfers to the Group and the fair value of the good or service received from the customer can be reasonably estimated.

Certain subsidies payable to third party agent incurred by the Group in respect of customer contracts, which will be ultimately enjoyed by end customers, and other subsidies incurred by the Group directly payable to its customers, are qualified as consideration payable to a customer and accounted for as a reduction of operating revenues.

Incremental costs of obtaining a contract

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained.

Certain commissions incurred by the Group paid or payable to third party agents, whose selling activities resulted in customers entering into sale agreements for the Group's telecommunications service, are qualified as incremental costs. The Group recognizes such costs as an asset, included in other assets, if it expects to recover these costs. The asset so recognized is subsequently amortized to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate.

The Group applies the practical expedient of expensing all incremental costs to obtain a contract if these costs would otherwise have been fully amortized to profit or loss within one year.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(1) Revenue from contract with customers (upon application of IFRS 15) (continued)

Costs to fulfil a contract

When the Group incurs costs to fulfil a contract, it first assesses whether these costs qualify for recognition as an asset in terms of other relevant standards, failing which it recognizes an asset for these costs only if they meet all of the following criteria:

- the costs relate directly to a contract or to an anticipated contract that the Group can specifically identify;
- the costs generate or enhance resources of the Group that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and
- the costs are expected to be recovered.

The asset so recognized is subsequently amortized to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate. The asset is subject to impairment review.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Revenue recognition (prior to January 1, 2018)

Before the application of IFRS 15, the revenue recognition methods of the Group are as follows:

- Revenues from telecommunications services, including voice, Internet, information and application and telecommunications network resource and equipment services, resale of mobile services (MVNO) and repair and maintenance of equipment are recognized over time during which the services are provided to customers.

Revenue from information and application 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 information and application 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:

- 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;
- The Group takes title of the inventory of the applications before they are ordered by customers;
- 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;
- The Group has latitude in establishing selling prices with customers;
- The Group can modify the applications or perform part of the services;
- The Group has discretion in selecting suppliers used to fulfill an order; and
- 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 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 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.

- 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.

The Group offers promotional packages, which involve the bundled sales of terminal equipment, i.e. 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.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Leases

Definition of a lease (upon application of IFRS 16 in accordance with transitions in note 2)

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as a lessee (upon application of IFRS 16 in accordance with transitions in note 2)

As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the financial statements would not differ materially from individual leases within the portfolio.

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of buildings, equipment and other assets that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognized as expenses on a straight-line basis over the lease term.

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the lessee; and
- an estimate of costs to be incurred by the lessee in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Leases (continued)

The Group as a lessee (upon application of IFRS 16 in accordance with transitions in note 2) (continued)

Right-of-use assets (continued)

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

Lease liabilities

At the commencement date of a lease, the Group recognizes and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate the lease.

Variable lease payments that depend on an index or a rate are initially measured using the index or rate as of the commencement date. Variable lease payments that do not depend on an index or a rate are not included in the measurement of lease liabilities and right-of-use assets, and are recognized as expense in the period on which the event or condition that triggers the payment occurs.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of assessment.
- the lease payments change due to changes in market rental rates following a market rent review, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Leases (continued)

The Group as a lessee (upon application of IFRS 16 in accordance with transitions in note 2) (continued)

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group as lessee (prior to January 1, 2019)

Assets acquired 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.

Where the Group has the right to use the assets 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.

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.

The Group as a lessor

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Amounts due from lessees under finance leases are recognized as receivables at commencement date at amounts equal to net investments in the leases, measured using the interest rate implicit in the respective leases. Initial direct costs (other than those incurred by manufacturer or dealer lessors) are included in the initial measurement of the net investments in the leases. Interest income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Leases (continued)

The Group as a lessor (continued)

Classification and measurement of leases (continued)

Rental income from operating leases is recognized in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and such costs are recognized as an expense on a straight-line basis over the lease term. Upon application of IFRS 16 on January 1, 2019, variable lease payments for operating leases that depend on an index or a rate are estimated and included in the total lease payments to be recognized on a straight-line basis over the lease term. Variable lease payments that do not depend on an index or a rate are recognized as income when they arise.

The Group as a lessor (upon application of IFRS 16 in accordance with transitions in note 2)

Allocation of consideration to components of a contract

When a contract includes both leases and non-lease components, the Group applies IFRS 15 to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Refundable rental deposits

Refundable rental deposits received are accounted under IFRS 9, “*Financial Instruments*” and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

Sublease

When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sub-lease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

Lease modification

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Net finance costs

Net finance costs comprise interest income on bank deposits, interest costs on borrowings, interest expense on lease liabilities 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.

(p) Research and development expense

Research and development expenditure is expensed as incurred. For the years ended December 31, 2017, 2018 and 2019, research and development related personnel expenses amounted to RMB1,134, RMB1,327 and RMB1,950, and research and development related depreciation amounted to RMB108, RMB110 and RMB141, respectively. In addition, other research and development expense for the years ended December 31, 2017, 2018 and 2019 was RMB1,088, RMB1,341 and RMB2,105, respectively.

(q) 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 39.

Compensation expense in respect of the share 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 share 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 share appreciation rights scheme are set out in Note 40.

(r) 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.

(s) 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 and a reliable estimate can be made of the amount of 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.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Value-added tax (“VAT”)

Under current PRC tax rules and regulations, output VAT rate for basic telecommunications services (including voice communication, lease or sale of network resources) is 9% since April 1, 2019, or 10% between May 1, 2018 and April 1, 2019, or 11% before May 1, 2018, 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 13% since April 1, 2019, 16% between May 1, 2018 and April 1, 2019, or 17% before May 1, 2018. 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 13% since April 1, 2019, or 3% to 16% between May 1, 2018 and April 1, 2019, or 3% to 17% before May 1, 2018.

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.

(u) 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.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognizes the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

The tax deductions of the Group’s leasing transactions are attributable to the lease liabilities. The Group applies IAS 12, “*Income Taxes*” requirements to the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities resulting in net deductible temporary differences.

(v) Dividends

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

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) 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.

(x) 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% or more of the Group's operating revenues.

4. CASH AND CASH EQUIVALENTS

	December 31,	
	2018	2019
	RMB	RMB
Cash at bank and in hand	14,937	20,006
Time deposits with original maturity within three months	1,729	785
	<u>16,666</u>	<u>20,791</u>

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5. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net, are analyzed as follows:

	Note	December 31,	
		2018	2019
		RMB	RMB
Third parties		23,308	24,438
China Telecom Group	(i)	1,327	1,188
China Tower (See definition in Note 14)		10	5
Other telecommunications operators in the PRC		510	550
		<u>25,155</u>	<u>26,181</u>
Less: Allowance for credit losses		(4,680)	(4,692)
		<u>20,475</u>	<u>21,489</u>

Note:

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

As of January 1, 2018, the gross carrying amounts of accounts receivable from contracts with customers amounted to RMB25,342.

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

	December 31,	
	2018	2019
	RMB	RMB
Current, within 1 month	8,376	7,545
1 to 3 months	2,117	1,777
4 to 12 months	1,932	1,822
More than 12 months	943	1,002
	<u>13,368</u>	<u>12,146</u>
Less: Allowance for credit losses	(2,898)	(2,803)
	<u>10,470</u>	<u>9,343</u>

Aging analysis of accounts receivable from other telecommunications operators and enterprise customers based on dates of rendering of services is as follows:

	December 31,	
	2018	2019
	RMB	RMB
Current, within 1 month	3,318	4,701
1 to 3 months	2,300	2,964
4 to 12 months	3,994	3,768
More than 12 months	2,175	2,602
	<u>11,787</u>	<u>14,035</u>
Less: Allowance for credit losses	(1,782)	(1,889)
	<u>10,005</u>	<u>12,146</u>

As of December 31, 2018 and 2019, included in the net balance of the Group’s accounts receivable are debtors with aggregate carrying amount of RMB2,503 and RMB1,936 respectively, which are past due as of the reporting date.

The following table summarizes the changes in allowance for doubtful debts in 2017:

	2017
	RMB
At beginning of year	3,402
Impairment losses for doubtful debts	1,962
Accounts receivable written off	(1,522)
At end of year	<u>3,842</u>

Details of impairment assessment of accounts receivable for the year ended December 31, 2018 and 2019 are set out in note 35.

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6. CONTRACT ASSETS

	December 31,	
	2018	2019
	RMB	RMB
Third parties	454	447
China Telecom Group	24	27
	<u>478</u>	<u>474</u>

The Group's contracts for information and application services include payment schedules which require stage payments over the service period once certain specified milestones are reached. The Group classifies these contract assets as current because the Group expects to realize them in its normal operating cycle.

7. INVENTORIES

	December 31,	
	2018	2019
	RMB	RMB
Materials and supplies	1,012	577
Goods for resale	3,820	2,303
	<u>4,832</u>	<u>2,880</u>

8. PREPAYMENTS AND OTHER CURRENT ASSETS

	Note	December 31,	
		2018	2019
		RMB	RMB
Amounts due from China Telecom Group		1,035	1,233
Amounts due from China Tower (See definition in Note 14)		293	192
Amounts due from other telecommunications operators in the PRC		333	352
Prepayments in connection with construction work and equipment purchases		2,752	3,352
Prepaid expenses and deposits		3,628	2,993
Value-added tax recoverable		8,618	8,803
Other receivables	(i)	6,960	5,294
		<u>23,619</u>	<u>22,219</u>

Note:

- (i) Other receivables as of December 31, 2018 include the unpaid remaining consideration of the contribution from non-controlling interest of a subsidiary of the Group amounting to RMB90, which was received in January 2019.

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9. PROPERTY, PLANT AND EQUIPMENT, NET

	Buildings and improve- ments	Telecom- munications network plant and equipment	Furniture, fixture, motor vehicles and other equipment	Total
	RMB	RMB	RMB	RMB
Cost/Deemed cost:				
Balance at January 1, 2018	101,332	842,473	30,585	974,390
Additions	712	512	306	1,530
Transferred from construction in progress	1,454	71,704	1,721	74,879
Retirement and disposal	(860)	(59,822)	(1,636)	(62,318)
Reclassification	(97)	(485)	582	—
Balance at December 31, 2018	102,541	854,382	31,558	988,481
Additions	554	274	277	1,105
Transferred from construction in progress	2,060	74,157	1,644	77,861
Retirement and disposal	(751)	(62,560)	(2,419)	(65,730)
Reclassification	(39)	(536)	575	—
Balance at December 31, 2019	104,365	865,717	31,635	1,001,717
Accumulated depreciation and impairment:				
Balance at January 1, 2018	(54,706)	(491,066)	(22,361)	(568,133)
Depreciation charge for the year	(4,370)	(63,878)	(2,135)	(70,383)
Written back on retirement and disposal	750	55,519	1,561	57,830
Reclassification	26	439	(465)	—
Balance at December 31, 2018	(58,300)	(498,986)	(23,400)	(580,686)
Depreciation charge for the year	(4,185)	(64,672)	(2,101)	(70,958)
Written back on retirement and disposal	681	56,943	2,311	59,935
Reclassification	19	358	(377)	—
Balance at December 31, 2019	(61,785)	(506,357)	(23,567)	(591,709)
Net book value at December 31, 2019	42,580	359,360	8,068	410,008
Net book value at December 31, 2018	44,241	355,396	8,158	407,795

10. CONSTRUCTION IN PROGRESS

	RMB
Balance at January 1, 2018	73,106
Additions	74,457
Transferred to property, plant and equipment	(74,879)
Transferred to intangible assets	(6,040)
Balance at December 31, 2018	66,644
Additions	76,870
Transferred to property, plant and equipment	(77,861)
Transferred to intangible assets	(6,447)
Balance at December 31, 2019	59,206

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11. RIGHT-OF-USE ASSETS

	Leasehold Lands RMB	Buildings RMB	Telecommunications towers and related assets RMB	Equipment RMB	Others RMB	Total RMB
As of January 1, 2019						
Carrying amount	21,568	7,079	27,354	9,311	212	65,524
As of December 31, 2019						
Carrying amount	20,952	8,289	23,740	8,361	207	61,549
For the year ended December 31, 2019						
Depreciation charge	<u>732</u>	<u>2,968</u>	<u>6,966</u>	<u>1,612</u>	<u>65</u>	<u>12,343</u>

For the year ended December 31, 2019, expenses relating to short-term leases and other leases with lease terms ended within 12 months of the date of initial application of IFRS 16 amounting to RMB939, expenses relating to leases of low value assets (excluding short-term leases of low value assets) amounting to RMB45 and variable lease payments not included in the measurement of lease liabilities amounting to RMB4,640, are recognized in profit or loss.

