

CHINA TELECOM CORP LTD
Form 20-F
April 29, 2019
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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, 2018

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

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

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

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

None

(Title of Class)

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

None

(Title of Class)

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

As of December 31, 2018, 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 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

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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 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 (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;

the convergence of television broadcast, telecommunications and Internet access networks, or three-network convergence; and

spectrum and numbering resources allocation;

the effects of competition on the demand for and price of our services;

any potential further restructuring or consolidation of the PRC telecommunications industry;

changes in the PRC telecommunications industry resulting from the issuance of licenses for telecommunications services by the MIIT;

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;

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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 D. Risk Factors under Item 3.

CERTAIN DEFINITIONS AND CONVENTIONS

As used in this annual report, references to us, we, the Company, our Company and China Telecom are to China Telecom Corporation Limited and its consolidated subsidiaries except where we make clear that the term means China Telecom Corporation Limited or a particular subsidiary or business group only. References to matters relating to our H shares or American depositary shares, or ADSs, or matters of corporate governance are to the H shares, ADSs and corporate governance of China Telecom Corporation Limited. 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, 2017 and 2018, and the selected consolidated statements of comprehensive income (except for earnings per ADS) and consolidated cash flow data for the years ended December 31, 2016, 2017 and 2018, 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, 2014, 2015 and 2016 and the selected consolidated statements of comprehensive

income (except for earnings per ADS) and consolidated cash flow data for the years ended December 31, 2014 and 2015 are derived from our consolidated financial statements which are not included in this annual report. Our consolidated financial statements are prepared in accordance with International Financial Reporting Standards, or IFRS, as issued by the International Accounting Standards Board.

The selected financial data reflect the establishment of new subsidiaries in 2014, 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 Zhonghe Hengtai, in 2017 and the establishment of new subsidiaries in 2018 described under Item 4. Information on the Company A. History and Development of the Company Changes in Our Corporate Organization in 2014 , Establishment of the Tower Company and the Disposal and Lease of the Telecommunications Towers , Disposal of E-store and Establishment of Tianyi Capital and Establishment of China Telecom Leasing Corporation Limited and Item 5. Operating and Financial Review and Prospects .

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As of or for the year ended December 31,
2014 RMB 2015 RMB 2016 RMB 2017 RMB 2018 RMB 2018 US\$
(in millions, except share numbers and per share and per ADS data)

Consolidated Statements of**Comprehensive Income Data:**

Operating revenues	324,755	331,517	352,534	366,229	377,124	54,850
Operating expenses	(296,239)	(305,070)	(325,314)	(339,009)	(348,410)	(50,674)
Operating income	28,516	26,447	27,220	27,220	28,714	4,176
Earnings before income tax	23,265	26,698	24,116	24,953	28,148	4,094
Income tax	(5,498)	(6,552)	(5,993)	(6,192)	(6,810)	(990)
Profit attributable to equity holders of the Company	17,688	20,058	18,018	18,617	21,210	3,085
Basic earnings per share ⁽¹⁾	0.22	0.25	0.22	0.23	0.26	0.04
Basic earnings per ADS ⁽¹⁾	21.86	24.78	22.26	23.00	26.21	3.81
Cash dividends declared per share	0.08	0.08	0.09	0.09	0.11	0.02

As of or for the year ended December 31,
2014 RMB 2015 RMB 2016 RMB 2017 RMB 2018 RMB 2018 US\$
(in millions, except share numbers and per share and per ADS data)

Consolidated Statements of Financial Position Data:

Cash and cash equivalents	20,436	31,869	24,617	19,410	16,666	2,424
Accounts receivable, net	21,756	21,190	21,465	22,096	20,475	2,978
Total current assets	59,782	78,267	74,134	71,550	73,005	10,618
Property, plant and equipment, net	372,898	374,004	389,671	406,257	407,795	59,311
Total assets	561,537	629,747	652,558	661,194	663,382	96,485
Short-term debt	43,976	51,636	40,780	54,558	49,537	7,205
Current portion of long-term debt and payable	82	84	62,276	1,146	1,139	166
Accounts payable	88,587	118,128	122,493	119,321	107,887	15,692
Total current liabilities	206,553	256,074	319,133	275,408	258,920	37,658
Long-term debt and payable	62,494	64,830	9,370	48,596	44,852	6,523
Deferred revenues (including current portion)	1,858	2,482	3,558	3,061	1,829	266
Total liabilities	271,394	324,957	336,210	334,497	319,283	46,438
Equity attributable to equity holders of the Company	289,218	303,823	315,377	325,867	343,069	49,897

Consolidated Cash Flow Data:

Net cash generated from operating activities	96,412	108,755	101,135	96,502	99,298	14,442
Net cash used in investing activities ⁽²⁾	(81,715)	(102,255)	(99,043)	(85,263)	(85,954)	(12,501)
Capital expenditures ⁽²⁾	(80,280)	(101,903)	(96,678)	(87,334)	(83,835)	(12,193)
Net cash (used in) / generated from financing activities	(10,327)	4,809	(9,555)	(16,147)	(16,283)	(2,368)

(1) The basic earnings per share have been calculated based on the respective net profit attributable to equity holders of the Company in 2014, 2015, 2016, 2017 and 2018 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 28, 2018, a final dividend of RMB7,568 million (RMB0.093512 per share equivalent to HK\$0.115 per share, pre-tax) for the year ended December 31, 2017 was declared, all of which has been fully paid. Pursuant to a resolution passed at the Directors meeting on March 19, 2019, a final dividend of approximately RMB8,629 million (RMB0.106621 per share equivalent to HK\$0.125 per share, pre-tax) for the year ended December 31, 2018 was proposed for shareholders' approval at the forthcoming annual general meeting.

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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, 2018 (RMB6.8755 to US\$1.00 and HK\$7.8305 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 .

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Risks Relating to Our Business

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

The telecommunications industry in the PRC is rapidly evolving.

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

In December 2013, each of China Mobile Communications Group Co., Ltd. (formerly known as China Mobile Communications Corporation), or China Mobile Group, China Telecom Group and China United Network Communications Group Company Limited, or Unicom Group, was granted the permit to provide 4G services based on LTE/Time Division Duplex standard, or TD-LTE, technologies nationwide. In February 2015, China Telecom Group and Unicom Group were granted the permit to provide 4G services based on Frequency Division Long Term

Evolution standard, or LTE FDD, technologies nationwide. In April 2018, China Mobile Group was granted the permit to provide 4G services based on LTE FDD technologies pursuant to which China Mobile can develop mobile IoT and Industrial Internet services nationwide and LTE FDD services only in rural areas. In December 2018, China Telecom Group, China Mobile Group and Unicom Group were granted the approval from MIIT to utilize certain spectrum to conduct the fifth generation mobile communication pilot programs. We have been authorized by China Telecom Group to operate 4G business nationwide based on both TD-LTE technologies and LTE FDD technologies and to conduct 5G system scale trial in 17 cities. We cannot assure you that: (i) our 4G and 5G services will deliver the quality and levels of services currently anticipated; (ii) we will be able to provide all planned 4G and 5G services or we will be able to provide such services on schedule; (iii) there will be sufficient demand for 4G and 5G services for us to deliver these services profitably; (iv) our competitors' 4G, 5G or newer technology based, services will not be more popular among potential subscribers; or (v) we will not encounter unexpected technological difficulties in providing 4G and 5G services. The failure of any of these possible developments to occur could impede our growth, which could have a material adverse effect on our business, financial condition and results of operations. We expect that the market competition will be further intensified as a result of our competitors obtaining permits and expanding their 4G and 5G services, which could materially and adversely affect our business and prospect.

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Prior to December 2013, China Unicom, China Tietong Telecommunications Corporation, or China Railcom, which is a wholly-owned subsidiary of China Mobile Group, CITIC NETWORKS Co., Ltd., and our Company were the only operators licensed by the MIIT to provide fixed-line telecommunications services in China. In December 2013, China Mobile Group received permission from the MIIT to authorize China Mobile to operate fixed-line telecommunications businesses. In December 2015, China Mobile completed its acquisition from China Mobile Group of the fixed-line telecommunications businesses operated by China Railcom. In May 2016, China Radio and Television Network Co. Ltd. received license from the MIIT to operate fixed-line broadband business. The entry of China Mobile and China Radio and Television Network Co. Ltd. has intensified and may further intensify the competition in this sector, which could 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 contributors have experienced a slowdown in the growth rate or negative growth, primarily due to the alternative means of communication offered by these Over-the-Top messaging or voice services becoming increasingly popular among the consumers. Though the increasing popularity of these Over-the-Top messaging or voice services has generally contributed to the increase in our Internet data traffic and Internet services revenues during the past few years, 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 short message 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 even 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 three-network convergence policy and the policy encouraging private capital to enter the industry. For more details of the three-network convergence policy, please see Item 4. Information on the Company B. Business Overview Regulatory and Related Matters Three-Network Convergence Policy . 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 . In 2018, MIIT further opened up broadband access markets to private capital in 17 provinces on a province-wide basis and an additional 39 pilot cities. In April 2018, the MIIT approved the commercialization of mobile telecommunication resale business, effective from May 2018. As of January 31, 2019, among the 42 mobile virtual network operators who had been approved by the MIIT to conduct resale business on a pilot basis, 32 of which had been granted commercial operation licenses; and among the 25 companies who signed resale agreements with us, 12 companies had been granted commercial operation licenses and the other companies are all in the process of applying for such licenses. As of December 31, 2018, there were a total of approximately 77.0 million users of mobile virtual network. Additionally, the PRC government had started mobile number portability pilot programs in five direct-controlled municipalities and provinces, and on March 5, 2019, the Government Work Report presented in the second plenary session of the 13th National People's Congress of the PRC specified that the mobile number portability services will be implemented nationwide in 2019. 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.

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

In July 2014, the Company, China United Network Communications Corporation Limited (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 by the State-owned Assets Supervision and Administration Commission of the State Council, or the SASAC, owned approximately 70.89% of our outstanding shares as of April 23, 2019. 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.

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

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

use of international gateway facilities;

provision of services in areas outside our service regions necessary to enable us to provide end-to-end services to our customers;

use of certain inter-provincial optic fibers; and

lease of properties and assets.

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

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

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

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

We believe that cash from operations, together with any necessary borrowings, will provide sufficient financial resources to meet our projected capital and other expenditure requirements. However, we may require additional funds to the extent we have underestimated our capital requirements or overestimated our future cash from operations. In addition, a significant feature of our business strategy is to 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.

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

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

The telecommunications market is characterized by rapid advancements in technology, evolving industry standards and changes in customer needs. We cannot assure you that we will be successful in responding to these developments. In addition, new services or technologies, such as mobile Internet, the three-network convergence, cloud computing and Internet of Things, may render our existing services or technologies less competitive. In the event we do take measures to respond to technological developments and changes in industry standards, the integration of new technology or industry standards or the upgrading of our networks may require substantial time, effort and capital investment. 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. We have been engaged in standards formulation, network technology trial runs as well as planning of the application of 5G services towards commercialization. In December 2018, China Telecom Group was granted the approval from the MIIT to utilize the 3400-3500MHz spectrum nationwide for 5G system trial until June 30, 2020. In addition, we have been taking the initiatives to explore the feasibility of collaborative development of 5G and 4G. We have devoted, and will continue to devote, substantial resources in the development of 5G technology. However, various details concerning 5G services are still uncertain, including the timing of the issuance of 5G permits, the frequency bands allocated to 5G services and relevant regulations. In addition, there is no assurance that we will be able to roll out 5G services in an economically viable manner to gain favorable market share based on reasonable commercial terms with business partners without undue delay. Furthermore, the 5G industry chain is still under development, and we continue to explore 5G services' business model and commercial applications. If we are unable to respond to these uncertainties, the expected benefits from our investment in development of 5G technology would not be fully realized or at all and such inability to respond to these uncertainties may materially and adversely affect our business in the future.

We are subject to risks associated with our telecommunications equipment suppliers and other business partners which could be adversely affected by restrictions, sanctions or other legal or regulatory actions under relevant laws and regulations in various jurisdictions which in turn could adversely affect the supply chain and our business operations.

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 business with our business partners who may operate globally. As these parties operate globally and are therefore subject to the laws and regulations in various jurisdictions, any restrictions, sanctions or other legal or regulatory actions could cause disruptions or other material difficulties in their business

activities to the extent any government of the relevant jurisdictions imposes any restrictions on their import and export activities, or sanctions or other legal or regulatory actions against the suppliers and other business partners in connection with their business activities. The relevant jurisdictions include, among others, the United States, the European Union and the United Nations. Furthermore, as the supply of our telecommunications equipment relies on a global supply chain, which is vulnerable to significant disruptions in the supply of parts and other items that are necessary for the relevant manufacturing activities. Such disruptions could prevent those affected suppliers from delivering equipment and services to us in accordance with the agreed terms of supply, which in turn could negatively affect our business operations. For example, 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.

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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. This increased scrutiny may result in new interpretations of existing laws, thereby further impacting our business. Recent regulations, such as the General Data Protection Regulation (GDPR), which went into effect in the European Union (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 , 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.

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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 12.1% from RMB70,185 million in 2016 to RMB61,678 million in 2017 and further decreased by 17.6% to RMB50,811 million in 2018. Percentage of revenues derived from our voice services out of our total operating revenues also continued to decrease, from 19.9% in 2016 to 16.8% in 2017 and 13.5% in 2018.

Of revenues from our voice services, revenues from wireline voice services decreased by 14.3% in 2017 compared to 2016 and further decreased by 11.4% in 2018 and the percentage of revenues derived from our wireline voice services out of our total operating revenues also continued to decrease, from 7.4% in 2016 to 6.1% in 2017 and 5.2% in 2018. 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 4.0% at the end of 2017 compared to that at the end of 2016 and further decreased by 4.4% at the end of 2018.

Revenues from our mobile voice services decreased by 10.8% in 2017 compared to 2016 and further decreased by 21.1% in 2018 and the percentage of revenues derived from our mobile voice services out of our total operating revenues also continued to decrease, from 12.5% in 2016 to 10.7% in 2017 and 8.3% in 2018. In recent years, while the number of subscribers of our mobile services and mobile voice usage have 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.

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 (2016年9月23日最高人民法院、最高人民检察院、公安部、工业和信息化部、中国人民银行、中国银监会《关于防范和打击电信网络诈骗犯罪的通告》) and 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 (2016年12月19日最高人民法院、最高人民检察院、公安部《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》).

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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 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.

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.

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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 cancelled 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. We will take appropriate measures to meet policy requirements in due course.

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 price adjustment 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 PRC (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

(2015年12月31日, 2015年12月31日, 2015年12月31日), setting forth detailed guidelines on the collection, utilization and retention of personal information and privacy protection. 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.

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Moreover, on January 6, 2016, the MIIT issued the Guidance on the Wholesale Price Adjustments of Mobile Telecommunication Resale Business

(31227;21160;36890; 36716;21806;19994;21153;25209;21457;20215;26684;35843; 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 December 1, 2016, the amended PRC Regulations on the Management of Radio Operation (21326;20154;27665;20849; 26080;32447; 31649;29702;26465;20363;) 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, such as the frequency bands for 5G. In addition, the PRC government has taken various initiatives and promulgated a number of regulations to encourage private capital to invest in the telecommunications industry, all of which have intensified, and are expected to continue to intensify, the competition in the telecommunications industry in the PRC. See D. Risk Factors Risks Relating to our Business We face increasing competition, which may materially and adversely affect our business, financial condition and results of operations 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.

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

According to the information disclosed on the website of Communist Party of China Central Commission for Discipline Inspection, or the CCDI, and Ministry of Supervision of the PRC, or the MOS, on December 27, 2015, Mr. Chang Xiaobing, the former Chairman of Unicom Group and the then Chairman of China Telecom Group was under investigation by such authorities for suspected serious disciplinary violations. Mr. Chang was appointed as the

chief executive officer of the Company on September 1, 2015 and the director and chairman of the Company on October 23, 2015. On December 30, 2015, Mr. Chang resigned from his positions as the executive director, chairman and chief executive officer of the Company with effect from the same date. Prior to his resignation, Mr. Chang had worked at the Company for four months. Mr. Chang was sentenced to six years of imprisonment over corruption charges in May 2017. According to the information disclosed on the website of the CCDI and the MOS on September 29, 2017, Mr. Zhen Caiji, the former Party Secretary and President of China Academy of Telecommunications Technology 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. The investigation and trial conducted by the PRC authorities on Mr. Chang and Mr. Zhen may harm our reputation and adversely affect our financial condition and results of operations as well as the trading price of our securities.

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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 11.4% in 2007 to 6.6% in 2018. There is no assurance that the GDP growth rate of the PRC will not further decline. A slowdown in economic growth could reduce business activities and demand for our services. The global economy may continue to deteriorate in the future and continue to have an adverse impact on the PRC economy. Any significant slowdown in the PRC economy could

have a material adverse effect on the PRC telecommunications industry as well as our business and operations.

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.

In 2018, the National Audit Office of the People's Republic of China, or the NAO, conducted an audit on the financial revenues and expenditures of China Telecommunications Corporation, the controlling shareholder of our Company, and its certain subsidiaries (including us) for the year of 2016. We published an announcement on The Stock Exchange of Hong Kong Limited and filed a Form 6-K with the SEC on June 20, 2018 in relation to such audit and believe that the issues identified in the audit have no material impact on our overall operating results, financial statements and internal control of the Company.

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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. 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 3. Key Information A. Selected Financial Data Exchange Rate Information and Item 11. Quantitative and Qualitative Disclosures about Market Risk Foreign Exchange Rate Risk . We cannot assure you that any future movements in the exchange rate of the Renminbi against the U.S. dollar or other foreign currencies will not adversely affect our results of operations and financial condition.

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

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

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 .

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

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

Several natural disasters and health hazards have struck mainland China in recent years. In 2014, three major earthquakes registering 6.1, 6.5 and 6.6, respectively, on the Richter scale struck Yunan Province and another major earthquake registering 6.3 on the Richter scale struck Sichuan Province, causing severe damages to telecommunications equipment as well as disruptions to telecommunications services in the affected areas. In July 2016, southern China suffered severe rainstorms and flooding, which resulted in significant damages to the telecommunications equipment in the affected areas. In 2017, several natural disasters struck mainland China, including the heaviest rainfall ever recorded hitting Hunan Province, a major earthquake registering 7.0 on the Richter scale struck Jiuzhaigou County, Sichuan Province and typhoons Heavenly Pigeon and Paka successively hit Guangdong and Guangxi Provinces, causing severe damages to the telecommunications equipment in the affected areas. We are unable to predict the effect, if any, that any future natural disasters and health hazards may have on our business. Any future natural disasters and health hazards may, among other things, significantly disrupt our ability to adequately staff our business, and may generally disrupt our operations. Furthermore, such natural disasters and health hazards may severely restrict the level of economic activity in affected areas, which may in turn materially and adversely affect our business and prospects. As a result, any 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. 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.

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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 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.

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

Industry Restructuring and Our Acquisition of the CDMA Business in 2008

Industry Restructuring in 2008

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

Our Acquisition of the CDMA Business

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

Related Transactions

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

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

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

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

Acquisition. The Mobile Network Acquisition was completed on December 31, 2012, or the Completion Date, and the final consideration of the Mobile Network Acquisition was agreed to be RMB87,210.35 million, or the Final Consideration.

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Pursuant to the CDMA Network Acquisition Agreement, (i) RMB25,500 million of the Final Consideration was paid in January 2013 and (ii) the balance of the Final Consideration, or the Deferred Payment, will be payable at any time on or before the fifth anniversary of the Completion Date. Payment of the Final Consideration was and will be funded from our internal resources and relevant debt financing sources. The Company may, from time to time, prepay all or part of the Deferred Payment at any time after the Completion Date without any penalty until the fifth anniversary of the Completion Date. The Company will pay interest on the outstanding amount of the Deferred Payment to China Telecom Group at half-yearly intervals and the interest will accrue from the day following the Completion Date. The interest rate will be set at a five basis points premium to the yield of the five-year super AAA rated Medium Term Notes most recently published by the National Association of Financial Market Institutional Investors before the Completion Date and will be adjusted once a year in accordance with the last yield of the five-year super AAA rated Medium Term Notes published by the National Association of Financial Market Institutional Investors at the end of each year. The interest rates for the first year, the second year, the third year, the fourth year and the fifth year after the Completion Date are 4.83%, 6.25%, 5.11%, 4.00% and 4.11%, respectively. In the event any amount payable by the Company under the CDMA Network Acquisition Agreement is not paid when due, the Company will be subject to liquidated damages on such amount at a daily rate of 0.03% of the arrears from the date following the applicable due date to the date when such amount has been paid in full. As of December 31, 2017, the Deferred Payment had been paid off and the last payment was made on December 26, 2017.

Changes in Our Corporate Organization in 2013

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

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

On August 19, 2013, we set up a subsidiary, Zhejiang Yixin Technology Co., Ltd., or Zhejiang Yixin, with Netease, Inc., a leading Internet technology company in China, to launch YiChat, a mobile Internet multimedia instant messaging application for smartphones. As of December 31, 2018, Zhejiang Yixin had a registered capital of RMB11.23 million, of which 65% is owned by us and the remaining 35% is owned by Netease, Inc.

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

Changes in Our Corporate Organization in 2014

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

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.

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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. Our telecommunications towers and related assets lease and related fee increased from RMB15,389 million in 2017 to RMB16,063 million in 2018, representing an increase of 4.4%.

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.

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Establishment of China Telecom Leasing Corporation Limited

On November 30, 2018, we and China Telecom Global 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 Group Finance Co., Ltd. (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 becomes 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 (the Group), China Telecommunications Corporation, its associates and its commonly held entity held with the Group, excluding the Group and the CCS Group (the China Telecom Group), and CCS and its subsidiaries (the CCS Group). Copies of the English summary of such financial services framework agreements are filed as exhibits to this annual report.

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

On February 1, 2019, we set up a wholly owned subsidiary, E-surfing Smart Home Technology Co., Ltd. (Smart Home Company), which engages in e-surfing HD, smart home, home gateway and intelligent WiFi networking services targeting the Smart Family Ecosphere. 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, E-surfing Internet of Things Technology Co., Ltd. (IoT Company), which engages in the IoT and Internet of Vehicles services targeting IoT Ecosphere. The registered capital of IoT Company is RMB1,000 million.

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Organizational Structure

Set out below is a chart illustrating our corporate structure and significant subsidiaries as of April 23, 2019:

- (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.

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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. Following our acquisition of the CDMA Business in 2008, we began to 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. See A. History and Development of the Company Industry Restructuring and Our Acquisition of the CDMA Business in 2008 under this Item.

Since 2005, we have started to implement our business strategy of transformation from a traditional basic telecommunications service provider to a leading integrated intelligent information services operator. Specifically, we have enhanced our efforts in developing our non-voice services, such as Internet services, and information and application services, in achieving optimization of business structure and enhanced competitive strength. We aim to provide differentiated and innovative services to create value for customers by leveraging on our integrated resources.

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

In December 2013 and February 2015, the MIIT issued to China Telecom Group, our controlling shareholder, a license 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.

Our Operation Strategy

In 2018, taking advantage of the historical opportunities brought about by industrial integration, consumption upgrade and new technological breakthroughs, we advanced our transformation and upgrades strategy. By focusing on our three major goals of construction of Cyberpower, building a first-class enterprise, co-establishing better living , we expedited step-up transformation on all fronts of, and further promoted reform and innovation of our business. We strived to strengthen our capabilities at all levels, while planning future developments from all angles envisioned. In

particular:

Propelling intelligent upgrade of network in response to customer needs. Focusing on user experience, business scale expansion and value management, we pushed forward the construction and intelligent upgrade of our network to build up comprehensive network advantages.

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Integration and mutual development: Supporting the swift expansion of service ecology. We accurately grasped changing market demand and expanded the market by leveraging our data traffic and cloud products, cultivating convergence operation, and effectively bundling our services. The overall competitiveness of our bundled products was significantly strengthened, which facilitated rapid breakthroughs in expanding market scale, thereby creating new avenues for value growth. The synergies that resulted from the integration and mutual development of our five ecospheres enabled us to explore new paths towards future sustainable development.

Higher efficiency from intelligent and data-driven operation. Following the consolidation of our IT infrastructure and the greater adoption of new technologies such as Big Data and artificial intelligence, we injected more intelligent elements into operation, leading to efficiency improvement and productivity enhancement. Our data operational capability was also enhanced considerably.

In 2018, we sought to implement reform and foster innovation in all parts of our operation, constantly enhancing the vitality of corporate development and operational capability. We continued deepening the three-dimensional inter-driven reform and mixed ownership reform and stimulated the development vitality. We also intensified the reform of Sub-dividing Performance Evaluation Units, Professional Operation, and Top-Down Service Support System, through which we built up a mechanism focusing on market-oriented recruitment, incentivisation and resource allocation.

