

SECTION III MANAGEMENT'S DISCUSSION AND ANALYSIS

1. DESCRIPTION OF THE COMPANY'S INDUSTRY AND MAIN BUSINESS DURING THE REPORTING PERIOD

According to the “*Report of the Performance of the Communications Industry Economy in the First Half of 2023*” released by the MIIT, in the first half of 2023, the overall operation of the communications industry in China was stable, and various major indicators maintained a favourable growth trend. The construction of new infrastructure such as 5G, Gigabit fibre network and IoT was accelerated. The scale of network connectivity users continued to expand, and the mobile Internet access traffic grew rapidly. In the first half of the year, revenue from telecommunications services grew steadily and amounted to RMB868.8 billion, representing an increase of 6.2% year-on-year. Of which, the three fundamental telecommunications enterprises proactively developed emerging businesses such as IPTV, Internet datacentres, Big Data, cloud computing and IoT. In the first half of the year, revenue from emerging businesses amounted to RMB188.0 billion, representing an increase of 19.2% year-on-year.

In the first half of 2023, the Company proactively fulfilled its responsibilities in building Cyberpower and Digital China, as well as in safeguarding network and information security, while fully and deeply implemented its Cloudification and Digital Transformation strategy. Adhering to the customer-oriented principle, while insisting on the leading role of sci-tech innovation, the Company continued to build a service-oriented, technology-oriented and secured enterprise, solidly advancing corporate sustainable high-quality development.

The Company persisted in the coordinated development as well as the integration and mutual promotion of its fundamental businesses and Industrial Digitalisation business, and continuously enhanced capabilities of digital products and services supply. The Company continued to promote the transformation and upgrades of its fundamental businesses, continuously optimised the 5G network coverage, and pushed forward AI intelligent upgrades of 5G applications. The Company accelerated the construction of Gigabit broadband to elevate user experience with high-speed connectivity and applications for households. The Company continued to enhance its digital life platform capabilities and integrated GBHC applications, offering scene-based applications such as community services, social public services and home security services. The Company continued to accelerate the development of Industrial Digitalisation business. Driven by cloud-, AI-, security- and platform-integrated initiatives, while leveraging its edges in cloud-network integration, customer resources and localised services, the Company increased the supply of digital products and services with high quality and high efficiency. The Company also leveraged “network + cloud computing + AI + applications” to promote the cloud migration, the use of data and intelligence injection for numerous walks of life, facilitating the in-depth integration of digital technologies with the real economy.

The Company gave full play to its edges in the integration of “cloud, network, data, intelligence and security” to further enhance its corporate core competitiveness. The Company developed as the source of original cloud computing technologies with high quality, pushed forward the construction of four-level computing power, offering services featuring multi-type computing in one

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cloud comprising “intelligent computing + supercomputing + general computing”. The Company led the industry in rolling out a unified computing power package, providing customers with computing power services and products featuring full range, standardisation, one-stop shopping and convenient delivery. The Company further deepened its proprietary R&D of AI core technologies to create general-purpose large models and customised industry large models. The Company provided unified end-to-end AI services. Focusing on industries such as finance, culture and tourism and education, the Company developed hundreds of scene-based integrated intelligent solutions. The Company strengthened the integration and innovation of security technologies and digital applications, created key products such as Security Brain, Graded Protection Assistant, Password Security Assessment Assistant, Digital Shield and Quantum-encrypted Calls, providing customers with full-range and managed security services. The Company accelerated the upgrade of Industrial Digitalisation platform capabilities, and created several industry-leading core platforms in areas such as digital government, urban governance, healthcare and finance.

In the first half of 2023, operating revenues of the Company amounted to RMB260.7 billion, representing an increase of 7.6% year-on-year. Of which, service revenues amounted to RMB236.0 billion, representing an increase of 6.6% year-on-year, remaining above the industry's growth rate¹. The Company's mobile communications service revenues maintained favourable growth, reaching RMB101.6 billion with an increase of 2.7% year-on-year. Of which, revenue from mobile value-added and applications reached RMB15.4 billion,

representing an increase of 19.4% year-on-year. The penetration rate of 5G package subscribers reached 73.4%, and mobile ARPU reached RMB46.2, representing an increase of 0.4% year-on-year. Wireline and Smart Family service revenues amounted to RMB62.0 billion, representing an increase of 3.6% year-on-year. Of which, revenue from Smart Family business reached RMB9.3 billion, representing an increase of 15.7% year-on-year. The penetration rate of Gigabit broadband reached 20.3%. Broadband blended ARPU reached RMB48.2, representing an increase of 2.1% year-on-year. Industrial Digitalisation business maintained its rapid growth trend, with its revenue reaching RMB68.8 billion, representing an increase of 16.7% year-on-year.

For detailed business analysis of the Company, please refer to “3. Discussion and Analysis of Operations” under “Section III Management's Discussion and Analysis” of this report.

2. ANALYSIS OF THE CORE COMPETITIVENESS DURING THE REPORTING PERIOD

During the Reporting Period, China Telecom proactively fulfilled its responsibilities in building Cyberpower and Digital China, as well as in safeguarding network and information security, while fully and deeply implemented its Cloudification and Digital Transformation strategy. The Company continued to develop a service-oriented, technology-oriented and secured enterprise, earnestly enhanced its corporate core competitiveness, and accelerated the building of a world-class enterprise.

¹ According to the performance of the communications industry economy in the first half of 2023 released by MIIT.

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CONTINUOUS CONSOLIDATION OF DIGITAL INFORMATION INFRASTRUCTURE WITH CLOUD-NETWORK INTEGRATION AS THE CORE FEATURE

The Company proactively promoted the construction of digital information infrastructure with cloud-network integration as the core feature, and contributed to the empowerment of the digital transformation of numerous walks of life. The Company strengthened network co-building and co-sharing with China Unicom to continuously enhance the depth and breadth of its 5G coverage, and accelerated the consolidation of one single 4G mid-band network to jointly create 4G/5G networks with leading user experience, efficiency and technologies. The Company proactively participated in the national "East-to-West Computing Resource Transfer" project and further optimised its "2+4+31+X+O" computing power layout. The Company expanded the construction of intelligent computing capabilities, and built public intelligent computing centres in provinces such as Inner Mongolia, Guizhou, and Ningxia, while also deployed reasoning pools across 31 provinces to meet the demands for reasoning from various AI applications. In the first half of the year, the Company added 1.8 EFLOPS of intelligent computing power, bringing the total to reach 4.7 EFLOPS, representing an increase of 62% year-on-year. Furthermore, the Company expanded its general computing power. The general computing power reached 3.7 EFLOPS, with an increase of 0.6 EFLOPS, representing an increase of 19% year-on-year. The Company promoted the enhancement of China Telecom Cloud's capabilities on all fronts. China Telecom Cloud maintained its top-3 ranking in the domestic public cloud IaaS and public cloud IaaS+PaaS markets as well as its No. 1 ranking in the government and administration public cloud infrastructure, while also remained as the No. 1 global telco cloud.