For the year ended December 31, 2019, total cash outflow for leases is RMB18,240, and additions to right-of-use assets are RMB9,172.

The Group leases telecommunications towers and related assets, land and buildings, equipment and other assets for its operations. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

As of December 31, 2019, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed above in this note.

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12. GOODWILL

	December 31,	
	2018	2019
	RMB	RMB
Cost:		
Goodwill arising from acquisition of CDMA business	29,922	29,923

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 9.2% (2018: 9.4%). Cash flows beyond the five-year period are extrapolated using a steady 1.5% growth rate (2018: 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.

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13. INTANGIBLE ASSETS

	<u>Software</u> <u>RMB</u>
Cost:	
Balance at January 1, 2018	34,550
Additions	269
Transferred from construction in progress	6,040
Disposals	<u>(3,545)</u>
Balance at December 31, 2018	37,314
Additions	624
Transferred from construction in progress	6,447
Disposals	<u>(591)</u>
Balance at December 31, 2019	<u>43,794</u>
Accumulated amortization and impairment:	
Balance at January 1, 2018	(22,159)
Amortization charge for the year	(4,366)
Written back on disposals	<u>3,372</u>
Balance at December 31, 2018	<u>(23,153)</u>
Amortization charge for the year	(4,844)
Written back on disposals	<u>552</u>
Balance at December 31, 2019	<u>(27,445)</u>
Net book value at December 31, 2019	<u>16,349</u>
Net book value at December 31, 2018	<u>14,161</u>

14. INTERESTS IN ASSOCIATES

	<u>December 31,</u>	
	<u>2018</u>	<u>2019</u>
	<u>RMB</u>	<u>RMB</u>
Cost of investment in associates	36,933	37,173
Share of post-acquisition changes in net assets	1,118	2,019
	<u>38,051</u>	<u>39,192</u>
Fair value of listed investments	<u>46,797</u>	<u>55,601</u>

The Group's interests in associates are accounted for under the equity method. Details of the Group's principal associates are as follows:

<u>Name of company</u>	<u>Attributable</u> <u>equity interest</u>	<u>Principal activities</u>
China Tower Corporation Limited (Note (i))	20.5%	Construction, maintenance and operation of telecommunications towers as well as ancillary facilities
Shanghai Information Investment Incorporation (Note (ii))	24.0%	Provision of information technology consultancy services

Notes:

- (i) China Tower Corporation Limited ("China Tower") is established and operated in the PRC, and listed on the Main Board of The Stock Exchange of Hong Kong Limited on August 8, 2018. Income from investments in associates for the year ended December 31, 2018 includes: (a) a one-off gain amounting to RMB1,170 arising from the dilution of the Company's share in China Tower in respect of China Tower's listing, including those released from the deferred gain from the disposal of telecommunications towers and related assets (the "Tower Assets Disposal"); and (b) share of profits of associates.
- (ii) Shanghai Information Investment Incorporation ("Shanghai Info-investment") is established and operated in the PRC and is not traded on any stock exchange.

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14. INTERESTS IN ASSOCIATES (continued)

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	
	December 31,	
	2018	2019
	RMB	RMB
Current assets	31,799	40,995
Non-current assets	283,565	297,072
Current liabilities	114,759	128,364
Non-current liabilities	20,103	27,142
	2018	2019
	RMB	RMB
Operating revenues	71,819	76,428
Profit for the year	2,650	5,221
Other comprehensive income for the year	—	—
Total comprehensive income for the year	2,650	5,221
Dividend received from the associate	—	81

Reconcile to the Group's interests in the associate:

	December 31,	
	2018	2019
	RMB	RMB
Net assets of the associate	180,502	182,561
Non-controlling interests of the associate	—	(2)
The Group's effective interest in the associate	20.5%	20.5%
The Group's share of net assets of the associate	37,003	37,425
Adjustment for the remaining balance of the deferred gain from the Tower Assets Disposal	(1,013)	(865)
Carrying amount of the interest in the associate in the consolidated financial statements of the Group	<u>35,990</u>	<u>36,560</u>

	Shanghai Info-investment	
	December 31,	
	2018	2019
	RMB	RMB
Current assets	7,181	4,292
Non-current assets	8,592	5,203
Current liabilities	6,615	2,494
Non-current liabilities	1,985	787
	2018	2019
	RMB	RMB
Operating revenues	4,337	3,214
Profit for the year	586	1,158
Other comprehensive income for the year	(29)	(7)
Total comprehensive income for the year	557	1,151
Dividend received from the associate	9	9

Reconcile to the Group's interests in the associate:

	December 31,	
	2018	2019
	RMB	RMB
Net assets of the associate	7,173	6,214
Non-controlling interests of the associate	(2,180)	(144)
The Group's effective interest in the associate	24.0%	24.0%
The Group's share of net assets of the associate	1,198	1,457
Carrying amount of the interest in the associate in the consolidated financial statements of the Group	<u>1,198</u>	<u>1,457</u>

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14. INTERESTS IN ASSOCIATES (continued)

Aggregate financial information of the Group's associates that are not individually material is disclosed below:

	<u>2018</u>	<u>2019</u>
	<u>RMB</u>	<u>RMB</u>
The Group's share of profit of these associates	14	85
The Group's share of total comprehensive income of these associates	<u>14</u>	<u>85</u>
	<u>December 31,</u>	<u>2019</u>
	<u>RMB</u>	<u>RMB</u>
Aggregate carrying amount of interests in these associates in the consolidated financial statements of the Group	<u>863</u>	<u>1,175</u>

15. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	<u>Notes</u>	<u>December 31,</u>	<u>2019</u>
		<u>RMB</u>	<u>RMB</u>
Equity securities listed in the mainland China	(i)	638	1,228
Unlisted equity securities	(ii)	214	230
		<u>852</u>	<u>1,458</u>

Notes:

- (i) The above listed equity instruments represent ordinary shares of entities listed in the mainland China. These investments are not held for trading, instead, they are held for long-term strategic purposes. The directors of the Company have elected to designate these investments in equity instruments as of FVTOCI as they believe that recognizing short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes and realizing their performance potential in the long run.
- (ii) The above unlisted equity securities represent the Group's equity interests in various private entities established in the PRC. The directors of the Company have elected to designate these investments in equity instruments as of FVTOCI as they believe that the Group will hold these investments for long-term strategic purposes.

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16. 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	
	2018 RMB	2019 RMB	2018 RMB	2019 RMB	2018 RMB	2019 RMB
Provisions and impairment losses, primarily for credit losses	1,925	1,953	—	—	1,925	1,953
Property, plant and equipment, and others	4,580	4,862	(13,022)	(18,831)	(8,442)	(13,969)
Right-of-use assets and lease liabilities	—	744	—	—	—	744
Deferred revenues and installation costs	39	18	(29)	(13)	10	5
Equity instruments at fair value through other comprehensive income	—	—	(87)	(234)	(87)	(234)
Deferred tax assets/(liabilities)	<u>6,544</u>	<u>7,577</u>	<u>(13,138)</u>	<u>(19,078)</u>	<u>(6,594)</u>	<u>(11,501)</u>

	Balance at January 1, 2017 RMB	Recognized in consolidated statement of comprehensive income RMB	Balance at December 31, 2017 RMB
Provisions and impairment losses, primarily for doubtful debts	1,531	95	1,626
Property, plant and equipment, and others	(1,006)	(3,001)	(4,007)
Deferred revenues and installation costs	35	(16)	19
Available-for-sale equity securities	(269)	100	(169)
Net deferred tax assets/(liabilities)	<u>291</u>	<u>(2,822)</u>	<u>(2,531)</u>

	Balance at December 31, 2017 RMB	Changes in accounting policies RMB	Recognized in consolidated statement of comprehensive income RMB	Balance at December 31, 2018 RMB
Provisions and impairment losses, primarily for credit losses	1,626	203	96	1,925
Property, plant and equipment, and others	(4,007)	(1,066)	(3,369)	(8,442)
Deferred revenues and installation costs	19	—	(9)	10
Available-for-sale equity securities	(169)	169	—	—
Equity instruments at fair value through other comprehensive income	—	(169)	82	(87)
Net deferred tax liabilities	<u>(2,531)</u>	<u>(863)</u>	<u>(3,200)</u>	<u>(6,594)</u>

	Balance at December 31, 2018 RMB	Change in accounting policy RMB	Recognized in consolidated statement of comprehensive income RMB	Balance at December 31, 2019 RMB
Provisions and impairment losses, primarily for credit losses	1,925	—	28	1,953
Property, plant and equipment, and others	(8,442)	—	(5,527)	(13,969)
Right-of-use assets and lease liabilities	—	676	68	744
Deferred revenues and installation costs	10	—	(5)	5
Equity instruments at fair value through other comprehensive income	(87)	—	(147)	(234)
Net deferred tax liabilities	<u>(6,594)</u>	<u>676</u>	<u>(5,583)</u>	<u>(11,501)</u>

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17. OTHER ASSETS

	Note	December 31,	
		2018	2019
		RMB	RMB
Contract costs	(i)	1,287	988
Installation fees		124	56
Other long-term prepaid expenses		3,429	3,643
		<u>4,840</u>	<u>4,687</u>

Note:

- (i) Contract costs capitalized as of December 31, 2018 and 2019 mainly relate to the incremental sales commissions paid to third party agents whose selling activities resulted in subscribers entering into telecommunications service agreements with the Group. The amount of capitalized costs recognized in profit or loss during the years ended December 31, 2018 and 2019 was RMB1,744 and RMB1,367, respectively. There was no impairment in relation to the opening balance of capitalized costs or the costs capitalized during the year.

18. SHORT-TERM AND LONG-TERM DEBT

Short-term debt comprises:

	December 31,	
	2018	2019
	RMB	RMB
Loans from banks—unsecured	12,881	15,831
Super short-term commercial papers—unsecured	27,992	19,995
Other loans—unsecured	80	80
Loans from China Telecom Group—unsecured	8,584	6,621
Total short-term debt	<u>49,537</u>	<u>42,527</u>

The weighted average interest rate of the Group's total short-term debt as of December 31, 2018 and 2019 was 3.2% per annum and 2.9% per annum, respectively. As of December 31, 2019, the Group's loans from banks and other loans bear interest at rates ranging from 3.5% to 4.4% (December 31, 2018: 3.5% to 4.6%) per annum, and are repayable within one year; as of December 31, 2019, super short-term commercial papers bear interest at rates ranging from 1.9% to 2.2% (December 31, 2018: 2.1% to 3.3%) per annum, and will be repaid by June 19, 2020; the loans from China Telecom Group bear interest at rate of 3.5% (December 31, 2018: 3.5%) per annum and are repayable within one year.

Long-term debt comprises:

	Interest rates and final maturity	December 31,	
		2018	2019
		RMB	RMB
Bank loans—unsecured			
Renminbi denominated (Note (i))	Interest rates ranging from 1.08% to 1.20% per annum with maturities through 2036	8,455	7,738
US Dollars denominated	Interest rates ranging from 1.25% to 2.00% per annum with maturities through 2028	336	288
Euro denominated	Interest rate of 2.30% per annum with maturities through 2032	199	173
		<u>8,990</u>	<u>8,199</u>
Other loans—unsecured			
Renminbi denominated		1	1
Medium-term note—unsecured (Note(ii))		—	4,995
Loans from China Telecom Group—unsecured			
Renminbi denominated (Note (iii))		<u>37,000</u>	<u>23,300</u>
Total long-term debt		<u>45,991</u>	<u>36,495</u>
Less: Current portion		<u>(1,139)</u>	<u>(4,444)</u>
Non-current portion		<u>44,852</u>	<u>32,051</u>

Notes:

- (i) The Group obtained long-term RMB denominated government loans with below-market interest rates ranging from 1.08% to 1.20% per annum through banks (the "Low-interest Loans"). The Group recognized the Low-interest 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 Low-interest Loans was recognized as government grants in deferred revenue (Note 23).