In 2018, we focused on developing our 4G business by leveraging terminal-driven and large data traffic strategies to rapidly expand our 4G users base and increase the consumption of 4G data traffic. We continued to expand our optic fiber broadband services to promote intelligent upgrade in broadband. We reinforced our efforts in developing and promoting information and application services to attract more customers. We accelerated the transformation of marketing channels, promoted the synergy among different channels and improved marketing capabilities and efficiency. With multi-mode handsets became the international standard in 2017 and its continuous popularization, the sales channels of our terminals and services were further expanded. We focused on improving service quality to enhance customer experience through various measures such as the commitment of same-day installation, same-day maintenance service guarantee, compensation for service delay for broadband service.

Subscribers and Service Usage

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

	As of or for the year ended December 31,		
	2016	2017	2018
Mobile subscribers (in millions)	215.0	250.0	303.0
of which: 4G users (in millions)	121.9	182.0	242.4
Mobile voice usage (in billion minutes)	720.6	769.2	827.7
Handset data traffic (in kTB)	1,277.0	3,597.0	14,073.0
4G users DOU (in megabyte)	1,029	2,012	5,680
Wireline broadband subscribers (in millions)	123.1	133.5	145.8
of which: Fiber-to-the-Home (FTTH) subscribers (in millions)	106.0	126.2	140.7
Access lines in service (in millions)	126.9	121.8	116.5

Wireline local voice usage (in billion pulses)	93.4	75.1	60.2
e-Surfing HD subscribers (in millions)	61.3	85.8	105.3
BestPay average monthly active users (in millions)	16.2	33.0	43.4
Internet of Things connected devices (in millions)	14.2	44.3	106.9

Our Products and Services

Internet Services

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

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In 2018, by insisting on the positioning of Gbps service as our top broadband product and a convergence-driven development approach, we fulfilled the needs of individual and family consumers with convergence packages that feature high-speed premium broadband, large data traffic, e-Surfing HD, and Smart Family applications. We also maintained our leading edge in broadband services, sped up the upgrade of installation and maintenance systems and capabilities, and promoted services and products upselling on top of installation and maintenance. The success rate for honoring our same-day installation, same-day maintenance service guarantee, compensation for service delay was significantly improved, while the satisfaction rate for broadband services continued to outperform the industry. The number of our wireline broadband subscribers reached 145.8 million as of December 31, 2018, representing an increase of 9.2% from 133.5 million as of December 31, 2017. The net increase of our wireline broadband subscribers in 2018 recorded a six year high. Among these subscribers, Fiber-to-the-Home subscribers, or FTTH subscribers, reached 140.7 million, accounting for approximately 96.5% of the total wireline broadband subscribers as of December 31, 2018, representing an increase of 11.5% over the number of FTTH subscribers as of December 31, 2017.

Moreover, we further enhanced the coverage and access capabilities of our wireless broadband network by focusing on developing our 4G services. In 2018, we continuously optimized in-depth coverage of 4G networks for key scenes including high-speed rail and high-density business districts and applied dynamic bandwidth expansion in accordance with the increase of users and data traffic. We built approximately 210,000 new 4G base stations, reaching a total of 1.38 million 4G base stations as of December 31, 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. In 2018, the number of our self-registered multi-mode handsets reached 160 million, representing an increase of 23% over the previous year. While maintaining the strategy to position large data traffic packages as the key products, we optimized our package portfolio and reduced the quantity of package plans. Focusing on cooperation with leading video and consumption typed Internet companies, we promoted the convergence of large data traffic, content, applications and user rights. Leveraging on differentiated advantages of our innovative products, such as BestPay red packet and Orange Instalment Payment Service, we strengthened the coordination among channels and enhanced user experience to drive the enhancement of data traffic value and the consumption of data traffic. As of December 31, 2018, the number of our 4G users reached 242.4 million, up by 33.2% from 182.0 million as of December 31, 2017 and accounting for 80.0% of our mobile subscribers. In 2018, our total handset Internet data traffic reached 14,073.0 kTB, representing a significant increase of 291.2% over 2017, and the monthly average mobile data traffic per 4G user reached 5,680 MB, representing an increase of 182.3% over 2017 and significantly contributing to the volume and revenue of our data services.

Furthermore, in 2018, the Company started 5G system scale trial in 17 cities and built 1,000 5G base stations to commence the system development of 5G ecosystem and promote business model innovations with 5G technology, such as autonomous driving bus, smart water treatment and mobile remote medical service.

Information and Application Services

Our information and application services include several core applications namely Internet protocol TV (e-Surfing HD), or IPTV (e-Surfing HD), intelligent WiFi networking, family cloud and smart home appliances as well as Internet data center, or IDC, services, cloud computing services and content delivery networks, or CDN, services which are based on Internet related services. In addition, we have caller display which is based on wireline voice related services, SMS, multimedia messaging services, or MMS and email services, content based and applications services, such as content services relating to music, and industry applications services for government and enterprises, such as government administration and supervision, transport and logistics, digital hospital, Global Eye, which is a video surveillance solution based on IP technology, and integrated e-Surfing Push-To-Talk services.

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We strengthened our research and development capability in relation to the emerging businesses with prominent results. In developing Smart Family products, we leveraged our resources advantage to implement centralized and efficient operations on a full-scale to form and operate the Smart Family alliance, and developed four core applications, namely e-Surfing HD, intelligent WiFi networking, family cloud and smart home appliances, achieving stable expansion in the subscriber base. In 2018, we scaled up the introduction of Smart Family applications, built a nationwide centralized platform for value-added services, and unified previously separate accounts for broadband and e-Surfing HD services. We also firmly followed popular contents to create members-only packages of e-Surfing HD with movies and TV shows, education and sports. By the end of 2018, the number of e-Surfing HD subscribers reached approximately 105.3 million, representing a net increase of 19.5 million over last year. The proportion of our broadband subscribers who also subscribed our mobile and e-Surfing HD services at the same time reached 65%, representing an increase of 13 percentage points over last year. Following such increase, the penetration rate of e-Surfing HD subscribers over our broadband subscribers reached 72%. With respect to the development of internet finance, we leveraged the advantages offered by offline traditional channels to widely expand consumption scenarios, while our innovative integration of payment channels provided one-for-all receipt and payment solution. The number of average monthly active users of BestPay reached 43.4 million in 2018, representing an increase of 31.5% over last year and the number of BestPay active participating merchants more than doubled. In addition, we developed red packet and instalment payment platforms, which significantly boosted the loyalty of mobile subscribers and drove strong subscriber growth, while also effectively promoted the expansion of new retail and integrated retail channel. Furthermore, we promoted our New ICT Applications, or DICT services, which are the converged intelligent application services integrating communications technology, information technology and cloud & Big Data technology. With respect of the development of DICT, we strengthened our cloud-network integration advantages, and continued to drive the development of dedicated line, DICT and IoT services through cloudification. With respect to the development of Internet of Things (IoT), leveraging on our first-mover advantages on NarrowBand-IoT (NB-IoT) network, our IoT business has entered high-speed phase of development. Based on the framework of Cloud Pipes Devices Applications , we continued to focus on developing our core IoT capabilities and providing one-stop solutions for industrial IoT applications. Net addition of IoT users doubled year on year, with the number of connected devices exceeding 100 million.

In 2018, with accelerated promotion of enhanced Machine-Type Communications (eMTC) pilot launch, we basically accomplished the whole-range speed rate IoT structure combining high, medium and low speed of 4G, eMTC and NB-IoT, respectively and offered differentiated services capabilities on demand. We accelerated cloud-network integration, and carried out coordinated deployment of IDC and cloud resources to persistently enhance its service capability. The Company connected cloud resource pools with the carrying network, enabling a cloud-led network. Furthermore, by introducing new technologies such as Software-Defined Networking (SDN) and Network Functions Virtualisation (NFV), we accelerated the re-constitution of our networks, and rolled out scale promotion of intelligent self-selecting bandwidth network products for government and enterprise customers as well as home gateway products based on SDN technology, which allows our network products to be activated within minutes. We also launched a VoLTE virtual IP Multimedia Subsystem (vIMS) core network with software and hardware decoupling to facilitate the progress of cloudification and virtualisation.

We experienced rapid growth in our IDC services in 2018. Revenue from IDC services was RMB23,380 million, representing an increase of 22.4% over last year, while revenue from cloud service was RMB4,480 million, representing an increase of 85.9% over last year. Revenue from Big Data services was RMB865 million, representing an increase of 12.5% over last year. IDC serves as important network foundation to cloud and Big Data services. We have leveraged on the advantage of convergence of cloud and network and optimized our cloud and IDC resource layout by constructing the 2+31+X framework in China. In 2018, based on a new generation of IoT with nationwide coverage as foundation, we successfully constructed Connectivity Management Platform and enriched terminals products, endeavoring to expand connection scale.

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 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 2018, the number of subscribers of our mobile services grew by 21.2% from 250.0 million as of December 31, 2017 to 303.0 million as of December 31, 2018. The mobile voice usage increased to 827.7 billion minutes in 2018 from 769.2 billion minutes in 2017.

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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 116.5 million as of December 31, 2018 from 121.8 million as of December 31, 2017. The total wireline local voice usage decreased by approximately 19.9% from 75.1 billion pulses in 2017 to 60.2 billion pulses in 2018.

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

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 2018, we continued to focus on government, financial and large enterprise customers. Our marketing efforts focused on providing global one-stop services, tailored services and comprehensive solutions to these customers. These customers can enjoy a full range of consulting and technical support and services by contacting any of our designated account managers.

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 2018, 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 our e-Surfing 4G, China Telecom broadband, e-Surfing cloud, multi-mode artificial intelligence handsets, IPTV as well as intelligent Wifi networking services and products. Through providing contents to our services on a multi-dimensional level and our coordinated marketing efforts, we continue to enhance the brand recognition and market influence for 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 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, or PSTN, are charged at the unified rate with a discount rate during off-peak hours.

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

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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 2018, we rolled out corresponding measures in due course to meet the policy requirements, including (i) starting July 1, 2018, we cancelled mobile data roaming charges within mainland China; (ii) we reduced the tariff for international roaming charges in various countries and regions; and (iii) we reduced the tariff of Internet dedicated line access and commercial dedicated line access for small and medium enterprises.

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, fixed-line 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 Center. 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 sponsor have roaming arrangements.

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As of December 31, 2018, 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 providers. A mobile service subscriber using roaming services is charged at our roaming usage rates for both incoming and outgoing calls, plus applicable long distance tariffs. With respect to international roaming, we settle roaming revenues and expenses with international operators in accordance with roaming agreements between China Telecom Group and the international operators. China Telecom Group has also agreed to arrange for us to participate in its future international roaming arrangements.

Marketing, Sales, Distribution and Customer Services***Marketing, Sales and Distribution***

Our marketing strategy is to establish our image as 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 continue to build three systems in terms of ecosphere products, customer management and integrated sales channels, surrounding the Trinity value management system featuring convergence for scale expansion, integration for application development and intelligentisation for efficiency enhancement . In terms of the construction of an ecosphere products system, we accelerated the consolidation of our resources and mechanism innovation, formed capability development centers for cloud, DICT applications, Smart Family and IoT. We also fostered high-quality products and enhanced its supply-side capability. In terms of the construction of a customer lifecycle management system, we focused on user experience and value management, injected intelligent elements to and provided ecological endowment for our channels through precision marketing leveraging Big Data. We propelled the process of existing customers upgrading to multi-featured convergence packages as well as large data traffic packages, and commenced ongoing uplift of our customer service quality. In terms of the construction of an integrated sales channel system, we built channels comprising self-owned + third-party , online + offline and platform + sales reach , in order to adapt to the trend of sales channels step-up transformation in the new retail era, and to bolster efficiency and effectiveness. The intelligent upgrade of our self-owned outlets set a new industry benchmark, while innovative collaborations with third-party channels expanded our sales reach. Through extensive cooperation with new retail stores, we also scaled up the expansion of our integrated sales channels. The operational capability of our sales channels was continuously enhanced, while the establishment of a corporate core was further promoted, injecting intelligent elements to our marketing and operational management. As a result, average system processing time for services was greatly reduced, and operational efficiency and customer experience were significantly enhanced.

Furthermore, we have adopted various marketing approaches and initiatives, such as customer experience, customer relationship management, SMS, telesales, sales plans and joint promotion with our business partners such as Internet portal companies and software development companies, to promote our products and services, in particular, our 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, such as service processing time, request responding time and providing service related and other information to customers through text messages.

In 2018, we made the following enhancements to our customer service:

Making efforts to improve the service capabilities on Internet access, cloud computing and IoT business of government and enterprise customers by shortening installation, transfer and repair time of broadband and dedicated lines, improving the punctuality of group network line access and improving the punctual repair rate of IoT-related malfunction.

Carrying out video quality monitoring and analysis of e-Surfing HD service to improve the experience and quality of video streaming.

Leveraging artificial intelligence and Big Data technology to develop smart hotline 10000 and promote its operational artificial intelligence.

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Developing internet-based self-service model and procedures to offer more convenience for our users.

Improving the customer service ability through new media to solve problems for customers in a direct and vivid way, such as introducing customer service robots to internet-based service and promoting live video chat.

In 2018, we continued to maintain leading position in the industry in terms of comprehensive customer satisfaction and customer satisfaction in mobile voice as well as mobile and wireline Internet access services according to 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 support our wireline, mobile and other services on an integrated basis and to support other services related operations such as account opening, billing and customer services.

Network System

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

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

Network Architecture

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

Access networks: Access networks include wireline access network based on copper cables and optic fibers and wireless access network based on CDMA, TD-LTE and LTE FDD, which are directly connected to customers to provide 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.

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Low frequency refarming

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

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

Equipment procurement

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

Purchases from our five largest suppliers of telecommunications equipment accounted for approximately 29.7% of our total amount of annual purchases in 2018. Purchases from our single largest supplier of telecommunications equipment accounted for approximately 13.5% of our total amount of annual purchases in 2018.

Competition

Following the industry restructuring in 2008, China Unicom and our Company have full-service capabilities and compete with each other in both wireline and wireless telecommunications services. China Mobile continues to be the leading provider of mobile telecommunications services in the PRC and competes with us in mobile telecommunications services and other telecommunications services. In December 2013 and May 2016, China Mobile and China Radio and Television 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 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-controlled, such as basic telecommunications services. In June 2012, the MIIT issued Opinions on Encouraging and Guiding Private Investment in the Telecommunications Industry, encouraging private-sector investment in the telecommunications industry. On May 17, 2013, the MIIT issued the Trial Plan of Resale of Mobile Telecommunications Services, pursuant to which the MIIT would grant qualified companies mobile telecommunications resale business approvals on a pilot basis which would allow them to purchase mobile telecommunications services in bulk from mobile networks operators 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

(31227;21160;36890; 36716;21806;19994;21153;25209;21457;20215;26684;35843; 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 (31227;21160;36890; 36716;21806;19994;21153;27491;24335;21830;29992;30340; pursuant to which the MIIT granted commercial operation approval to the mobile communication resale business, effective from May 1, 2018.

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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 2018, the broadband access market opened up to private capital in all the cities in 17 provinces in China on a province-wide basis and additional 39 pilot cities in other provinces. 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 telecommunication resale business, effective from May 2018. As of January 31, 2019, among the 42 mobile virtual network operators who had been approved by the MIIT to conduct resale business on a pilot basis, 32 of which had been granted commercial operation licenses; and among the 25 companies who signed resale agreements with us, 12 companies had been granted commercial licenses and the other companies are all in the process of applying for such licenses.

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.

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In addition, the Counterterrorism Law of the People's Republic of China has come into force on January 1, 2016. It requires telecommunications operators and Internet service providers to provide technical support and assistance such as technical interface and decryption to the public security authorities and national security authorities for their lawful prevention and investigation of terrorist activities; it requires telecommunications operators and Internet service providers to put into practice the network security, information content supervision system and technical measures for security protection in accordance with the laws and administrative regulations, in order to prevent the dissemination of information relating to terrorism and extremism; it requires telecommunications operators and Internet service providers to, where any information in relation to terrorism or extremism is detected, immediately cease the relevant transmission, keep the relevant records, delete the relevant information and report to the public security divisions or the relevant departments; it also requires telecommunications operators and Internet service providers to examine the identity of the users and not to provide services to any person of unknown identity or to persons who refuse to have their identity examined. Violation of the above provisions may result in fines and the relevant responsible persons may also be fined or detained.

On September 23, 2016, six departments including the Supreme People's Court, the Supreme People's Procuratorate, Ministry of Public Security, the MIIT, the People's Bank of China and China Banking Regulatory Commission jointly released the Announcement on Preventing and Cracking Down on Telecom and Internet Frauds. The Announcement requires telecom operators to strictly implement the real-name registration system of telephone subscribers. Services to those entities or individuals who have not registered in real names and could not complete the true identity information registration within the stipulated time will be terminated. It also requires telecommunications operators to immediately carry out measures to clean up user accounts that have registered multiple phone cards, and to block Internet publication, search, dissemination and sales channels of software that changes the number displayed by caller IDs. It also strictly prohibits the operation and any business that provides illegal services of changing phone numbers via Internet; strictly regulates the transmission of caller IDs of the Administration of International Communication Accesses; fully implements the regulation and cleaning up of private voice lines and caller authentication; strengthens the detection and interception of fake caller IDs within and between networks; and immediately bans and regulates telephone services such as "one-number service", through which the user can combine his/her various communication numbers into one new phone number, business switchboard and 400 telephone switchboard. Furthermore, on November 7, 2016, the MIIT issued the Implementation Opinions on the Work of Further Prevention and Crack Down on Communications Fraud, which requires telecommunications operators to fully implement the real-name registration for telephone subscribers, rectify and standardize the key telecommunications services, rectify the issue of changing number via internet services and strengthen the protection of telephone subscribers' personal data.

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On June 1, 2017, the Cyber Security Law of the People's Republic of China 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 of the People's Republic of China 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 of the People's Republic of China 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 or of 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 conducted the security review or have not passed the security review, would face 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 Cyberspace Administration of China, or 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. While 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 implementation of the Cyber Security Law is still at an early stage. 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 Mainland China, 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 (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.

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.

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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 Catalogue (2015 edition) which took effect on March 1, 2016. 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, internet data center 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 our telecommunications business. In January 2009, China Telecom Group received a license from the MIIT to operate 3G services nationwide, which permits China Telecom Group to provide 3G services based on CDMA2000 technology. We have been authorized by China Telecom Group to operate 3G services nationwide based on CDMA2000 technology. In December 2013, China Telecom Group, Unicom Group and China Mobile Group received licenses from the MIIT to operate 4G services nationwide based on TD-LTE technology. We have been authorized by China Telecom Group to operate 4G services nationwide based on TD-LTE technology. On February 27, 2015, China Telecom Group was granted by the MIIT the permit, and authorized us, to provide 4G services based on LTE FDD technologies nationwide.

After its accession to the WTO in December 2001, the PRC promulgated the Administrative Regulations on Telecommunications Companies with Foreign Investment, 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.

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Pursuant to the Circular on the Framework Plan for the China (Shanghai) Pilot Free Trade Zone issued by the State Council on September 18, 2013, qualified foreign investment enterprises will be permitted to provide specific value-added telecommunications services in the China (Shanghai) Pilot Free Trade Zone, subject to protections on Internet information security and approval by the State Council in case of a breakthrough in the limitations provided for under the administrative regulations. 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 are categorized into government fixed tariffs, government guidance tariffs and market based tariffs. The telecommunications providers are permitted to set tariffs for certain services provided the tariff levels are below the tariff ceilings set by the MIIT and the NDRC.

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

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

On August 23, 2018, the MIIT promulgated the Notice of the Ministry of Industry and Information Technology on Further Regulating the Marketing Behavior of Telecommunications Tariff, effective from August 23, 2018. This Notice encourages the fundamental telecommunications operators to offer tiered pricing scheme plans based on usage. Pursuant to this Notice, fundamental telecommunications operators should strive to simplify their pricing structures, offer corresponding service plans for each fee item if package plans are offered, specify the structure of fees, fee items and fee standards, and fulfill operators' obligations to remind its customers of the restrictive conditions, validity periods, charging principle of the plans, among other noteworthy matters, when promoting such plans. In addition, the operators shall ensure customers with the same trading conditions afforded identical rights to choose their tariff plan.

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.

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The MIIT issued the Notice on Public Telecommunications Network Interconnection Settlement and Relay Fees Allocation in October 2003 and two Notices on Adjustment to Settlement Standards for Interconnection Fees of Wireline Local Telephone Networks in October 2006 and April 2009, respectively, which provided for interconnection settlement arrangement standards for local inter-district calls between wireline local telephone operators as well as public telecommunications network. In November 2009, the MIIT issued the Notice on Adjustment to Settlement Standards for Interconnection Fees of Public Telecommunications Network and the Notice on the Settlement Standards for Interconnection Fees of TD-SCDMA, which provided for adjustments to certain interconnections settlement standards between telecommunications operators. Effective from January 1, 2014, some of the settlement standards have been further adjusted pursuant to the Notice on Adjustment to Settlement Standards for Interconnection Fees of Public Telecommunications Network issued by the MIIT on December 17, 2013. Prior to January 1, 2014, when a mobile user of a basic telecommunications operator (excluding China Mobile's TD-SCDMA 157 and 188 prefix numbers users) initiates a call to a mobile user of another basic telecommunications operator, the settlement charge is set uniformly at a rate of RMB0.06 per minute payable by the basic telecommunications operator originating the call to the basic telecommunications operator receiving the call. In the event a China Mobile's TD-SCDMA 157 and 188 prefix numbers user initiates a call to a user of our Company or China Unicom within the scope of local network, China Mobile will pay a settlement charge of RMB0.012 per minute to our Company or China Unicom. With effect from January 1, 2014, when a mobile users of our Company or China Unicom initiates a call to a mobile user of China Mobile (not including TD-SCDMA 157 and 188 prefix numbers users), the interconnection settlement charges payable by our Company or China Unicom to China Mobile 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
Wireline local operator	Mobile local operator	(1) Wireline operator collects the usage charge from its subscribers

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

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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:

Network from Which Calls Originated	Network at Which Calls Terminated	Current Main Settlement Arrangement
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
	Using the carrier identity code of operator B, through the domestic and international long distance network of operator B	(2) Operator A retains RMB0.06 per minute, and operator B gets the rest of the international long distance tariff. (1) Operator B collects the tariff from the subscribers
International long distance operator	Operator B through domestic long distance network of operator C and international gateway of domestic operator A	(2) Operator B pays operator A RMB0.06 per minute (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:

Network from Which SMS Originated	Network at Which SMS Terminated	Current Main Settlement Arrangement
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:

Network from Which MMS Originated	Network at Which MMS Terminated	Current Main Settlement Arrangement
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.

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.

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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 2018, we paid approximately RMB98 million of usage fees for the telecommunications network numbers and approximately RMB1,797 million of frequency usage fees, respectively.

Quality of Service

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

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

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

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

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 telecom operators should inform the telephone 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.

Table of Contents***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 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 in aggregate won the bids to undertake the construction of broadband network facilities in approximately 50,000 administrative villages in 19 provinces and autonomous regions. By the end of 2018, we had 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. We have continuously promoted the construction of communication networks in rural areas and remote rural villages and strives to improve the broadband access coverage 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 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.

As part of the PRC government's efforts to reform state-owned enterprises and increase their competitiveness, the PRC government has selected certain enterprises of designated industries, including the telecommunications industry, as the first group of state-owned enterprises for a pilot program on state-owned enterprise mixed ownership reform. Unicom Group was selected among the operators of the telecommunications industry to join such mixed ownership reform.

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 will be initially carried out on a trial basis in selective geographic locations during the period from 2010 to 2012 and further implemented across-the-board in the following three years. In June 2010, the State Council issued the Trial Plan for Three-Network Convergence and called for 12 volunteer regions (cities) and enterprises for the first trial. Following the completion of the first trial in December 2011, the State Council announced 42 additional regions (cities) for the second phase of the trial. In September 2012, we received the Information Network Communicated Audio-Video Program License from the State Administration of Press, Publication, Radio, Film and Television (the SARFT, formerly, the State Administration of Radio, Film and Television). In August 2015, the General Office of the State Council issued the Notice of Plan of Furthering the Three-Network Convergence, which marked the completion of the trial plan of the three-network convergence and called for furthering the three-network convergence nationwide.