STEADY ENHANCEMENT IN PRODUCT AND SERVICE CAPABILITIES

Adhering to the market-oriented principle, while focusing on customer demands and use cases, the Company proactively deployed strategic emerging industries. Driven by cloud-, AI-, security- and platform-integrated initiatives, the Company further enhanced its digital products and services capabilities, pushed forward the transformation of Industrial Digitalisation business from being project-based to become operation-based, and from being resource-driven to become capability-driven. Proactively leveraging its edges in cloud-network integration, customer resources and localised services, the Company increased the supply of digital products and services with high quality and high efficiency. The Company also leveraged "network + cloud computing + AI + applications" to promote the cloud migration, the use of data and intelligence injection for numerous walks of life, facilitating the in-depth integration of digital technologies with the real economy. Remarkable results have been achieved in the open cooperation of government and enterprise ecology. Focusing on key ecological areas such as applications, services and sales, the Company carried out deployment in 14 industries and over 120 fields. Through means such as driving force from strategic cooperation, planning of industry cooperation and the building of ecological platform, the Company systematically promoted the establishment of ecology, joined hands with partners to build the full-stack capabilities of industry digital platforms, consolidated the ecological chain of Industrial Digitalisation, and served the digital transformation of customers.

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BREAKTHROUGH IN SCI-TECH INNOVATION CAPABILITIES

The Company firmly grasped the new round of sci-tech revolution and industrial transformation, and accelerated the construction of a technology-oriented enterprise. China Telecom Cloud made breakthroughs in key core technologies such as hyper-scale resource pool scheduling, multi-AZ and highly available platform, distributed high-performance storage system with low latency, as well as high-performance virtualised offloading with software-hardware collaboration. The platform for computing power delivery network, “Xirang”, provided computing power scheduling services for Beijing Verification Platform for Computing Power Interconnection and Intercommunication, becoming the first cross-domain and cross-service-provider computing power scheduling platform. Fully leveraging its edges in cloud-network integration, the Company pushed forward the construction of four-level computing power, launching “Yunxiao”, the first computing power platform from telcos that unifies cloud, intelligent computing and supercomputing, offering services featuring multi-type computing in one cloud comprising “intelligent computing + supercomputing + general computing”. The Company further deepened its proprietary R&D of AI core technologies, establishing Xinghe AI algorithm platform foundation, with the number of its proprietary scene-based algorithms reaching 5,500. The Company built a service platform for data elements named “Lingze” and pioneered in building and operating the benchmarking project of “data products supermarket” in Hainan to further unleash the value of data resources. The Company strengthened the forward-looking deployment in the field of quantum technologies, established China Telecom Quantum Information Technology Group, and worked with all parties from the industry chain to build a quantum industry ecology and promote the R&D of quantum technologies and achievements conversion.

CONTINUOUS REINFORCEMENT OF SECURE AND CONTROLLABLE CAPABILITIES

The Company coordinated development and security. Based on its edges in cloud, network and data resources as well as its edges in operation and service, the Company strengthened the innovation and integration of security technologies and digital applications. It comprehensively enhanced the capabilities and service level of security products. Based on the concept of proactive defence, the Company built a digital security system with collaboration of cloud, network, edge and terminal, as well as in-depth defence to achieve “measurability, predictability, preventability and controllability”. The Company created key products such as Security Brain, Graded Protection Assistant, Password Security Assessment Assistant, Digital Shield, and Quantum-encrypted Calls, providing customers with full-range and managed security services. The Company completed the leading quantum-encrypted communications metropolitan network. The Company pushed forward the deployment of its security capabilities, with nearly 11 Tbps anti-DDoS cleaning capacity. The Company's security capability pools cover nearly 110 cities and are loaded with 15 types of security capabilities, providing versatile and convenient SaaS-based security services for 100,000 security dedicated lines and IDC customers.

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Ke Ruiwen
*Chairman and Chief
Executive Officer*

3. DISCUSSION AND ANALYSIS OF OPERATIONS

The new round of sci-tech revolution and industrial transformation is kicking off a new cycle of innovation. Strategic emerging industries have become a new driver for the high-quality development of the national economy, while the building of Digital China has entered into a new stage of overall deployment and advancement on all fronts. In the first half of 2023, the Company proactively fulfilled its responsibilities in building Cyberpower and Digital China, as well as in safeguarding network and information security, while fully and deeply implemented its Cloudification and Digital Transformation strategy.

Adhering to the customer-oriented principle, while insisting on the leading role of sci-tech innovation, the Company accelerated the construction of digital information infrastructure with cloud-network integration as its core feature, vigorously promoted the application of digital technologies, and continued to build a service-oriented, technology-oriented and secured enterprise. The Company also unleashed its momentum through deepened reforms on all fronts and elevated its leadership in corporate innovation and modern governance to a new level, sharing new achievements from its high-quality development with shareholders, customers and the society.

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1. OVERALL RESULTS

In the first half of 2023, the Company's operating revenues amounted to RMB260.7 billion, representing an increase of 7.6% year-on-year. Of which, service revenues² amounted to RMB236.0 billion, representing an increase of 6.6% year-on-year, remaining above the industry's growth rate³. EBITDA⁴ amounted to RMB73.3 billion, representing an increase of 5.0% over the same period of last year. Net profit⁵ amounted to RMB20.2 billion, representing an increase of 10.2% over the same period of last year, while the basic earnings per share were RMB0.22. Capital expenditure was RMB41.6 billion, while free cash flow⁶ reached RMB17.6 billion.

The Company attaches great importance to shareholder returns and strives to enhance its profitability and cash flow generation capabilities. The Board of Directors has resolved to continue declaring an interim dividend in 2023, and the profit distributed in cash will be 65% of the profit attributable to equity holders of the Company in the first half of the year, i.e., RMB0.1432 per share (pre-tax). The Company is dedicated to creating new value for shareholders continuously. As such, the Company will recommend at the Annual General Meeting that the profit distributed in cash for the year of 2023 should be increased to 70% or above of the profit attributable to the Company's equity holders for the year, in accordance with the commitment made at the time of A Share issuance.

² Service revenues are calculated based on operating revenues minus sales of mobile terminals, sales of wireline equipment and other non-service revenues.

³ According to the performance of the communications industry economy in the first half of 2023 released by MIIT.

⁴ EBITDA is calculated based on operating revenues minus operating expenses plus depreciation and amortisation.

⁵ Net profit represents profit attributable to equity holders of the Company.

⁶ Free cash flow is calculated based on EBITDA minus capital expenditure, income tax and depreciation charge for right-of-use assets other than land-use-rights.

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2. FULLY AND DEEPLY IMPLEMENTING CLOUDIFICATION AND DIGITAL TRANSFORMATION STRATEGY WITH NEW ACHIEVEMENTS FROM HIGH-QUALITY DEVELOPMENT

In the first half of the year, the Company firmly seized opportunities arising from the digital transformation of the economy and society. With deep insight into changes of customer demands, the Company fully and deeply implemented its Cloudification and Digital Transformation strategy. Leveraging its edges in cloud-network integration, the Company promoted sci-tech innovation at a higher level and deepened system and mechanism reforms on all fronts, solidly advancing corporate sustainable high-quality development.