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18. SHORT-TERM AND LONG-TERM DEBT (continued)

Notes: (continued)

- (ii) On January 22, 2019, the Group issued three-year, RMB3,000 denominated medium-term note with annual interest rate of 3.42% per annum, and incurred issuing costs of RMB3. The medium-term note is unsecured and is repayable on January 21, 2022. On March 19, 2019, the Group issued three-year, RMB2,000 denominated medium-term note with annual interest rate of 3.41% per annum and incurred issuing costs of RMB3. The medium-term note is unsecured and is repayable on March 18, 2022.
- (iii) The Group obtained long-term RMB denominated loans with the interest rate of 3.8% per annum from China Telecommunications Corporation on December 25, 2017, which are repayable within 3 to 5 years. The Group partially repaid these loans amounting to RMB3,000 and RMB13,700, respectively, in 2018 and 2019.

The aggregate maturities of the Group's long-term debt subsequent to December 31, 2019 are as follows:

	RMB
2020	4,444
2021	1,078
2022	26,032
2023	965
2024	940
Thereafter	3,036
	<u>36,495</u>

The Group's short-term and long-term debt do not contain any financial covenants. As of December 31, 2018 and 2019, the Group had unutilized committed credit facilities amounting to RMB150,693 and RMB245,847 respectively.

19. ACCOUNTS PAYABLE

	December 31,	
	2018	2019
	RMB	RMB
Third parties	83,418	78,123
China Telecom Group	20,983	19,531
China Tower	2,850	4,312
Other telecommunications operators in the PRC	636	650
	<u>107,887</u>	<u>102,616</u>

Amounts due to China Telecom Group and China Tower are payable in accordance with contractual terms which are similar to those terms offered by third parties.

20. ACCRUED EXPENSES AND OTHER PAYABLES

	December 31,	
	2018	2019
	RMB	RMB
Amounts due to China Telecom Group	2,171	6,069
Amounts due to China Tower	1,246	1,261
Amounts due to other telecommunications operators in the PRC	46	32
Accrued expenses	33,811	34,628
Value-added tax payable	484	564
Customer deposits and receipts in advance	5,739	5,962
	<u>43,497</u>	<u>48,516</u>

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21. CONTRACT LIABILITIES

	December 31,	
	2018	2019
	RMB	RMB
Third parties	55,638	54,225
China Telecom Group	145	162
China Tower	—	1
	<u>55,783</u>	<u>54,388</u>

As of January 1, 2018, contract liabilities amounted to RMB62,175. Majority of contract liabilities as of December 31, 2018 was recognized as operating revenues for the year ended December 31, 2019.

22. LEASE LIABILITIES

	December 31,	
	2019	
	RMB	
Within one year	11,569	
Within a period of more than one year but not more than two years	10,887	
Within a period of more than two year but not more than five years	16,255	
Within a period of more than five years	3,435	
	<u>42,146</u>	
Less: Current portion	11,569	
Non-current portion	<u>30,577</u>	

23. DEFERRED REVENUES

Deferred revenues as of December 31, 2019 mainly represent the unearned portion of installation fees for wireline services received from customers (Note 17), and the unamortized portion of government grants (Note 18).

	2018	2019
	RMB	RMB
Balance at beginning of the year	2,274	1,829
Reductions for the year:		
Amortization of installation fees	(138)	(90)
Amortization of government grants	(307)	(284)
Balance at end of year	<u>1,829</u>	<u>1,455</u>
Representing:		
Current portion	375	358
Non-current portion	<u>1,454</u>	<u>1,097</u>
	<u>1,829</u>	<u>1,455</u>

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24. SHARE CAPITAL

	December 31,	
	2018	2019
	RMB	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.

25. RESERVES

	Capital reserve RMB (Note (i))	Share premium RMB	Surplus reserves RMB (Note (iii))	General risk reserve RMB (Note (v))	Other reserves RMB (Note (ii))	Exchange reserve RMB	Retained earnings RMB	Total RMB
Balance as of January 1, 2017	17,160	10,746	72,611	—	711	(622)	133,839	234,445
Total comprehensive income for the year	—	—	—	—	(293)	(259)	18,617	18,065
Acquisition of the Eighth Acquired Group (Note 1)	(80)	—	—	—	—	—	(7)	(87)
Acquisition of non-controlling interests	46	—	—	—	—	—	—	46
Dividends (Note 32)	—	—	—	—	—	—	(7,530)	(7,530)
Appropriations to statutory surplus reserve (Note (iii))	—	—	1,686	—	—	—	(1,686)	—
Others	—	—	—	—	(4)	—	—	(4)
Balance as of December 31, 2017	<u>17,126</u>	<u>10,746</u>	<u>74,297</u>	<u>—</u>	<u>414</u>	<u>(881)</u>	<u>143,233</u>	<u>244,935</u>
Changes in accounting policies	—	—	302	—	—	—	2,673	2,975
Balance as of January 1, 2018	17,126	10,746	74,599	—	414	(881)	145,906	247,910
Total comprehensive income for the year	—	—	—	—	(249)	154	21,210	21,115
Disposal of investments in equity instruments at fair value through other comprehensive income	—	—	—	—	(5)	—	5	—
Contribution from non-controlling interests	680	—	—	—	—	—	—	680
Dividends (Note 32)	—	—	—	—	—	—	(7,568)	(7,568)
Appropriations to statutory surplus reserve (Note (iii))	—	—	1,875	—	—	—	(1,875)	—
Balance as of December 31, 2018	<u>17,806</u>	<u>10,746</u>	<u>76,474</u>	<u>—</u>	<u>160</u>	<u>(727)</u>	<u>157,678</u>	<u>262,137</u>
Change in accounting policy (Note 2)	—	—	(243)	—	—	—	(2,197)	(2,440)
Balance as of January 1, 2019, as restated	17,806	10,746	76,231	—	160	(727)	155,481	259,697
Total comprehensive income for the year	—	—	—	—	455	102	20,517	21,074
Acquisition of non-controlling interests	3	—	—	—	—	—	—	3
Share of an associate's other changes in reserves	(305)	—	—	—	—	—	—	(305)
Dividends (Note 32)	—	—	—	—	—	—	(8,891)	(8,891)
Appropriations to statutory surplus reserve (Note (iii))	—	—	1,812	—	—	—	(1,812)	—
Appropriations to general risk reserve of Finance Company (Note (v))	—	—	—	23	—	—	(23)	—
Balance as of December 31, 2019	<u>17,504</u>	<u>10,746</u>	<u>78,043</u>	<u>23</u>	<u>615</u>	<u>(625)</u>	<u>165,272</u>	<u>271,578</u>

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25. RESERVES (continued)

Notes:

- (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; (b) the difference between the consideration paid by the Group for the entities acquired, other than the Fifth Acquired Group, from China Telecommunications Corporation, which were accounted for as equity transactions as disclosed in Note 1, and the historical carrying amount of the net assets of these acquired entities; and (c) the difference between the consideration paid by the Group for the acquisition of non-controlling interests and the historical carrying amount of the non-controlling interests acquired. 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. Capital reserve of the Company represents 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.
- (ii) Other reserves of the Group and the Company represent primarily the change in the fair value of investment in equity instruments at FVTOCI and the deferred tax liabilities recognized due to the change in fair value of those investment in equity instruments.
- (iii) The surplus 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 IFRSs, 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, 2019, 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, 2019, the Company transferred RMB1,812, being 10% of the year's net profit, to this reserve. For the year ended December 31, 2018, the Company transferred RMB1,875, being 10% of the year's net profit determined in accordance with the PRC Accounting Standards for Business Enterprises, to this reserve. As of December 31, 2018, January 1, 2019 and December 31, 2019, the amount of statutory surplus reserve was RMB30,395, RMB30,152 and RMB31,964, respectively. The Company did not transfer any discretionary surplus reserve for the years ended December 31, 2018 and 2019. As of December 31, 2018 and 2019, the amount of discretionary surplus reserve was RMB46,079. 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 IFRSs. As of December 31, 2018, January 1, 2019 and December 31, 2019, the amount of retained earnings available for distribution was RMB133,076, RMB130,892 and RMB138,312 respectively, being the amount determined in accordance with IFRSs. Final dividend of approximately RMB9,126 in respect of the financial year 2019 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 32).
- (v) Pursuant to "Requirements on Impairment Allowance for Financial Institutions" (Caijin [2012] No. 20) issued by the Ministry of Finance of the PRC effective on July 1, 2012 (the "Requirements"), Finance Company established a general risk reserve within equity, through appropriation of retained earnings, to address unidentified potential losses relating to risk assets. The general risk reserve balance should not be less than 1.5% of the ending balance of risk assets, as defined in the Requirements.

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26. OPERATING REVENUES

Disaggregation of revenues

	<u>Notes</u>	<u>2018</u> RMB	<u>2019</u> RMB
Type of goods or services			
Revenue from contracts with customers			
Voice	(i)	50,811	45,146
Internet	(ii)	190,871	197,244
Information and application services	(iii)	83,478	87,623
Telecommunications network resource and equipment services	(iv)	20,211	21,978
Sales of goods and others	(v)	27,450	17,906
Subtotal		372,821	369,897
Revenue from other sources	(vi)	4,303	5,837
Total operating revenues		<u>377,124</u>	<u>375,734</u>
Timing of revenue recognition			
A point in time		24,496	14,591
Over time		352,628	361,143
Total operating revenues		<u>377,124</u>	<u>375,734</u>

Notes:

- (i) Represent the aggregate amount of voice usage fees, installation fees and interconnections fees charged to customers for the provision of telephony services.
- (ii) Represent amounts charged to customers for the provision of Internet access services.
- (iii) Represent primarily the aggregate amount of fees charged to customers for the provision of Internet data center service, system integration services, e-Surfing HD service, caller ID service and short messaging service and etc.
- (iv) Represent amounts charged to other domestic telecommunications operators and enterprise customers for the provision of telecommunications network resource and equipment services.
- (v) Represent primarily revenue from sales, and repair and maintenance of telecommunications equipment as well as the resale of mobile services (MVNO).
- (vi) Represent primarily revenue from property rental and other revenues.

As of December 31, 2018 and 2019, the aggregated amount of the transaction price allocated to the remaining performance obligations under the Group's existing contracts represents revenue expected to be recognized in the future when service is provided over the contract terms over the next 1 year to 3 years.

For the year ended December 31, 2017

The components of the Group's operating revenues are as follows:

	<u>2017</u> RMB
Voice	61,678
Internet	172,554
Information and application services	73,044
Telecommunications network resource and equipment services	19,125
Others	39,828
	<u>366,229</u>

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27. NETWORK OPERATIONS AND SUPPORT EXPENSES

	Note	Year ended December 31,		
		2017	2018	2019
		RMB	RMB	RMB
Operating and maintenance		55,360	64,056	65,087
Utility		12,522	13,477	13,818
Network resources usage and related fee	(i)	26,926	29,434	20,976
Others		9,161	9,095	9,918
		<u>103,969</u>	<u>116,062</u>	<u>109,799</u>

Note:

- (i) Network resources usage and related fee for the year ended December 31, 2019 includes the variable lease payments and fee for non-lease components in relation to telecommunications towers and related assets lease and fee in relation to the short-term leases and leases of low-value assets, variable lease payments and fee for non-lease components in relation to the usage of network resources provided by third parties.

28. PERSONNEL EXPENSES

Personnel expenses are attributable to the following functions:

	Year ended December 31,		
	2017	2018	2019
	RMB	RMB	RMB
Network operations and support	38,574	40,388	42,214
Selling, general and administrative	17,469	19,348	21,353
	<u>56,043</u>	<u>59,736</u>	<u>63,567</u>

29. OTHER OPERATING EXPENSES

	Notes	Year ended December 31,		
		2017	2018	2019
		RMB	RMB	RMB
Interconnection charges	(i)	12,223	12,878	12,683
Cost of goods sold	(ii)	31,712	23,185	13,413
Donations		23	20	1
Others	(iii)	1,654	1,614	1,695
		<u>45,612</u>	<u>37,697</u>	<u>27,792</u>

Notes:

- (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 tax and surcharges other than value-added tax and income tax.