Table of Contents***Broadband China Policy***

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

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 (国信部2016年1月6日《关于规范移动转售业务批发价格调整的通知》), 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 Ministry of Finance, or the MOF, and the SAT, introduced a pilot tax program under which the PRC business tax would be replaced with a VAT. On April 29, 2014, the MOF and the SAT announced that the pilot program would be extended to cover the telecommunications industry. Effective from June 1, 2014, the pilot tax rate for basic telecommunications services is 11% and the pilot tax rate for value-added telecommunications services is 6%. On March 18, 2016, the State Council standing committee meeting resolved to expand the VAT pilot program to all other industries which were previously subject to the PRC business tax starting from May 1, 2016. On March 23, 2016, the 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.

Amended Employment Contract Law

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

Table of Contents***Sharing of Telecommunications Infrastructure***

In June 2018, the MIIT and the SASAC jointly issued the 2018 Implementation Opinions of the Ministry of Industry and Information Technology and the State-owned Assets Supervision and Administration Committee 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 indoor distribution systems for public transportation and buildings, shall generally be planned, 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. In newly-built residential areas, commercial areas and campus, FTTH construction must strictly observe the applicable national and local standards. Telecommunications operators are prohibited from entering into any exclusivity arrangement with real estate developers or property management companies. In the upgrading of FTTH for existing residential areas, commercial areas and campus, telecommunications operators and relevant stakeholders must cooperate with each other to comply with the joint construction and sharing requirements. Moreover, with respect to transmission facilities, sharing and joint construction of transmission poles and pipeline is mandatory whenever conditions so allow.

Anti-Unfair Competition Law

On January 1, 2018, the amended Anti-Unfair Competition Law of the People's Republic of China came into effect. It revised and expanded the scope of unfair competitive acts which include, among others, a network operator's interference with and destruction of products or services provided by other operators. It also further improved the provisions on confusing conducts and commercial bribery, strengthened the protection of trade secrets and enhanced supervision over and penalties on unfair competitive acts.

Mobile Number Portability Trial

In May 2014, the MIIT promulgated the Administration Measures on Mobile Number Portability Trial, effective as of May 17, 2014, which regulated the implementation measures for mobile number portability trials. Pursuant to the relevant policies issued by the MIIT, currently mobile users of China Mobile, China Unicom and our Company in Hainan, Jiangxi, Hubei, Yunnan and Tianjin may migrate among the networks of the three operators without changing their mobile numbers. In December 2018, these five provinces launched new and facilitated procedures to allow mobile users, starting from December 1, 2018, send text messages for qualification enquires and officially transfer to new operator in next hour after completing the procedures. The introduction of such policy allows mobile users to switch operator in a more efficient way and caused a larger number of switches. In addition, on March 5, 2019, the Government Work Report presented in the second plenary session of the 13th National People's Congress of the PRC specified that the mobile number portability services will be implemented nationwide in 2019. In response, we expect to roll out corresponding measures in due course to meet the policy requirements.

E-Commerce Law

On January 1, 2019, the E-Commerce Law of the People's Republic of China came into force. It stipulates relevant rules to require all e-commerce operators to fulfill their obligations to protect consumers' rights and interests as well as personal information, intellectual property rights, cyberspace security and the environment. It clarifies e-commerce operators into e-commerce platform operators, merchants on e-commerce platforms, and those doing business on their own websites or via other web services. In addition, it specifically provides that an e-commerce platform operator will have joint and several liability with the merchants, where a platform operator knows, or should know, that a merchant has violated another's intellectual property rights and fails to take the necessary action such as deleting, blocking links

or stopping transactions. Moreover, it covers the requirement for registration and licensing of e-commerce operators, taxation, electronic payment and e-commerce dispute resolution.

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.

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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 2018 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 Our Restructuring and Initial Public Offering in 2002 included elsewhere under this Item.

D. Property, Plants and Equipment

Properties

Executive Offices

Our principal executive offices are located in Beijing and we obtained the right to occupy and use these offices pursuant to an agreement we entered into with China Telecom Group in September 2002 and supplemental agreements on October 26, 2003, April 13, 2004, December 15, 2005, December 26, 2007, March 31, 2008, August 25, 2010, August 22, 2012, 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.

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 Zhonghe Hengtai in 2017 and the establishment of a new subsidiary in 2018 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 and Establishment of China Telecom Leasing Corporation Limited .

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On October 14, 2015, the Company entered into the Transfer Agreement with the Tower Company and certain other parties thereto, pursuant to which the Company agreed to sell certain telecommunications towers and related assets and inject cash to the Tower Company in exchange for new shares. 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. 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. 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%. 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 , and Note 37(b) to our consolidated financial statements included elsewhere in this annual report on Form 20-F.

On December 15, 2017, we and China Telecom Satellite Communication Co., Ltd., a wholly owned subsidiary of China Telecom Group entered into an acquisition agreement, pursuant to which we agreed to purchase from China Telecom Satellite Communication Co., Ltd. the satellite communications business for a consideration of RMB70 million. The consideration had been settled in full by June 30, 2018. On December 20, 2017, we, through E-surfing Pay Co., Ltd., entered into an acquisition agreement with Shaanxi Comservice, which is ultimately controlled by China Telecom Group, to acquire 100% of equity interest in Zhonghe Hengtai, from Shaanxi Comservice for a consideration of RMB17 million. Zhonghe Hengtai primarily engages in insurance agency business in the PRC. The consideration had been settled in full by June 30, 2018.

Because we and the acquired satellite communications business and Zhonghe Hengtai were under the common control of China Telecom Group, our acquisitions of the satellite communications business and Zhonghe Hengtai were 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 the acquired satellite communications business and Zhonghe Hengtai have been accounted for at historical amounts and our consolidated financial statements for periods prior to the respective acquisitions have been restated to include the financial position and results of operations of the acquired satellite communications business and Zhonghe Hengtai on a combined basis. The considerations for the acquisition of the acquired satellite communications business and Zhonghe Hengtai were accounted for as an equity transaction in the consolidated statement of changes in equity. Unless otherwise indicated in this section, our financial data for periods prior to the acquisition are presented based on those restated amounts. See Note 1 to our consolidated financial statements included elsewhere in this annual report on Form 20-F.

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 increased by 3.0%, from RMB366,229 million in 2017 to RMB377,124 million in 2018. The increase was mainly attributable to revenue growth of Internet services, information and application services and telecommunications network resource and equipment services. Our total operating expenses increased by 2.8%, from RMB339,009 million in 2017 to RMB348,410 million in 2018. The increase in operating expenses was primarily due

to increases in network operations and support expenses and personnel expenses. Our operating income in 2017 and 2018 was RMB27,220 million and RMB28,714 million, respectively. The profit attributable to equity holders of the Company increased by 13.9%, from RMB18,617 million in 2017 to RMB21,210 million in 2018.

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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,					
	2016		2017		2018	
	Amount	Percentage of Operating Revenues	Amount	Percentage of Operating Revenues	Amount	Percentage of Operating Revenues
Operating Revenues:						
Voice services ⁽¹⁾	70,185	19.9%	61,678	16.8%	50,811	13.5%
Internet services ⁽²⁾	150,449	42.7%	172,554	47.1%	190,871	50.6%
Information and application services ⁽³⁾	66,881	19.0%	73,044	20.0%	83,478	22.1%
Telecommunications network resource and equipment services ⁽⁴⁾	17,781	5.0%	19,125	5.2%	20,211	5.4%
Others ⁽⁵⁾	47,238	13.4%	39,828	10.9%	31,753	8.4%
Total operating revenues	352,534	100.0%	366,229	100.0%	377,124	100.0%

- (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 Internet data center 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,					
	2016		2017		2018	
	Amount	Percentage of Operating Revenues	Amount	Percentage of Operating Revenues	Amount	Percentage of Operating Revenues
(RMB in millions, except percentage data)						

Operating Expenses:						
Depreciation and amortization	67,942	19.3%	74,951	20.5%	75,493	20.0%
Network operations and support expenses	94,156	26.7%	103,969	28.4%	116,062	30.8%
Selling, general and administrative expenses	56,426	16.0%	58,434	16.0%	59,422	15.8%
Personnel expenses	54,504	15.5%	56,043	15.3%	59,736	15.8%
Other operating expenses	52,286	14.8%	45,612	12.4%	37,697	10.0%
Total operating expenses	325,314	92.3%	339,009	92.6%	348,410	92.4%

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,					
	2016		2017		2018	
	Amount	Percentage of Operating Revenues	Amount	Percentage of Operating Revenues	Amount	Percentage of Operating Revenues
(RMB in millions, except percentage data)						
Operating revenues	352,534	100.0%	366,229	100.0%	377,124	100.0%
Operating expenses	325,314	92.3%	339,009	92.6%	348,410	92.4%
Operating income	27,220	7.7%	27,220	7.4%	28,714	7.6%
Profit attributable to equity holders of the Company	18,018	5.1%	18,617	5.1%	21,210	5.6%
Net cash flow from operating activities	101,135		96,502		99,298	

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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 included 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.

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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 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 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 resulted in customers entering into sale agreements for our telecommunications service, 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.

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Costs to fulfil a contract

When we incur costs to fulfil 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.

Revenue recognition (prior to January 1, 2018)

Before the application of IFRS 15, our revenue recognition methods 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 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.

Table of Contents***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, intangible assets with finite useful lives, construction in progress and contract costs 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.

The recoverable amount of an asset or a cash-generating unit is the greater of its fair value less costs of disposal and value in use. When an asset does not generate cash flows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e., a cash generating unit). In determining the value in use, expected future cash flows generated by the assets are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the 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 the profit or loss. Impairment loss recognized in respect of cash-generating units is allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

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. For the year ended December 31, 2016, provision for impairment losses of RMB62 million were made against the carrying value of long-lived assets.

Table of Contents***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.

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

Classification of lease arrangement with Tower Company

We entered into a lease arrangement with Tower Company regarding the lease of telecommunications towers and related assets, or Tower Assets on July 8, 2016, as further supplemented on February 1, 2018. We evaluated the detailed clauses of the lease agreements and determined such lease arrangements as operating leases according to the accounting policies on lease arrangements and based on the following judgments: (i) we do not expect any transfer of ownership of Tower Assets from Tower Company by the end of the lease term; (ii) we consider the current lease term of 5 years does not account for the major part of the economic lives of Tower Assets; (iii) the present value of minimum lease payment at the inception of the lease does not substantially account for all of the fair value of the Tower Assets; and (iv) Tower Assets are compatible with all telecommunications operators, and therefore are not of specialized nature that only we can use without major modifications.

Recently Issued International Financial Reporting Standards

Up to the date of issue of our 2018 financial statements, the International Accounting Standards Board has issued the following amendments to standards, new standards and interpretation which are not yet effective and not early adopted for the annual accounting period ended December 31, 2018:

	Effective for accounting period beginning on or after
IFRS 16, <i>Leases</i>	January 1, 2019
IFRIC 23, <i>Uncertainty over Income Tax Treatments</i>	January 1, 2019
Amendments to IFRS 9, <i>Prepayment Features with Negative Compensation</i>	January 1, 2019
Amendments to IAS 28, <i>Long-term Interests in Associates and Joint Ventures</i>	January 1, 2019
Amendments to IFRSs, <i>Annual Improvements to IFRS Standards 2015-2017 Cycle</i>	January 1, 2019
Amendments to IAS 19, <i>Plan Amendment, Curtailment or Settlement</i>	January 1, 2019
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
IFRS 17, <i>Insurance Contracts</i>	January 1, 2021
Amendments to IFRS 10 and IAS 28, <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	Postponed

We are in the process of making an assessment of the impact that will result from adopting the amendments to standards, new standards and interpretation issued by the International Accounting Standards Board, or IASB, which are not yet effective for the accounting period ended on December 31, 2018. Except for IFRS 16, *Leases*, so far we believe that the adoption of these amendments to standards, new standards and interpretation is unlikely to have a significant impact on our financial position and the results of operations.

IFRS 16, *Leases*

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede IAS 17, *Leases* and the related interpretations when it becomes effective.

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognized for all leases by lessees, except for short-term leases and leases of low value assets.

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The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, we currently present upfront prepaid lease payments as investing cash flows in relation to land use rights while other operating lease payments are presented as operating cash flows. Upon application of IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing and operating cash flows respectively, upfront prepaid lease payments will continue to be presented as investing or operating cash flows in accordance to the nature, as appropriate.

Under IAS 17, we have already recognized an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for land use rights where we are a lessee. The application of IFRS 16 may result in potential changes in classification of these assets depending on whether we present right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

Other than certain requirements which are also applicable to lessor, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

As of December 31, 2018, we had non-cancellable operating lease commitments of RMB65,805 million as disclosed in Note 33 to the consolidated financial statements included elsewhere in this annual report. A preliminary assessment indicates that majority of these arrangements will meet the definition of a lease. Upon application of IFRS 16, we will recognize a right-of-use asset and a corresponding liability in respect of these leases unless they qualify for low value or short-term leases.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. We intend to elect the modified retrospective approach for the application of IFRS 16 as lessee and will recognize the cumulative effect of initial application to opening reserves without restating comparative information.

A. Operating Results

Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

Operating Revenues

Our operating revenues increased by RMB10,895 million, or 3.0% from RMB366,229 million in 2017 to RMB377,124 million in 2018. If excluding the impact of the application of IFRS 15 for the current year, it represented an increase of 4.2% over 2017. This increase was primarily driven by the revenues growth from Internet services, information and application services and telecommunications network resource and equipment services, which was partially offset by a decrease in revenues from voice services and others.

Voice Services. Revenues from our voice services decreased by 17.6% from RMB61,678 million in 2017 to RMB50,811 million in 2018, representing 13.5% of our operating revenues in 2018. Among such revenues, revenues from our wireline voice services decreased by 11.4% from RMB22,263 million in 2017 to RMB19,723 million in 2018. This decrease was primarily due to the increasing penetration of mobile voice services and other alternative

means of communications, which continued to divert revenues from wireline voice services. Revenues from our mobile voice services decreased by 21.1% from RMB39,415 million in 2017 to RMB31,088 million in 2018. This decrease 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 10.6% from RMB172,554 million in 2017 to RMB190,871 million in 2018, representing 50.6% of our operating revenues in 2018. This increase was primarily due to the increase in our mobile Internet access revenues, which was attributable to the rapid growth in the volume of and revenue from our mobile handset Internet access. We promoted large data traffic packages and optimized our data traffic operation system to maintain the growth momentum of our Internet services. The revenues attributable to mobile Internet access services in 2018 was RMB113,502 million, representing an increase of 22.1% from RMB92,961 million in 2017, of which revenues attributable to mobile handset Internet access was RMB111,218 million, representing an increase of 22.4% from 2017. In addition, the number of our wireline broadband subscribers increased to 145.8 million as of December 31, 2018, representing an increase of approximately 12.3 million, or 9.2%, from 133.5 million as of December 31, 2017. Due to intensified market competition, the wireline broadband revenue was RMB74,262 million in 2018, representing a decrease of 3.2% from RMB76,744 million in 2017.

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Information and Application Services. Revenues from our information and application services increased by 14.3% from RMB73,044 million in 2017 to RMB83,478 million in 2018, representing 22.1% of our operating revenues in 2018. This increase was primarily due to the rapid growth of our emerging businesses such as IDC, cloud and IPTV (e-Surfing HD) services.

Telecommunications Network Resource and Equipment Services. Revenues from our telecommunications network resource and equipment services increased by 5.7% from RMB19,125 million in 2017 to RMB20,211 million in 2018, representing 5.4% of our operating revenues in 2018. This increase was primarily due to the increase in digital circuit service and IP-VPN service revenues.

Others. Other revenues decreased by 20.3% from RMB39,828 million in 2017 to RMB31,753 million in 2018, representing 8.4% of our operating revenues in 2018. The decrease in other revenues was primarily due to the increasing number in mobile terminals sold through open channels and the decrease in number of terminals sold through our own channels. The revenues from sales of mobile terminals decreased by 29.6% from RMB26,759 million in 2017 to RMB18,836 million in 2018.

Operating Expenses

Our operating expenses increased by 2.8% from RMB339,009 million in 2017 to RMB348,410 million in 2018. The increase in operating expenses was primarily due to increases in network operations and support expenses and personnel expenses, which was partially offset by the decrease in other operating expenses.

Depreciation and Amortization. Our depreciation and amortization expenses increased by 0.7% from RMB74,951 million in 2017 to RMB75,493 million in 2018. The depreciation and amortization expenses as a percentage of our operating revenues decreased from 20.5% in 2017 to 20.0% in 2018.

Network Operations and Support Expenses. Our network operations and support expenses increased by 11.6% from RMB103,969 million in 2017 to RMB116,062 million in 2018, among which, our operating and maintenance expenses increased by 15.7% from RMB55,360 million in 2017 to RMB64,056 million in 2018. The increase in network operations and support expenses is primarily due to the Company's persistent efforts in optimizing and enhancing network quality and capabilities and supporting rapid development of emerging businesses through appropriate increase in resource input in order to further enhance the Company's competitiveness and to lay a strong foundation for the Company's future development.

Selling, General and Administrative Expenses. Our selling, general and administrative expenses increased by 1.7% from RMB58,434 million in 2017 to RMB59,422 million in 2018. The selling expenses were RMB50,794 million in 2018, representing an increase of 0.9% from 2017. In order to maintain the competitiveness in the market, we appropriately invested in sales and marketing resources and promoted the growth of subscriber scale. Our commission and service expenses for third parties were RMB43,166 million in 2018, representing an increase of 19.0% from 2017. At the same time, with continuous optimization of our sales and marketing model and enhancement in precision management of sales and marketing resources, taking into consideration the impact of the application of IFRS 15, upon which terminal subsidies were no longer presented in selling expenses in 2018 (terminal subsidies amounted to RMB4,707 million in 2017), the growth of the selling expenses slowed down. The general and administrative expenses were RMB8,628 million, representing an increase of 6.7% from 2017, primarily due to the increase in research and development expenditure to support our transformation and development and the innovative research and development of new business.

Personnel Expenses. Personnel expenses increased by 6.6% from RMB56,043 million in 2017 to RMB59,736 million in 2018, primarily due to the increased performance-based bonus for our frontline staff and the economic incentives for emerging business and technical talents to join us. The personnel expenses as a percentage of our operating revenues increased from 15.3% in 2017 to 15.8% in 2018.

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 RMB37,697 million in 2018, which decreased by 17.4% from RMB45,612 million in 2017. The decrease was primarily due to the decrease in the cost of mobile terminal equipment sold, which is commensurate with the decreased sales of such goods. The cost of mobile terminal equipment sold was RMB18,192 million in 2018, which decreased by 28.6% from RMB25,488 million in 2017.

Net Finance Costs

Our net finance costs decreased by 17.7% from RMB3,291 million in 2017 to RMB2,708 million in 2018, primarily due to the low-cost financing products we allocated in a flexible manner and the reduction in scale of interest-bearing debt as a result of our implementation of efficient centralized capital management.

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The net exchange gain was RMB79 million in 2018, compared to a net exchange loss of RMB134 million in 2017, which was primarily due to depreciation of the Renminbi exchange rate against the U.S. dollars in 2018. According to the exchange rates published by the People's Bank of China on December 28, 2018, the exchange rate of Renminbi depreciated by 4.8% against the U.S. dollars from December 29, 2017.

Income Tax

In 2018, our income tax expense was RMB6,810 million with an effective tax rate of 24.2%. Our expected income tax expense at our statutory tax rate of 25.0% in 2018 would be RMB7,037 million. The difference between our effective income tax rate and the statutory income tax rate was primarily due to the preferential income tax rate, which was lower than the statutory income tax rate, enjoyed by some of our branches with operations in the western region of China and some of our subsidiaries as well as that the one-off deemed disposal gain from the dilution of our interest in Tower Company in relation to its listing was not subject to income tax in the current year. See Note 30 to our consolidated financial statements included elsewhere in this annual report for further details in respect of the reconciliation of our effective income tax rate to the statutory income tax rate.

Profit Attributable to Equity Holders of the Company

As a result of the foregoing, the profit attributable to equity holders of the Company was RMB21,210 million in 2018, with a net margin of 5.6%, compared to a profit attributable to equity holders of the Company of RMB18,617 million in 2017 with a net margin of 5.1%.

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016***Operating Revenues***

Our operating revenues increased by RMB13,695 million, or 3.9% from RMB352,534 million in 2016 to RMB366,229 million in 2017. This increase was primarily driven by the revenues growth from Internet services, information and application services and telecommunications network resource services and lease of network equipment, which was partially offset by a decrease in revenues from voice services and others.

Voice Services. Revenues from our voice services decreased by 12.1% from RMB70,185 million in 2016 to RMB61,678 million in 2017, representing 16.8% of our operating revenues in 2017. Of this, revenues from our wireline voice services decreased by 14.3% from RMB25,988 million in 2016 to RMB22,263 million in 2017. This decrease was primarily due to the increasing penetration of mobile voice services and other alternative means of communications, which continued to divert revenues from wireline voice services, as well as the migration of some of our wireline telephone subscribers to our 3G and 4G services. Revenues from our mobile voice services decreased by 10.8% from RMB44,197 million in 2016 to RMB39,415 million in 2017. This decrease 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 14.7% from RMB150,449 million in 2016 to RMB172,554 million in 2017, representing 47.1% of our operating revenues. This increase was primarily due to the increase in our mobile Internet access revenues, which was attributable to the rapid growth in the volume of and revenue from our mobile handset Internet access. The revenues attributable to mobile Internet access services in 2017 was RMB92,961 million, representing an increase of 31.5% from RMB70,684 million in 2016, of which revenues attributable to mobile handset Internet access was RMB90,865 million, representing an increase of 33.1% from 2016. In addition, the number of our wireline broadband subscribers increased to 133.5 million as of December 31, 2017,

representing an increase of 10.4 million, or 8.5%, from 123.1 million as of December 31, 2016. The wireline broadband revenue was RMB76,744 million in 2017, as compared to RMB76,805 million in 2016.

Information and Application Services. Revenues from our information and application services increased by 9.2% from RMB66,881 million in 2016 to RMB73,044 million in 2017, representing 20.0% of our operating revenues in 2017. This increase was primarily due to the increase in revenues from our wireline information and application services, which was partially offset by the decrease in revenues from our mobile information and application services. As a result of the rapid growth of our IDC, cloud, Big Data and IPTV (e-Surfing HD) services, the revenues attributable to wireline information and application services increased by 17.3% from RMB44,369 million in 2016 to RMB52,037 million in 2017. The revenues attributable to mobile information and application services decreased by 6.7% from RMB22,512 million in 2016 to RMB21,007 million in 2017 due to a decrease in revenue from traditional value-added services such as information inquiry services.

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Telecommunications Network Resource and Equipment Services. Revenues from our telecommunications network resource and equipment services increased by 7.6% from RMB17,781 million in 2016 to RMB19,125 million in 2017, representing 5.2% of our operating revenues in 2017. Revenue from wireline telecommunications network resource and equipment services was RMB18,835 million in 2017.

Others. Other revenues decreased by 15.7% from RMB47,238 million in 2016 to RMB39,828 million in 2017, representing 10.9% of our operating revenues in 2017. The decrease in other revenues was primarily due to the decrease in the sales of mobile terminals. The revenues from sales of mobile terminals decreased by 22.7% from RMB34,612 million in 2016 to RMB26,759 million in 2017, primarily due to the reduction in our centralized procurement and the decrease in number of terminals sold through our own channels.

Operating Expenses

Our operating expenses increased by 4.2% from RMB325,314 million in 2016 to RMB339,009 million in 2017. The increase in operating expenses was primarily due to increases in network operations and support expenses and depreciation and amortization, which was partially offset by the decrease in other operating expenses.

Depreciation and Amortization. Our depreciation and amortization expenses increased by 10.3% from RMB67,942 million in 2016 to RMB74,951 million in 2017. The increase in depreciation and amortization was mainly due to the changes in estimated depreciable lives of certain fixed assets from ten years to five years with effect from October 1, 2017, which resulted in an increase of RMB4,045 million of depreciation and amortization expenses in 2017, and the increase in depreciation and amortization expense of newly invested assets resulting from our continued investment in and construction of 4G and optic fiber network in recent years.

Network Operations and Support Expenses. Our network operations and support expenses increased by 10.4% from RMB94,156 million in 2016 to RMB103,969 million in 2017, primarily due to the increase in the tower assets lease fee and the operating and maintenance expenses. Our operating and maintenance expenses increased by 14.4% from RMB48,390 million in 2016 to RMB55,360 million in 2017, primarily attributable to the increase in costs of repairs and maintenance so as to ensure that high network quality services are provided.

Selling, General and Administrative Expenses. Our selling, general and administrative expenses increased by 3.6% from RMB56,426 million in 2016 to RMB58,434 million in 2017. In 2017, we continued to optimize our sales and marketing model to improve the effectiveness of utilization of sales and marketing expenses by increasing investment in channel costs and reducing terminal subsidies. The selling expenses were RMB50,345 million in 2017, representing an increase of 5.3% from 2016. Our commission and service expenses for third parties were RMB36,273 million in 2017, representing an increase of 17.9% from 2016, while advertising and promotional expenses were RMB14,072 million in 2017, representing a decrease of 17.6% from 2016, of which the terminal subsidies was RMB4,707 million in 2017, representing a decrease of 49.8% from 2016.