2.1 Adhering to the customer-oriented principle with steady development driven by dual engines

Insisting on the leading role of triple-Gigabit comprising “5G + Gigabit broadband + Gigabit WiFi”, the Company continued to promote the transformation and upgrades of its fundamental businesses, accelerated the integration of its fundamental connectivity products with new digital elements such as cloud, AI and security, and deepened the integration of Smart Community and Digital Village scenes, maintaining the steady growth of its fundamental businesses. The Company further optimised its 5G network coverage. Focusing on demands for personal digital applications, the Company promoted AI intelligent upgrades of applications such as Colour Ringback Tone

with Video, Communications Assistant and China Telecom Cloud Drive, to enhance user experience of 5G applications. It sped up the construction of Gigabit broadband. With a focus on demands for family digital applications, the Company promoted Gigabit applications and pushed forward the upgrade from Whole-home WiFi to FTTR to elevate user experience with high-speed connectivity and applications for households. The Company continued to enhance its digital life platform capabilities and strengthened the iterative development of products and applications. The Company integrated GBHC⁷ applications, offering scene-based applications such as community services, social public services and home security services. In the first half of the year, the Company's mobile communications service revenues maintained favourable growth, reaching RMB101.6 billion with an increase of 2.7% year-on-year. Of which, revenue from mobile value-added and applications reached RMB15.4 billion, representing an increase of 19.4% year-on-year. The penetration rate of 5G package subscribers reached 73.4%, with mobile ARPU⁸ reaching RMB46.2, representing an increase of 0.4% year-on-year. Wireline and Smart Family service revenues amounted to RMB62.0 billion, representing an increase of 3.6% year-on-year. Of which, revenue from Smart Family business reached RMB9.3 billion, representing an increase of 15.7% year-on-year. The penetration rate of Gigabit broadband reached 20.3%. Broadband blended ARPU⁹ reached RMB48.2, representing an increase of 2.1% year-on-year.

⁷ GBHC: Government, Business, Home and Customer

⁸ Mobile ARPU = monthly average revenues from mobile services / the average number of mobile subscribers.

⁹ Broadband blended ARPU = monthly average revenues from broadband access and Smart Family / the average number of broadband subscribers.

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Adhering to the market-oriented principle, while focusing on customer demands and use cases, the Company proactively deployed strategic emerging industries. Driven by cloud-, AI-, security- and platform-integrated initiatives, the Company further enhanced its digital products and services capabilities, pushed forward the transformation of Industrial Digitalisation business from being project-based to become operation-based, and from being resource-driven to become capability-driven. Proactively leveraging its edges in cloud-network integration, customer resources and localised services, the Company increased the supply of digital products and services with high quality and high efficiency. The Company also leveraged “network + cloud computing + AI + applications” to promote the cloud migration, the use of data and intelligence injection for numerous walks of life, facilitating the in-depth integration of digital technologies with the real economy. Remarkable results have been achieved in the open cooperation of government and enterprise ecology. Focusing on key ecological areas such as applications, services and sales, the Company carried out deployment in 14 industries and over 120 fields. Through means such as driving force from strategic cooperation, planning of industry cooperation and the building of ecological platform, the Company systematically promoted the establishment of ecology, joined hands with partners to build the full-stack capabilities of industry digital platforms, consolidated the ecological chain of Industrial Digitalisation, and served the digital transformation of customers. In the first half of the year, Industrial Digitalisation business of the Company maintained its rapid growth trend, with its revenue reaching RMB68.8 billion, representing an increase of 16.7% year-on-year, accounting for 29.2% of service revenues, up by 2.6p.p.. Revenue from China Telecom Cloud reached RMB45.9 billion, representing a year-on-year growth of 63.4%.

2.2 Further promoting self-reliance and self-improvement for high-level technologies to strengthen core corporate competitiveness

The Company regards sci-tech innovation as the primary driving force for corporate high-quality development and for embracing the tide of digital economy. Focusing on key areas such as cloud computing, AI, security, quantum, platform and network, the Company boosted its investment in research and development (R&D) of sci-tech innovation, with R&D expenses increasing by 27.2% year-on-year. The Company further strengthened its R&D talent team, with the number of R&D personnel increasing by 21.4%, compared with the end of last year. The Company strove for breakthroughs in key core technologies, accelerated the conversion of innovation achievements at scale and further strengthened its innovation capabilities and core competitiveness, taking solid steps towards becoming a technology-oriented enterprise with independent control of key core technologies as well as the top-tier national sci-tech innovation enterprises.

The Company developed as the source of original cloud computing technologies with high quality, achieving new results in sci-tech R&D breakthroughs. China Telecom Cloud Technology Co., Ltd has been included as one of the “Establishing World-class Specialised and Sophisticated Demonstration Enterprises” by the State-owned Assets Supervision and Administration Commission (SASAC). Breakthroughs were made in key core technologies such as hyper-scale resource pool scheduling, multi-AZ and highly available platform, distributed high-performance storage system with low latency, as well as high-performance virtualised offloading with software-hardware collaboration. The Company continued to consolidate the cloud foundation featuring polymorphism, multi-chip architecture in one cloud and

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proprietary full-stack cloud to fully support the unified and highly-efficient operation and maintenance as well as smart operation under the multi-cloud environment, realising hybrid of multiple clouds and heterogeneous management. The platform for computing power delivery network, "Xirang", provided computing power scheduling services for Beijing Verification Platform for Computing Power Interconnection and Intercommunication, becoming the first cross-domain and cross-service-provider computing power scheduling platform. Fully leveraging its edges in cloud-network integration, the Company pushed forward the construction of four-level computing power, launching "Yunxiao", the first computing power platform from telcos that unifies cloud, intelligent computing and supercomputing, offering services featuring multi-type computing in one cloud comprising "intelligent computing + supercomputing + general computing". The Company led the industry in rolling out a unified computing power package comprising "fundamental computing power + computing power connectivity + computing algorithm model + computing power security", providing customers with computing power services and products featuring full range, standardisation, one-stop shopping and convenient delivery. The Company carried out commercial trial of its proprietary cloud-native analytical database, achieving industry-leading capabilities in storage-computing segregation, elastic expansion and failure recovery within seconds. With the original "Zhen Series" full-stack cloud terminal technologies of Cloud Computer, the Company achieved breakthroughs in transmission algorithm of congestion control for intelligent networks, with its market share of public cloud computer products exceeding 30%, ranking first in the industry. China Telecom Cloud maintained its top-3 ranking in the domestic public cloud IaaS and public cloud IaaS+PaaS markets as well as its No. 1 ranking in the government and administration public cloud infrastructure, while also remained as the No. 1 global telco cloud¹⁰.

The Company firmly seized opportunities arising from breakthroughs in the development of AI technologies, strengthened AI capabilities with a focus on data and algorithms to empower digital applications. The Company further deepened its proprietary R&D of AI core technologies, establishing Xinghe AI algorithm platform foundation, with the number of its proprietary scene-based algorithms reaching 5,500. The Company also upgraded and rolled out its Xinghe General-purpose Visual Large Model 2.0 at ten-billion parameter grade, achieving the shift from intelligence in vertical fields to general intelligence and from urban governance to the empowerment of numerous walks of life. The Company also released TeleChat, a generative large language model, to strengthen key capabilities in audio and multi-mode large models. Based on general training, the Company collaborated with partners from upstream and downstream of the industrial chain to create customised large models for industry applications. The Company provided unified end-to-end AI services covering all fronts. Focusing on industries such as finance, culture and tourism, as well as education, the Company developed hundreds of scene-based integrated intelligent solutions, empowering the acceleration of digital transformation of the economy and society. The Company built a service platform for data elements named "Lingze" and pioneered in building and operating the benchmarking project of "data products supermarket" in Hainan to further unleash the value of data resources.