30. NET FINANCE COSTS

	Year ended December 31,		
	2017	2018	2019
	RMB	RMB	RMB
Interest expense on short-term and long-term debts	3,913	3,278	2,623
Interest expense on lease liabilities	—	—	1,607
Less: Interest expense capitalized*	(327)	(185)	(140)
Net interest expense	3,586	3,093	4,090
Interest income	(429)	(306)	(492)
Foreign exchange losses	664	423	680
Foreign exchange gains	(530)	(502)	(639)
	<u>3,291</u>	<u>2,708</u>	<u>3,639</u>

* Interest expense was capitalized in construction in progress at the following rates per annum 3.9% - 4.9% 3.8%-4.4% 3.5%-4.4%

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31. INCOME TAX

Income tax in the profit or loss comprises:

	Year ended December 31,		
	2017	2018	2019
	RMB	RMB	RMB
Provision for PRC income tax	3,147	3,408	781
Provision for income tax of other tax jurisdictions	123	120	105
Deferred taxation	2,922	3,282	5,436
	<u>6,192</u>	<u>6,810</u>	<u>6,322</u>

A reconciliation of the expected tax expense with the actual tax expense is as follows:

	Notes	Year ended December 31,		
		2017	2018	2019
		RMB	RMB	RMB
Earnings before income tax		24,953	28,148	27,034
Expected income tax expense at statutory tax rate of 25%	(i)	6,238	7,037	6,759
Differential tax rate on PRC subsidiaries' and branches' income	(i)	(108)	(291)	(315)
Differential tax rate on other subsidiaries' income	(ii)	(82)	(58)	(129)
Non-deductible expenses	(iii)	380	537	979
Non-taxable income	(iv)	(112)	(319)	(460)
Others	(v)	(124)	(96)	(512)
Actual income tax expense		<u>6,192</u>	<u>6,810</u>	<u>6,322</u>

Notes:

- (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 8% to 35%.
- (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 settlement of tax filing differences of prior year annual tax return and other tax benefits such as additional tax deduction on research and development expenses.

32. DIVIDENDS

Pursuant to a resolution passed at the Board of Directors' meeting on March 24, 2020, a final dividend of equivalent to HK\$0.125 per share totaling approximately RMB9,126 for the year ended December 31, 2019 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, 2019.

Pursuant to the shareholders' approval at the Annual General Meeting held on May 29, 2019, a final dividend of RMB0.109851 (equivalent to HK\$0.125) per share totaling RMB8,891 in respect of the year ended December 31, 2018 was declared, and paid on July 26, 2019.

Pursuant to the shareholders' approval at the Annual General Meeting held on May 28, 2018, a final dividend of RMB0.093512 (equivalent to HK\$0.115) per share totaling RMB7,568 in respect of the year ended December 31, 2017 was declared, and paid on July 27, 2018.

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33. BASIC EARNINGS PER SHARE

The calculation of basic earnings per share for the years ended December 31, 2017, 2018 and 2019 is based on the profit attributable to equity holders of the Company of RMB18,617, RMB21,210 and RMB20,517, 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.

34. COMMITMENTS AND CONTINGENCIES

Operating lease commitments

The Group leases business premises and equipment through non-cancellable operating leases. 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, 2018, the Group's future minimum lease payments under non-cancellable operating leases are as follows:

	RMB
2019	15,658
2020	14,466
2021	13,440
2022	12,682
2023	3,461
Thereafter	6,098
Total minimum lease payments	<u>65,805</u>

Operating lease commitment as set out above includes the lease commitment to China Tower for the tower assets lease fee. The amount was calculated based on the current lease condition and did not take into consideration the contingent adjustment to the lease charges resulting from the change in sharing of certain towers amongst the telecommunications operators.

Total rental expense in respect of operating leases charged to profit or loss for the years ended December 31, 2017 and 2018 were RMB25,493 and RMB27,810, respectively.

Capital commitments

As of December 31, 2019, the Group had capital commitments as follows:

	RMB
Contracted for but not provided	
- property	1,810
- telecommunications network plant and equipment	19,131
	<u>20,941</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, 2018 and 2019, 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 unfavourable 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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35. FINANCIAL INSTRUMENTS

Financial assets of the Group include cash and cash equivalents, bank deposits, equity instrument, accounts receivable, financial assets at FVTPL and financial assets included in prepayments and other current assets. Financial liabilities of the Group include short-term and long-term debt, accounts payable and financial liabilities included in accrued expenses and other payables.

(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 financial instruments measured at fair value) approximate their carrying amounts due to the short-term maturity of these instruments.

The listed equity securities investment included in the Group’s equity instruments at fair value through other comprehensive income are categorized as level 1 financial instruments. The fair value of the Group’s listed equity securities investment, which amounted to RMB638 and RMB1,228 as of December 31, 2018 and 2019 respectively was based on quoted market price on PRC stock exchanges.

The fair values of long-term debt is 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 is categorized as level 2. The interest rates used by the Group in estimating the fair values of long-term debt, having considered the foreign currency denomination of the debt, ranged from 3.7% to 4.9% (2018: 1.0% to 4.9%). As of December 31, 2018 and 2019, the carrying amounts and fair value of the Group’s long-term debt was as follows:

	December 31, 2018		December 31, 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
	RMB	RMB	RMB	RMB
Long-term debt	45,991	44,968	36,495	35,780

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 mainly 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:

(i) *Credit risk*

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. 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.

Cash and cash equivalents and short-term bank deposits

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. The credit risks on bank balances are limited because the counterparties are banks with high credit ratings.

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35. FINANCIAL INSTRUMENTS (continued)

(b) *Risks (continued)*

(i) Credit risk (continued)

Accounts receivable and contract assets arising from contracts with customers

For accounts receivable and contract assets, management performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on accounts receivable and contract assets. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. In addition, the Group performs impairment assessment under ECL model upon application of IFRS 9 on trade balances individually or based on provision matrix. Furthermore, the Group has a diversified base of customers with no single customer contributing more than 10% of revenues for the periods presented.

The Group measures loss allowances for accounts receivable and contract assets at an amount equal to lifetime ECL, which is calculated using a provision matrix, or individually assessed for those debtors with significant balances or credit impaired debtors. As different loss patterns were indicated during the analysis of the Group's historical credit loss experience between telephone and Internet subscribers and enterprise customers, the following tables provide information about the Group's exposure to credit risk and ECL for accounts receivables and contract assets from telephone and Internet subscribers and enterprise customers, respectively, as of December 31, 2018 and 2019:

Accounts receivable from telephone and Internet subscribers:

	December 31, 2018		
	Expected loss rate	Gross carrying amount	Loss allowance
	%	RMB	RMB
Current, within 1 month	2%	8,376	158
1 to 3 months	20%	2,117	420
4 to 6 months	60%	839	502
7 to 12 months	80%	1,093	875
Over 12 months	100%	943	943
		13,368	2,898

	December 31, 2019		
	Expected loss rate	Gross carrying amount	Loss allowance
	%	RMB	RMB
Current, within 1 month	2%	7,545	141
1 to 3 months	20%	1,777	349
4 to 6 months	60%	739	444
7 to 12 months	80%	1,083	867
Over 12 months	100%	1,002	1,002
		12,146	2,803

Accounts receivable and contract assets from enterprise customers:

	December 31, 2018		
	Expected loss rate	Gross carrying amount	Loss allowance
	%	RMB	RMB
1 to 6 months	2%	4,478	109
7 to 12 months	20%	800	157
1 to 2 years	60%	479	290
2 to 3 years	90%	225	202
Over 3 years	100%	298	298
		6,280	1,056

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35. FINANCIAL INSTRUMENTS (continued)

(b) *Risks (continued)*

(i) Credit risk (continued)

Accounts receivable and contract assets from enterprise customers: (continued)

	December 31, 2019		
	Expected loss rate	Gross carrying amount	Loss allowance
	%	RMB	RMB
1 to 6 months	2%	5,452	102
7 to 12 months	20%	1,428	239
1 to 2 years	60%	621	353
2 to 3 years	90%	258	224
Over 3 years	100%	371	364
		<u>8,130</u>	<u>1,282</u>

As of December 31, 2019, the loss allowance for accounts receivable and contract assets was RMB4,692 and RMB8 (2018: RMB4,680 and RMB8), respectively. Loss allowance of RMB615 and RMB734 as of December 31, 2019 and 2018, respectively, which was not calculated collectively in the above tables, was made individually on debtors with significant balances or credit impaired debtors.

Expected loss rates are based on actual loss experience over the past 1 to 3 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historical data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

Movement in the loss allowance account in respect of accounts receivable during the year is as follows:

	2018 RMB	2019 RMB
At beginning of year	4,761	4,680
Impairment losses for ECL	2,008	1,653
Amounts written off	<u>(2,089)</u>	<u>(1,641)</u>
At end of year	<u>4,680</u>	<u>4,692</u>

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35. FINANCIAL INSTRUMENTS (continued)

(b) *Risks (continued)*

(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 and lease 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:

	2018					
	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	49,537	51,091	51,091	—	—	—
Long-term debt	45,991	52,625	2,602	19,604	25,061	5,358
Accounts payable	107,887	107,887	107,887	—	—	—
Accrued expenses and other payables	43,497	43,497	43,497	—	—	—
Finance lease obligations	216	241	112	40	82	7
	<u>247,218</u>	<u>255,341</u>	<u>205,189</u>	<u>19,644</u>	<u>25,143</u>	<u>5,365</u>
	2019					
	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	42,527	43,697	43,697	—	—	—
Long-term debt	36,495	40,791	4,625	1,184	30,824	4,158
Accounts payable	102,616	102,616	102,616	—	—	—
Accrued expenses and other payables	48,516	48,516	48,516	—	—	—
Lease liabilities	42,146	45,535	12,846	11,794	17,266	3,629
	<u>272,300</u>	<u>281,155</u>	<u>212,300</u>	<u>12,978</u>	<u>48,090</u>	<u>7,787</u>

Management believes that the Group's current cash on hand, expected cash flows from operations and available credit facilities from banks (Note 18) 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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35. 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. 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:

	2018		2019	
	Effective interest rate %	RMB	Effective interest rate %	RMB
Fixed rate debt:				
Short-term debt	3.2	49,347	2.5	29,022
Long-term debt	3.3	45,991	3.1	36,495
		95,338		65,517
Variable rate debt:				
Short-term debt	4.2	190	3.8	13,505
		190		13,505
Total debt		95,528		79,022
Fixed rate debt as a percentage of total debt		99.8%		82.9%

Management does not expect the increase or decrease in interest rate will materially affect the Group's financial position and result of operations because the interest rates of 82.9% (December 31, 2018: 99.8%) of the Group's short-term and long-term debt as of December 31, 2019 are fixed as set out above.

(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 78.0% (December 31, 2018: 64.0%) of the Group's cash and cash equivalents and 99.4% (December 31, 2018: 99.4%) of the Group's short-term and long-term debt as of December 31, 2019 are denominated in Renminbi. Details of bank loans denominated in other currencies are set out in Note 18.

36. 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. Total debts do not include balance of deposits received by Finance Company from China Telecom Group amounting to RMB4,098 and lease liabilities amounting to RMB42,146 as of December 31, 2019 (December 31, 2018: Nil). As of December 31, 2018 and 2019, the Group's total debt-to-total assets ratio was 14.4% and 11.2% respectively, which is within the range of management's expectation.

Except Finance Company is subject to certain capital requirements imposed by China Banking and Insurance Regulatory Commission, neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

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37. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statements of cash flows as cash flows from financing activities.