Personnel Expenses. Personnel expenses increased by 2.8% from RMB54,504 million in 2016 to RMB56,043 million in 2017. The personnel expenses as a percentage of our operating revenues decreased from 15.5% in 2016 to 15.3% in 2017.

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 RMB45,612 million in 2017, which decreased by 12.8% from RMB52,286 million in 2016. The decrease was primarily due to the decrease in the cost of mobile terminal equipment sold, which is commensurate with the decreased sales of such goods. The cost of mobile terminal equipment sold was RMB25,488 million in 2017, which decreased by 22.5% from RMB32,878 million in 2016.

Net Finance Costs

Our net finance costs increased by 1.7% from RMB3,235 million in 2016 to RMB3,291 million in 2017.

The net exchange loss was RMB134 million in 2017, compared to a net exchange gain of RMB113 million in 2016, which was primarily due to appreciation of the Renminbi exchange rate against the U.S. dollars in 2017. According to the exchange rates published by the People's Bank of China on December 29, 2017, the exchange rate of Renminbi appreciated by 6.2% against the U.S. dollars from December 30, 2016.

Table of Contents***Income Tax***

In 2017, our income tax expense was RMB6,192 million with the effective tax rate of 24.8%. Our expected income tax expense at our statutory tax rate of 25.0% in 2017 would be RMB6,238 million. The difference between our effective income tax rate and the statutory income tax rate was primarily due to the preferential income tax rate, which was lower than the statutory income tax rate, enjoyed by some of our branches with operations in the western region of China and some of our subsidiaries. See Note 30 to our consolidated financial statements included elsewhere in this annual report for further details in respect of the reconciliation of our effective income tax rate to the statutory income tax rate.

Profit Attributable to Equity Holders of the Company

As a result of the foregoing, the profit attributable to equity holders of the Company was RMB18,617 million in 2017, with a net margin of 5.1%, compared to a profit attributable to equity holders of the Company was RMB18,018 million in 2016 with a net margin of 5.1%.

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,		
	2016	2017	2018
	(RMB in millions)		
Net cash flow from operating activities	101,135	96,502	99,298
Net cash used in investing activities	(99,043)	(85,263)	(85,954)
Net cash used in financing activities	(9,555)	(16,147)	(16,283)
Net decrease in cash and cash equivalents	(7,463)	(4,908)	(2,939)

Cash and cash equivalents decreased by 14.1% from RMB19,410 million as of December 31, 2017, of which 81.6% was denominated in RMB, to RMB16,666 million as of December 31, 2018, of which 64.0% was denominated in RMB. Our net cash outflow was RMB2,939 million in 2018, as compared with the net cash outflow of RMB4,908 million in 2017.

Our principal source of liquidity is net cash inflow from operating activities, which was RMB99,298 million in 2018, an increase of RMB2,796 million from RMB96,502 million of net cash inflow in 2017. The increase was mainly due to the increase in the revenue related to operating activities.

Net cash outflow used in investing activities increased by RMB691 million from RMB85,263 million in 2017 to RMB85,954 million in 2018.

Net cash outflow used in financing activities was RMB16,283 million in 2018 compared to RMB16,147 million in 2017.

Our working capital (defined as current assets minus current liabilities) was a deficit of RMB185,915 million as of December 31, 2018, compared to a deficit of RMB203,858 million as of December 31, 2017.

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 2019. 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, 2018, we had unutilized credit facilities of RMB150,693 million with major domestic commercial banks, from which we can draw upon.

Table of Contents**Indebtedness**

Our indebtedness as of the dates indicated was as follows:

	As of December 31,		
	2016	2017	2018
	(RMB in millions)		
Short-term debt	40,780	54,558	49,537
Long-term debt and payable maturing within one year	62,276	1,146	1,139
Long-term debt	9,370	48,596	44,852
Finance lease obligations (including current portion)	102	77	216
Total debt	112,528	104,377	95,744

Our total debt decreased by RMB8,633 million from RMB104,377 million as of December 31, 2017 to RMB95,744 million as of December 31, 2018, primarily due to the reduction in scale of interest-bearing debt as a result of our implementation of efficient centralized capital management. Our debt-to-asset ratio (total debt divided by total assets) decreased from 15.8% as of December 31, 2017 to 14.4% as of December 31, 2018. We believe that our Company has maintained a solid capital structure.

Our short-term debt constituted 51.7% of our total debt as of December 31, 2018. The weighted average interest rate of our short-term debt was 3.2% as of December 31, 2018, representing a decrease of 0.8 percentage point from that as of December 31, 2017.

Our long-term debt (including current portion) decreased from RMB49,742 million as of December 31, 2017 to RMB45,991 million as of December 31, 2018.

Of our total debt as of December 31, 2018, 99.4%, 0.4% and 0.2% were denominated in Renminbi, U.S. dollars and Euros, respectively.

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

Capital Expenditure

The following table sets forth our historical and planned capital expenditure requirements for the periods indicated. Actual future capital expenditures for the periods after December 31, 2018 may differ from the amounts indicated below.

	Year Ended December 31,		
	2017	2018	2019
	(Planned)		
	(RMB in millions)		
Total capital expenditure	88,712	74,940	78,000

In 2018, we continued to implement Big Data precision investment, persistently established superior network and at the same time reinforced management and control in capital expenditure. In 2018, our capital expenditure was RMB74,940 million, a decrease of 15.5% from RMB88,712 million in 2017.

Our capital expenditure for 2019 is projected to be approximately RMB78,000 million. The investment in mobile networks will be mainly used for continuously improving 4G network coverage and enhancing 4G network capacity and quality as well as expanding 5G trials with a proper pace. The investment in broadband networks will be mainly used for maintaining fiber network edge, strengthening the benchmark and leadership position of Gbps service in key areas, improving the carrying capacity of the Internet as well as improving the end-to-end flexible resource allocation and scheduling capabilities. The investment in DICT will be mainly used for improving IDC and cloud resources layout to uplift network agility and flexibility and strengthen end-to-end service capability of cloud-network integration.

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.

Table of Contents**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, Internet of Things, broadband access, operation and service support systems and development of value-added services.

D. Trend Information

Please also refer to our discussion in each section of [Overview](#) and [A. Operating Results](#) included elsewhere under this Item.

E. Off-Balance Sheet Arrangements

As of December 31, 2018, 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, 2018:

	Total	Payable in					After 2023	
		2019	2020	2021	2022	2023		
			(RMB in millions)					
Contractual Obligations⁽¹⁾:								
Short-term debt	49,537	49,537						
Long-term debt	45,991	1,139	18,091	1,029	20,992	923	3,817	
Interest payable	8,213	3,028	1,517	917	963	246	1,542	
Finance lease obligations	216	101	36	26	20	27	6	
Operating lease commitments	65,805	15,658	14,466	13,440	12,682	3,461	6,098	
Capital commitments	15,303	15,303						
 Total contractual obligations	 185,065	 84,766	 34,110	 15,412	 34,657	 4,657	 11,463	

(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 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 to be held in the year 2020, upon which the seventh session of the Board will be elected. As of December 31, 2018, the Board comprised ten Directors with five Executive Directors, one Non-Executive Director and four Independent Non-Executive Directors.

On January 29, 2018, Mr. Sun Kangmin retired from his positions as an Executive Director and Executive Vice President of the Company due to his age.

On May 28, 2018, Madam Cha May Lung, Laura resigned from her positions as an Independent Non-Executive Director as well as a member and the Chairlady of the Nomination Committee of the Company due to her intention to focus on other business commitments and engagements. On the same date, Madam Wang Hsuehming, an Independent Non-Executive Director of the Company, was appointed as a member and the Chairlady of the Nomination Committee of the Company.

On July 10, 2018, Mr. Zhang Zhiyong and Mr. Liu Guiqing were appointed as Executive Vice Presidents of the Company.

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On July 19, 2018, Mr. Liu Aili resigned from his positions as an Executive Director, President and Chief Operating Officer of the Company due to change in work arrangement.

On July 20, 2018, Madam Zhu Min was appointed as an Executive Vice President, the Chief Financial Officer and Secretary of the Board of the Company. On the same date, Mr. Ke Ruiwen resigned from his position as a Joint Company Secretary of the Company due to change in work arrangement.

On October 25, 2018, Mr. Ke Ruiwen was appointed as the President and Chief Operating Officer of the Company and no longer held the position of the Executive Vice President of the Company.

On October 26, 2018, the appointment of Madam Zhu Min as an Executive Director of the Company was approved at the extraordinary general meeting of the Company. On the same date, Mr. Ke Ruiwen no longer acts as the Authorised Representative of the Company due to change in work arrangement and Madam Zhu Min was appointed as the Authorised Representative of the Company. Meanwhile, the appointment of Mr. Yeung Chi Wai, Jason as an Independent Non-Executive Director of the Company was approved at the extraordinary general meeting of the Company and he was also appointed as a member of the Audit Committee of the Company.

On 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, the Executive Director, President and Chief Operating Officer of the Company, to performing the functions of the Chairman and Chief Executive Officer.

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

Name	Age	Position
Ke Ruiwen	55	Performing the functions of the Chairman and Chief Executive Officer; Executive Director, President and Chief Operating Officer
Gao Tongqing	55	Executive Director and Executive Vice President
Chen Zhongyue	47	Executive Director and Executive Vice President
Zhu Min	54	Executive Director, Executive Vice President, Chief Financial Officer and Secretary of the Board
Chen Shengguang	55	Non-Executive Director
Tse Hau Yin, Aloysius	71	Independent Non-Executive Director
Xu Erming	69	Independent Non-Executive Director
Wang Hsuehming	69	Independent Non-Executive Director
Yeung Chi Wai, Jason	64	Independent Non-Executive Director
Zhang Zhiyong	53	Executive Vice President
Liu Guiqing	52	Executive Vice President
Wang Guoquan	46	Executive Vice President

Ke Ruiwen, age 55, is an Executive Director, President and Chief Operating Officer of the Company, joined the Board of the Company in May 2012 and has performed the functions of the Chairman and Chief Executive Officer of the

Company since March 8, 2019. 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 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.

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Gao Tongqing, age 55, is an Executive Director and Executive Vice President of the Company and joined the Board of the Company in May 2017. Mr. Gao graduated from the Changchun Institute of Posts and Telecommunications with a major in telecommunications engineering and received a doctorate degree in business administration from the Hong Kong Polytechnic University. Mr. Gao served as Deputy Director General of Xinjiang Uygur Autonomous Region Posts and Telecommunications Administration, Deputy General Manager and General Manager of Xinjiang Uygur Autonomous Region Telecom Company and General Manager of China Telecom Jiangsu branch. He is also a Vice President of China Telecommunications Corporation. Mr. Gao has extensive experience in management and the telecommunications industry.

Chen Zhongyue, age 47, 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.

Zhu Min, age 54, 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, 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 Director of Shanghai Pudong Development Bank Co., Ltd.. She is currently the Chief Accountant of China Telecommunications Corporation. Madam Zhu has extensive experience in finance, management and the telecommunications industry.

Chen Shengguang, age 55, 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, Director of FSPG Hi-Tech Co., Ltd., Non-Executive Director of Xingfa Aluminium Holdings Limited, Director of Guangdong Silk-Tex Group Co., Ltd., 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 71, 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 Stock Exchange of Hong Kong Limited (HKSE Main Board). Mr. Tse is also an Independent Non-Executive Director of OCBC Wing Hang Bank Limited (formerly known as Wing Hang Bank Limited), which was listed on the HKSE Main Board until October 2014). He was an Independent Non-Executive Director of China Construction Bank Corporation, which is listed on the HKSE Main Board, from 2004 to 2010.

Mr. Tse was also an Independent Non-Executive Director of Daohe Global Group Limited (formerly known as Linmark Group Limited), which is listed on the HKSE Main Board, from 2005 to 2016. 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.

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Xu Erming, age 69, 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 the Independent Non-Executive Director of Comtec Solar Systems Group Limited. 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 the Independent Supervisor of Harbin Electric Company Limited. 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 69, 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 64, 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. and a member of Hospital Authority Board of Hong Kong. He served as an Independent Non-Executive Director of AviChina Industry & Technology Company Limited. 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 and was also a partner of Woo, Kwan, Lee, & Lo.. He acted as the Board Secretary of BOC Hong Kong (Holdings) Limited from 2001 to 2011 and concurrently acted as the Board Secretary of Bank of China Limited 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.

Zhang Zhiyong, age 53, 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, 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. Mr. Zhang has extensive experience in management and the telecommunications industry.

Liu Guiqing, age 52, was appointed as an Executive Vice President of the Company on July 10, 2018. 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.

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Wang Guoquan, age 46, was appointed as an Executive Vice President of the Company on March 11, 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 and General Manager of the Marketing Department of China Telecommunications Corporation. He is also a Vice President of China Telecommunications Corporation and a director of Besttone Holding Co., Ltd.. Mr. Wang has extensive experience in management and the telecommunications industry.

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

Supervisors

The PRC Company Law requires a joint stock company with limited liability to establish a supervisory committee. Our Supervisory Committee has five Supervisors. Two members of our Supervisory Committee are employee representatives elected by our employees. The remaining members are appointed by shareholders at a general meeting. The term of office of our Supervisors is three years, which is renewable upon re-election or re-appointment. The term of office for the sixth session of our Supervisory Committee is three years, starting from May 23, 2017 until the date of the Company's annual general meeting for the year 2019 to be held in the year 2020, upon which the seventh session of the Supervisory Committee will be elected.

On February 27, 2018, Mr. Hu Jing resigned from his position as a Supervisor of the Company due to change in work arrangement.

On October 26, 2018, the appointment of Mr. Xu Shiguang as a Supervisor of the Company was approved at the extraordinary general meeting of the Company.

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

Name	Age	Position
Sui Yixun	55	Supervisor (Chairman)
Zhang Jianbin	53	Supervisor (Employee Representative)
Yang Jianqing	59	Supervisor (Employee Representative)
Xu Shiguang	39	Supervisor
Ye Zhong	59	Supervisor

Sui Yixun, age 55, 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 the Managing Director of audit department of the Company, a Supervisor of Tianyi Telecom Terminals Company Limited and a Supervisor of China Tower Corporation Limited. Mr. Sui received a bachelor degree from Beijing Institute of Posts and Telecommunications and a master degree in business administration from Tsinghua University. Mr. Sui served as Deputy General Manager of China Telecom Shandong branch, Deputy General Manager of the Northern Telecom of China Telecommunications Corporation and General Manager of China Telecom Inner Mongolia Autonomous Region branch. Mr. Sui is a senior economist and has extensive experience in operational and financial management in the telecommunications industry.

Zhang Jianbin, age 53, 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 LLM degree. He also had

EMBA degree from the Guanghua School of Management at Peking University in 2006. He previously worked at the Department of Policy and Regulation of the Ministry of Posts and Telecommunications (MPT) and the Directorate General of Telecommunications (DGT) of the MPT. He served as Deputy Director of the General Office and Deputy Director of the Legal Affairs Division of the DGT of the MPT, Director of the Corporate Strategy Department (Legal Department) of the Company. Mr. Zhang is a senior economist with extensive experience in telecommunications legislation and regulation, corporate governance, corporate legal affairs and risk management.

Yang Jianqing, age 59, is an Employee Representative Supervisor of the Company and joined the Supervisory Committee of the Company in May 2017. Mr. Yang is currently the senior consultant of Corporate Culture Department of the Company. 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 and General Manager 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.

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Xu Shiguang, age 39, is a Supervisor of the Company and joined the Supervisory 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 and is studying the PhD course at the Chinese Academy of Fiscal Sciences. 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 59, 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 Director of Zhejiang Provincial Financial Holdings Co., Ltd., Chairman and General Manager of Zhejiang Provincial Innovation and Development Investment Co. Ltd., and Chairman of Zhejiang Financial Market Investment Co. Ltd.. Mr. Ye served as 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 Agricultural Investment and Development Fund 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 RMB8.741 million for the year ended December 31, 2018.

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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, 2018 was approximately RMB7.316 million. The following table sets forth the compensation received or receivable by our Company's directors and supervisors⁽¹⁾⁽²⁾:

	Salaries, Directors /allowances supervisorsand benefits fees	in kind	Discretionary bonuses ⁽³⁾ RMB thousands	Share-based payments contributions	Retirement scheme contributions	Total
2018						
<i>Executive Directors</i>						
Yang Jie ⁽⁴⁾		207	536		89	832
Liu Aili ⁽⁵⁾		121	178		52	351
Ke Ruiwen		197	497		85	779
Sun Kangmin ⁽⁶⁾						
Gao Tongqing		192	489		84	765
Chen Zhongyue		192	489		82	763
Zhu Min ⁽⁷⁾		37	53		14	104
<i>Non-Executive Director</i>						
Chen Shengguang						
<i>Independent Non-Executive Directors</i>						
Tse Hau Yin, Aloysius	471					471
Cha May Lung, Laura ⁽⁸⁾	108					108
Xu Erming	250					250
Wang Hsuehming	257					257
Yeung Chi Wai, Jason ⁽⁹⁾	44					44
<i>Supervisors</i>						
Sui Yixun		216	485		84	785
Zhang Jianbin		209	485		84	778
Yang Jianqing		268	494		86	848
Hu Jing ⁽¹⁰⁾		15	83		12	110
Xu Shiguang ⁽¹¹⁾		18	40		13	71
Ye Zhong						
Total	1,130	1,672	3,829		685	7,316

(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 Group's performance for the year. In addition, according to the respective provision of the State-owned Assets Supervision and Administration Commission of the State Council, certain directors were also entitled to deferred bonuses in relation to 2013 and 2015. The deferred bonuses paid to Mr. Yang Jie, Mr. Ke Ruiwen, Mr. Gao Tongqing and Mr. Chen Zhongyue in the current year were RMB189 thousand, RMB167 thousand, RMB167 thousand and RMB167 thousand, respectively. Such deferred bonuses were not included in the above compensation.
- (4) Mr. Yang Jie resigned as an executive director of the Company on March 4, 2019.
- (5) Mr. Liu Aili resigned as an executive director of the Company on July 19, 2018.
- (6) Mr. Sun Kangmin retired as an executive director of the Company on January 29, 2018.
- (7) Madam Zhu Min was appointed as an executive director of the Company on October 26, 2018.
- (8) Madam Cha May Lung, Laura resigned as an independent non-executive director of the Company on May 28, 2018.
- (9) Mr. Yeung Chi Wai, Jason was appointed as an independent non-executive director of the Company on October 26, 2018.
- (10) Mr. Hu Jing resigned as a supervisor of the Company on February 27, 2018.
- (11) Mr. Xu Shiguang was appointed as a supervisor of the Company on October 26, 2018.

Table of Contents***Discretionary Bonuses for Executive Directors***

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

Discretionary Bonuses for Employee Supervisors

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

Share Appreciation Rights

We implemented a plan of share appreciation rights for members of our management in order to provide further 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, where the highest proportion of the earnings from exercise of the share appreciation rights to the total remuneration at the grant of the share appreciation rights shall be 40%. We recognize compensation expense of the share appreciation rights over the applicable vesting period. Changes in our payment obligation under the share appreciation rights plan resulting from changes in fair value of our H shares for the period subsequent to the vesting period through the date of the exercise are also reflected in our earnings.

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, 2018 and 2017, no share appreciation right units were exercised. 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, 2018, the carrying amount of the liability arising from share appreciation rights was RMB30 million. As of December 31, 2017, no liability arising from share appreciation rights was assumed by us.

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 11 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 Company's annual general meeting for the year 2019 to be held in the year 2020, upon which the seventh session of the Board will be elected. 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.

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On January 29, 2018, Mr. Sun Kangmin retired from his positions as an Executive Director and Executive Vice President of the Company due to his age. On May 28, 2018, Madam Cha May Lung, Laura resigned from her positions as an Independent Non-Executive Director as well as a member and the Chairlady of the Nomination Committee of the Company due to her intention to focus on other business commitments and engagements. On July 19, 2018, Mr. Liu Aili resigned from his positions as an Executive Director, President and Chief Operating Officer of the Company due to change in work arrangement. On October 26, 2018, the appointments of Madam Zhu Min as an Executive Director of the Company and Mr. Yeung Chi Wai, Jason as an Independent Non-Executive Director of the Company were approved at the extraordinary general meeting and their term of office commences from October 26, 2018 until the annual general meeting of the Company for the year 2019 to be held in year 2020. On March 4, 2019, Mr. Yang Jie resigned from positions as an Executive Director, Chairman and Chief Executive Officer of the Company due to change in work arrangement. Our Board currently consists of nine directors with four 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 2018, the Board played a pivotal role in the Company's operation, budgeting, supervision, internal control, risk management, and other significant decisions and corporate governance. The Board reviewed significant matters including the Company's annual and interim financial statements, quarterly financial results, financial and investment budgets, risk management and internal control implementation and assessment report, annual proposal for profit distribution, share appreciation rights scheme and the grant proposal, renewal of the continuing connected transactions and the applicable renewed annual caps thereto, the implementation of continuing connected transactions, changes of directors and Board committee members, supervisors and senior management of the Company, remuneration proposal for the newly appointed directors, re-appointment and remuneration of auditors, establishment of independent board committee, appointment of independent financial adviser and implementation of new lease standard. During the year, the Company convened four Board meetings and completed various written resolutions. In 2018, the Chairman held a meeting to communicate with Non-Executive Directors (including Independent Non-Executive Directors) without the presence of Executive Directors independently 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. On October 26, 2018, Mr. Yeung Chi Wai, Jason was appointed as a member of the Audit Committee. It currently consists of four members, Mr. Tse Hau Yin, Aloysius (as the Chairman), Professor 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 integration of the internal control and risk management system. The Audit Committee also supervises our internal audit department, and is responsible for the review and supervision of the qualifications, independence, selection and appointment of external independent auditors, and approval of services provided by the external independent auditors. In addition, the Audit Committee is responsible for ensuring that the management performs its duty to establish and maintain an effective risk management and internal control system including the adequacy of resources, qualifications and experience of staff fulfilling the accounting, internal control and financial reporting function 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 2018, the Audit Committee held five meetings and passed one written resolution, in which it reviewed important matters related to the Company's annual and interim financial statements, quarterly financial results, assessment of the qualifications, independence, performance, appointments and remuneration of the external independent auditors, effectiveness of risk management and internal control systems, internal audit, renewal of the continuing connected transactions and the applicable renewed annual caps thereto, implementation of continuing connected transactions and the implementation of new lease standard. The Audit Committee reviewed the annual auditor's report, interim review report and quarterly agreed-upon procedures reports prepared by the external independent auditors, communicated with the management and the external independent auditors with regard to the regular financial reports and proposed them for the Board's approval after review and approval. The Audit Committee regularly received risk management reports, quarterly reports in relation to the internal audit and continuing connected transactions and provided guidance to the internal audit department. In addition, the Audit Committee reviewed the internal control assessment report and the attestation report, followed up with the implementation procedures of the recommendations proposed by the external independent auditors, reviewed the U.S. annual report, and communicated independently with the external independent auditors twice a year.

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Remuneration Committee

The Remuneration Committee was established in 2003, and currently consists of three members, Professor 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 supervising the compliance of the Company's remuneration system with legal requirements, presenting the evaluation report on the Company's remuneration system to the Board, making recommendations to the Board on our overall remuneration policies and structure relating to compensation of directors and senior management and the establishment of a formal and transparent procedure for developing remuneration policy, and determining, with delegated responsibility by the Board, the remuneration packages of individual executive directors and senior management including benefits in kind, pension rights and compensation payments (including any compensation payable for loss or termination of their office or appointment).

The Remuneration Committee held one meeting and passed one written resolution in 2018, in which it reviewed and discussed the remuneration proposal for the newly appointed directors, share appreciation rights scheme and the grant proposal.

Nomination Committee

The Nomination Committee was established in 2005. On May 28, 2018, Madam Cha May Lung, Laura resigned from her positions as an Independent Non-Executive Director as well as a member and the Chairlady of the Nomination Committee of the Company due to her intention to focus on other business commitments and engagements. On the same date, Madam Wang Hsuehming, an Independent Non-Executive Director of the Company, was appointed as a member and the Chairlady of the Nomination Committee of the Company. It currently consists of three members, Madam Wang Hsuehming (as the Chairlady), Mr. Tse Hau Yin, Aloysius and Professor Xu Erming, all of whom are Independent Non-Executive Directors. The Nomination Committee is accountable to the Board and regularly reports to the latter on its work. The Nomination Committee meets when necessary. The Charter of the Nomination Committee was approved by our Board in September 2005 and amended in December 2011 and August 2013, respectively, pursuant to which the Nomination Committee's principal responsibilities include reviewing the structure, size, composition and diversity of the board on a regular basis; identifying individuals suitably qualified to become board members and selecting or making recommendations to the board on the selection of individuals nominated for directorships; reviewing the Board Diversity Policy to evaluate its effectiveness; assessing the independence of proposed candidate for independent non-executive directors; and making recommendations to the board on the appointment or re-appointment of directors (especially Chairman and Chief Executive Officer) and succession planning for directors.