¹⁰ Source of market share data of China Telecom Cloud: IDC

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Based on its edges in cloud, network and data resources as well as its edges in operation and service, the Company strengthened the innovation and integration of security technologies and digital applications. It comprehensively enhanced the capabilities and service level of security products. The Company created key products such as Security Brain, Graded Protection Assistant, Password Security Assessment Assistant, Digital Shield, and Quantum-encrypted Calls, providing customers with full-range and managed security services. The Company intensified efforts in achieving breakthroughs in original quantum technologies and completed the leading quantum-encrypted communications metropolitan network. The Company pushed forward the deployment of its security capabilities, with nearly 11 Tbps anti-DDoS cleaning capacity. The Company's security capability pools cover nearly 110 cities and are loaded with 15 types of security capabilities, providing versatile and convenient SaaS-based security services for 100,000 security dedicated lines and IDC customers.

Focusing on customers' demands, the Company accelerated the upgrade of Industrial Digitalisation platform capabilities, built the unified digitalised foundation, enhanced the efficiency and quality of its proprietary digital platform development, and created several industry-leading core platforms in areas such as digital government, urban governance, healthcare and finance. By decoupling and packaging of internal digitalisation capabilities as well as introducing external capabilities through cooperation, the Company formed a fundamental capability pool that converges its resource advantages, to empower the development of Industrial Digitalisation. In the first half of the year, over 7,000 fundamental capabilities were supplied, with the number of industry utilisation reaching 1.1 billion times, representing an increase of 31% year-on-year.

The Company continued to deeply cultivate network technologies while deepened fully cloudified decoupling of 5G, interconnectivity across all domains as well as intelligent open-up, attaining sci-tech achievements such as fully cloudified 5G customised networks, 5G Core three-layer decoupling networks, and 5G VoWiFi. It proactively built differentiated capabilities for 5G customised networks which include "customised network, collaborative cloud, intelligent edge, applications on demand, service unification and security systemisation". The Company also continued promoting benchmarking projects such as smart city, smart factory, smart finance and smart education. The number of newly contracted 5G 2B commercial projects was approximately 6,000, representing an increase of nearly 80% year-on-year and bringing the cumulative number of projects to exceed 20,000. With the upgrade of its proprietary IoT platform, AIoT, to the 3AZ cloud-native architecture, the disaster tolerance capability for data was enhanced, with the number of IoT connected devices exceeding 470 million. The Company also built an industry-leading video backhaul transmission and processing network, with the number of IoT users exceeding 57 million.

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2.3 Expediting the construction of digital information infrastructure with cloud-network integration as its core feature

The Company deepened the overall planning and coordinated deployment of various digital elements including “cloud, network, data, intelligence and security” and expedited the construction of intelligent integrated digital information infrastructure that is high-speed and ubiquitous, aerial-ground in one, cloud-network integrated, intelligent and agile, green and low-carbon, and secure and controllable. The Company proactively participated in the national “East-to-West Computing Resources Transfer” project, accelerated the construction of computing power infrastructure and further optimised its “2 + 4 + 31 + X + O” computing power layout. The Company expanded the construction of intelligent computing capabilities, and built public intelligent computing centres in provinces such as Inner Mongolia, Guizhou, and Ningxia, while also deployed reasoning pools across 31 provinces to meet the demands for reasoning from various AI applications. In the first half of the year, the Company added 1.8 EFLOPS of intelligent computing power, bringing the total to reach 4.7 EFLOPS, representing an increase of 62% year-on-year. Furthermore, the Company expanded its general computing power. The general computing power reached 3.7 EFLOPS, with an increase of 0.6 EFLOPS, representing an increase of 19% year-on-year¹¹. The Company carried out the construction of IDC by focusing on the hub nodes regions of the national integrated big data centre. The number of cabinets serving external customers reached 534,000. Of which, over 70% of new

cabinets were deployed in hotspot areas. The Company built multi-AZ datacentre clusters in areas such as Beijing-Tianjin-Hebei, Yangtze River Delta, Guangdong-Hong Kong-Macau and Sichuan-Chongqing-Shaanxi. Centring around DC and cloud, the Company further optimised network architecture and reduced latency, and created a latency circle with 1/10/15 ms latency for the east-west direction and 1/5/20 ms latency for the south-north direction¹². This flexibly met demands for the interconnection and networking of datacentres from various businesses of 2Mbps–100Gbps granules. The Company also completed the construction of large-bandwidth and intelligent government and enterprise OTN networks with a nationwide coverage. The Company upgraded its all-fibre trunk network that covers “four regions, six axles, eight hubs¹³ and multiple channels”. Focusing on key areas, the Company further expanded the coverage of 10G PON Gigabit fibre network. The Company promoted the automated and intelligent upgrades of networks. The proprietary new generation cloud-network operating system was launched and put in use, achieving activation and scheduling within minutes for customers’ cloud-network integrated and end-to-end businesses, further enhancing network operation capabilities and efficiency.

The Company strengthened network co-building and co-sharing with China Unicom to continuously enhance the depth and breadth of its 5G coverage, while accelerated the consolidation of one single 4G mid-band network to jointly create 4G/5G networks with leading user experience, efficiency and technologies. Meanwhile, the

¹¹ The industry's common calculation method has been applied for computing power. General computing power is calculated using FP32, while intelligent computing power is calculated using FP16. The computing power of 3.8 EFLOPS at the end of 2022 has been recalculated and converted and growth rates are calculated based on figures after conversion.

¹² East-west traffic: data traffic between datacentres. South-north traffic: data traffic between external users and datacentres.

¹³ Four regions: Beijing-Tianjin-Hebei, Yangtze River Delta, Guangdong-Hong Kong-Macau as well as Chengdu-Chongqing. Six axles: the main arteries of mesh interconnection along six directions among the four major regions. Eight hubs: eight hubs in the deployment of the national “East-to-West Computing Resource Transfer” strategy.

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Company carried out refined planning and precise construction of 5G mid-band network, maintaining industry comparability in terms of scale and coverage. In the first half of the year, the number of newly built co-built and co-shared 5G base stations was over 150,000, with the number of 5G base stations exceeding 1.15 million. 4G mid-band network basically achieved full co-sharing, with the number of 4G base stations exceeding 2 million, further enhancing network coverage and capacity.

2.4 Deepening reforms on all fronts to fully unleash new momentum for corporate development

The Company intensified its efforts, further deepened reforms of key corporate fields and processes on all fronts, and promoted the modernisation of corporate governance system and governance capabilities. The Company deepened reforms of sci-tech innovation system and mechanism, optimised resource allocation as well as assessment and incentive policies for sci-tech innovation, brought together the strength to strive for breakthroughs in original and leading technologies. The Company also strengthened the coordination of RDO¹⁴ R&D systems and optimised mechanisms for promoting proprietary achievements conversion and adoption. The Company established Quantum Information Technology Group Co. to promote the application of cutting-edge technologies of quantum. The Company optimised the strategic positioning of its AI company and further strengthened the building of AI capabilities. The Company also established a data development centre to step up the opening-up and co-sharing of data and create the cycle from high-quality R&D of technologies, large-scale product promotion to the expansion of industrial development. Adhering to the customer-oriented principle, with digital transformation as the main line and cloud core platform as the hub, the Company continued to optimise corporate main processes, promoted innovative reforms in areas such as sales,