	Short-term debt RMB millions	Long-term debt RMB millions	Lease liabilities/finance lease obligations RMB millions	Dividend payable RMB millions	Deposits with Finance Company RMB millions (Note (i))	Other payables in respect of certain equity transactions RMB millions	Total RMB millions
Balance as at January 1, 2018	54,558	49,742	77	—	—	206	104,583
Financing cash flows	(5,021)	(4,073)	(73)	(7,745)	—	(226)	(17,138)
New finance leases	—	—	200	—	—	—	200
Interest expenses	—	304	12	—	—	—	316
Foreign exchange loss	—	18	—	—	—	—	18
Reduction of capital by non-controlling interests	—	—	—	—	—	20	20
Distribution to non-controlling interests	—	—	—	177	—	—	177
Dividends declared	—	—	—	7,568	—	—	7,568
Balance as at December 31, 2018	49,537	45,991	216	—	—	—	95,744
Change in accounting policy	—	—	45,648	—	—	—	45,648
Balance as at January 1, 2019	49,537	45,991	45,864	—	—	—	141,392
Financing cash flows	(7,010)	(9,782)	(10,699)	(9,072)	4,098	(8)	(32,473)
New leases	—	—	8,856	—	—	—	8,856
Lease modifications	—	—	(589)	—	—	—	(589)
Transferred to accounts payables	—	—	(2,900)	—	—	—	(2,900)
Interest expenses	—	284	1,607	—	—	—	1,891
Foreign exchange loss	—	2	7	—	—	—	9
Acquisition of non-controlling interests	—	—	—	—	—	8	8
Distribution to non-controlling interests	—	—	—	181	—	—	181
Dividends declared	—	—	—	8,891	—	—	8,891
Balance as at December 31, 2019	42,527	36,495	42,146	—	4,098	—	125,266

Notes:

- (i) As of December 31, 2019, the balance of deposits with Finance Company amounting to RMB4,098 (December 31, 2018: nil) were included in amounts due to China Telecom Group in accrued expenses and other payables (Note 20).
- (ii) For the year ended December 31, 2019, other than the net financing cash outflows totalling RMB32,473 as presented above: E-surfing Pay, a subsidiary of the Company, received RMB90 as part of the total consideration amounting to RMB945 in respect of contribution from non-controlling interests (Note 20); Finance Company, a subsidiary of the Company, received RMB1,500 in respect of contribution from non-controlling interests (Note 25), and placed statutory reserve deposits amounting to RMB405 at the People's Bank of China which is included in the balance of short-term bank deposits as of December 31, 2019.

38. 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.

	Notes	Year ended December 31,		
		2017 RMB	2018 RMB	2019 RMB
Construction and engineering services	(i)	18,672	16,396	14,014
Receiving ancillary services	(ii)	16,072	16,744	18,571
Interconnection revenues	(iii)	48	80	97
Interconnection charges	(iii)	193	204	183
Receiving community services	(iv)	3,028	3,296	3,464
Net transaction amount of centralized services	(v)	727	519	133
Property lease income	(vi)	53	48	57
Property lease related expenses	(vii)	654	713	577
Addition to right-of-use assets	(vii)	—	—	284
Interest expense on lease liabilities	(vii)	—	—	11
Provision of IT services	(viii)	642	531	464
Receiving IT services	(viii)	1,812	1,895	2,175
Purchases of telecommunications equipment and materials	(ix)	4,248	3,760	3,538
Sales of telecommunications equipment and materials	(ix)	3,291	2,760	1,444
Internet applications channel services	(x)	344	298	108
Interest on amounts due to and loans from China Telecom Group	(xi)	2,720	2,099	1,485
Others	(xii)	190	186	189
Net deposit by China Telecom Group with Finance Company	(xiii)	—	—	4,098
Interest expense on the deposit by China Telecom Group with Finance Company	(xiii)	—	—	7

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38. RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with China Telecom Group (continued)

Notes:

- (i) Represent construction and engineering as well as design and supervisory services provided by China Telecom Group.
- (ii) 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.
- (iii) Represent amounts received and receivable from/paid and payable to China Telecom Group for interconnection of local and domestic long distance calls.
- (iv) Represent amounts paid and payable to China Telecom Group in respect of cultural, educational, health care and other community services.
- (v) 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.
- (vi) Represent amounts of property lease fee received and receivable from China Telecom Group for leasing of properties.
- (vii) Represent amounts in relation to the leasing of properties from China Telecom Group. Property lease related expenses for the year ended 31 December 2019 include the fee for short-term leases, leases of low-value assets, variable lease payments not depending on an index or a rate and fee for non-lease components. Property lease related expenses for the years ended 31 December 2017 and 2018 represent lease fee paid and payable to China Telecom Group.
- (viii) Represent IT services provided to and received from China Telecom Group.
- (ix) 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.
- (x) 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.
- (xi) Represent interest paid and payable to China Telecom Group with respect to the amount due to China Telecommunications Corporation and loans from China Telecom Group (Note 18).
- (xii) Represent amounts paid and payable to China Telecom Group primarily for usage of CDMA mobile telecommunications network (“CDMA network”) facilities located in Xizang Autonomous Region, certain inter-provincial transmission optic fibers within its service regions and land use rights.
- (xiii) Represent amounts related to financial services provided by Finance Company to China Telecom Group, including lending services, deposit services and other financial services.

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38. RELATED PARTY TRANSACTIONS (continued)

(a) Transactions with China Telecom Group (continued)

Amounts due from/to China Telecom Group are summarized as follows:

	December 31,	
	2018	2019
	RMB	RMB
Accounts receivable	1,327	1,188
Contract assets	24	27
Prepayments and other current assets	1,035	1,233
Total amounts due from China Telecom Group	<u>2,386</u>	<u>2,448</u>
Accounts payable	20,983	19,531
Accrued expenses and other payables	2,171	6,069
Contract liabilities	145	162
Lease liabilities	—	389
Short-term debt	8,584	6,621
Long-term debt	37,000	23,300
Total amounts due to China Telecom Group	<u>68,883</u>	<u>56,072</u>

Amounts due from/to China Telecom Group, other than short-term debt, long-term debt, deposit with Finance Company included in accrued expenses and other payables (Note 37(i)), 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 due to China Telecom Group are set out in Note 18.

As of December 31, 2018 and 2019, no material loss allowance 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:

	Notes	Year ended December 31,		
		2017	2018	2019
		RMB	RMB	RMB
Tower assets lease related expenses	(i)	15,389	16,063	10,543
Additions of right-of-use assets	(i)	—	—	3,735
Interest expense on lease liabilities	(i)	—	—	938
Provision of IT services	(ii)	49	32	31

Notes:

- (i) Represent amounts in relation to the lease of tower assets. Tower assets lease related expenses for the year ended 31 December 2019 includes the variable lease payments not depending on an index or a rate and fee for non-lease components. Tower assets lease related expenses for the years ended 31 December 2017 and 2018 represent tower assets lease and related fee paid and payable to China Tower.
- (ii) Represent IT and other ancillary services provided to China Tower.

Amounts due from/to China Tower are summarized as follows:

	2018	2019
	RMB	RMB
Accounts receivable	10	5
Prepayments and other current assets	293	192
Total amounts due from China Tower	<u>303</u>	<u>197</u>
Accounts payable	2,850	4,312
Accrued expenses and other payables	1,246	1,261
Contract liabilities	—	1
Lease liabilities	—	24,474
Total amounts due to China Tower	<u>4,096</u>	<u>30,048</u>

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.

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38. RELATED PARTY TRANSACTIONS (continued)

(b) Transactions with China Tower (continued)

As of December 31, 2018 and 2019, no material loss allowance 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 and supervisors of the Group.

Key management personnel compensation of the Group is summarized as follows:

	Year ended December 31,		
	2017	2018	2019
	RMB	RMB	RMB
	thousands	thousands	thousands
Short-term employee benefits	7,804	7,942	9,604
Post-employment benefits	816	799	1,199
	<u>8,620</u>	<u>8,741</u>	<u>10,803</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 39.

(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 38(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.

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)

39. 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 20% 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, 2017, 2018 and 2019 were RMB6,884 and RMB7,256 and RMB8,616, respectively.

The amount payable for contributions to the above defined contribution retirement plans as of December 31, 2018 and 2019 was RMB675 and RMB755, respectively.

40. SHARE APPRECIATION RIGHTS

The Group implemented a share appreciation rights plan for members of its management to provide incentives to these employees. Under this plan, share appreciation rights are granted in units with each unit representing one H share. No shares will be issued under the share appreciation rights plan. Upon exercise of the share 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 share 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 share appreciation rights over the applicable period.

In November 2018, the Company approved the granting of 2,394 million share appreciation right units to eligible employees. Under the terms of this grant, all share appreciation rights had a contractual life of five years from date of grant and an exercise price of HK\$3.81 per unit. A recipient of share appreciation rights may exercise the rights in stages commencing November 2020. As of each of the third, fourth and fifth anniversary of the date of grant, the total number of share appreciation rights exercisable may not in aggregate exceed 33.3%, 66.7% and 100.0%, respectively, of the total share appreciation rights granted to such person.

During the year ended December 31, 2018 and 2019, no share appreciation right units were exercised. For the year ended December 31, 2019, compensation expense of RMB136 was recognized by the Group in respect of share appreciation rights (2018: RMB 30).

As of December 31, 2018 and 2019, the carrying amount of the liability arising from share appreciation rights were RMB30 and RMB166, respectively.

CHINA TELECOM CORPORATION LIMITED AND SUBSIDIARIES
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(All **Renminbi** amounts in millions, except per share data and except otherwise stated)

41. PRINCIPAL SUBSIDIARIES

Details of the Company's subsidiaries which principally affected the results, assets and liabilities of the Group as of December 31, 2019 are as follows:

Name of company	Type of legal entity	Date of incorporation	Place of incorporation and operation	Registered /issued capital (in RMB million unless otherwise stated)	Principal activities
China Telecom System Integration Co., Limited	Limited Company	September 13, 2001	PRC	542	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 telecommunications 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\$1,000,001	Provision of international value-added network services
E-surfing Pay Co., Ltd	Limited Company	March 3, 2011	PRC	635	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	MYR3,723,500	Provision of international value-added network services
China Telecom Information Technology (Vietnam) Co., Ltd	Limited Company	July 9, 2012	Vietnam	VND10,500 million	Provision of international value-added network services
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 telecommunications services
Zhejiang Yixin Technology Co., Ltd.	Limited Company	August 19, 2013	PRC	11	Provision of instant messenger service
Tianyi Capital Holding Co., Ltd.	Limited Company	November 30, 2017	PRC	5,000	Capital Investment and provision of consulting services
China Telecom Leasing Corporation Limited.	Limited Company	November 30, 2018	PRC	5,000	Provision of finance lease service
China Telecom Group Finance Co., Ltd. ("Finance Company")	Limited Company	January 8, 2019	PRC	5,000	Provision of capital and financial management services

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)

41. PRINCIPAL SUBSIDIARIES (continued)

Except for Shenzhen Shekou Telecommunications Company Limited which is 51% owned by the Company, Zhejiang Yixin Technology Co., Ltd. which is 65% owned by the Company and E-surfing Pay Co., Ltd, which is 78.74% owned by the Company and Finance Company, which is 70% 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. None of the subsidiaries had issued any debt securities at the end of the year.

42. 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.

Provision of ECL for accounts receivable

The Group uses provision matrix to calculate ECL for the accounts receivable. The provision rates are based on customer's past history of making payments when due and current ability to pay by groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration reasonable and supportable forward-looking information that is available without undue cost or effort. The historical observed default rates are reassessed annually, and changes in the forward-looking information are considered. In addition, accounts receivable with significant balances or credit-impaired are assessed for ECL individually.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's accounts receivable are disclosed in notes 5 and 35.

Impairment of goodwill and 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(h). The carrying amounts of the Group's long-lived assets, including property, plant and equipment, right-of-use assets, intangible assets with finite useful lives, construction in progress and contract costs 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, 2019, no provision for impairment loss was made against the carrying value of long-lived assets (2018: Nil). For the year ended December 31, 2017, provision for impairment losses of RMB10 were 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.

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)

42. ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

Depreciation and amortization

Property, plant and equipment and intangible assets with finite useful lives 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.

43. POSSIBLE IMPACT OF NEW AND AMENDMENTS TO STANDARDS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED DECEMBER 31, 2019

Up to the date of issue of these consolidated financial statements, the IASB has issued the following new and amendments to standards which are not yet effective and not early adopted for the annual accounting period ended December 31, 2019:

	Effective for accounting period beginning on or after
Amendments to IFRS 3, “ <i>Definition of a Business</i> ”	January 1, 2020
Amendments to IAS 1 and IAS 8, “ <i>Definition of Material</i> ”	January 1, 2020
Amendments to IFRS 9, IAS 39 and IFRS 7, “ <i>Interest Rate Benchmark Reform</i> ”	January 1, 2020
IFRS 17, “ <i>Insurance Contracts</i> ”	January 1, 2021
Amendments to IAS 1 “ <i>Classification of Liabilities as Current or Non-current</i> ”	January 1, 2022
Amendments to IFRS 10 and IAS 28, “ <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ”	To be determined

In addition to the above new and amendments to standards, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the Amendments to References to the Conceptual Framework in IFRS Standards, will be effective for annual periods beginning on or after January 1, 2020.