The Nomination Committee held one meeting and passed one written resolution in 2018, where it performed a review of the structure and operations of the Board and the proposed candidate for Director and other related matters.

Independent Board Committee

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

The Independent Board Committee held one meeting in 2018, where it reviewed the renewal of the continuing connected transactions and the applicable renewed annual caps thereto and gave the relevant confirmation as well as submitted the recommendations on these matters to the independent shareholders.

Table of Contents**D. Employees****General**

As of December 31, 2018, we had 280,747 employees. The table below sets forth the numbers of our employees according to their functions as of December 31, 2016, 2017 and 2018:

	2016		As of December 31, 2017		2018	
	Number of Employees	Percentage of Total	Number of Employees	Percentage of Total	Number of Employees	Percentage of Total
Management, finance and administrative	43,194	15.1%	44,289	15.6%	45,045	16.0%
Sales and marketing	147,885	51.5%	141,261	49.7%	138,001	49.2%
Operations and maintenance	94,005	32.7%	89,047	31.3%	87,512	31.2%
Others	1,992	0.7%	9,609	3.4%	10,189	3.6%
Total	287,076	100.0%	284,206	100.0%	280,747	100.0%

The primary components of an employee's remuneration include basic salary, a performance based bonus and compensation based on seniority. 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, 2018, none of our directors, supervisors or other senior executives was a legal or beneficial owner of any shares of our share capital.

Table of Contents**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, 2019 by all persons who are known to us to be the beneficial owners of 5.0% or more of each class of our voting securities.

Title of Shares	Identity of Person or Group	Amount Owned	Nature of Interest	Percentage of	
				the Respective Class of Shares	Total Shares ⁽¹⁾
Domestic shares	China Telecom Group	57,377,053,317	long position	85.57%	70.89%
Domestic shares	Guangdong Rising Assets Management Co., Ltd.	5,614,082,653	long position	8.37%	6.94%
Title of Shares	Identity of Person or Group	Amount Owned	Nature of Interest	Percentage of	
				the Respective Class of Shares	Total Shares ⁽¹⁾
H shares	JPMorgan Chase & Co.	1,656,036,020	long position	11.93%	2.05%
		86,660,983	short position	0.62%	0.11%
		1,391,214,945	lending pool	10.03%	1.72%
H shares	BlackRock, Inc.	1,270,388,123	long position	9.15%	1.57%
		4,496,000	short position	0.03%	0.01%
H shares	The Bank of New York Mellon Corporation	1,190,211,519	long position	8.58%	1.47%
		625,101,100	short position	4.50%	0.77%
		534,051,135	lending pool	3.85%	0.66%
H shares	Citigroup Inc.	1,107,293,104	long position	7.98%	1.37%
		10,490,832	short position	0.08%	0.01%
		1,063,017,708	lending pool	7.66%	1.31%
H shares	Templeton Global Advisors Limited	1,087,529,062	long position	7.84%	1.34%

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

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

China Telecom Group, located at 31 Jinrong Street, Xicheng District, Beijing, PRC 100033, is our controlling shareholder and is a state-owned enterprise owned by the SASAC. 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. JP Morgan Chase & Co. is located at 383 Madison Ave., New York 10179, United States. BlackRock, Inc. is located at 1209 Orange Street, Wilmington, DE 19801. The Bank of New York Mellon Corporation is located at Corporate Trust Center, 1209 Orange Street, Wilmington, Delaware, 19801 USA. Citigroup Inc. is located at 388 Greenwich Street, New York, 10013, USA. Templeton Global Advisors Limited is located at Box N-7759, Lyford Cay, Nassau, Bahamas.

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Based solely on information contained in an Amendment No. 12 to Schedule 13G, or the FRI Schedule 13G/A, jointly filed with the SEC, on January 25, 2019 by Franklin Resources, Inc., or FRI, Charles B. Johnson, Rupert H. Johnson, Jr. and Templeton Global Advisors Limited, 1,922,236,167 shares of our Company, or the FRI Shares, representing approximately 13.9% of the total number of our H shares outstanding as of December 31, 2018, 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 January 25, 2019.

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

B. Related Party Transactions

As of April 23, 2019, China Telecom Group, a state-owned enterprise owned by the SASAC, directly owned and controlled 70.89% of our issued share capital. Accordingly, transactions between China Telecom Group and us constitute connected transactions under the Listing Rules.

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

Our Independent Non-Executive Directors have confirmed that all continuing connected transactions for the year ended December 31, 2018 to which our Company was a party:

had been entered into, and the agreements governing those transactions were entered into, by our Company in the ordinary and usual course of business;

had been entered into either:

on normal commercial terms or better; or

if there were not sufficient comparable transactions to judge whether they were on normal commercial terms, on terms no less favorable to the Company than those available to or (if applicable) from independent third parties; and

had been entered into in accordance with the relevant terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The details of the related party arrangements are described below.

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Table of Contents***Arrangements Relating to Certain Acquisitions******Indemnification***

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

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

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

The following table sets out the amounts of ongoing related party transactions between us and China Telecom Group (as defined as China Telecom Group and its subsidiaries, except us herewith under this section) for the year ended December 31, 2018:

Transactions	Transaction Amounts (RMB millions)
Net transaction amount of centralized services	519
Net expenses for interconnection settlement	124
Lease of property from China Telecom Group	713
Lease of property to China Telecom Group	48
Provision of IT services by China Telecom Group	1,895
Provision of IT services to China Telecom Group	531
Provision of supplies procurement services by China Telecom Group	3,760
Provision of supplies procurement services to China Telecom Group	2,760
Provision of engineering services by China Telecom Group	16,396
Provision of community services by China Telecom Group	3,296
Provision of ancillary telecommunications services by China Telecom Group	16,744

Provision of Internet applications channel services to China Telecom Group	298
Interest on loans from China Telecom Group	2,099
Others*	186

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

On September 23, 2015, the Company and China Telecommunications Corporation entered into supplemental agreements and renewed the Centralized Services Agreement, the Interconnection Settlement Agreement, the Property Leasing Framework Agreement, the IT Services Framework Agreement, the Community Services Framework Agreement, the Supplies Procurement Services Framework Agreement, the Engineering Framework Agreement, the Ancillary Telecommunications Services Framework Agreement, the Optic Fiber Leasing Agreement and the Internet Applications Channel Services Framework Agreement on the same terms (except for the pricing terms) for a further term of three years expiring on December 31, 2018. The pricing terms of the agreements were elaborated or amended with a view to complying with the guidance letter on pricing policies for continuing connected transactions and their disclosure published by the Hong Kong Stock Exchange in March 2014 (HKEx-GL73-14) and aligning with the transactions contemplated under the agreements. Set forth below are the details of these agreements, in addition to the Trademark License Agreement:

Table of Contents***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 and/or its associates (as defined under the Listing Rules) 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 and/or its associates 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 and/or its associates for the provision of management and operation services will be apportioned between the Company and China Telecommunications Corporation and/or its associates on a pro rata basis according to the revenues generated by each party. Where the Company uses the premises provided by China Telecommunications Corporation and/or its associates, the Company will pay premises usage fees to China Telecommunications Corporation and/or its associates 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 and/or its associates, 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 and/or its associates 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 the relevant market rates, to the extent practicable, management of the Company shall take into account the rates of at least two similar and comparable transactions entered into with or carried out by independent third parties in the ordinary course of business in the corresponding period for reference.

The Company and China Telecommunications Corporation have entered into a supplemental agreement on September 23, 2015 and renewed the Centralized Services Agreement on the same terms (except for the pricing terms) for a further term of three years expiring on December 31, 2018. 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. Please 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 Renewal of Continuing Connected Transactions . 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 and/or its associates. 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.

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The Company and China Telecommunications Corporation have entered into a supplemental agreement on September 23, 2015 and renewed the Interconnection Settlement Agreement on the same terms (except for the pricing terms) for a further term of three years expiring on December 31, 2018. 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. Please 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 Renewal of Continuing Connected Transactions . 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. The rental charges under the Property Leasing Framework Agreement shall be determined according to market rates. 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 under normal commercial terms. When determining the relevant market rates, to the extent practicable, management of the Company shall take into account the rental charges of at least two similar and comparable transactions entered into with or carried out by independent third parties in the ordinary course of business in the corresponding period for reference. The rental charges are subject to review every three years.

The Company and China Telecommunications Corporation have entered into a supplemental agreement on September 23, 2015 and renewed the Property Leasing Framework Agreement on the same terms (except for the pricing terms) for a further term of three years expiring on December 31, 2018. 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. Please 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 Renewal of Continuing Connected Transactions . 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 under normal commercial terms. When determining the relevant market rates, to the extent practicable, management of the Company shall take into account the rates of at least two similar and comparable transactions entered into with or carried out by independent third parties in the ordinary course of business in the corresponding period for reference.

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

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The Company and China Telecommunications Corporation have entered into a supplemental agreement on September 23, 2015 and renewed the IT Services Framework Agreement on the same terms (except for the pricing terms) for a further term of three years expiring on December 31, 2018. 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. Please 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 Renewal of Continuing Connected Transactions . No later than 30 days prior to the expiry of the IT Services Framework Agreement, the Company is entitled to serve a written notice to China Telecommunications Corporation to renew the IT Services Framework Agreement, and the parties shall consult and decide on matters relating to such renewal.

Community Services Framework Agreement

Pursuant to the community services framework agreement signed between the Company and China Telecommunications Corporation on August 30, 2006 and the related supplemental agreements subsequently entered into between the two parties (collectively, the Community Services Framework Agreement), China Telecommunications Corporation and/or its associates provide the Company with community services such as culture, education, property management, vehicle service, health and medical care, hotel and conference service, community and sanitary service. The community services under the Community Services Framework Agreement are provided at:

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

(2) where there is no or it is not possible to determine the market price, the prices are to be agreed between the parties based on the reasonable costs incurred in providing the services plus the amount of the relevant taxes and reasonable profit margin. For this purpose, reasonable profit margin is to be fairly determined by negotiations between the parties in accordance with the internal policies of the Company. When determining the relevant reasonable profit margin , to the extent practicable, management of the Company shall take into account the profit margin of at least two similar and comparable transactions entered into with independent third parties in the corresponding period or the relevant industry profit margin for reference.

The Company and China Telecommunications Corporation have entered into a supplemental agreement on September 23, 2015 and renewed the Community Services Framework Agreement on the same terms (except for the pricing terms) for a further term of three years expiring on December 31, 2018. 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. Please 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 Renewal of Continuing Connected Transactions . 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.

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

The Company and China Telecommunications Corporation have entered into a supplemental agreement on September 23, 2015 and renewed the Supplies Procurement Services Framework Agreement on the same terms (except for the pricing terms) for a further term of three years expiring on December 31, 2018. 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. Please 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 Renewal of Continuing Connected Transactions . 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 under normal commercial terms. When determining the relevant market rates, to the extent practicable, management of the Company shall take into account the rates of at least two similar and comparable transactions entered into with or carried out by independent third parties in the ordinary course of business in the corresponding period for reference. The charges payable for the design or supervision of engineering projects with a value of over RMB500,000 or engineering construction projects with a value of over RMB2 million shall be determined by the tender award price, which is in turn determined in accordance with the relevant tendering procedure of the Company and the relevant laws and regulations in the PRC, including the Bidding Law of the PRC and the Regulations on the Implementation of the Bidding Law of the PRC . The Company shall solicit at least three tenderers for the tender process.

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

The Company and China Telecommunications Corporation have entered into a supplemental agreement on September 23, 2015 and renewed the Engineering Framework Agreement on the same terms (except for the pricing terms) for a further term of three years expiring on December 31, 2018. 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 term updates. Please 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 Renewal of Continuing Connected Transactions . 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.

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The Company and China Telecommunications Corporation have entered into a supplemental agreement on September 23, 2015 and renewed the Ancillary Telecommunications Services Framework Agreement on the same terms (except for the pricing terms) for a further term of three years expiring on December 31, 2018. 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. Please 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 Renewal of Continuing Connected Transactions . 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 under normal commercial terms. When determining the relevant market rates, to the extent practicable, management of the Company shall take into account the rental charges of at least two similar and comparable transactions entered into with or carried out by independent third parties in the ordinary course of business in the corresponding period for reference. In addition, The Company agreed to be responsible for the maintenance of these optic fibers within those service regions.

The Company and China Telecommunications Corporation have entered into a supplemental agreement on September 23, 2015 and renewed the Optic Fiber Leasing Agreement on the same terms (except for the pricing terms) for a further term of three years expiring on December 31, 2018. 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. Please 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 Renewal of Continuing Connected Transactions . 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.

The Company and China Telecommunications Corporation have entered into a supplemental agreement on September 23, 2015 and renewed the Internet Applications Channel Services Framework Agreement on the same terms (except for the pricing terms) for a further term of three years expiring on December 31, 2018. 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. Please 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 Renewal of Continuing Connected Transactions . 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.

Table of Contents***Trademark License Agreement***

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

The Company and China Telecommunications Corporation agreed on September 23, 2015 to renew the Trademark License Agreement pursuant to the terms thereof for a further term of three years expiring on December 31, 2018. 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. Please 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 Renewal of Continuing Connected Transactions. 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.

Renewal of Continuing Connected Transactions

On August 20, 2018, the Company and China Telecommunications Corporation entered into supplemental agreements and renewed the Centralized Services Agreement, the Interconnection Settlement Agreement, the Property Leasing Framework Agreement, the IT Services Framework Agreement, the Community Services Framework Agreement, the Supplies Procurement Services Framework Agreement, the Engineering Framework Agreement, the Ancillary Telecommunications Services Framework Agreement, the Optic Fiber Leasing Agreement, the Internet Applications Channel Services Framework Agreement and the Trademark License Agreement for a further term of three years from January 1, 2019 to December 31, 2021. Pursuant to the Engineering Framework Agreement as amended by the supplemental agreement dated August 20, 2018, 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 apply 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, both parties agreed to apply such amended rules and regulations and no amendment to the supplemental agreement is required. The renewal of the Engineering Framework Agreement and the Ancillary Telecommunications Services Framework Agreement and the applicable renewed annual caps thereto were approved at the second extraordinary general meeting of the Company held on October 26, 2018. We filed Form 6-Ks on August 21, 2018 and September 10, 2018, respectively, in relation to renewal of continuing connected transactions.

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

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

Our 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 .

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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, 2018, the aggregate outstanding principal amount of such loans was RMB8,584 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, 2018, the aggregate outstanding principal amount of such loans was RMB37,000 million, which bear interest at fixed rate of 3.8% per annum and are payable within two to four 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 28, 2018, a final dividend of RMB7,568 million (RMB0.093512 per share equivalent to HK\$0.115 per share, pre-tax) for the year ended December 31, 2017 was declared, all of which has been fully paid. Pursuant to a resolution passed at the Directors meeting on March 19, 2019, a final dividend of approximately RMB8,629 million (RMB0.106621 per share equivalent to HK\$0.125 per share, pre-tax) for the year ended December 31, 2018 was proposed for shareholders approval at the forthcoming annual general meeting.

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, in Renminbi with respect to our H shares on a per share basis and will pay such dividends in Hong Kong dollars. Any final dividend for a fiscal year will be subject to shareholders' approval. Under the PRC Company Law and our Articles of Association, all of our shareholders have equal rights to dividends and distributions. The holders of our H shares will share proportionately on a per share basis in all dividends and other distributions declared by our Company.

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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. 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, 2018 and April 23, 2019, there were 13,877,410,000 H shares issued and outstanding. As of December 31, 2018 and April 23, 2019, there were, respectively, 40 and 38 registered holders of American depository receipts evidencing 5,445,990 and 5,310,204 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 associate (as defined in the Listing Rules of the Hong Kong Stock Exchange) is interested.

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

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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 directors' 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.

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

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

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

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

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

an increase or decrease in our share capital or the issuance of shares, warrants and other similar securities;

issuance of debentures;

our division, merger, dissolution or liquidation (shareholders who object to a proposed merger are entitled to demand that either we or the shareholders who approved the merger purchase their shares at a fair price);

amendments to our Articles of Association;

amendment of shareholders' rights of any class of shares; and

any other matters determined by a majority of shareholders at a general meeting to have a material impact on us and which should be approved by two-thirds of the voting rights.

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

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

Liquidation Rights

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

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Increases in Share Capital

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

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

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

Decrease in Share Capital and Repurchase

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

Ownership Threshold

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

Restrictions on Large or Controlling Shareholders

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

is in a position to elect more than one-half of the Board;

has the power to exercise, or to control the exercise of, 30.0% or more of our voting rights;

holds 30.0% or more of our issued and outstanding shares; or

has de facto control of us in any other way.

As of the date of this annual report, China Telecom Group, a state-owned enterprise owned by the SASAC, 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.

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Sources of Shareholders' Rights

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

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

varying the rights of existing classes of shares;

voting rights;

our power to purchase our own shares;

rights of minority shareholders; and

liquidation procedures.

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

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

Enforceability of Shareholders' Rights

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

Restrictions on Transferability and the Share Register

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

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

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

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C. Material Contracts

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

D. Exchange Controls

We conduct our business primarily in Renminbi, which is also our functional and reporting currency. The Renminbi is not a fully-convertible currency. Under the existing PRC foreign exchange regulations, we will be able to pay dividends in foreign currencies without prior approval from 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.

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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.

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

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

Additional PRC Tax Considerations

PRC Stamp Duty. PRC stamp duty imposed on the transfer of shares of PRC publicly traded companies under the PRC Provisional Regulations Concerning Stamp Duty, or the Provisional Regulations, 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.

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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 Depositary, as depositary of the ADSs, or for the account of the Depositary, will not be subject to any stamp duty. No Hong Kong stamp duty is payable upon the transfer of ADSs outside Hong Kong.

Estate Duty

No Hong Kong estate duty is currently payable.

United States

Material United States Federal Income Taxation

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

a dealer in securities or currencies;

a trader in securities that elects to use a mark-to-market method of accounting for your securities holdings;

a tax-exempt organization;

an insurance company;

a person liable for alternative minimum tax;

a person that actually or constructively owns 10.0% or more of 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 laws 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:

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.

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

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

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

Taxation of Dividends

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

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

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

For foreign tax credit purposes, dividends will generally be income from sources outside the United States and will generally be passive income for purposes of computing the foreign tax credit allowable to you.

Taxation of Capital Gains

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

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

Hong Kong Stamp Duty

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

PFIC Rules

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

F. Dividends and Paying Agents.

Not applicable.

G. Statement by Experts.

Not applicable.

H. Documents on Display

You may read and copy documents referred to in this annual report on Form 20-F that have been filed with the SEC, at its public reference room located at 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.

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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, 2018 and 2017, respectively. For debt obligations, the tables present principal cash flows and related weighted average interest rates by expected maturity dates.

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
Average interest rate	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
Average interest rate	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.

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As of December 31, 2017:

	Expected Maturity						Total	Fair Value
	2018	2019	2020	2021	2022	Thereafter		
(RMB equivalent in millions, except interest rates)								
Assets:								
Cash and cash equivalents								
United States dollars	3,009						3,009	3,009
Japanese yen	24						24	24
Euro	54						54	54
Hong Kong dollars	197						197	197
Other currencies	295						295	295
Short-term bank deposits								
United States dollars	638						638	638
Liabilities:								
Debts in United States dollars								
Fixed rate	51	50	45	35	22	167	370	300
<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	98	223	200
<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, 2017.

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, 2017 and 2018, our debt consisted of fixed and variable rate debt obligations with maturities from 2018 to 2060 and from 2019 to 2048, respectively.

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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, 2018 and 2017, respectively.

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
Average interest rate	3.3%	3.3%	3.3%	3.3%	1.2%	1.2%		
Variable rate	190						190	190
Average interest rate ⁽¹⁾	4.2%							
Debits in United States dollars								
Fixed rate	52	47	36	22	22	157	336	272
Average interest rate	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
Average interest rate	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.

As of December 31, 2017:

	Expected Maturity						Total	Fair Value
	2018	2019	2020	2021	2022	Thereafter		
(RMB equivalent in millions, except interest rates)								
Liabilities:								
Debits in Renminbi								
Fixed rate	55,112	1,013	20,974	923	20,897	4,272	103,191	101,798
Average interest rate	3.7%	3.3%	3.3%	3.3%	3.3%	1.2%		
Variable rate	516						516	516
Average interest rate ⁽¹⁾	4.1%							
Debits in United States dollars								
Fixed rate	51	50	45	35	22	167	370	300
Average interest rate	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%		
Debits in Euro								
Fixed rate	25	25	25	25	25	98	223	200

<i>Average interest rate</i>	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%
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(4) The average interest rates for variable rate debts are calculated based on the rates reported as of December 31, 2017.

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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:	For:
US\$5.00 (or less) per 100 ADRs (or portion thereof)	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
US\$0.02 (or less) per ADR	Any cash distribution (not including cash dividend distribution)
Registration or transfer fees (if applicable)	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
Expenses of the depository	Conversion of foreign currency to U.S. dollars
	Cable, telex and facsimile transmission expenses
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	As necessary
Any other charge incurred by the depository or its agents (including the custodian) for servicing of the deposited securities	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 24, 2018 to April 24, 2019, 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\$65,000 reimbursement, net of withholding tax. The Bank of New York Mellon also waived certain costs of US\$131,523.95 in connection with the administration of the ADR program and other services provided to our registered shareholders for the year 2018.

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.

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Use of Proceeds

Not applicable.

Item 15. Controls and Procedures.

Disclosure Controls and Procedures

Our management, with the participation of the Chief Executive Officer (including the persons performing the functions of the Chief Executive Officer) and the Chief Financial Officer (including the persons performing the functions of 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 (including the persons performing the functions of the Chief Executive Officer) and the Chief Financial Officer (including the persons performing the functions of 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 (including the persons performing the functions of the Chief Executive Officer) and the Chief Financial Officer (including the persons performing the functions of 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, 2018, 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, 2018.

The effectiveness of our internal control over financial reporting as of December 31, 2018 has been audited by Deloitte Touche Tohmatsu, an independent registered public accounting firm, as stated in their report which is included herein.

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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 Group) as of December 31, 2018, 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 Group maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, 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, 2018, of the Group, and our report dated March 19, 2019, expressed an unqualified opinion on those consolidated financial statements, and included an explanatory paragraph regarding the Group'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.

Basis for Opinion

The Group'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 Group'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 Group 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 19, 2019

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During the fiscal year ended December 31, 2018, 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, Professor 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 (including the persons performing the functions of the chief executive officer), president, chief operating officer, chief financial officer (including the persons performing the functions of the 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 2017 and 2018:

	Audit Fees (including VAT)	Audit-Related Fees	Tax Fees	Other Fees
2017	RMB78.80 million	RMB1.79 million	RMB0.45 million	RMB0.12 million
2018	RMB76.80 million	RMB0.72 million ⁽¹⁾	RMB0.96 million ⁽²⁾	RMB1.73 million ⁽³⁾

(1) Audit-related fees in the amount of RMB0.72 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 RMB0.96 million were primarily paid for profit tax filing assistance services.

(3) Other fees in the amount of RMB1.73 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.

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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 nine 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 non-executive directors (including independent non-executive directors) without the presence of the executive directors. It has been our practice that our chairman holds a meeting to communicate with non-executive directors without the presence of executive directors at least annually to ensure the views and opinions of 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. The Listing Rules require that 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 of directors 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. The Listing Rules also contain a code provision that the listed companies should establish a remuneration committee which 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.