channels and operation, and elevated the service level of end-to-end integration delivery and operation. The Company accelerated the digitalisation of businesses, operation and management to enhance the efficiency of corporate operation and steadily achieve cost reduction and efficiency enhancement. The Company continued to intensify market-oriented reforms and insisted on balancing responsibilities, authorities and interests, with dual emphasis on the utilisation of incentives and constraints. Three industry Business Groups (BGs) for government and enterprise including healthcare, education and finance took the lead in achieving corporate operation. The Company continued to deepen market-oriented employment mechanism, optimised a more precise and flexible, standardised and effective remuneration mechanism to fully stimulate employees' vitality in innovation and development. The Company sped up the building of sci-tech talent teams such as top talents, leading sci-tech talents, innovation teams and excellent engineers, further implemented the "Spark" and "Prairie Fire" plan with high quality, and established a full-cycle, layered talent cultivation system. The Company promoted the high-quality and independent training of talents, and laid a solid talent foundation for promoting corporate high-quality development. The Company optimised the system and mechanism for open cooperation, continuously strengthened ecological integration and innovation, vigorously promoted the coordinated development of technology ecology, application ecology, channel ecology and service ecology, further extending and expanding cooperation from industrial chain and supply chain to upstream and downstream of innovation chain and service chain. The Company continued to deepen cooperation among industry, academia and research institutes. Focusing on strategic emerging industries, the Company joined hands with universities and scientific research institutes to open up the full chain of industry, academia, research institutes and customers.

¹⁴ RDO: fundamental research (R), applied technological research and development (D) and operational development (O).

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3. UNDERTAKING SOCIAL RESPONSIBILITIES WHILE OPTIMISING CORPORATE GOVERNANCE

The Company proactively fulfilled its social responsibilities and further deepened the construction and operation of green cloud-network. In the first half of 2023, through co-building and co-sharing as well as various energy saving measures, the Company reduced its greenhouse gas emissions by more than 5 million tons, while the greenhouse gas emissions intensity decreased by more than 10% year-on-year. The Company, together with China Mobile and China Unicom, jointly published the “*Liquid Cooling Technology White Paper by Telecom Operators*” to further reduce the energy consumption intensity and carbon emissions intensity of datacentres, promoting the green transformation of the economy and society and supporting the accomplishment of carbon dioxide peaking and carbon neutrality targets. The Company effectively supported rural revitalisation, popularised digital services and narrowed the digital divide between urban and rural areas, achieving the highest rating for 5 consecutive years in the review and assessment of targeted support carried out by central units. The Company built nearly 60,000 “Caring Stations” to provide dozens of convenient public welfare services such as resting, drinking water, charging and Internet access, with the cumulative number of services reaching 15 million person-times. The Company also successfully completed communications assurance tasks for important scenes and restored network connection during times of emergency and natural disasters relief.

Insisting on high-standard corporate governance while adhering to excellent, prudent and effective corporate governance principles, the Company continued to optimise its corporate compliance management system and cultivate a culture of compliance continuously and extensively. The Company maintained the compliant and efficient operation of its Shareholders Meeting, Board of Directors and Supervisory Committee, and completed the selection and appointment of directors for the Eighth Session of the Board of Directors. The Company further optimised its internal control process to effectively prevent and resolve risks which ensured the Company's stable operation and effectively protected the best and long-term interests of shareholders.

The Company received high affirmation and recognition from domestic and international capital markets and industry organisations for its relentless efforts and outstanding performances. It was voted by investors as the “Most Honoured Companies in Asia” for the 13th consecutive year in the “All-Asia-Executive Team Poll” organised by *Institutional Investor*. The Company also received top rankings in the “Best Board of Directors”, “Best Investor Relations Program”, “Best IR Team” and “Best ESG” categories. In addition, the Company received the “Asia's Best Corporate Social Responsibility” award for the fourth consecutive year at the “Asian Excellence Award 2023” organised by *Corporate Governance Asia*, a renowned journal on corporate governance in Asia. Moreover, it won a number of awards including “Best Corporate Communications”, “Best Environmental Responsibility” and “Best Investor Relations Company”. In addition, the Company was voted by fund managers and financial analysts from around the globe to receive the Gold Award of “Best Corporate ESG Strategy in China” at the “23rd Asia's Best Managed Companies Poll” organised by *FinanceAsia*, a reputable financial magazine in Asia.

SECTION III MANAGEMENT'S DISCUSSION AND ANALYSIS

4. OUTLOOK

At present, the new round of global sci-tech revolution and industrial transformation is thriving. The building of Digital China is an important driver for the advancement of Chinese modernisation in the digital era and digital economy has become an important support for propelling the high-quality development of the economy and society. As the primary productive force, science and technology's role in seizing the commanding height of future development has become increasingly prominent. Innovation is driving the acceleration of industrial transformation and upgrades. The continuous expansion of information consumption scenes has given rise to a new trend of digital life and new demands for service quality. Strategic emerging industries such as cloud computing and AI have profound influences and are accelerating the transformation of all industries from the bottom.

In face of the new situation and new opportunities, while based on the new development stage, the Company will implement the new development principles completely, accurately and comprehensively. It will proactively serve and integrate into the new development pattern, with a focus on the overall strategy while seizing development opportunities. The Company will firmly, fully and deeply implement its Cloudification and Digital Transformation strategy, intensify sci-tech innovation and enhance the output and conversion efficiency of innovation achievements. The Company will expedite the upgrades of digital information infrastructure, enhance its security service capabilities, and further strengthen value operation. The Company will optimise the deployment in strategic emerging industries, support and promote the establishment of the modern industry system, and deepen corporate reforms on all fronts. The Company will continuously enhance its corporate core competitiveness and core functions, and accelerate the building of a world-class enterprise.



Ke Ruiwen

Chairman and Chief Executive Officer

Beijing, China

8 August 2023

SECTION III MANAGEMENT'S DISCUSSION AND ANALYSIS

4. MAJOR OPERATION DURING THE REPORTING PERIOD

FINANCIAL REVIEW

Operating Revenues

In the first half of 2023, the Company implemented the new development principles, seized opportunities arising from the digital transformation of the economy and society, and fully and deeply implemented its "Cloudification and Digital Transformation" strategy. Leveraging its edges in cloud-network integration, the Company intensified its efforts in sci-tech innovation and continued to build a service-oriented, technology-oriented and secured enterprise. The Company maintained favourable growth in operating results, taking high-quality development to a new level. In the first half of the year, operating revenues amounted to RMB260,664 million, representing an increase of 7.6% over the same period of last year. Service revenues¹⁵ amounted to RMB235,977 million, representing an increase of 6.6% over the same period of last year. Among the service revenues, mobile communications service revenues¹⁶ amounted to RMB101,607 million, representing an increase of 2.7% over the same period of last year. Wireline and Smart Family service revenues¹⁷ amounted to RMB62,024 million, representing an increase of 3.6% over the same period of last year; Industrial Digitalisation service revenues¹⁸ amounted to RMB68,802 million, representing an increase of 16.7% over the same period of last year; and other service revenues¹⁹ amounted to RMB3,544 million, representing a decrease of 2.2% over the same period of last year.

Operating Expenses

The Company continued to enhance network quality and capabilities, accelerated sci-tech innovation, and supported the rapid development of 5G, Industrial Digitalisation and other businesses. At the same time, insisting on digital transformation as the main line of development, the Company leveraged digital means such as AI to strengthen refined cost management and continuously enhanced resource utilisation efficiency. In the first half of 2023, the Company's operating expenses were RMB235,156 million, representing an increase of 7.3% over the same period of last year, which was lower than the increase in revenues. Operating expenses accounted for 90.2% of operating revenues, representing a decrease of 0.3 percentage point over the same period of last year.