The Group is in the process of making an assessment of the impact that will result from adopting the new and amendments to standards issued by the IASB which are not yet effective for the accounting period ended on December 31, 2019. So far the Group believes that the adoption of these new and amendments to standards is unlikely to have a significant impact on its financial position and the results of operations.

44. EVENTS AFTER THE REPORTING PERIOD

(a) Issue of corporate bonds

On March 10, 2020, the Group issued three-year, RMB2,000 corporate bonds to qualified investors in Shanghai Securities Exchange with annual interest rate of 2.90%.

(b) The impact of the Novel Coronavirus (COVID-19) Epidemic

Following the outbreak of the novel coronavirus (COVID-19) epidemic in early 2020, related prevention and control measures across China and other part of the world have been implemented. In addition, the Group has taken a series of measures to ensure smooth and reliable communications. The continuous pandemic has impacted business development and network construction of the Group. The Group keeps continuous attention on the developments of and changes in this situation, timely assesses and actively responds to its impacts on the financial position, operating results and other aspects of the Group.

45. PARENT AND ULTIMATE HOLDING COMPANY

The parent and ultimate holding company of the Company as of December 31, 2019 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 19 August 2019)

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ARTICLES OF ASSOCIATION OF
CHINA TELECOM CORPORATON 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 unified social credit code is: 9111000071093019X7.

The promoter of the Company is: China Telecommunications Corporation (currently known as 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 : 100033
Telephone number : 5850-1800
Facsimile number : 6601-0728

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. In accordance with the Company Law and the Constitution of the Communist Party of China (the“Party”), the Company shall set up Party organisations. The Party organisations shall perform the core leadership and political functions. The Company shall set up Party working organs, which shall be equipped with sufficient staff to handle Party affairs and provided with sufficient funds to operate the Party organisations.

Article 10. 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 11. 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 12. 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 13. 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 14. 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, the LTE/4G digital cellular mobile communications business (TD-LTE/LTE FDD), fifth generation digital cellular mobile communications business, satellite mobile communications business, satellite fixed communications business, satellite transponders rental and sales business in the People's Republic of China.

Engage in local fixed communications business (including local wireless ring circuit business), domestic fixed long-distance communications business, international fixed long-distance communications business, Internet international data transmission business, international data

communications business, public telegraph and subscriber telegraph business, 26GHz wireless access facilities services business, and domestic communications facilities services business in the 21 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 facilities services business in Nanjing, Hefei, Kunming, Hubei, Hunan, Hainan, Sichuan, Guizhou and Gansu.

Value-added telecommunications businesses include:

Engage in domestic fixed data transmission business, Customer Premises Network (CPN) business, network hosting business, domestic Internet virtual private network business, Internet access services business, online data processing and transaction processing business, storage and forwarding business, domestic call centre business, information services business and wireless data transmission business in Beijing, Shanghai, Jiangsu, Zhejiang, Anhui, Fujian, Jiangxi, Hubei, Hunan, Guangdong, Guangxi, Hainan, Chongqing, Sichuan, Guizhou, Yunnan, Shaanxi, Gansu, Qinghai, Ningxia and Xinjiang; engage in information services business (limited to mobile information services) in Tianjin, Hebei, Shanxi, Inner Mongolia, Liaoning, Jilin, Heilongjiang, Shandong, Henan and Tibet, engage in domestic Very Small Aperture Terminal communications business, Internet data centre business and content distribution network business in the People's Republic of China.

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), 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 15. 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 16. 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 17. 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 18. 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 19. 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 20. 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 21. 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 22. 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 (currently known as 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 Group Limited, 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 23. 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 24. 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 25. The registered capital of the Company is RMB 80,932,368,321.

Article 26. 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 27. 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 28. According to the provisions of the Company's Articles of Association, the Company may reduce its registered capital.

Article 29. 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 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 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 30. 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) reducing its capital;
- (2) merging with another company that holds shares in the Company;
- (3) utilising shares for employee stock ownership plan or share incentive scheme;
- (4) repurchasing shares upon request raised by shareholders who had divergent views on approved resolutions in connection with a merger and division of the Company at the general meeting;
- (5) utilising shares for conversion of corporate bonds issued by the Company which are convertible into shares;
- (6) as necessary for maintenance of the Company's value and shareholders' rights and interests.

The Company's repurchase of its issued shares shall comply with the provisions of Articles 31 to 34.

Article 31. The Company may repurchase its shares under the circumstances stated in clause (1), (2) or (4) of paragraph one of Article 30, in one of the following ways:

- (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.

Any repurchase of shares by the Company under the circumstances stated in clause (3), (5) or (6) of paragraph one of Article 30 shall be made by way of a public centralised trading.

Article 32. 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. Any repurchase of shares by the Company pursuant to the provisions as stated in clause (3), (5) or (6) of paragraph one of Article 30 shall be subject to a board resolution approved by over two-thirds of the directors attending the meeting. 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 33. In the event that the repurchase of shares by the Company in accordance with paragraph one of Article 30 is under the circumstances stated in clause (1), the shares shall be cancelled within 10 days from the day of repurchase; in the event that such repurchase is under the circumstances stated in clause (2) or (4), the shares shall be transferred or cancelled within 6 months; in the event that such repurchase is under the circumstances stated in clause (3), (5) or (6), the total shares of the Company held by the Company shall not exceed 10% of the total shares of the Company in issue and shall be transferred or cancelled within 3 years.

The aggregate par value of the cancelled shares shall be deducted from the Company's registered share capital.

Article 34. 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 35. 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 37 of this Chapter.

Article 36. 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 37. The following actions shall not be deemed to be activities prohibited by Article 35 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 38. 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 39. 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 40. 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

affixed with the seal of the Company (including the securities seal of the Company) or having the seal printed thereon. 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 41. 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 42. 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 43. 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 44.

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 45. 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 46. 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 47. 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 48. 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 49. 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 50. 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 51. 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 52. 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 53. 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 54. 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 55. 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 56. 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 57. 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 58. 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 59. 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 60. 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 61. 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 62. 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 63. 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 64. 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 65. 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 66. 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 67. 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 68. 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 69. 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 70. 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 71. 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 72. 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 73. 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 74. 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 75. 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 76. 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 77. 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 78. 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 79. 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 80. Any resolution adopted by a shareholders' general meeting shall comply with relevant provisions of PRC laws, administrative regulations and these Articles of Association.

Article 81. 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 82. 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 83. 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 84. 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 85. 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 86. 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 87. 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 88. 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 90 to 94.

Article 89. 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 90. 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 89, 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 31, an "interested shareholder" refers to a controlling shareholder within the meaning of Article 55 herein;
- (2) in the case of a repurchase of shares by an off-market agreement pursuant to Article 31, 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 91. 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 90, are entitled to vote thereat.

Article 92. 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 93. 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 94. 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 95. 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 96. 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 95 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 97. 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 98. Prior to making decisions on material issues of the Company, the board of directors shall seek advice from the Party organisations. When the board of directors appoints senior management personnel of the Company, the Party organisations shall consider and provide comments on the candidates for management positions nominated by the board of directors or the general manager, or recommend candidates to the board of directors and/or the general manager.

Article 99. 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 100. 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 101. 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 102 on notice of the meetings.

Article 102. 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 101.
- (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 103. 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 102, 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 104. 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 105 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 105. 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 106. 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 107. 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 108. 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 109. 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.
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- (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 110. 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 111. 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 112. 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 113. 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 114. 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 115. 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 116. 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 117. 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 118. 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 119. 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 120. 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 121. 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 122. 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 123. 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 124. Resolutions of the supervisory committee shall be passed by the affirmative vote of more than two-thirds of all of its members.

Article 125. 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 126. 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 127. 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 128. 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 129. 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 130. 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 131. 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 132.

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 133. 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 134. 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 54 of these Articles of Association.

Article 135. 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 136. 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 137. The Company shall not pay taxes for or on behalf of a director, supervisor, general manager or other senior officer in any manner.

Article 138. 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 139. 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 140. A guarantee for the repayment of a loan which has been provided by the Company acting in breach of Article 138(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 141. 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 142. 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 or 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 143. 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 144. 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 55 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 145. 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 146. 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 147. 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 148. 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 149. 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 150. 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 151. 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 152. The Company shall not keep accounts other than those required by law.

- Article 153. 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 154. 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 155. 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 156. 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 157. The Company may distribute dividends in the form of:
- (1) cash;
 - (2) shares.
- Article 158. 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 159. Unless otherwise provided for in relevant laws and administrative regulations, where cash dividends and other amounts are to be paid in Hong Kong dollars, the applicable exchange rate shall be the average median rate for the relevant foreign currency announced by the People's Bank of China during the calendar week prior to the declaration of payment of dividend and other amounts.
- Article 160. Subject to Article 57(2) and 97(14) of these Articles of Associations, the board of directors may decide to distribute interim or special dividends.
- Article 161. 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 162. 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 163. 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 164. 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 165. 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 166. 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 167. 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 168. 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 169. 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 subparagraph (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 170.

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 171. 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 172. 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 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 173. 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 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 174. 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 175. 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 176. A liquidation committee shall be set up within fifteen (15) days of the Company being dissolved pursuant to sub-paragraph (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 177. 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 178. 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.

Article 179. 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 180. 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 181. 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 182. 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 183. 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 184. Save as otherwise specified in Articles 61 and 81 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 185. 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 186. 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 187. 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 188.

(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 189. 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 190. 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 191. 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 192. 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 193. 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 194. In these Articles of Association, reference to “accountancy firm” shall have the same meaning as “auditor”.

**Description of rights of each class of securities
registered under Section 12 of the Securities Exchange Act of 1934 (the “Exchange Act”)**

As of December 31, 2019, China Telecom Corporation Limited (“Company”) had two classes of securities registered under Section 12 of the Exchange Act: H shares and American depositary shares (“ADSs”). Our H shares, listed on The Stock Exchange of Hong Kong Limited (“HKSE”), are registered under Section 12(b) of the Exchange Act in connection with the listing of our ADSs (but not for trading). Our ADSs, each representing 100 H shares of the Company, are listed and traded on the New York Stock Exchange. This exhibit contains a description of the rights of (i) H shares holders and (ii) ADSs holders. H shares underlying the ADSs are held by The Bank of New York Mellon, as depositary (“Depositary”), and holders of ADSs will not be treated as holders of the H shares.

H Shares

This summary of the general terms and provisions of H shares does not purport to be complete and is subject to and qualified in its entirety by reference to (i) our Articles of Association, which is incorporated herein by reference to Exhibit 1.1 of our annual report on Form 20-F for the year ended December 31, 2019 (“2019 Form 20-F”); and (ii) the applicable PRC laws and regulations, insofar as they relate to the material terms of our H shares.

Preemptive Rights (Item 9.A.3 of Form 20-F)

Not applicable.

Type and Class of Securities (Item 9.A.5 of Form 20-F)

As of December 31, 2019, 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 HKSE.

Pursuant to our Articles of Association, we may refuse to recognize any instrument of transfer of H shares unless:

- (1) a fee of HK\$2.50 per instrument of transfer or such higher amount agreed from time to time by the HKSE for the registration of the instrument of transfer and other documents relating to or which affect the right of ownership of H shares has been paid to us;
- (2) the instrument of transfer only relates to H shares;
- (3) the stamp duty 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 H shares be transferred to joint owners, the maximum number of joint owners shall not be more than four (4); and
- (6) we do not have any lien on the relevant H shares.

In addition, our shareholders are required to comply with restrictions and procedural requirements set forth in the Rules Governing the Listing of Securities on HKSE (“Listing Rules”) and the Securities and Futures Ordinance of Hong Kong (Chapter 571 of the Laws of Hong Kong) (“SFO”) with respect to transfer of our H shares.

Limitations or Qualifications (Item 9.A.6 of Form 20-F)

Not applicable.

Other Rights (Item 9.A.7 of Form 20-F)

Not applicable.

Rights of H Shares (Item 10.B.3 of Form 20-F)

For dividend rights, voting rights and right to share in any surplus in the event of liquidation, see “Item 10. Additional Information—B. Memorandum and Articles of Association” of 2019 Form 20-F. Our directors do not stand for reelection at staggered intervals.