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

Table of Contents**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:

Exhibits	Description
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 depository, and Owners and Beneficial Owners from time to time of American Depositary Shares evidenced by American Depositary Receipts issued thereunder, including the form of American Depositary Receipt. ^{(2)(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.
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⁾
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 Engineering Framework Agreement, dated August 30, 2006, between the Registrant and China Telecommunications Corporation (English summary).⁽¹⁰⁾
- 4.14 Community Services Framework Agreement, dated August 30, 2006, between the Registrant and China Telecommunications Corporation (English summary).⁽¹⁰⁾
- 4.15 Ancillary Telecommunications Service Framework Agreement, dated August 30, 2006, between the Registrant and China Telecommunications Corporation (English summary).⁽¹⁰⁾
- 4.16 Strategic Agreement, dated August 30, 2006, between the Registrant and China Communications Services Corporation Limited (English summary).⁽¹⁰⁾

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Exhibits	Description
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⁾
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 Supplemental Agreement to the Ancillary Telecommunications Services Framework Agreement, dated July 27, 2008, between the Registrant and China Telecommunications Corporation (English summary).⁽¹²⁾
- 4.34 CDMA Network Capacity Lease Agreement, dated July 27, 2008, between the Registrant and China Telecommunications Corporation (English translation).⁽¹²⁾
- 4.35 Agreement for Transfer of CDMA Business, dated July 27, 2008, between the Registrant, China Unicom Limited and China Unicom Corporation Limited (English summary).⁽¹²⁾
- 4.36 Merger Agreement, dated November 14, 2008, between the Registrant and China Telecommunications Corporation Beijing Corporation (English translation).⁽¹²⁾
- 4.37 Supplemental Agreement to the Optic Fiber Leasing Agreement, dated July 10, 2008, between the Registrant and China Telecommunications Corporation (English summary).⁽¹²⁾

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Exhibits	Description
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⁾
4.52	<u>Supplemental Agreement to the Trademark License Agreement, dated August 25, 2010, between the Registrant and China Telecommunications Corporation (English summary)</u> ⁽¹⁴⁾

- 4.53 Supplemental Agreement to the Optic Fiber Leasing Agreement, dated August 25, 2010, between the Registrant and China Telecommunications Corporation (English summary) ⁽¹⁴⁾
- 4.54 Agreement on the Acquisition of CDMA Network Assets and Associated Liabilities, dated August 20, 2012, between the Registrant and China Telecommunications Corporation (English summary) ⁽¹⁵⁾
- 4.55 Agreement on the Disposal of Equity Interest in E-surfing Media Co., Ltd., dated April 26, 2013, between the Registrant and China Telecommunications Corporation (English Summary) ⁽¹⁵⁾
- 4.56 Agreement on the Acquisition of China Telecom (Europe) Limited, dated December 16, 2013, between the Registrant and China Telecommunications Corporation ⁽¹⁶⁾
- 4.57 Internet Applications Channel Services Framework Agreement, dated December 16, 2013, between the Registrant and China Telecommunications Corporation (English Summary) ⁽¹⁶⁾

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Exhibits	Description
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</u> ⁽¹⁷⁾
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)</u> ⁽¹⁸⁾
4.60	<u>Share Subscription Agreement, dated January 29, 2016, between the Registrant and the Tower Company (English translation)</u> ⁽¹⁸⁾
4.61	<u>Supplemental Agreement to the Centralized Services Agreement, dated September 23, 2015, between the Registrant and China Telecommunications Corporation (English summary)</u> ⁽¹⁸⁾
4.62	<u>Supplemental Agreement to the Interconnection Settlement Agreement, dated September 23, 2015, between the Registrant and China Telecommunications Corporation (English summary)</u> ⁽¹⁸⁾
4.63	<u>Supplemental Agreement to the Property Leasing Framework Agreement, dated September 23, 2015, between the Registrant and China Telecommunications Corporation (English summary)</u> ⁽¹⁸⁾
4.64	<u>Supplemental Agreement to the IT Services Framework Agreement, dated September 23, 2015, between the Registrant and China Telecommunications Corporation (English summary)</u> ⁽¹⁸⁾
4.65	<u>Supplemental Agreement to the Community Services Framework Agreement, dated September 23, 2015, between the Registrant and China Telecommunications Corporation (English summary)</u> ⁽¹⁸⁾
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)</u> ⁽¹⁸⁾
4.67	<u>Supplemental Agreement to the Engineering Framework Agreement, dated September 23, 2015, between the Registrant and China Telecommunications Corporation (English summary)</u> ⁽¹⁸⁾
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)</u> ⁽¹⁸⁾
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)</u> ⁽¹⁸⁾
4.70	<u>Supplemental Agreement to the Optic Fiber Leasing Agreement, dated September 23, 2015, between the Registrant and China Telecommunications Corporation (English summary)</u> ⁽¹⁸⁾
4.71	<u>Lease Agreement, dated July 8, 2016, between the Registrant and the Tower Company (English translation)</u> ⁽¹⁹⁾
4.72	<u>Supplemental Lease Agreement, dated February 1, 2018, between the Registrant and the Tower Company (English translation)</u> ⁽²⁰⁾
4.73	<u>Supplemental Agreement to the Centralized Services Agreement, dated August 20, 2018, between the Registrant and China Telecommunications Corporation (English summary)</u>
4.74	

- Supplemental Agreement to the Interconnection Settlement Agreement, dated August 20, 2018, between the Registrant and China Telecommunications Corporation (English summary)
- 4.75 Supplemental Agreement to the Property Leasing Framework Agreement, dated August 20, 2018, between the Registrant and China Telecommunications Corporation (English summary)
- 4.76 Supplemental Agreement to the IT Services Framework Agreement, dated August 20, 2018, between the Registrant and China Telecommunications Corporation (English summary)
- 4.77 Supplemental Agreement to the Community Services Framework Agreement, dated August 20, 2018, between the Registrant and China Telecommunications Corporation (English summary)
- 4.78 Supplemental Agreement to the Supplies Procurement Services Framework Agreement, dated August 20, 2018, between the Registrant and China Telecommunications Corporation (English summary)
- 4.79 Supplemental Agreement to the Engineering Framework Agreement, dated August 20, 2018, between the Registrant and China Telecommunications Corporation (English summary)

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Exhibits	Description
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)</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)</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)</u>
4.83	<u>Supplemental Agreement to the Trademark License Agreement, dated August 20, 2018, between the Registrant and China Telecommunications Corporation (English summary)</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)</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)</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)</u>
8.1	<u>List of 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.

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- (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.
- (P) Paper filing.

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SIGNATURES

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

**CHINA TELECOM CORPORATION
LIMITED**

By: /s/ Ke Ruiwen
Name: Ke Ruiwen
Title: Executive Director, President and
Chief Operating Officer (performing
the functions of the Chairman and
Chief Executive Officer)

Date: April 29, 2019

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CHINA TELECOM CORPORATION LIMITED AND SUBSIDIARIES

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<u>Consolidated statements of comprehensive income for the years ended December 31, 2016, 2017 and 2018</u>	F-4
<u>Consolidated statements of changes in equity for the years ended December 31, 2016, 2017 and 2018</u>	F-5
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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 Consolidated Financial Statements

We have audited the accompanying consolidated statements of financial position of China Telecom Corporation Limited and subsidiaries (the Group) as of December 31, 2017 and 2018, 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, 2018, and the related notes (collectively referred to as the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2017 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, 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 Group's internal control over financial reporting as of December 31, 2018, 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 19, 2019, expressed an unqualified opinion on the Group's internal control over financial reporting.

Change in Accounting Policies

As discussed in Note 2 to the consolidated financial statements, the Group 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.

Basis for Opinion

These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on the Group's consolidated 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 Group 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Deloitte Touche Tohmatsu

Deloitte Touche Tohmatsu
Hong Kong, the People's Republic of China
March 19, 2019
We have served as the Group's auditor since 2013.

Table of Contents**CHINA TELECOM CORPORATION LIMITED AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

AS OF DECEMBER 31, 2017 AND 2018

(Amounts in millions)

	Notes	December 31, 2017 RMB	December 31, 2018 RMB
ASSETS			
Current assets			
Cash and cash equivalents	4	19,410	16,666
Short-term bank deposits		3,100	6,814
Accounts receivable, net	5	22,096	20,475
Contract assets	6		478
Inventories	7	4,123	4,832
Prepayments and other current assets	8	22,128	23,619
Income tax recoverable		693	121
Total current assets		71,550	73,005
Non-current assets			
Property, plant and equipment, net	9	406,257	407,795
Construction in progress	10	73,106	66,644
Lease prepayments		22,262	21,568
Goodwill	11	29,920	29,922
Intangible assets	12	12,391	14,161
Interests in associates	13	35,726	38,051
Investments	14	1,154	
Equity instruments at fair value through other comprehensive income	15		852
Deferred tax assets	16	5,479	6,544
Other assets	17	3,349	4,840
Total non-current assets		589,644	590,377
Total assets		661,194	663,382
LIABILITIES AND EQUITY			
Current liabilities			
Short-term debt	18	54,558	49,537
Current portion of long-term debt	18	1,146	1,139
Accounts payable	19	119,321	107,887
Accrued expenses and other payables	20	98,695	43,497
Contract liabilities	21		55,783
Income tax payable		404	601
Current portion of finance lease obligations		51	101
Current portion of deferred revenues	22	1,233	375
Total current liabilities		275,408	258,920
Non-current liabilities			
Long-term debt	18	48,596	44,852
Finance lease obligations		26	115

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Deferred revenues	22	1,828	1,454
Deferred tax liabilities	16	8,010	13,138
Other non-current liabilities		629	804
Total non-current liabilities		59,089	60,363
Total liabilities		334,497	319,283
Equity			
Share capital	23	80,932	80,932
Reserves	24	244,935	262,137
Total equity attributable to equity holders of the Company		325,867	343,069
Non-controlling interests		830	1,030
Total equity		326,697	344,099
Total liabilities and equity		661,194	663,382

See accompanying notes to consolidated financial statements.

Table of Contents**CHINA TELECOM CORPORATION LIMITED AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

FOR THE YEARS ENDED DECEMBER 31, 2016, 2017 AND 2018

(Amounts in millions, except per share data)

	Notes	Year ended December 31,		
		2016 RMB	2017 RMB	2018 RMB
Operating revenues	25	352,534	366,229	377,124
Operating expenses				
Depreciation and amortization		(67,942)	(74,951)	(75,493)
Network operations and support	26	(94,156)	(103,969)	(116,062)
Selling, general and administrative		(56,426)	(58,434)	(59,422)
Personnel expenses	27	(54,504)	(56,043)	(59,736)
Other operating expenses	28	(52,286)	(45,612)	(37,697)
Total operating expenses		(325,314)	(339,009)	(348,410)
Operating income		27,220	27,220	28,714
Net finance costs	29	(3,235)	(3,291)	(2,708)
Investment income		40	147	38
Income from investments in associates		91	877	2,104
Earnings before income tax		24,116	24,953	28,148
Income tax	30	(5,993)	(6,192)	(6,810)
Profit for the year		18,123	18,761	21,338
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)
Deferred tax on change in fair value of investments in equity instruments at fair value through other comprehensive income				82
				(242)
<i>Items that may be reclassified subsequently to profit or loss:</i>				
Change in fair value of available-for-sale equity securities		(228)	(400)	
Deferred tax on change in fair value of available-for-sale equity securities		57	100	
Exchange difference on translation of financial statements of subsidiaries outside mainland China		190	(259)	154
Share of other comprehensive income of associates		6	7	(7)
		25	(552)	147

Other comprehensive income for the year, net of tax	25	(552)	(95)	
Total comprehensive income for the year	18,148	18,209	21,243	
Profit attributable to				
Equity holders of the Company	18,018	18,617	21,210	
Non-controlling interests	105	144	128	
Profit for the year	18,123	18,761	21,338	
Total comprehensive income attributable to				
Equity holders of the Company	18,043	18,065	21,115	
Non-controlling interests	105	144	128	
Total comprehensive income for the year	18,148	18,209	21,243	
Basic earnings per share	32	0.22	0.23	0.26
Number of shares (in millions)	32	80,932	80,932	80,932

See accompanying notes to consolidated financial statements.

Table of Contents**CHINA TELECOM CORPORATION LIMITED AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

FOR THE YEARS ENDED DECEMBER 31, 2016, 2017 AND 2018

(Amounts in millions)

	Notes	Attributable to equity holders of the Company						Retained earnings RMB	Total RMB	Non-controlling interests RMB	Total Equity RMB
		Share capital RMB	Capital reserve RMB	Share premium RMB	Surplus reserves RMB	Other reserves RMB	Exchange reserve RMB				
Balance as of January 1, 2016		80,932	17,160	10,746	70,973	876	(812)	123,948	303,823	967	304,790
Profit for the year								18,018	18,018	105	18,123
Other comprehensive income for the year						(165)	190		25		25
Total comprehensive income for the year						(165)	190	18,018	18,043	105	18,148
Disposal of a subsidiary										(15)	(15)
Distribution to non-controlling interests										(86)	(86)
Dividends	31							(6,489)	(6,489)		(6,489)
Appropriations	24				1,638			(1,638)			
Balance as of December 31, 2016		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	31							(7,530)	(7,530)		(7,530)
Appropriations	24				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	2				302			2,673	2,975	(1)	2,974
Balance as of January 1, 2018, as restated		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
						(249)	154		(95)		(95)

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Other comprehensive income for the year											
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		5	5	
Disposal of a subsidiary											
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	31						(7,568)	(7,568)		(7,568)	
Appropriations	24				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

See accompanying notes to consolidated financial statements.

Table of Contents**CHINA TELECOM CORPORATION LIMITED AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS**

FOR THE YEARS ENDED DECEMBER 31, 2016, 2017 AND 2018

(Amounts in millions)

	Notes	Year ended December 31,		
		2016 RMB	2017 RMB	2018 RMB
Net cash from operating activities	(a)	101,135	96,502	99,298
Cash flows used in investing activities				
Capital expenditure		(96,678)	(87,334)	(83,835)
Lease prepayments		(99)	(89)	(20)
Purchase of investments	(b)	(3,099)	(443)	(328)
Proceeds from disposal of property, plant and equipment		1,560	2,066	1,866
Proceeds from disposal of lease prepayments		10	72	45
Proceeds from disposal of investments				96
Net cash (outflow) / inflow from disposal of subsidiaries		(50)	184	(1)
Purchase of short-term bank deposits		(3,237)	(2,815)	(7,726)
Maturity of short-term bank deposits		2,550	3,096	3,949
Net cash used in investing activities		(99,043)	(85,263)	(85,954)
Cash flows used in financing activities				
Principal element of finance lease payments		(59)	(84)	(73)
Proceeds from bank debt and other loans		110,446	123,250	97,829
Repayments of bank debt and other loans		(113,366)	(69,953)	(106,923)
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		(6,489)	(7,530)	(7,568)
Cash distributions to non-controlling interests		(87)	(89)	(177)
Payment for the acquisition of non-controlling interests			(31)	(119)
Contribution from non-controlling interests				855
Reduction of capital by non-controlling interests				(20)
Net cash used in financing activities		(9,555)	(16,147)	(16,283)
Net decrease in cash and cash equivalents		(7,463)	(4,908)	(2,939)
Cash and cash equivalents at beginning of year		31,869	24,617	19,410
Effect of changes in foreign exchange rate		211	(299)	195
Cash and cash equivalents at end of year		24,617	19,410	16,666

See accompanying notes to consolidated financial statements.

Table of Contents**CHINA TELECOM CORPORATION LIMITED AND SUBSIDIARIES****NOTES TO CONSOLIDATED STATEMENTS OF CASH FLOWS**

FOR THE YEARS ENDED DECEMBER 31, 2016, 2017 AND 2018

(Amounts in millions)

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

	Year ended December 31,		
	2016 RMB	2017 RMB	2018 RMB
Earnings before income tax	24,116	24,953	28,148
Adjustments for:			
Depreciation and amortization	67,942	74,951	75,493
Credit impairment losses, net of reversal	2,278	2,036	2,050
Impairment losses for long-lived assets	62	10	
Write down of inventories	176	178	66
Investment income	(40)	(147)	(38)
Income from investments in associates	(91)	(877)	(2,104)
Interest income	(354)	(429)	(306)
Interest expense	3,702	3,586	3,093
Net foreign exchange (gain) / loss	(113)	134	(79)
Net loss on retirement and disposal of long-lived assets	1,867	1,841	1,757
Increase in accounts receivable	(2,306)	(2,770)	(1,848)
Decrease in contract assets			170
Decrease / (increase) in inventories	1,038	905	(622)
Increase in prepayments and other current assets	(3,783)	(2,618)	(1,349)
Decrease / (increase) in other assets	366	(231)	271
Increase / (decrease) in accounts payable	3,755	(4,213)	(3,181)
Increase in accrued expenses and other payables	10,878	7,232	9,842
Decrease in contract liabilities			(6,414)
Decrease in deferred revenues	(418)	(202)	(138)
Cash generated from operations	109,075	104,339	104,811
Interest received	366	433	306
Interest paid	(3,737)	(3,707)	(3,094)
Investment income received	57	63	34
Income tax paid	(4,626)	(4,626)	(2,759)
Net cash from operating activities	101,135	96,502	99,298

(b) The amount for the year ended December 31, 2016 included the payment for the cash injection amounting to RMB2,966 (Cash Consideration) to China Tower Corporation Limited (China Tower) in relation to the disposal of certain telecommunications towers and related assets to China Tower (the Tower Assets Disposal) in 2015. The Cash Consideration was paid in February 2016.

See accompanying notes to consolidated financial statements.

Table of Contents**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 and regulation by the PRC government.

Organization

As part of the reorganization (the **Restructuring**) of China Telecommunications Corporation, the Company was incorporated in the PRC on September 10, 2002. In connection with the Restructuring, China Telecommunications Corporation transferred to the Company the wireline telecommunications business and related operations in Shanghai Municipality, Guangdong Province, Jiangsu Province and Zhejiang Province together with the related assets and liabilities 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. (**CTSI**), 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.

Table of Contents**CHINA TELECOM CORPORATION LIMITED AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**(All **Renminbi** amounts in millions, except per share data and except otherwise stated)**1. PRINCIPAL ACTIVITIES, ORGANIZATION AND BASIS OF PRESENTATION (continued)****Organization (continued)**

On April 30, 2012, the Company acquired the digital trunking business (the Sixth Acquired Business) from Besttone Holding Co., Ltd. (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 was arrived at RMB251, among which RMB249 was received on November 16, 2017 and the remaining balance of RMB2 was received in 2018.

Analysis of assets and liabilities of the disposed subsidiary:

	October 31, 2017
	RMB
Current Assets	
Cash and cash equivalents	65
Accounts receivable, net	48
Prepayments and other current assets	67
Non-current Assets	
Property, plant and equipment, net	16
Intangible assets	3
Current liabilities	
Accounts payable	29
Accrued expenses and other payables	27
Net assets disposal of	143

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

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Table of Contents**CHINA TELECOM CORPORATION LIMITED AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

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

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 (**Zhonghe Hengtai**), 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 **Zhonghe Hengtai** (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.

The consolidated results of operations for the year ended December 31, 2016 and the consolidated statement of financial position as of December 31, 2016 as previously reported by the Group and the combined amounts presented in the consolidated financial statements of the Group to reflect the acquisition of the **Eighth Acquired Group** are set out below:

	The Group (as previously reported)	The Eighth Acquired Group	The Group (restated)
	RMB	RMB	RMB
Consolidated statement of comprehensive income for the year ended December 31, 2016:			
Operating revenues	352,285	249	352,534
Profit for the year	18,109	14	18,123
Consolidated statement of financial position as of December 31, 2016:			

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Total assets	652,368	190	652,558
Total liabilities	336,073	137	336,210
Total equity	316,295	53	316,348

For the periods presented, all significant transactions and balances between the Group and the Eighth Acquired Group have been eliminated on combination.

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CHINA TELECOM CORPORATION LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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.

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 9, *Financial Instruments*

IFRS 15, *Revenue from Contracts with Customers* and the related Amendments

IFRIC 22, *Foreign Currency Transactions and Advance Consideration*

Amendments to IFRS 2, *Classification and Measurement of Share-based Payment Transactions*

Amendments to IFRS 4, *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*

Amendments to IAS 40, *Transfers of Investment Property*

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Amendments to IAS 28 as part of the *Annual Improvements to IFRS Standards 2014-2016 Cycle* Except for IFRS 9, *Financial Instruments* and IFRS 15, *Revenue from Contracts with Customers* and the related Amendments as described below, 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 or interpretation that is not yet effective for the current year (Note 42).

2.1 IFRS 15, *Revenue from Contracts with Customers*

The Group has applied IFRS 15 for the first time in the current year. IFRS 15 superseded IAS 18, *Revenue*, IAS 11, *Construction Contracts* and the related interpretations.

The Group has 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 is recognized in the opening reserves and comparative information has not been 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.

The Group recognizes revenue from the following major sources which arise from contracts with customers:

Telecommunications services, including voice, Internet, information and application and telecommunications network resource and equipment services, and resale of mobile services (MVNO); and

Sales, and repair and maintenance of telecommunications equipment and others.

Information about the Group's performance obligations and the accounting policies resulting from application of IFRS 15 are disclosed in Notes 25 and 3(m) respectively.

Table of Contents**CHINA TELECOM CORPORATION LIMITED AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**(All **Renminbi** amounts in millions, except per share data and except otherwise stated)**2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) AND INTERPRETATION (continued)****2.1 IFRS 15, Revenue from Contracts with Customers (continued)***Summary of effects arising from initial application of IFRS 15*

The following table summarizes the impacts of transition to IFRS 15 on reserves as of January 1, 2018.

	RMB
Reserves	
Consideration payable to customers	2,884
Contract with multiple performance obligations	663
Incremental costs of obtaining contracts	1,210
Tax effect	(1,066)
Increase as of 1 January 2018	3,691

The following adjustments were made to the amounts recognized in the consolidated statement of financial position as of January 1, 2018. Line items that were not affected by the changes have not been included.

	Notes	Carrying amounts previously reported as of December 31, 2017 RMB	Reclassification RMB	Remeasurement RMB	Carrying amounts under IFRS 15 as of January 1, 2018* RMB
Non-current assets					
Other assets	(a)	3,349		1,210	4,559
Current assets					
Accounts receivable, net	(b)	22,096	(596)		21,500
Contract assets	(b,e)		633	23	656
Prepayments and other current assets	(b)	22,128	(37)		22,091
Current liabilities					
Accrued expenses and other payables	(c)	98,695	(64,912)		33,783
Contract liabilities	(c,d,e)		65,699	(3,524)	62,175
Current portion of deferred revenues	(c)	1,233	(787)		446

Non-current liabilities				
Deferred tax liabilities	(a,d,e)	8,010	1,066	9,076
Equity				
Reserves		244,935	3,691	248,626

* The amounts in this column are before the adjustments from the application of IFRS 9.

Notes:

- (a) The Group incurred incremental commission paid/payable to third party agents in connection with obtaining the contracts with customers. These amounts were previously expensed as incurred. At the date of initial application of IFRS 15, incremental costs of obtaining contracts, netted off deferred tax, amounting to RMB940 were recognized with corresponding adjustments to reserves.
- (b) At the date of initial application of IFRS 15, unbilled revenue of RMB633 arising from information and application service contracts are conditional on the Group's achieving specified milestones as stipulated in the contracts, and hence such balance was reclassified from accounts receivable and prepayments and other current assets to contract assets.

Table of Contents**CHINA TELECOM CORPORATION LIMITED AND SUBSIDIARIES****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**(All **Renminbi** amounts in millions, except per share data and except otherwise stated)**2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) AND INTERPRETATION (continued)****2.1 IFRS 15, Revenue from Contracts with Customers (continued)***Summary of effects arising from initial application of IFRS 15 (continued)*

Notes: (continued)

- (c) At the date of initial application of IFRS 15, considerations received from telecommunications service contracts included in receipts in advance and deferred revenues amounting to RMB64,912 and RMB787, respectively, were reclassified from accrued expenses and other payables and current portion of deferred revenues to contract liabilities.
- (d) Certain subsidies payable to third party agents 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, were previously expensed as incurred. At the date of initial application of IFRS 15, such subsidies were considered as consideration payable to customers and the related impact, netted off deferred tax, amounting to RMB2,224 were recognized with corresponding adjustments to reserves.
- (e) The sales of terminal equipment and the provision of telecommunications services represent separate performance obligations from the Group's direct sales of promotional packages. The total contract consideration of a promotional package is previously allocated to revenues generated from the provision of telecommunications services and the sales of terminal equipment using the residual method. At the date of initial application of IFRS 15, the transaction price was allocated to each performance obligation in the contract on a relative stand-alone selling price basis, and the consideration allocated to sales of terminal equipment was recognized as revenue at contract inception, i.e. when the equipment are delivered, while consideration allocated to provision of telecommunications services would be subsequently recognized as revenue as services are delivered during the contract period, with the impact, netted of deferred tax, amounting to RMB527 recognized with corresponding adjustments to reserves.