In order to support the construction of 5G network at scale and enhance its competitive edges in networks, the Company proactively expanded the deployment of new infrastructures such as datacentres and cloud, built the integrated digital information infrastructure, and continued to invest in capital expenditure. At the same time, the Company stepped up the co-building and co-sharing of 5G network and co-sharing of 4G network with China Unicom to save capital expenditure correspondingly. In the first half of the year, depreciation and amortisation amounted to RMB47,838 million, representing an increase of 2.4% over the same period of last year.

¹⁵ Service revenues are calculated based on operating revenues minus "sales of mobile terminals", "sales of wireline equipment" and "other non-service revenues".

¹⁶ Mobile communications service revenues represent the aggregate amount of mobile communications service fees, mobile Internet access service fees and short messaging service fees, etc., charged to customers for the provision of mobile services.

¹⁷ Wireline and Smart Family service revenues represent the aggregate amount of wireline communications service fees, broadband Internet access service fees, e-Surfing HD service fees and Smart Family applications service fees charged to customers for the provision of wireline services.

¹⁸ Industrial Digitalisation service revenues represent the aggregate amount of fees charged to customers for the provision of Internet datacentre services, cloud services, digital platform services, dedicated Internet access services, etc.

¹⁹ Other service revenues represent primarily revenues from property rental and other revenues.

SECTION III MANAGEMENT'S DISCUSSION AND ANALYSIS

The Company continued to enhance network quality and capabilities to support the rapid development of 5G, Industrial Digitalisation and Smart Family services, and appropriately increased investment in network operation and Industrial Digitalisation services support. At the same time, the Company leveraged digital means such as AI to further strengthen refined cost management and enhance resource utilisation efficiency. In the first half of the year, network operations and support expenses amounted to RMB76,052 million, representing an increase of 8.6% over the same period of last year.

The Company leveraged digital means such as AI to strengthen precision marketing and enhance channel efficiency. As a result, selling expenses as a percentage of revenues slightly decreased year-on-year. Meanwhile, the Company further increased input in R&D to enhance core capabilities and accumulate energy for future development. In the first half of the year, the selling, general and administrative expenses amounted to RMB32,839 million, representing an increase of 2.5% over the same period of last year.

The Company strengthened its sci-tech innovation, stepped up the introduction of sci-tech and innovative talents, increased incentives for high-performance teams, and realised medium- and long-term incentives. Investments in personnel expenses were in line with the development direction of the Company towards a sci-tech enterprise. In the first half of the year, personnel expenses amounted to RMB48,998 million, representing an increase of 9.8% over the same period of last year.

In the first half of the year, other operating expenses amounted to RMB29,429 million, representing an increase of 14.2% over the same period of last year. The increase was mainly due to the increase in the scale of mobile terminals sold.

Net Finance Costs

Due to the renewal of tower leasing contract, the Company's lease liabilities increased in scale, and related interest expenses grew significantly. In the first half of 2023, net finance costs amounted to RMB483 million.

Profitability Level

Seizing opportunities arising from the digital transformation of the economy and society, the Company deepened reform, opening-up and innovation, focused on value creation, further promoted the enhancement of resource efficiency and operating efficiency, and continuously enhanced its profitability. In the first half of the year, profit attributable to equity holders of the Company reached RMB20,153 million, representing an increase of 10.2% over the same period of last year. EBITDA²⁰ was RMB73,346 million, representing an increase of 5.0% over the same period of last year. EBITDA margin²¹ was 31.1%.

²⁰ EBITDA is calculated based on operating revenues minus operating expenses plus depreciation and amortisation. EBITDA has been widely applied in the global telecommunications industry as a benchmark to reflect operating performance, debt raising ability and liquidity, but it is not regarded as a measure of operating performance and liquidity under International Financial Reporting Standards. It also does not represent net cash from operating activities. In addition, the Company's EBITDA may not be comparable to similar indicators provided by other companies.

²¹ EBITDA margin is calculated based on EBITDA divided by service revenues.

SECTION III MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Expenditure And Cash Flows

The Company proactively supported the construction of 5G network at scale, expanded digital information infrastructures such as datacentres and cloud, and continued to invest in capital expenditure. Meanwhile, the Company stepped up the co-building and co-sharing of 5G network and co-sharing of 4G network with China Unicom to save capital expenditure correspondingly. In the first half of the year, the capital expenditure amounted to RMB41,620 million, which was generally comparable to the same period of last year. Free cash flow²² in the first half of the year amounted to RMB17,641 million, maintaining a healthy cash flow level.

Assets And Liabilities

The Company continued to maintain a solid financial position. As at 30 June 2023, the total assets increased by 4.0% from RMB807,698 million as at the end of 2022 to RMB840,386 million. Total indebtedness²³ decreased by 23.2% from RMB10,484 million as at the end of 2022 to RMB8,056 million. Gearing ratio²⁴ decreased to 1.8% from 2.4% as at the end of 2022.

5. OTHER DISCLOSURE

(1) POTENTIAL RISKS

Risks of adapting to economic and policy environment

The current economic operation is facing new difficulties and challenges, mainly due to insufficient domestic demand, many potential risks in key areas, and complex and severe external environment. The increasingly stringent regulatory environment may pose risks and challenges to the Company's business development and revenue growth. The Company will strengthen the

analysis and judgment of the external environment and proactively prevent and respond to the risks brought by environmental changes. The Company will also deepen reforms on all fronts, push forward its "Cloudification and Digital Transformation" strategy, innovate business models, accelerate technological innovation, strengthen the compliance management system to solidly promote corporate high-quality development.

Business operation risks

With the rapid development of the digital economy, customer demands become more diversified and personalised, while the upgrading and iteration of products and services have accelerated. There is a certain gap between the Company's products and services and customer's demands in terms of varieties, performance and experience, as well as between the level of Industrial Digitalisation and the requirements of digital economy development. Market competition further intensified, with the growth rate of subscribers in the communications industry facing a downward pressure and technological and innovation development showing deficiencies. The Company will further strengthen R&D and the conversion of achievements of sci-tech innovations, increase the dual driving forces of fundamental businesses and Industrial Digitalisation services and the mutual promotion of dual circulation of domestic and international markets. The Company will step up efforts in R&D and promotion of products from the supply-side, promote the optimisation of 5G business model and industry chain, accelerate the scale development of 5G and increase the capital deployment intensity. The Company will expand the "circle of friends" in the ecology and continuously improve the market competitiveness of product supply to meet the diversified and personalised needs of customers.

²² Free cash flow is calculated based on EBITDA minus capital expenditure, income tax and depreciation charge for right-of-use assets other than land use rights.

²³ Total indebtedness refers to interest-bearing debts excluding lease liabilities.

²⁴ Gearing ratio is calculated based on total indebtedness divided by total capital, while total capital is calculated based on total equity attributable to equity holders of the Company plus total indebtedness.