Our Articles of Association do not contain provisions concerning any rights to share in the company’s profits, redemption provisions, sinking fund provisions, provisions concerning liability to further capital calls or provisions discriminating against any existing or prospective holder of such securities as a result of such shareholder owning a substantial number of shares. However, see “Item 10. Additional Information—B. Memorandum and Articles of Association— Restrictions on Large or Controlling Shareholders” of 2019 Form 20-F for certain restrictions on our controlling shareholder. In addition, a shareholder obtaining or consolidating a controlling stake in the Company is potentially subject to, among other things, the mandatory general offer obligation under the Hong Kong Codes on Takeovers and Mergers and Share Buy-backs (“Takeovers Code”).

Requirements to Change the Rights of Holders of H Shares (Item 10.B.4 of Form 20-F)

See “Item 10. Additional Information—B. Memorandum and Articles of Association—Sources of Shareholders’ Rights” of 2019 Form 20-F.

Limitations on the Rights to Own H Shares (Item 10.B.6 of Form 20-F)

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.

Provisions Affecting Any Change of Control (Item 10.B.7 of Form 20-F)

There is no provision in our Articles of Association that would have an effect of delaying, deferring or preventing a change in control of the Company and that would operate only with respect to a merger, acquisition or corporation restructuring involving the Company or any of its subsidiaries. However, a change in control of the Company is potentially subject to, among others, the mandatory general offer obligation under the Takeovers Code.

Ownership Disclosure Threshold (Item 10.B.8 of Form 20-F)

There is no provision in our Articles of Association governing the ownership threshold above which shareholder ownership must be disclosed. Shareholders will, however, be required to disclose their ownership in accordance with the Listing Rules and the SFO.

Differences between the Law of Different Jurisdictions (Item 10.B.9 of Form 20-F)

See “Item 16G. Corporate Governance” of 2019 Form 20-F.

Changes in Capital (Item 10.B.10 of Form 20-F)

See “Item 10. Additional Information—B. Memorandum and Articles of Association” of 2019 Form 20-F.

Debt Securities (Item 12.A of Form 20-F)

Not applicable.

Warrants and Rights (Item 12.B of Form 20-F)

Not applicable.

Other Securities (Item 12.C of Form 20-F)

Not applicable.

American Depositary Shares (Items 12.D.1 and 12.D.2 of Form 20-F)

The following description of our ADSs is a summary and does not purport to be complete. This summary is subject to and qualified in its entirety by reference to the deposit agreement (“Deposit Agreement”) dated November 14, 2002 between the Company, the Depositary, and ADR holders and beneficial owners of American depositary receipts (“ADR”), including the form of ADR. For a full copy of the Deposit Agreement and the form of ADR, please see Exhibit 2.2 of 2019 Form 20-F.

In the following description, references to “you” are to the person registered with the Depositary.

General

Each ADS represents 100 H shares, deposited with the Hong Kong office of The Hong Kong and Shanghai Banking Corporation Limited (“Custodian”), as agent for the Depositary. The principal executive office of the Depositary is located at 240 Greenwich Street, New York, N.Y. 10286.

You may hold ADRs either directly or indirectly through your broker or other financial institution. If you hold ADRs directly, you are an ADR holder. This description assumes you hold your ADRs directly. If you hold the ADRs indirectly, you must rely on the procedures of your broker or other financial institution to assert the rights of ADR holders described in this section. You should consult with your broker or financial institution to find out what those procedures are.

Because the Depositary will actually own the H shares underlying the ADSs, you must rely on it to exercise the rights of a shareholder. The obligations of the Depositary are set out in the Deposit Agreement among us, the Depositary and you, as an ADR holder. The Deposit Agreement and the ADRs are governed by New York law.

Voting

You may instruct the Depositary to vote the H shares underlying your ADRs if we ask the Depositary for your instructions. Otherwise, you will not be able to exercise your right to vote unless you withdraw the H shares. If we ask for your instructions, the Depositary will notify you of the upcoming vote and arrange to deliver our voting materials to you. The materials will:

- describe the matters to be voted on; and
- explain how you, by a certain date, may instruct the Depositary to vote the H shares or other securities, property and cash received by the Depositary or the Custodian in respect thereof (collectively, “Deposited Securities”) underlying your ADRs as you direct. For instructions to be valid, the Depositary must receive them on or before the date specified. The Depositary will try, as far as practical, subject to PRC law and the provisions of our Articles of Association, to vote or to have its agents vote the H shares or other Deposited Securities as you instruct. If the Depositary does not receive your valid instruction, they will deem that you have instructed them to give a discretionary proxy to a person designated by us to vote such Deposited Securities.

We cannot assure you that you will receive the voting materials in time to ensure that you can instruct the Depositary to vote your H shares, or withdraw the H shares to vote on your own. In addition, the Depositary and its agents are not responsible for failing to carry out voting instructions or for the manner of carrying out voting instructions, provided that any such action or inaction is in good faith. This means that you may not be able to exercise your right to vote and there may be nothing you can do if your H shares are not voted as you requested.

Dividends and Other Distributions

The Depositary has agreed to pay to you the cash dividends or other distributions it receives on H shares or other Deposited Securities, after deducting related fees and expenses. You will receive these distributions in proportion to the number of H shares your ADRs represent.

Cash

The Depositary will convert any cash dividend or other cash distribution we pay in Hong Kong dollars on the H shares into U.S. dollars, if it can do so on a reasonable basis and can transfer the U.S. dollars to the United States. If that is not possible or if any approval from the Chinese government is needed and cannot be obtained, the Deposit Agreement allows the Depositary to distribute the Hong Kong dollars only to those ADR holders to whom it is possible to do so. It will hold the Hong Kong dollars it cannot convert for the account of the ADR holders who have not been paid. It will not invest the Hong Kong dollars and will not be liable for any interest.

Before making a distribution, any withholding taxes that must be paid under PRC law will be deducted. It will distribute only whole U.S. dollars and cents and will round fractional cents to the nearest whole cent. If the exchange rates fluctuate during a time when the Depositary cannot convert the Hong Kong dollars, you may lose some or all of the value of the distribution.

Shares

The Depositary may, or upon our request shall, distribute new ADRs representing any H shares we distribute as a dividend or free distribution, if we furnish it promptly with satisfactory evidence that it is legal to do so. The Depositary will only distribute whole ADRs. It will sell H shares which would require it to issue a fractional ADR and distribute the net proceeds in the same way as it would with cash. If the Depositary does not distribute additional ADRs, each ADR will also represent the new H shares. If we offer or cause to be offered to holders of H shares an option to elect to receive dividends in fully paid H shares instead of cash, the Depositary and our company will consult to determine whether that option will be made available to you and, if so, the related procedures.

Rights to Receive Additional Shares

If we offer holders of our securities any rights to subscribe for additional H shares or any other rights, the Depositary may, after consultation with us, make these rights available to you. We must first instruct the Depositary to do so and furnish it with satisfactory evidence that it is legal to do so. If we do not furnish this evidence and/or give these instructions, and the Depositary decides it is practical to sell the rights, the Depositary will, after consultation with us, sell the rights and distribute the proceeds in the same way as it would with cash. The Depositary may allow rights that are not distributed or sold to lapse. In that case, you will receive no value for them.

If the Depositary makes rights available to you, upon your instruction it will exercise the rights and purchase the H shares on your behalf. The Depositary will then deposit the H shares and issue ADRs to you. It will only exercise rights if you pay it the exercise price and any other charges the rights and the Deposit Agreement requires you to pay. U.S. securities laws may restrict the sale, deposit, cancellation and transfer of the ADRs issued as a result of exercise of rights. For example, you may not be able to trade or transfer the ADSs represented by the ADRs issued as a result of exercise of rights freely in the United States.

Other Distributions

The Depositary will send to you anything else we distribute on Deposited Securities by any means it determines is legal, fair and practical. If it cannot make the distribution in that way, the Depositary has a choice. It may decide to sell what we distributed and distribute the net proceeds, in the same way as it would with cash. Or, it may decide to hold what we distributed, in which case the outstanding ADRs will also represent the newly distributed property.

The Depositary is not responsible if it decides that it is unlawful or impractical to make a distribution available to any ADR holders. We have no obligation to register additional ADRs, shares, rights or other securities under the Securities Act. We also have no obligation to take any other action to permit the distribution of additional ADRs, shares, rights or anything else to ADR holders. This means that you may not receive the distributions we make on our H shares or any value for them if it is illegal or impractical for us to make them available to you.

Procedures for Transmitting Notices, Reports and Proxy Soliciting Material

The Company is subject to the periodic reporting requirements of the Exchange Act and, accordingly, files certain reports with the SEC. Such reports and communications will be available for inspection and copying at the public reference facilities maintained by the SEC located at 100 F Street, N.E., Washington, D.C. 20549.

The Depositary will make available for inspection by ADR holders at its office copies of the Deposit Agreement and any reports and communications, including any proxy soliciting material, received from the Company which are both (a) received by the Depositary as the owner of the Deposited Securities and (b) made generally available to the owners of such Deposited Securities by the Company. The Depositary will also, upon written request, send to ADR holders copies of such reports and communications when furnished by the Company pursuant to the Deposit Agreement. Any such reports and communications, including any such proxy soliciting material, furnished to the Depositary by the Company shall be furnished in English to the extent such materials are required to be translated into English pursuant to any regulations of the SEC.

Reclassifications, Recapitalizations and Mergers

If we:	Then:
<ul style="list-style-type: none"> ● Change the nominal or par value of our H shares ● Reclassify, split up or consolidate any of the Deposited Securities ● Distribute securities on the H shares that are not distributed to you ● Recapitalize, reorganize, merge, liquidate, sell all or substantially all of our assets, or take any similar action 	<ul style="list-style-type: none"> ● The cash, shares or other securities received by the Depositary will become Deposited Securities. ● Each ADR will automatically represent its equal share of the new Deposited Securities. ● The Depositary may, and will if we ask it to, ask you to surrender your outstanding ADRs in exchange for new ADRs identifying the new Deposited Securities.

Amendment, Extension or Termination of the Deposit Arrangements

We may agree with the Depositary to amend the Deposit Agreement and the ADRs without your consent for any reason. If the amendment adds or increases fees or charges, except for taxes, other governmental charges, registration fees or certain expenses of the Depositary, or prejudices an important right of ADR holders, it will only become effective 30 days after the Depositary notifies you of the amendment. At the time an amendment becomes effective, you are considered, by continuing to hold your ADRs, to agree to the amendment and to be bound by the ADRs and the Deposit Agreement as amended.

The Depositary will terminate the Deposit Agreement if we ask it to do so by mailing notice of termination to us and the ADR holders at least 90 days prior to the date fixed in the notice of termination. The Depositary may also terminate the Deposit Agreement if the Depositary has told us that it would like to resign and we have not appointed a new Depositary bank within 90 days. In both cases, the Depositary must notify you at least 90 days before termination.

After termination, the Depositary and its agents will be required to do only the following under the Deposit Agreement:

- (1) collect distributions on the Deposited Securities; and
- (2) deliver H shares and other Deposited Securities upon cancellation of ADRs.

One year after termination, the Depositary will, if practical, sell any remaining Deposited Securities by public or private sale. After that, the Depositary will hold the money it received from the sale, as well as any other cash it is holding under the Deposit Agreement, for the benefit of the ADR holders that have not surrendered their ADRs. It will not invest the money and has no liability for interest. The Depositary's only obligations will be to account for the money and other cash and with respect to indemnification. After termination our only obligations will be with respect to indemnification and to pay certain amounts to the Depositary.

Rights of ADR Holders to Inspect the Transfer Books of the Depositary and the List of ADR Holders

The Depositary shall keep books, at its office, for the registration of ADRs and transfers of ADRs which at all reasonable times shall be open for inspection by the ADR holders and the Company provided that such inspection shall not be for the purpose of communicating with ADR holders in the interest of a business or object other than the business of the Company or a matter related to the Deposit Agreement or the ADRs.

Restrictions on the Right to Transfer or Withdraw the Underlying Securities

The Company may restrict, in such manner as it reasonably deems appropriate, after consultation with the Depositary, transfers of ADSs if such transfers may result in the total number of H shares represented by ADSs beneficially owned by an ADR holder or beneficial owner exceeding the limits under applicable law (including but not limited to the Listing Rules) or the Company's Articles of Association.