The following tables summarize the impacts of applying IFRS 15 on the Group's consolidated statement of financial position as of December 31, 2018 and its consolidated statement of comprehensive income and consolidated statement of cash flows for the current year for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position

	Notes	As reported as of December 31, 2018 RMB	Adjustments RMB	Amounts without application of IFRS 15 as of December 31, 2018 RMB
Non-current assets				
Other assets	(a)	4,840	(1,287)	3,553
Current assets				
Accounts receivable, net	(b)	20,475	461	20,936
Contract assets	(b,e)	478	(478)	

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Current liabilities

Accrued expenses and other payables	(c,d,e)	43,497	57,681	101,178
Contract liabilities	(c)	55,783	(55,783)	
Current portion of deferred revenues	(c)	375	765	1,140

Non-current liabilities

Deferred tax liabilities		13,138	(869)	12,269
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Equity

Reserves		262,137	(3,098)	259,039
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	Notes	As reported for the year ended December 31, 2018 RMB	Adjustments RMB	Amounts without application of IFRS 15 for the year ended December 31, 2018 RMB
Operating revenues	(d,e)	377,124	4,377	381,501
Operating expenses				
Selling, general and administrative	(a,d,e)	59,422	3,956	63,378
Other operating expenses	(e)	37,697	(369)	37,328
Total operating expenses		348,410	3,587	351,997
Operating profit		28,714	790	29,504
Profit before taxation		28,148	790	28,938
Income tax		6,810	197	7,007
Profit for the year		21,338	593	21,931
Total comprehensive income for the year		21,243	593	21,836

Impact on the consolidated statement of cash flows

	As reported for the year ended December 31, 2018 RMB	Adjustments RMB	Amounts without application of IFRS 15 for the year ended December 31, 2018 RMB
Profit before taxation	28,148	790	28,938
Operating profit before changes in working capital	108,080	790	108,870

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Increase in accounts receivable	(1,848)	164	(1,684)
Decrease in contract assets	170	(170)	
Decrease in other assets	271	77	348
Increase in accrued expenses and other payables	9,842	(7,253)	2,589
Decrease in contract liabilities	(6,414)	6,414	
Decrease in contract revenues	(138)	(22)	(160)
Net cash from operating activities	99,298		99,298

Notes:

- (a) The Group incurred incremental commission paid/payable to third party agents in connection with obtaining the contracts with customers. These amounts were previously expensed as incurred. Upon application of IFRS 15, incremental costs of obtaining contracts were recognized as an asset if the Group expects to recover such cost. The asset so recognized was subsequently amortized to consolidated statement of comprehensive income on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates. This change in accounting policy resulted in a reduction of operating expenses by RMB77 for the year ended December 31, 2018, and an increase in contract costs, included in other assets, by RMB1,287 as of December 31, 2018.
- (b) At December 31, 2018, upon application of IFRS 15, unbilled revenue of RMB461 arising from information and application service contracts are conditional on the Group's achieving specified milestones as stipulated in the contracts, and hence such balance was recognized as contract assets. Before application of IFRS 15, such balance was presented as accounts receivable.

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CHINA TELECOM CORPORATION LIMITED AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) AND INTERPRETATION (continued)

2.1 IFRS 15, Revenue from Contracts with Customers (continued)

Summary of effects arising from initial application of IFRS 15 (continued)

Notes: (continued)

- (c) At December 31, 2018, upon application of IFRS 15, consideration received from telecommunications service contracts amounting to RMB55,783 was recognized as contract liability. Before application of IFRS 15, such balance was presented as receipts in advance (included in accrued expenses and other payables) and current portion of deferred revenues amounting to RMB55,018 and RMB765, respectively.
- (d) Certain subsidies payable to third party agents 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, were previously expensed as incurred. Upon application of IFRS 15, such subsidies were considered as consideration payable to a customer and were accounted for as a reduction of operating revenues 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. This change in accounting policy resulted in a reduction of operating revenues by RMB3,897 and a reduction of operating expenses by RMB3,510 for the year ended December 31, 2018, and a reduction of contract liabilities, which was presented as accrued expenses and other payables before application of IFRS 15, by RMB2,497 as of December 31, 2018.
- (e) The sales of terminal equipment and the provision of telecommunications services represent separate performance obligations from the Group's sales of promotional packages. The total contract consideration of a promotional package is previously allocated to revenues generated from the provision of telecommunications services and the sales of terminal equipment using the residual method. Upon application of IFRS 15, the transaction price was allocated to each performance obligation in the contract on a relative stand-alone selling price basis, and the consideration allocated to sales of terminal equipment was recognized as revenue at contract inception, i.e. when the equipment are delivered, while consideration allocated to provision of telecommunications services would be subsequently recognized as revenue as services are delivered during the contract period. This change in accounting policy resulted in a reduction of operating revenues by RMB480 for the year ended December 31, 2018, a reduction of contract liabilities, which was presented as accrued expenses and other payables before application of IFRS 15, by RMB166, and an increase of contract assets by RMB17 as of December 31, 2018.

2.2 IFRS 9, Financial Instruments

In the current year, the Group has applied IFRS 9, Financial instruments 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 has 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 has 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 the opening reserves, without restating comparative information.

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Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 39, *Financial Instruments: Recognition and Measurement* .

Accounting policies resulting from application of IFRS 9 are disclosed in Note 3(k).

Summary of effects arising from initial application of IFRS 9

The table below illustrates the classification and measurement of financial assets and other items subject to ECL under IFRS 9 and IAS 39 at the date of initial application, January 1, 2018.

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	Notes	Investments RMB	Equity instruments at fair value through other comprehensive income RMB	Accounts receivable RMB	Contract assets RMB	Prepayments and other current assets RMB	Deferred tax assets RMB	Deferred tax liabilities RMB	Reserves RMB	Non- controlling interests RMB
Closing balance as of December 31, 2017 IAS 39		1,154		22,096		22,128	5,479	8,010	244,935	830
Effect arising from initial application of IFRS 15				(596)	656	(37)		1,066	3,691	
Effect arising from initial application of IFRS 9:										
Reclassification										
From investments	(a)	(1,154)	1,154							
Remeasurement										
Impairment under ECL model	(b)			(919)		(1)	203		(716)	(1)
Opening balance as of January 1, 2018			1,154	20,581	656	22,090	5,682	9,076	247,910	829

Notes:

(a) Available for sale (AFS) investments

From AFS equity investments to equity instruments at fair value through other comprehensive income (FVTOCI)

The Group elected to present in other comprehensive income (OCI) for the fair value changes of all its equity investments previously classified as available-for-sale investments. These investments are not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of IFRS 9, RMB1,154 were reclassified from investments to equity instruments at FVTOCI, of which RMB185 related to unquoted equity investments previously measured at cost less impairment under IAS 39. The fair value gains of RMB674 relating to those investments previously carried at fair value continued to accumulate in other reserves.

(b) Impairment under ECL model

The Group applies the IFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all accounts receivable and contract assets. To measure the ECL, accounts receivable and contract assets have been grouped based on shared credit risk characteristics, nature of services provided as well as type of customers. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as accounts receivable for the same types of contracts. The Group has therefore concluded that the expected loss rates for accounts receivable are a reasonable approximation of the loss rates for contract assets.

Loss allowances for other financial assets at amortized cost mainly comprise of financial assets included in prepayments and other current assets, are measured on 12-month ECL (12m ECL) basis and there have been no significant increase in credit risk since initial recognition.

As of January 1, 2018, the additional credit loss allowance of RMB920 and the related deferred tax impact of RMB203 have been recognized against reserves and non-controlling interests. The additional loss allowance is charged against the respective assets.

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Notes: (continued)

(b) Impairment under ECL model (continued)

All loss allowances for financial assets measured at amortized cost, including accounts receivable and financial assets included in prepayments and other current assets as of December, 31 2017 reconciled to the opening loss allowance as of January,1 2018 are as follows:

	Accounts receivable RMB	Prepayments and other current assets RMB
As of December 31, 2017 IAS 39	3,842	370
Amount remeasured through opening reserves	919	1
As of January 1, 2018	4,761	371

2.3 Impacts on opening consolidated statement of financial position arising from the application of all new standards

As a result of the changes in the Group's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table shows the adjustments recognized for each of the line items affected.

	December 31, 2017 RMB (audited)	IFRS 15 RMB	IFRS 9 RMB	January 1, 2018 RMB (restated)
Non-current assets				
Investments	1,154		(1,154)	
Equity instruments at fair value through other comprehensive income			1,154	1,154
Deferred tax assets	5,479		203	5,682

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Other assets	3,349	1,210		4,559
Others with no adjustments	579,662			579,662
Total non-current assets	589,644	1,210	203	591,057
Current assets				
Accounts receivable, net	22,096	(596)	(919)	20,581
Contract assets		656		656
Prepayments and other current assets	22,128	(37)	(1)	22,090
Others with no adjustments	27,326			27,326
Total current assets	71,550	23	(920)	70,653
Total assets	661,194	1,233	(717)	661,710
Current liabilities				
Accrued expenses and other payables	98,695	(64,912)		33,783
Contract liabilities		62,175		62,175
Current portion of deferred revenues	1,233	(787)		446
Others with no adjustments	175,480			175,480
Total current liabilities	275,408	(3,524)		271,884
Net current liabilities	(203,858)	3,547	(920)	(201,231)
Total assets less current liabilities	385,786	4,757	(717)	389,826
Non-current liabilities				
Deferred tax liabilities	8,010	1,066		9,076
Others with no adjustments	51,079			51,079
Total non-current liabilities	59,089	1,066		60,155
Total liabilities	334,497	(2,458)		332,039
Equity				
Share capital	80,932			80,932
Reserves	244,935	3,691	(716)	247,910
Total equity attributable to equity holders of the Company	325,867	3,691	(716)	328,842
Non-controlling interests	830		(1)	829
Total equity	326,697	3,691	(717)	329,671
Total liabilities and equity	661,194	1,233	(717)	661,710

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2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) AND INTERPRETATION (continued)

2.3 Impacts on opening consolidated statement of financial position arising from the application of all new standards (continued)

Note: For the purpose of reporting cash flows from operating activities under indirect method for the year ended December 31, 2018, movements in working capital have been computed based on opening consolidated statement of financial position as of January 1, 2018 as disclosed above.

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 19, 2019.

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(k)).

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 41.

(b) Basis of consolidation

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

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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.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of consolidation (continued)

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.

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

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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.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)**(d) Property, plant and equipment**

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

Assets held under finance leases (Note 3(o)) are amortized over the shorter of the lease term and their estimated useful lives on a straight-line basis. As of December 31, 2018, no asset was held by the Group under finance leases (December 31, 2017: nil).

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

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

	Depreciable lives primarily range from
Buildings and improvements	8 to 30 years
Telecommunications network plant and equipment	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(i)). 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) Lease prepayments

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

(g) Goodwill

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

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (Note 3(i)). 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.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) 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(i)). Amortization of software is mainly calculated on a straight-line basis over the estimated useful lives, which range from 3 to 5 years.

(i) Impairment of goodwill and long-lived assets

The carrying amounts of the Group's long-lived assets, including property, plant and equipment, 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.

(j) Inventories

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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.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Financial instruments

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 since January 1, 2018. 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.

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 in accordance with transitions in note 2.2)

The Group's financial assets include financial assets measured subsequently at amortized cost and equity instruments designated as at FVTOCI.

(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.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Financial instruments (continued)

Financial assets (continued)

*Classification and subsequent measurement of financial assets (upon application of IFRS 9 in accordance with transition in note 2.2)
(continued)*

(ii) Equity instruments designated as at FVTOCI

At the date of initial application / 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.

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.

Impairment of financial assets (upon application of IFRS 9 with transitions in accordance with note 2.2)

The Group recognizes a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9 (including accounts receivable and financial assets included in prepayments and other current assets) and contract assets. 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, 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 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, i.e. financial assets included in prepayments and other current assets, 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)

(k) Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (upon application of IFRS 9 with transitions in accordance with note 2.2) (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 of default 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.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (upon application of IFRS 9 with transitions in accordance with note 2.2) (continued)

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.

Classification and subsequent measurement of financial assets (before application of IFRS 9 on 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.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (before application of IFRS 9 on 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.

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.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Financial instruments (continued)

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.

(l) 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.

(m) Revenue from contract with customers (upon application of IFRS 15 in accordance with transitions in note 2.1)

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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 Group 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.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Revenue from contract with customers (upon application of IFRS 15 in accordance with transitions in note 2.1) (continued)

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.

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

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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.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Revenue from contract with customers (upon application of IFRS 15 in accordance with transitions in note 2.1) (continued)

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.

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.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Lease income from operating leases is recognized over the term of the lease.

The Group as lessee

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.

(p) Net finance costs

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

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

(q) Research and development expense

Research and development expenditure is expensed as incurred. For the years ended December 31, 2016, 2017 and 2018, research and development expense was RMB825, RMB1,088 and RMB 1,341, respectively.

(r) 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 38.

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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 39.

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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)

(s) 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.

(t) 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.

(u) Value-added tax

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

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

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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)

(v) 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.

(w) Dividends

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

(x) 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.

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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,	
	2017	2018
	RMB	RMB
Cash at bank and in hand	17,763	14,937
Time deposits with original maturity within three months	1,647	1,729
	19,410	16,666

5. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net, are analyzed as follows:

		December 31,	
	Note	2017	2018
		RMB	RMB
Third parties		23,762	23,308
China Telecom Group	(i)	1,502	1,327
China Tower (See definition in Note 13)		5	10
Other telecommunications operators in the PRC		669	510
		25,938	25,155
Less: Allowance for credit losses		(3,842)	(4,680)
		22,096	20,475

Note:

(i) China Telecommunications Corporation together with its subsidiaries other than the Group are referred to as China Telecom Group . As of December 31, 2018 and January 1, 2018, the gross carrying amounts of accounts receivable from contracts with customers amounted to RMB25,155 and RMB25,342, respectively.

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

	December 31,	
	2017	2018
	RMB	RMB
Current, within 1 month	9,323	8,376
1 to 3 months	2,607	2,117
4 to 12 months	1,780	1,932
More than 12 months	878	943
	14,588	13,368
Less: Allowance for credit losses	(2,603)	(2,898)
	11,985	10,470

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

	31 December	
	2017	2018
	RMB	RMB
Current, within 1 month	4,421	3,318
1 to 3 months	1,973	2,300
4 to 12 months	2,644	3,994
More than 12 months	2,312	2,175
	11,350	11,787
Less: Allowance for credit losses	(1,239)	(1,782)
	10,111	10,005

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

Aging analysis of accounts receivable that are not impaired as of December 31, 2017 is as follows:

	December 31,
	2017
	RMB
Not past due	19,623
Less than 1 month past due	1,518
1 to 3 months past due	955
Amounts past due	2,473
	22,096

The following table summarizes the changes in allowance for doubtful debts in 2016 and 2017:

	Year ended December 31,	
	2016 RMB	2017 RMB
At beginning of year	2,935	3,402
Impairment losses for doubtful debts	2,203	1,962
Accounts receivable written off	(1,736)	(1,522)
At end of year	3,402	3,842

Details of impairment assessment of accounts receivable for the year ended December 31, 2018 are set out in note 34.

6. CONTRACT ASSETS

	January 1, 2018* RMB	December 31, 2018 RMB
Third parties	480	454
China Telecom Group	176	24
	656	478

* The amounts in this column are after the adjustments from the application of IFRS 9 and 15.

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.

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	December 31,	
	2017	2018
	RMB	RMB
Materials and supplies	1,071	1,012
Goods for resale	3,052	3,820
	4,123	4,832

8. PREPAYMENTS AND OTHER CURRENT ASSETS

	Note	December 31,	
		2017	2018
		RMB	RMB
Amounts due from China Telecom Group		774	1,035
Amounts due from China Tower		2,152	293
Amounts due from other telecommunications operators in the PRC		369	333
Prepayments in connection with construction work and equipment purchases		2,542	2,752
Prepaid expenses and deposits		3,486	3,628
Value-added tax recoverable		7,186	8,618
Other receivables	(i)	5,619	6,960
		22,128	23,619

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.

9. PROPERTY, PLANT AND EQUIPMENT, NET

Buildings and improve- ments	Telecom- munications network plant and equipment	Furniture, fixture, motor vehicles and other equipment	Total
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	RMB	RMB	RMB	RMB
Cost/Deemed cost:				
Balance at January 1, 2017	99,509	823,836	30,114	953,459
Additions	583	532	410	1,525
Transferred from construction in progress	1,967	87,129	1,707	90,803
Retirement and disposal	(709)	(68,719)	(1,936)	(71,364)
Disposal of a subsidiary		(33)		(33)
Reclassification	(18)	(272)	290	
Balance at December 31, 2017	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
Accumulated depreciation and impairment:				
Balance at January 1, 2017	(51,018)	(490,917)	(21,853)	(563,788)
Depreciation and impairment charge for the year	(4,326)	(63,903)	(2,145)	(70,374)
Written back on retirement and disposal	620	63,553	1,839	66,012
Disposal of a subsidiary		17		17
Reclassification	18	184	(202)	
Balance at December 31, 2017	(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)
Net book value at December 31, 2018	44,241	355,396	8,158	407,795
Net book value at December 31, 2017	46,626	351,407	8,224	406,257

Table of Contents**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)**10. CONSTRUCTION IN PROGRESS**

	RMB
Balance at January 1, 2017	80,386
Additions	88,359
Transferred to property, plant and equipment	(90,803)
Transferred to intangible assets	(4,836)
Balance at December 31, 2017	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

11. GOODWILL

	December 31,	
	2017	2018
	RMB	RMB
Cost:		
Goodwill arising from acquisition of CDMA business	29,920	29,922

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 9.4% (2017: 9.8%). Cash flows beyond the five-year period are projected to perpetuity at annual growth rate of 1.5%. Management performed impairment tests for the goodwill at the end of the reporting period and determined that goodwill was not impaired. Management believes any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause its recoverable amount to be less than carrying amount.

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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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	Software RMB
Cost:	
Balance at January 1, 2017	29,818
Additions	175
Transferred from construction in progress	4,836
Disposals	(268)
Disposal of a subsidiary	(11)
Balance at December 31, 2017	34,550
Additions	269
Transferred from construction in progress	6,040
Disposals	(3,545)
Balance at December 31, 2018	37,314
Accumulated amortization and impairment:	
Balance at January 1, 2017	(18,574)
Amortization charge for the year	(3,843)
Written back on disposals	250
Disposal of a subsidiary	8
Balance at December 31, 2017	(22,159)
Amortization charge for the year	(4,366)
Written back on disposals	3,372
Balance at December 31, 2018	(23,153)
Net book value at December 31, 2018	14,161
Net book value at December 31, 2017	12,391

13. INTERESTS IN ASSOCIATES

	December 31,	
	2017	2018
	RMB	RMB
Unlisted equity investments, at cost	36,648	36,933
Share of post-acquisition changes in net assets	(922)	1,118

35,726 38,051

Fair value of listed investments N/A 46,797

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

Name of company	Attributable equity interest	Principal activities
China Tower Corporation Limited (Note (i))	20.5% (2017: 27.9%)	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 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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Summarized financial information of the Group's principal associates and reconciled to the carrying amounts of interests in associates in the Group's consolidated financial statements are disclosed below:

	China Tower Corporation Limited December 31,	
	2017	2018
	RMB	RMB
Current assets	30,517	31,799
Non-current assets	292,126	283,565
Current liabilities	150,438	114,759
Non-current liabilities	44,710	20,103
	2017	2018
	RMB	RMB
Operating revenues	68,665	71,819
Profit for the year	1,943	2,650
Other comprehensive income for the year		
Total comprehensive income for the year	1,943	2,650
Dividend received from the associate		

Reconcile to the Group's interests in the associate:

	December 31,	
	2017	2018
	RMB	RMB
Net assets of the associate	127,495	180,502
Non-controlling interests of the associate		
The Group's effective interest in the associate	27.9%	20.5%
The Group's share of net assets of the associate	35,571	37,003
Adjustment for the remaining balance of the deferred gain from the Tower Assets Disposal	(1,580)	(1,013)
Carrying amount of the interest in the associate in the consolidated financial statements of the Group	33,991	35,990

Shanghai Information**Investment Incorporation**

	December 31,	
	2017	2018
	RMB	RMB
Current assets	7,146	7,181
Non-current assets	8,049	8,592
Current liabilities	5,835	6,615
Non-current liabilities	2,673	1,985
	2017	2018
	RMB	RMB
Operating revenues	4,313	4,337
Profit for the year	563	586
Other comprehensive income for the year	22	(29)
Total comprehensive income for the year	585	557
Dividend received from the associate	9	9

Reconcile to the Group's interests in the associate:

	December 31,	
	2017	2018
	RMB	RMB
Net assets of the associate	6,687	7,173
Non-controlling interests of the associate	(2,004)	(2,180)
The Group's effective interest in the associate	24.0%	24.0%
The Group's share of net assets of the associate	1,124	1,198
Carrying amount of the interest in the associate in the consolidated financial statements of the Group	1,124	1,198

Table of Contents**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)**13. INTERESTS IN ASSOCIATES (continued)**

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

	2017 RMB	2018 RMB
The Group's share of profit of these associates	36	14
The Group's share of other comprehensive income of these associates	2	
The Group's share of total comprehensive income of these associates	38	14

	December 31, 2017 RMB	2018 RMB
Aggregate carrying amount of interests in these associates in the consolidated financial statements of the Group	611	863

14. INVESTMENTS

	December 31, 2017 RMB
Available-for-sale listed equity securities	969
Other unlisted equity investments	185
	1,154

Other unlisted equity investments mainly represent the Group's various interests in private enterprises which are mainly engaged in the provision of telecommunications infrastructures construction services, information technology services and Internet contents.

15. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Notes	December 31, 2018
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		RMB
Equity securities listed in the mainland China	(i)	638
Unlisted equity securities	(ii)	214
		852

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.

Table of Contents**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)**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	2017 RMB	2018 RMB	2017 RMB	2018 RMB	2017 RMB
Provisions and impairment losses, primarily for credit losses	1,925	1,626			1,925	1,626
Property, plant and equipment, and others	4,580	3,782	(13,022)	(7,789)	(8,442)	(4,007)
Deferred revenues and installation costs	39	71	(29)	(52)	10	19
Available-for-sale equity securities				(169)		(169)
Equity instruments at fair value through other comprehensive income			(87)		(87)	
Deferred tax assets/(liabilities)	6,544	5,479	(13,138)	(8,010)	(6,594)	(2,531)

	Balance at January 1, 2016 RMB	Recognized in consolidated statement of comprehensive income RMB	Balance at December 31, 2016 RMB
Provisions and impairment losses, primarily for doubtful debts	1,291	240	1,531
Property, plant and equipment, and others	1,569	(2,575)	(1,006)
Deferred revenues and installation costs	60	(25)	35
Available-for-sale equity securities	(326)	57	(269)
Net deferred tax assets	2,594	(2,303)	291

	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)	291	(2,822)	(2,531)

	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	(2,531)	(863)	(3,200)	(6,594)

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Table of Contents**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)**17. OTHER ASSETS**

	Note	December 31,	
		2017	2018
		RMB	RMB
Contract costs	(i)		1,287
Installation fees		228	124
Other long-term prepaid expenses		3,121	3,429
		3,349	4,840

Note:

- (i) Contract costs capitalized as of December 31, 2018 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 year was RMB1,744. 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,	
	2017	2018
	RMB	RMB
Loans from banks unsecured	16,565	12,881
Super short-term commercial papers unsecured	18,745	27,992
Other loans unsecured	150	80
Loans from China Telecom Group unsecured	19,098	8,584
Total short-term debt	54,558	49,537

The weighted average interest rate of the Group's total short-term debt as of December 31, 2017 and 2018 was 4.0% per annum and 3.2% per annum, respectively. As of December 31, 2018, the Group's loans from banks and other loans bear interest at rates ranging from 3.5% to 4.6% (December 31, 2017: 3.5% to 7.3%) per annum, and are repayable within one year; as of December 31, 2018, super short-term commercial papers bear interest at rates ranging from 2.1% to 3.3% (December 31, 2017: 4.1% to 4.2%) per annum, and are repayable by July 26, 2019; the loans from China Telecom Group bear interest at rate of 3.5% (December 31, 2017: 3.5%) per annum and are repayable within one year.

Long-term debt comprises:

		December 31,	
		2017	2018
Interest rates and final maturity		RMB	RMB
Bank loans unsecured			
Renminbi denominated (Note (i))			
	Interest rates ranging from 1.08% to 7.04% per annum with maturities through 2036	9,148	8,455
US Dollars denominated			
	Interest rates ranging from 1.00% to 8.30% per annum with maturities through 2048	370	336
Euro denominated			
	Interest rate of 2.30% per annum with maturities through 2032	223	199
		9,741	8,990
Other loans unsecured			
Renminbi denominated			
		1	1
Loans from China Telecom Group unsecured			
Renminbi denominated (Note (ii))			
		40,000	37,000
Total long-term debt		49,742	45,991
Less: Current portion		(1,146)	(1,139)
Non-current portion		48,596	44,852

Notes:

- (i) The Group obtained long-term RMB denominated government loans with below-market interest rate ranging from 1.08% to 1.20% per annum through banks (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 the face value of the Low-interest Loans was recognized as government grants in deferred revenue at initial recognition (Note 22).