SECTION III MANAGEMENT'S DISCUSSION AND ANALYSIS

Network and information security risks

The accelerated evolution of information and communications networks and the growing number of cyber-attacks for different purposes have brought new challenges to network security operations. With the promulgation, revision and implementation of *the Cybersecurity Law of the People's Republic of China*, *the Data Security Law of the People's Republic of China*, *the Personal Information Protection Law of the People's Republic of China*, *the Anti-Telecom and Online Fraud Law of the People's Republic of China* and other relevant laws and regulations, the Nation further strengthens the supervision over relevant fields. Illegal and criminal acts on the Internet become concerns to the wider society, thus putting forward higher requirements for the data security and personal information protection for the Company. The Company will further consolidate the security foundation of new information infrastructure, strengthen the independent and self-controlled capabilities in core network technologies, enhance the supply chain security management system, and strengthen the emergency response and sourcing capabilities. Meanwhile, the Company will deepen data security and user personal information protection, accelerate the use of data and intelligence injection for the security core platform, continue to carry out network security risks screening, effectively ensure reliable operation of network security as well as data and personal information security.

International operation risks

The complex international situation has brought greater challenges to overseas operations. Factors such as changes in the policy environment in the countries/regions where the Company operates have brought risks to overseas business expansion. There is still a gap between products and services and demands of customers. The Company will further strengthen market analysis and study the policies and laws of relevant countries/regions, strengthen overseas compliance management and risk investigation, enhance risk response capabilities and continue to optimise the overseas risk prevention responsibility system.

(2) OTHER DISCLOSURES

Purchase, Sale or Redemption of Listed Securities of the Company

During the six-month period ended 30 June 2023, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

SECTION III MANAGEMENT'S DISCUSSION AND ANALYSIS

Directors' and Supervisors' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company

Save as disclosed below, as at 30 June 2023, none of the Directors and Supervisors of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (as defined in Part XV of the Securities and Futures Ordinance (Cap. 571 of the laws of Hong Kong) (the "SFO")) as recorded in the register required to be maintained under Section 352 of the SFO or as otherwise notified to the Company and the HKSE pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules.

Name	Position	Class of share	Number of Shares	Capacity	Shares held as approximate percentage of the total number of respective class of shares in issue	Shares held as approximate percentage of the total number of shares in issue
Chen Shengguang	Non-Executive Director	A Share	1,000	Beneficial owner	0.00%	0.00%
			(Long Position)			
			1,000	Interest of spouse	0.00%	0.00%
			(Long Position)			
Zhang Jianbin	Employee Representative Supervisor	A Share	1	Beneficial owner	0.00%	0.00%
			(Long Position)			

During the six-month period ended 30 June 2023, the Company has not granted its Directors or Supervisors, or their respective spouses or any of their respective minor child (natural or adopted) or on their behalf any rights to subscribe for the shares or debentures of the Company or any of its associated corporations and none of them has ever exercised any such right to subscribe for the shares or debentures.

SECTION III MANAGEMENT'S DISCUSSION AND ANALYSIS

Material Interests and Short Positions in Shares and Underlying Shares of the Company

As at 30 June 2023, the interests or short position of persons who are entitled to exercise or control the exercise of 5% or more of the voting power at the shareholders' class meetings of the Company (excluding the Directors and Supervisors) in the shares and underlying shares of the Company as recorded in the register required to be maintained under Section 336 of the SFO are as follows:

Name of shareholder	Number of shares*	Class of share	Approximate percentage of the respective class of shares in issue	Approximate percentage of the total number of shares in issue	Capacity
China Telecommunications Corporation	58,240,172,066 (Long Position)	A Share	75.02%	63.65%	Beneficial owner
Guangdong Rising Holdings Group Co., Ltd.	5,614,082,653 [#] (Long Position)	A Share	7.23%	6.14%	Beneficial owner
GIC Private Limited	1,386,415,702 (Long Position)	H Share	9.99%	1.52%	Investment manager

[#] As at 30 June 2023, the interest in the shares of the Company has been provided by such shareholder as security to a person other than a qualified lender, and the number of shares involved was 400,000,000.

* The information disclosed above is based on the interests and short position as recorded in the register required to be maintained by the Company under Section 336 of the SFO. Pursuant to the relevant provisions of the SFO, shareholders only have to file a disclosure of interest on the occurrence of certain events — called "relevant events". Accordingly, the exact numbers of shares held by the above-mentioned shareholders as at 30 June 2023 may be different from those as disclosed above.

Save as disclosed above, as at 30 June 2023, in the register required to be maintained under Section 336 of the SFO, no other persons were recorded to hold any interests or short positions in the shares and underlying shares of the Company.

SECTION III MANAGEMENT'S DISCUSSION AND ANALYSIS

Audit Committee

The audit committee has reviewed with management and the Company's external auditors the accounting principles and practices adopted by the Group and discussed risk management, internal control and financial reporting matters of the Group including the review of the Interim Report for the six-month period ended 30 June 2023.

Compliance with the Model Code for Securities Transactions by Directors and Supervisors

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules to govern securities transactions by Directors and Supervisors. Based on the written confirmations from the Directors and Supervisors, the Company's Directors and Supervisors have confirmed their compliance with the Model Code regarding the requirements in conducting securities transactions for the period from 1 January 2023 to 30 June 2023.

Issue of Shares and Use of Proceeds

On 20 August 2021, the Company successfully completed the Offering and listing of A Shares on the SSE. The total proceeds from the issuance amounted to approximately RMB47,094 million before the exercise of the over-allotment option. After deducting the issuance expenses, the net proceeds amounted to approximately RMB46,712 million. The exercise period of the over-allotment option for the A Share Offering expired on 22 September 2021. Together with the proceeds from the initial issuance of A Shares, the final gross proceeds from the issuance amounted to approximately RMB47,904 million, and the net proceeds after deducting the issuance expenses amounted to approximately RMB47,516 million. As disclosed in the prospectus, the above proceeds will be used on the three investment projects of the Company, namely 5G Industrial Internet Construction Project, the Cloud-network integration new information infrastructure project and the research and development project of sci-tech innovation. During the Reporting Period, the proceeds were used, or are proposed to be used, according to the intentions previously disclosed in the prospectus, and there was no material change or delay. As of 31 December 2022, the total amount of proceeds invested was approximately RMB37,888 million, and the amount of proceeds not utilised was approximately RMB9,628 million. As of 30 June 2023, the amount of proceeds invested during the Reporting Period was approximately RMB6,037 million, and the accumulated total amount of proceeds invested was approximately RMB43,925 million. The use of proceeds is as follows:

SECTION III MANAGEMENT'S DISCUSSION AND ANALYSIS

Projects invested with proceeds	Total committed investment of proceeds (RMB million)	Amount invested during the Reporting Period (RMB million)	Total accumulated amount invested as of the end of the Reporting Period (RMB million)	Amount not utilised as of the end of the Reporting Period (RMB million)	Expected timeline for use of proceeds
5G Industrial Internet Construction Project	9,957	0	9,957	0	2023 or before
Cloud-network integration new information infrastructure project	23,583	3,475	21,942	1,641	2023 or before
Research and development project of sci-tech innovation	13,976	2,562	12,026	1,950	2023 or before
Total	47,516	6,037	43,925	3,591	-

Interim Dividend

The interim dividend is expected to be paid on or before 28 September 2023 to those shareholders whose names appear on the H Share Register of Members of the Company on Wednesday, 30 August 2023. For the purpose of determining H Share shareholders' entitlement to the interim dividend, the H Share Register of Members will be closed from Friday, 25 August 2023 to Wednesday, 30 August 2023 (both days inclusive). In order to be entitled to the interim dividend, holders of H Shares who have not registered the transfer documents are required to deposit the transfer documents together with the relevant share certificates at Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong at or before 4:30 p.m. on Thursday, 24 August 2023. The Company will announce the specific arrangement for the payment of interim dividend to holders of A Shares separately on the Shanghai Stock Exchange.