The Depositary will issue ADRs if you or your broker deposit H shares or evidence of rights to receive H shares with the Custodian. Upon payment of its fees and expenses and of any taxes or charges, if applicable, such as stamp taxes or stock transfer taxes or fees, the Depositary will register the appropriate number of ADRs in the names you request and will deliver the ADRs at its office to the persons you request.

You may turn in your ADRs at the Depositary's office. Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, if applicable, the Depositary will deliver:

- the underlying H shares to an account designated by you; and
- any other Deposited Securities underlying the ADR at the office of the Custodian. Or, at your request, risk and expense, the Depositary will deliver the Deposited Securities at its office.

You have the right to cancel your ADRs and withdraw the underlying H shares at any time except:

- when temporary delays arise because the Depositary or the Custodian has closed its transfer books in connection with voting at a shareholders' meeting or the payment of dividends;
- when you or other ADR holders seeking to withdraw H shares owe money to pay fees, taxes and similar charges; or
- when it is necessary to prohibit withdrawals in order to comply with any laws or governmental regulations that apply to ADRs or to the withdrawal of H shares or other Deposited Securities.

This right of withdrawal may not be limited by any other provision of the Deposit Agreement.

Limitations on the Depositary's Liability

The Deposit Agreement expressly limits our obligations and the obligations of the Depositary, which will not affect our liability under U.S. securities laws. It also limits our liability and the liability of the Depositary. We and the Depositary:

- are only obligated to take the actions specifically set forth in the Deposit Agreement without negligence or bad faith;
 - are not liable if either of us is prevented or delayed by law or circumstances beyond our control from performing our obligations under the Deposit Agreement;
 - are not liable if either of us exercises any discretion permitted under the Deposit Agreement;
-

- have no obligation to become involved in a lawsuit or other proceeding related to the ADRs or the Deposit Agreement on your behalf or on behalf of any other party; and
- may rely upon any advice of or information from legal counsel, accountants, persons depositing shares, any registered holders or other persons believed by it in good faith to be competent to give such advice or information.

In the Deposit Agreement, we and the Depositary agree to indemnify each other under certain circumstances.

Requirements for Depositary Actions

Before the Depositary will issue or register a transfer of an ADR, make a distribution on an ADR, or permit withdrawal of H shares, the Depositary may require:

- payment of stock transfer or other taxes or other governmental charges and transfer or registration fees charged by third parties for the transfer of any H shares or other Deposited Securities;
- production of satisfactory proof of the identity and genuineness of any signature or other information it deems necessary;
- compliance with laws or governmental regulations relating to ADRs or to the withdrawal of Deposited Securities; and
- compliance with reasonable regulations it may establish, from time to time, consistent with the Deposit Agreement, including presentation of transfer documents.

The Depositary may refuse to deliver, transfer, or register transfers of ADRs generally when the transfer books of the Depositary are closed or at any time if the Depositary thinks it is advisable to do so.

5G Network Co-Build and Co-Share Framework Cooperation Agreement

September 9, 2019

5G Network Co-Build and Co-Share Framework Cooperation Agreement between China Telecom and China Unicom

This 5G Network Co-Build and Co-Share Framework Cooperation Agreement (“the Agreement”) is signed on September 9, 2019 in Beijing, between China Telecom Corporation Limited (hereinafter referred to as “China Telecom”) and China United Network Communications Corporation Limited (hereinafter referred to as “China Unicom”).

5G network co-building and co-sharing is a practical action to implement the new development philosophy of “innovation, coordination, green development, opening up and sharing”, which can help avoid overlapping investment, improve network and capital operation efficiency, as well as reduce costs and increase benefits. In the meantime, it can achieve highly-efficient 5G coverage, promote rapid popularization of 5G services, significantly improve user experience in using high-speed data service, satisfy people’s increasing demands for communications, greatly improve the society’s IT application level, and create a better information service environment for “mass entrepreneurship and innovation”. The parties reach this Agreement based on their consensus on carrying out 5G network co-building and co-sharing cooperation.

1. 5G Co-Building and Co-Sharing Cooperation Principles

1.1 Mutual trust and active promotion

The parties should build consensus and enhance mutual trust to steadfastly drive 5G network co-building and co-sharing cooperation to be continuously carried out during the full life circle of 5G.

1.2 Mutual respect for mutual benefits and win-win results

The parties should respect each other, uphold justice and equity, make friendly negotiation to improve overall 5G strength via co-building and co-sharing, strengthen competitiveness, raise each other's service perception, develop a network scale comparable to that of industry partners, and save investment and costs, so as to achieve mutual benefits and win-win results.

1.3 Independent operation and benign competition

The belonging of users of each party remains unchanged. The brands and application innovation will remain independent. Each party will be responsible for its own operation and deploy its advantages. Benign competition is encouraged.

1.4 Cost reduction and efficiency improvement, and innovative development

Resources shall be shared at a maximum extent to cut down costs and improve both parties' investment efficiency and returns. In terms of network optimization and customer response, a problem and project driven model shall be applied with consistent standards. In terms of business, innovative development shall be pursued by seeking growth and benefits from cloud computing, big data, Internet of Things, artificial intelligence and other innovative sectors.

2. the Content of 5G Co-Building and Co-Sharing Cooperation

2.1 Technical Solutions

5G co-building and co-sharing will be carried out by sharing the access network and 5G frequency resources while independently constructing each other's core networks. The access network sharing will be realized via carrier wave sharing or independent carrier.

2.2 Scope and construction area division for 5G co-building and co-sharing

The parties shall jointly build a 5G access network in the country and delineate areas for each party to construct. The construction areas of each party shall be adjacent and continuous as much as possible. The parties will make an overall plan for construction areas, and network construction and other relevant work shall be undertaken by the provincial or city branch company of the responsible party in the construction area. For those designated construction areas, the construction party shall be responsible for investment and maintenance and bear the network operation costs. The parties shall work together to ensure unified standards for network planning, construction, maintenance and services in the co-building and co-sharing areas, and the construction party and the sharing party will enjoy same level of services.

2.2.1 District-based construction division in 15 cities

In 15 designated cities, the provincial branch companies from the two parties will divide the construction areas for each based on the actual local network resources, the economic development level, and the principle of giving full play to their respective advantages, and by taking the total scale of 4G base stations (including room divisions) of both parties as the main reference. Among them, in the ten southern cities: Shanghai, Chongqing, Guangzhou, Shenzhen, Hangzhou, Nanjing, Suzhou, Changsha, Wuhan and Chengdu, the district-based division ratio for construction between China Telecom and China Unicom is 6:4, and in the five northern cities: Beijing, Tianjin, Zhengzhou, Qingdao, and Shijiazhuang, the ratio between China Unicom and China Telecom is 6:4.

2.2.2 City-based construction division in Guangdong and Zhejiang

China Telecom will undertake the construction in ten cities of Guangdong: Dongguan, Huizhou, Qingyuan, Shaoguan, Heyuan, Meizhou, Chaozhou, Jieyang, Shantou, and Shanwei; and five cities in Zhejiang: Huzhou, Jiaying, Quzhou, Jinhua, and Lishui.

China Unicom will undertake the construction in nine cities of Guangdong: Foshan, Zhongshan, Zhuhai, Jiangmen, Yangjiang, Maoming, Zhanjiang, Yunfu, and Zhaoqing; and five cities in Zhejiang: Ningbo, Shaoxing, Wenzhou, Taizhou, and Zhoushan.

2.2.3 Province-based construction division in other regions

Besides the above areas in Section 2.2.1 and 2.2.2, China Telecom will undertake the construction in 17 southern provinces, including Anhui, Fujian, Gansu, Guangxi, Guizhou, Hainan, Hubei, Hunan, Jiangsu, Jiangxi, Ningxia, Qinghai, Shaanxi, Sichuan, Tibet, Xinjiang and Yunnan.

Besides the above areas in Section 2.2.1 and 2.2.2, China Unicom will undertake the construction in eight northern provinces, including Hebei, Henan, Heilongjiang, Jilin, Liaoning, Inner Mongolia, Shandong and Shanxi.

2.3 Settlement principle

The parties shall persist in maximizing the benefits of co-building and co-sharing, which is conducive to sustainable cooperation, and will not take settlement as a means for profits. The parties shall adhere to fair and impartial market settlement that conforms to information disclosure requirements, and develop reasonable, simple settlement measures. The parties shall adhere to full coordination, work collaboration and concentrated management.

3. Organization and Working Mechanism

3.1 The parties shall jointly make an overall plan, set up a joint coordination/promotion institution or organization for the cooperation under the Agreement, and formulate setup plans regarding such joint institution or organization, which will identify its name, nature, positioning, responsibility, personnel, human resource management, business scope, business process and decision-making procedure, and clearly define the business relations and procedures with the departments and provincial/prefectural branch companies of the two parties. Mutually recognized mechanisms, systems and management measures should be established. In addition, the parties shall develop specific measures to ensure provincial or city branch companies will effectively perform the agreed contents in the Agreement.

3.2 The joint coordination and promotion institution or organization shall take the lead to develop joint network plans, and conduct joint projects approval, acceptance and other relevant work.

3.3 The network co-building and co-sharing cooperation made by each party with third parties should not unduly undermine the interests of the other party, and if the interests of the cooperative party under the Agreement are involved, the party shall notify and negotiate with the other party in advance.

4. Confidentiality and Disclosure

Save as information disclosure of listed companies is involved, neither party shall be entitled to provide or disclose the specific content of this Agreement (including the supplementary agreement to the Agreement) or any materials or information relating to the services or matters of the other party to any third party without the permission in writing from the other party, for any purpose out of the Agreement. Otherwise, the other party shall have the right to hold the disclosing party accountable and claim for compensation in accordance with the law. For matters involving information disclosure of listed companies, the parties shall make full negotiations.

The Confidentiality clause of the Agreement is a continuity clause, and its validity shall not be affected no matter the Agreement is invalid or terminated.

5. Validity and Dispute Resolution

5.1 The Agreement shall come into effect when the following conditions are satisfied at the same time:

5.1.1 Approved by the respective Board of Directors and shareholders meeting (if applicable) of the parties and other internal review and approval process;

5.1.2 Signed and sealed by the legal or authorized representatives of the parties.

Notwithstanding the aforementioned, if any adjustment needs to be made under the Agreement according to applicable laws, regulations and requirements of regulators, the parties should try their utmost to make adjustments to meet relevant requirements. If it leads to the Agreement purpose unable to be fulfilled or causes disproportionate damages to the interests of any party, the parties shall make adjustments in good faith or terminate the Agreement through negotiation.

5.2 Matters not covered by the Agreement shall be dealt with by the parties through negotiation, or in accordance with People's Republic of China laws and regulations.

5.3 The Agreement is governed by the law of the People's Republic of China. If either party violates the Agreement, the parties shall first settle it through friendly negotiation, and if the negotiation fails, the observant party may bring a lawsuit to the Chinese court with jurisdiction.

5.4 This Agreement is signed in quadruplicate with each party holding two copies. All copies shall have equal legal effect.

(The remainder of this page intentionally left blank. Signatures appear on the following page.)

Authorized Representative
(Signature):

China Telecom Corporation
Limited

/s/ Ke Ruiwen

(Seal)

Authorized Representative
(Signature):

China United Network
Communications Corporation
Limited

/s/ Wang Xiaochu

(Seal)

List of Significant Subsidiaries

Name	Jurisdiction of Incorporation
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
Tianyi Capital Holding Co., Ltd.	The People's Republic of China
China Telecom Leasing Corporation Limited	The People's Republic of China
China Telecom Group Finance Co., Ltd.	The People's Republic of China

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, 2020

/s/ Ke Ruiwen

Name: Ke Ruiwen

Title: Executive Director, Chairman and Chief Executive Officer

Certification

I, Zhu Min, 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, 2020

/s/ Zhu Min

Name: Zhu Min

Title: Executive Director, Executive Vice President and Chief
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, 2019 (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, 2020

/s/ Ke Ruiwen

Name: Ke Ruiwen

Title: Executive Director, Chairman and 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, 2019 (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, 2020

/s/ Zhu Min

Name: Zhu Min

Title: Executive Director, Executive Vice President and Chief
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.