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

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

Notes: (continued)

- (ii) 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 in 2018.

The aggregate maturities of the Group's long-term debt subsequent to December 31, 2018 are as follows:

	RMB
2019	1,139
2020	18,091
2021	1,029
2022	20,992
2023	923
Thereafter	3,817
	45,991

The Group's short-term and long-term debt do not contain any financial covenants. As of December 31, 2017 and 2018, the Group had unutilized committed credit facilities amounting to RMB154,793 and RMB150,693 respectively.

19. ACCOUNTS PAYABLE

	December 31,	
	2017	2018
	RMB	RMB
Third parties	93,324	83,418
China Telecom Group	22,682	20,983
China Tower	2,611	2,850
Other telecommunications operators in the PRC	704	636
	119,321	107,887

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

	Notes	December 31,	
		2017 RMB	2018 RMB
Amounts due to China Telecom Group	(i)	1,838	2,171
Amounts due to China Tower		1,374	1,246
Amounts due to other telecommunications operators in the PRC		59	46
Accrued expenses	(ii)	24,864	33,811
Value-added tax payable		645	484
Customer deposits and receipts in advance		69,915	5,739
		98,695	43,497

Notes:

- (i) Amounts due to China Telecom Group as of December 31, 2017 include the consideration of the Eighth Acquisition amounting to RMB87, which has been fully settled by June 30, 2018.
- (ii) Accrued expenses as of December 31, 2017 include the unpaid portion of consideration of the acquisition of non-controlling interest of a subsidiary of the Group amounting to RMB119, which has been fully settled on January 23, 2018.

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	January 1, 2018* RMB	December 31, 2018 RMB
Third parties	62,001	55,638
China Telecom Group	174	145
	62,175	55,783

* The amounts in this column are after the adjustments from the application of IFRS 9 and 15.

Majority of contract liabilities as of January 1, 2018 was recognized as operating revenues for the year ended December 31, 2018.

22. DEFERRED REVENUES

Deferred revenues as of December 31, 2017 mainly represent the unearned portion of installation fees for wireline services received from customers, the unused portion of calling cards, and the unamortized portion of government grants (Note 18). On January 1, 2018, upon application of IFRS 15, the unused portion of calling cards was reclassified into contract liabilities.

	2017 RMB	2018 RMB
Balance at end of last year	3,558	3,061
Change in accounting policy (Note 2)		(787)
Balance at beginning of the year, as restated	3,558	2,274
Additions for the year:		
Calling cards	390	
Reductions for the year:		
Amortization of installation fees	(208)	(138)
Usage of calling cards	(384)	
Amortization of government grants	(295)	(307)
Balance at end of year	3,061	1,829
Representing:		
Current portion	1,233	375
Non-current portion	1,828	1,454
	3,061	1,829

23. SHARE CAPITAL

	December 31,	
	2017	2018
	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
	80,932	80,932

All ordinary domestic shares and H shares rank *pari passu* in all material respects.

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	Capital reserve RMB (Note (i))	Share premium RMB	Surplus reserves RMB (Note (iii))	Other reserves RMB (Note (ii))	Exchange reserve RMB	Retained earnings RMB	Total RMB
Balance as of January 1, 2016	17,160	10,746	70,973	876	(812)	123,948	222,891
Total comprehensive income for the year				(165)	190	18,018	18,043
Dividends (Note 31)						(6,489)	(6,489)
Appropriations (Note (iii))			1,638			(1,638)	
Balance as of December 31, 2016	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 31)						(7,530)	(7,530)
Appropriations (Note (iii))			1,686			(1,686)	
Others				(4)			(4)
Balance as of December 31, 2017	17,126	10,746	74,297	414	(881)	143,233	244,935
Changes in accounting policies (Note 2)			302			2,673	2,975
Balance as of 1 January 2018, as restated	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 31)						(7,568)	(7,568)
Appropriations (Note (iii))			1,875			(1,875)	
Balance as of December 31, 2018	17,806	10,746	76,474	160	(727)	157,678	262,137

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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)

24. 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 and the deferred tax liabilities recognized due to the change in fair value of 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, 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. For the years ended December 31, 2017, 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, 2017, the Company transferred RMB1,686, being 10% of the year's net profit, to this reserve. As of December 31, 2017, January 1, 2018 and December 31, 2018, the amount of statutory surplus reserve was RMB28,218, RMB28,520 and RMB30,395, respectively.

The Company did not transfer any discretionary surplus reserve for the years ended December 31, 2017 and 2018. As of December 31, 2017 and 2018, 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, 2017, January 1, 2018 and December 31, 2018, the amount of retained earnings available for distribution was RMB120,270, RMB122,987 and RMB133,076 respectively, being the amount determined in accordance with IFRSs. Final dividend of approximately RMB8,629 in

respect of the financial year 2018 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 31).

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	Notes	2018 RMB
Type of goods or services		
Revenue from contracts with customers		
Voice	(i)	50,811
Internet	(ii)	190,871
Information and application services	(iii)	83,478
Telecommunications network resource and equipment services	(iv)	20,211
Others	(v)	27,450
Subtotal		372,821
Revenue from other sources	(vi)	4,303
Total operating revenues		377,124
Timing of revenue recognition		
A point in time		24,496
Over time		352,628
Total operating revenues		377,124

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 charge 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, 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, 2016 and 2017

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

	Year ended	
	December 31,	
	2016	2017
	RMB	RMB
Voice	70,185	61,678
Internet	150,449	172,554
Information and application services	66,881	73,044
Telecommunications network resource and equipment services	17,781	19,125
Others	47,238	39,828
	352,534	366,229

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	Note	Year ended December 31,		
		2016 RMB	2017 RMB	2018 RMB
Operating and maintenance		48,390	55,360	64,056
Utility		13,148	12,522	13,477
Property rental and management fee	(i)	22,327	26,926	29,434
Others		10,291	9,161	9,095
		94,156	103,969	116,062

Note:

- (i) Property rental and management fee includes the fee in relation to the lease of telecommunications towers and related assets (Tower Assets) (hereinafter referred to as the tower assets lease and related fee).

27. PERSONNEL EXPENSES

Personnel expenses are attributable to the following functions:

	Year ended December 31,		
	2016 RMB	2017 RMB	2018 RMB
Network operations and support	36,286	38,574	40,388
Selling, general and administrative	18,218	17,469	19,348
	54,504	56,043	59,736

28. OTHER OPERATING EXPENSES

	Notes	Year ended December 31,		
		2016 RMB	2017 RMB	2018 RMB
Interconnection charges	(i)	11,822	12,223	12,878
Cost of goods sold	(ii)	38,705	31,712	23,185
Donations		19	23	20
Others	(iii)	1,740	1,654	1,614

52,286 45,612 37,697

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.

29. NET FINANCE COSTS

	Year ended December 31,		
	2016 RMB	2017 RMB	2018 RMB
Interest expense incurred	4,200	3,913	3,278
Less: Interest expense capitalized*	(498)	(327)	(185)
Net interest expense	3,702	3,586	3,093
Interest income	(354)	(429)	(306)
Foreign exchange losses	209	664	423
Foreign exchange gains	(322)	(530)	(502)
	3,235	3,291	2,708

*Interest expense was capitalized in construction in progress at the following rates per annum

4.1%-5.0% 3.9%-4.9% 3.8%-4.4%

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

30. INCOME TAX

Income tax in the profit or loss comprises:

	Year ended December 31,		
	2016	2017	2018
	RMB	RMB	RMB
Provision for PRC income tax	3,478	3,147	3,408
Provision for income tax of other tax jurisdictions	155	123	120
Deferred taxation	2,360	2,922	3,282
	5,993	6,192	6,810

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

	Notes	Year ended December 31,		
		2016	2017	2018
		RMB	RMB	RMB
Earnings before income tax		24,116	24,953	28,148
Expected income tax expense at statutory tax rate of 25%	(i)	6,029	6,238	7,037
Differential tax rate on PRC subsidiaries and branches income	(i)	(275)	(108)	(291)
Differential tax rate on other subsidiaries income	(ii)	(53)	(82)	(58)
Non-deductible expenses	(iii)	485	380	537
Non-taxable income	(iv)	(105)	(112)	(319)
Others	(v)	(88)	(124)	(96)
Actual income tax expense		5,993	6,192	6,810

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.

31. DIVIDENDS

Pursuant to a resolution passed at the Board of Directors' meeting on March 19, 2019, a final dividend of equivalent to HK\$0.125 per share totaling approximately RMB8,629 for the year ended December 31, 2018 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, 2018.

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.

Pursuant to the shareholders' approval at the Annual General Meeting held on May 23, 2017, a final dividend of RMB0.093043 (equivalent to HK\$0.105) per share totaling RMB7,530 in respect of the year ended December 31, 2016 was declared and paid on July 21, 2017.

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32. BASIC EARNINGS PER SHARE

The calculation of basic earnings per share for the years ended December 31, 2016, 2017 and 2018 is based on the profit attributable to equity holders of the Company of RMB18,018, RMB18,617 and RMB21,210, 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.

33. 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	65,805

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, 2016, 2017 and 2018 were RMB21,240, RMB25,493 and RMB27,810, respectively.

Capital commitments

As of December 31, 2018, the Group had capital commitments as follows:

	RMB
Contracted for but not provided	
- property	1,103
- telecommunications network plant and equipment	14,200

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, 2017 and 2018, the Group did not have contingent liabilities in respect of guarantees given to banks in respect of banking facilities granted to other parties, or other forms of contingent liabilities.

Legal contingencies

The Group is a defendant in certain lawsuits as well as the named party in other proceedings arising in the ordinary course of business. Management has assessed the likelihood of an unfavorable outcome of such contingencies, lawsuits or other proceedings and based on such assessment, believes that any resulting liabilities will not have a material adverse effect on the financial position, operating results or cash flows of the Group.

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

34. FINANCIAL INSTRUMENTS

Financial assets of the Group include cash and cash equivalents, bank deposits, equity instrument, accounts receivable 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. The Group does not hold nor issue financial instruments for trading purposes.

(a) Fair Value Measurements

Based on IFRS 13, *Fair Value Measurement*, the fair value of each financial instrument is categorized in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

Level 1: fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments

Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data

Level 3: fair values measured using valuation techniques in which any significant input is not based on observable market data
The fair values of the Group's financial instruments (other than long-term debt and equity 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 Group's equity instruments at fair value through other comprehensive income (2017: available-for-sale listed equity securities) are categorized as level 1 financial instruments. The fair value of the Group's listed equity securities investment, which amounted to RMB969 and RMB638 as of December 31, 2017 and 2018 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 1.0% to 4.9% (2017: 1.0% to 4.9%). As of December 31, 2017 and 2018, the carrying amounts and fair value of the Group's long-term debt was as follows:

	December 31, 2017		December 31, 2018	
	Carrying	Fair	Carrying	Fair
	amount	value	amount	value
	RMB	RMB	RMB	RMB
Long-term debt	49,742	48,256	45,991	44,968

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

(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 (2017: incurred loss model) 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. 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 receivable from telephone and Internet subscribers and enterprise customers and contract assets, respectively, as of December 31, 2018:

Accounts receivable from telephone and Internet subscribers:

	Expected loss rate %	December 31, 2018	
		Gross carrying amount RMB	Loss allowance 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

Accounts receivable from enterprise customers and contract assets:

	Expected loss rate	December 31, 2018	
		Gross carrying amount	Loss allowance

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	%	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

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

Expected loss rates are based on actual loss experience over the past 1 to 3 year. 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.

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(i) Credit risk (continued)

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

	RMB
At December 31, 2017 under IAS 39	3,842
Impact on initial application of IFRS 9 (note 2.2)	919
At January 1, 2018	4,761
Impairment losses for ECL	2,008
Accounts receivable written off	(2,089)
At December 31, 2018	4,680

(ii) Liquidity risk

Liquidity risk refers to the risk that funds will not be available to meet liabilities as they fall due, and results from timing and amount mismatches of cash inflow and outflow. The Group manages liquidity risk by maintaining sufficient cash balances and adequate amount of committed banking facilities to meet its funding needs, including working capital, principal and interest payments on debts, dividend payments, capital expenditures and new investments for a set minimum period of between 3 to 6 months..

The following table sets out the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on prevailing rates at the end of the reporting period) and the earliest date the Group would be required to repay:

	Carrying amount RMB	Total contractual undiscounted cash flow RMB	2017			
			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	54,558	55,682	55,682			
Long-term debt	49,742	58,543	2,725	2,716	46,612	6,490
Accounts payable	119,321	119,321	119,321			
Accrued expenses and other payables	98,695	98,695	98,695			
Finance lease obligations	77	85	56	14	13	2
	322,393	332,326	276,479	2,730	46,625	6,492

	Carrying amount RMB	Total contractual undiscouted cash flow RMB	2018			
			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
	247,128	255,341	205,189	19,644	25,143	5,365

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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34. 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:

	2017		2018	
	Effective interest rate %	RMB	Effective interest rate %	RMB
Fixed rate debt:				
Short-term debt	4.0	54,042	3.2	49,347
Long-term debt	3.3	49,742	3.3	45,991
		103,784		95,338
Variable rate debt:				
Short-term debt	4.1	516	4.2	190
		516		190
Total debt		104,300		95,528
Fixed rate debt as a percentage of total debt		99.5%		99.8%

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 99.8% (December 31, 2017: 99.5%) of the Group's short-term and long-term debt as of December 31, 2018 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 64.0% (December 31, 2017: 81.6%) of the Group's cash and cash equivalents and 99.4% (December 31, 2017: 99.4%) of the Group's short-term and long-term debt as of December 31, 2018 are denominated in Renminbi. Details of bank loans denominated in other currencies are set out in Note 18.

35. 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, long-term debt, and finance lease obligations. As of December 31, 2017 and 2018, the Group's total debt-to-total assets ratio was 15.8% and 14.4% respectively, which is within the range of management's expectation.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

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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 statement of cash flows as cash flows from financing activities.

	Short-term Debt RMB	Long-term debt and payable RMB	Finance lease obligation RMB	non-controlling interests RMB	Other payables in respect of the reduction of capital payable in respect of acquisition (Note 20) RMB	Consideration payable in respect of acquisition (Note 20) RMB	Dividend payable RMB	Total RMB
Balance as of January 1, 2017	40,780	71,646	102					112,528
Financing cash flows	13,778	(22,191)	(84)			(31)	(7,619)	(16,147)
New finance leases			55					55
Interest expenses		295	9					304
Foreign exchange gain		(8)						(8)
Acquisition of the Eighth Acquired Group					87			87
Acquisition of non-controlling interests						150		150
Distribution to non-controlling interests							89	89
Dividends declared							7,530	7,530
Others			(5)					(5)
Balance as of December 31, 2017	54,558	49,742	77		87	119		104,583
Financing cash flows	(5,021)	(4,073)	(73)	(20)	(87)	(119)	(7,745)	(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 of December 31, 2018	49,537	45,991	216					95,744

Other than net financing cash outflows for the year ended December 31, 2018 totaling RMB17,138 as presented above, E-surfing Pay, a subsidiary of the Company, received RMB855 in the current year as part of the consideration amounting to RMB945 in respect of contribution from non-controlling interests. The remaining balance of RMB90 as of December 31, 2018 was included in prepayments and other current assets (Note 8).

37. 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,		
		2016 RMB	2017 RMB	2018 RMB
Construction and engineering services.	(i)	18,936	18,672	16,396
Receiving ancillary services.	(ii)	13,938	16,072	16,744
Interconnection revenues	(iii)	60	48	80
Interconnection charges	(iii)	232	193	204
Receiving community services	(iv)	2,871	3,028	3,296
Net transaction amount of centralized services	(v)	523	727	519
Property lease income	(vi)	36	53	48
Property lease expenses	(vi)	559	654	713
Provision of IT services	(vii)	312	642	531
Receiving IT services	(vii)	1,597	1,812	1,895
Purchases of telecommunications equipment and materials.	(viii)	5,199	4,248	3,760
Sales of telecommunications equipment and materials.	(viii)	2,786	3,291	2,760
Internet applications channel services	(ix)	332	344	298
Interest on amounts due to and loans from China Telecom Group	(x)	2,928	2,720	2,099
Others	(xi)	176	190	186

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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/paid and payable to China Telecom Group for mutual leasing of properties.
- (vii) Represent IT services provided to and received from China Telecom Group.
- (viii) 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.
- (ix) Represent amounts received and receivable from China Telecom Group in respect of Internet applications channel services, including the provision of telecommunications channel and applications support platform and billing and deduction services, etc.
- (x) Represent interest paid and payable to China Telecom Group with respect to the amounts due to China Telecommunications Corporation and loans from China Telecom Group (Note 18).
- (xi) Represent amounts paid and payable to China Telecom Group primarily for lease 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.

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

	December 31,	
	2017	2018
	RMB	RMB
Accounts receivable	1,502	1,327
Contract assets		24
Prepayments and other current assets	774	1,035
Total amounts due from China Telecom Group	2,276	2,386

Accounts payable	22,682	20,983
Accrued expenses and other payables	1,838	2,171
Contract liabilities		145
Short-term debt	19,098	8,584
Long-term debt	40,000	37,000
Total amounts due to China Telecom Group	83,618	68,883

Amounts due from/to China Telecom Group, other than short-term debt and long-term debt, 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, 2017 and 2018, no material loss allowance was recognized in respect of amounts due from China Telecom Group.

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37. RELATED PARTY TRANSACTIONS (continued)**(b) Transactions with China Tower**

The principal transactions with China Tower are as follows:

	Notes	Year ended December 31,		
		2016 RMB	2017 RMB	2018 RMB
Tower assets lease and related fee	(i)	11,657	15,389	16,063
Provision of IT services	(ii)	12	49	32

Notes:

(i) Represent tower assets lease and related fee paid and payable to China Tower. The Company and China Tower entered into agreement on July 8, 2016 and a supplemental agreement on February 1, 2018 to confirm the pricing and related arrangements in relation to the leases of the telecommunications towers and related assets.

(ii) Represent IT and other ancillary services provided to China Tower.

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

	2017 RMB	2018 RMB
Accounts receivable	5	10
Prepayments and other current assets	2,152	293
Total amounts due from China Tower	2,157	303
Accounts payable	2,611	2,850
Accrued expenses and other payables	1,374	1,246
Total amounts due to China Tower	3,985	4,096

Amounts due from/to China Tower bear no interest, are unsecured and are repayable in accordance with contractual terms which are similar to those terms offered by third parties.

As of December 31, 2017 and 2018, 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,		
	2016 RMB thousands	2017 RMB thousands	2018 RMB thousands
Short-term employee benefits.	9,886	7,804	7,942
Post-employment benefits.	801	816	799
	10,687	8,620	8,741

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 38.

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37. RELATED PARTY TRANSACTIONS (continued)

(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 37(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.

38. 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 13% 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, 2016, 2017 and 2018 were RMB6,656 and RMB6,884 and RMB7,256, respectively.

The amount payable for contributions to the above defined contribution retirement plans as of December 31, 2017 and 2018 was RMB569 and RMB675, respectively.

39. 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, where the highest proportion of the earnings from exercise of the share appreciation rights to the total remuneration at the grant of the share appreciation rights shall be 40%. The Company recognizes compensation expense of the share appreciation rights over the applicable period.

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39. SHARE APPRECIATION RIGHTS (continued)

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 2017, no share appreciation right units were exercised. For the year ended December 31, 2018, compensation expense of RMB30 was recognized by the Group in respect of share appreciation rights (2017: Nil).

As of December 31, 2018, the carrying amount of the liability arising from share appreciation rights was RMB30. As of December 31, 2017, no liability arising from share appreciation rights was assumed by the Group.

40. PRINCIPAL SUBSIDIARIES

Details of the Company's subsidiaries which principally affected the results, assets and liabilities of the Group as of December 31, 2018 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

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E-surfing Pay Co., Ltd	Limited Company	March 3, 2011	PRC	500	value-added network services 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 international value-added network 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

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40. 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, all of the above subsidiaries are directly or indirectly wholly-owned by the Company. No subsidiaries of the Group have material non-controlling interest.

41. 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 and 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 34.

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41. ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

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(i). The carrying amounts of the Group's long-lived assets, including property, plant and equipment, 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, 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 were made against the carrying value of long-lived assets. For the year ended December 31, 2016, provision for impairment losses of RMB62 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.

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.

Classification of lease arrangement with China Tower

The Company and China Tower entered into a lease arrangement regarding the lease of Tower Assets on July 8, 2016 and a supplemental agreement on February 1, 2018. Management evaluated the detailed clauses of the lease agreements and determined such lease arrangements as operating leases according to the accounting policies disclosed in Note 3(o) and based on the following judgments: (i) the Company does not expect any transfer of ownership of Tower Assets from China Tower by the end of the lease term; (ii) the Company considered the current lease term of 5 years does not account for the major part of the economic lives of Tower Assets; (iii) the present value of minimum lease payment at

the inception of the lease does not substantially account for all of the fair value of the Tower Assets; and (iv) Tower Assets are compatible with all telecommunications operators, and therefore are not of specialized nature that only the Company can use them without major modifications.

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42. POSSIBLE IMPACT OF AMENDMENTS TO STANDARDS, NEW STANDARDS AND INTERPRETATION ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED DECEMBER 31, 2018

Up to the date of issue of these consolidated financial statements, the IASB has issued the following amendments to standards, new standards and interpretation which are not yet effective and not early adopted for the annual accounting period ended December 31, 2018:

	Effective for accounting period beginning on or after
IFRS 16, <i>Leases</i>	1 January 2019
IFRIC 23, <i>Uncertainty over Income Tax Treatments</i>	1 January 2019
Amendments to IFRS 9, <i>Prepayment Features with Negative Compensation</i>	1 January 2019
Amendments to IAS 28, <i>Long-term Interests in Associates and Joint Ventures</i>	1 January 2019
Amendments to IFRSs, <i>Annual Improvements to IFRS Standards 2015-2017 Cycle</i>	1 January 2019
Amendments to IAS 19, <i>Plan Amendment, Curtailment or Settlement</i>	1 January 2019
Amendments to IFRS 3, <i>Definition of a Business</i>	1 January 2020
Amendments to IAS 1 and IAS 8, <i>Definition of Material</i>	1 January 2020
IFRS 17, <i>Insurance Contracts</i>	1 January 2021
Amendments to IFRS 10 and IAS 28, <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	Postponed

The Group is in the process of making an assessment of the impact that will result from adopting the amendments to standards, new standards and interpretation issued by the IASB which are not yet effective for the accounting period ended on December 31, 2018. Except for IFRS 16, *Leases*, so far the Group believes that the adoption of these amendments to standards, new standards and interpretation is unlikely to have a significant impact on its financial position and the results of operations.

IFRS 16, *Leases*

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede IAS 17, *Leases* and the related interpretations when it becomes effective.

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognized for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to land use rights while other operating lease payments are presented as operating cash flows. Upon application of IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing and operating cash flows respectively by the Group, upfront prepaid lease payments will continue to be presented as investing or operating cash flows in accordance to the nature, as appropriate.

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IFRS 16, *Leases* (continued)

Under IAS 17, the Group has already recognized an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for land use rights where the Group is a lessee. The application of IFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

Other than certain requirements which are also applicable to lessor, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

As of December 31, 2018, the Group has non-cancellable operating lease commitments of RMB65,805 as disclosed in Note 33. A preliminary assessment indicates that majority of these arrangements will meet the definition of a lease. Upon application of IFRS 16, the Group will recognize a right-of-use asset and a corresponding liability in respect of these leases unless they qualify for low value or short-term leases.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the modified retrospective approach for the application of IFRS 16 as lessee and will recognize the cumulative effect of initial application to opening reserves without restating comparative information.

43. EVENT AFTER THE REPORTING PERIOD

The Company, China Telecommunications Corporation and China Communications Services Corporation Limited (*CCS* , a subsidiary of China Telecommunications Corporation) entered into an agreement (*Capital Contribution Agreement*) on June 22, 2018 and jointly established China Telecom Group Finance Co., Ltd. (*China Telecom Finance*), a non-banking financial institution legally established with the approval of China Banking and Insurance Regulatory Commission, providing capital and financial management services to the member units of China Telecommunications Corporation, on January 8, 2019. Pursuant to the Capital Contribution Agreement, the registered share capital of China Telecom Finance is RMB5,000.

The Company, China Telecommunications Corporation and CCS respectively contributed RMB3,500, RMB750 and RMB750, which respectively represented 70%, 15% and 15% of the total registered capital of China Telecom Finance. As the Company holds 70% of the issued share capital of China Telecom Finance, China Telecom Finance is a subsidiary of the Company.

44. PARENT AND ULTIMATE HOLDING COMPANY

The parent and ultimate holding company of the Company as of December 31, 2018 is China Telecommunications Corporation, a state-owned enterprise established in the PRC.