SECTION III MANAGEMENT'S DISCUSSION AND ANALYSIS

Dividends will be denominated and declared in Renminbi. Dividends for holders of A Shares and the investors of the Shanghai Stock Exchange and Shenzhen Stock Exchange (including enterprises and individuals) investing in the H Shares of the Company listed on the Stock Exchange (the "Southbound Trading Link") (the "Southbound Investors") will be paid in Renminbi, whereas dividends for H Share shareholders other than Southbound Investors will be paid in Hong Kong dollars. The relevant exchange rate will be the average median rate of Renminbi to Hong Kong dollars as announced by the People's Bank of China for the week prior to the date of declaration of dividends (i.e., 8 August 2023) (RMB0.914874 equivalent to HK\$1.00).

Pursuant to the "Enterprise Income Tax Law of the People's Republic of China", the "Implementation Rules of the Enterprise Income Tax Law of the People's Republic of China" and the "Circular of the State Taxation Administration on Issues Relating to the Withholding of Enterprise Income Tax by PRC Resident Enterprises on Dividends Paid to Overseas Non-PRC Resident Enterprise Shareholders of H Shares" (Guo Shui Han [2008] No. 897), the Company shall be obliged to withhold and pay 10% enterprise income tax when it distributes the 2023 interim dividend to non-resident enterprise shareholders of overseas H Shares (including HKSCC Nominees Limited, other corporate nominees or trustees, and other entities or organisations) whose names appear on the Company's H Share Register of Members on Wednesday, 30 August 2023.

Pursuant to the "Notice of the State Taxation Administration on Issues Concerning Taxation and Administration of Individual Income Tax After the Repeal of Guo Shui Fa [1993] No. 045" (Guo Shui Han [2011] No. 348), if the individual H Share shareholders who are Hong Kong or Macau residents and those whose country of domicile is a country which has entered into a tax treaty with PRC stipulating a dividend tax rate of 10%, the Company will finally withhold and pay individual income tax at the rate of 10% on behalf of the individual H Share shareholders. If the individual H Share shareholders whose country of domicile is a country which has entered into a tax treaty with PRC stipulating a dividend tax rate of less than 10%, the Company will finally withhold and pay individual income tax at the rate of 10% on behalf of the individual H Share shareholders. If the individual H Share shareholders whose country of domicile is a country which has entered into a tax treaty with PRC stipulating a dividend tax rate of more than 10% but less than 20%, the Company will withhold and pay individual income tax at the actual tax rate stipulated in the relevant tax treaty. If the individual H Share shareholders whose country of domicile is a country which has entered into a tax treaty with PRC stipulating a dividend tax rate of 20%, or a country which has not entered into any tax treaties with PRC, or under any other circumstances, the Company will withhold and pay individual income tax at the rate of 20% on behalf of the individual H Share shareholders. If those shareholders need to request a refund of tax overpaid from the PRC tax authorities on his own or through an agent or the Company in accordance with the relevant requirements

SECTION III MANAGEMENT'S DISCUSSION AND ANALYSIS

of the “Announcement of the State Taxation Administration on Promulgating the Administrative Measures for Nonresident Taxpayers for Treatments under Tax Treaties” (Announcement [2019] No. 35 of the State Taxation Administration), they shall submit the “Information Report on Non-resident Taxpayers for Treatments under Tax Treaties” (Announcement [2019] No. 35 of the State Taxation Administration), and collect and file such information.

The Company will determine the country of domicile of the individual H Share shareholders based on the registered address as recorded in the H Share Register of Members of the Company on Wednesday, 30 August 2023 (the “Registered Address”). If the country of domicile of an individual H Share shareholder is not the same as the Registered Address or if the individual H Share shareholder would like to apply for a refund of the additional amount of tax finally withheld and paid, the individual H Share shareholder shall notify and provide relevant supporting documents to the Company on or before Thursday, 24 August 2023. Upon examination of the supporting documents by the relevant tax authorities, the Company will follow the guidance given by the tax authorities to implement relevant tax withholding and payment provisions and arrangements. Individual H Share shareholders may either personally attend or appoint a representative to attend to the procedures in accordance with the requirements under the tax treaties notice if they do not provide the relevant supporting documents to the Company within the time period stated above.

For Southbound Investors (including enterprises and individuals), the Shanghai branch of China Securities Depository and Clearing Corporation Limited and the Shenzhen branch of China Securities Depository and Clearing Corporation Limited, as the nominees of the investors of the Southbound Trading Link, will receive all dividends distributed by the Company and will distribute the dividends to the relevant investors under the Southbound Trading Link through its depository and clearing system. According to the relevant provisions under the “Notice on Taxation Policies for Shanghai-Hong Kong Stock Connect Pilot Programme” (Cai Shui [2014] No. 81) and “Notice on Taxation Policies for Shenzhen-Hong Kong Stock Connect Pilot Programme” (Cai Shui [2016] No. 127), the Company shall withhold and pay individual income tax at the rate of 20% with respect to dividends received by the Mainland individual investors for investing in the H Shares of the Company listed on the Stock Exchange through the Southbound Trading Link. In respect of the dividends received by Mainland securities investment funds investing in the H Shares of the Company listed on the Stock Exchange through the Southbound Trading Link, the tax levied shall be ascertained by reference to the rules applicable to individual investors. The Company is not required to withhold and pay income tax on dividends derived by the Mainland enterprise investors under the Southbound Trading Link, and such enterprises shall report the income and make tax payment by themselves. The record date for entitlement to the shareholders’ rights and the relevant arrangements of dividend distribution for the Southbound Investors are the same as those for the Company’s H Share shareholders.

SECTION III MANAGEMENT'S DISCUSSION AND ANALYSIS

The Company assumes no responsibility and disclaims all liabilities whatsoever in relation to the tax status or tax treatment of the individual H Share shareholders and for any claims arising from any delay in or inaccurate determination of the tax status or tax treatment of the individual H Share shareholders or any disputes relating to the tax withholding and payment mechanism or arrangements.

For H Share shareholders other than the Southbound Investors, the Company has appointed Bank of China (Hong Kong) Trustees Limited as the receiving agent in Hong Kong (the "Receiving Agent") and will pay to such Receiving Agent the interim dividend declared for payment to H Share shareholders other than the Southbound Investors. The Receiving Agent will pay the interim dividend net of the applicable tax on 28 September 2023. The relevant dividend warrants will be despatched to H Share shareholders by ordinary post and the risk of errors involved in the postage will be borne by the H Share shareholders. For the Southbound Investors, the interim dividend net of the applicable tax will be paid by the Company to the Shanghai branch of China Securities Depository and Clearing Corporation Limited and the Shenzhen branch of China Securities Depository and Clearing Corporation Limited on 28 September 2023. The Shanghai branch of China Securities Depository and Clearing Corporation Limited and the Shenzhen branch of China Securities Depository and Clearing Corporation Limited will pay the interim dividend net of the applicable tax to the Southbound Investors.

Other Information

According to paragraph 40 of Appendix 16 of the Listing Rules, save as disclosed in this report, the Company confirms that the current company information in relation to those matters set out in paragraph 32 of Appendix 16 has not changed materially from the information disclosed in the Company's 2022 Annual Report prepared in accordance with International Financial Reporting Standards ("2022 Annual Report").